



OFFICE OF THE ADVISORY COMMITTEE ON BUSINESS APPOINTMENTS

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BUSINESS APPOINTMENT APPLICATION: Sir Stephen Lovegrove KCB, former Defence Industrial Adviser to the Prime Minister, National Security Adviser, Cabinet Office (and prior to that Permanent Secretary at the Ministry of Defence). Paid appointment with Rolls Royce SMR Ltd.

1. Sir Stephen sought advice from the Advisory Committee on Business Appointments (the Committee) under the government's Business Appointments Rules for Former Crown Servants (the Rules) on joining Rolls Royce SMR Ltd as Chair of its Board.
2. The purpose of the Rules is to protect the integrity of the government. The Committee has considered the risks associated with the actions and decisions made during Sir Stephen's time in office, alongside the information and influence he may offer Rolls Royce SMR Ltd. The material information taken into consideration by the Committee is set out in the annex.
3. The Committee's advice is not an endorsement of the appointment - it imposes a number of conditions to mitigate the potential risks to the government associated with the appointment under the Rules.
4. The Rules¹ set out that Crown servants must abide by the Committee's advice. It is an applicant's personal responsibility to manage the propriety of any appointment. Former Crown servants are expected to uphold the highest standards of propriety and act in accordance with the 7 Principles of Public Life.

The Committee's consideration of the risk presented

5. Whilst Rolls Royce SMR Ltd is an independent company, it is a subsidiary of Rolls Royce plc, which is also the majority shareholder in the company. The Committee therefore considered Sir Stephen's relationship with both companies. Rolls Royce plc has significant contracts with the MOD (where Sir

¹ Which apply by virtue of the Civil Service Management Code, The Code of Conduct for Special Advisers, The King's Regulations and the Diplomatic Service Code.

Stephen was the permanent secretary until February 2021) which are worth £billions. The most significant of these contracts are as a result of a longstanding relationship which precedes Sir Stephen's time at the MOD. It is also significant that the MOD confirmed that Rolls Royce is the only company that can deliver certain requirements. Further, it is Rolls Royce plc that is contracted with the MOD, not the subsidiary he seeks to work for - Rolls Royce SMR Ltd. While Sir Stephen maintained a relationship with Rolls Royce plc as the National Security Adviser, this was limited to updates/briefings on a particular project. Sir Stephen had no contact with and no responsibility for Rolls Royce SMR and its work on civil nuclear in office. The Committee² considered there is no evidence Sir Stephen took any action or made any decisions in office in expectation of this role.

6. Given Sir Stephen's former roles in government, he will have had sight of a wide range of information and oversight of policy that may provide an unfair advantage to a broad range of organisations. The Committee considered where Sir Stephen were to advise on UK security or defence policy there is a risk that Rolls Royce SMR Ltd (and therefore at a distance, Rolls Royce plc) may be considered to gain unfairly from his privileged insight. There are a number of mitigating factors that help to reduce these risks:
 - this is a broad risk related to his general access to information rather than specific to Rolls Royce SMR and his proposed role as chair;
 - his proposed role is focused on civil nuclear, not defence;
 - Sir Stephen has no insight or access to the ongoing Great British Nuclear competition which Rolls Royce SMR are currently competing in. Prior to Sir Stephen seeking to join the company, it had already secured a place in the last six allowing it to bid for government contracts.
 - Sir Stephen has been out of government for 9 months the Cabinet Office considered the currency of his access to information to have devalued as government priorities have shifted since he left his most recent substantive role; and
 - Sir Stephen is prevented from drawing on privileged information and has an ongoing duty of confidentiality (including under the Official Secrets Act).
7. The Committee considered that given Rolls Royce plc is a majority shareholder there is a risk, real or perceived, Sir Stephen may be asked to advise on Rolls Royce plc's business. This is not Sir Stephen's intention and the risks are significantly limited as Rolls Royce SMR Ltd is a separate company. The Committee considered the risks are most significant should he advise on UK defence matters given the company's interest in this area and his potential insight.
8. There are risks attached to his potential to offer unfair influence or access to government. There is already a relationship between the organisation and government, which is a stakeholder in the government's approach to energy

² This application for advice was considered by Andrew Cumpsty; Isabel Doverty; Sarah de Gay; The Baroness Jones of Whitchurch; The Rt Hon Lord Pickles; and Mike Weir.

policy; which receives funding from an arms' length body of government³; and which is currently competing in a nuclear technology competition and bidding for work with the government as a result. The Committee considered Sir Stephen's role in challenging and approving decisions and plans put to the board as a collective could not reasonably be considered to provide any unfair advantage or influence. There is no direct overlap with his access to information or responsibilities in office and he will have no engagement with/ involvement in discussing terms of any bid or contract or the GBN process with government.

