Minutes of the Council business meeting held at MRC Head Office on 4 December 2014

Present:

<table>
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<th>Council</th>
<th>Head Office staff</th>
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<tr>
<td>Mr Donald Brydon (Chairman)</td>
<td>Ms Sam Bartholomew</td>
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<td>Sir John Savill (CEO)</td>
<td>Mr Sandy Bulger</td>
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<td>Dr John Brown</td>
<td>Mr Hugh Dunlop</td>
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<td>Professor Doreen Cantrell</td>
<td>Dr Jim Smith</td>
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<td>Professor Dame Sally Davies (item 6 onwards)</td>
<td>Mr Bruce Minty</td>
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<td>Professor Chris Day</td>
<td>Dr Declan Mulkeeen</td>
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<td>Professor Dame Janet Finch</td>
<td>Ms Jacki Paton</td>
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<td>Professor Patrick Johnston</td>
<td>Dr Tony Peatfield</td>
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<td>Professor Dame Sally Macintyre</td>
<td>Dr Frances Rawle</td>
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<td>Dr Ruth McKernan</td>
<td>Mr Ted Smith</td>
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<td>Professor Paul Morgan</td>
<td>Dr Sarah Collinge</td>
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<td>Baroness Onora O’Neill</td>
<td>Dr Samuel Rowley</td>
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<td>Dr Mene Pangalos</td>
<td>Ms Carole Walker (items 1-4A only)</td>
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<td>Ms Vivienne Parry</td>
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<td>Professor Michael Schneider</td>
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Observer

Ms Rebecca Endean (BIS)

The meeting began at 9.00am.

1. **Announcements and apologies**

   Mr Brydon welcomed members to the meeting and noted it was the first meeting for Dame Janet Finch and Professor Doreen Cantrell as Council members.

   He informed Council that Dame Janet had agreed to Chair the Council Audit and Risk Assurance Committee (CARAC). Dame Janet was currently Deputy Chair of the committee and had chaired the November meeting. A recommendation that Dame Janet be appointed as Chair of CARAC had been submitted to BIS and was awaiting Ministerial comment.

   Mr Brydon welcomed Ms Rebecca Endean, Co-Director of the Research Base, BIS and noted that new staff members Dr Samuel Rowley (Group Coordination Manager of the Research Programmes Group (RPG)) and Dr Sarah Collinge (Head of Research Funding Programmes, RPG) would also be observing the meeting.
Finally, Mr Brydon noted that Dame Sally Davies would be joining the meeting later.

2. **Register of declared interests**

   The Chairman requested that members inform the secretariat of any updates to their declarations of interest.

3. **Minutes of the Council meeting held on 1 October 2014**

   The minutes of the Council meeting held on 1 October were approved as an accurate record.

4. **Matters arising**

4A. **Report from the Council Audit and Risk Assurance Committee**

   Dame Janet introduced the report of the Council Audit and Risk Assurance Committee (CARAC) meeting held on 4 November. Items discussed had included progress with the implementation of audit recommendations, the fraud and corporate risk registers and a lengthy discussion regarding concern about the provision of services by UK SBS. CARAC had also discussed progress with the internal audit programme. There had been delays and additional fully qualified staff had been brought in to ensure the programme would be completed by the end of March 2015. CARAC members had expressed concerns that the backlog of audits could place additional pressure on MRC staff; it was hoped that there would be an indication if this was happening so it could be addressed.

4B. **Update from the Strategy Board meetings held on 21 October and 3 December**

   Sir John Savill introduced this item and updated Council on discussions at recent Strategy Board meetings. Mr Brydon, Dame Sally Macintyre and Dr McKernan had attended the October meeting. The future shape of the MRC’s investment in careers and skills had been discussed. Strategy Board had supported the new principles for the MRC’s Doctoral Training Partnerships (DTPs) including plans to award fewer, larger, DTP allocations in areas of critical mass.

   A key highlight of the meeting had been a useful discussion with Professor Jeremy Farrar, Director of the Wellcome Trust, regarding opportunities for MRC-Wellcome Trust engagement. Areas discussed included the Human Induced Pluripotent Stem Cell Initiative (HipSci), the Newton Fund and opportunities for collaboration in international research and antimicrobial resistance. Strategy Board had agreed that the effective partnership between the Wellcome Trust and MRC had already led to many joint funding activities and looked forward to continuing to work closely with the Wellcome Trust under Professor Farrar’s leadership.

   The December Strategy Board meeting had taken place the day before and a full update would be given at the March Council meeting.

