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PRIME MINISTER

## ROLLS ROYCE FINANCING: CLAIM ON THE CONTINGENCY RESERVE

MISC 22 decided on 12 March that Rolls Royce should be enabled to secure a further £140 million in 1980, in addition to the £40 million already allowed for in our public expenditure plans. They were to raise as much as possible from the private sector. The Chancellor was invited to report to Cabinet colleagues at the appropriate time - which has now come - on the implications for the Contingency Reserve of the residual amount.

2. I understand that Rolls Royce expect to raise an additional £50 million in the private sector. Keith Joseph intends to discuss with Frank McFadzean the possibility of their raising rather more. He will seek to secure agreement to £75 million; it would be unrealistic to expect them to go any higher.

3. On the assumption that £75 million can be raised in the private sector, the residual call on public funds is £61 million at outturn prices (£51 million at 1980 Survey prices). The DOI have submitted a Supplementary Estimate for this sum. I am satisfied that there is no scope for finding it by specific savings on other DOI Votes. I am accordingly prepared to accept it as a call on the Contingency Reserve, and to allow the Supplementary Estimate. 65?

4. Although we were aware of the potential Rolls Royce bid when deciding on the Reserve for 1980/81, a call of this size remains unwelcome, and reinforces the need to keep a strict control on all spending programmes.

5. I am copying this minute to other Cabinet colleagues and to the Minister of Transport and to Sir Robert Armstrong and Mr Ibbs.

W. J. B.