



DEPARTMENT OF EDUCATION AND SCIENCE

ELIZABETH HOUSE, YORK ROAD, LONDON SE1 7PH

TELEPHONE 01-928 9222

FROM THE SECRETARY OF STATE

15 April 1983

Dear Geoffrey,

SCIENCE AND ENGINEERING RESEARCH COUNCIL (SERC): INTERNATIONAL SUBSCRIPTIONS

1. Because of movements in the exchange rate since the Estimates were drawn up the SERC are faced with having to find several £m extra in 1983-84 to meet their unavoidable commitments to international scientific collaboration - notably to CERN, ESA, the Institut Laue-Langevin, and to NATO. The only practicable way to do this is to cut uncommitted research grants to universities, postgraduate studentships (again mainly tenable at universities), and work at SERC establishments (which provide services and underpinning for university research). Because such cuts will do disproportionate damage and occasion great concern in the science community and more widely, I am writing to seek your approval to my giving SERC an undertaking that will, for now, moderate the impact on university research and give us all a little time to find ways of adjusting to this and related problems in the longer term. Your officials are well briefed about the problem from discussion with DES and SERC, and have put the matter to Leon; it is because he has felt unable to help - and because of the likely public outcry if we do nothing - that I now raise the matter with you.

2. As of 7 April (the date when Council papers were completed for their meeting on 19 April) SERC would have to make savings of £5.3m this year. On 19 April they must take the necessary decisions and implement them straightaway thereafter. Because of the pattern of uncommitted money, the cuts will probably fall something like this

/(i) New research

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
Treasury
Parliament Street
LONDON SW1P 3AG

- (i) New research grants - £2m
- (ii) New studentships - £1.3m
- (iii) SERC establishments - £2m

Such cuts would reduce IT research for the Alvey programme (by about £1m) and would also fall heavily on other engineering and on "little" science (biology, chemistry, mathematics and "little" physics). The rejection rate for alpha-quality research grant applications from universities to the Science Board would be further increased from its present unprecedented level of about 30% (which I regard as unpalatably high) to about 45%. Each year about 3,300 new studentships need to be awarded to maintain the stock of trainee highly qualified manpower; that number would have to be cut by over 300 or some 10%. The cut in Establishments expenditure would fall on indirect support for university research programmes already approved and on capital work.

3. Thus the impact will be felt mainly by the universities - who are in the throes of adjusting to the UGC reductions; and will be found mainly at the expense of engineering and "little" science (much of "big" science money being tied up in international ventures). Our IT initiative cannot be exempted; and our "new blood" recruitment programme, although not directly jeopardised, would be affected via the reduction in new research grants. In public relations terms, the contrast with our policy of protecting the Science Vote, and with our "new blood" and IT initiatives (which have done much to hearten the science community) could hardly be more stark.

4. I have carefully considered whether savings of this order could be made elsewhere within the Science Vote, or on our other Vote expenditure. As to the former the effects would be essentially the same - cutting research grants and studentships. It would widen the discontent without reducing the damage to university research. In my other Vote expenditure there are no areas where I could now with confidence secure such savings, windfall or other. You will recall the recognition, in our recent discussions on the implications of the "ordinary residence" judgement, of the pressure under which I find myself in respect of the whole DES Budget.

5. I think it is in all our interests to give SERC sufficient assurance in time for their 19 April meeting as to enable them to avoid taking in full such damaging and contentious steps just now. My particular concern is to prevent the direct consequences for university research and postgraduate training. Clearly SERC should not wholly escape facing up to the consequences of their international commitments. What I propose is that I should tell them, before their 19 April meeting, that they should find the necessary savings to the fullest possible extent that can be achieved on their expenditure on indirect support for the universities; I judge this to be about £2m. But, if more than this is required - with adverse effects on research grants and studentships - then, except to the extent that any windfall savings came to light elsewhere in the SERC

Vote, they should be bailed out. For my part, I would undertake to redeploy for this purpose any windfall savings which might appear elsewhere in the Science Budget. Failing this I would look elsewhere in my Vote expenditure or, as a last resort, make a claim on the Contingency Reserve.

