PREM 19/1575

Financial Support to the Medical Research Council (MRC)

NATIONAL HEALTH

July 1984

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
~~2.8.84~~							
~~23.8.84~~							
~~29.8.84~~							
~~31.8.84~~							
~~7.9.84~~							
~~14.9.84~~							
~~5.10.84~~							
~~23.10.84~~							
~~23.10.84~~							
~~15.4.85~~							
8.5.85							

PREM 19/1575

Dd 8398366 2M 11/83 JET

006/112

Treasury Chambers, Parliament Street, SW1P 3AG

Mark Addison Esq
10 Downing Street
London SW1

MBPM

8 May 1985

Dear Mark

RESEARCH COUNCIL CONTINGENCY FUNDS

Thank you for your letter of 15 April. I can confirm that Treasury officials are now discussing the implementations of the changes recommended in Sir Robin Nicholson's report with officials in the Department of Education and Science and the Medical Research Council.

I am sending copies of this letter to Stephen Alcock (Department of Health and Social Security), Elizabeth Hopkinson (Department of Education and Science), Richard Hatfield (Cabinet Office) and to Sir Robin Nicholson.

Yours sincerely

Richard Broadbent

R J BROADBENT
Private Secretary

NAT HEALTH
MRC 7484

CONFIDENTIAL

JR

10 DOWNING STREET

From the Private Secretary

15 April 1985

The Prime Minister has considered Sir Robin Nicholson's report on the improvement of the Research Councils' use of contingency funds (copy attached). She has noted that his recommendations have been agreed with Treasury officials who believe that they could be justified, if necessary, before the Public Accounts Committee.

The Prime Minister agrees with the recommendation that the Medical Research Council should be encouraged to make greater use of a contingency fund through being allowed to make additional provision for the carry over of expenditure from one financial year to the next. The Council should be allowed to carry over 3 per cent of the research grant provision and 4 per cent of expenditure on international subscriptions. It should be open to other Research Councils to argue a case on a similar basis with the Treasury.

The Prime Minister assumes that Treasury officials will now discuss the implementations of these changes with officials in the Department of Education and Science and the Medical Research Council.

I am sending copies of this letter to Stephen Alcock (Department of Health and Social Security), Elizabeth Hodkinson (Department of Education and Science), Richard Hatfield (Cabinet Office) and Sir Robin Nicholson.

(MARK ADDISON)

Richard Broadbent, Esq.,
Chief Secretary's Office.

E.R.

PRIME MINISTER

Sir Robin Nicholson has pursued, as you requested, the use of contingency funds by the Research Councils, following your meeting with Lord Jellicoe and Sir James Gowans of the Medical Research Council in August last year.

Sir Robin's note (Flag A) summarises the recommendations he has managed to agree with Treasury. His report (Flag B) sets the proposal out in more detail. If you agree with what is proposed, a draft letter (Flag C) for me to send the Chief Secretary's Office is attached, asking Treasury to take forward implementation of the proposals with DES and MRC officials.

Content for me to send the letter at Flag C?

Yes mt

Mark Addison

GR.
Pl. type 'C' for sig.
MEA 16/4

Mark Addison
15 April 1985

A

CONFIDENTIAL

W0321

MR ADDISON
No 10

12 April 1985

THE USE OF CONTINGENCY FUNDS BY THE RESEARCH COUNCILS

I attach a report to the Prime Minister on the use of contingency funds by the Research Councils in response to Tim Flesher's minute of 2 October 1984.

The recommendations have been agreed with Treasury officials, but represent the limit of the Treasury's current willingness to concede further flexibility on carry over from one financial year to the next. My personal view is that the Research Councils have a stronger case for being treated differently from Departments than is accepted by Treasury, and I consequently believe that a case could be made for greater additional flexibility than is recommended in the attached report. I recall that the Prime Minister suggested a figure of £10m as an appropriate contingency for a Research Council with the £120m pa turnover of MRC whereas my proposals would lead to a carry over provision of only £2m. However, I am submitting the report in its present form as I consider it important to carry the Treasury on this issue, and because it has to be said that the Research Councils themselves did not make as good a case as I had hoped. I believe that acceptance of the recommendations will lead to a small, though important, improvement in the financial management of MRC and the report does not prevent the MRC or the other Research Councils from making a better case for further changes in the future.

I attach a draft letter which, if the Prime Minister accepts the recommendations, you may wish to send to the Private Secretary to the Chief Secretary. It has been drafted on the basis that Treasury officials have assured us that the Chief Secretary is unlikely to object to my recommendations. I am copying this minute and the attachments to Sir Robert Armstrong.

RBN

ROBIN NICHOLSON

B

CONFIDENTIAL

IMPROVEMENT OF THE RESEARCH COUNCILS' USE OF CONTINGENCY FUNDS

At a meeting with the Chairman (Lord Jellicoe) and Secretary (Sir James Gowans) of the Medical Research Council on 30 August 1984, the Prime Minister expressed concern that the MRC should find itself in financial difficulties over a sum of money which was small in relation to its total budget and asked why the Council did not have a contingency fund. In subsequent discussion it became clear that the small carry over of expenditure allowed from one financial year to the next was perceived by the Council as a substantial disincentive to the establishment and use of a contingency fund.

2. Through Tim Flesher's letter of 2 October 1984, I was asked to look, in conjunction with the Treasury, into the extent to which it might be possible to apply the rules on carry over of expenditure to the Research Councils so as to improve their use of contingency funds. I have now completed this study, which has focussed on the Medical Research Council (MRC) and the Natural Environment Research Council (NERC). My recommendations have been agreed by Treasury officials who believe that they can be justified, if necessary, before the Public Accounts Committee.

3. Although, in comparison with most Government departments, the Research Councils already have a small additional degree of flexibility on carry over, I believe that a further degree of flexibility is desirable and can be justified. Research Councils have a large proportion of their expenditure on long-term commitments for support of science at academic institutions. Thus a substantial

proportion of their cash is committed before the financial year begins and there is a natural reluctance to set aside part of the remainder for an internal contingency fund if, in the absence of contingencies arising or of last minute spending, it is to be lost at the end of the financial year.

4. Presently the MRC is able to carry over 0.5% of administrative expenditure and 5% of its capital provision. Currently this amounts to about £600K per year or 0.5% of its total grant-in-aid. Those aspects of the MRC case for additional financial flexibility that convinced me most arise primarily from the large proportion of expenditure on research grant programmes in universities and from the variation between years of the number and quality of applications for research grants. Having studied the figures, I believe that the MRC additionally should be allowed to carry over 3% of the research grant provision. Furthermore I recommend that MRC should be able, as is the Science and Engineering Research Council, to carry over 4% of expenditure on international subscriptions because of the problems caused by exchange rate fluctuations within a financial year. These additional carry over allowances would bring MRC's total flexibility for carry over to about 1.6% of the total grant-in-aid, or about £2M. Although it will not solve the financial problems of MRC, I believe that this increased flexibility will make a worthwhile improvement to MRC's contingency planning abilities. This does not, of course, take the MRC outside the discipline of cash limits.

5. The NERC has not yet made the case for similar treatment, but I consider that it should be open to the other Research Councils (including NERC), to argue a case with the Treasury on a similar basis to that of the MRC.

C

DRAFT LETTER FROM MARK ADDISON TO THE PRIVATE SECRETARY TO THE CHIEF SECRETARY

The Prime Minister has considered Sir Robin Nicholson's ~~minute of 12 April~~ report on the improvement of the Research Councils' use of contingency funds (copy attached). She has noted that his recommendations have been agreed with Treasury officials who believe that they could be justified, if necessary, before the Public Accounts Committee.

The Prime Minister agrees with the recommendation that the Medical Research Council should be encouraged to make greater use of a contingency fund through being allowed to make additional provision for the carry over of expenditure from one financial year to the next. The Council should be allowed to carry over 3% of the research grant provision and 4% of expenditure on international subscriptions. It should be open to other Research Councils to argue a case on a similar basis with the Treasury.

The Prime Minister assumes that Treasury Officials will now discuss the implementations of these changes with officials in the Department of Education and Science and the Medical Research Council.

I am sending copies of this letter to Mr Alcock (Department of Health and Social Security), Elizabeth Hodkinson (Department of Education and Science), Richard Hatfield (Cabinet Office) and Sir Robin Nicholson.

Agreed MT

National Health: Fin. Support for MRC; July 84

(CF PP's)

W.0883

23 November 1984

MR DAVID BARCLAY
NO 10

You will recall that when the Prime Minister met Lord Jellicoe and Sir James Gowans on 30 August, to discuss MRC finances, the biotechnology company "Celltech" was mentioned. Sir James suggested that the Prime Minister might be interested to visit Celltech, which was proving to be an outstanding success, particularly in its application of monoclonal anti-body technology, and she expressed interest in taking up the invitation. We subsequently spoke about the possibility of a visit during the unexpected gap in the Prime Minister's diary in September, but you advised that it might best be delayed until later in the autumn, and Celltech were warned to hold off. But Gerard Fairtlough (Celltech's Chief Executive) has now let me know that an invitation is on its way.

I believe you already have a copy of the company's latest Annual Report and I believe that up-to-date information on Celltech's scientific coverage and financial position will accompany the invitation. But I shall, of course, be happy to provide additional advice and briefing if this would be helpful.

ROBIN B NICHOLSON
Chief Scientific Adviser

MRC: NATIONAL. Health. July 84.

~~Quick~~ -

re. Tim's letter of 2/10 to Mr. Nicholson.
Mr. Nicholson's office are going to send an interim note on this.

Have you received it?

If not, should I pursue it, or content for it to come in due course?

CST
23/10/84.

Cameron

In due course, thanks.

[illegible]

DRB
23/10

file DSG

cc DES
DHSS
CO
HMT

10 DOWNING STREET

THE PRIME MINISTER

5 October 1984

Dear Sir James.

attach to pps. pl.

Thank you for your letter of 13 September and the enclosed review, which I read with interest. I was pleased to be able to meet both you and George Jellicoe on 30 August and to listen to your statement of the difficulties faced by the Medical Research Council. As I said at the time we will be considering these matters in the course of this year's Public Expenditure Survey and in the light of the advice to be submitted by the Advisory Board for the Research Councils.

Yours sincerely

Margaret Thatcher

Sir James Gowans, C.B.E., F.R.S.

ECL

W.0734

5 October 1984

MR BARCLAY, NO 10

N 8/10.

MEDICAL RESEARCH COUNCIL

Robin Nicholson has asked me to let you know that he is happy with Mr Bird's suggestions in his letter to you of 4 October.

Val Meadows

Secretary to Dr R B Nicholson

SP

DEPARTMENT OF EDUCATION AND SCIENCE

ELIZABETH HOUSE, YORK ROAD, LONDON SE1 7PH

TELEPHONE 01-928 9222

FROM THE SECRETARY OF STATE

David Barclay Esq
10 Downing Street
LONDON SW1

4 October 1984

Dear David

Thank you for your letter of 14 September 1984 enclosing correspondence which the Prime Minister has received from the Secretary of the Medical Research Council.

Sir James Gowans raises no new points in his letter and is simply underlining and developing some of the arguments put forward at the meeting on 30 August. We suggest therefore that the Prime Minister should do no more than simply acknowledge the correspondence. We suggest:

> "Thank you for your letter of 13 September 1984 and the enclosed review, which I read with interest. I was pleased to be able to meet both you and George Jellicoe on 30 August and to listen to your statement of the difficulties faced by the Medical Research Council. As I said at the time we will be considering these matters in the course of this year's Public Expenditure Survey and in the light of the advice to be submitted by the Advisory Board for the Research Councils."

Copies of this letter go to recipients of yours.

Yours ever

Jerry

J F BIRD
Private Secretary

NO MKS.

10 DOWNING STREET

From the Private Secretary

DR. NICHOLSON

You will recall that at the Prime Minister's meeting with Lord Jellicoe and Sir James Gowans on 30 August at which the finances of the MRC were discussed the question of the effect on financial planning in the MRC of the system of annual cash limits was raised. Following that meeting the Prime Minister discussed with you the points which Lord Jellicoe and Sir James Gowans had raised and asked if you, in conjunction with the Treasury, would look into the extent to which it might be possible to so apply the rules on carry over of expenditure to the Research Councils as to improve their use of contingency funds. This minute is to confirm that the Prime Minister does indeed wish you to look into this question and I should be grateful if you could now do so.

