PREM 19/1203

Part 4

MT

Confidential Filing

Policy on Small Firms Enterprise Proposals.

ECONOMIC POLICY

Part 1: June 1979
Part 4: October 1983

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
~~10.10.83~~		~~2.7.84~~					
~~17.10.83~~							
~~19.10.83~~		~~12.7.84~~					
~~3.11.83~~		1.8.84					
~~7.11.83~~							
~~4.11.83~~							
~~16.12.83~~							
~~31.1.84~~							
~~16.2.84~~							
~~29.2.84~~		PART 4 ENDS					
~~29.3.84~~							
~~2.4.84~~							
~~11/4/84~~							
~~18/4/84~~							
~~2.5.84~~							
~~8.5~~							
~~10.5.84~~							
~~17.5.84~~							
~~18.5.84~~							
~~21/5/84~~							

PREM 19/1203

PART 4. ends:-

SS/DTI to PM 1.8.84.

PART 5 begins:-

Environment to DB. 4.9.84.

2

PERSONAL

PRIME MINISTER

Yesterday morning at our meeting you said that you believed that many in industry, busy earning their living, would think little of the efforts of those officials in my Department concerned with sponsorship, whose salaries come from taxpayers' contributions. You may like to see the attached letter, which came completely unprompted, and which was awaiting reply when I returned to my office today. It clearly shows that at least some in industry understand and appreciate what officials here are doing.

???

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NT

N T

1 August 1984

Department of Trade & Industry

JH1ARZ

PERSONAL

Founded in 1918 to facilitate joint action in all matters Technical, Social and Educational for the Industry
Re-organised in 1979 as Trade Association and Employers Organisation.

The Refractories Association

OF GREAT BRITAIN

Director: R.S. REDMOND, T.D.
Secretary: R.E. JARRETT

FEDERATION HOUSE
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STOKE-ON-TRENT
ST4 2TJ
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TELEX: 367446

Our Ref: RSR/LM/R

25th July,1984.

For Information
PS/M
PS/JB
PS/Sir AaB
Mr Cooper
Mr Murray MM
Mrs Freeman IT
Mr Lunn MM
Mr Porter MM
Mr Gladwell OB

The Rt.Hon. Norman Tebbit, M.P.,
Secretary of State for Trade & Industry,
Department of Trade & Industry,
Ashdown House,
123 Victoria Street,
London. SW1E 6RB.

Dear Norman,

You will know from our short time together on the Back Benches that I have had some long experience of dealing with the Civil Service. It seems to me, therefore, that now I am to retire as Director of the National Federation of Clay Industries, and also of the RAGB, I ought to express my sincere appreciation of the co-operation I have had from those officials in your Department while I have been in this job.

My first contact was with Howard Gladwell and John Turner. When they moved on I am bound to say that I was concerned. It seemed to me that we were suffering a loss which could not be replaced. I was wrong. They were succeeded by Mrs. Enid Jones and Mrs. Leslie Freeman who maintained the high standard.

More recently, Michael Lunn and Matthew Porter came on the scene and, once again, their quick responses to us have been most impressive.

It is commonplace to say rude things about the Bureaucracy but none of these apply to the people I have mentioned and, rather than write bread and butter letters to Michael Lunn and Matt Porter, it seems that I should tell you how impressed I have been. All the members of our organisation have reason to be grateful to them, as I am.

I may have reached retiring age but there is still a lot of life left in the old dog yet. Maybe, therefore, we shall meet again.

Kind regards,

Yours ever

R. S. Redmond
Director

Banking Information Service

10 Lombard Street, London EC3V 9AR
Telephone 01-626 8486

2nd July 1984

Bank Briefing No.29

THE SMALL FIRMS LOAN GUARANTEE SCHEME

Background

* The government set up the loan guarantee scheme (LGS) in 1981 for a three year experimental period in order to stimulate the flow of credit to small firms. By guaranteeing 80 per cent of each loan the LGS enabled the banks to lend where the high level of risk precluded the provision of funds on a conventional basis. Under the original LGS borrowers were charged a premium of 3 per cent on the guaranteed part of loans and the government expressed the wish that the scheme should be self-financing.

* The LGS has proved popular. In the initial three year period almost 15,000 loans to a value approaching £500 million were granted under the scheme, thereby fostering the creation and expansion of a large number of small firms; 54 per cent of LGS loans went to new firms and 46 per cent to existing businesses. However, losses to the government exceeded the premium income by a wide margin. The net cost to the government over the past three years has been in the region of £40 million. Though the lion's share of LGS businesses has been undertaken by the clearing banks, 30 banks have participated in the scheme.

* In May the government announced that the LGS is to be extended until the end of 1984 but with some important changes designed to reduce the public expenditure cost. In particular the premium was raised from 3 to 5 per cent and the guaranteed proportion of loans was cut from 80 to 70 per cent. A further government announcement regarding the future of the LGS is due before the end of the year.

The Banks and the LGS

* The banks are pleased that the government has decided to extend the LGS for a further six months. They believe that the scheme has a useful role to play and they have invested considerable management time and effort to make the scheme work. They welcome the broad conclusion of the study commissioned by the government from Robson Rhodes that they have 'addressed themselves to conducting the scheme in a conscientious way'.

* The level of losses during the first three years is not surprising given that the LGS has extended the risk profile of lending considerably. Had it been possible for the risk frontiers of lending to be expanded on a commercial basis, competition between the banks would already have achieved this. It

is, of course, for the government to decide on the level of public subsidy which is desirable in order to assist small firms and to create new jobs. The increase in the proportion of loans not guaranteed by the government from 20 to 30 per cent, as well as the increase in the premium, will reduce the likely call on the Exchequer. The banks have accepted the consequent increase (50 per cent) in their exposure in order that the scheme may continue.

* The Robson Rhodes Study expressed the view that more detailed appraisal and closer monitoring of LGS loans by the banks would be desirable. In fact, as was agreed with the government in 1981, appraisal and monitoring procedures have been broadly the same as those used by the banks for their conventional lending to small firms; it was agreed in particular that bureaucracy should be kept to a minimum. Nevertheless the banks have been moving in the direction of closer monitoring of their LGS customers and it is intended that this trend should continue.

* Continued support for the LGS is just one element of the banks' commitment to the small firms' sector over recent years. Other initiatives have included the introduction of new term lending schemes, the expansion of business advisory services and growing support for enterprise agencies and similar organisations. Lending under the LGS has probably accounted for around 3 per cent of the growth in the clearing banks' lending facilities for small firms since the scheme's inception.

* All parties involved in the LGS, including the banks, have gained useful experience over the past three years. The banks hope that experience in the next six months will provide further guidance as to the contribution of the LGS and shed some light on how prominently it should figure in future government support for small firms. They will be happy to continue discussing future aspects of the LGS with the government.

If there are any points in this briefing on which you would like further information, please contact James Dreaper or Roger Brown at the above address.

Banking Information Service is the Press and Information Section of the Committee of London Clearing Bankers

CONFIDENTIAL

cc MASTER

file SAHACD

bcc: J. Redwood

10 DOWNING STREET

From the Private Secretary

24 July, 1984

Dear Colin,

Administrative and Legislative Burdens on Small Firms

The Prime Minister held a meeting today to review progress on reducing the administrative and legislative burdens on industry, and in particular on small firms. Present were the Lord Chancellor, the Home Secretary, the Chancellor of the Exchequer, Lord Gowrie, the Minister for Social Services and the Parliamentary Under-Secretaries of State in the Departments of Employment, the Environment and Trade and Industry (Mr. Clark, Mr. Macfarlane and Mr. Trippier). Also present were Sir Robert Armstrong and Mr. Redwood.

The Prime Minister said she was very disappointed at the progress of this exercise. All too often Departments appeared to be justifying the existence of regulations and were not questioning actively enough whether the regulations could be withdrawn, simplified or modified in their application to small firms. The Secretary of State for Trade and Industry was also disappointed; there were insufficient successes to justify an announcement to Parliament before the recess.

Mr. Trippier gave a short presentation on the growth of small firms and the administrative burdens they faced. In 1983 the net increase in the number of new enterprises was 47,000 compared with 23,000 in 1982. The increase in start ups had been small, from 163,000 to 168,000, the increase in the net figures being attributable to a smaller number of enterprises ceasing to trade. This reflected the improved business conditions in 1983. It was disappointing that the number of businesses coming into existence had not improved more.

Mr. Trippier then took the meeting through two charts, the first on the steps required to establish a new business,

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and the second on the steps necessary to take on a new employee. He identified a number of points on the charts at which the position was particularly unsatisfactory. Under Community legislation there had to be a transfer of undertakings when any company was taken over by another. This meant that new employees had to be taken on on their previous terms and conditions, even though these might have been too generous and might have contributed to the demise of the business. Often the only way round was to put a company into liquidation. A number of Departments were involved in issuing licences either directly or via local authorities. There were also many obstacles to be overcome for businessmen who wanted to acquire premises. In hiring employees, the employment protection legislation provided an important obstacle. Further obstacles were provided by the numerous health and safety regulations which required no less than 2,000 HMSO publications. It was noted that the Chancellor had produced a helpful starter pack to explain to potential employers their obligations in relation to taxation and national insurance contributions.

The Secretary of State for Trade and Industry put forward a number of suggestions. All Departments, from the top down, should be fully aware of the regulations generated by their policies. There should be an active search to see whether existing regulations could be abolished, simplified or re- packaged. Where new policy proposals were put forward papers should identify explicitly the impact of regulation on small firms. He recommended that it should become standard practice for papers to Cabinet Committees to provide this information, though he did not wish to carry this to the point of including information in new Bills. He had considered the proposal for an Enabling Bill to provide general exemption for small companies but had concluded this would be wrong. There were a number of abuses, e.g. of fire regulations, which occurred within the small firms sector and which the Government could not ignore. He proposed to announce shortly the re-packaging of DTI's schemes under four headings.

The Prime Minister said Sir Robin Ibbs had offered to conduct a scrutiny of compliance costs which looked at all the activities that the Government requires employers and business to undertake. This would pull together the activities of all Departments involved and provide a basis on which discussions could be taken about the compliance costs which were necessary and those which could be dispensed with. He proposed to launch this in September and complete it by the end of the year. It was agreed that this would be an extremely helpful initiative.

Mr. Macfarlane reported that DoE Circular 22/80 had had a noticeable effect in reducing the impact of planning

controls but more needed to be done. The Department was planning a further Circular on industrial development. In addition, the Department intended to identify a sympathetic local authority who would, as a pilot project, establish a "one stop shop", from which businessmen seeking premises could acquire all the necessary consents.

In discussion, it was pointed out that the adoption of Community legislation by the last Government on the transfer of undertakings had been done without adequate interdepartmental consultation. It was necessary to consider whether EQ(O) was adequate for scrutinising the burden of regulations stemming from community legislation. It was suggested that much of the health and safety legislation could be repackaged, with job centres providing contact points for businessmen. It was also suggested that there were a number of areas in which local authorities were continuing to exercise unnecessary controls.

The Secretary of State for Employmnet in his letter of 19 July to the Secretary of State for Trade and Industry had argued that it would unwise to make any changes to the rights of employees under the employment protection legislation against the background of the dispute over GCHQ. While it was recognised that there was validity in this point, it was argued that employment protection legislation was the constraint about which small firms felt most strongly. Even if no announcement were to be made soon, work could continue, though it was agreed that this would be best carried forward separately from the rest of the exercise.

Summing up, the Prime Minister said that Sir Robin Ibbs' offer to conduct a scrutiny on compliance costs was accepted. All Departments should develop greater consciousness of the regulations generated by their policies and should continue to question whether such regulations could be abolished or simplified. Sir Robert Armstrong should consider whether the Cabinet Office machinery was able to scrutinise adequately the impact on regulation of Community legislation; and he should consider how best papers to Cabinet Committees could bring out the impact of policy proposals on regulation and small firms. The Secretary of State for Employment should consider how to repackage health and safety legislation and how job centres might be used to provide access points for businessmen. Further study on employment protection legislation should be carried forward separately. The Secretary of State for Employment should prepare a circular urging local authorities to reduce controls on industrial development. Efforts should continue to identify a local authority willing to conduct a pilot project for the "one stop shop" approach for providing the consents necessary for the

acquisition of premises; and should review whether there were areas in which the local authorities were operating controls which were no longer necessary. No further work should be done on an Enabling Bill. The repackaging of DTI's schemes should be announced as soon as possible. The group should reconvene in October to review progress.

I am copying this letter to Richard Stoate (Lord Chancellor's Office), Hugh Taylor (Home Office), David Peretz (HM Treasury), John Ballard (Department of the Environment), Steve Godber (Department of Health and Social Security), David Normington (Department of Employment), Mary Brown (Lord Gowrie's Office), Richard Hatfield (Cabinet Office) and Sir Robin Ibbs.

Yours sincerely

Andrew Turnbull

Andrew Turnbull

Callum McCarthy, Esq.,
Department of Trade and Industry.

P.01349

PRIME MINISTER

Administrative and Legislative Burdens on Small Firms

Although there has been extensive Ministerial correspondence on this subject since Mr Tebbit's report to you of 27 June and Mr Turnbull's reply on your behalf of 2 July, the most convenient basis for discussion would be the two most recent minutes from Mr Tebbit:

— FLAG A
— FLAG B

— FLAG C

i. his minute of 19 July summarising the position on a range of specific issues affecting DoE, DTI, the Lord Chancellor's Department, the Treasury, DHSS, DEm and Home Office;
(Mr Tebbit concludes that there is not sufficient progress to justify a major announcement before the Summer Recess; he also raises the question of whether there should be a stronger unit within the DTI to look after small firms.)

— FLAG D

ii. his minute of 19 July on whether there should be an Enabling Bill to exempt small firms from all statutory requirements disproportionately burdensome to them.
(Mr Tebbit recommends against this but suggests instead that any new legislation brought before Legislation Committee should have a statement of its impact on small firms incorporated into the covering memorandum.)

MAIN ISSUES

2. The main issues are:

i. should more be done to help small firms on the specific issues referred to in the minute of 19 July?

ii. should there be a major announcement before the Summer Recess?

iii. should there be an Enabling Bill?

iv. should other action be taken to give more weight to the interests of small firms (eg a stronger unit in the DTI, a standard paragraph in papers for Legislation Committee)?

Specific issues

3. The ground to be covered (set out more fully in Mr Tebbit's minute of 19 July) is as follows:

DoE

Two new circulars to be issued, one on industrial development and the other on small firms, encouraging the "one-stop" philosophy. Can more be done (eg to reduce the burdens of local authority licensing)?

DTI

Should the announcement about re-packaging of DTI assistance (see Annex to minute of 19 July) go ahead before the Recess? (It appears to have only marginal relevance to helping small firms; the Chancellor thinks that it may have public expenditure implications but Mr Tebbit does not accept this.)

Lord Chancellor's Department

Is it enough to deal with problems of small firms as part of the overall review of delay in civil procedures in the courts?

Treasury

Is it enough to issue the new simple "starter package" for new employers in September?

DHSS

There is a conflict of view between the Secretary of State for Social Services and the small business lobby (notably the National Federation of Self-Employed and Small Businesses) on whether Statutory Sick Pay is a significant burden for small firms. Who is right? Should anything be done?

DEm

Should the exemption for small firms from unfair dismissal requirements be extended? Mr King (letter to Mr Tebbit of 19 July) recommends against this on the grounds that the Government would be attacked for withdrawing established rights from employees and this would be undesirable politically and presentationally at this time.

— FLASE

Home Office

Is the Home Secretary right to conclude that regulation in his area (which may considerably affect the extent of local authority financing - see above) cannot be relaxed in favour of small firms because it is concerned with protecting the public (for example fire prevention, sex shops)?

Announcement before Summer Recess

4. The meeting is likely to agree that there is insufficient progress to justify a major general announcement about small firms before the Summer Recess (in effect only the new DoE circulars and the new Inland Revenue "starter package"). Presumably the right course is to make separate announcements about these at the most convenient time and try to ensure that they have maximum impact.

Enabling Bill

5. The main objection to the Enabling Bill is well set out in Mr Tebbit's second minute of 19 July. It would tend to create a "two-tier" economy, introducing a new distortion based on the

size of firm. In particular it could well inhibit the growth of employment because of the sharp increase in overheads imposed by taking on a few employees in excess of the exemption threshold. The alternative approach, which the meeting may prefer, is to continue to look at specific issues on their merits, not seeking to create a new distortion in favour of small firms but rather to avoid unintended distortion against small firms by ensuring that regulatory activity does not impose burdens on them which are disproportionate to their size.

Other action to give more weight to the interests of small firms

6. Mr Tebbit makes two other suggestions for giving more weight to the interests of small firms:

i. strengthen the Small Firms Unit in the DTI;

ii. requiring that any paper for Legislation Committee about new legislation should contain a statement as to its impact on small firms.

7. On i. Mr Tebbit points out that having a few more civil servants in his department nagging other departments about the burdens on small firms and vetting the impact on small firms of new legislative proposals would have little effect unless other Ministers were prepared to place enough weight on this aspect of policy. There can of course be no presumption that small firms considerations should always take precedence. It may be, for example, that the public interest requires that there should be strict fire precautions even in small hotels as well as in large ones, and that public expenditure and manpower considerations require the introduction of Statutory Sick Pay even if it may involve extra work for small firms. All that can reasonably be done is to ensure that when decisions are taken the small firms aspect does not go by default. This must entail a readiness by all Ministers, not just DTI Ministers, to give due weight to this

aspect of policy. If that can be done, there may be little or no requirement to expand the Unit in the DTI.

8. The key question is therefore to ensure that all Ministers do in fact bear in mind the interests of small firms. Mr Tebbit's suggestion at ii. about papers for Legislation Committee is designed to this end. He no doubt has in mind the existing requirements in paragraph 11 of "Questions of Procedure for Ministers" (copy attached to this brief). Papers for the Cabinet or Ministerial Committees already have to contain statements about finance, manpower, European Community obligations, accommodation problems, and the views of the Law Officers on any legal implications.

9. There are however some arguments against adding still further to the list of standard points which have to be covered. Mr Tebbit has separately suggested in a paper for the Ministerial Sub-Committee on Competition Policy (E(CP)(84)2) that Cabinet papers should "record in a separate paragraph the implications, if any, for competition of what is recommended". There is the risk that accepting these two suggestions from Mr Tebbit will open to door to a flood of further suggestions from other Ministers who wish papers to contain a statement about the impact on some policy area which they regard as particularly important. The present requirements in paragraph 11 of Questions of Procedure for Ministers can at least be defended as referring to comparatively hard matters such as resources, which can be quantified, and legal obligations, on which a clear view can be expressed. Assessing the implications of a proposal for policy in a particular area is much more judgemental.

10. If the suggestion for a standard paragraph in papers for Legislation Committee is not favoured, there might be some other ways of trying to ensure that Ministers give proper weight to the interests of small firms. One possibility would be a Prime Minister's Personal Minute calling on all Ministers to take account, in preparing new proposals, of the administrative and

legislative implications for small firms, to consider how they may be minimised, to consult the DTI about them and, if they conclude that some additional burden for small firms may nevertheless be unavoidable, to draw this to the attention of colleagues before final decisions are taken.

HANDLING

11. You may wish to invite the Secretary of State for Trade and Industry to make some general comments at the outset and then suggest that the discussion might best be divided into:

- consideration of the specific issues summarised in Mr Tebbit's minute of 19 July

- consideration of the Enabling Bill and other issues about small firms generally discussed in Mr Tebbit's second minute of 19 July.

12. In the handling of specific issues you may wish to invite brief comments from the relevant Ministers as you work through the list. In dealing with the general issues you will wish to invite comments from the Secretary of State for Trade and Industry and those Ministers who may have some general views, for example the Secretary of State for the Environment and the Chancellor of the Exchequer.

represented by Mr McFarlane

CONCLUSIONS

13. You will wish to reach conclusions on:

i. whether any further action is required on the specific issues discussed in Mr Tebbit's minute of 19 July;

ii. whether there should be an announcement before the Summer Recess;

iii. whether there should be an Enabling Bill;

iv. what other action might be taken to give more weight within Government to the interests of small firms.

PG

P L GREGSON

23 July 1984

Extract from C(P)(83)5

Questions of Procedure for Ministers

11. Proposals involving expenditure or affecting general financial policy should be discussed with the Treasury before being submitted to the Cabinet or to a Ministerial Committee; and the results of those discussions together with the best possible estimate (or estimates, if the Department's figures cannot be reconciled with the Treasury's) of the cost to the Exchequer, should be indicated in the memorandum. Where proposals affect United Kingdom obligations or interests as members of the European Community this should be clearly explained. If proposals have manpower implications or may give rise to problems of recruitment, these should be clearly stated after consultation (in the case of manpower) with the Treasury. Attention should also be drawn to any accommodation problems, after consultation with the Property Services Agency. No memorandum should be circulated to the Cabinet unless any legal implications which it raises have been cleared, or at least clarified, with the Law Officers. The Cabinet Office will not normally accept a memorandum for circulation to the Cabinet or a Ministerial Committee unless these steps have been taken.