9. It is also noted that the government has an interest in the work of Rolls Royce SMR and as such there may be government initiated contact which he would not be precluded from engaging in (for example, roundtable discussions, requests for information or to take part in consultation etc). Any contact with the government must not reasonably be perceived as lobbying, due to the ban on lobbying government that applies to all former permanent secretaries.
10. It is also relevant that Sir Stephen has previous experience in relation to civil nuclear matters from his time at the Department for Energy and Climate Change some years ago between 2013 and 2016.

The Committee's advice

11. The Committee determined the majority of risks identified in this application can be appropriately mitigated by the standard conditions. These seek to prevent him from making improper use of his privileged access to information, contacts and influence from his time in office, alongside his ongoing duty of confidentiality and other provisions.
12. There is an inherent risk associated with former officials working on government contracts but his role on the board is not considered to raise proprietary issues because there is no direct overlap with his responsibilities or access to information in office; nor will he have contact with government.
13. Given the reasonable concern it could be perceived this might lead to working with Rolls Royce plc on its defence work, the Committee also imposed a condition to limit the role and prevent him advising on any UK defence matters.
14. In the circumstances, the Committee's advice in accordance with the government's Business Appointment Rules is that this appointment with **Rolls Royce SMR Ltd** should be made subject to the following conditions:
 - he should not draw on (disclose or use for the benefit of himself or the persons or organisations to which this advice refers) any privileged information available to him from his time in Crown service;

³ Innovate UK (an NDPB of the Department for Science, Innovation and Technology), supported the company with £18m match funding for the first phase of SMR development, and is expected to provide £210m for the second phase of R&D (announced in 2021). The company will also need to receive regulatory approval from the UK government to manufacture small nuclear reactors.

- for two years from his last day in Crown service, he should not become personally involved in lobbying the UK government and its arm's length bodies on behalf of Rolls Royce SMR Ltd (including parent companies, subsidiaries, partners and clients); nor should he make use, directly or indirectly, of his contacts in government and/or Crown service to influence policy, secure business/funding or otherwise unfairly advantage Rolls Royce SMR (including parent companies, subsidiaries, partners and clients);
- for two years from his last day in Crown service, he must not directly advise on any bids to secure governmental funding or contracts but he can draw on his skills and experience gained in office to advise the Rolls Royce SMR Board on its strategy and proposals. That includes those related to government funding as described in this application, provided he does not draw on any privileged information or contacts from his time in office (as per the condition above which prevents lobbying); and
- for two years from his last day in Crown service, his role with Rolls Royce SMR will be limited to chairing the Board of Rolls Royce SMR Ltd - a subsidiary of Rolls Royce plc, focussed on developing small modular nuclear reactors for the UK. This will include:
 - managing stakeholder and shareholder relations (the subsidiary is a joint venture with three other shareholders – The other partners are BNF Resources Limited, Constellation, and Qatar Investment Authority)
 - reviewing the executive leadership structure
 - securing additional partners for the next phase of the business's growth
 - liaising with foreign partners

In doing so, he must not advise on any matters that draw on his privileged insight from his time as the National Security Adviser and Defence Industrial Adviser or Permanent Secretary at the Ministry of Defence, including the UK defence sector.

15. The advice and the conditions under the government's Business Appointment Rules relate to Sir Stephen's previous role in government only; they are separate from rules administered by other bodies such as the Office of the Registrar of Consultant Lobbyists, the Parliamentary Commissioner for Standards and the Registrar of Lords' Interests⁴. It is an applicant's personal responsibility to understand any other rules and regulations they may be subject to in parallel with this Committee's advice.

16. By '*privileged information*' we mean official information to which a Minister or Crown servant has had access as a consequence of his or her office or employment and which has not been made publicly available. Applicants are also reminded that they may be subject to other duties of confidentiality,

⁴ All Peers and Members of Parliament are prevented from paid lobbying under the House of Commons Code of Conduct and the Code of Conduct for Members of the House of Lords. Advice on your obligations under the Code can be sought from the Parliamentary Commissioners for Standards, in the case of MPs, or the Registrar of Lords' Interests, in the case of peers

whether under the Official Secrets Act, the Civil Service Code or otherwise.