I am sending a copy of this minute to Mr. Alcock (Kenneth Clarke's Office), Mr. Broadbent (Chief Secretary's Office), Miss Hodkinson (Department of Education and Science) and Richard Hatfield (Cabinet Office).

Tim Flesher.

2 October 1984

W.0646

14 September 1984

MR T FLESHER o/v

I refer to your letter of 31 August to Elizabeth Hodkinson recording the discussion between the Prime Minister and MRC.

As you will remember, the Prime Minister asked me to stay behind after the meeting to discuss with her some of the issues which had been raised. There were two actions which came out of this discussion. The first relates to the inadequate use of contingency funds by MRC (and indeed by all research councils) and the extent to which they were discouraged from this by Treasury rules on carry-over. The Prime Minister felt that the continuing operation of the research councils with minuscule contingency funds would simply lead to further problems in the future and she wanted me to investigate how this problem might be solved.

I am of course happy to do this, but it will require a fairly forceful approach to the Treasury in the first instance and, although the matter is mentioned in your official record of the minute, it is not done in a way which gives me sufficient authority to take on this task. I think I need from you, therefore, a further minute confirming that the Prime Minister does wish me to take on this task, and you would need to copy your minute to the same people to whom you copied your minute of 31 August.

The second action related to my statement to the Prime Minister that the solution of the problems for MRC and the other research councils did not require an increase in public spending, but a reallocation of overall Government R&D resources away from areas where I believe money is being wasted towards areas which desperately need additional funding. The Prime Minister asked me to look further into this problem. To some extent I have already started to look at the problem through my comments to the Prime Minister on the Annual Review of Government-funded R&D (27 July) and my more extensive comments to Treasury as briefing for their bilaterals with Departments in my letter to Alan Bailey (15 August)which I copied to David Barclay. Frankly, although Treasury are interested in the areas where I believe that money is being wasted, they are naturally less interested in reallocating some of this money to areas which I believe are

short of funds. However, before I do further work in this area I believe I have to allow the bilaterals to take place. If, as I anticipate, reallocation of R&D resources does not feature prominently in these, I can then take up the matter again centrally in the context of the subsequent discussions on public expenditure.

Thus, I would not expect to come back to the Prime Minister on this point for a few weeks. Perhaps you could let me know if you feel that this is not the right way of handling this point.

For the record, there is a third item which I took as an action from the MRC meeting, and that is the acceptance by the Prime Minister of Sir James Gowans' invitation to visit Celltech to see the way MRC inventions were being profitably exploited. I have discussed this with David Barclay and have been advised by him to leave the matter over until the end of the month. In the meantime my office has been in touch with Sir James Gowans and with Gerald Fairtlough (Chief Executive of Celltech), and we await proposals at the appropriate time.

I am sending a copy of this minute to Richard Hatfield.

ROBIN B NICHOLSON
Chief Scientific Adviser

Cabinet Office
14 September 1984

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HEALTH
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289

10 DOWNING STREET

From the Private Secretary

14 September 1984

I enclose a copy of a letter which the Prime Minister has received from Sir James Gowans, Secretary of the Medical Research Council.

I should be grateful if you would let me have a draft reply for the Prime Minister to send to Sir James Gowans, to reach this office by Friday 28 September.

BF1

I am sending copies of this letter and its enclosure to Steve Godber (Department of Health and Social Security), Robin Nicholson (Cabinet Office) and John Gieve (Chief Secretary's Office, HM Treasury).

David Barclay

Miss Elizabeth Hodkinson,
Department of Education and Science.

NR.

Ack'd on 14/9

MRC

Medical Research Council
20 Park Crescent, London W1N 4AL

telephone 01-636 5422
telex 24897 (Medresco London)

from the Secretary

Sir James Gowans, CBE FRS

13 September 1984

Pps R14

Dear Prime Minister,

Lord Jellicoe has already written to thank you for your kindness in allowing us to explain to you personally the consequences of the financial problems facing the Medical Research Council. As we told you, we are concerned that the future of medical research in the UK is being severely damaged by the progressive erosion of the Council's budget.

In addition to the erosion of the Council's grant-in-aid, there are other factors outside our control to which Lord Jellicoe drew your attention which, if corrected, would help the Council to plan effectively for the future. May I outline again the most important of these:

1. Pensions The Council has to supplement its pension fund from its grant-in-aid. This year, following a review by the Government Actuary, an extra £600,000 was required.

2. International Subscriptions The revaluation of subscriptions and currency fluctuations require increased payments for which we are not compensated. This year an extra £200,000 had to be found.

3. Restructuring in other Research Councils The Advisory Board for the Research Councils plans to deduct £0.9 m and £1.8 m in 1985/86 and 1986/87 respectively from our grant-in-aid to assist the re-organisation of AFRC and NERC. The imposition of these cuts does not conform to the precedent set for the universities which were provided with an extra fund to aid restructuring.

The most important problem besetting the Research Councils generally and starkly exposed this year for the MRC is the inability to fund about half the outstanding (α) applications from the universities. I am sure you will understand that the prospects for the future of scientific research in the UK are bleak if the resources of the Research Councils fall to a level at which a substantial fraction of the very best workers in the universities cannot secure funds.

May I add my personal thanks for allowing us to discuss so frankly and informally the difficulties which the MRC is facing.

Yours sincerely,

J Gowans

James Gowans

The Prime Minister
The Rt. Hon. Margaret Thatcher, MP
10 Downing Street
London SW1

MRC

Medical Research Council
20 Park Crescent, London W1N 4AL

telegrams Medresco London W1
telex 24897(Medresco London)
telephone 01-636 5422

13/9/84

reference

You mentioned Lord Florey during our talk. I enclose a review of a book about him which touches briefly on one of the issues you raised. I wondered if you might be interested to see it.

D L Evans.

James Gowans

The penicillin men

Howard Florey: The Making of a Great Scientist. By Gwyn Macfarlane. Oxford £7.95

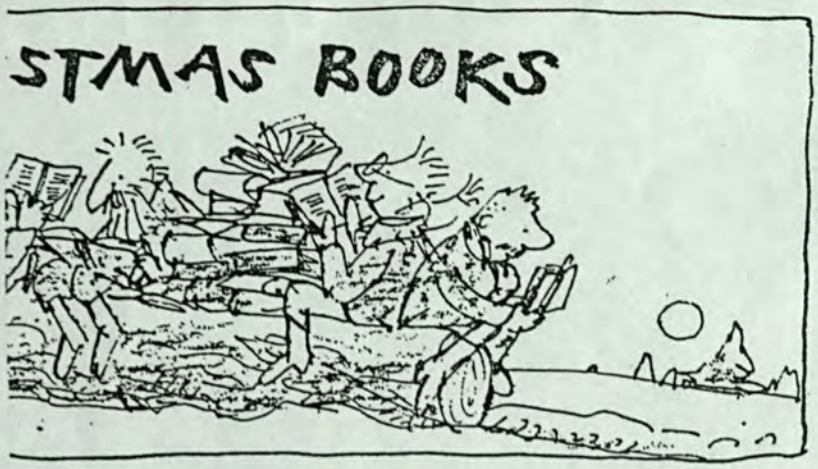
This book is about a remarkable man and a remarkable achievement. In outline the story is simple. Howard Florey, in wartime Oxford, transformed penicillin from an academic curiosity into the most powerful agent for the treatment of human infections hitherto available in medical practice. In due course he received accolades that marked him out nationally and internationally as a great scientist: a life peerage, OM, Nobel laureate, President of the Royal Society and Chancellor of the Australian National University.

In 1968, after Florey died, his achievements were compared with those of Jenner, Pasteur and Lister. Yet strangely, in the public mind, it is Fleming alone who remains the hero. Indeed, when Gwyn Macfarlane proposed to one publisher that he wished to write about Florey he was advised to write a biography of Fleming instead. The creation of the 'Fleming myth' by the media and public ignorance of Florey's achievements is something which, Macfarlane says, saddened those who knew him and is, in itself, interesting and alarming. One of the reasons for writing this book was the wish to put the record straight; the other was to trace the life and career of a great scientist.

Florey came to Oxford in 1922 as the Rhodes Scholar for South Australia, and before he returned to Oxford as Professor of Pathology in 1935 he had established for himself a considerable reputation as an experimental scientist. He had also acquired the reputation of being an abrasive character, although this did not prevent Sir Edward Mellanby, the Secretary of the Medical Research Council (who could match Florey's forcefulness), from swinging the electors to the Oxford chair in Florey's favour after arriving two hours late for the meeting. Even without penicillin, Florey would have exerted a considerable influence as the founder in Oxford of a distinguished school which brought the ideas and techniques of physiology and biochemistry to the study of a wide range of topics in human pathology. But it is the work on penicillin which forms the centrepiece of the book.

Penicillin illustrates dramatically the element of chance in scientific discovery. Alexander Fleming had a genius for noticing the unusual, but for reasons of temperament and training he did not press the analysis of his observations very far. Scientifically, his best work was the discovery of an antibacterial substance, lysozyme, which he found as a normal constituent of certain body secretions. This was a new natural defence against infection. Subsequently he discovered penicillin, again because he was an astute observer, but partly, it is interesting to note, because he worked in a messy laboratory which modern standards of hygiene would probably have condemned.

Fleming was studying the properties of an organism which sometimes causes human infections—the staphylococcus—and he observed on some discarded dishes that the growth of the bacteria had been inhibited in a zone around a contaminating mould (no, it almost certainly did not blow in through



an open window!). Macfarlane describes the part played by chance in this discovery: the strain of penicillin-producing mould which settled on Fleming's plate was a rare contaminant; if the laboratory had been equipped with the usual vessels of disinfectant for the disposal of bacterial plates, they would have been immediately submerged and destroyed; more speculatively, if alternate periods of warm and cool weather had not provided the correct laboratory temperatures, the relative rates of growth of the mould and the bacteria would not have been optimal for bacteria inhibition to have occurred; if a visitor to the laboratory had not turned Fleming's thoughts to the discarded plates, he might never have made the observations at all.

But none of this should detract from the quickness of eye and mind which enabled Fleming to make his chance observation and to exploit it. The paper which described penicillin in 1929 made little impact; indeed, Fleming's main interest in penicillin was as a kind of selective bacterial weed-killer, a substance which prevented the growth of unwanted bacteria in a mixed culture. He did suggest that it might be useful as a local application to infected areas, but his failure to carry out protection experiments on infected animals showed that he did not foresee its potential for treating severe general infections. Fleming virtually lost interest in penicillin after the publication of his paper and, in the interval before the Oxford work, he did nothing obvious to promote its use in therapy. But as Macfarlane says, Fleming made a brilliant observation, and we should not criticise him for the things he did not do; it is just that Macfarlane would like us to get the facts straight.

If some would regard Fleming as a brilliant amateur, Florey was a brilliant professional who commanded a team to tackle problems systematically and in detail. In 1935, an enthusiastic Ernst Chain joined the Oxford team, and it was Chain who subsequently came across Fleming's paper when the decision was taken to study the antibacterial properties of a number of natural products. Again chance played its part, for it is not clear why penicillin was among the substances chosen for study; it was certainly not the only candidate in the literature. Whatever the reasons for the choice, Florey became convinced by 1939 that penicillin was worth serious study. What followed was a saga of ingenuity, organisation and prodigious industry by a group of whom Florey was the undisputed leader. The penicillin-producing mould was grown on progressively larger volumes of nutrient fluid, and the key problem of extracting and concentrating the unstable active material was solved.

By 1940 they were ready to bring about what Macfarlane calls 'one of the turning points in medical history'. He describes how, on Saturday, 25 May 1940, while the German Panzer columns were outflanking the Maginot Line, four out of eight mice which had been infected with a lethal dose of streptococci were successfully treated with penicillin while the four untreated controls were soon dead. As Macfarlane says, against the gigantic backcloth of the battles in France, 'the fate of eight white mice may seem of ridiculously small consequence.' Yet in terms of human lives and suffering the consequences were profound.

