

## **Factsheet: Financing the Atomic Weapons Establishment**

Tom Youngman, April 2017

### **Background**

The Atomic Weapons Establishment is responsible for the manufacture of the UK's nuclear warheads at Aldermaston and Burghfield. These are the warheads for the Trident missiles carried by the UK's nuclear submarines.

AWE was privatised in 1993, firstly to a consortium of Hunting Engineering, Brown & Root and AEA Technology. After two prosecutions for safety breaches a second consortium, known as AWE Management Ltd, took over the contract. This consortium was originally split equally between British Nuclear Fuels Limited, Lockheed Martin and Serco. In 2008 British Nuclear Fuels Limited sold their share to Jacobs Engineering Group, and in March 2016 it was announced that shares in the consortium would be redistributed, with Lockheed Martin controlling 51% and Serco and Jacobs each controlling 24.5% of the company.

### **Lockheed-Serco-Jacobs**

The Lockheed-Serco-Jacobs consortium's sole client is the Ministry of Defence, which owns the sites on which it operates and funds the entirety of its operations. The Atomic Weapons Establishment Act 1991 provides parliamentary funds to the Secretary of State for Defence to pay for AWE's operations.

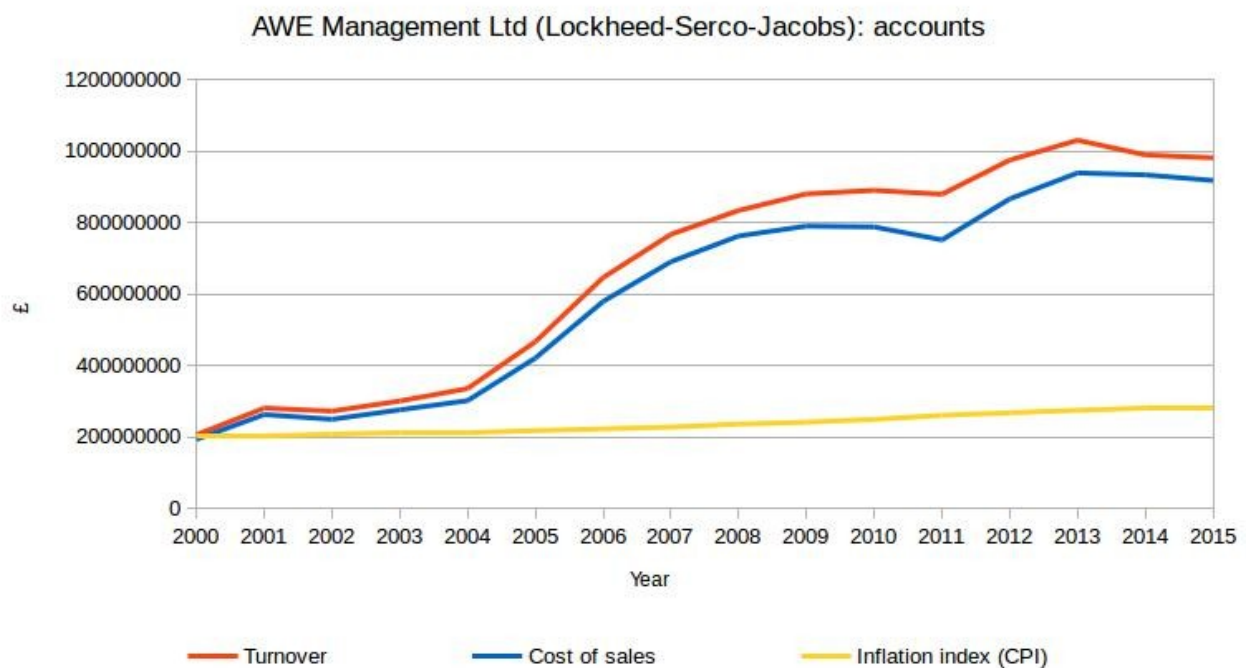
The details of the contract agreed with Serco, Jacobs and Lockheed Martin in 1999 remain confidential, but there are some elements we do know. The contract lasts 25 years and is subject to periodic spending reviews. The most recent of these was in [March 2016, amidst rumours that the MoD had threatened](#) to revoke the contract. The MoD provides for the operating costs of

AWE and pays a reward directly to the managing consortium depending on its performance according to criteria which remain secret.

The staff at AWE are employed by a company called AWE plc, which also holds the nuclear site licenses for Aldermaston and Burghfield. AWE plc is a wholly owned subsidiary of AWE Management Limited, but the MoD holds a non-voting share which means that the company will revert back to MoD ownership when AWE Management Limited's contract ends.

### Spiralling budget

The accounts filed by AWE Management Limited at Companies House over the last 18 years<sup>i</sup> show budgets increasing way beyond the rate of inflation.