CC NO

Prime Minister

ADMINISTRATIVE AND LEGISLATIVE BURDENS ON SMALL FIRMS

As you know I am making a statement on the 1985/86 Rate Support Grant Settlement and Rate-capping on Tuesday afternoon. I think that it is essential that I should set aside plenty of time after that so that I can adequately present the Government's case at a press conference and on television and radio.

This means that I am unable to attend the meeting that you have called on administrative and legislative burdens on small firms at 5.00 that day. I have asked Neil Macfarlane to attend in my place.

As you know from my minute of 12 July I share your view about the need to make faster and more visible progress, and am willing to do what I can to help.

PJ

PJ
23 July 1984

PRIME MINISTER

Do you want to take up Sir Robin's offer to conduct a scrutiny of compliance costs? AT 24/7

ADMINISTRATIVE AND LEGISLATIVE BURDENS ON SMALL FIRMS

I have seen the correspondence on this subject. I am sorry I shall not be able to attend the meeting on 24 July.

As you know, my own view is that Norman Tebbit has identified a serious problem. The compliance costs which we impose on businesses hit small firms particularly hard. As the ministerial correspondence has made clear, one of the causes is the number of different departments who are involved in the regulation of employment and business matters. I do not think we will gain a solution to this difficulty by trying to deal with these issues piecemeal.

One possible way forward would be for there to be a scrutiny of compliance costs which looked at all the activities that the Government requires employers and business to undertake. This should pull together in a properly co-ordinated way the activities of all the departments involved and provide a basis on which decisions can be taken about the compliance costs which are necessary, and those which can be dispensed with.

We could get the scrutiny up and running in September, with a report by the end of the year. This would mean that you were in a position to take decisions on the basis of the report early in the new year.

I am copying this to the Lord Chancellor, Patrick Jenkin, Norman Fowler, Tom King, Grey Gowrie and Robert Armstrong.

JR

Robin Ibbs

23 July 1984

CONFIDENTIAL

PRIME MINISTER 20 July 1984

ADMINISTRATIVE AND LEGISLATIVE BURDENS ON SMALL FIRMS

To make progress at the meeting you might first secure agreement on our philosophy towards regulation, and then focus on specific targets. DoE is a likely candidate, on the basis of responses to date.

We want lighter burdens on industry in general. Given this, the objection to giving small firms blanket special treatment, by an Enabling Bill, for example, loses much of its force. If small firms are exempted, larger firms will also press for lighter burdens, and create a constitutency for change. At present, larger firms are generally content to live with the burdens they carry, partly, one suspects, because regulation moderates competition and restricts entry from smaller, low-cost competitors.

Norman Tebbit's objective to this approach on bureaucracy grounds is difficult to understand. How can more resources be involved in exempting a million or so small firms from regulations than are currently involved in attempting to apply these regulations to them?

Planning

DoE's promised circular to encourage one-stop shopping is welcome but could we go further?

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i. Structure Plans: The structure plan system is fundamentally restrictive since plans specify in advance the volume of new activities which will be permitted. Plans have refused permission for industry where significant increases in employment are proposed (Hertfordshire, West Berkshire, West Sussex, Oxfordshire, Kent, Surrey). Should we consider legislating to abolish the structure plan system altogether and revert to a simpler system - zoning, with adequate land provisions?

ii. Detailed Controls: Despite advice to the contrary in circular 22/80, councils intervene unnecessarily in the detail of design, layout, mix and even internal appearance of buildings. They still apply Parker-Morris standards to private housing for example.

Ya

iii. Local Authority Licences: DoE are trying to shuffle off onto DTI the task of pruning the list of activities requiring local authority licences, as requested in Andrew Turnbull's minute of 2 July 1984. DoE should consider whether these regulations are strictly necessary for health or amenity, and what legislative steps are required to remove them.

VAT Threshold

Treasury should be asked to take further legal advice on whether we are bound, under the EC Sixth VAT Directive to limit the threshold to £18,700. If so, should we not press for an amendment? Treasury could also consider whether traders could be given the option of less frequent (eg annual or six monthly) VAT returns. Small traders find this unpaid work for the Government a heavy burden (6 man-weeks a year).

Unfair Dismissal

Tom King judges that it would be untimely to either exempt small employers from employment protection legislation, or extend the qualifying period to two years. Tom King speaks lightly of the advantages these measures might bring to small firms, yet in opposition, Ministers spoke of employment protection legislation as a source of unemployment. What is the evidence of the need for this legislation. ACAS figures suggest that only a small minority of cases brought to industrial tribunals (less than 10% in 1981) were upheld against the employer. Tom King should be encouraged to keep this under close review.

We agree with Norman Tebbit that there is insufficient material for a statement before the Summer Recess. Let us aim for an announcement by the end of the year.

NICHOLAS OWEN

D

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PRIME MINISTER

ADMINISTRATIVE AND LEGISLATIVE BURDENS ON SMALL FIRMS: ENABLING BILL

Your Private Secretary's minute of 2 July expressed your wish that further consideration should be given to the idea of an Enabling Bill to exempt very small firms from large areas of legislation.

The Proposal

2 Small firms organisations, especilly the National Federation of Self-Employed and Small Businesses (NFSE), have advocated the creation of an 'artisan' class of very small businesses. The suggested size of firm to be covered by this category ranges from a maximum of 5 to 20 employees, or alternatively is put at an annual turnover of less than £100,000. This latter definition would include at least one million individual firms. The 'artisan' class would then by means of an Enabling Bill be exempted from all statutory requirements which were found to be disproportionately

JH5AEN

burdensome on its members. These would include all tax compliance procedures, health and safety and fire prevention requirements, employment protection legislation, planning permission and various other aspects of central and local government regulation.

3 The legal difficulties could be very considerable. The viability of particular exemptions would depend to a large extent on the character of the legislation from which the exemption was being sought. This means that while a 'blanket' Enabling Bill might not of itself create great technical difficulties, any subsequent use of the powers it gave could do so. There is of course no scope for the UK unilaterally to exempt small firms from legislation arising out of EC Directives.

Argument

4 Although exemptions resulting from an Enabling Bill might well stimulate the formation of new firms, the chief drawback in the concept from the standpoint of stimulating enterprise as a whole is the danger of creating an environment which favours smallness per se. This would distort the market, create barriers to natural growth and

encourage firms to stay small regardless of their potential. There would also be incentives to firms to reorganise themselves in less efficient ways to come within the scope of the Bill.

5 The removal of the compliance cost burden by means of a single exemption threshold would be likely to make small firms more competitive than their efficiency warrants. Exemptions from specific legislation should only be granted to those firms which are disproportionately burdened by it, and clearly the size of firm which should be exempted will vary according to the particular compliance procedures concerned. Different exemption thresholds for different pieces of legislation would therefore be the most appropriate course. This would both avoid the disincentive effect of large amounts of legislation coming into force on crossing a single threshold, and also relate the exemption level to an analysis of the costs and benefits of specific legislation.

6 Any attempt, however, to establish a series of exemption thresholds by means of an Enabling Bill would, I feel, be likely to entail an unacceptable increase in bureaucracy. The creation and monitoring of legislation arising from an

Enabling Bill would require considerable additional civil service effort, both in a central agency and within Departments involved, sufficient to police the activities of more than a million small firms, including some 100,000 new firms a year.

Conclusions

7 It is clearly important that greater attention should be paid to the needs of small firms when formulating legislation. This must be done in a more structured way than at present where the implications of legislation on small firms are not always considered.

8 The economic and practical implications outlined above make an Enabling Bill unattractive however. In addition it must be acknowledged that the small firms sector includes some notoriously bad employers with respect to health and safety and fire prevention provisions, and no firm should be totally exempt in these areas.

9 In this light I believe the right course is for colleagues to reconsider the impact on small firms of the regulations and procedures for which they are responsible.

All new legislation, including EC legislation, should similarly be examined in the drafting stage for its implications for small firms, and exemptions made where compliance costs were found to place a disproportionate burden on firms below a certain size. We should realise however that the small firms organisations are unlikely to be impressed by a repetition of claims made by Government for a number of years, that we bear the needs of small firms in mind when formulating legislation. The organisations are not convinced that Departments can identify the compliance cost burden of legislation on small firms - the Statutory Sick Pay Scheme is a recent example.

10 I should like therefore to see Departments consulting more widely with small firms organisations on the implications of legislation on the small firms sector. And I would hope that we would be able to say publicly that we will look specifically at the impact on small firms of all new legislation. To give effect to this, I believe we should give consideration to requiring that any new legislation brought before L Committee should have a statement as to its impact on small firms incorporated into the covering memorandum. But I would not regard it as right to have such a statement made, for example, in the

CONFIDENTIAL

Explanatory and Financial Memorandum. The dangers of setting a precedent which others will wish to follow would be simply too great.

11 I am copying this minute to Quintin Hailsham, Leon Brittan, Nigel Lawson, Patrick Jenkin, Norman Fowler, Tom King and Grey Gowrie, and to Sir Robert Armstrong and Sir Robin Ibbs.

A. McL Hawley

pp. N T

19 July 1984

(Approved by the Secretary of State and signed in his absence)

Department of Trade & Industry

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PRIME MINISTER

ADMINISTRATIVE AND LEGISLATIVE BURDENS ON SMALL FIRMS: PROGRESS ON REDUCTIONS

You asked me to summarise actions in hand, and those proposed, to reduce burdens on small firms in preparation for your meeting on 24 July.

DEPARTMENT OF ENVIRONMENT

Current Action

Local authorities' controls have already been relaxed, particularly in respect of planning, where circular 22/80 has undoubtedly improved the climate for and flexibility towards small firms' developments.

Patrick's circular on industrial development to be issued shortly, reinforces the need for flexibility and includes specific references to small firms where appropriate.

Proposed Action

A further circular to local authorities specific to small firms and the requirements authorities place upon them has been agreed. This will encourage the "one-stop shop" philosophy and suggest alternative approaches to smaller authorities. This can be put in hand right away.

DEPARTMENT OF TRADE AND INDUSTRY

Current Action

As you requested, I have made arrangements to announce the results of the repackaging exercise before the Recess. I do not see the announcement which I want to make (copy attached) as having any public expenditure consequences which need cause Nigel concern or justify delay. The repackaging of existing schemes is designed to keep within public expenditure ceilings. The increased users' contributions which I want to include in my announcement are designed with the same aim in mind.

David Trippier has reviewed the statistical requirements of the Department and I am pleased that we have been able to identify where further reductions can be made.

Proposed Action

I shall maintain close liaison with small firms organisations and represent their reasonable requests in reducing disproportionate burdens. Also I will continue to seek to influence legislation and procedures which may increase burdens, whether domestic or EC based.

LORD CHANCELLOR'S OFFICE

Current and continuing action

Work on amendment to the High Court and County Court costs regulations is in hand, with a consultation paper planned before Christmas.

From 1 September money judegments of the county courts above £2,000 will be able to be transferred to the High Court for enforcement, increasing the choice available to judgement creditors seeking to enforce judgments.

Quintin's overall review of civil procedure will address the question of delay in all courts. Any streamlining or simplification which results will, of course, benefit small firms but it is unreasonable to seek different treatment from other litigants.

TREASURY

Current Action

A leaflet explaining what is involved in employing people has recently been published and the "starter package" of documents sent to new employers is being revised with a planned publication

date of the end of September. This could be announced as part of a current package.

Proposed Action

Documents and guidance for employers will continue to be revised and simplified. The greater burden percieved by employers is that of taxation itself and the costs of compliance with PAYE, VAT and so on. The reduction of burdens of taxation remain of course, central to the Government's overall fiscal policy.

DEPARTMENT OF HEALTH AND SOCIAL SECURITY

Current Action

Changes in the collection arrangements for national insurance contributions have simplified procedures for employers since the Social Security Act 1975. The self employed have been relieved of some procedural requirements.

DHSS leaflets are included in the Inland Revenue "starter pack", the guide to National Insurance is being revised and the Statutory Sick Pay guide is also included and will be regularly updated.

Proposed Action

The Government's proposals on personal pensions have been published. These proposals provide the opportunity for employees

in a small business to choose a personal pension and contract out of the state earnings related scheme without extra work for employers.

The efforts of DHSS have clearly helped employers implement Statutory Sick Pay (SSP) with the minimum of teething troubles. I have to say that the lobby groups I have recently met do regard SSP as a burden and a further case of the businessman carrying out unpaid work for Government.

DEPARTMENT OF EMPLOYMENT

Current Action

There are of course exemptions for the smallest firms from some areas of employment legislation, and issues under review (such as Wages Councils) have important implications for small firms.

Tom King has given careful consideration to extending the exemptions from unfair dismissal requirements but has reluctantly had to conclude that, for the present, the political and practical disadvantages outweight the potential benefits.

Proposed Action

Further simplification of forms and guidance notes to employers is in hand and I am aware that apparent anachronisms in the

Factories Act are also being reviewed to identify any case for exemption or amendment.

HOME OFFICE

Current Action

Some small data users, including small businesses using personal data only for payroll and trading account purposes have been exempted from the Data Protection Bill.

The recent Code of Practice on employment from the Commission for Racial Equality stresses that small employers may not reasonably be expected to carry out all its recommendations.

Other burdens have been eased via simplification in contract and reporting procedures applied to independent local radio stations; in line with Government policy, access has been improved to Government contracts; licensing of some small cable systems are to be abolished.

Proposed Action

Leon will, of course, help in keeping to a minimum additional burdens which new legislation may impose but he sees little scope for exempting small firms from legislation for which the Home

Office is responsible, since the public health and protection issues covered apply irrespective of size.

COMMENTS

I do not believe there is enough in the current and proposed actions to make a major announcement before the Summer Recess. I do not underestimate the value of the progress we are making, but it is a slow process and there are insufficient new developments to expect other than a lukewarm response from the small firms lobby. It may therefore prove counterproductive to make an announcement about current activities.

We can consider at Tuesday's meeting whether we should set up a stronger unit to follow up the burdens outlined on the flow charts with a view to reducing them further, and also to "vet" all new legislation from the small firms' standpoint. This requires strong commitment from colleagues to consult and inform such a unit and respond to its recommendations. Patrick suggests such an approach and that it should be based in my Department. My officials seek to monitor in this way but to do so comprehensively and pro-actively would require fuller consultation from all Departments and, of course, raises resource implications.

You asked also that the prospect of an Enabling Bill should not be ruled out and I am writing to you separately on the implications of this.

I am copying this minute to Quintin Hailsham, Leon Brittan, Nigel Lawson, Patrick Jenkin, Norman Fowler, Tom King and Grey Gowrie and to Sir Robert Armstrong and Sir Robin Ibbs.

Andrew Hawley

pp N T

19 July 1984

(Approved by the Secretary of State and signed in his absence)

Department of Trade and Industry

Answer

I have decided to bring together all the DTI's schemes under just four headings. There will be a Business and Technical Advisory Service; Support for Innovation; Support for National and Regional Investment; and BOTB Support for Exports. This regrouping is a major recasting of the schemes of assistance operated by the DTI. It will harmonise the criteria used to judge applications for assistance; and it will simplify the procedures used in the Department.

To further help firms in their dealings with my Department I plan to set up new central contact points in the DTI Headquarters and in each of the DTI's regional offices. I shall announce later the date on which the new arrangements come into effect, but intend that this should be achieved within six months.

In the meantime, the existing schemes continue to operate. So that the funds available can be used to help a greater number of firms, I have decided to increase the contributions made by those who take advantage of the DTI's advisory services and technical consultancy schemes. These revised contribution rates will be applied to all requests for assistance for these schemes received after 31 July.

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Small Arms

SP

E. FCNO

WSPM

AT 19/7

Caxton House Tothill Street London SW1H 9NF

Telephone Direct Line 01-213 6400

Switchboard 01-213 3000

The Rt Hon Norman Tebbit MP
Secretary of State for
Trade and Industry
1 Victoria Street
LONDON SW1E 6RB

19 July 1984

Dear Norman

ADMINISTRATIVE AND LEGISLATIVE BURDENS ON SMALL FIRMS

Will request if required.

Thank you for your letter of 11 July.

I have been reviewing employment protection legislation both in the context of the small firms exercise and more generally. I have two main possibilities that might be considered, both of them changes to our unfair dismissal provisions. The first would be to exempt employers of 5 or less employees completely from those provisions. The second would extend to two years the qualifying period for employees - a change which would affect companies of all sizes, but might be of particular benefit to small firms.

However, I see very great difficulties in making these changes at present. Both involve withdrawing established rights from employees, and would be strongly opposed. It seems to me that against the background of GCHQ the political and presentational difficulties of proposing these changes now outweigh by far any advantages they may bring in terms of assisting small firms. I would be happy to discuss this further at the Prime Minister's meeting on 24 July.

I am copying this letter to Quintin Hailsham, Leon Brittan, Nigel Lawson, Patrick Jenkin, Norman Fowler and Grey Gowrie; also to Andrew Turnbull, Sir Robert Armstrong and Sir Robin Ibbs.

Yours
Lan

Econ Pol Small firms

CONFIDENTIAL

CC NO

BF for 24 July meeting

AT 13/7

Prime Minister

ADMINISTRATIVE AND LEGISLATIVE BURDENS ON SMALL FIRMS

I have seen Norman Tebbit's minute to you of 27 June about small firms, and your own response.

I share your view about the need to make faster and more visible progress.

As far as DOE is concerned we can certainly issue a further circular to local authorities and I would like to put some ideas to them straightaway.

I would propose to urge them - within current manpower and financial constraints - to adopt the "one-stop" philosophy wherever feasible. For the smaller authorities a checklist of contact points, possibly combined with a troubleshooter, may be a sensible alternative.

As regards my Department's own responsibilities we have already relaxed local authorities' controls considerably, as I am sure Norman recognises. I am also about to issue a circular to local authorities on industrial development generally, much of which will apply equally to small firms.

I should be happy to see if there is more I can do as part of a wider "pruning" exercise. This could in my view best be handled centrally in DTI since it will need to go wider than local authorities' own requirements and concerns several Departments' legislation.

I think it important that we should start any such exercise from a clear assessment of what causes small firms real difficulties: CoSIRA's experience may be relevant here, as well as that of the Small Firms Service.

PJ

P J

12 July 1984

Econ Pol : Small firms Pt 4

cc NO

SMALL FIRMS MEAN BUSINESS

SMALL FIRMS LOCAL ENTERPRISE WEEK

(4)

PRIME MINISTER

To note. A meeting on the administrative and legislative burdens of small firms has been arranged for 24 July

AT 10/7

Earlier this year I wrote to tell you that as part of my determination to improve awareness in local communities of small businesses and of the many advisory services available to them, I proposed to stage a Local Enterprise Week.

2. I am now delighted to be able to tell you that the Week, which actually ran to ten days in mid-June, was a resounding success. At very little cost, apart from official time, our Information Division, in conjunction with our Small Firms Division, persuaded over 350 Local Enterprise Agencies, Local Authorities and other organisations to stage conferences, seminars, exhibitions and other events to support the Week, and there was excellent media coverage, especially in the regions, where we achieved well over 200 separate mentions. I managed five television appearances, no less than 17 different radio stories during the Week, and there were in addition many local radio interviews and phone-in programmes with our Small Firms Centre Managers. The response was almost entirely favourable and I encountered very little criticism, even in the mining areas of the North East.

3. I visited over 70 different organisations during the Week and was greatly encouraged by the level of activity generated by Local Enterprise Week. I am therefore proposing to stage a similar event next year, probably in early June, and I should, of course, be delighted if you could find the time to be actively involved.

4. Finally, I know Bernard Ingham has had some problems with our Information Division in the recent past. I am sure he will be pleased to hear that I have been impressed by their enthusiasm and support throughout in the planning and execution of Enterprise Week.

D.T.

9 July 1984

D.T.

tion for small firms

Surely funny

Not GR Side
Political Off? PPS

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
Telephone (Direct dialling) 01-215) 5422
GTN 215)
(Switchboard) 215 7877

Secretary of State for Trade and Industry

3 July 1984

Michael Grylls Esq MP
House of Commons
London SW1A OAA

Dr 47

Dear Michael

5 July

Thank you for your letter of 27 June. Before you meet the Prime Minister, I feel that I should leave you in no doubt of my views.

Let me say first of all that I do understand your concern, and those of Parliamentary colleagues, over the recent changes to the Loan Guarantee Scheme. However, I should make it clear that the decision to introduce these modifications was taken after detailed consideration by all of the various Departments involved. I cannot accept a construction that the Treasury is in some way to be "blamed" for cutting back the Scheme; the changes are entirely as agreed between colleagues.