Further extensive animal tests convinced Florey's team of the remarkable properties of this powerful but non-toxic antibacterial drug, and eventually they improvised a pilot plant which produced enough material for a successful clinical trial in man. The problem now was to persuade industry to undertake the large-scale production of penicillin for human use. The companies which Florey approached in the UK were either unable or unwilling in wartime to undertake the pro-

duction of penicillin, and he exerted his considerable powers to initiate its production in the United States. American patents were taken out on new processes which enabled large-scale production to proceed more efficiently.

This has lead to recriminations about the failure to take out patents in the UK, but Florey was advised against this by both the Secretary of the Medical Research Council and by the President of the Royal Society. This advice is unfortunately not on record, but the argument appears to have been that the patenting of penicillin would be unethical, and that it should be a gift to mankind. At this distance such idealism seems unworldly and certainly, even at the time, Chain was furious. But at least the same mistake was not made twice, and cephalosporin, another antibiotic developed by Abraham and Newton in Florey's laboratory, became the largest earner of royalties by the government agency set up to handle such matters, the National Research Development Corporation.

Gwyn Macfarlane has not written an anti-Fleming book. Indeed, Fleming's contributions to penicillin are fully and generously described. But he does seek to explain why Florey is not also a public hero. Part of the explanation was undoubtedly Florey's refusal to receive the press when the results of the clinical success of penicillin were first published. His motives were partly a dislike of publicity, but also a desire to avoid a sensationalism which would create a demand for penicillin which could not be met. Fleming, on the other hand, was more welcoming. Does it matter? After all the three essential players, Chain, Fleming and Florey, shared the Nobel Prize. Gwyn Macfarlane thinks it does matter, and he explains why.

There remains the problem of bringing to life the character of Howard Florey for those who never met him. Even for those who knew him it is not easy to explain what it was about his personality that captured us. I started my own career in research under Florey in 1947, and remained in his laboratory up to and beyond his retirement in 1962. When Mellanby suggested that I should try my luck in Oxford, he said to me of Florey: 'He is the only person in the country who is any good at experimental pathology but you won't like him.' Well, I did like him, although it took some time to see beyond his obvious scientific virtues. At the outset he would tell his students that they would probably be no good at research and that there was no money in it; we would have a job as long as we continued to live successfully by our wits. He had a nice line in deflationary wit which made it unlikely that anyone who passed through his laboratory would ever in later life fall for obsequious flattery, or flattery of any kind. 'You were lucky, Gowans, it was a poor field,' was his comment when I was successful in obtaining a minor appointment.

But what infected us was his zest for experimental science, his own skill and industry and above all his total honesty and lack of pretension. The basic currency in the laboratory was not what he derisively called 'hot air' (i.e., facile speculation) but the simple, telling experiment. If you could pass that test, you were accepted and encouraged. Of his own contribution to penicillin he wrote: 'Nor should anyone suppose that we think we have performed any great intellectual feats here. All we did was to do some decent experiments and have the luck to hit on a substance with astonishing properties.' Anyone who wants to know more about this tough, reserved, modest man and the qualities which made him 'the most effective medical scientist since Lister' should read Gwyn Macfarlane's excellent biography.

Nat Health 7/84 MRC

THE RT. HON. EARL JELLICOE DSO MC

TELEPHONE:
-280 2222

33, KING WILLIAM STREET,
LONDON, EC4R 9AS

pa
Ans
10/9

7th September 1984

The Rt Hon. Margaret Thatcher, MP,
The Prime Minister,
10 Downing Street,
London SW1.

MT

Prime Minister (2)

Dear Margaret.

I took the night train back to Scotland to rejoin Philippa and the children at our holiday home in the North of Scotland directly after our meeting at Number 10. Hence my delay in writing to you.

I would, however, like to thank you most sincerely for giving Jim Gowans and myself so much of your time last week to discuss the very difficult financial situation with which the Medical Research Council is faced at the present time and the implications of that situation for research in a field in which Britain has hitherto made so great a contribution.

As you know we would not have worried you, amid all your other preoccupations, about this had it not been for my deep concern about the present position. I am most grateful to you and your colleagues for giving us so full a hearing. I have been in touch with Jim Gowans since my return from holiday yesterday and I know that he will also be writing to you.

I am sending a copy of this letter to Keith Joseph and to Kenneth Clarke.

Again many thanks.

Yours ever

George

NAT HEALTH July 84

MRC

cc D Wilkins

Prime Minister

DEPARTMENT OF EDUCATION AND SCIENCE

ELIZABETH HOUSE, YORK ROAD, LONDON SE1 7PH

TELEPHONE 01-928 9222

FROM THE SECRETARY OF STATE

31/8

31 August 1984

MG

Dear Peter,

THE MEDICAL RESEARCH COUNCIL (MRC): CONSTRAINTS ON FUNDS FOR RESEARCH GRANT

Thank you for your letter of 1 August. I am sorry not to have responded sooner.

You will know that the Prime Minister has agreed to see Lord Jellicoe and Sir James Gowans on 30 August. My officials have consulted yours (and Norman Fowler's) on the brief for the Prime Minister.

Your impression that MRC have been less successful than the other Research Councils in adapting their procedures to present resource contraints is not mine.

Possibly they are setting about the job differently; but I doubt if that makes them worse. Indeed in some respects, for instance the proportion of staff employed on fixed term contracts, they are the most flexible of all the Councils.

I note what you say about superannuation and redundancy expenditure and welcome your recognition of the frustrated position of Councils, who can only restructure effectively within their present cash planning figures by further reducing the amount of science done. Even without restructuring, non-productive additional costs like the rising superannuation bill, the recent VAT addition, and costs caused by adverse movements of exchange rates are eroding the science base. With other inescapable costs (such as those pay settlements negotiated elsewhere) Councils are facing considerable difficulties in managing their budgets so as to accommodate this contraction in

/the amount

The Rt Hon Peter Rees MP
Chief Secretary
Treasury Chambers
Parliament Street
London SW1P 3AG

the amount of research done with least damage to the best science. The recent MRC grant proposal rejections are just one example of the problems facing all of the Councils.

My officials have sent yours supporting analyses of our Science bids and have had a meeting with them. I think this will have been useful in clearing the ground for our coming talks.

Copies of this letter go to recipients of yours.

Yours ever.

Ken.

cc master

SUBJECT

FILE

ECLAT

10 DOWNING STREET

From the Private Secretary

31 August 1984

The Prime Minister met Lord Jellicoe and Sir James Gowans yesterday to discuss MRC finances. Your Secretary of State, Mr Kenneth Clarke and Dr Robin Nicholson were also present.

Responding to the Prime Minister's invitation to open the meeting Lord Jellicoe said that he was not questioning the Government's commitment to contain public expenditure or to short-circuit the Advisory Board on Research Councils or to seek special treatment for the MRC. Nevertheless there was serious concern on the Council that the MRC was faced with a real crisis with a danger that its scientific base would be eroded. Symptoms of the malaise included: an increasing inability to fund "alpha" applications; an inability to replace outstanding directors of units; the closure of important and occasionally politically sensitive units; and an inability to take the initiative in important areas in which this country held a potential world lead such as molecular medicine and nuclear magnetic resonance.

Lord Jellicoe went on to say that the MRC was an efficient organisation but had suffered from an accumulation of difficulties. After rapid growth in its budget in the 1950s and 1960s it was now receiving what was called "level funding". In practice however this amounted to a real terms cut. Increases in costs arising from pension obligations, increases in university salaries which were outside the patrol of the MRC, and international subscriptions had already created great difficulties; the levy proposed by the ABRC to provide funds for the restructuring of the AFRC and the NERC exacerbated these difficulties. There was likely to be a shortfall of £2 million in 1985/6 and £4 million in 1986/7. The MRC could not meet these shortfalls from within its own resources. The nature of scientific research required a forward commitment of funds in a way which did not permit the establishment of a substantial contingency reserve. In these circumstances the only solution was an increase in resources.

The Prime Minister commented that the research budget which overall was £550 million was an extremely large one. There could only be an overall increase in the amount of money devoted to scientific and other research if there was an improvement in the general capacity of science in the UK to turn its results into commercially viable products for British industry. Its record in this respect remained poor; that was why the NRDC had been wound up. She would be more convinced of the case for an increase in funding if there were greater evidence of enterprise on the part of researchers. Sir James Gowans said that while he agreed with the general point made by the Prime Minister, he believed that strenuous efforts were being made, particularly through Celltech, which had proved to be an outstanding success. Moreover, the MRC itself was making considerable efforts to ensure the commercial exploitation of the British lead in nuclear magnetic resonance. Nevertheless there were major problems. GEC, for example, had shown little interest in developing breakthroughs in this area and occasionally when commercial companies wished to become involved in research they tended to impose conditions which were unduly restrictive upon the freedom of the researcher. The Prime Minister asked why the researchers themselves did not seek to exploit the results of their endeavours as many had done in the United States. Sir James Gowans replied that increasingly the commitment of resources required for the exploitation of research and the period of that commitment were too great for small companies to undertake. For example, it would be ten years before the exciting new developments in neuro-biology would bear fruit. It was depressing that foreign companies now seem to be displaying more interest in this area than British firms.

The Prime Minister enquired whether the MRC considered that they received better value for money from their own units or from research conducted in universities where salaries did not have to be paid by the MRC. Sir James Gowans replied that although the latter point was valid university research often meant part-time leadership. It was impossible to prescribe a particular approach for such a widely varying research effort. It was a particular problem for the MRC however that they were unable at present to recruit the quality of unit leader that they would like. Outstanding researchers could always earn more elsewhere and, perhaps more important, they could not be given the level of facilities which were available elsewhere. Particular examples were two British scientists currently at American universities who would like to return home but who could not be given the level of back-up to which they had become used. There were few areas which were now susceptible to the single researcher working on his own and to obtain the best researchers it was usually necessary to offer the best possible facilities.

The Prime Minister enquired whether there was scope for the provision of a greater contingency reserve. It had been increasingly found in Government that an excessive forward commitment of research funds militated against flexibility and in favour of overspending. Lord Jellicoe acknowledged that there could have been a greater contingency fund. Nevertheless the combination of the annual cash limit together with the need to commit resources to long term projects would inevitably leave the MRC vulnerable to rapid changes in circumstances such as had occurred in the last year.

Concluding the meeting the Prime Minister said that she understood the problems which the MRC were facing and would of course consider them. The Secretary of State for Education and Science had made an additional bid for science in the coming PES round and the arguments which the MRC had put forward would be taken into account in that context. It was nevertheless important that the system of financing research through the ABRC should be maintained. The overall research budget was, as she had said, a substantial one although there was room for argument about the distribution of that budget. She was grateful to Lord Jellicoe and Sir James Gowans for presenting the arguments for a greater effort in their area.

I am sending a copy of this letter to Stephen Alcock (Kenneth Clark's office), John Gieve (Chief Secretary's office), Dr Nicholson and Richard Hatfield (Cabinet Office).

Tim Flesher

Miss Elizabeth Hodkinson
Department of Education and Science

BGD1M2

cc. D Wolfson

WBPM

DEPARTMENT OF EDUCATION AND SCIENCE

ELIZABETH HOUSE, YORK ROAD, LONDON SE1 7PH

TELEPHONE 01-928 9222

FROM THE SECRETARY OF STATE

The Rt Hon Norman Fowler MP
Secretary of State for
Social Services
Alexander Fleming House
Elephant & Castle
LONDON SE1 5BY

31 August 1984

Dear Norman,

MEDICAL RESEARCH COUNCIL GRANTS

My Private Secretary wrote on 23 August to your Private Secretary, giving an interim response in my absence to your letter of 16 August which arrived while I was abroad.

I write to say that I endorse the points made in my Private Secretary's letter. I believe that the ABRC should be allowed to complete the difficult task they have in hand without interference by me. I know they are tackling the task with great thoroughness and with the fullest regard for all the factors which their remit requires them to consider. I also know that they are paying particular attention to the implications (for all the Research Councils including the MRC) of maintaining, reducing or cancelling the levy.

When I receive the ABRC's advice I shall take full account, if necessary, of wider political factors such as those to which your letter very understandably drew attention, before making my decision.

I am copying this letter to the Prime Minister, the Chief Secretary Sir Robert Armstrong and Dr Robin Nicholson.

Yours Keith.