17. The Business Appointment Rules explain that the restriction on lobbying means that the former Crown servant/Minister '*should not engage in communication with Government (Ministers, civil servants, including special advisers, and other relevant officials/public office holders) – wherever it takes place - with a view to influencing a Government decision, policy or contract award/grant in relation to their own interests or the interests of the organisation by which they are employed, or to whom they are contracted or with which they hold office*'.
18. You must inform us as soon as Sir Stephen's appointment is live or is announced. You must also inform us if Sir Stephen proposes to extend or otherwise change the nature of his role as, depending on the circumstances, it may be necessary for him to make a fresh application.
19. Once this appointment has been publicly announced or set up, we will publish this letter on the Committee's website, and where appropriate, refer to it in the relevant annual report.

Yours sincerely,

Cat Marshall
Committee Secretariat

Annex - Material Information

The role

1. Sir Stephen stated Rolls Royce SMR is a development company for small modular nuclear reactors (SMRs) - the business established by Rolls-Royce to develop and manufacture low-cost nuclear power.
2. Rolls Royce is a large industrial technology company. It has led a design, development, and the investment programme to secure equity for Rolls-Royce SMR. It is a joint venture, currently with four shareholders, Rolls Royce being the largest. The other partners are: BNF Resources Limited, Constellation, and Qatar Investment Authority. The website states Rolls-Royce SMR uses nuclear technology to offer '*...a sustainable, low cost, repeatable and scalable product, that can be rolled out around the world*'.
3. Sir Stephen stated he was contacted by the CEO of Rolls Royce to see if he would be interested in taking up the role as Chair of the Board. The CEO was aware that Sir Stehen had been involved in the development of the EdF nuclear project at Hinkley Point C when he was the PUS of DECC.
4. Rolls Royce SMR is currently the only UK company that can deliver small nuclear reactors (SMRs). The company provided information about its current

bid with the UK government:

- Great British Nuclear (GBN) supports the UK's nuclear industry by providing better opportunities to build and invest.
- GBN is an executive non-departmental public body, sponsored by the Department for Energy Security and Net Zero (previously beis).
- GBN and the government are running a competition to find the designs for the next generation of nuclear reactors - supporting the development of this particular technology to increase the UK's energy security. The government's ambition is for up to a quarter of all UK electricity to come from nuclear power by 2050, of which SMRs are part.
- The process is underway and in the public domain – and Rolls Royce SMR were selected alongside 5 other parties (6 companies in total) in October this year. <https://www.gov.uk/government/news/six-companies-through-to-next-stage-of-nuclear-technology-competition>
- Rolls Royce SMR is the only UK based company in the running. The others are American (x3) and French (x1).

5. Sir Stephen and Rolls Royce SMR said that his paid, part-time role as Chair of the Board he would:

- manage stakeholder and shareholder relations (the subsidiary is a joint venture with three other shareholders, with all having members on the Board)
- reviewing the executive leadership structure
- securing additional partners for the next phase of the business's growth
- liaise with foreign partners

In relation to Sir Stephen's role in the GBN process:

- The Board as a whole is collectively responsible for promoting the long-term success of the company by directing and supervising its affairs and is accountable to shareholders for all the actions of Rolls Royce SMR
- Rolls Royce SMR is now developing submissions for its tender process in December, followed by a negotiation process and eventually a contract award (if successful) in the summer of 2024
- Sir Stephen will not be involved in/work on developing bids nor will he contribute to the negotiation process run by GBN, or have contact with any government in relation to any bid or contract.
- The Executive team at Rolls Royce SMR will submit proposals to the Board for details on the deployment of its small modular reactors with proposed customers - including GBN. These will be reviewed and challenged by the Board, to ensure they are in line with Rolls Royce SMR's strategy and risk appetite and are in accordance with the company's corporate governance model. The Board will be required to approve these prior to submission or execution.
- As Sir Stephen has had no prior contact or engagement with the individuals within GBN; nor privileged insight into the procurement process - he will offer no privileged insight when providing his view as Chair.