As you know, David Trippier carried out a wide ranging review of the pilot phase of the LGS during which he was able to draw on the views of a large number of organisations and individuals. While the review confirmed that in many ways the Scheme had been an extremely worthwhile experiment, it also had to be recognised that the cost, at over £43 million, was unacceptable. In addition, the reports prepared by Robson Rhodes highlighted several important weaknesses in the way that the Scheme had been operating. It was therefore right that we should stand back and learn what we could from our experience so far. Limitations in the appraisal and monitoring by the banks, gaps in the managerial competence of the borrowers, and lack of support provided by professional advisers were all seen by Robson Rhodes as reducing the prospects for survival among what are, by definition, somewhat fragile businesses.

If the LGS is to continue beyond December 1984 we must look for ways of introducing genuine improvements to its impact and operation. The modifications to the Scheme will provide an essential breathing space, during which the immediate cost to the Exchequer will be reduced, and give more time for further discussions with the banks and others. I am particularly keen that we should try to ensure that both the appraisal and the

JH3AOE

"aftercare" carried out by the banks is improved, and if this proves to be possible it could well result in benefits across the whole of the small business sector. One way of tackling these problems might be to make more and better use of outside advisers and expertise, and this will be discussed further with the banks. Progress on these and other issues will determine whether, and in what form, the LGS might continue beyond December 1984.

Yours

NORMAN TEBBIT

JH3AOE

B File

RAMABO

cc Mr Owen

10 DOWNING STREET

From the Private Secretary

2 July, 1984

ADMINISTRATIVE AND LEGISLATIVE BURDENS ON SMALL FIRMS

The Prime Minister has seen your Secretary of State's minute of 27 June. She is extremely disappointed at the lack of progress in this area. Many of the items reported on represent not achievements but questions still to be settled. She believes Departments must give greater commitment to this initiative. She proposes to hold a meeting herself in about a fortnight to consider what more needs to be done so that the Government is in a position to make an announcement before the Recess.

The Prime Minister believes the idea of an Enabling Bill to exempt small firms from large areas of legislation should not be ruled out at this stage and would welcome a fuller report on its implications.

In the local authority field, she hopes that the Department of the Environment will quickly come to a decision on the idea of a Small Firms Circular and of the establishment of 'one-stop shops'. She hopes the Department will set about pruning the list of activities requiring local authority licences. She hopes also that the proposal to widen the exemptions for small firms under the employment legislation will quickly be resolved.

The Prime Minister is concerned that the proposal to re-package the various Government schemes for small firms is now overdue. She hopes it will be completed soon so that it too can be announced before the Recess.

I will be in touch to arrange a meeting and to discuss the kind of paper which will be needed.

I am sending a copy of this letter to Richard Stoate (Lord Chancellor's Office), David Peretz (HM Treasury)

John Ballard (Department of the Environment), Steve Godber (Department of Health and Social Security), David Normington (Department of Energy), Mary Brown (Lord Gowrie's Office), Richard Hatfield (Cabinet Office) and to Robin Ibbs (Efficiency Unit).

(Andrew Turnbull)

C. McCarthy, Esq.,
Department of Trade and Industry

10 DOWNING STREET

Prime Minister

This is certainly a meagre haul, and mostly vague promises rather than achievements.

Agree I turn the Policy Unit minute into a self contained note, to be circulated to Departments under a letter expressing your disappointment at progress and urging greater cooperation with DTI?

AT
29/6

P.S. We are still awaiting the repackaging of small firms measures!

The lack of progress is disgraceful. I will attempt to secure with the Jos Quickly. I will have a meeting myself with all depts in a fortnight time. We must be in a position to make announcements during the recess not.

PRIME MINISTER 29 June 1984

ADMINISTRATIVE AND LEGISLATIVE BURDENS ON SMALL FIRMS

This exercise is settling for very modest ambitions - making regulations more intelligible, rather than removing or amending them. It is also in danger of falling into an interdepartmental black hole. We suggest that you support Norman Tebbit's attempts to secure colleagues' co-operation. You might also press for a more ambitious approach.

Employment

John Selwyn Gummer needs to be encouraged to extend exemption for small firms from unfair dismissal legislation, in a significant way. He should also be pressed to amend the archaic Factories Act restrictions on overtime for women and young people, and to relieve employers of the requirement to inform careers offices when employing young people.

Local Authorities

DoE must, of course, produce the small firms circular which they have "agreed to consider". More importantly, they should set about pruning the list of activities requiring local authority licences. There are legitimate reasons for a number of these eg the public nuisance

implications of dance halls, pubs, fish and chip shops. The real enemy is quantity regulation, which restricts competition and protects vested interests. For example, local authorities have rights of common law redress against markets operated between six and two-third miles of their own. Barbers, hairdressers and saunas require licences under Section 77 of the Public Health Act 1961, which should be repealed.

You could ask DoE to provide a comprehensive list of activities licensed in this way, to consider whether they are strictly necessary for health or amenity reasons and to suggest the legislative steps necessary to remove these restrictions.

One approach which Norman Tebbit discusses is an enabling Bill to exempt small firms from certain areas of legislation. His argument against this - that it would be a disincentive to growth and involve increased bureaucracy - is not convincing. The emergence of more small firms would compensate for any disincentive effect. And if there were such an effect, it would generate welcome pressure from larger firms for exemptions, too. As regards bureaucracy, a blanket exemption for certain classes of regulation eg those involving employment would mean less, not more bureaucracy. You may wish to press Norman Tebbit to consider this further.

Tax

VAT collection is an unpaid chore carried out on behalf of Government. It can involve a small firm in 6 man-weeks a year - a significant load in relation to their management resources. You might ask Norman Tebbit to:

i. Take further legal advice on whether we are bound, under the EC Sixth VAT Directive, to limit the threshold for registration to £18,700. If this is the case, should we not press for an amendment?

ii. Consider, in consultation with the Treasury, whether traders could be given the option of annual, rather than quarterly VAT returns.

Fire Regulations

These are not mentioned, but many are excessive in relation to the risks involved. A Home Office report (Future Fire Policy, 1980) observed that "the designation of whole classes of occupancy, involving a widespread requirement for certification without regard to the different degrees of risk, is an inflexible and extravagant way of proceeding". "A need is seen for a more selective approach in the future." The Home Office are considering the fire regulations, but do not want them to be caught up in the burdens exercise. You could, nonetheless, ask

Leon Brittan to report on whether the fire regulations are too costly a burden bearing in mind the obvious sensitivities particularly about hotels, hostels, etc.

pp

NICHOLAS OWEN

BF with PM response

A CENO

JF6751

PRIME MINISTER

ADMINISTRATIVE AND LEGISLATIVE BURDENS ON SMALL FIRMS

I made an interim report to you on 6 February, on the review which David Trippier has been carrying out on the scope for further reductions in administrative and legislative burdens on small firms. Your Private Secretary's letter of 9 February expressed your wish that the momentum of the review should be maintained. This further report is to bring you up to date on progress.

Not another progress report!

2 A range of burdens which affect small firms has been identified and David has pursued particular areas in bilateral meetings with Ministerial colleagues. As you know, officials here have prepared flow charts outlining the procedures to be followed when starting a business or taking on an employee. (Copies are attached; you saw these at Sir Robin Ibbs' Cabinet presentation). David has written to colleagues in charge of appropriate Departments, enclosing copies of the charts, to ask for their help in reducing burdens for which they have responsibility. Colleagues have been broadly sympathetic, but I should like to seek your support in encouraging them to take positive action to reduce requirements on small firms.

3 The following is a summary of progress on the main fronts.

EMPLOYMENT LEGISLATION

4 John Selwyn Gummer has been considering the scope for extending the two-year exemption from unfair dismissal legislation to a larger number of small firms, and the possibility of exempting all new firms for a fixed period. He has, however, yet to reach a decision on this.

PLANNING AND LOCAL AUTHORITY REGULATIONS

5 Neil Macfarlane has agreed to consider the idea of a DOE Small Firms Circular, which would encourage local authorities to provide positive assistance to businesses in complying with the regulations for which the authorities are responsible. I would also like to see DOE use their position to urge authorities to establish 'one-stop shops' where a firm could complete all necessary local formalities. This would immediately halve the number of stages to be gone through on the 'Setting up in Business' chart.

PROCEDURES

6 PAYE and VAT compliance procedures are acknowledged to be a proportionally greater burden on small firms, but it seems that procedures cannot be simplified further without a substantial shift in the balance of taxation. I am therefore pleased to learn that Inland Revenue are beginning to revise the 'starter package' of documents sent to a new employer. I hope that they will be able to devote increased resources to this activity so that procedures at least are made easier to understand in the near future.

STATUTORY SICK PAY (SSP)

7 Although SSP was introduced for good reasons, and monitoring of the scheme by DHSS has revealed no major problems, it must be recognized that many small firms see it as an additional burden and a further case of the businessman being expected to carry out unpaid work for Government.

CONCLUSIONS

8 The introduction of SSP and the absence of further reductions of burdens in other areas have shaken the small

firms lobby's confidence in the Government's commitment to the small firms sector. This is borne out by the increasing number of calls, both from lobbyists and from within the Party, for an Enabling Bill to exempt small firms from large areas of legislation. I do not believe this to be the right approach - it would act as a disincentive to growth and increase bureaucracy - but such calls can only be resisted if we are seen to be committed to further reductions in unnecessary burdens.

9 This is not an area where the DTI can act alone. My own major contribution to reducing burdens is the current exercise on the repackaging of DTI schemes. We are also closely examining statistical demands placed on business, although earlier reductions have limited the scope for further cuts if the quality of information is to be maintained. In comparison with other Departments, however, my responsibility for administrative burdens is very limited.

How is this being done exactly?

10 The improvements for small firms in the field of public procurement encourage me to believe that inter-Departmental agreement on the reduction of burdens on small firms should also be possible. Obviously I am not suggesting exemptions for the whole small firms sector - thresholds would need to be determined on a case-by-case

basis - but we should act to relieve burdens from the most vulnerable. Cabinet colleagues have seen the scale of the burdens facing small firms from the flow charts. If no action is taken to reduce burdens, the charts will lengthen further with the introduction of new legislation, and the deterrent effect on business can only increase.

11 I hope I can have your support in asking colleagues now to set in hand necessary work in their own Departments and to indicate how soon they can bring about real progress, particularly on the issues I have indicated above.

12 I am sending copies of this minute to Quintin Hailsham, Nigel Lawson, Patrick Jenkin, Norman Fowler, Tom King, Grey Gowrie, and to Sir Robert Armstrong and Sir Robin Ibbs.

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27 June 1984

Department of Trade & Industry

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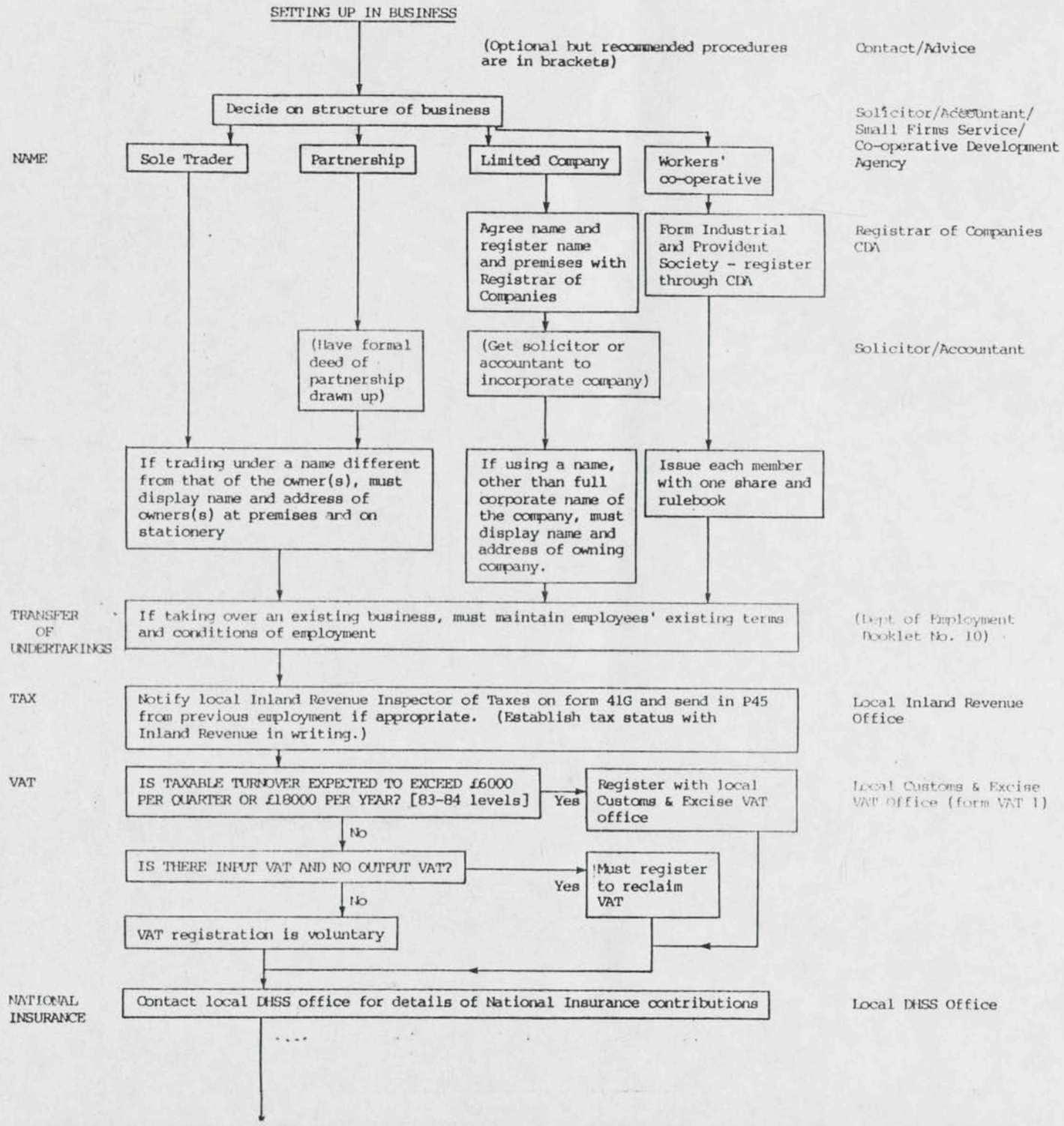
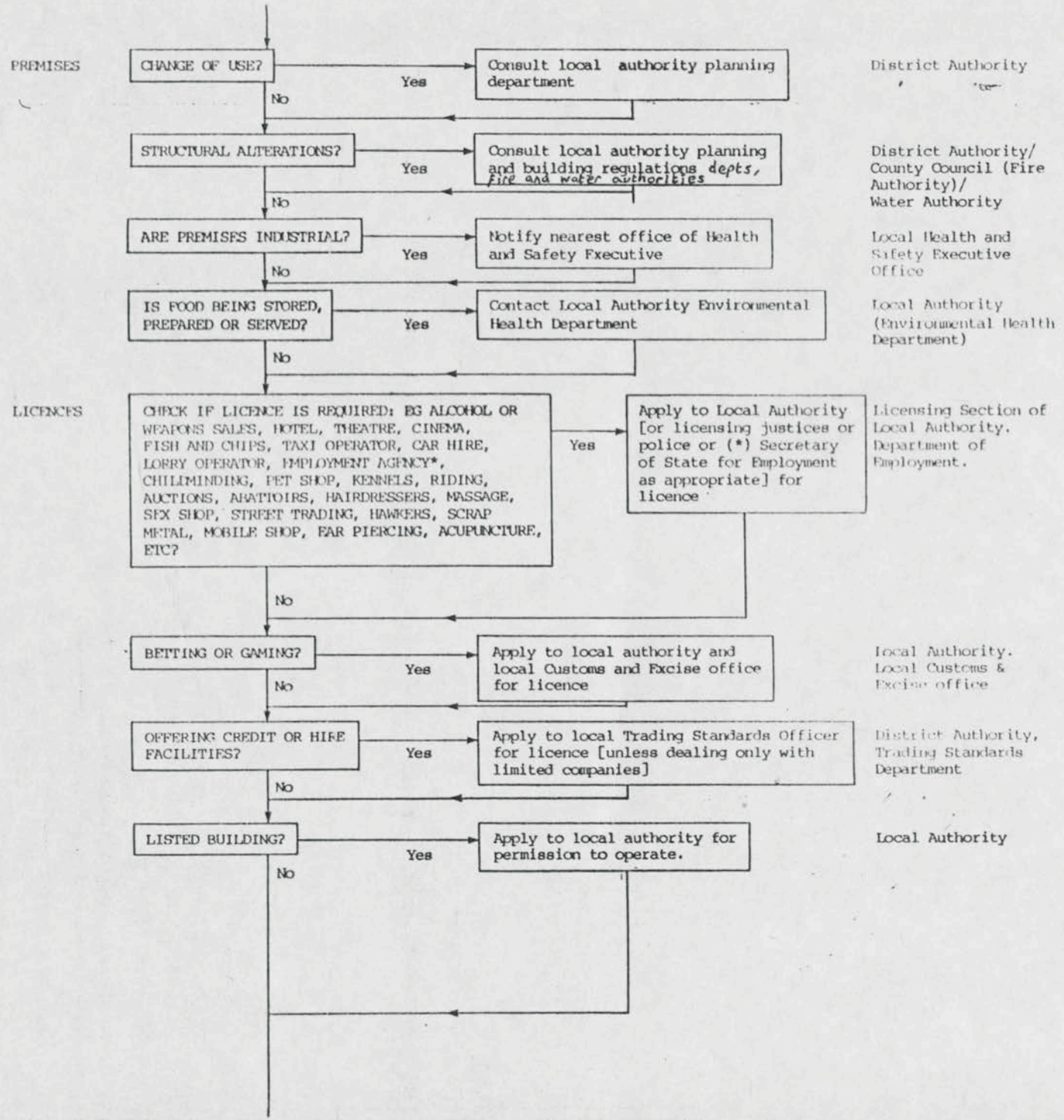
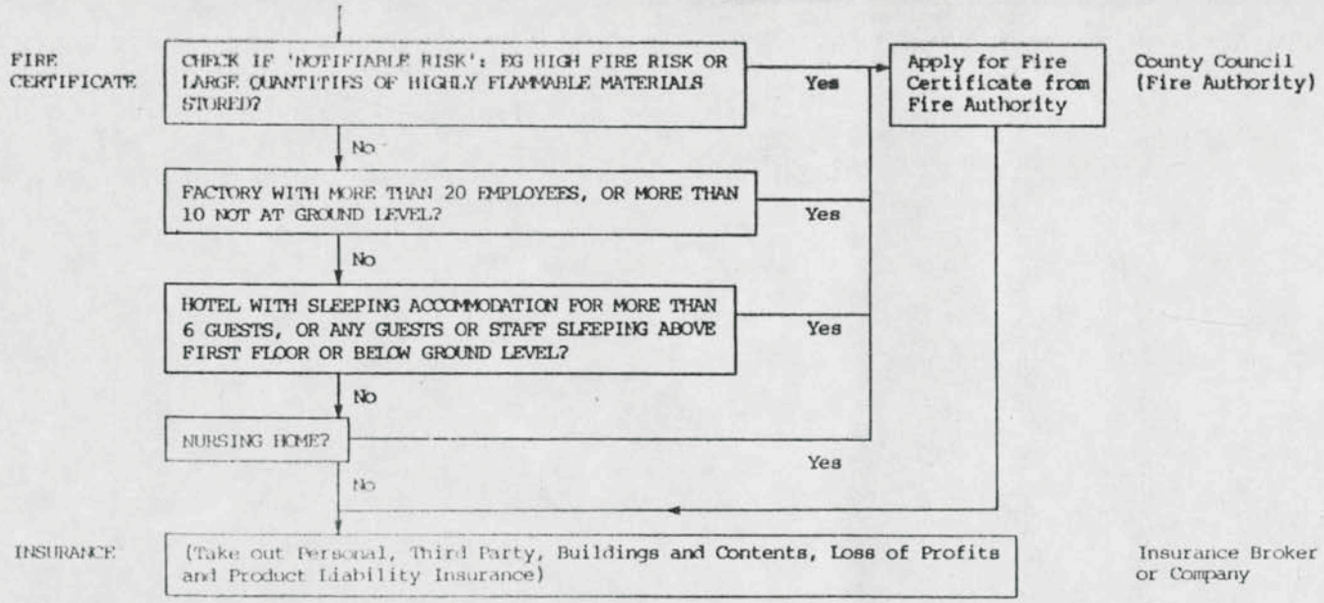