NAT HEALTH: MRC July 84

cc D. Willetts

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W.0586 29 August 1984

PRIME MINISTER

MEETING WITH EARL JELLICOE AND SIR JAMES GOWANS TO DISCUSS THE MEDICAL RESEARCH COUNCIL'S FINANCIAL PROBLEMS: 30 August

FLAG A. 1. Sir James Gowans' memorandum of 25 July indicates that MRC has a shortfall of funds for 1984-85 of £2m and that ABRC is considering a levy of £0.9m and £1.8m in 1985-86 and 1986-87 to provide funds for 'restructuring' of AFRC and NERC. Sir James goes on to detail some of the actions which MRC will have to take to meet these reductions in funds.

2. The £2m deficit for 1984-85 arises from unplanned increases in costs such as MRC's international subscriptions, pension obligations and excess salary increases for their staff which are tied to university salary scales and hence outside their direct control. In the short term these cost increases can only be met by reducing the volume of research, which is what the MRC are doing. But the problem is exacerbated by the Treasury rules on annuality which have the effect of encouraging research councils to plan to spend up to the limit of their budgets with little or no allowance for contingencies although with their long-term commitments (up to 5 years) prudence would suggest a more conservative financial policy.

3. The 'restructuring' funds for AFRC and NERC are required to meet the initial heavy cost of laboratory closures, redundancies etc which will not only provide financial savings later in the decade but will also provide greater flexibility for these councils to meet new research needs. ABRC has no source of funds other than the Science Vote to meet the initial costs of restructuring - hence the 'levy' on SERC

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and MRC*. Additionally SERC has already had specific funds when the Appleton Laboratory was merged with the Rutherford, while it could be argued that MRC's policy of closing Units which have passed their peak and opening new ones for new areas of research (an excellent policy, I believe) is a form of continual restructuring which is de facto funded by ABRC.

4. The MRC has, in my view, no argument for being a 'special case'. Its problems are similar to those faced by the other research councils and the only difference lies in the fact that termination of research in the medical field is likely to cause a greater public outcry than in other areas. I have already said, in my minute of 27 July on the Annual Review of Government-funded Research and Development (W.0495), that I believe real damage is being done to research in the universities and research council establishments. The answer lies in re-allocating funds from other parts of the Government's R&D spend, such as defence, to maintain the health of basic and strategic research. I have, in my notes to Treasury on the Annual Review, supported the DES bid for extra resources.

5. Could MRC obtain funds to relieve its difficulties from other sources? These sources might be:

a. The Department of Health and Social Security

FLAG B The Secretary of State for Health and Social Security in his letter of 29 July expresses concern about some of the areas of work that the MRC must terminate and it may be that his Department will offer to pick up the funding of particular aspects of the work in emotive areas such as depression, stroke and blindness. I would have strong reservations about such a course of action. It would be no more than a palliative from the MRC's point of view, as the next Council meeting in the autumn is likely to face the same difficulties in relation to new research proposals, some of which may also be in emotive areas.

*There is a PES bid outstanding to cover the costs of restructuring

And besides not getting to the root of the problem, DHSS funds would doubtless be drawn from the small budget of the Office of the Chief Scientist and diverted from projects that might be of more immediate relevance to DHSS's responsibilities for the Health and Social Security Services.

b. Industry

The MRC have done quite well in their contacts with industry over the last few years, notably in relation to their agreement with Celltech to exploit their inventions in the field of biotechnology. I know that they have new imaginative plans for more involvement of British industry with the exploitation of their research but I do not think that this can make a significant contribution to the funding of their basic research for some time yet.

c. Charities and Private Funds

The Council co-ordinates its activities with those of the major Cancer Charities, the British Heart Foundation, the Arthritis and Rheumatism Council and other Charities in the medical field. There are occasions when MRC commends application to Charities for funding. But they have to tread a very careful path here, as medical Charities obviously do not wish their intervention to have the effect of reducing Government funding, rather an increase in total funding for their particular field.

d. Efficiency

There is always scope for improved efficiency within a research Council but my experience in ABRC makes me feel that MRC is probably the most efficient of the research councils. Although not directly relevant to the present meeting, I think there is much more scope for improved efficiency from a revision of the overall research council structure. The Dainton Report (Cmnd 4814)

had some persuasive arguments for a single 'National Research Council' which read even better 13 years later when so many new areas of science, such as biotechnology and remote sensing, straddle the boundaries of the research councils as traditionally defined. I have suggested this line of thinking to Treasury for their PES bilaterals with DES but clearly any savings resulting from such a change are many years ahead.

6. Further background on the events leading up to this meeting is contained in the DES brief which on its first page also suggests a Line to Take. I agree with the line suggested. In particular I support the view that the advice from the ABRC to the Secretary of State for Education and Science should not be bypassed despite the possibility of short-term political problems arising from the announcements of the funding reductions by MRC. The overall funding problem for research councils will properly be a subject for discussion in Treasury's PES bilateral with DES while the subsequent allocation of funds to the individual research councils should not be pre-empted by Ministerial discussion before ABRC's advice is received.

7. I am copying this minute to Sir Robert Armstrong.

RBN

ROBIN B NICHOLSON
Chief Scientific Adviser

Cabinet Office
29 August 1984

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DEPARTMENT OF EDUCATION AND SCIENCE
ELIZABETH HOUSE YORK ROAD LONDON SE1 7PH
TELEPHONE 01-928 9222

FROM THE SECRETARY OF STATE

David Barclay Esq
Private Secretary
10 Downing Street
London SW1

24 August 1984

Dear David

I enclose the briefing for the Prime Minister's meeting with the MRC to be held on Thursday 30 August at 4.30pm.

I am copying this letter and its enclosures to recipients of your letter to Elizabeth Hodkinson of 2 August.

Yours sincerely
Claire

MISS C L JONES
Private Office

SHORT DIGEST OF MAIN BRIEF

ISSUES

1. The Science Budget has been broadly maintained at level funding. But inescapable commitments such as superannuation and international subscriptions are taking an increasingly large part of the money; and the ABRC are planning a levy on MRC and SERC in 1985-86 and 1986-87 for restructuring of AFRC and NERC.

2. MRC have £2m less disposable income in 1984-85 than they planned on having; and they are having to prepare for the levy. They have taken emergency measures: reducing Units' budgets, withholding an inflation allowance, awarding fewer high quality research grants. Their criteria encompass good science, relevance, and balance. Medical research is emotive and these measures have caused, and may cause more, Parliamentary and public fuss.

3. DES have mnade additional bids for science in the 1984 PES. One of these is for restructuring. If that is successful, ABRC are likely to recommend cancelling the levy.

4. Any additional money will be distributed between the Research Councils in the light of advice by the ABRC. MRC have been told by Sir Keith Joseph that he is not prepared to bypass the ABRC in MRC's favour.

LINE TO TAKE

5. The Prime Minister:

(a) Knows about the outcome of the July meeting with the Secretary of State for Education and Science;

(b) Cannot help with additional money in 1984-85;

(c) Cannot prejudge the autumn PES discussions about additional bids for science in 1985-86 to 1987-88, whose outcome may change ABRC's view about the levy;

(d) Would not countenance ABRC being by-passed;

(e) Will stand behind Sir Keith Joseph in his willingness to defend the Council's action in the event of a row.

BRIEF FOR THE PRIME MINISTER FOR HER MEETING WITH EARL JELLICOE AND SIR JAMES GOWANS TO DISCUSS THE MEDICAL RESEARCH COUNCIL'S FINANCES, 4.30 p.m. THURSDAY 30 AUGUST 1984

RELATED PAPERS

1. While this brief is self-contained, some of the points in it have already been mentioned in:

FLAG C. (a) The Secretary of State for Education and Science's letter of 27 July to the Prime Minister;

FLAG A. (b) Sir James Gowans's memorandum attached to Earl Jellicoe's letter of 26 July to the Prime Minister - which puts things in the most favourable light from MRC's viewpoint.

BACKGROUND

2. At a Council meeting on 12 July, the Medical Research Council (MRC) decided that they were unable to fund, or continue to fund, university teams which had applied earlier in 1984 for MRC grants. The areas of work include depression, stroke and blindness; there are also other areas. The criteria used by MRC to decide whether to fund research grant applications include scientific quality, health care need, the need for balance across areas of science, and industrial relevance. The weighting of these criteria varies, but as between them MRC tend to emphasize scientific quality.

3. Before the Council issued the letters rejecting the applications, Earl Jellicoe, MRC's Chairman, and Sir James Gowans, MRC's Secretary and Deputy Chairman, sought a meeting with the Secretary of State for Education and Science in an attempt to find an immediate way round the funding problem which might enable the Council to fund some of the applications which they were about to reject. (This was because MRC realised that the rejections might quickly

become public knowledge and cause a political uproar; there had already been Parliamentary and press interest in MRC's announced reductions in their Units' 1984-85 budgets and in their leaked intention to close four Units on financial grounds.) The meeting took place on 23 July. Sir Keith Joseph told Lord Jellicoe and Sir James Gowans that he could do nothing to help their immediate problem; that decisions about the level of funding in 1985-86 and about planning figures for the two following years would be taken in the autumn; and that he was not prepared to by-pass the advice of the Advisory Board for the Research Councils (ABRC) in deciding how to allocate the Science Budget between its various client bodies of whom the MRC is one. He also promised that he would stand by the Council's action if there were a row.

4. As a result Lord Jellicoe and Sir James Gowans sought the present meeting with the Prime Minister, and the Council sent the rejection letters in mid-August.

ISSUES

5. The Science Budget. While the Science Budget (£550m in 1984-85) has been broadly maintained at level funding, inescapable commitments such as superannuation costs and international subscriptions which are a first charge on it are taking an increasingly large proportion of the money. This reduces the amount available for science. Furthermore, redeployment of resources into areas of high scientific priority - a desirable activity - has its own initial costs, principally redundancy payments to unredeployable staff released from lower priority work and capital costs. If these costs have to be met from within a level Science Budget this would further reduce the money available for science during the first few years of the restructuring operation. (In the case of Departments, the costs of redundancy payments and of pensions do not fall on the Department which is restructuring).

6. An additional bid for science was made in the 1983 PES but, with the exception of money for international subscriptions which benefited the Science and Engineering Research Council (SERC), was rejected. Additional bids for science have again

been made in the 1984 PES and will be discussed in the autumn. Details of the 1984 bids are in the table at Annex A, and a copy of the DES paper supporting the restructuring bid (less its Annex) is at Annex B. These Annexes could be skimmed. The most relevant paragraphs of Annex B are 9 and 13 which refer to the proposed levy (for restructuring) which the ABRC has already provisionally recommended to Sir Keith Joseph should fall on MRC and SERC in 1985-86 and 1986-87, should the restructuring bid fail in the PES. The amount of the levy, for MRC, is £0.9m in 1985-86 and £1.8m in 1986-87.

7. MRC's Problem. The immediate crisis, in 1984-85, is due to the MRC having £2m less disposable income than they were planning on having, because of superannuation, international subscriptions and pay settlements. As a result they have taken emergency measures: they have reduced their Units' budgets for consumable items by 16%, withheld an inflation allowance of 5%, and cut back on alpha research grants; and they are likely to close four Units (out of about 60).

8. Although the situation in 1984-85 is difficult for the Council, severer difficulties will arise in 1985-86 and 1986-87 unless additional money is provided over ABRC's current planning figures for the Council for those two years. The figures in question are included in the table giving MRC's actual and planned grant-in-aid:

£m

1983-84 (Appropriation Accounts)	1984-85 (Supply Estimates)	1985-86 (Published 1983 ABRC Advice)	1986-87 (Published 1983 ABRC Advice)
113.7	117.2	120.1	122.8

NOTES 1. In 1983-84 the grant-in-aid represented 22% of of the Science Budget, and in 1984-85 21%.

2. The 1985-86 and 1986-87 planning figures incorporate the levy.

9. The money which is being asked for by MRC to be added to their baseline in 1985-86 and 1986-87 - £2.4m and £4.1m - is for restoration of the Units' budgets and for funding more alpha grant applications. If the levy were cancelled this would satisfy between 1/3 and 1/2 of what MRC have asked for.

10. The ABRC's Position. The ABRC know that Lord Jellicoe and Sir James Gowans met the Secretary of State and are due to meet the Prime Minister. The ABRC is now formulating its advice to the Secretary of State on the 1985-86 allocations of the Science Budget and the planning figures for 1986-87 and 1987-88, and is very well aware of MRC's difficulties. The ABRC's advice is likely to be submitted to the Secretary of State in the late autumn, after completion of the 1984 PES i.e. when the size of the Science Budget for 1985-86 is known.