5. **CEO report to Council**

   Sir John Savill introduced this item and discussed the following matters:

   **Access to family care for MRC employees**
Dr Smith updated Council on a new initiative to provide MRC employees with access to emergency care for children and older relatives. The MRC had partnered with My Family Care and a dedicated website had been set up so staff could access a range of services. For the first year of the benefit, the MRC would cover the cost of up to two sessions of back-up care for each employee.

Council members welcomed the initiative and noted that it would be reviewed at the end of the first year to evaluate the quality of care that had been delivered. Following review it would also be considered whether the benefit should be extended to university unit employees. Some members also commented that they would be interested in seeing the benefit introduced to their own organisations.

**Director General, Knowledge and Innovation, BIS**

Sir John informed Council that Sir John O'Reilly had announced his resignation, from the end of January, as Director-General for Knowledge and Innovation at BIS. Sir John Savill was joined by Council members in recording their thanks to Sir John O'Reilly for his achievements in the role. Members noted that he had played an integral role in the 2013 spending review and the work that would culminate in the capital allocations. He had also been instrumental in the development of the Government's science and innovation strategy.

Ms Endean reported that Gareth Davies, Executive Director and Chief Economist in the Cabinet Office, would take over the science and innovation part of the role on a temporary basis to cover the forthcoming spending review period. As the post had traditionally been filled by an external academic, Martin Donnelly, Permanent Secretary for BIS, had written to the Select Committee to inform them that the role would be openly advertised towards the end of the year.

**6. Finance report and medium-term outlook**

Mr Dunlop introduced this item and informed Council that the main output of the annual medium-term modelling process was the commitment budget for the forthcoming year. He explained that available headroom and the expected profile of expenditure resulting from future commitment budgets had to be taken into account in setting the value of the commitment budget. The objective was to achieve a smooth profile of commitments over the medium-term. A number of factors had to be considered in setting the 2015/16 commitment budget including uncertainty over the level of income in the next spending review period, the risk of over commitment if there was a reduced settlement and the ability to achieve an increased level of investment if there was a more favourable settlement. Three income scenarios had been considered and Mr Dunlop recommended a commitment budget of £340m for 2015/16 which would be sustainable in the case of flat cash settlement with no cover for IP income. In the worst case scenario, measures would need to be taken to cut commitment expenditure in 2016/17.

Council members discussed the recommendation and approved the commitment budget of £340m for 2015/16.

Council then turned to the forthcoming comprehensive spending review. It was noted that the outcome would not be known until the end of the year and there was a chance that this could be delayed depending on the results of the general election. Members agreed that the MRC’s spending review bid should not be linked to specific disease areas as this could limit the MRC’s future flexibility. Sir John informed Council that the research councils wanted to be strategic, united and bold in their spending review bid and initiatives that could be used as a vanguard to make the case for an increased settlement had been discussed. New research themes such as ‘technology touching lives’ and ‘digital excellence’ applied to all the research councils to some extent and work was underway on initiatives in these areas.
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Mr Dunlop highlighted that in the previous spending review the MRC’s real-terms protected baseline had been underpinned by IP income. With the main royalty-bearing licences due to expire during 2016/17, the MRC would not have the level of income to support the same spending power following the next Spending Review if there was no compensating increase in the baseline. Council agreed that this point must be strongly emphasised to BIS to ensure it did not get lost in the transition period following the election.

Council discussed the measures that had been taken to protect the MRC’s IP income and noted that the MRC’s intramurally generated IP was managed by MRCT who were highly regarded for their work in this area.

Dame Sally Davies informed Council that the European system of accounts 2010 (ESA 2010) provided a revised set of concepts, definitions, classifications and accounting rules that could result in research council resource spend being classified as capital. Council agreed that it would be necessary to get more information on the implications and opportunities for the research councils of ESA2010 and the matter should be discussed at the March Council meeting.

**Action: Mr Dunlop to investigate the implications ESA 2010 and report back to Council in March.**

7. **Science commitment budget**

Dr Mulkeen introduced this item and informed Council that the purpose of the discussion was for Council to advise on the allocations for the 2015/16 science commitment budget (as had been agreed earlier). A number of issues needed to be taken into consideration including: balancing applicant demand, units and institutes and strategic initiatives; the forthcoming spending review; and lower IP income and less need for rapid spend. The proposed allocations would come to Council for a decision in March.

Dr Mulkeen presented slides which showed the activities driving resource spend in 2015/16 and highlighted the balance between support for units and institutes, training and careers, response mode grants, translation and trials, and major strategic funding initiatives.