Dealings in office

6. The company has had a funding relationship at arm's length from the government, separate to the GBN process set out above. Innovate UK (part of UK Research and Innovation - UKRI⁵), supported Phase I of the SMR development through a match fund provision of £18 million⁶ in 2018 and will provide up to £215 million in match funding to support research and development aspects of the Generic Design Assessment process in Phase II (which began in November 2021)⁷.
7. Sir Stephen advised the Committee that he was not involved in any decisions specific to Rolls Royce SMR but noted that as Rolls Royce plc is a core supplier to the MOD he would meet the Chair and CEO fairly regularly to manage relationships. He said *'...normally it would be to encourage them to speed up their production delivery. When I was NSA, the contact was much more occasional, and limited to briefing them on the development of AUKUS⁸ submarine project, to which they would be an inevitable propulsion supplier'*.
8. Sir Stephen stated both the CEO and the Chair of Rolls Royce plc have changed since his time at the MOD and he did not meet with the current CEO before this role was being discussed (after he left office). He said he spoke with the new Chair (Dame Anita Frew) as she was joining the company as a courtesy but has had no contact with her since.
9. Sir Stephen stated that as Permanent Secretary at the MOD, he was ultimately responsible for all the contracts under the MOD. Amongst them included contracts to make jet engines for the UK's squadrons of Typhoons and nuclear propulsion plants for nuclear submarines. There is only one supplier in Britain for those units: Rolls Royce plc. He said while *'...they were extremely important contracts, worth many billions of pounds, they were let decades before I appeared in the Department, and I had no role in the economics of them or their negotiation. They will continue in perpetuity'*. Further, the management of the contracts was held and delivered via Defence Equipment and Supplies⁹ and the Submarine Delivery Authority (operating independently)

Departmental Assessment

10. The MOD and the Cabinet Office provided their views on the risks in this application and confirmed the details provided.
11. The Cabinet Office noted that, whilst a significant time ago, Sir Stephen was involved in the development of the EdF nuclear project at Hinkley Point C

⁵ UKRI is an arm's length body of DSIT (formerly BEIS) and aims to work with partners to ensure that world-leading research and innovation grows and flourishes in the UK

⁶ <https://www.ukri.org/news/over-200-million-grant-to-rolls-royce-small-nuclear-reactors/>

⁷ <https://www.ukri.org/publications/low-cost-nuclear-phase-two-grant-award-to-rolls-royce-smr-ltd/low-cost-nuclear-phase-two-grant-award-to-rolls-royce-smr-ltd-information/>

⁸ Trilateral security pact between Australia, the United Kingdom, and the United States

⁹ an arm's length body of the MOD whose Principal Accounting Officer was the Managing Director of Defence Equipment and Support

when he was the Permanent Secretary of DECC (2013-2016). The length of time since this involvement in the nuclear energy sector on behalf of the UK government is significant, and he will not have knowledge of unannounced or impending policy.

12. The Cabinet office said that he would have been exposed to a wide range of sensitive information. It considered the 9 months (since he was in a government post with access to information) and the provisions that prevent him from drawing on privileged information are appropriate mitigation to any exposure to information whilst at the Cabinet Office.
13. The MOD said Rolls Royce plc are key suppliers of nuclear, marine, and air propulsion systems in particular. It confirmed the following:
 - a. Rolls Royce plc holds long standing arrangements with the MOD on a non competitive basis, as it is the only possible provider of certain services.
 - b. These contracts are held with Rolls Royce plc, not its subsidiary 'Rolls Royce SMR Ltd' - this company was incorporated in November 2020, and has held no government procurement contracts (including under its former name 'LC Nuclear').
 - c. The contracts and long standing relationship between the MOD and Rolls Royce plc, precede Sir Stephen's time at the MOD, and continues after his departure.
 - d. Sir Stephen had regular contact with Rolls-Royce plc as a key supplier to the MOD, however it noted he also had similar regular contact with the MOD's other key suppliers.
 - e. Sir Stephen was responsible for the relationship with Rolls Royce plc overall. However, it noted his role was leading the relationship at the strategic level dealing with overall requirement setting. He was not responsible for contracts specific to Rolls Royce plc as contract setting was held elsewhere in the department.
 - f. There were a number of new contracts with Rolls Royce plc that were agreed during Sir Stephen's time in office. He was not involved in the detail of either the requirement setting or the commercial negotiations that led to their placement. His role was overall responsibility as accounting officer.
 - g. Whilst Sir Stephen will have had briefings on the relative commercial strengths and weaknesses of Rolls Royce plc along with all other major MOD suppliers, this information will have lost its currency, as it is well over 2 years ago since he was in the department.
14. The MOD noted Sir Stephen's proposed role is focussed on the civil nuclear part of Rolls Royce's business, significantly reducing the risk that his contacts and insight in defence could be perceived to give Rolls Royce undue advantage.
15. The departments recommended the standard conditions.