11. The Secretary of State for Social Services (who will be represented at the meeting by Mr Kenneth Clarke) is concerned that the ABRC's proposals will force the MRC to turn down the high quality research projects in areas which are of importance to the development of health care. He fears that these decisions will attract severe public criticism and cause disproportionate political damage. It seems unreasonable for the budget of the MRC to be reduced in part to solve problems which have arisen from changes in research priorities in other fields. Mr Fowler has suggested to Sir Keith Joseph that the ABRC might be invited to look for ways of reducing the cost of the proposed restructuring or possibly postponing it if it cannot be met by a PES bid.

12. Sir Keith Joseph has not yet been able to consider Mr Fowler's request; meanwhile the ABRC is already looking very carefully at the consequences (for all the Research Councils) of keeping, reducing or abandoning the levy.

13. Summary. MRC have a problem. It is arguable whether it is any more acute than that faced by the other Research Councils, but it emerges in a different way, and is exacerbated by the fact that all medical research is by its nature emotive.

14. Thus when MRC cuts back there is more likely to be a Parliamentary and public fuss. But in essence MRC's problem is similar to DES's problem in managing the Science Budget, writ small. Some easement would be offered, both to the Science Budget and the MRC, if at least the additional bid for restructuring in this year's PES were allowed; but that is for discussion between DES and Treasury Ministers in September, and perhaps a little later in the autumn with their other colleagues.

LINE TO TAKE

15. After listening to Lord Jellicoe and Sir James Gowans, and, if she wishes, after hearing comments by others present at the meeting, the Prime Minister might say that:

(a) She is grateful to Lord Jellicoe and Sir James Gowans for their preparatory documents and for putting their case clearly and concisely;

(b) She has been informed by Sir Keith Joseph - as well as by Lord Jellicoe - about the outcome of the meeting on 23 July;

(c) She regrets that there is nothing she can do to provide immediate additional money in 1984-85, though she understands that this is not really the crux of the matter;

(d) As for future years, Lord Jellicoe and Sir James Gowans know the situation: Sir Keith Joseph has made additional bids for science in the 1984 PES and these will be discussed by ministers collectively in the autumn; she cannot prejudge the outcome of these discussions;

(e) She supports Sir Keith Joseph's stance on allocation, namely that the allocation of any additional money that may be available for science as a result of the 1984 PES must be a matter for decision by him in the light of advice by the ABRC;

(f) While it is for the Government to decide the amount of money allocated to the Science Budget, and for the Secretary of State for Education and Science to decide how much of that money to allocate to the MRC, specific decisions on which areas of medical research should be supported are properly for the MRC themselves. If within the money available the Council decide that certain projects which they would otherwise consider worthy of support cannot be funded, and if that decision provokes a public fuss, she stands behind Sir Keith Joseph in his assurance - already given by him to Lord Jellicoe - that he will stand by the Council's action and face any Parliamentary row.

ANNEX A

1984 PES: SCIENCE ADDITIONAL BIDS (LATEST REVISED FIGURES)

£m

	1985-86	1986-87	1987-88
Restructuring	10	11	5
International Subscriptions	5	4	4
Research Grants	4	7	9
Superannuation	3	5	7
VAT on Building Alterations: Science Component	1	1	1
Total	23	28	26

ANNEX B

PES 1984: DES SCIENCE BIDS: RESTRUCTURING

Note by Science Branch DES

The PES Bid

1. The bid for science restructuring entered in PES(84)11 Addendum 1 is:

	1985-86	1986-87	1987-88
£M	9	14	5

This Note describes why restructuring is needed, the origin and composition of the bid, and how it would be disbursed.

2. This is to be considered in relation to Councils' total Grants-in-Aid which for 1984-85 are about £530M; in addition Councils conduct about £85M of commissioned work.

3. Research Councils must plan, within their cash planning figures, to meet existing contractual obligations, to get the best possible value from existing programmes, to keep these under review and terminate them as necessary, and in this and other ways to create room to respond to new opportunities and demands.

4. Their scope for flexibility in responding to new scientific opportunities resides only in their Science Vote funding and is constrained by existing commitments, including:

(i) the pay of permanent staff, whose rates are determined by negotiations in which Councils have no part (mainly those for the civil service, universities and NHS staff); salaries of such staff account for about one quarter of Councils' expenditure: over the last three years settlements have cost Councils £15M more than allowed for by the cash factors.

(ii) Past capital investment, inherited and acquired. This is mainly in buildings and land (for example AFRC currently has 22 Institutes, NERC 14) but also in central facilities for use by the universities (eg NERC research vessels; the SERC telescopes, their computing, laser, neutron beam and synchrotron radiation facilities; MRC NMR and cyclotron facilities).

(iii) Treaty obligations towards international scientific ventures (eg CERN, EMBL, NATO); in all about 12% of Councils' 1984-85 expenditure.

(iv) A rising superannuation bill (estimated at £5.7M in 1982-83 and £14.8M in 1987-88).

(v) Commissioned research, which requires the Councils concerned to maintain a research capacity for present and future demands of customer Departments. This brings rigidities in that, even with the fullest use of fixed term appointments and full economic costing, resources cannot be shed as fast as Departments have reduced their programmes. It has hit NERC particularly hard; their commissioned income fell by 22% in real terms over the last three years; MAFF commissions with AFRC are expected to fall by at least 4% by 1986-87.

5. Money is released for redeployment mainly by:

(i) Ending of short-term support viz research grants and postgraduate studentships; current annual expenditure on these is about £136M and £69M respectively, of which perhaps a third is released by completions.

(ii) Wastage of permanent staff, through resignation and retirements, currently running at about 10%; effect may be multiplied as, for example, in the MRC policy of closing a Unit consequent on the departure of a Director (some 20 Units closed in the last 8 years).

(iii) Ending fixed term appointments; of the total science group posts or equivalent in the Councils perhaps 10% are short-term posts.

But money thus released is not absolutely free. Expectations of, and demands for, research grants and postgraduate studentships continue and it is Councils' policy to continue to maintain these forms of support. Councils must replace specialist staff where this is essential to maintain existing programmes; and they need some new blood. (These are not necessarily permanent appointments; it is general policy of Councils to increase the proportion of fixed term appointments.) In addition, non-monetary resources are redeployed by stopping programmes and redirecting staff and facilities to new programmes, with or without retraining.

6. Councils' experience has been that when there has been some real growth in their resources they have been able through such means to respond adequately to new opportunities. Their experience of the past five years has been that the Government's policy of broadly level funding has in practice meant a steady decline in the amount of science that can be purchased; in the judgement of the Councils and of the ABRC they now have insufficient flexibility to cope with the new scientific opportunities that should be pursued in the interests of the health of UK science and its contribution to the creation of national wealth.

7. The means whereby Councils can improve their flexibility include:

(i) making posts (and people) redundant;

(ii) encouraging more voluntary premature retirement;

(iii) retraining staff;

(iv) increasing the proportion of fixed term appointments;

(v) concentrating work on fewer sites, with closure of some in whole or part, movement of staff between establishments, and enlarging and equipping the receiving laboratory.

All Councils are now actively considering these and other possibilities. AFRC have done most, under direct pressure from the ABRC beginning in 1982; they are planning for some 800 job losses over the next three years.
NERC have been planning concentration of their numerous sites. More recently the MRC have begun to address the matter partly as a consequence of their current cash crisis, partly as a result of the ABRC's assessment of the implications for science of the analysis in the Government's Green Paper Cmnd 9189 - "Public Expenditure and Taxation into the 1990s".

8. Such measures cost money and take some years to yield results. If no new money were provided restructuring would go forward but with difficulty and much more slowly. Because the money would have to be found at the expense of good science there would be a period of 4-6 years when the ability of the Councils to contribute to national well-being would be severely inhibited. Restructuring costs would trench heavily on research grants, postgraduate training, new blood, and new initiatives such as Units. Without new money there would be a prolonged

period of disappointment and uncertainty for the science community (both those who work in Councils and those funded in universities and elsewhere) and for the sectors of industry served by the Council with consequent loss of morale and some impairment of UK scientific capability, as by temporary or permanent loss of the most able researchers from the system, by movement abroad and in other ways.

Origin and Composition of the Bid

9. The need for greater flexibility was first identified by the ABRC in its (published) 1982 advice to the Secretary of State (paras 51-54). This was developed in its 1983 advice (pages 48-49, 51) where restructuring was identified as the most important need in the management of the Science Budget. Additional funds for this were seen as a first priority; and the Board mooted the possibility of a levy on MRC and SERC (3/4% of Grants-in-Aid in 1985-86, 1 1/2% in 1986/87) should no additional funds be available. With the money found by the Department for those two years (£0.9M in each year), the totals would be £4.0M and £7.2M.

10. In its April 1984 advice to the Secretary of State on the PES bids the Board gave high priority to the restructuring bid, entering its best provisional assessment of the needs of AFRC and NERC. In parallel, the Board invited Councils, for the 1984 Forward Looks (due in May) to submit proposals for restructuring; AFRC, NERC and ESRC responded. Their proposals stand as follows:

	1985/86 £M	1986/87 £M	1987/88 £M
AFRC	6.0	6.7	3.6
NERC	3.1	5.15	1.75
ESRC	0.85	0.1	-
Total	9.95	11.95	5.35
(PES bid)	(9)	(14)	(5)

The costs arise mainly for VPR and redundancy costs, staff removals, and building and equipment adaptations at receiving sites. Details are given in Annex A, together with estimates of the money released for redeployment to new opportunities, and a summary of proposals for sale of assets with retention of receipts.

Processing of Bids

11. Planning restructuring is a sensitive and evolving process. So far as it is right to do so, Councils declare their policies and intentions publicly as for example in the AFRC's published Corporate Plan (copy enclosed). But detailed planning requires evaluation of options and opportunities, and has to be responsive to changing circumstances. Thus the ABRC, and the Department, would think it right - if the bid succeeds - to scrutinise Councils' plans closely, monitor their progress and allow development of the policy within its general declared intent.

12. Councils' proposals are being examined in detail against these criteria:

(i) increased flexibility in the capacity to respond to new opportunities;

(ii) better value for money, including redeployment into areas of national priority;

(iii) increased efficiency;

(iv) greater capacity to absorb unpredictable movements in the real costs of doing research;

(v) quality of the plans and arrangements for managing their implementation.

This is likely to be a continuing process, involving some monitoring by ABRC and DES perhaps against stated targets. It is also likely to require the Board (and DES) to phase allocations according to Councils' responses. Thus if the bid were successful DES might wish to seek Treasury agreement to some reallocation between years, or revision; and would want to be able, on the basis of a full discussion with Treasury, to assure Councils, where their plans involve disposal of assets, that they could retain receipts.

Conclusion

13. The bid is of key importance for enabling the Science Budget to respond to new scientific opportunities and national needs in a period of otherwise severe restraint. If it is rejected some restructuring will go on, but demoralisingly

slowly and with damage to science of the kind currently being experienced by the MRC (of which the proposed levy is one cause), lost opportunities, breaking up of distinguished teams, and emigration of some of the most able people. The bid will not solve all of the Science Vote problems; but it will crucially assist the transition to a more flexible system while lessening the transitional damage.

RESTRUCTURING PROPOSALS: DETAILS: AFRC, NERC AND ESRC

A. EXPENDITURE

AFRC	£M	£M	£M
Redundancy, VPR, transfer costs (Total £7.2M)	5.0	2.2	-
Capital (Total £9.1M)	1.0	4.5	3.6
	6.0	6.7	3.6

The effect on the three scientific areas within AFRC are as follows:-

1985/86-1987/88

	Redundancy etc	Capital
	£M	£M
Plant Science	4.6	1.4
Programme reductions in red clover and spring barley breeding; top fruit and arable crop research restructuring		
Animal Science	2.6	5.2
Rationalisation and restructuring of programmes on ruminant nutrition and production; and on nutritional disorders and infectious diseases of farm animals		

...continued

	1985/86-1987/88	
	Redundancy etc	Capital
	£M	£M
Food Science	-	2.5
Building costs associated with the expansion of programmes on food and human nutrition		
TOTAL	7.2	9.1

NERC	1985/86 £M	1986/87 £M	1987/88 £M
NERC - Selective early retirement	1.25	1.25	1.25
BGS - Removal from Exhibition Road and Keyworth Phase II building	0.6	3.0	0.5
IOS - Cost of staff removals and termination of non-mobile grades; building costs	0.65	0.9	-
ITE - Cost of staff removals and termination of non-mobile grades	0.6		-
TOTAL	3.1	5.15	1.75

(a) NERC

The Council is sceptical that large scale redundancies are an efficient way of using money to redeploy resources towards priority areas. The normal result is that many staff which one would wish to retain are lost. The Council is seeking funds to pursue on a larger scale the kind of arrangement it has operated in a small way for a few years whereby it tries to encourage selectively early retirement.

