



Treasury Chambers, Parliament Street, SW1P 3AG

Mark Addison Esq  
10 Downing Street  
London SW1

*NBPM*

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 #84

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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 Hodgkinson (Department of Education and Science), Richard Hatfield (Cabinet Office) and Sir Robin Nicholson.

(MARK ADDISON)

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

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?

Mark Addison

Yes not

Mark Addison  
15 April 1985

GR.  
Pl. type up 'C' for sig.  
MMA 16/4

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.

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 <sup>report</sup> ~~minute~~ of 12 April on <sup>(copy attached)</sup> the improvement of the Research Councils' use of contingency funds. 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 Hodgkinson (Department of Education and Science), Richard Hatfield (Cabinet Office) and Sir Robin Nicholson.

*Agreed mt*



National Health: Fin. Support for MEC; July 84

(copy to file)

15 APR 1985

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Faint, mostly illegible text from a letter or report, possibly discussing financial support for the MEC.