SETTING UP IN BUSINESS
(Optional but recommended procedures are in brackets)
Contact/Advice
Decide on structure of business
Solicitor/Accountant/ Small Firms Service/ Co-operative Development Agency
NAME
Sole Trader
Partnership
Limited Company
Workers' co-operative
Agree name and register name and premises with Registrar of Companies
Form Industrial and Provident Society - register through CDA
Registrar of Companies CDA
(Have formal deed of partnership drawn up)
(Get solicitor or accountant to incorporate company)
Solicitor/Accountant
If trading under a name different from that of the owner(s), must display name and address of owners(s) at premises and on stationery
If using a name, other than full corporate name of the company, must display name and address of owning company.
Issue each member with one share and rulebook
TRANSFER OF UNDERTAKINGS
If taking over an existing business, must maintain employees' existing terms and conditions of employment
(Dept of Employment Booklet No. 10)
TAX
Notify local Inland Revenue Inspector of Taxes on form 41G and send in P45 from previous employment if appropriate. (Establish tax status with Inland Revenue in writing.)
Local Inland Revenue Office
VAT
IS TAXABLE TURNOVER EXPECTED TO EXCEED £6000 PER QUARTER OR £18000 PER YEAR? [83-84 levels]
Yes
Register with local Customs & Excise VAT office
Local Customs & Excise VAT Office (form VAT 1)
No
IS THERE INPUT VAT AND NO OUTPUT VAT?
Yes
Must register to reclaim VAT
No
VAT registration is voluntary
NATIONAL INSURANCE
Contact local DHSS office for details of National Insurance contributions
Local DHSS Office

A1

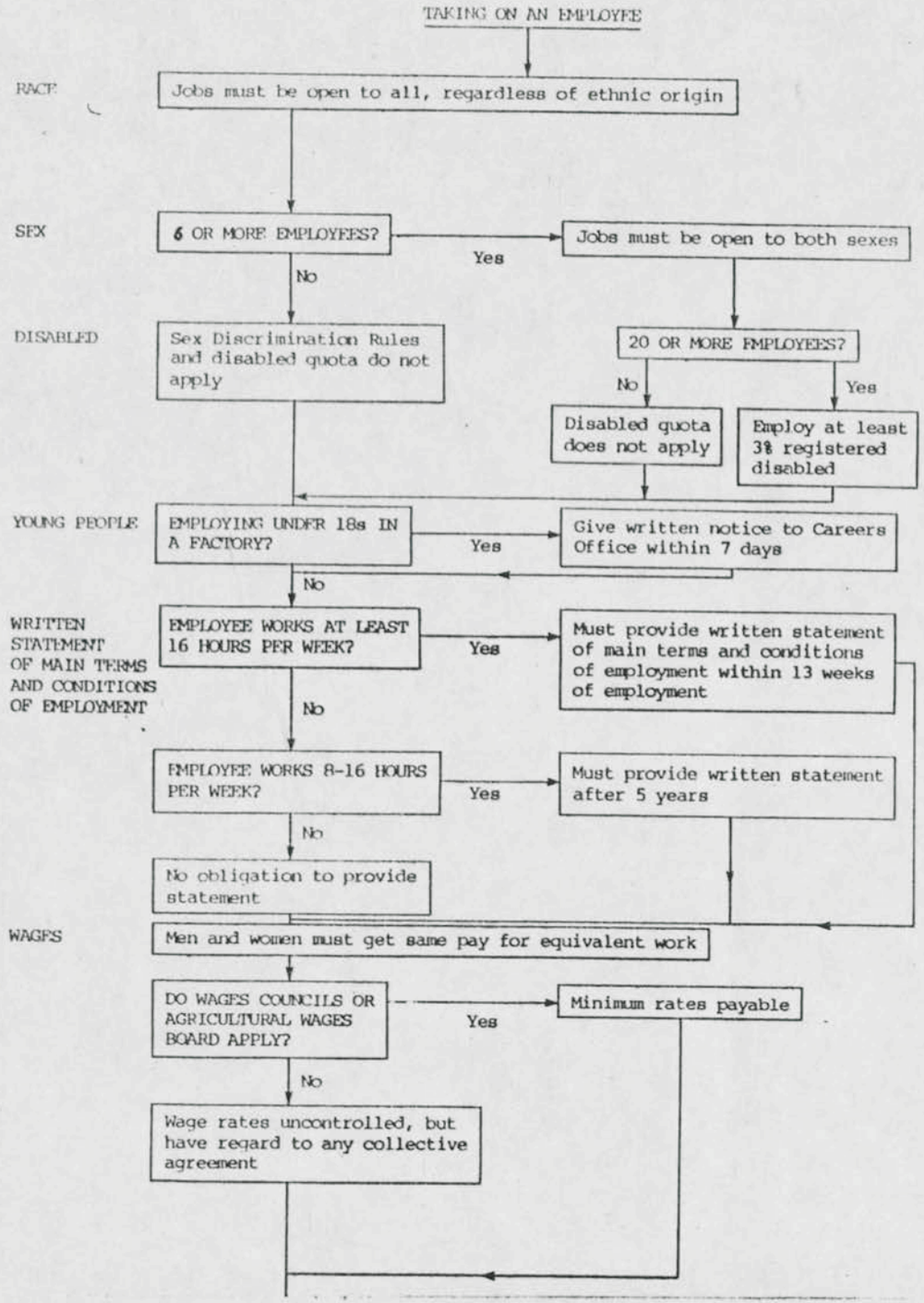

PREMISES
CHANGE OF USE?
Yes
Consult local authority planning department
District Authority
No
STRUCTURAL ALTERATIONS?
Yes
Consult local authority planning and building regulations depts, fire and water authorities
District Authority/ County Council (Fire Authority)/ Water Authority
No
ARE PREMISES INDUSTRIAL?
Yes
Notify nearest office of Health and Safety Executive
Local Health and Safety Executive Office
No
IS FOOD BEING STORED, PREPARED OR SERVED?
Yes
Contact Local Authority Environmental Health Department
Local Authority (Environmental Health Department)
No
LICENCES
CHECK IF LICENCE IS REQUIRED: EG ALCOHOL OR WEAPONS SALES, HOTEL, THEATRE, CINEMA, FISH AND CHIPS, TAXI OPERATOR, CAR HIRE, LORRY OPERATOR, EMPLOYMENT AGENCY*, CHILDMINDING, PET SHOP, KENNELS, RIDING, AUCTIONS, ABATTOIRS, HAIRDRESSERS, MASSAGE, SEX SHOP, STREET TRADING, HAWKERS, SCRAP METAL, MOBILE SHOP, EAR PIERCING, ACUPUNCTURE, ETC?
Yes
Apply to Local Authority [or licensing justices or police or (*) Secretary of State for Employment as appropriate] for licence
Licensing Section of Local Authority. Department of Employment.
No
BETTING OR GAMING?
Yes
Apply to local authority and local Customs and Excise office for licence
Local Authority. Local Customs & Excise office
No
OFFERING CREDIT OR HIRE FACILITIES?
Yes
Apply to local Trading Standards Officer for licence [unless dealing only with limited companies]
District Authority, Trading Standards Department
No
LISTED BUILDING?
Yes
Apply to local authority for permission to operate.
Local Authority
No

A2


FIRE CERTIFICATE
CHECK IF 'NOTIFIABLE RISK': EG HIGH FIRE RISK OR LARGE QUANTITIES OF HIGHLY FLAMMABLE MATERIALS STORED?
Yes
Apply for Fire Certificate from Fire Authority
County Council (Fire Authority)
No
FACTORY WITH MORE THAN 20 EMPLOYEES, OR MORE THAN 10 NOT AT GROUND LEVEL?
Yes
No
HOTEL WITH SLEEPING ACCOMMODATION FOR MORE THAN 6 GUESTS, OR ANY GUESTS OR STAFF SLEEPING ABOVE FIRST FLOOR OR BELOW GROUND LEVEL?
Yes
No
NURSING HOME?
Yes
No
INSURANCE
(Take out Personal, Third Party, Buildings and Contents, Loss of Profits and Product Liability Insurance)
Insurance Broker or Company

A 3

TAKING ON AN EMPLOYEE



Notes

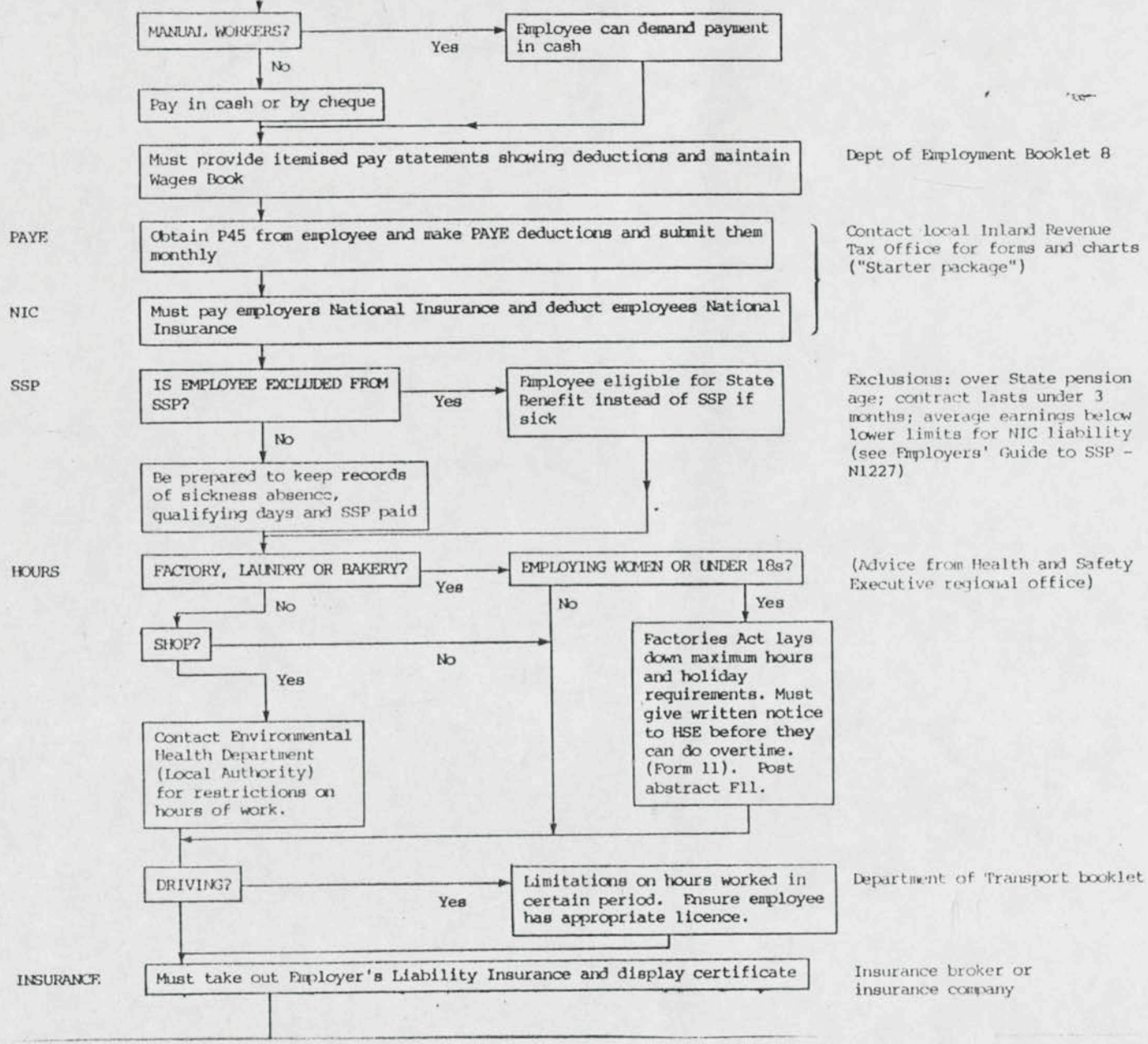
Exemptions: Genuine occupational qualifications, private households, training in skills to be used abroad, seamen recruited abroad, Northern Ireland

Exemptions: only if worker's sex can be shown to be a genuine occupational qualification eg acting role

Consult Jobcentre if unable to do so

To include main terms and conditions, pay, holidays, details of notice and discipline procedures (seek help from ACAS)

Ask at Jobcentre: rates from Secretary of appropriate Wages Council (Steel House, 11 Tothill St, London SW1) or of Agricultural Wages Board (Eagle House, 90-96 Cannon St, London EC4)


MANUAL WORKERS?
Yes
Employee can demand payment in cash
No
Pay in cash or by cheque
Must provide itemised pay statements showing deductions and maintain Wages Book
Dept of Employment Booklet 8
PAYE
Obtain P45 from employee and make PAYE deductions and submit them monthly
NIC
Must pay employers National Insurance and deduct employees National Insurance
Contact local Inland Revenue Tax Office for forms and charts ("Starter package")
SSP
IS EMPLOYEE EXCLUDED FROM SSP?
Yes
Employee eligible for State Benefit instead of SSP if sick
No
Be prepared to keep records of sickness absence, qualifying days and SSP paid
Exclusions: over State pension age; contract lasts under 3 months; average earnings below lower limits for NIC liability (see Employers' Guide to SSP - N1227)
HOURS
FACTORY, LAUNDRY OR BAKERY?
Yes
EMPLOYING WOMEN OR UNDER 18s?
No
Yes
No
SHOP?
No
Yes
Factories Act lays down maximum hours and holiday requirements. Must give written notice to HSE before they can do overtime. (Form 11). Post abstract F11.
Contact Environmental Health Department (Local Authority) for restrictions on hours of work.
(Advice from Health and Safety Executive regional office)
DRIVING?
Yes
Limitations on hours worked in certain period. Ensure employee has appropriate licence.
Department of Transport booklet
INSURANCE
Must take out Employer's Liability Insurance and display certificate
Insurance broker or insurance company

HEALTH AND SAFETY

EMPLOYEE IN INDUSTRIAL ACTIVITY?

Yes → Give Health and Safety Executive one month's written notice of of intention to occupy a factory or use mechanical power for the first time (Form 9)

No ↓

EMPLOYEE IN OFFICE/SHOP* ETC?

Yes → Notify Local Authority on form OSR1 that employment has started (except for immediate family) → Post notice OSR9

Notify Health and Safety Executive that employment has started.

Post abstract of Factories Act and maintain general register

Display addresses of Safety Inspectors and Medical Adviser. Post notice of meal intervals and clock used.

50 OR MORE EMPLOYEES?

No ↓

Yes → A trained first-aider required

Must provide at least one First Aid box, post notices giving its location, maintain DHSS accident book (B1510) and retain supply of forms F2509/F2508 to report accidents.

Must notify employees of health and accident hazards and provide training, advice and protective clothing if necessary. Provide guards on dangerous machinery.

FIVE OR MORE EMPLOYEES?

Yes → Must provide written statement of Health and Safety policy

No ↓

A suitable person* must be nominated as responsible for Health Safety

UNIONS

Employee has the right to belong to a union

CONDITIONS

Must provide 3.7 square metres floor space per employee

A thermometer must be placed on each floor and temperature requirements of Factories, Offices and Shops Acts must be complied with (generally 16-19 degrees Centigrade)

At least one WC and one washbasin with hot and cold running water, soap and means of drying must be provided. (Extra requirements for more than 10 employees or public use). Supply drinking water and vessels.

* Includes wholesalers, warehouses, public catering and fuel storage.

Contact Health and Safety Executive regional office for details of other notices to be posted in particular industries

See Health and Safety Executive booklet HS(R)5 for guidance

Guidance Notes from Health and Safety Executive

*(can be the employer, but a recognised union has the right to nominate its own representatives)

Exemption: building sites

B3

NB PM

cc NO 2

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
Telephone (Direct dialling) 01-215) 5422
GTN 215)
(Switchboard) 215 7877

JU347
Secretary of State for Trade and Industry

21 May 1984

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
HM Treasury
Parliament Street
London SW1

Prime Minister
Mr Tebbit and Chancellor have now agreed to extend LGS Mark II until end of December

AT 22/5

D Nigel,

REVIEW OF THE SMALL FIRMS LOAN GUARANTEE SCHEME

Thank you for your letter of 17 May.

I agree that the proposals set out in your letter represent a way forward which I can accept, and my officials will shortly be in touch with yours on the terms of the announcement covering the extension of the Scheme to end December.

Copies of this letter go to the Prime Minister, Secretaries of State for Northern Ireland, Scotland, Wales, the Environment and Employment and to the Governor of the Bank of England.

Yours
Norman

NORMAN TEBBIT

ECON POL: Small Firms: Pt-4

CONFIDENTIAL

FILE cc: U Redwood

RD

10 DOWNING STREET

From the Private Secretary

21 May, 1984

Dear Callum,

LOAN GUARANTEE SCHEME

The Prime Minister has seen the exchange of correspondence between your Secretary of State and the Chancellor on the Loan Guarantee Scheme. She suggests that the way forward should be to close the present scheme, which is proving excessively costly, as soon as possible. A replacement scheme should be introduced immediately with a guaranteed proportion of 70 per cent and a premium of 5 per cent. While the small business sector may complain, it will be up to them to justify why a scheme, which was orginally intended to be self-financing, should have easier terms when it will cost £6 - 9 million a year. A new scheme should be announced as lasting in this form at least until December 1984, with the announcement making it clear that the search for further savings and improvements in the administration of the scheme will continue.

The Prime Minister understands that your Secretary of State has agreed to find off-setting savings for the new scheme, with the exception of £1 million required in 1984-85. She suggests that this £1 million, along with the costs of the existing scheme for which no provision exists, should be considered together with other potential over-spends on DTI programmes.

I am sending a copy of this letter to David Peretz (HM Treasury), Derek Hill (Northern Ireland Office), John Graham (Scottish Office), Colin Jones (Welsh Office), John Ballard (Department of the Environment), David Normington (Department of Employment) and to John Bartlett (Governor of the Bank of England's Office).

Yours sincerely

Andrew Turnbull

(A. Turnbull)

C. McCarthy, Esq.,
Department of Trade and Industry

CONFIDENTIAL

18 May 1984

MR TURNBULL

LOAN GUARANTEE SCHEME

Resolving the dispute between Treasury and DTI could take the following course:

1. It is desirable to carry on with some form of Loan Guarantee Scheme.

2. It should be made clear that losses are going to be reduced through tightening up Scheme management, and by throwing more of the risk onto the private sector banks involved. 70 per cent guarantee and a 5 per cent premium represents a useful improvement.

3. The most important decisions taken will be those about how to minimise losses made under the scheme.

4. The Treasury are right that the main public expenditure question is how to meet losses incurred under the existing scheme. This should be part of a review of the total overspend on the DTI programme.

5. The revamped Scheme, with much tougher criteria, lower guaranteed percentage, and high premium, could represent a cheaper way of supporting enterprise than many other pursued under DTI programmes. It should, however, be financed through reductions in other DTI programmes.

If the Prime Minister is happy with this analysis, she could write to the Treasury and the DTI reiterating the need for much tougher criteria, the need to make offsetting reductions in the DTI budget to cope with the losses incurred so far, and endorsing the new guarantee proportion.

JOHN REDWOOD

LASABI

CONFIDENTIAL

PRIME MINISTER (1)

LOAN GUARANTEE SCHEME

There is a dispute between DTI and the Treasury on the financing and future of the Loan Guarantee Scheme. There are two elements:

i. where the money is to come from to finance the losses on the present scheme;

ii. whether a new scheme should be introduced and if so how long it should last and how it should be financed.

On the old scheme, there is an argument about £13 million of losses for which there is no provision. The Chancellor suggests that this be looked at as part of the overspend on DTI's total programme. The urgent need is to close the existing scheme as soon as possible.

On a new scheme, both Treasury and DTI agree that the guaranteed/unguaranteed split should be 70/30 and the premium be 5% (compared with 80/20 and 3% at present). Even this will cost £23 million over the next four years. DTI have agreed to find savings for £22 million from next year but are still squabbling with the Treasury over the £1 million required this year.

I suggest the way forward should be:

i. closure of the existing scheme immediately.

ii. introduction of a new scheme. To close the scheme without a replacement would put the Government in the position of defending this decision to the small business lobby.

/ iii.

iii. That tough conditions be set, ie 70/30 and 5% for the premium. The small business lobby will complain but the onus of proof will be on them to justify why the conditions should be more relaxed when a scheme which was intended to be self-financing is still costing £6-9 million a year.

iv. That the costs of the old and new scheme be found from savings in DTI's other programmes.

v. That the new scheme be announced as lasting at least until December but that it be made clear that the search is still going on for ways of tightening up the management of the scheme, eg by requiring proper appraisal and monitoring of applications.

Agree a minute to Mr. Tebbit making these points?