(b) British Geological Survey

Comprises £100K to help fund the removal from Exhibition Road in conjunction with the handover of the Geological Museum to the BM(NH) and £4M to concentrate the bulk of the BGS on a main site at Keyworth.

(c) IOS

The closure of the Institute of Oceanographic Sciences site at Taunton and the relocation of staff at Bidston and Wormley.

(d) ITE

The closure of some ITE sites.

ESRC	1985/86 £M	1986/87 £M	1987/88 £M
Change of premises (to share with AFRC)	0.45	-	-
Superannuation costs resulting from re-designation of ESRC staff to university staff	0.4	0.1	-
TOTAL	0.85	0.1	-

B. RELEASE OF MONEY FOR REDEPLOYMENT TO NEW INITIATIVES

	1985/86 £M	1986/87 £M	1987/88 £M	TOTAL £M
AFRC	2.5	4.3	6.1	12.9
NERC	0.4	1.0	1.7	3.1
TOTAL	2.9	5.3	7.8	16.0

ESRC's restructuring will release about £0.1M p.a. from the move of HQ; redesignation of the Centres will replace the present 5-year review (followed by 5 years of running down or 10 years renewal) by a clear understanding of termination after 8 years, thus increasing flexibility in the longer term.

C. RETENTION OF RECEIPTS FROM SALES OF ASSETS

Included in the figures at B. above are receipts from the sale of NERC land and buildings amounting to £450,000. It is essential to the success of NERC's restructuring plans for the IOS and ITE that they be allowed to retain these receipts. For example, if retention were not permitted in the case of IOS it would extend by 7 years (from 3 to 10) the length of time until a positive Net Present Value is reached, on a Discounted Cash Flow analysis. In both cases non-retention of receipts would cast doubts upon the financial viability of the schemes and endanger the prospects of their being initiated.

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CCND

DEPARTMENT OF EDUCATION AND SCIENCE

ELIZABETH HOUSE, YORK ROAD, LONDON SE1 7PH

TELEPHONE 01-928 9222

FROM THE SECRETARY OF STATE

Await reply

23 August 1984

Dear Steve

In the absence of both my Secretary of State and Mr Peter Brooke on holiday, I have taken advice from officials about your Secretary of State's letter of 16 August to my Secretary of State. This reply conveys the gist of their advice. I shall let my Secretary of State see this correspondence when I next send him a box, probably early next week.

We believe that Sir James Gowans's agreement not to send out the letters of rejection until after the Prime Minister had met Lord Jellicoe and him was contingent on such a meeting taking place early in August. Some of the applications had been hanging fire since February and it was common knowledge that there had been a MRC Council meeting on 12 July (decisions are normally made known to applicants very soon after Council meetings). So on hearing that the Prime Minister was unable to have the meeting until 30 August, Sir James understandably decided that he could not hold up the despatch of the letters that long. In the event we understand that most of the letters were posted on 8 August or shortly thereafter; there may still be one or two which, for internal reasons, have not yet been sent out.

There is no doubt that the ABRC are very well aware of the difficulties which the imposition of a levy would cause the MRC (and also the Science and Engineering Research Council). The Independent Members of the Board are still drafting the Forward Look advice - the full Board will discuss this draft on 26 September 1984. An important part of the work of the Independent Members consists of interviews with the Head of each Research Council individually, to discuss with them their own Council's

/plans and

Mr S A Godber
Private Secretary to the
Secretary of State for
Social Services
Department of Health and Social
Security
Alexander Fleming House
Elephant and Castle
London SE1 6BY

plans and problems in some detail. This year, partly because of the sharp way in which MRC and SERC have reacted to the prospect of a levy, the Board is conducting, during August, a second series of such interviews aimed particularly at probing the implications - including the possible deferment of restructuring - of various options which include maintaining the levy at its presently planned level, reducing it, or abandoning it altogether.

We cannot yet say which of these options the Board will recommend to my Secretary of State. The advice will not be finalised until after the completion of the 1984 PES, when the size of the Science Budget in 1985-86 and planning figures for the two following years will be known. My Secretary of State has made a bid in the 1984 PES for additional funds for restructuring: if this is successful, then the need for the levy would be greatly diminished.

We see little merit in seeking to influence the ABRC's recommendation about the levy by inviting them to import into their deliberations political considerations which are properly for my Secretary of State, who is not bound to accept the ABRC's recommendations and who would - if a levy of the presently planned size were recommended - no doubt wish to consider factors such as those your Secretary of State has mentioned before reaching his decision. The ABRC's task, which is already difficult, is to arrive at agreed recommendations based not only on scientific grounds, but also taking into account management, economic, social and industrial considerations. The wide-ranging membership of ABRC, which includes the Chief Scientist of the DHSS, ensures a broad spectrum of input to its recommendations.

We believe that this process should be allowed to take its course. Sir David Phillips, the ABRC's Chairman, is not able to attend the Prime Minister's meeting on 30 August 1984, as he will be on holiday abroad.

I am copying this letter to the Private Secretaries of those Ministers to whom your Secretary of State's letter was copied and of Sir Robert Armstrong; and to Dr Nicholson.

Yours sincerely

Claire

MISS C L JONES
Private Office

NAT HEALTH JULY 84

MRC

JMc

CC NO

DEPARTMENT OF HEALTH AND SOCIAL SECURITY

Alexander Fleming House, Elephant & Castle, London SE1 6BY

Telephone 01-407 5522

From the Secretary of State for Social Services

B/f with other PPS on 20 August

The Rt Hon Sir Keith Joseph Bt MP
Secretary of State
Department of Education and Science
Elizabeth House
York Road
LONDON
SW1

Dup 17/8

CONFIDENTIAL

Dear Keith.

August 16 1986

MEDICAL RESEARCH COUNCIL GRANTS

Thank you for your letter of 31 July. will request if required

I understand that the Prime Minister has now agreed to see Lord Jellicoe and Sir James Gowans at the end of the month; and that Sir James has agreed not to send out before that meeting letters which would inform researchers of the failure of their applications for MRC grants in 1985-86.

There are therefore three or four weeks in which to prepare the ground for the Prime Minister's meeting. I note from your memorandum of 27 July to the Prime Minister that the MRC's funding problem stems at least in part from the possibility of an ABRC "levy" on them and the SERC to help meet restructuring costs in the AFRC and the MERC; and that the ABRC has not yet decided whether or not to impose such a levy. I appreciate that you will not wish to undermine the position of the ABRC; but there does seem to me a very strong case for representing to them the difficulties that would be caused by imposing a levy of the size they apparently have in mind at this particular juncture; and for inviting them to consider ways of making progress towards the aims of the restructuring at less cost (and hence with a smaller levy) or even of deferring the restructuring. I appreciate the advantages that such restructurings can bring; the issue here is perhaps whether the advantages will be great enough - and sufficiently visible to the public - to justify the political damage and the damage to basic health research that we are faced with at the moment. If you feel that this possibility is worth pursuing, it might perhaps be worth suggesting that Sir David ~~Nicholson~~ Phillips, the ABRC Chairman, should also be invited to the Prime Minister's meeting.

I am sending copies of this letter to the Prime Minister and the Chief Secretary; and to Sir Robert Armstrong and Robin Micholson.

Yours Norman

NORMAN FOWLER

National Health - Financial support for MRC

Ref: DSC.

10 DOWNING STREET

From the Private Secretary

7 August 1984

MEDICAL RESEARCH COUNCIL

Further to my letter of 2 August, a meeting with Lord Jellicoe and Sir James Gowans to discuss MRC finances has now been arranged for 1630 hours on Thursday 30 August at 10 Downing Street. Your Secretary of State, the Minister of Health, and Dr. Nicholson have been invited to attend.

I have been unable to speak to Sir David Phillips along the lines we discussed, because he is presently in Switzerland. But I will have a word with him on his return, in the expectation that, as you say, he would prefer not to attend the meeting.

Could the brief please reach us by close of play on Friday, 24 August.

I am sending copies of this letter to John Gieve (Chief Secretary's Office, HM Treasury), Stephen Alcock (Office of the Minister for Health), Dr. Nicholson and Richard Hatfield (Cabinet Office).

David Barclay

Miss Elizabeth Hodkinson,
Department of Education and Science.

TELEPHONE:
01-280 2222

33, KING WILLIAM STREET,
LONDON, EC4R 9AS

Sub
15/8

The Rt. Hon. Margaret Thatcher, MP.,
Prime Minister,
10 Downing Street,
London, SW1

14th August, 1984

Rib. cc Press?

Dear Margaret

Thank you very much for your letter of 3rd August which I saw over the weekend on my return from leading a small British Overseas Trade Board Mission to Taiwan.

I am most grateful to you for agreeing to meet Sir James Gowans and myself, not least as I have some idea of the pressure of business to which you are exposed. I am sure that it would be useful if, as you suggest, Keith Joseph, David Phillips and Robin Nicholson were to join us. I understand that the meeting has now been arranged for Thursday 30th August at 16.30.

I shall of course inform your private office if I am proposing to bring anyone in addition to James Gowans.

Many thanks.

Yours ever

George

JELLICOE

NAT HEALTH

MRC

7/84

Press Office: to see and return please.

DMB 6/8

1 CSW
2 BM
3 D Barclay

W.0516

MR DAVID BARCLAY, NO 10

Prime Minister (2)

It seems to me that the MRC's tactics are less than worthy. But we should not be blackmailed.

DMB 3/8

MB

3 August 1984

MEDICAL RESEARCH COUNCIL

I have noted from your minute of 2 August to Elizabeth Hodkinson that the Prime Minister has agreed to Lord Jellicoe's request for a meeting on the Medical Research Council, and that this will probably take place in September.

My Secretariat will be in touch with the DES over the preparation of a brief for the Prime Minister, and I may well wish to provide some additional comments to her.

Following our telephone conversation on Monday, I did indicate to Sir James Gowans that in response to the questions which will undoubtedly be put to him when the MRC project finance decisions are known, he could indicate that his Chairman had requested a meeting with the Prime Minister and that he understood the Prime Minister agreed to see the Chairman but that the meeting would probably not take place until September. I also pointed out to Sir James the dangers of stoking up fires on this subject in the media. He completely understands the point and will do the best he can to avoid this problem. However, he made clear to me that the first reaction of some of the people who receive letters of rejection of their grant application shortly will be to communicate with the Press and there is nothing he can do to stop this. I understand that of the 15 to 20 rejection letters which are going out, a few are in emotive areas such as research on depression and tuberculosis. Some sections of the Press may well make a field day of this as they did a few weeks ago on the decision not to support the Unit in Cambridge working on "cot deaths" even though that decision was taken purely on scientific grounds.

ROBIN B NICHOLSON
Chief Scientific Adviser

RBN.

10 DOWNING STREET

THE PRIME MINISTER

3 August 1984

Dear George,

Thank you for your letter of 26 July about the financial position of the Medical Research Council.

I know that you would not lightly have raised these issues with me, and I should be glad to meet you, with Sir James Gowans, as soon as our diaries permit. I have asked my office to make contact with yours to arrange a time.

I think it would be useful if Keith Joseph, David Phillips and Robin Nicholson were to join us. If you would like to bring anyone in addition to James Gowans, please let my office know.

Yours

Margaret

The Rt. Hon. Earl Jellicoe, DSO, MC.

10 DOWNING STREET

MRC	30 Aug 1630	31 Aug 1630	3 Sep 1530	4 Sep 1130	4 Sep 1600
Jellicoe ✓	✓✓	✓	?	✓	
S/Ed ✓	✓	✓	✓	✗	✗
R Nich	✓	✓	?	✓	✓
K Clarke ✓	✓	✓	?		

