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FROM THE SECRETARY OF STATE

The Rt Hon Nigel Lawson MP  
Chancellor of the Exchequer  
Treasury  
Parliament Street  
London SW1P 3AG

Prime Minister 2

DWS  
22/5.

20 May 1986

Dear Nigel

MS

**CIVIL SERVICE PAY SETTLEMENT: IMPLICATIONS FOR THE RESEARCH COUNCILS**

1. In Cabinet on 1 May I said that I would be writing to you about the very grave consequences of the civil service pay settlement for the Research Councils.
2. We estimate that the total additional bill which the Councils are likely to face this year as a result of the settlement is well over £9m. Of this some £5m is attributable to the direct costs of the civil service settlements of 8% for scientists and 6% for the others. As Norman Fowler pointed out to you in his letter of 24 April, settlements in the NHS are most unlikely to be significantly below whatever level is conceded to the civil service; and the same is true of the universities. We must therefore assume about 6% this year for those university and NHS staff who are supported out of Science Budget funds costing a further £4m.
3. The Research Councils are already beginning to count the cost: neither they nor the wider scientific community and its supporters in Parliament and the media will be slow to point out that the addition of £9m to the salary bill wipes out two thirds of the £15m new money which we added to the 1986-87 Science Budget. The modest credit which we have gained for the £15m addition will be cancelled and our claims to have a policy for science discredited. The position is made even worse by the effect of the recent fall in the value of the £ against European currencies: this has added a further £5.5m to the cost in 1986-87 of the SERC's international subscriptions. Together these two unplanned effects wholly pre-empt the new money from last year's PES settlement.

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4. It is not good enough to say that the Science Budget will just have to absorb the extra costs - by cutting manpower for example. Jobs have already been cut, drastically in some cases, and substantial redundancy costs incurred. More cuts are planned, again involving redundancies. By 1990, two Councils alone will have shed 3000 posts during the current decade, representing 30% of their manpower. Non-staff related recurrent expenditure - on equipment and materials - has also been cut back in order to keep programmes going and scientists in post. Further savings here would only exacerbate the growing problem of equipment shortages.

5. We found new money last year for the Science Budget because of our concern that the science base was being run down by the cumulative effect of our expenditure policies - as evidenced notably by the brain drain - and because of the important opportunities that were being missed to build up research programmes especially in areas of economic potential. The Prime Minister herself said that "she is conscious of the difficulties" which I face in respect of the Science Budget and that "she believes that these difficulties will have to be taken into account in the survey next year". (I quote from her private secretary's letter of 13 December last about the arrangements for financing the UK contribution to the NATO Science Programme). As I said in Cabinet on 1 May, the need to find the costs of the settlement will have a devastating effect on the science base - not least on morale: the political cost to us will also be very considerable.

6. I shall be taking account of all this in my consideration of the scale of the additional bid that I should enter for the Science Budget in this year's Public Expenditure Survey. But we cannot wait for the outcome of the survey: the Councils will have to meet the full year costs of the settlement direct and indirect in the current year. It is of the utmost importance for science and for our own credibility that we should compensate the Research Councils for the 1986-87 costs of the pay settlement by means of a Supplementary Estimate. For political reasons, and also because of the morale factor, the sooner we give them that assurance in principle the better. I look forward to your early agreement.

7. I am sending a copy of this letter to the Prime Minister.

*Yours ever,*

*Keir*

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