AT

Yes MT

18 May 1984

CONFIDENTIAL

B/f with Policy unit response.

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

17 May 1984

Rt Hon Norman Tebbit MP
Secretary of State for Trade & Industry

Dear Norman

REVIEW OF THE LOAN GUARANTEE SCHEME

You wrote me a further letter about the Loan Guarantee Scheme on 10 May.

I remain very concerned about the costs of this scheme. If the existing scheme and the new scheme are considered together, I understand that the overall costs are as follows:

	Existing Scheme	New Scheme	Total
1984-85	- £25.0m	- £ 1m	- £26m
1985-86	- £11.0m	- £ 6m	- £17m
1986-87	+ £ 1.3m	-£ 9m	- £ 7.7m
1987-88	+ £ 2.0m	- £ 7m	- £ 5.0m
	- £32.7m	- £23m	- £55.7m

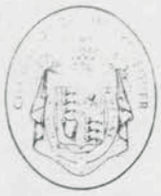
I gather that the provision made in Estimates for the scheme in 1984-85 is for a gross figure of £20 million, plus related receipts of £8 million, producing net provision of £12 million. Since your officials now estimate net losses under the existing scheme at £25 million (net), it appears that you need to find not only an additional £1 million for the new scheme in the current financial year but also a further £13 million to cover the losses made under the existing scheme. While I welcome your willingness to make offsetting savings to cover the cost of the new scheme in the years 1985-86 to 1987-88, these savings would not then be available to help finance the massive additional bids put to us by your officials totalling some £700m over those three years. Moreover, as I understand it, you are also unable to give an unconditional undertaking that the losses made under the existing scheme in 1985-86 will be met from offsetting savings.

In these circumstances, I should have preferred a 60 per cent guaranteed proportion and a 4 per cent premium, since this would have resulted in significantly higher public expenditure savings. I note that you find this unattractive and accordingly I will not press the point. But, as the Prime Minister has emphasised, this makes it all the more important that we should continue our efforts to minimise losses made under the scheme.

I therefore suggest that you announce that the existing scheme will close on 31 May and that a new scheme based on a 70 per cent guaranteed proportion and a 5 per cent premium will run to the end of the current calendar year. In making such an announcement, I think you could reasonably say that these changes were being introduced in order to secure an immediate reduction in the losses arising under the

ECON POL: Small Firms Pt 4

CONFIDENTIAL



existing scheme; that our intention was to investigate the scope for further savings and that we aimed to make a further announcement about the future of the scheme before the end of the present calendar year.

Although I recognise that your budget is very tight, following your announcement of new industrial support measures in March, I do not think it is sensible to make special provision for the very small sum for which you are asking when you have a total PES allocation of £1.5 billion. If the new scheme only runs to 31 December 1984 in the first instance, the additional sums involved are likely to be even lower. It seems to me that the more important issue you face in 1984-85 is not how you will finance any calls on guaranteed loans made under a new scheme but how you will meet the losses incurred under the existing scheme, for which you have no cover. In the circumstances, I therefore hope you will agree the best course is for our officials to review all possible ways of avoiding any overspend on your programme later this year and that they should consider your request for an additional £1 million to cover losses relating to the new scheme in this context.

I am sure you are already considering with the participating financial institutions the administrative arrangements for tightening up the scheme. I believe my officials have recently put to yours some ideas for securing additional savings in this area and I think it would be useful if they too could be pursued further. It would also be helpful if my officials could be shown in advance the precise terms of any announcement relating to the revised scheme.

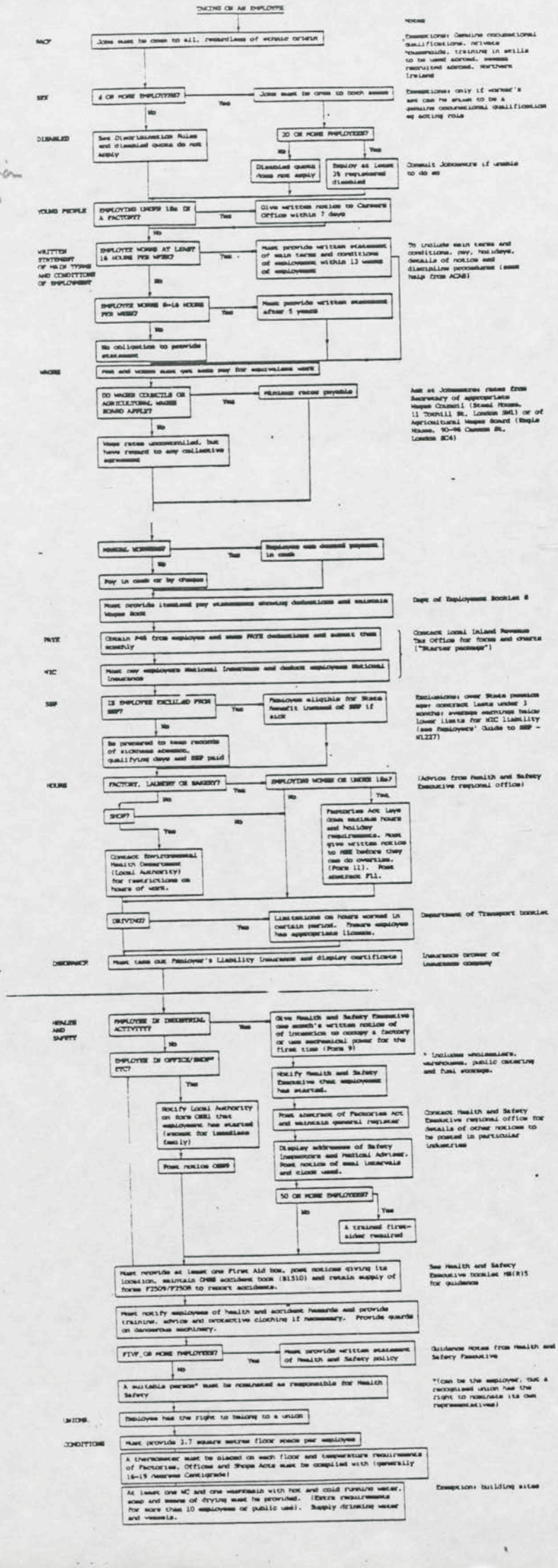
Copies of this letter go to the Prime Minister, the Secretaries of State for Northern Ireland, Scotland, Wales, the Environment and Employment and to the Governor of the Bank of England.

Yours
Nigel

NIGEL LAWSON

Chart prepared by Mr Trippier and used by Sir Robin Ibbs in his presentation to Cabinet on Value for Money on 10/5

AT



SETTING UP IN BUSINESS

(Optional but recommended procedures are in brackets)

Contact/Advice

Decide on structure of business

Solicitor/Accountant/ Small Firms Service/ Co-operative Development Agency

NAME

Sole Trader | Partnership | Limited Company | Workers' co-operative

Agree name and register name and premises with Registrar of Companies

Form Industrial and Provident Society - register through CDA

Registrar of Companies CDA

(Have formal deed of partnership drawn up)

(Get solicitor or accountant to incorporate company)

Solicitor/Accountant

If trading under a name different from that of the owner(s), must display name and address of owners(s) at premises and on stationery

If using a name, other than full corporate name of the company, must display name and address of owning company.

Issue each member with one share and rulebook

TRANSFER OF UNDERTAKINGS

If taking over an existing business, must maintain employees' existing terms and conditions of employment

(Dept of Employment Booklet No. 10)

TAX

Notify Local Inland Revenue Inspector of Taxes on form 41G and send in P45 from previous employment if appropriate. (Establish tax status with Inland Revenue in writing.)

Local Inland Revenue Office

VAT

IS TAXABLE TURNOVER EXPECTED TO EXCEED £6000 PER QUARTER OR £18000 PER YEAR? (83-84 levels) — Yes → Register with local Customs & Excise VAT office

Local Customs & Excise VAT Office (form VAT 1)

No

IS THERE INPUT VAT AND NO OUTPUT VAT? — Yes → Make register to reclaim VAT

No

VAT registration is voluntary

NATIONAL INSURANCE

Contact local DHSS office for details of National Insurance contributions

Local DHSS Office

PREMISES

CHANGE OF USE? — Yes → Consult local authority planning department

District Authority

No

STRUCTURAL ALTERATIONS? — Yes → Consult local authority planning and building regulations

District Authority/ County Council (Fire Authority)/ Water Authority

No

ARE PREMISES INDUSTRIAL? — Yes → Notify nearest office of Health and Safety Executive

Local Health and Safety Executive Office

No

IS FOOD BEING STORED, PREPARED OR SERVED? — Yes → Contact Local Authority Environmental Health Department

Local Authority (Environmental Health Department)

No

LICENCES

CHECK IF LICENCE IS REQUIRED: NO ALCOHOL OR WEAPONS SALES, HOTEL, THEATRE, CINEMA, FISH AND CHIPS, TAXI OPERATOR, CAR HIRE, LORRY OPERATOR, EMPLOYMENT AGENCY*, CHILDMINDING, PET SHOP, KENNELS, RIDING, AUCTIONS, ARMOURY, HAIRDRESSING, MASSAGE, SEX SHOP, STREET TRADING, HAWKING, SCRAP METAL, MOBILE SHOP, EAR PIERCING, ACUPUNCTURE, ETC? — Yes → Apply to Local Authority (or licensing justices or police or (*) Secretary of State for Employment as appropriate) for licence

Licensing Section of Local Authority. Department of Employment.

No

BETTING OR GAMING? — Yes → Apply to local authority and Local Customs and Excise office for licence

Local Authority. Local Customs & Excise office

No

OFFERING CREDIT OR HIRE FACILITIES? — Yes → Apply to local Trading Standards Officer for licence (unless dealing only with limited companies)

District Authority, Trading Standards Department

No

LISTED BUILDING? — Yes → Apply to local authority for permission to operate.

Local Authority

No

FIRE CERTIFICATE

CHECK IF 'NOTIFIABLE RISK': ES HIGH FIRE RISK OR LARGE QUANTITIES OF HIGHLY FLAMMABLE MATERIALS STORED? — Yes → Apply for Fire Certificate from Fire Authority

County Council (Fire Authority)

No

FACTORY WITH MORE THAN 20 EMPLOYEES, OR MORE THAN 10 NOT AT GROUND LEVEL? — Yes

No

HOTEL WITH SLEEPING ACCOMMODATION FOR MORE THAN 6 GUESTS, OR ANY GUESTS OR STAFF SLEEPING ABOVE FIRST FLOOR OR BELOW GROUND LEVEL? — Yes

No

NURSING HOME? — Yes

No

INSURANCE

(Take out Personal, Third Party, Buildings and Contents, Loss of Profits and Product Liability Insurance)

Insurance Broker or Company

B/F with Treasury response
AT 11/5

CC TR
Copy of 1 May letter being sought

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
Telephone (Direct dialling) 01-215) 5422
GTN 215)
(Switchboard) 215 7877

JU289
Secretary of State for Trade and Industry

10 May 1984

CONFIDENTIAL

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
HM Treasury
Treasury Chambers
Whitehall SW1

D Nigel

REVIEW OF THE LOAN GUARANTEE SCHEME

Thank you for your letter of 1 May. attached

2 I am prepared to make PES provision for this scheme by making offsetting savings and my PES proposals will contain the following bid for it:

£ million	1985/86	6
	1986/87	9
	1987/88	7
Total		22

This provision is on a balance of risk of 70:30 and an increase in the premium of 5%. This will help tighten up evaluation and improve additionality. I do not think I can go further than this since that would so reduce the take up of the scheme as to frustrate our objectives.

3 However, I am not able to find any saving for the cost this year estimated at £1m. As you know on current expectation there will be an overspend on Section 8 due in part to the heavier than expected cost of the original experiment, though in terms of job creation it was highly successful. Unless, therefore, you can agree to provide additonal money this year, as well as accepting the PES proposal I have no option except to allow the scheme to close down after the end of this month even though this will cause a very adverse reaction.

4 I attach a draft Arranged Parliamentary Answer to make this announcement and would be grateful for your agreement to it as soon as possible.

5 Copies of this letter go to the Prime Minister, the Secretaries of State for Northern Ireland, Scotland, Wales, the Environment and Employment and to the Governor of the Bank of England.

Yours ever
Norman

NORMAN TEBBIT

enc

JU290A

DRAFT ARRANGED QUESTION AND ANSWER

Question: To ask the Secretary of State for Trade and Industry if he intends to extend the Small Business Loan Guarantee Scheme beyond 31 May 1984.

Answer: The pilot scheme is due to end on 31 May and therefore no proposals from participating banks can be considered after that date. I am now considering the costs and benefits of the scheme.

ECON POL: Small Firms: PK

Y SWYDDFA GYMREIG
GWYDYR HOUSE
WHITEHALL LONDON SW1A 2ER
Tel. 01-233 3000 (Switsfwrdd)
01-233 6106 (Llinell Union)
Oddi wrth Ysgrifennydd Gwladol Cymru

WELSH OFFICE
GWYDYR HOUSE
WHITEHALL LONDON SW1A 2ER
Tel. 01-233 3000 (Switchboard)
01-233 6106 (Direct Line)
From The Secretary of State for Wales

The Rt Hon Nicholas Edwards MP

2 May 1984

Dear Norman

REVIEW OF THE LOAN GUARANTEE SCHEME

Your letter of 29 March to Nigel Lawson about the Loan Guarantee Scheme sets out a number of possible options in the way to proceed to improve the Scheme and to reduce anticipated losses.

The Loan Guarantee Scheme is one of the better schemes we have produced to help the development of small businesses with its important side benefit of influencing banking attitudes to lending. The evidence is that a good deal is being achieved through it and there is no doubt in my mind that it should continue. I recognise and share the concern that you have about the cost of the Scheme but I am also concerned that the options you have proposed could impair its value.

The solution must lie in effective appraisal of schemes and monitoring by the banks. I am attracted to George Younger's proposal in his letter to you of 11 April, and I would want my officials to take part in any discussion that takes place. A national scheme may not be feasible but I would be prepared to have a pilot scheme, using European Regional Development Fund non-quota monies, in the steel closure areas of Wales. Linked to this the scheme conditions might insist that loan applicants should consult with a Small Firms Service Counsellor before an application is submitted so that the Counsellor could ensure that the proposal was adequately worked up and any business plan submitted of a sufficient standard to allow the banks to carry out an adequate appraisal with the resources at their disposal. An alternative would be to insist that applicants have access to professional advice.

I am copying this letter to the Prime Minister, the Chancellor of the Exchequer, the Secretaries of State for Northern Ireland, Scotland, the Environment and Employment and to the Governor of the Bank of England.

Yours ever
Nick

The Rt Hon Norman Tebbit MP
Secretary of State for Trade and Industry

Econ POL
Small Firms
pt. 4

FOR ADVICE (AND DRAFT REPLY IF APPROPRIATE)
PLEASE BY: 9/5/84
IF DEADLINE CANNOT BE MET PLEASE PHONE 215 5422

COPIES TO
PS/Mins
PS/Sec I
Ms Mueller
Mr Jardine IT
Mr Chapman
Dr Graham SF
Mr Kemmis SF

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

1 May 1984

The Rt Hon Norman Tebbit MP
Secretary of State for Trade and Industry

Dear Norman

REVIEW OF THE LOAN GUARANTEE SCHEME

Thank you for your letter of 29 March. I have also seen the comments from No 10, James Prior, George Younger, and Robin Leigh-Pemberton.

As you know, the main point to emerge from discussion between officials was that there was no way the present scheme could be changed so as to allow a reasonable volume of additional lending to continue while at the same time substantially reducing the likelihood of losses. It follows that extending the scheme would necessarily mean moving further away from one that could be described as trying tomake the market work better, and more firmly in the direction of overt subsidy. Naturally I have very strong reservations about this.

I accept, however, that there are political difficulties in abandoning the scheme. I should, therefore, like to explore how we can best ensure that over time the scheme breaks even in financial terms or, at least, that the losses are kept to a very low level. I am sure that the action you are taking generally to tighten up the administration of the scheme will help in this respect, but believe that changes to its structure are also needed.

To this end, I should like to suggest going rather further than the options you describe. We should certainly try to shift the balance of risk to 70:30 as in your options 3 and 4: perhaps we should go even further to a 60:40 split. That is the way to get banks and other lenders more interested in a realistic evaluation of loan applications. But I think we should combine this with an increase in the premium to 5 per cent (or perhaps 4 per cent if the balance of risk were 60:40), thereby reducing demand from those who could relatively easily get funds from elsewhere. No doubt there would be complaints. But I believe a decision to change the scheme in this way, and so to increase the incentive for companies to raise equity rather than loan finance, would be defensible and could be presented positively.

I suggest our officials might have some further discussion of this suggestion, and, indeed, explore whether there are any better variants - on the understanding, of course, that any losses arising from extending the scheme (like losses from the existing scheme) would fall to be met from within your Department's existing PES provisions.

Copies of this letter go to the Prime Minister, the Secretaries of State for Northern Ireland, Scotland, Wales, the Environment and Employment and to the Governor of the Bank of England.

Yours
Nigel

NIGEL LAWSON

Econ 181. Small firms

CC NO

NORTHERN IRELAND OFFICE
WHITEHALL
LONDON SW1A 2AZ

SECRETARY OF STATE
FOR
NORTHERN IRELAND

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

nbpm
DMB
19/4

19 April 1984

Dear Nigel

REVIEW OF THE LOAN GUARANTEE SCHEME

Norman Tebbit copied to me his letter of 29 March on the review of the Loan Guarantee Scheme.

I would strongly support Norman's view that the Scheme should be continued. Although the experience of the Scheme in Northern Ireland has differed somewhat from that in other regions I am convinced that it has an important place in our policy towards the support of small businesses and that it has filled a gap in the market.

At the same time I can readily appreciate the concern which arises from the scale of the losses which have been experienced and there is clearly a need to seek some means of reducing the contingent liability on public funds. Fortunately, the loss experience in Northern Ireland has been much happier than in other regions, with a failure rate of only 4.5% compared with the next lowest figure of 9.6%. This is, I believe, due in large part to the stricter approach adopted by the banks in the Province. For this reason I would commend Norman Tebbit's intention to encourage greater prudence by the banks, apart from whatever other action may be agreed.

I am copying this letter to recipients of Norman Tebbit's letter.

Yours
Jim

JLD

Econ Pol : Small Firms Pt 4

cc NO

SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

NBPM
AT 12/4

CONFIDENTIAL

Rt Hon Norman Tebbit MP
Secretary of State for Trade and Industry
Department of Trade and Industry
1-19 Victoria Street
LONDON
SW1H 0ET

11 April 1982

Dear Norman,

REVIEW OF THE SMALL FIRM LOAN GUARANTEE SCHEME

You copied to me your letter of 29 March to Nigel Lawson about the Loan Guarantee Scheme. I should like to offer some comment.

North of the Border, despite indications of a slow initial take-up, evidence now suggests that the Scheme is playing its expected part in fostering new enterprises. For this reason, I would support your view that it should be contined but agree that it should be modified to take account of present weaknesses.

I do not believe, however, that to increase the level of bank liability or the premium rate would be likely to benefit the scheme. Either option could result in reduced usage with the added danger that the latter could lead to a greater failure rate because of the additional repayment burden on borrowers.

I note that adequate assessment and monitoring is seen as a key to reducing the scheme's cost to public funds through meeting guarantee claims, but that resistance is likely from the banks to any suggestion that the burden of monitoring should rest with them. This prompts me to draw to your attention the "Better Business Services" pilot scheme which Allan Stewart and I have introduced, using European Regional development Fund (ERDF) non-quota money in steel and shipbuilding closure areas in Scotland (soon to be extended to textile closure areas). This provides low-cost project appraisal and financial monitoring for small and medium-sized firms, and a national scheme modelled on it might to some extent overcome the weaknesses identified in the Loan Guarantee Scheme.

The costs falling to the business could either be covered as part of the loan itself, or by extension to existing DTI schemes of assistance such as the Manufacturing Advisory Service. Such a scheme would have potential not only to limit the use of public funds but perhaps more importantly to set new and existing small firms on a more secure financial control footing for the future. To reinforce its effect, the banks might be encouraged to promote appraisal and monitoring by our raising the level of bank

liability from 20% to 30% in cases where loans were not monitored under an approved system.

I hope that you will find these comments useful; my officials are meanwhile contacting yours to discuss my suggestion in more detail.

I am copying this letter to the Prime Minister, the Chancellor of the Exchequer, the Secretaries of State for Northern Ireland, Wales, the Evironment and Employment; and to the Governor of the Bank of England in view of his interest.