D Philips ?

bc DB.

SUT

10 DOWNING STREET

THE PRIME MINISTER

3 August 1984

Dear George.

Thank you for your letter of 26 July about the financial position of the Medical Research Council.

I know that you would not lightly have raised these issues with me, and I should be glad to meet you, with Sir James Gowans, as soon as our diaries permit. I have asked my office to make contact with yours to arrange a time.

I think it would be useful if Keith Joseph, David Phillips and Robin Nicholson were to join us. If you would like to bring anyone in addition to James Gowans, please let my office know.

Yours ever

Margaret

The Rt. Hon. Earl Jellicoe, DSO, MC.

JR

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File ECL

10 DOWNING STREET

From the Private Secretary

2 August 1984

Dear Elizabeth,

MEDICAL RESEARCH COUNCIL

The Prime Minister was grateful for your Secretary of State's minute of 27 July in which he reported on his meeting with Lord Jellicoe and Sir James Gowans about the finances of the Medical Research Council.

Following your letter to me of 30 July, and also the advice of the Secretary of State for Social Services in his minute of 29 July, the Prime Minister has agreed to Lord Jellicoe's request for a meeting. The Prime Minister would be grateful if your Secretary of State could be present, together with Sir David Phillips and Dr Nicholson. The meeting is unlikely to take place before the end of August, but we will be in touch separately to arrange a precise time.

As foreshadowed in my letter of 26 July, I shall be grateful if a full brief could be prepared for the Prime Minister's use, in consultation with the Department of Health and Social Security and the Treasury.

I am sending copies of this letter to Steve Godber (Department of Health and Social Security), John Gieve (Chief Secretary's Office), Sir David Phillips, Dr Nicholson and Richard Hatfield (Cabinet Office).

Yours ever,

David

DAVID BARCLAY

Miss Elizabeth Hodkinson,
Department of Education and Science.

CONFIDENTIAL

112/4

CONFIDENTIAL

PA 3/8 (2)

Prime Minister

To note Treasury views.

2/8

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Sir Keith Joseph MP
Secretary of State for Education
and Science
Department of Education and Science
Elizabeth House
York Road
LONDON SE1 7PH

1 August 1984

Dear Keith

THE MEDICAL RESEARCH COUNCIL (MRC): CONSTRAINTS ON FUNDS FOR RESEARCH GRANTS

PP's. attached

Thank you for copying to me your minute of 27 July to the Prime Minister. I am glad that you explained the position to the MRC so clearly and firmly; there can be no question of pre-empting the discussions of the science budget which we will be having during the Survey, or of treating the problems of one of the Research Councils in isolation. (It is besides our impression, which you may or may not share, that MRC have been less successful than some of the others in adapting their decision-making processes to present resource constraints. We have noticed, for example, a less determined approach to the quest for economy in the running of the international bodies in which they participate than in the case of the Science and Engineering Research Council.)

I think however there may be some misunderstanding over the treatment of the Research Councils' redundancy and superannuation costs. It is true that the Councils have to meet these from within their budgets. But this is not, as you imply, the result of some arbitrary accounting rule.

The costs of superannuation and redundancy are just as much a part of the price of employing staff as their salaries. This is a principle which is already recognised, to varying degrees, in the expenditure control arrangements for most of the public sector. The position for most grant-aided bodies, for example, is the same as it is for the Research Councils: they have their own superannuation schemes and, in accordance with the principles of good financial management, they carry these costs on their budgets. Redundancy compensation for teachers, other local

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government employees, and NHS staff falls to be met by the employing authorities. In the case of the Civil Service, it is true that superannuation and redundancy expenditure is dealt with separately and not allocated out to Departments. The terms of the Civil Service schemes are already of course strictly controlled, but the public expenditure treatment is a good deal less than ideal from the point of accountability and my officials are considering ways of improving it. Meanwhile, I quite understand the frustration of the Research Councils when they compare their position with that of, for example, Departmental research laboratories, where substantial restructuring has taken place at no direct cost, in terms of superannuation, to the Department's budget. But I think it would be a move in the wrong direction to bring practice for the Research Councils into line with the present Civil Service arrangement. This would not, in any event, take away from the fact that their pensions are a charge to public expenditure, and that the amount of that charge is affected by the Councils' policy decisions.

We can discuss in September your bid for additional resources to help the Councils with the cost of 'restructuring', including redundancies, though I should leave you in no doubt as to the difficulty of accommodating in the Survey generally any but the most irresistible claims within the overall planning total. It would be helpful in that connection if your officials would let mine have very soon now the details and costing underlying this and your other bids for the Councils, which we have been seeking since May.

I am copying this letter to the Prime Minister, Norman Fowler, Sir Robert Armstrong and Robin Nicholson.

Yours ever Peter

PETER REES

E.R.

PRIME MINISTER

MRC MEETING

May I trouble you please with two further points about the proposed meeting with Lord Jellicoe on MRC finances?

First, Robin Nicholson feels there may be a danger that - if you do see the MRC - there will be similar requests from the other research councils. I think he may well be right, but this is a risk which we may have to run. If, as seems inevitable, the MRC proceed next month with the cuts they are threatening, the public and political pressure on the Government will be considerable, and it may be difficult for you to refuse to talk to them.

Secondly, it might be a good idea to invite Sir David Phillips, since it is on ABRC's advice that funds are allocated between the research councils. This would be a way of reminding the meeting of other non-medical priorities; and Sir Keith Joseph would positively welcome Sir David's presence since it would counter any accusation that the ABRC are being by-passed.

Agree to proceed with the meeting, plus Sir David Phillips as well as Sir Keith Joseph? Yes MT

Would you like Robin Nicholson to be there as well?

Yes MT

cc. David Barclay.

31 July 1984

E.R.

1) Mr Turnbull
2) PRIME MINISTER

MEDICAL RESEARCH COUNCIL

Lord Jellicoe has written to you in his capacity as the Chairman of the Medical Research Council to seek a meeting about funds for research grants. Lord Jellicoe says, in his letter at Flag A, that he is "deeply anxious about the financial crisis facing the Medical Research Council - and the implications of that crisis for medical research in this country".

Lord Jellicoe and the MRC Secretary, Sir James Gowans, have already met Sir Keith Joseph to express their concern. A minute from Sir Keith recording this meeting is at Flag B.

The MRC say that they need an additional £2 million in 1985/6 and £4 million in 1986/7, to meet their minimal needs. Sir Keith thinks it unlikely that they will be able to find this amount from efficiency savings alone; and the ABRC are unlikely to recommend any increase in their allocation (indeed, they may require a cut, to help finance redundancies at the AFRC and NERC.) In the absence of extra funds, the MRC are threatening to cancel some very sensitive projects, including work on "alpha quality" on depression, stroke and blindness. They are also worried about the future of their units working on neuro chemical pharmacology; biostatistics; trauma; and mineral metabolism.

/There must

There must of course be some tactical element in this choice of vulnerable projects. The MRC must be hoping to put the maximum political pressure on the Government (witness the row when they withdrew finance for cot death research). But Keith Joseph judges that there is a real and serious underlying problem, which stems from the fact that research money is having to be diverted to pay for the run down of inessential activity in AFRC and NERC.

There could be no worse time for a meeting from a diary point of view. Nor is there much that you can offer the MRC in the immediate term, beyond an assurance that their case will be considered very carefully in the autumn public expenditure round. But the request comes at the insistence of the entire Council, and both Sir Keith Joseph and Mr. Fowler hope that you will accept.

Agree to a meeting with Lord Jellicoe and Sir James Gowans, to be attended also by Sir Keith Joseph, as soon as your diary permits?

Yes mt

DMB

30 July 1984

1mD2M01

CW

DEPARTMENT OF EDUCATION AND SCIENCE

ELIZABETH HOUSE, YORK ROAD, LONDON SE1 7PH

TELEPHONE 01-928 9222

FROM THE SECRETARY OF STATE

David Barclay Esq
Private Secretary to the Prime Minister
10 Downing Street
LONDON SW1

30 July 1984

Dear David,

Thank you for your letter of 26 July enclosing a copy of Earl Jellicoe's letter of the same date to the Prime Minister, requesting a meeting. It crossed with my Secretary of State's minute to the Prime Minister on the same subject. My Secretary of State hopes that, despite the many demands on her time, the Prime Minister will agree to Earl Jellicoe's request; and he would like to be present. The situation is serious. The MRC does not lightly seek such meetings; it is the first time during Sir James's period of office that they have asked to see my Secretary of State. And the request was made, we understand, at the insistence of the whole Council. These considerations, and likely Parliamentary and wider public interest, would make it right as well as courteous to agree. We will of course provide a full brief.

I am copying this letter to Steve Godber and John Gieve, and to Robin Nicholson.

Yours,

Elizabeth

MISS C E HODKINSON
Private Secretary

PRIME MINISTER

nbpm
30/7

THE MEDICAL RESEARCH COUNCIL: CONSTRAINTS ON FUNDS FOR RESEARCH GRANTS

with DB?

Keith Joseph sent me a copy of his minute to you of 27 July. I must say I agree strongly with the conclusions he comes to about the disproportionate harm which is being done by the cuts in the MRC budget - particularly when one looks at the use to which the funds being given up by the MRC will be put. I had, in fact, already written to Keith to raise my concerns - I attach a copy of my letter.

I am copying this minute to Keith Joseph and Peter Rees, and to Sir Robert Armstrong and Robin Nicholson.

29 July 1984

N F

CONFIDENTIAL

DEPARTMENT OF HEALTH & SOCIAL SECURITY
Alexander Fleming House, Elephant & Castle, London SE1 6BY
Telephone 01-407 5522
From the Secretary of State for Social Services

The Rt Hon Sir Keith Joseph MP
Secretary of State for Education and Science
Department of Education and Science
Elizabeth House
York Road
LONDON
SE1 7PH

4 July 1984

Dear Keith.

MEDICAL RESEARCH COUNCIL: GRANTS

I feel I should register with you my concern about the implications of recent decisions by the ABRC about the budget for the MRC for 1985/86. I understand from my Chief Medical Officer and Chief Scientist that as a result of the £2 million shortfall in 1985/86, the MRC has had to turn down grant applications for a substantial number of high-quality (or 'alpha') research projects which it would, in normal circumstances, have felt well able to support.

In several cases these decisions will mean that the work of existing research teams will have to be curtailed or discontinued. In some instances not only is the work valuable in itself but its cancellation is also likely to provoke a strong and hostile public reaction. If I instance work at Moorfields Hospital on retinitis pigmentosa - a subject on which there has been criticism of British performance in the past - you will see the potential embarrassment. The recent episode about work on cot deaths in Cambridge shows how vulnerable we are to allegations of "health cuts". In that instance, the decision was in fact taken on scientific grounds - although this only became apparent later - but we would have no such defence if the current decisions were to stand.

I do, of course, fully support the need for sensible economies to be made in the running of the research councils but I wonder whether there is not something which can be done to avoid the damaging consequences, both in health research and political terms, which are likely to result from the removal of the quite small sum I understand to be at issue.

Yours ever.

NORMAN FOWLER

CONFIDENTIAL

PRIME MINISTER

THE MEDICAL RESEARCH COUNCIL (MRC): CONSTRAINTS ON FUNDS FOR RESEARCH GRANTS

1. I think you should know that Lord Jellicoe and Sir James Gowans came to see me on Monday, following a difficult meeting of the Council on 12 July. They wanted Ministers to know of the Council's decisions before these become public (probably on or before 1 August) because of the outcry that may follow. They also, naturally, wanted to learn what they could of the prospects for public expenditure decisions that would meet what they assess as their minimal needs, for £2M more in 1985/6 and £4M in 1986/7 compared with their present cash planning allocations.

2. Their problem arises from several factors. This year they have to meet inescapable additional expenditure of the order of £2M arising from increased international subscriptions, increased employers' superannuation contributions, and from pay settlements in which they have no part. To deal with this they have taken emergency measures, reducing their Units' consumables budgets by 16% and withholding a 5% allowance for cost movements from both Units and grantholders in universities. They will have to carry these measures through into the following two years when, in addition, they (and the SERC) face the possibility of a "levy" to help the AFRC and the NERC to restructure. Such is the importance that the Advisory Board for the Research Councils attaches to the need to create greater flexibility in the Science Budget through restructuring that they gave notice, in last year's advice to me, that imposing such a levy was a step they were prepared to consider recommending. Although the Board's final advice on this

matter will not be known until later this year the MRC (and SERC) must plan for the possibility of the levy being confirmed.