6. In making this proposal I of course recognise that on three occasions in the last ten years SERC have benefited, to the tune of something in excess of £10m, from favourable exchange movements; and that in the six years when the movement was adverse they were "rescued" either by being allowed to vire from their domestic subhead or by Supplementary Estimate. I must add that I understand that they have always been prepared to forgo exchange rate surpluses (retaining them only after consulting the Treasury and with the latter's agreement); that they have given up some £3m to the Treasury; and that, in the nature of things, the windfall benefits had to be used in the year in question and could not be applied to sustain any recurring expenditure or to hedge against unfavourable movements in the exchange rate.

7. What I propose would get us by for 1983-84. But other problems loom over international subscriptions in later years and it seems to me that your officials and mine, with those of the Councils affected, should prepare a report for further consideration by us all. I hope you would agree to this; and I should be grateful for your urgent approval to what I propose for 1983-84.

8. I am copying this letter to the Prime Minister, Francis Pym, Patrick Jenkin, Leon Brittan, Robert Armstrong and Robin Nicholson.

Even.

Kear

11 3 APR 1960

11 12 1 2 3
4 5 6 7 8 9



Prime Minister

W.0263

Agree to X and Y?

PRIME MINISTER

M/S 15/4

SCIENCE BUDGET 1983-84

1. The letter from the Secretary of State for Education and Science to the Chancellor dated 15 April draws attention to an awkward problem which has arisen through the proper application of cash limits to the grant from the 1983-84 Science Budget to the Science and Engineering Research Council.
2. Because of adverse exchange rate movements since estimates were prepared, the foreign currency liabilities of SERC have increased by £5.3 m for liabilities under international treaties (eg CERN) which cannot be cancelled at short notice.
3. The discipline of cash limits requires that corresponding savings are found elsewhere in SERC's budget and in the current financial year, most of the savings have to come from cutting university research grants and studentships. Because these are generally made for a 3-year period with only about 15 per cent of the cash spent in the year the award is made, the cut in grants has to be at a rate of about six times the required saving. Thus the problem is much worse than the figure of £5.3 m implies.
4. Changes in exchange rate have occurred in previous years and over the last 10 years favourable and adverse swings have caused a net swing close to zero. However the Treasury rules on carry-over have prevented SERC using this factor to balance short-term changes in their liabilities.
5. The Secretary of State for Education and Science is absolutely right in fearing a public outcry on this matter and I must advise you that the adverse effect on the Government's position with respect to science and technology is likely to be out of all proportion to the relatively small sum of money involved.

6. International collaboration in science is cost-effective in several fields and enlightened management of our Research Councils is likely to lead to participation in further international facilities in the future. Therefore it is essential that the rather sloppy handling of the effects of exchange rate movements is tidied up and a procedure established within cash limits which will avoid the problem in the future.

7. My recommendation is that you support the Secretary of State's proposal to bail out SERC this year on the grounds that a strong adverse public reaction is not worth incurring for the sake of saving £3.3 m. But this problem must not be allowed to recur so the Working Group of officials from Treasury, DES and the Research Councils must find a permanent solution. Since this is an inter-Departmental science item, you may wish to consider whether I should chair the Working Group and report to you on its outcome.

X
/y

2453

A permanent solution will include re-organising when the exchange rate goes with us. I suspect this matter will go wider than the 3 desks because exchange rate effects

RBN

ROBIN B NICHOLSON
Chief Scientist

Cabinet Office
15 April 1983

cc: Sir Robert Armstrong
Mr J Sparrow

to the Treasury 7.0
From the viewpoint of the science budget, it agrees of course - pulling very much into science research. I'm not sure I should be joined with the help of the Treasury.
RBN

Ms. A. 1. 1. 1. 1. 1.

Ms. A. 1. 1. 1. 1. 1.

Ms. A. 1. 1. 1. 1. 1.

Ms. A. 1. 1. 1. 1. 1.

Ms. A. 1. 1. 1. 1. 1.

APR 19 1983

11-12
9 2 3 4 5



PA

MCS.
29/4

10 DOWNING STREET

(1)

Prime Minister

Robin Nicholson advised you to
intervene against the Treasury
on the £5m SERC overshoot.

But there are arguments in the
opposite direction not mentioned
by Dr Nicholson - see the attached
note to the Chancellor: particularly

- (i) SERC + DES. want a
one-way option on exchange rates
- (ii) Rayner has suggested savings
- (iii) Sterling has recovered since the
£5m calculation

Agree not to intervene but to
PTO

leave the Chief Secretary
and Sir Keith to fight it
out?