Yours ever,

George

Econ Pol: Small Firms
Pt 4

cc NO 2

JH 359

Prime Minister

To note work in hand. Mr Tebbit will no doubt speak at the Seminar follow-up on the need for consolidating the small firms schemes

AT 12/12

PRIME MINISTER

REPACKAGING OF DEPARTMENT OF TRADE AND INDUSTRY SCHEMES

David Trippier has begun work on reviewing with colleagues the administrative and legislative burdens affecting small firms, and the further encouragement of private sector involvement in helping small businesses through the local enterprise agency movement. Another way of developing a small firms policy based on awareness, understanding and simplification, is the consolidation of my Department's schemes and services into a coherent package. Whilst this is of particular relevance to small firms, it applies, of course, across the board.

2 Our promotional campaign earlier this year was successful in increasing awareness of what we have to offer but it also highlighted the reluctance of many small and medium-sized firms to take up that assistance. The reasons are complex but one element appears to be the confusion created by the number of related schemes and services. This was not a problem for the BOTB area which is already seen as a single provider of assistance.

3 I have therefore initiated work on repackaging the

Department's grant schemes and advisory services, probably into three main programmes - Business Advisory Service, Support for Innovation and Regional Assistance - to stand alongside the existing export package. In the process we will be looking to standardise and simplify criteria wherever possible. We will also be looking carefully at the marketing and administration of the programmes.

4 We expect small firms to benefit particularly from this consolidated approach. A reference to this initiative could be included in your speech to the SBB annual conference on 8 February. But it is targetted at industry as a whole. We must, therefore, think in terms of marketing a corporate image for the Department into which we can slot individual programmes and 'brand images'. This will provide coherence within an overall strategy. It will also enable us to emphasise particular sectors and technologies as appropriate.

5 This work will take time. I do not foresee our being in a position to launch the repackaged image for innovation and advisory srvices until May or June. Regional assistance will, of course, be repackaged in the light of the consultations on my White Paper, and I will be working towards the Autumn for the launch of the new regional schemes.

6 I should emphasise that in initiating this work I am fully

conscious of the public expenditure constraints on my Department. But these emphasise the need to make better use of the schemes and services we will continue to operate so that they more effectively meet industry's needs, and are perceived as so doing.

7 I am copying this note to the Lord President of the Council, the Chancellor of the Exchequer and Secretaries of State for Scotland and Wales.

NT

N T

2 December 1983

Department of Trade and Industry

ECON DOC: Small Firms

CONFIDENTIAL file BTC

bc John Redwood

10 DOWNING STREET

From the Private Secretary 2 April 1984

Review of Loan Guarantee Scheme

The Prime Minister has seen your Secretary of State's letter to the Chancellor of 29 March setting out experience to date with the Loan Guarantee Scheme and the changes which could be made to it. The Prime Minister has expressed disappointment at the high cost of the scheme and at the inadequate response from banks and other professional advisers. She accepts that the Scheme should continue but hopes that changes will be made to put more of the risk onto the banks and to bring the cost of the Scheme nearer to break-even.

I am sending copies of this letter to David Peretz (HM Treasury), Derek Hill (Northern Ireland Office), John Graham (Scottish Office), Colin Jones (Welsh Office), John Ballard (Department of the Environment), David Normington (Department of Employment), and to John Bartlett (Governor of the Bank of England's office).

(Andrew Turnbull)

Callum McCarthy, Esq.,
Department of Trade and Industry

CONFIDENTIAL

JR

10 DOWNING STREET

(1)

Prime Minister

No decisions are needed as Treasury and DTI are still considering modifications.

But you might want to record

(i) your disappointment at high cost

(ii) your disappointment at poor response by banks

(iii) your hope that changes will be made to put more risk on banks and to bring scheme nearer to break-even.

Agree?

Yes - thanks. AT 30/3

MS

30 March 1984
Policy Unit

PRIME MINISTER

Norman Tebbit's letter to Nigel concerning the Loan Guarantee Scheme reveals another story of how the best of intentions can miscarry when you set out to rig markets.

The Loan Guarantee Scheme was set up with the intention of breaking even on the lending to small firms, not with the intention of offering a relatively cheap job-creation scheme based on Government subsidy. The origins of the idea were that the banks were failing to lend money to a range of entrepreneurs who could use it profitably, but who were denied access to the money through a surfeit of banking caution.

The figures on the Loan Guarantee Scheme show that the banks were right to be cautious. It also shows that they have been sloppy in their appraisal as soon as Government guarantee and money is involved. People are only cautious in the way they spend their own money.

Many small businesses do not need access to more, possibly subsidised, borrowing. They need equity capital. In the early years of a small business setting up, there is quite enough risk in the operation without overburdening it with high interest charges. For this reason, we should be much keener to see the Business Expansion Scheme succeed in channelling monies to small businesses, than in extending or protecting the Loan Guarantee Scheme.

Nonetheless, small business is a central part of this Government's aspirations for the growth of the economy and the creation of new jobs. The small business lobbies are powerful and have become important allies. Axeing the scheme entirely would therefore be a dangerous and inappropriate response.

Of the options set out in Norman Tebbit's letter, the most attractive is the one which not only increases the amount of risk the banks are going to carry, but also increases the premium. The aim should be to get back nearer to the original intention that the scheme should break even.

I am sure the Treasury will argue some such case, and will also correctly argue that any additional costs of the Loan Guarantee

Scheme should be met from within DTI's budget. Taking Norman Tebbit's argument about the cost per job, and viewing this as yet another Job-Creation Scheme, there is an argument for persevering with it in a scaled-down version, but it should be financed at the expense of some of the very costly job-preservation measures the DTI are undertaking through the nationalised industries under their sponsorship.

JOHN REDWOOD

BF with PU response. AT 29/3 12/4 CC NO.

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JF6152

Secretary of State for Trade and Industry

29 March 1984

CONFIDENTIAL

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

Dear Nigel.

REVIEW OF THE LOAN GUARANTEE SCHEME

Your letter of 2 March suggested that officials should now examine carefully the expenditure implications both of the existing Scheme and of any extension we might consider.

2 As you know, David Trippier has been carrying out the review, and he has reported to me his conclusions based on Robson Rhodes and on a full report by officials here, which has also gone to your officials.

3 I am concerned at the serious deficiencies that, as the Review has underlined, exist among both borrowers and bankers. They show that we still have a lot to do in improving the attitudes and techniques of both small businessmen and of bankers. The Scheme has a continuing role to play in both of these respects.

4 I am also of course very concerned at the losses; to the end of January 1984 the net loss was £32 million, and this figure will rise as further businesses fail. Robson Rhodes have estimated that as many as one in three of the earlier loans will fail, although they can see some improvement in the last year.

5 I am, however, impressed by the large number of small businesses that have been helped by the Scheme, about 14,000 to date, and by the number of new jobs that have resulted (although job creation is not the purpose of the Scheme). Up to end January 1984 the Scheme may have directly created 61,000 jobs (or 33,500 if only the strictly additional firms are counted) at a cost per job so far of around £500 (or £950). These costs could rise to £1,000 (or £1,900) per job as the result of future claims on guarantees already issued, but even so they compare well with other job creation schemes.

/6 The ...

6 The key issue now is how the Scheme can best be tightened up. We cannot require the banks to carry out better appraisals or monitoring; they claim that the costs would be too high and could not be recovered. David Trippier will be discussing with them how they can improve their performance, for example by greater use of their own small business units and advisory services. I have asked him to discuss also with them in particular whether the provision by borrowers to the banks of quarterly or monthly profit and loss statements should not be made a condition of our guarantee. He will also pursue with the proposal that borrowers should be required to provide evidence of a contractual arrangement with a professional adviser (the cost of which could be made part of the Scheme loan).

7 Apart from these steps which the banks could take, the main ways in which we can seek to tighten up the Scheme and to reduce our own exposure are by reducing the percentage of the loan under the Department's guarantee - now 80 per cent - and by increasing the Department's premium, now 3 per cent on the amount guarangeed by the Department. Both of these could conflict with the Scheme's objective of encouraging banks to lend to marginal small businesses who cannot obtain conventional finance; bankers will be likely to turn away mmore applicants if they take more of the risk, and a higher premium would raise the financial burden on the small firm. But it is necessary to reduce the cost of the Scheme, if possible without destroying its effectiveness, and I suggest that the main options open to us are those set out below. Option 1 covers a continuation of the existing Scheme as a basis for comparison.

8 I have assumed a continuation of the Scheme for a further three years, from 1 June 1984, and show the - additional costs for each of the four financial years starting with 1984/85; there would also be costs falling in later years. The totals of Scheme lending are based on our estimates of likely take up of the modified Scheme.

Option 1

9 Under the existing Scheme, risk is split 80:20 and the premium is 3 per cent. The failure rate is estimated to fall to one in four as the result of both the further tightening up already undertaken by the banks and the further measures we propose such as new declarations on additionality by both the bankers and borrowers. For a total of £600 million new lending over three years, at the existing level of £200 million per year, the net PES cost would be:

		£million
FY	1984/85	2.2
	1985/86	17.0
	1986/87	23.9
	1987/88	20.6
Total for FY 1984/85 - 1987/88		63.7

Option 2

10 The Scheme would be continued as in Option 1, with the exception that the premium would be raised to either 3.5 per cent or 4 per cent as officials suggested. The failure rate is likely to be unchanged. With a premium of 3.5 per cent, the net PES cost would be:

		£million
FY	1984/85	1.9
	1985/86	16.0
	1986/87	21.5
	1987/88	18.2
Total for FY 1984/85 - 1987/88		57.6

Option 3

11 The balance of risk would be changed to 70:30, the premium remaining at 3 per cent. The banks would however raise the cost of the loans to the borrower in order to maintain their return on Scheme lending. We would expect take up to be reduced sharply, although it might be expected to recover somewhat in time (officials may have been too pessimistic about this in their report). On this basis, £150 million could be adequate, or £450 million over the three years. The failure rate would be likely to improve to one in five. The net PES would then be:

		£million
FY	1984/85	0.9
	1985/86	8.2
	1986/87	11.6
	1987/88	9.8
Total for FY 1984/85 -1987/88		30.5

Option 4

12 The Scheme would be modified as in Option 3, with a 70:30 split, and in addition the premium would be raised to 3.5 per cent. We expect take up and failure rate to remain the same. The net PES would then be:

/£ million

CONFIDENTIAL

		£million
FY	1984/85	0.7
	1985/86	7.6
	1986/87	10.7
	1987/88	8.9
Total for FY 1984/85 -1987/88		27.9

13 I have given further thought to Michael Grylls' suggestion for improving the Department's position with regard to recoveries. Basically he has suggested that the banks should not have priority over business assets for any new bank lending advanced at the same time as a Scheme loan. I imagine that he envisages some sort of proportionate sharing. I am not attracted to this idea mainly because it would tend to reduce the amount of conventional lending the banks would be willing to offer as part of a "package" of finance, which is the opposite of our intention. The increase in our recoveries would be small.

14 I suggest that the next step should be for our officials to get together urgently to look in more detail at the implications of these options.

15 I am sending copies to the Prime Minister, the Secretaries of State for Northern Ireland, Scotland, Wales, the Environment and Employment and to the Governor of the Bank of England in view of his interest.

Yours ever
Norman

NORMAN TEBBIT

ECON POL: Small firms: Pt 4.

File

PC NO

Prime Minister
Inty Clerk
3/3

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

2 March 1984

The Rt Hon Norman Tebbit MP
Secretary of State for Trade and Industry
Department of Trade and Industry

Dear Norman

REVIEW OF THE LOAN GUARANTEE SCHEME

David Trippier wrote to me on 23 February enclosing a draft passage on the Scheme which I might use in my Budget Speech.

Given the new information we have just received about the scale of the losses the Scheme is incurring, I do not think we should rush into any decision about its future and for that reason I do not now propose to refer to it in the Speech.

Our officials will need to examine carefully the expenditure implications both of the existing Scheme and of any extension we might consider. I suggest that we set this in hand immediately. They can then review the Scheme in the wider context of the finance and management problems of small businesses, as David suggests.

Copies of this letter go to the other recipients of yours.

Yours
Nigel

NIGEL LAWSON

10 DOWNING STREET

Prime Minister (2)

To see Robson Rhodes' conclusions on the Loan Guarantee Scheme. Even after 2½ years, RR are making rather strong criticisms of the participants – the borrowers, the banks and the accountants. The failure rate is high and rules it the cost to Government.

AT
24/2

A very depressing report.

MT

cc AO

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From the Parliamentary Under Secretary of State for Industry

Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
Treasury Chambers
Parliament Street
LONDON SW1

23 February 1984

Dear Nigel,

REVIEW OF THE LOAN GUARANTEE SCHEME

Officials will shortly be submitting a full report on the outcome of the current review of the Loan Guarantee Scheme, which in its present form is due to come to an end on 30 May or when the existing authority of £600m is used up. I expect to be writing to you and colleagues with our recommendations in March.

In case you wish to see them I enclose Robson Rhodes' report on a survey of 150 borrowers and their commentary on a telephone survey done by this Department.

Robson Rhodes' main report has looked very widely into the finance and management problems of small businesses and at the ability of the banks to make loans based on a proper commercial evaluation. Their recommendations therefore go much wider than the present structure of the Loan Guarantee Scheme. I have been receiving a good deal of evidence from other sources to support what Robson Rhodes say and I therefore regard it as essential to consider the future of the Scheme in a wider context.

The Robson Rhodes' reports are a valuable contribution and I see advantage in publishing them in due course so that their conclusions can be debated more widely. I understand that you would not want this to be done before the Budget but it seems inevitable that changes must be made to limit losses on the Scheme as soon as possible.

I also understand that you would like to announce a year's extension of the Small Firms Loan Guarantee Scheme to May 1985. I am having difficulties in financing the losses of the existing Scheme and an extension would add to them. It will be necessary to consider the future financing of the Scheme as a whole and my people will be in touch with yours as soon as we have firmer estimates. But it is clear that I cannot find the money for an extension from my existing estimates and PES provision.

If you are content to announce an extension of the Scheme on this basis I enclose a draft passage for your speech.

I am sending copies of this letter and of the reports to the Prime Minister and to the Secretaries of State for Northern Ireland, Scotland, Wales, the Environment and Employment.

Yours ever

David

DAVID TRIPPIER

Encs.

DRAFT PASSAGE FOR THE CHANCELLOR'S BUDGET STATEMENT

The Loan Guarantee Scheme has played an important part in improving the availability of medium term finance for small businesses throughout the country. The 3 year pilot Scheme which started in 1981 is due to end in May this year. I am glad to be able to announce that it is the Government's intention to maintain the Scheme in being for a further period with broadly the same objectives. The Scheme has been thoroughly reviewed based on a new study by the consultants Robson Rhodes which is to be published. The conclusions from that review are now being considered and will lead to modifications to some of the present features of the Scheme to improve its performance in relation to its objectives. The Government's conclusions on the review will be announced shortly. I am however able to announce today that the Government will continue to provide the funding necessary for the Scheme for a period ahead extending up to the end of the Financial Year 1984/5.

2. CONCLUSIONS

2.1 Nature of our conclusions

Our conclusions are drawn from a combination of analytical study, interview, structured - but subjective - judgement and opinions expressed to us and systematically recorded. Because of the size of the study, and because we visited 86 of the 94 surviving businesses, we have had a better base for our conclusions than for our previous study in 1982. That does not mean that our conclusions are necessarily proven, merely that they are founded on a large sample, thoroughly reviewed.

The banks emphasise, and we accept, that a study of 150 cases of borrowing under the Loan Guarantee Scheme does not necessarily offer ground for any wider comments than on Scheme lending.

2.2 Some general conclusions

2.2.1 The tenor, issues and content of our 1982 report are supported by this further study. We have noticed that our earlier report has been studied quite extensively by the banks - if centrally rather than by individual managers. That report has been useful and it is important that we can now re-affirm its conclusions.

2.2.2 Our study has led us to consider features of the way in which smaller businesses develop. During this study, and the last, we have looked at 198 businesses in depth. The Telephone Surveys have added evidence from a further 278. It is our view that the crucial managerial and financial elements of business growth - a sense of realism, an awareness of finance, determination, some commercial education, a rapport with banks and advisers - are not strong features of our society, which thereby does not foster smaller firms as they could be fostered.

RR
DRMP

2.2.3 **The small business.** Most of the proprietors of small businesses in our study did not know, when they came to apply for their Scheme loans, how to manage their businesses to the best advantage. They didn't know how best to assess and structure their financial requirements, nor did their bank managers. Business fragility was often compounded by the type of finance.

Once started many were uncertain as to how best to control their businesses, and some of the better ones devised means of their own rather than seek the benefit of external practical advice. Often their bank managers seemed reluctant to monitor regularly what happened to the business. Advisers, predominantly the accountancy profession, either were not asked, or did not offer, to assist; nor did they help anticipate the procedural and administrative problems which small firms encounter. We came across a great number of other people and organisations attempting to do good, but with limited impact.

We drew the broad conclusion that the banks and the professions have a great deal to do in order to assist small businesses constructively.

2.2.4 **The banks.** All the businesses had a very direct relationship with their bank. Equally the banks offer the single most direct route for influencing and contacting smaller businesses.

We met some very able bank managers. Most managers, however, did not see smaller business clients as worthy of the disproportionate attention which they can command. Many managers in the study saw the administration of their branch, and the volume of transactions through their branch, as precluding giving small businesses special attention. Where some of those managers found themselves faced with small businesses wishing to raise risk money, their ideas of how to cope were often limited and they quickly resorted to a Scheme loan.

On balance we think that all banks should have specialists to deal with small businesses, and to appraise the sort of proposals which look to the Loan Guarantee Scheme. We think it will inevitably be some time before the majority of general purpose bank managers will be experienced to assist properly with raising this money.

Many managers in our study were unclear as to how best to make use of the Scheme. We rather doubt that the Scheme has yet brought about as much of the educative process which we hoped for last year.

2.2.5 **The borrowers.** Setting up a business is somewhat non-conformist and small businessmen are not conformists generally anyway. They need active assistance and they need discipline in their businesses. They need to be assisted in understanding what help they require and what is available to them.

2.2.6 **The accountants.** Most borrowers had retained professional advisers, usually accountants, at some stage. The evidence is that the accountants usually only respond, they do not initiate. They are uninvolved with their clients. Those cases for which they helped prepare the presentations to the bank did not turn out to have better survival rates.

They do seem to have an increasing influence on choosing the LGS, and a minority saw advantages in the LGS for the wrong motives: a smart, risk-free deal for their clients regardless of need. The consequences of over-gearing did not appear to be considered.

RR
DRMP

2.2.7 **The market for funds** From this study the evidence is that the importance of the capital structure of a business, even a relatively small business, is not well appreciated by borrowers, their accountants or their bankers. There is still a need for equity, and very long-term capital, to be invested in those sorts of businesses for which the LGS currently provides quasi - equity. It seems to us that the demand in the market for funds is unbalanced and the supply inadequate for the right demand.

2.2.8 **The Scheme** It is our view that the Scheme still suffers from some early disseminated views amongst its users which did not build a sound understanding of its purpose. Those views do not stem from instructions or manuals but seem to relate to opinions prevalent at the time of the Scheme's introduction.

2.3 Borrowers and their proposals

Borrowers under the Scheme are mostly quite unskilled at controlling their businesses - even when they have been running them for some years. Those who were part of this study, and had set up new businesses, by and large lacked some important skill as part of, or available to, their management team. The most frequent need was for financial control and administration. Some managed to acquire that skill in time, others did not recognise the need almost to the day their businesses failed. The most successful, and now well established, survivors achieved their success by great determination and a drive and acumen which was very clear to see. That drive was only evident in a minority of cases.

Proposals for finance were poorly put together. It may be that a higher standard of expectation from banks would discourage borrowers, and their professional accountants, from assembling poorly thought out proposals. Few were competently constructed from a base of likely elements and assumptions. Fewer were a first step in a continuing process of business control: forward view, plan, budget, compare achievement.

The minimum requirement, a cash flow statement (often suspect because it was not based on a budget for trading), was commonly all that was provided. In ten cases we believe even that was not provided. (The rules of the Scheme require a cash flow statement to be prepared). Often we saw little to demonstrate realistic assessment by the borrower of his project or business: proposals were gambits in the one-off exercise of raising money.

2.4 **Banking practice and attitudes**

Bank managers lending in this study were doing so more often than not as if the proposal were one transaction and not part of the development of the business. The considerations of lending to the future of a business are not often recognised. Some bank managers will argue reasonably that their role is not to lend in that fashion anyway. Perhaps only a minority of bank managers are suited to lend at the fringe of commercial prospects where they can only hope to obtain a yield on term money, without the prospect of any capital gain compensating for risk.