Dr Mulkeen then outlined how funding for units and institutes was allocated. He explained that level funding was based on the actual cost in the previous quinquennial period. The research boards covered 10 per cent of level funding ± any variation and took their decisions in a competitive environment tensioned against response mode applications. In 2015/16 seven units and institutes would be assessed for renewal and this would cover allocations worth £225m. The timing of quinquennial cycles meant that there was a lot of variation in demands on board budgets.

Dr Mulkeen summarised the initiatives the MRC would focus on in 2015/16. Some of these were being explored as part of spending review discussions and there were a number of new and developing themes such as ‘technology touching life’ and ‘target validation’. The overall picture was that, with a commitment budget of £340m and having to absorb more demands in 2016, unless the MRC was awarded a good settlement in the spending review, there would be little scope to carry on strategic initiatives. There was a strong case for continuing the experimental medicine strand of work from the life sciences strategy in 2015/16; the planned second phases of major initiatives in neurodegeneration and antimicrobial resistance could not be supported at scale in 2015/16, and would need action in 2016/17 and 2017/18 instead.

Finally, Dr Mulkeen noted that awards rates across the boards and panels had been falling over the last few years. However the boards were satisfied that the right decisions were being made and between 80 to 100 per cent of applications that should be funded were funded.
Council members thanked Dr Mulkeen for his presentation and discussed the variation of award rates between board rounds. It was noted that the award rate tended to be highest at the last meeting of the financial year which could suggest that the boards might be being more prudent at the beginning of the year and holding money back.

Dame Sally Davies highlighted the importance of funding for antimicrobial research (AMR) and suggested that AMR 2 needed to be picked up earlier than 2016 or 2017. Sir John acknowledged Dame Sally’s point and noted that while the results of the current call were not yet known, there might be greater strength in the antimicrobial research community than had been thought, which would argue for moving on to the second phase sooner. A lot of decisions regarding timing and priorities depended on the outcome of the spending review. Sir John noted that there was a perception that the research councils were not good at funding work strategically; however the MRC’s commitments over the last four years showed that aside from research board funding the majority of the research funded by the MRC was strategic.

Members discussed the interdependencies of external programmes of work on investment from the MRC. The 100,000 genome project was highlighted as an example which relied on the MRC’s commitment to informatics.

A paper summarising MRC expenditure in 2013/14 had been tabled for Council members. Members discussed how the university unit transfers had affected the distribution of the MRC’s expenditure in universities. In the past the MRC had concentrated its resources on engagement with 12 key university partners which were the top recipients of MRC funding through a programme of strategic visits. Members highlighted that some universities that had not previously been in the MRC’s top 12 now were as a result of the transfers. Dr Mulkeen reassured members that the programme of strategic visits had been expanded to include the top 15 to 20 universities in receipt of MRC funding so no university would be removed from the programme a result of the university unit transfers.

Council then discussed the regional distribution of the MRC’s expenditure. Sir John informed members that in 2012 the UK Clinical Research Collaboration (UKCRC) had produced a useful analysis of the geographical spread of health research investment across the UK. This showed that more than 50 per cent of expenditure on research was spent in the golden triangle of Oxford, Cambridge and London. Council noted, however, that spend outside the golden triangle had been increasing in recent years and agreed that it would be useful to receive a copy of the UKCRC map.

Stratified medicine was also discussed. Council noted that it had been a very important initiative which had helped to change the behaviour of researchers and agreed that, while it was appropriate to pause spend in this area in 2015/16, it should remain a strategic spending theme in later years. Council noted that the stratified medicine initiative had influenced the way in which the MRC partnered charities and there was scope to think about consortia, not just funding. Molecular pathology and stratified medicine would also begin to intercept in the next couple of years.

Finally members agreed on the importance of the experimental medicine initiative in keeping the culture change going in the community. Sir John reminded Council that a recent audit had found that of 200 awards only 50 awards made by the boards for response-mode grants involved human-based research and 15 of these were experimental medicine grants.

8. MRC Pension Scheme

Mr Brydon welcomed Mr David Cranston, Chairman of the Trustees, and Ms Sue Vivian, Scheme Actuary, to the meeting. He reminded members that at the May Council meeting the decision had been taken to disband the Council Finance Committee and for its
responsibilities to be covered by CARAC and Council. For Council this would involve an annual review of the MRC Pension Scheme including its size and the risks involved.