3. The sum effect of these factors means that the Council, on 12 July, in considering the year's applications for their 3-5 year programme grants have decided that they could not fund a substantial proportion of these, despite their alpha quality, and that work of great merit - including work on depression, stroke and blindness, would not be supported. They foresee that the letters of rejection, likely to issue on or before 1 August, will become publicly known and will cause public concern.

4. I told Lord Jellicoe and Sir James that I could do nothing to help them; the Government would take decisions on public expenditure in 1985/86 and planning figures for later years in the autumn and, as they knew, I would then allocate the Science Budget in the light of advice yet to come from the ABRC. I said that Ministers appreciated being forewarned, and that I would let you know. I have since learnt that they will be writing to acquaint you at first hand with the details and to request an interview; in my discussion I was non-committal on how you might respond. I promised that I would stand by the Council's action if there is a row, and would accept fully the Government's part in the matter - which is to set the total for the Science Budget and allocate it in the light of advice from the ABRC. The detailed decisions on which science to support and from which areas, however good the work, to withdraw or withhold support are for the Council. I urged them vigorously to continue to seek savings through greater efficiency, to speed up redeployment - on which the MRC record is good - and to explore other sources of funds. They will do so, in earnest as I judge; but I am pretty convinced that this will not yield enough, in time, for the Council to rescind these decisions.

5. I have given high priority in this year's PES to bids for international subscriptions, restructuring and superannuation. If they are successful, it would ease the MRC's position, notably by making it possible for the ABRC to consider cancelling the proposed levy. If my bids fail then the consequences must just be faced.

6. These consequences would go much wider, needless to say, than the projects mentioned above. MRC tell me that they will not have the funds to attract new Directors of the required quality to four Units in which Directors have retired or are due to do so but which on scientific grounds they would wish to continue: namely, neurochemical pharmacology; biostatistics; trauma; and mineral metabolism. Their experience in having to reject an increasing proportion of alpha quality research grants is shared by other Research Councils.

7. In short, this episode illustrates in microcosm the difficulty that we have in managing the Science Budget. Resources ought to be redeployed. What should happen is that expenditure in AFRC and NERC should be run down in order to finance more research like that described to you at Chequers on 8 July. In fact, as a result of the accounting rules, projects of high scientific and potential commercial value are being turned down in order that AFRC and NERC can pay redundancy payments and pensions to staff released from lower priority work - costs that in the public service generally are met <u>in addition</u> to allocation. I fear that the morale of our best scientists, and the quality of our science base, are being done disproportionate harm by the accounting rules which the Treasury will neither alter nor relieve. I think that it would be most helpful if some central overview could be taken of these matters of the kind that I suggested in my minute of 2 July that you might ask Robin Nicholson to do, in order to help our discussion of these issues in the course of our public expenditure decisions in the autumn.

8. I am copying this minute to Norman Fowler and Peter Rees, and to Sir Robert Armstrong and Robin Nicholson.

KG

27 July 1984.

FILE SH

3/8

Earl JELLICOE

10 DOWNING STREET

From the Private Secretary

26 July, 1984

I enclose a copy of a letter to the Prime Minister from Earl Jellicoe, who writes on behalf of the Medical Research Council.

I should be grateful for your advice as soon as possible on Earl Jellicoe's request for a meeting with the Prime Minister to discuss the Council's finances. If, as I imagine, your advice is that the request should be accepted, I should be grateful if a full brief could be prepared for the Prime Minister's use. It would also, I think, be helpful if your Secretary of State could attend the meeting.

I am sending a copy of this letter and the enclosure to Steve Godber (Department of Health and Social Security) and to Robin Nicholson (Cabinet Office).

DAVID BARCLAY

Miss C. E. Hodkinson,
Department of Education and Science

TELEPHONE:
01-280 2222

33, KING WILLIAM STREET,
LONDON, EC4R 9AS

The Rt. Hon. Margaret Thatcher, MP.,
Prime Minister,
10 Downing Street,
London, SW1.

26th July, 1984

Dear Margaret.

I am sorry to worry you, especially on the eve of the Parliamentary recess, but I am deeply anxious about the financial crisis facing the Medical Research Council - and the implications of that crisis for medical research in this country.

I enclose a memorandum by my colleague on the Council, Sir James Gowans, the Secretary and Deputy Chairman of the Council. As you will see from this memorandum the financial strait jacket in which we find ourselves means that we are on the point of having to refuse grants to a number of absolutely first-class University teams and this will be in areas of research with which the Health Departments are very much concerned. In addition we are faced with the distinct probability that we will have to wind up four crucial research units owing to our inability to provide the necessary funds to attract directors of the quality we need.

Gowans and I had a long talk this week with Keith Joseph and told him of our serious concern - a concern which members of Council echoed at our Council meeting last week. The Secretary of State is looking into the position but has not been able to hold out any firm assurance that it will be possible to provide us with the extra financial leeway that we need. Norman Fowler is also aware of the critical situation which the Council is facing.

Keith Joseph said that whilst we should be careful not to by-pass the Advisory Board for the Research Council he would quite understand if we felt we must bring this situation to your personal attention. My primary concern is of course my

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fear that in medical research the science base of the United Kingdom is faced with serious erosion but I am also worried about the growing public concern about the cuts which are being forced upon us, and about the political implications. In view of this I am writing to express the hope that you will be able to find the time to see Gowans and myself about this matter in the near future.

Yours ever

Roy

JELLICOE

MRC

Medical Research Council
20 Park Crescent, London W1N 4AL

telephone 01-636 5422
telex 24897 (Medresco London)

from the Secretary

Sir James Gowans, CBE FRS

25 July 1984

MEDICAL RESEARCH COUNCIL

MEMORANDUM TO THE PRIME MINISTER

A financial crisis has arisen at the Medical Research Council as a consequence of government policies for funding science. At a time when we are experiencing an unprecedented demand for support from first-rate teams in universities, and in our own research units, medical research in the UK is now being severely damaged.

Financial Background

The planning guidelines for 1984/85 given to the Council by the Advisory Board for the Research Councils were 'level funding', and commitments were entered into on that basis. In the event, the Council suffered a reduction in its income for science of £2 million. The ABRC proposes further cuts of £0.9 million and £1.8 million in 1985/86 and 1986/87 respectively to contribute to a fund for restructuring AFRC and NERC. The Council has strongly objected to these further abatements; they feel there is little incentive to administer efficiently if we are 'taxed' as a consequence.

The consequences for medical research

In order to contain expenditure within income for the current year and to avoid over-commitments in subsequent years, we have, in the current year (1984/85):

a) cut the budgets for consumables to all our research units by £1.4 million. These cuts were selective and averaged about 21%.

b) cut the budget for recurrent expenses of all grants to universities by 5%.

c) cut the equipment budget to all our units by £0.3 million.

d) (a) - (c) freed a little more money for new grants to universities, but the number of α awards we have been forced to decline has highlighted the severe damage we are inflicting. Grants accumulated since February have now been considered in the light of the funds available to us. At the beginning of August we will have to notify a number of outstanding university teams that their support from us will have to cease. These include grants in areas of considerable interest to the Health Departments, for example, in depression,

stroke, and blindness, in addition to first-rate basic work. We have already warned the Secretaries of State of the DHSS and DES of the reaction which will follow from stopping work in areas of great social need and public concern.

e) even if there is no restoration of the budgets to our research units and the continuation of the severe award rate for grants to universities, the Council will face deficits of £0.7 million in 1985/86 and £2.2 million in 1986/87.

f) We will not have funds to attract new directors to four units in which directors have or are due to retire. These are units which the Council wishes on scientific grounds to continue:

Neurochemical Pharmacology	(Cambridge)
Biostatistics	(Cambridge)
Trauma	(Manchester)
Mineral Metabolism	(Leeds)

g) It will be impossible, without extra money, to undertake a number of new initiatives which we feel are necessary in the national interest. Examples are a new centre for the application of molecular biology to medicine and two new centres for the application of the techniques of nuclear magnetic resonance to medicine. These are both areas in which the UK is maintaining a precarious lead and it is essential, if we are to remain internationally competitive, to build up laboratories of some scale where our talent can be exploited and the next generation of research workers trained.

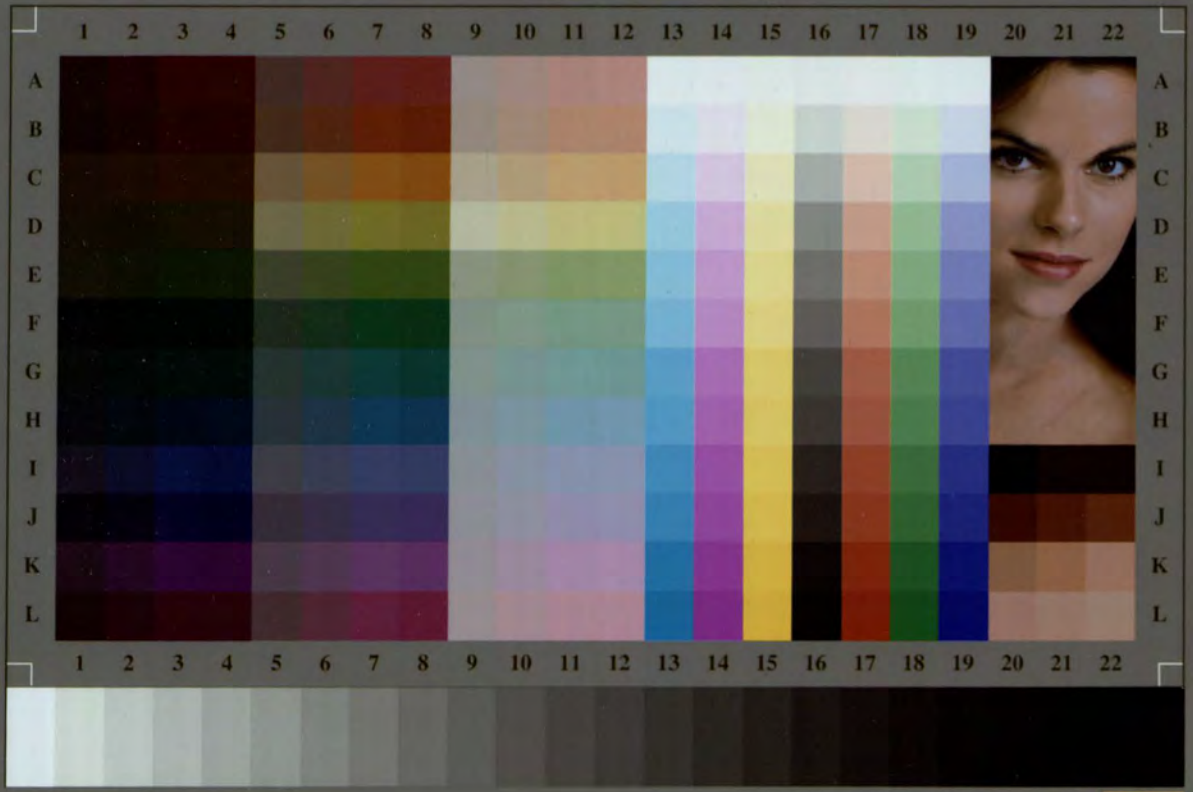
To relieve the problems

It is essential that the Council restores part or whole of the cut to the consumables budgets in our units on a selective basis, as we already know that important work is being jeopardised. We must also restore some confidence to science in the universities by funding more of the applications.

The Council would not be putting this memorandum to you if it did not believe that the decline in support for medical research has now reached a point where there is about to be a strong public reaction. I must emphasise that we have made every effort, by measures to increase efficiency, and by the redeployment of our resources, to fund the best science in the UK and to exploit new scientific opportunities. However, the constraints are now too great: in a field of science in which for many years we have been internationally pre-eminent we are falling badly behind.

We have told Sir Keith Joseph that to relieve our problems we will require in 1985/86 and 1986/87 £2.4 million and £4.1 million respectively built into the baseline. These are minimum figures and amount to a rescue operation only. They will not, for example, allow us to embark on the large new initiatives we have outlined above.

R Jones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