Appraisals. We said last year that appraisals for Scheme loans needed to be different from those for normal bank lending because the viability of the business is more important than the security offered. Security never made a bad proposition good, and should never permit weak appraisals. We see poor appraisals lying at the heart of not only many failures but also the problems which struggling businesses suffer when wrongly financed. We concede that, for the banks, this form of appraisal may be a minor activity, and the business of lending for a yield does not create the climate in which the bank is going to prefer managers who can assess risk over those who seek security.

But it is impractical to say that clearing banks should not become involved in lending for the future of risky businesses if it is intended that those businesses should have access to finance. Something like 13,000 loans have been made under the Scheme. Many more thousands of small businesses start on overdrafts or tenuously

secured loans backed by further personal security. The venture capital companies could not cope with that volume of business - and most of it is too mundane for them anyway: the prospect of profit, and the size of the proposals, would be insufficient. The funding must lie with the banks.

We have discussed whether, to improve appraisal skills, the banks might like to identify those of their staff specially competent to appraise these types of propositions and concentrate the appraisal of Scheme loans with those managers. The banks do not consider it practical to deal with proposals, and their appraisal, in any other way than the present arrangement of local managers processing the application through area office sanctioning officials.

Most of the lending we studied had initially been appraised fundamentally on an important, but subjective, assessment of character and the apparent credentials of the proprietors, rather than on the viability and prospects of the business.

Bank area offices, on the other hand, tend to make a better job of sifting and appraising proposals. Managers are finding their questioning tougher.

How much, how long? Most small businesses need time to develop. They need better management and more funds, for longer than they originally anticipate. Most of the managers in this study lent the amount suggested in the proposal (or, critically, less) based on the time scale of development set out in that proposal.

Managers' view of the Government guarantee. From our studies we believe that in many cases 80% of the money lent under the Scheme, although lent by the banks, is seen by the managers as 'the Government's money'. The managers seek in their appraisals to feel secure about 'our 20%' rather than to appraise the business for the whole loan. When under pressure on their lending record we believe that many bank managers turn not towards more thorough appraisals, but to more security.

RR
DRMP

Alternative finance. The banks locally, and their customers, are surprisingly ignorant of the range of different sources of finance for a business and the lending institutions available. Those alternatives might not replace Scheme loans, but would often assist the more demanding cases to be better structured: by using equity, conventional loans and overdrafts, local grants or a combination of the three.

2.5 Choosing the Scheme

There is, inevitably, increased awareness of the Scheme on the part of borrowers and their advisers. For both borrower and banker the Scheme has attractions as a substitute for other finance. The banker, from his side, is partly relieved of his major decision - his concern about security. Nevertheless the Scheme often is the only route for many borrowers.

In institutional lending the Scheme has a role in reducing the institution's risk until that is balanced by their assessment of reward, and sometimes, as a further advantage, it permits the institution to lower its demand for an equity stake until its proposal is acceptable to the borrower.

Additionality. Most bank managers do not understand the concept as it is seen by the Government. Though they, and the public, may never have heard the word, they should have been aware of the idea behind the Government's guarantee - that, by its provision, the Government sought to make happen a volume of lending to viable businesses which would not otherwise have happened. Less than half Scheme loans are now assessed as 'additional' (see our commentary on the Telephone Survey of borrowers). Our analysis of the sample for this study shows a slightly better proportion.

Other lending and guarantees. There remains a not very significant, but very irritating, run of cases in which the borrower has abused the Scheme. More frequently, but still in a small number of cases, the consequence of bank action has been against the spirit of the Scheme allowing the Government to stand in for someone else's previous risk, including the bank's. Section 11 analyses these cases a little further.

2.6 **Business management information**

Management information, so as to be able to run a business, is almost the last thing the borrowers think about. It is woefully lacking even amongst surviving businesses.

2.7 **Features of survival**

The acumen of the proprietors and their practical, immediate control over the business, its operating margins and its cash, are amongst the leading features in our analysis of surviving businesses in Section 13.

This study has brought out examples of the features, illustrated in our last report, of new businesses not only running at losses in their early periods of trading but needing far more cash, as trade increases, than they anticipated. Examples also illustrate the loss of nerve by bankers when more cash is required than they expected.

2.8 **Features of failure**

High break-evens, high gearing and low margins feature in this study as in last year's. We contrast the evidence on survivors and failures which to some extent shows that businesses borrowing under the Scheme are, inevitably, very fragile anyway and usually weak in several respects. However we think the correlations leading to the contrasts set out in Section 14 show pertinent as well as interesting features of failure. Even allowing for the magic of hindsight, the features of failure are very apparent.

2.9 **Monitoring by the banks**

Current account monitoring (setting some limits of behaviour on the current account so that the manager is alerted when they are exceeded) remains the widespread method of customer monitoring. In our two studies we have looked at 198 individual cases which have been selected to be representative of various aspects of the Scheme, and not of bank managers. However it is our opinion that the study indicated that there is a large number of managers who feel uncomfortable with financial and management accounts.

Some regular management information was requested in about half the cases, but only supplied in about one-third of cases. Few managers chased promptly if they didn't receive what they asked for. Only a few managers anticipated failure early enough to try to do something useful. Few managers were in any position to give constructive advice. We are convinced that closer monitoring of small businesses is an area well worth the banks' while trying to improve, in their own interests, if that can be done cost effectively. It would also bring some disiplined routine to some of the borrowers.

2.10 **Advice to businesses**

Constructive, involved advice was rarely found in the cases of this study. We found a virtual absence of marketing help and very few people giving practical, financial accounting and administrative help. The principal role of financial advisers (usually accountants) was firstly to lend credibility to about half the proposals and thereafter to play a reactive and compliance role. Almost all borrowers found an accountant eventually. Less than a quarter said they turned to them for practical advice in their business. Only one in twenty said they had sought and received practical advice from the Small Firms Service: some seemed only hazily aware of that service.

2.11 **Economic benefits**

We formed some brief views of the economic benefits generated by the firms we studied. As it stands the Scheme may be incidentally not too expensive a way of financing jobs (Section 17).

2.12 **Administration**

On the administration of the Scheme, we would not suggest much change because the simplicity of relationships and roles between the Department and the banks works well. We do suggest a development of the declaration signed by the bank manager on each application form. We think the borrower also should make a declaration about himself. We hope our suggestions in Section 18

will lead to ways in which the declarations will strike home more strongly than do the current paragraphs of the application. That in turn might encourage more rigorous self-regulation.

We think better descriptive guides on the Scheme might help both banks and borrowers: there are some curious impressions at large.

We have discussed during our study the option of a simple straight monthly repayment by the borrower encompassing principal, interest and premium. The banks see disadvantages administratively and in ensuring that premium payments and charges have always been met.

2.13 **Recovery**

Recovery after failure raises two problems. First, overall recovery on debts looks like being less than 15% of outstanding loans, gross of recovery costs, on our sample, and lower still overall. The net proceeds of recovery are shared 80:20 between the Department and the banks. Initiative on recovery must lie with the banks and it just may not be worth the effort and cost of collection to the banks for their 20%. We know of only one institution which has a policy of giving every failure a burial. Secondly, most managers in the sample view the loss in terms of the bank's 20%.

There have been arguments on priority of recovery, treatment of interest and recoveries under personal guarantees, but it would seem that these matters are resolved as they arise.

2.14 **Failure rates**

Our combination of bank statistics indicates a failure rate, so far, on 1981 lending of about 1 in 3 loans. We have compared the trends of our statistics from last year with this year. There are indications of an improvement in 1983. The rates of failure in recent months are not increasing quite so rapidly as in the comparable period last year. Section 20 is devoted to more detail on this topic.

It is important to appreciate how we are expressing these failure rates. We have identified the latest reported numbers of business failures with the months in which each loan was made. We have concluded that after 2½ years in operation one in three of the earliest loans are now proving to have been made to businesses which have since failed. Last year we estimated one in five of initial loans as failures.

This way of expressing failure rates is not as loan failures would be stated in bank reports. There, the amount with the recovery department would be expressed as a proportion of the total loan book and banks would normally report in terms of the bad debts provided as a percentage of the total loan book. So on current evidence one in three would eventually be reported as 5% to 6% of the bank loan books.

We have made our own estimates of the net cost of failure to the Government. At a rate of 1 in 5 we estimate the cost at £17m., or slightly more, per annum. At 1 in 3 we would expect £30m., or slightly more, to be the cost. Perhaps around £25m. per annum might be expected.

The banks have pointed out to us that they consider they are also net losers under the Scheme, on present failure rates - and certainly so if a contribution to staff time is sought.

2.15 **The future: Some specific points**

Since our last report we have noticed heightened central awareness in the banks about some of the difficulties they face in lending under the Scheme, and about some of the points we brought out last year. That same level and detail of awareness had not yet filtered down the line to the majority of managers we met - 145 out of 13,000 or so bank managers 'in the field'. Nevertheless rumours of a 'tightening up' in early 1983 seem to be broadly supported by local comment and discussion.

The opportunity to offer suggestions for guidance on the future of the Scheme is an opportunity to talk about the problems of supporting smaller businesses and the role of the Scheme in that. We think the Scheme has a useful role.

We do not abandon our suggestion, offered for discussion last year, that the guarantee proportion could be 70:30 instead of 80:20. We leave the matter for discussion rather than as a recommendation and some of that discussion is offered in Section 21.

We think that any moves to tighten up on appraisal techniques and the appreciation of viability, sensitivity, and management information systems of small businesses would be generally constructive and helpful to the small business community. Some of the banks are further developing their Business Advisory Services; all are aware of our views but do not agree that developments flowing from the Scheme need be administered by local area office specialists on smaller firms.

Various measures to protect the Government's interests are suggested in Section 21, such as banning reconstruction of loans, even when taken on from another bank, by use of the LGS. We also suggest that the borrowers should sign a declaration reflecting the spirit of the Scheme.

We suggest that the occasion might be opportune for the banks and the Small Firms Division to use their liaison and good working relationships to agree that the banks will seek to encourage managers to obtain better and more appropriate financial information at the time of lending. We suggest some requirements in Section 21.

We also suggest that the Department and the banks could collaborate on improving knowledge of the plethora of organisations now operating to help smaller businesses.

RR
DRMP

We would very much like to discuss our studies in much greater detail with the banks and see how the experience of this study can be disseminated to the advantage of small business lending nationally.

2.16 **The future: A general point**

The distillation of our findings leads us to appear to criticise. We are critical of all parties involved with smaller businesses, including the businesses themselves, in this report. There is a special skill in nurturing small businesses - managerially, with money or with expertise. That special skill is an attitude as well as a technique. That attitude needs to be fostered throughout our education and our society, not just with the banks and professions whose shortcomings tend to be picked out in this report. We hope this report will be a useful contribution to fostering that attitude.

Prime Minister ②

AT 17/2

CABINET OFFICE

From the Minister of State

Lord Gowrie

MANAGEMENT AND PERSONNEL OFFICE
Great George Street
London SW1P 3AL
Telephone 01-233 8610

MT

The Rt Hon Norman Tebbit MP
Secretary of State for Trade and
Industry
1-19 Victoria Street
London SW1H OET

16 February 1984

Dear Norman,

ADMINISTRATIVE AND LEGISLATIVE BURDENS ON SMALL FIRMS

I have seen a copy of your minute of 6 February to the Prime Minister reporting on the Department of Trade and Industry's activities in respect of small firms.

I would just add one point about the timing and likely content of the report on the current Multi-Department Review of government contract and procurement procedures. The review is scheduled to finish at the end of March. Not all the departmental studies are yet completed, so it is still too early to assess the evidence of the examining officers or to say for certain what the central review team will conclude. The main emphasis of the report, however, is likely to be on ways in which government departments can obtain better value for money in procurement. Encouraging industrial competitiveness is an important factor in this. The central team's recommendations in respect of small firms are likely to focus therefore on ways of removing aspects of the current procedures that may disadvantage small firms in gaining access to government business. The team are unlikely to recommend any preferential treatment for small businesses, a conclusion with which I am sure you agree.

As regards forms, David Trippier showed me last December the charts of the steps required to set up a new business and to take on employees. Many people must find daunting the forms and procedures imposed on them by central and local government.

I was surprised to discover from David that some feel it necessary to pay for professional advice simply because the paperwork is so difficult to follow. I am glad David is urging colleagues to give this priority under the forms review. This is a practical way to make progress within existing procedures, and I should be interested to learn what action departments have agreed to take.

Copies of this letter go to the Prime Minister, Quintin Hailsham, Nigel Lawson, Patrick Jenkin, Norman Fowler and Tom King.

Yours,

T/G

LORD GOWRIE

Gen PO: Small Firms pt 4.

Ful

10 DOWNING STREET

From the Private Secretary

9 February 1984

ADMINISTRATIVE AND LEGISLATIVE BURDENS ON SMALL FIRMS

The Prime Minister was grateful for your Secretary of State's report on progress made in reducing the administrative and legislative burdens on small firms. She was able to draw on this in preparing her speech to the Small Business Bureau. She regards this initiative as still unfinished and hopes that the momentum will be maintained.

I am copying this letter to Richard Stoate (Lord Chancellor's Office), John Kerr (HM Treasury), John Ballard (Department of the Environment), Steve Godber (Department of Health and Social Security), David Norminton (Department of Employment) and Mary Brown (Lord Gowrie's Office).

AT

Callum McCarthy, Esq.,
Department of Trade and Industry.

Prime Minister (2)

We have incorporated as much of this as we can in the SBB speech though it does not take us far forward.

AT 7/2

JH 778

PRIME MINISTER

ADMINISTRATIVE AND LEGISLATIVE BURDENS ON SMALL FIRMS

You agreed on 7 November last that David Trippier should go ahead with a review of further progress which might be made on reducing administrative and legislative burdens on small firms. I asked David to report back by the end of the year and have given him the go ahead to pursue the potential action points he has identified following a series of meetings he has held with Ministerial colleagues. I believe it is important that our commitment to the small firms sector is clearly seen to be maintained.

2 You asked to be kept in touch with progress. This is an opportune moment to summarise the main areas we are working on, since you will be speaking on 8 February to the national conference of the Small Business Bureau where the issue of burdens will inevitably be raised.

3. The following areas are being pursued by officials, with further bilateral Ministerial meetings as necessary:-

Employment Legislation

The scope for significant further exemptions for small firms from employment protection is being examined, in relation particularly to unfair dismissal procedures. Also, we are

ensuring with the Department of Employment that both our and their guidance material to employees on employment law and business support is as effective as possible.

Statistics

Your own initiative on statistical requirements through CSO has already reduced burdens on employers, and complaints to this Department are fewer. However, as the structure of industry changes and develops, I want to ensure that genuine need for new information does not result in a net increase of requirements on firms. Also that the most effective explanations of survey purposes are given to sampled employers.

Tax Collection and Procedures

Inland Revenue are keen to improve guidance and advice to employers, and officials here will continue to assist and suggest potential improvements. As you know, this is an area where many small firms feel strongly the work they do on behalf of central Government is inadequately recognised and recompensed.

Planning

Planning procedures have been speeded up and DOE circular 22/80 helped encourage flexibility among local authorities

in approving small business developments. We shall pursue with DOE how best to keep the momentum going and how also to encourage local authorities to make their requirements clear and straightforward to business people.

Litigation

It is a matter for concern that a small employer can often find in a dispute that, although he wins his case and acts with complete rectitude, he ends up out of pocket, not to mention the cost of his time in taking a case to court. The Lord Chancellor is of course well aware of this complaint. Officials are seeking further hard evidence to feed into the Lord Chancellor's review of the whole area of litigation.

Public Procurement

I am encouraged that we can make some progress towards improving the access of small firms to public contracts particularly as a result of Grey Gowrie's recent review of procedures. A lot of work is in hand to take this further.

Administrative Forms and Procedures

Officials have prepared flow charts of all that business people have to go through in setting up and in taking on an

employee. With Grey Gowrie's support David Trippier is urging colleagues to give priority to reviewing these procedures in the context of the regular reviews of administrative forms.

The advice we are collecting from small firms organisations on the "sticking points" in the system should help us improve our own advisory and support material.

Repackaging of Schemes

As you know, I am already working on how most effectively to simplify the many support schemes available from this Department so they are clearly presented with straightforward application procedures. This will be of relatively greater value to the hard-pressed small firm and you will be talking about it to the SBB Conference.

4 As you pointed out when we began this review of burdens, the process has to be on going, with Ministers always alert to ensure small firms are not disproportionately disadvantaged. I do believe that we must show firm Ministerial commitment and that this review, with your support, has given valuable added push to getting things moving.

5 I am copying this summary to Quintin Hailsham, Nigel Lawson, Patrick Jenkin, Norman Fowler, Tom King and Grey Gowrie.

NT

N T

6 February 1984

Department of Trade and Industry

Eron Vol
Small Fires
Pt. 4

CONFIDENTIAL

cc NO

NDAM AT 16/12

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Norman Tebbit MP
Secretary of State for Industry
Department of Trade and Industry
1 Victoria Street
LONDON
SW1E 6RB

16 December 1983

Dear Secretary of State

REPACKAGING OF DEPARMENT OF TRADE AND INDUSTRY SCHEMES

WITH AT ?

I was reassured - as no doubt you intended - by the reference in your minute of 12 December to public expenditure constraints. Certainly I have no wish to impede a more positive presentation of your schemes provided this does not endanger your expenditure ceilings.

Copies of this go to the Prime Minister, the Lord President, the Chancellor of the Exchequer, and the Secretaries of State for Scotland and Wales.

Yours sincerely

Jon Grieve

for PETER REES

[Approved by the Chief Secretary]

CONFIDENTIAL

FILE

RW

B/C: MR OWEN

10 DOWNING STREET

From the Private Secretary

13 December, 1983

REPACKAGING OF DEPARTMENT OF TRADE AND INDUSTRY SCHEMES

The Prime Minister has seen your Secretary of State's minute of 12 December which she has noted without comment.

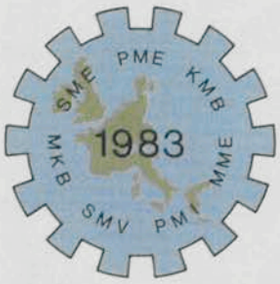
I am sending a copy of this letter to Janet Lewis-Jones (Lord President's Office), John Kerr (HM Treasury), John Graham (Scottish Office) and Colin Jones (Welsh Office).

(A. Turnbull)

Callum McCarthy, Esq.,
Department of Trade and Industry

RW

THE SCOTTISH DEVELOPMENT AGENCY
AND THE NATIONAL ORGANISING COMMITTEE OF THE
EUROPEAN YEAR OF
SMALL AND MEDIUM SIZED ENTERPRISES
1983 (EYSME)



AN INQUIRY

by leading European economic experts
from the European Community
into major small business programmes
in the United States and Japan

EDINBURGH

Mon. 18 Oct '83

EYSME SCOTTISH PRESIDENT
THE RT HON GEORGE YOUNGER MP

EDINBURGH STUDY CONFERENCE

PROGRAMME

3.30 a.m.	Chairman's introduction (Ballroom)
8.50 a.m.	US Congressional perspective on Small Business

Financial Programmes

Regular Business Loans
Small Business Investment Companies
Secondary Market

Government Procurement & Assistance

Small Business Set-Asides
Subcontracting Opportunities
Procurement Source Search
S.B.I.R.s

Office of Advocacy

General Policy of Advocacy for small business
Small business Ombudsmen

16.00 p.m.	Chairman closes session.

EUROPEAN YEAR OF SMALL & MEDIUM SIZED ENTERPRISES 1983 (EYSME '83).

EDINBURGH STUDY CONFERENCE - 18th NOVEMBER 1983.

INTRODUCTION - AN INQUIRY into major Small Business Programmes.

The UK's National Organising Committee of the European Year of Small & Medium Sized Enterprises are delighted to be associated with the Scottish Development Agency by jointly sponsoring this second major conference in the UK as part of their contribution to the European Commission's ten country programme. The first conference at Lancaster House successfully launched the EYSME Year and many small firms themselves expressed views on the business climates which inhibit or even mitigate against them. These are recorded and the European Community Action Programme to be presented in Strasbourg embraces many of their problems.

Now, in Edinburgh, representatives of larger firms or institutions have a chance to inquire into the climate which exists in the most successful small business economies in the World - USA and Japan. We have chosen a "select committee" type of inquiry in the hope that as much analysed fact can be established and recorded, particularly in the areas which effect the relationship between large and small firms. ie Government procurement, financial funding etc.

The session will be continuous, refreshments will be served to the committee in situ and observers can collect theirs and return to their seats as convenient. A grammatically edited verbatum record of the inquiry will be available by the 7th December.

The EYSME Committee is indebted to the Principals of the SBA in Washington, Messrs. James Saunders and Frank Swain, for the interest they have taken in our Inquiry. They have spared no effort to make sure that we have full authorative information. It says much for the 'Non political' attitudes of successive administrations that Mr Saunders is pleased that Mr Vernon Weaver will speak about the SBA.