Mr Dunlop provided an overview of the Scheme and explained that at least once every three years the Trustees commissioned an actuarial valuation of the Scheme’s financial position. The Scheme’s past performance had been excellent and the results of the latest triennial valuation, as at 31 December 2013, showed a surplus of £160.1m (2010 valuation £82.1m) and an ongoing funding level of 118 per cent (2010 valuation 110 per cent). This was a very strong position to be in and the current rate of employer contribution at 13 per cent was below the 18 per cent accrual rate net of employee contributions as it was being subsidised by the Scheme surplus in agreement with the Trustees. This had allowed a smoother contribution rate over time however the scheme was gradually maturing and the current employer contribution was unlikely to be sustainable in the long-term. In light of future uncertainty and to avoid steep contribution increases, the Trustees had recommended a one percentage point increase in the principal employer’s contribution rate from 13 per cent to 14 per cent with effect from 1 April 2015. They had also recommended that the other participating employers’ contributions should remain unchanged at 14.9 per cent. The impact would be an additional cost to MRC of c. £0.6m per annum.

Council members thanked Mr Dunlop for the update and highlighted the importance of ensuring the assumptions behind the recommendation were prudent so the Scheme could manage nasty shocks in the future. Ms Vivian explained that there were explicit margins for prudence and the valuation was based on prudent assumptions regarding the discount rate, investment returns, future inflation, salary growth and longevity. Mr Cranston reassured Council that the Trustees were very thorough in their governance of the Scheme. They had received detailed training sessions and discussed the actuarial valuation at length at their meetings. The Trustees were always conscious that nasty surprises could occur and met regularly to ensure they were aware of the risks. There would be interim annual evaluations and the Trustees would continue to monitor the assumptions the calculations were based on; if these assumptions proved to be too optimistic then action would be taken.

Mr Cranston acknowledged that while many employers found final salary pension schemes to be too risky, the better the shape that the Scheme was in, like the MRC Scheme, the more reassured the sponsoring employer could be that the risks within it were being properly managed, governed and supervised.

Council then discussed the employee contribution. Mr Dunlop highlighted that the MRC Pension Scheme was an important employee benefit and confirmed that there were no plans for the employee contribution to be increased at this stage although a different view might be taken at the next valuation. He informed members that when the Scheme had been in surplus in the past the employer had taken a contribution holiday; this had not been extended to employees as BIS had considered this to be an effective pay rise. If the employee contribution were to be increased this could be considered to be an effective pay cut.

There was some discussion about how the MRC Pension Scheme compared to the other research councils, civil service and universities. Mr Dunlop reported the MRC Scheme compared favourably with other schemes. Council agreed that it would be important to keep the MRC Scheme under review to ensure that it continued to perform well and noted that in the future there would be regular discussions at Council regarding different aspects of the scheme.

Council discussed the introduction of public sector pension reforms and the Hutton Commission’s stipulation that public sector employees pensions should move to a career average revalued earning (CARE) basis. Council noted that the MRC was in discussions with HMT/BIS to agree how that would be taken forward for the MRC.
As a final point, Mr Cranston highlighted that there were very strong links and a good relationship between the Trustees and MRC executives.

Council members thanked Mr Cranston and Ms Vivian for attending the meeting and approved the adoption of the Trustee’s recommendation to increase the employers’ contribution rate to 14 per cent with effect from 1 April 2015.

9. **White space – Autumn Statement**

The Chancellor of the Exchequer George Osborne’s Autumn Statement 2014 had been delivered the day before, and Council and Strategy Board had discussed the key announcements at their joint dinner. Sir John provided some further information regarding the announcement of £15m into new and pioneering areas of research in dementia. He explained that this was the UK Government’s contribution to the G8 commitment to raise £1bn for research.

10. **Draft agenda for the March 2015 Council meeting**

Council noted that a tour of the Crick building would be arranged prior to the Council meeting on 4 March 2015.

11. **Approval of governance documents**

Council approved the updated versions of the MRC Management Statement, Financial Memorandum, and Code of Conduct for Council Members.

Council noted that one of the recommendations from the Triennial Review had been that the Chief Executive should no longer be the Deputy Chair of Council. The implications would need to be carefully worked through by BIS and the research councils, and would require a change to the Royal Charters which may take some time.

12. **Any other business and close**

Dame Sally Davies noted her gratitude for the work Max Parmar and his colleagues at the Clinical Trials Unit had done in helping the Department of Health in its response to the Ebola outbreak in West Africa, including on trialling vaccines.

### Summary of actions

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<td>Investigate the implications ESA 2010 and report back to Council in March.</td>
<td>Hugh Dunlop</td>
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