Yes
no

MCS 18/4



From: M J C FAULKNER

Date: 18 APRIL 1983

→ CHANCELLOR OF THE EXCHEQUER

cc: Chief Secretary
 Principal Private Secretary
 Financial Secretary
 Economic Secretary
 Minister of State (C)
 Minister of State (R)
 Mr Middleton
 Sir A Rawlinson
 Mr Bailey
 Mr Wilding
 Miss Kelley
 Mr Mountfield
 Mr Lovell
 Mrs Thoms
 Mr C J Bailey

Mr Beastall
 Mr I P Wilson

SCIENCE AND ENGINEERING COUNCIL (SERC): INTERNATIONAL SUBSCRIPTIONS

with MCS?

In his letter of 15 April, Sir Keith Joseph says that, because of the fall in sterling, SERC's bill for international subscriptions to CERN, etc in 1983-84 is likely to be £5.3 million higher than the estimates provision. He proposes that SERC be asked to find £2 million from their own resources. He is not hopeful of finding windfall savings elsewhere in his programme. To the extent that he does not, he proposes a claim on the Contingency Reserve. He also suggests a working party of officials to study the position for future years. He wants our answer in time for tomorrow's SERC Council meeting at which decisions must be taken on any redeployment of their budget.

x

2. I understand that the Chief Secretary remains opposed to making any concession to SERC. That is the line taken in the draft reply annexed.

Background

3. International subscriptions account for nearly a fifth of SERC's budget (£48 million out of £254 million this year). For years they have argued that this expenditure should be excluded from their cash limit. We have resisted on the grounds that:-

- a) exchange rate fluctuations are not different in kind from other pay and price changes - even if

they are less predictable than most. They should be accommodated within cash limits.

- b) SERC's is not the only programme with commitments in foreign currencies which cannot be changed in the short term if the pound falls. MOD, for example, are in no position to redeploy BAOR, or cancel long-term contracts with foreign suppliers. But - with one exception - all programmes with a substantial non-sterling component are subject to cash limits. The exception is an FCO vote consisting largely of international subscriptions. But in practice FCO have always borne any excesses due to currency movements elsewhere in their programme.
- c) if they want more certainty in their budgeting SERC can buy their currency forward rather than on the spot market (though we would not allow them to mix the two for any one type of transaction). SERC have so far resisted on the grounds that, other things being equal, it would cost them more: the majority of their requirements are in Swiss francs for which (because Swiss interest rates are well below ours) there is at present a substantial forward premium. We would argue however that the cost would be worth it - if SERC's budgetary problems arising from currency uncertainties are really as bad as they claim.

4. SERC are saying that a £5 million increase in their subscriptions bill is more than they can reasonably be asked to bear. Much of their spending is tied up in three-year research grants and in committed research projects in their own institutions; they can exercise some influence over the budgets of the international organisations to which they contribute but are bound to them by treaty obligations offering only

only occasional opportunities to breakaway. They claim that to find £5 million this year they would have to:-

- (a) increase the rejection rate of alpha-quality research grant applications from 30 per cent to 45 per cent (saving £2 million);
- (b) reduce new studentships by 300 or 10 per cent (saving £1.3 million);
- (c) cut £2 million in indirect support for university research programmes and capital work.

5. Of these savings, only (c) is regarded by Sir Keith as acceptable. The others would inter alia affect, or offset, his initiatives on IT and 'new blood' in the universities.

Assessment

6. These cuts would certainly be an embarrassment to Sir Keith, frustrating to some extent his intentions in giving a larger slice of the science budget to SERC this year and giving his many critics in the university and science world extra ammunition. But it is not clear that they are the only cuts that could be made. For example:-

- a) the current Rayner review of R and D support services in Research Councils suggests possible reductions in SERC of £0.5 million current and £2.8 million capital;
- b) SERC managed somehow to absorb £1.5 million of extra subscription costs in 1982-83 when we refused a winter supplementary. They are prudent enough managers to have significant sums stored away for contingencies;
- c) Sir Keith could spread the misery around the other

Research Councils - though he says he has considered and rejected that course, and it is true that much the same 'constituency' would suffer from any cut back of research activity. Note that £5 million is under 1 per cent of the total Science budget.