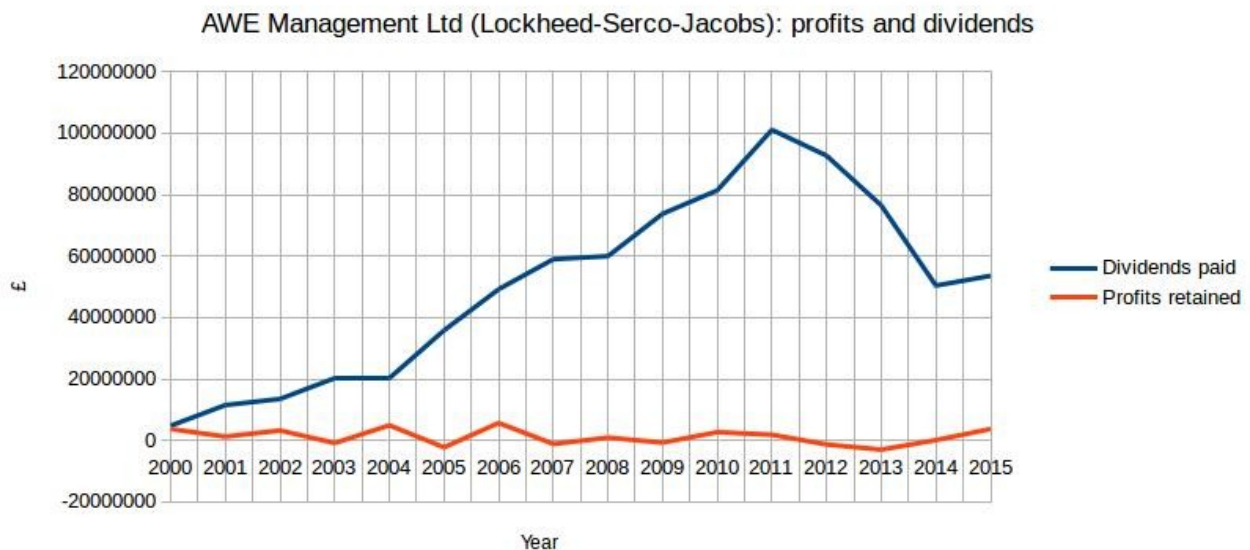


By 2015 government expenditure on the manufacture of nuclear warheads by AWE increased to almost five times the level of spending in the year 2000, way beyond what would be expected if spending had risen in line with inflation (shown in yellow). The sharpest increases in spending were between 2004 and 2009, when expenditure rose from £328,756,000 to £865,148,000.

Until 2009 these increases in spending bore no relation to plans announced by government. In 2005 the then Secretary of State for Defence John Reid announced that spending on AWE would be £350 million for each of the next three years. Spending in 2005 already well exceeded this figure, at £456,719,000, and by 2008, spending had reached £820,306,000. These dramatic increases in costs have since been locked in, with announcements by Defence ministers Quentin Davies in 2009 and Peter Luff in 2012 maintaining AWE's budget at £1 billion per year.<sup>ii</sup>

## Consortium profits

The MoD pays Lockheed-Serco-Jacobs a reward based on performance that makes up the consortium's profits. These profits make up a sizeable portion of the MoD's spending on AWE. Between 2000 and 2011, these profits increased year on year, peaking in 2011 when they made up 14.5% of the MoD's expenditure on AWE. Since then the government has reigned in the consortium, but direct rewards to Lockheed-Serco-Jacobs still comprised 6.5% of the MoD AWE budget in 2015.



Over the course of the government's contract with Lockheed-Serco-Jacobs it has paid an average of 9.1% of its budget directly to the consortium as profits. Around a fifth of these profits are spent on administrations and corporation tax,

but the rest are paid as dividends to Lockheed Martin, Serco and Jacobs Engineering Group. Between 2000 and 2015, AWE has paid dividends to these three companies worth £803,937,000.

AWE is currently engaged in a heated dispute with trade union Unite over attempts to reduce workers' pensions, which has seen workers stage protests outside the MoD and a number of 24-hour strikes.<sup>iii</sup> Cuts to the pensions are proposed on the basis of a £461.6 million shortfall in the pensions pot<sup>iv</sup>, for which Lockheed-Martin-Jacobs claims it is not liable. This suggests that the MoD has over-invested in the profits of its contractors and underinvested in the pensions of its workers.

### **Not all accounted for**

AWE and AWE Management Limited's accounts leave various questions unanswered.

Firstly, some dividends are also paid by AWE plc to its shareholders, Lockheed-Serco-Jacobs and the government. These dividends could well be unspent funds provided by the MoD. It is unclear who receives these dividends and how they are accounted for by the government and by Lockheed-Serco-Jacobs. In 2015 these dividends amounted to £8.6 million.

A much deeper question is that of the budgeting process at AWE. The three companies carrying out the contract each use a share of revenue to undertake their obligations, defining the costs of the work they wish to carry out. Standard practice for contractors would be to price their core administrative costs (such as work bidding for contracts) as well as profits into the rates charged for staff time. We have no information as to how this is carried out at AWE. With three large private companies keen to maximise their income, it is certain that there is little incentive for cost saving or for budgets to be revised downwards.

A further cost of AWE not accounted for here is the cost of decommissioning, which the MoD is liable for. In its annual accounts in 2016, the MoD stated that £96 million is being held to pay for decommissioning, and this amount will be

up for review in 2017. In other nuclear sites, decommissioning costs have been well beyond what was budgeted, and it is unclear on what basis these cost estimates are made.

Lastly, until we see the secret contract, we are left in the dark as to the criteria by which the profits to be awarded to Lockheed-Serco-Jacobs are decided by the Ministry of Defence, and the extent to which real oversight is carried out on AWE's operations.

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<sup>i</sup> Beta.CompaniesHouse.gov.uk, “AWE Management Limited”,  
<https://beta.companieshouse.gov.uk/company/03664571/filing-history>

<sup>ii</sup> Nuclear Information Service, 2009, “Future spending at the Atomic Weapons Establishment: side-stepping the slump”,  
<http://nuclearinfo.org/sites/default/files/AWE%20spend%20briefing%20Sept%202009.pdf>

<sup>iii</sup> Unite the Union, 25<sup>th</sup> April 2017, “AWE pensions’ snub prompts two more days of strike action”  
<http://www.unitetheunion.org/news/awe-pensions-snub-prompts-two-more-days-of-strike-action/>

<sup>iv</sup> Serco, 2016, Annual report and accounts 2015, <https://www.serco.com/media/87/87.original.pdf>