7. Nor can we be sure that the excess will be £5.3 million or anything like it. Sterling has recovered since that calculation was made. At today's prices the shortfall would be less than £4 million.

8. There are dangers in admitting calls on the Contingency Reserve this early. I attach a copy of the covering minute Sir Anthony Rawlinson put up with my earlier submission to the Chief Secretary on this subject.

Conclusion

9. The facts of the situation are no different (except in that sterling has risen) from what they were when the Chief Secretary concluded that no concession should be offered.

10. For shortage of time this submission has not been cleared with GEP. But it is consistent with an earlier submission which they agreed.

Mf

M J C Faulkner

DRAFT LETTER:

TO: SIR KEITH JOSEPH

from CST-

SERC INTERNATIONAL SUBSCRIPTIONS

~~Thank you for your letter of 15 April~~ ^{In your letter of 15 April to Geoffrey Howe, who is at a Council of Ministers meeting in Luxembourg today, you asked for a response before the SERC meeting tomorrow.}

2. The SERC clearly faces difficult options in its efforts to meet the potential shortfall on its international subscriptions subhead. The choices will have been eased by the recent improvement in sterling which has, as I understand it, reduced the shortfall to less than £4 million. But even so, I can see they remain painful.

3. You are best placed to judge whether the implications of the cuts go further than this and are, in fact, politically unacceptable. If they are, then in my view the answer is not to give the SERC a commitment that any money which you or they cannot find will be provided from the Reserve. Exchange rate fluctuations are not different in kind from any other price increase, and agreeing to a bid from SERC now would open the floodgates to bids from other parts of the public sector, all equally hard-pressed.

4. Rather, I believe that SERC should be urged to look again at the other 98 per cent of their budget. I would also urge you to look ^{again} for offsetting savings in the other Research Councils. The current review of R and D Support Services might provide at least one source of useful savings either in SERC or more generally. But in any case, I have difficulty in accepting that a sum of money amounting to less than one per cent of the total Science budget cannot be found without serious damage at this stage in the financial year.

5. You also asked for a report by officials on the general problem of international subscriptions. I know that our officials have already discussed this, but if you now see some potential means of alleviating the problem which is consistent with the discipline of cash limits and would not create difficult precedents, by all means let us ask them to discuss it further.

6. I am copying this letter to the Prime Minister, Francis Pym, Patrick Jenkin, Robert Armstrong and Robin Nicholson.

From: Sir A Rawlinson
Date: 30 March 1983

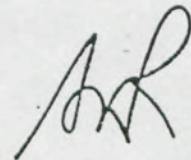
CHI SECRETARY

cc Mr Bailey
Mr Wilding
Miss Kelley
Mr Mountfield
Mr Judd
Mr Beastall
Mr I P Wilson
Mr C J Bailey
Mr Faulkner
Mrs Thoms

SCIENCE AND ENGINEERING COUNCIL: INTERNATIONAL SUBSCRIPTIONS:
CONTINGENCY RESERVE

Mr Faulkner's minute of 30 March below discusses the difficulty caused to the SERC by the fall in the exchange rate and resulting increased sterling cost of their foreign currency subscriptions.

2. The amount involved is uncertain. Payments are spread over the year. Their sterling cost depends on future as well as past movements of the exchange rate. But the problem is genuine enough.
3. The submission suggests allowing a call on the Contingency Reserve for any excess over £2m. If they receive no help, the Council will complain. You are likely to receive representations from Sir Keith Joseph.
4. The main argument is that if the Council have to find the money from within their present budget, they will forego precisely those additional expenditures on new technology for which it was decided in the last Survey to add to their budget.
5. Unless you find this argument compelling, as I do not, my recommendation is against admitting a call on the Contingency Reserve. If DES decide and are still able to change the allocation of funds between research councils, we need raise no objection. But there should be no net addition to the programme now.
6. If the exchange rate continues low, we must expect more bids for the Reserve on this account, some perhaps in the end to be conceded. But we should not start giving it away already, especially in a case where the cost can be absorbed, albeit at the expense of things in themselves worthy of support.



A K RAWLINSON

11 8 APR 1983