Mr A. Vernon Weaver, Administrator of the US Small Business Administration, under President Carter, learned first-hand of the problems and opportunities small business owners face when he was 16 years old, when he started working for his father's Southern Venetian Blind company in Miami. As SBA Chief, he oversaw 106 offices across the country, 4,450 employees and a $179 million budget which includes $30 million for disaster relief.

Mr Weaver's career has spanned the fields of manufacturing, sales, investment and insurance. He is at present a director of the Democratic Party's Small Business Council and is John Glenn's Small Business Advisor.

Representing the US Congress is Mr Robert Dotchin, Staff Director of the Senate Small Business Committee, which has compaigned for SMEs in the US for thirty years.

Senior SBA officials who will also take the stand during the day are:

Charles A. Cadwell, Director of Inter-Agency Affairs, Office of Advocacy.

Edwin Holloway, Administrator of Finance and Investment.

Peter Terpeluck, SBA Regional Administrator, N.E. of USA.

From Japan will be Mr Hiroshi Tanaka, Chief Representative of the Shoko Chukin Bank.

EUROPEAN YEAR OF SMALL & MEDIUM SIZED ENTERPRISES 1983

EDINBURGH CONFERENCE

INQUIRY COMMITTEE

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Mr John Redwood	Director of N.M. ROTHSCHILD ASSET MANAGEMENT LIMITED: NUMBER 10 Policy Advisor
Mr David Trippier MP	Under-Secretary of State, DEPARTMENT OF TRADE & INDUSTRY

Monsieur Jacques Van Melckenbeke	Advisor to the CONFEDERATION NATIONALE DE LA CONSTRUCTION, Belgium; Member of the ECONOMIC & SOCIAL COMMITTEE
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Michael Williams	Director, NCR LIMITED; Specialising in JAPANESE BUSINESS AFFAIRS
Brian Wright MBE	Director, LENTA (LONDON ENTERPRISE AGENCY).

EUROPEAN YEAR OF SMALL & MEDIUM SIZED ENTERPRISES 1983

EDINBURGH CONFERENCE

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Ms Marion Bieber	Director, ECONOMIST CONFERENCE UNIT
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Mr Stanley A. Budd	Representative for Scotland, EUROPEAN COMMISSION
Mr James Byers	Business Development Manager, ROYAL BANK OF SCOTLAND
Charles A. Cadwell	Director, Inter-Agency Affairs, Office of Advocacy, US SMALL BUSINESS ADMINISTRATION
Mr Peter Carmichael	Director, Small Business and Electronics Division, SCOTTISH DEVELOPMENT AGENCY

Mr Colin Dauris	Vice President, UIAPME
Mr Noel Dearing	Manager, Small Business Section NATIONAL WESTMINSTER BANK PLC
Robert Dotchin	Staff Director of the US SENATE SMALL BUSINESS COMMITTEE
Mr Frank de Groot SFA	Chairman, Irish EYSME Committee.
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Mr Roger Harris	Vice Chairman, UNION OF INDEPENDENT COMPANIES
Mr Robin Heal	Manager, Community Projects, BRITISH PETROLEUM PLC
Monsieur Robert Holtz	Chairman, FEDERATION INTERNATIONALES DES PETITES ET MOYENNES ENTERPRISES INDUSTRIELLES
Sir John Hoskyns	Head of Prime Minister's POLICY UNIT, 1979-82
Ms Janis Hughes	ECONOMIST ADVISORY GROUP
Mr Grenville Jackson	MID-WALES DEVELOPMENT
Mr Peter Jackson	Manager, Small Business Unit, BARCLAYS BANK PLC
Mr Brian Jenks	TOUCHE ROSS & CO
Mrs Nicky Joyce	President, BRITISH ASSOCIATION OF WOMEN EXECUTIVES
Dr. B. Juby	National Chairman, NATIONAL FEDERATION OF SELF-EMPLOYED & SMALL BUSINESSES LIMITED
Mr Owen Kemmis	Assistant Secretary, Small Firms Division, DEPARTMENT OF TRADE & INDUSTRY
Mr John Kirkwood	Small and Medium Business Finance Advisor, LLOYDS BANK PLC
Mr John Lewis	IBM (UK) LIMITED Manager of Community Programmes
Dr Gunter Link	BAVARIAN MINISTRY FOR ECONOMICS AND TRAFFIC

Herr Werner Lutz	GROUPEMENT DES CAISSES D'EPARGNE DE LA C.E.E.
Mr George Mathewson	Chief Executive, SCOTTISH DEVELOPMENT AGENCY
Ms Anna McClelland	Group I, ECONOMIC & SOCIAL COMMITTEE
Mr John McCracken	Resident Director, Scotland and Northern England, IBM (UK) LIMITED
Mr Diarmid McLaughlin	Director of the Secretariat, ECONOMIC & SOCIAL COMMITTEE
Mr Alan McPherson	Private Secretary to the Secretary of State, SCOTTISH OFFICE
Ian MacGregor	Chairman, NATIONAL COAL BOARD
Mr Stan Mendham	Chief Executive, FORUM OF PRIVATE BUSINESS LIMITED
Mr Neil Menzies	IMPERIAL CHEMICAL INDUSTRIES (ICI), Scotland
Mr Peter Meredith	ARTHUR YOUNG McCLELLAND MOORES & CO
Mr John Moorhouse	Head of Small Business Department, SHELL (UK) LIMITED
Mr Martin Morton	Smaller Firms Division, CONFEDERATION OF BRITISH INDUSTRY (CBI)
Mr Patrick Murphy	Assistant General Secretary, FEDERATION OF RURAL WORKERS OF IRELAND; Member of the ECONOMIC & SOCIAL COMMITTEE
Mr William Nicoll	Director General, COUNCIL OF THE EUROPEAN COMMUNITIES

Mr Gerald O'Brien OBE	UNION OF INDEPENDENT COMPANIES
Mr Donald O'Brolechan	I.D.A. Ireland
Mr John Ormiston	President, EUROPMI
Miss Sue Palmer	Business Development Manager, ICFC, (INDUSTRIAL & COMMERCIAL FINANCE CORPORATION LIMITED)
Dr V. Papandreou	Chairman, Greek EYSME Committee.
Mr Ian Paterick	Manager, Inner Cities, Business Development Division, MIDLAND BANK PLC
Mr Brian Philp	SCOTTISH ECONOMIC PLANNING DEPARTMENT Industrial Development Division
Mr James Picken	Company Secretary, SINGLETON HOLDINGS LIMITED
Mr Bill Poeton	Convenor, UK EYSME Committee. Member of the ECONOMIC & SOCIAL COMMITTEE
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Mr John Redwood	Director, N.M. ROTHSCHILD ASSET MANAGEMENT LIMITED: Policy Advisor at NUMBER 10
Mr Alleyne Reynolds	Managing Director, BAT INDUSTRIES SMALL BUSINESSES
Mr Ralph Risk	ARTHUR YOUNG McCLELLAND MOORES & CO
Herr H.A.M. Ross	Chairman, Dutch EYSME Committee.

Mr Derek Sach	Divisional Director, ICFC (INDUSTRIAL & COMMERCIAL FINANCE CORPORATION LIMITED)
Mr James Saunders	Director, International Forum, SCOTTISH COUNCIL OF DEVELOPMENT & INDUSTRY
Mr Michael Schluter PhD MS BA (Hons)	Research Fellow, INTERNATIONAL FOOD POLICY RESEARCH INSTITUTE
Mr Leslie Seeney	Director General, NATIONAL CHAMBER OF TRADE
Sir George Sharp OBE	Chairman, GLENROTHES DEVELOPMENT CORPORATION; Member of the ECONOMIC & SOCIAL COMMITTEE
Mr Donald Stearns	General European Counsel, US NAVY DEPARTMENT, London
Sir Jack Stewart-Clark MEP	Hon. Treasurer, UK EYSME Committee.
Mr Hiroshi Tanaka	SHOKO CHUKIN BANK Representative
Peter Terpeluck	Regional Administrator for the North East of the US, US SMALL BUSINESS ADMINISTRATION
Mr George Tzoanos	EUROPEAN COMMISSION
Mr David Trippier	Under-Secretary of State, DEPARTMENT OF TRADE & INDUSTRY
Monsieur Jacques Van Melckenbeke	Advisor to the CONFEDERATION NATIONALE DE LA CONSTRUCTION, Belgium; Member of the ECONOMIC & SOCIAL COMMITTEE
Sir Charles Villiers MC	Director, BRITISH STEEL CORPORATION (INDUSTRY) LIMITED

Herr H. Voigt-Petersen	Chairman, Danish EYSME Committee.
Mr D.W.B. Walker	Finance Director, BEN LINE STEAMERS LIMITED
Mr Vernon Weaver	Former Administrator US SMALL BUSINESS ADMINSTRATION
Mr Michael Williams	Director, NCR LIMITED; Specialising in JAPANESE Business Affairs
Mr Russ Wilson	Project Manager, Small Business Section, NATIONAL WESTMINSTER BANK PLC
Mr Brian Wright MBE	Director, LENTA (LONDON ENTERPRISE AGENCY)
Rt Hon George Younger MP	Secretary of State for SCOTLAND; Scottish President, UK EYSME Committee
Herr Klaus Zwart	Student, THE NETHERLANDS.

EUROPEAN YEAR OF SMALL & MEDIUM SIZED ENTERPRISES 1983 (EYSME '83).

EDINBURGH SESSION - 17-18th NOVEMBER 1983.

CONFERENCE BRIEF.

FINANCIAL PROGRAMME

Notes

Regular Business Loans - SBA offers a variety of loan programmes to eligible small business concerns which cannot borrow on reasonable terms from conventional lenders without government help.

In 1983, the total number of SBA loans approved (direct and guaranteed) amounted to 16,764, totalling $2.6 billion. From 1954 to 1983 the total number of SBA loans approved was 378,849 totalling $32.8 billion.

Guaranteed Loans. Most of SBA's business loans are made by private lenders and guaranteed by the Agency. Guaranteed loans carry a maximum of $500,000 and SBA guarantees of the loan run as high as 90%. Maturity may be up to 25 years. The average size of a guaranteed business loan is $155,000 and the average maturity is about eight years. A guaranteed loan can not be made unless the private lender (usually a Bank) refuses to make the loan without an SBA guarantee.

Direct Loans. A few business loans are made directly by SBA up to an administrative maximum of $150,000. SBA, under law, cannot consider making a direct loan unless a private lender (usually a bank) refuses to make a loan itself or take part in a SBA guaranteed loan. Funds authorised for direct loans are invariably limited, and demand usually exceeds supply.

Notes

Small Business Investment Companies (SBICs). Money for "venture" or "risk" investments is difficult for small businesses to obtain. SBA licences, regulates and provides financial assistance to privately owned and operated Small Business Investment Companies (SBICs). Their major function is to make "venture" or "risk" investments by supplying equity capital and extending unsecured loans and loans not fully collateralised to small enterprises which meet their investment criteria. SBICs are privately capitalised and obtain financial leverage from SBA. They are intended to be profitmaking corporations. Due to their own economics, most SBICs do not make very small investments.

SBICs finance small firms in two general ways - by straight loans and by equity-type investments which give the SBIC actual or potential ownership of a portion of a small business' equity securities. Many SBICs provide management assistance to the companies they finance. SBIC programme financing from 1973-1982 amounted to 19,847 loans totalling $2.2 billion.

Secondary Markets. Perhaps the most important development in the United States' financial arrangements for long-term funding of small business is the Secondary Market.

Under this arrangement the Bank making the SBA guaranteed loan, with a Government SBA guarantee of up to 90%, issues a new Certificate which covers only the guaranteed portion of the loan. This Certificate becomes an instrument of the Secondary Market and this instrument is then sold to an investor, be it a Pension Plan, an individual or anyone else who is in the market to buy a 100% guaranteed Government instrument with a slightly higher yield than a Government Bond.

The significance of this arrangement is two fold : i) The Bank, since it sells off 90% of the loan it has made, recovers this money to re-lend to someone else. Since the Bank charges its collection fee based on the entire loan, but has only 10% of the loan in its own funds, the Bank's profit margin is increased dramatically - as high as 30%! The Bank therefore has an incentive to make more small business loans and to make these loans for a longer term. ii) The institutional or individual buyer of the Secondary Market Certificate channels funds to small business lending that would otherwise be invested in big business or US Government obligations.

EUROPEAN YEAR OF SMALL & MEDIUM SIZED ENTERPRISES 1983 (EYSME '83).

EDINBURGH SESSION - 17-18th NOVEMBER 1983.

CONFERENCE BRIEF.

PROCUREMENT & TECHNICAL ASSISTANCE PROGRAMMES. Notes

The US Government is the World's largest buyer of goods and services. Purchases by military and civilian installations amount to about $150 billion a year, ranging from complex space vehicles to paper clips, janitorial services to cancer research. In short, the government buys just about every category of commodities and services available.

The US Small Business Administration (SBA) has the responsibility of making certain that small business obtains a fair share of government contracts and subcontracts. This mission is spelled out in the Small Business Act of 1953.

In the United States the Small Business Administration works closely with purchasing agencies of the Federal Government and with the Nation's leading contractors in developing policies and procedures that will lead to a greater number of contracts for small business.

At the same time, SBA provides a wide range of services to small firms to help them obtain and fulfill Government contracts and subcontracts. Major ways in which the SBA helps small firms within the agency's procurement assistance programmes include:- Set-Asides, Subcontracting, Certificates of Competency, Technology Assistance, Property Sales, Procurement of Source Search.

Small Business Set-Asides. The Small Business Administration has developed cooperative programmes with major government purchasing agencies under which proposed purchases are reviewed by their

purchasing officials and suitable items are then earmarked for set-asides, totally or in part, for small business bidders.

Purchases not reserved by purchasing officials for small business bidders are subject to review by SBA Procurement Centre Representatives who may initiate a set-aside if they are able to demonstrate adequate small business competition on the items being purchased.

Total set-asides are made when there is a reasonable expectation that bids or proposals will be obtained from a sufficient number of small firms so that awards can be made at reasonable prices for the product or service. When a proposed purchase is totally set aside, the entrie acquisition is restricted to small business bidders.

SBA specialists also seek set-asides on portions of proposed purchases. These "partial set-asides" permit small firms to participate on a competitive bid basis in a prime contract which would be too large for the individual small business.

On large, complex acquisitions which small firms cannot handle alone, SBA specialists attempt to isolate components which small firms can produce. They then ask the buying agency to purchase such components separately on a competitive basis. Some of such purchases are also set aside for small business.

On any purchase where additional competition is needed, SBA whenever possible, furnishes contracting officials with the names of capable firms interested in bidding on the particular purchase. When specifications are unduly restrictive, SBA attempts to have them modified so that small firms may compete.

Subcontracting Opportunities. SBA assists small business in many areas of contract acquisition. Of major importance is the Subcontracting Assistance programme. Each year, billions of dollars of acquisitions are made with prime contractors who in turn subcontract billions of dollars. SBA's Subcontracting Assistance programme endeavours to increase the percentage and dollars of subcontract awards to small business.

The effort is particularly important because it presents an additional avenue for small business participation in Federal acquisition. Small business has the proven capability to provide services and components for large business system contractors under Department of Defence or civilian agency contracts.

All Federal government contracts in excess of $500,000 require the contractor to designate within the company or division a small business liason officer to represent the interest of small business for subcontracting. The SBA reviews and evaluates the company's policies and procedures as they affect small business and the results thereof.

It is the responsibility of the large prime contractor's small business liason officer to assist small business to become qualified on the company bid lists and to assist the small business in meeting the buyers for the large contractor's services or goods.

SBA's Subcontracing Specialists maintain close liason with the major prime contractor purchasing officials and often recommend potential small business sources which are capable of bidding on requirements. SBA maintains an active Procurement Automated Source System nationwide. This computerised network provides sources to both large business and Federal acquisition buying centres.

SBA's Subcontracting Specialists also offer assistance and counselling in solving general or specific problems encountered in obtaining and performing subcontracts.

Procurement Source Search. SBA has established and maintains a programme to improve potential Government contract and subcontract opportunities for interested small firms wanting to do business with the Government. Called the Procurement Automated Source System or PASS, it will permit small firms with one registration to have access to over 300 major acquisition activities of the Federal Government and 60 prime contractors who have in excess of 300 divisions located throughout the United States. The PASS programme supercedes SBA's procurement source search file. Using PASS, future government requirements for goods and services will be matched by keywords against the capabilities of registered firms. The firms with matching capabilities that most closely meet the requirements may be asked to respond to an Invitation for Bid or a Request for Proposal for Government acquisitions. A firm should contact the nearest SBA Regional Office for information regarding this programme. SBA will forward the required form to be completed by the firm in order to be considered in the PASS programme. There is no charge for this service.

Small Business Innovation Research Programmes. Last year Congress passed, and President Reagan signed into law, the Small Business Innovation Development Act creating the SBIR programme. Its aim is to stimulate technological innovation; increase the use of small business to meet the federal government's research and development needs; increase private sector commercialisation of innovations derived from federal R & D; while also fostering and encouraging the participation of minority and disadvantaged groups in technological innovation. It is estimated that in 1984, 1000 awards will be made, totalling $120 million.

Under the new law, every federal agency with an annual R & D budget over $100 million must create an SBIR programme within its department. This experiment will last five years, and then be re-evaluated to see if it should be continued. By law, these federal agencies must allocate 1% of their R & D budget for the SBIR programme this year.

The SBIR programme is really a three stage process beginning with the research and development needs of each federal agency hopefully leading to the introduction of a commercial product.

The process starts when an agency issues a Request for Proposals (RFPa) in its area of research. Individual firms then submit their ideas which are evaluated by a panel of technical experts. If the proposal is accepted, the firm receives up to $50,000 to do a six month feasability study of the idea. Once the feasability study has been completed and approved, the project moves onto phase II in which the agency can award up to $500,000 to develop the idea, hopefully to the point of a working prototype. In the third and final phase of the SBIR programme, the goal is to have advanced the idea to the point where the government is willing to enter into a production contract or venture capital companies are interested in investing in the business.

Thus far, over 9,000 proposals for phase I contracts have been submitted to 10 of the 11 federal agencies participating in this first round to the government-wide SBIR programme. To date, the Department of Energy is the only agency that has announced which projects it intends to fund, having selected 105 of the 1,700 proposals it received for phase I awards. Overall, the SBA estimates between 700 to 800 phase I contracts.

Japanese Experience. In Japan, Government entities allot an annually determined proportion of their total procurement contracts to small and medium enterprises. In Japan's fiscal year 1978 such contracts totalled 2.9 billion yen, which was equivalent to about 36% of total Government procurement expenditures.

Policies on Subcontracting Enterprises. Being dependent on orders from their patron firms, subcontracting enterprises do not have firm negotiating strength. This makes the subcontractors susceptible to unfavourable transaction conditions as the result of misuse of negotiating strength by the patron firms. Because of this, the government protects the interest of subcontractors by regulating the unfair activities of patron firms under the Law on the Prevention of Delay in the Payment of Subcontracting Charges and Related Matters (enacted in 1956) and is making efforts to improve the relationship between subcontracting enterprises and patron firms, as well as the management foundation of subcontracting enterprises, through close cooperation between the two, under the Subcontracting Small and Medium Enterprise Promotion Law (enacted in 1970).

The Law on the Prevention of Delay in the Payment of Subcontracting Charges and Related Matters. This law was enacted to normalise subcontracting transactions by regulating unfair transaction practices taken by patron firms, such as delayed payment of subcontracting charges and unreasonable price bargaining. In implementing this law, the Small and Medium Enterprise Agency and the Fair Trade Commission examine the actual situation of subcontracting by documents submitted by both parent firms and small and medium scale subcontracting enterprises.

Securing Opportunities for Orders on Procurement by the Government and other Public Agencies. To increase the opportunities of small and medium scale enterprises to receive orders on procurement by the government and other public agencies, the Minister of International Trade and Industry confers with all ministers each year, prepares a "Policy concerning Small and Medium Enterprises on Procurement by the Government and Other Public Agencies", seeks a Cabinet Decision on the Policy, and makes public a summary of the Policy. This is done in accordance with the Law concerning the Securing of Orders from the Government and Other Public Agencies for Small and Medium Enterprises.

In this Policy an annual target is set for the amount of contracts with small and medium scale enterprises by the government and public agencies. One measure in this Policy requires the government and other public agencies to make efforts to increase orders to small and medium scale govern- enterprises.

EUROPEAN YEAR OF SMALL & MEDIUM SIZED ENTERPRISES 1983 (EYSME '83).

EDINBURGH SESSION - 17-18th NOVEMBER 1983.

CONFERENCE BRIEF.

OFFICE OF ADVOCACY

Notes

(Extracts from the statement of Frank S. Swain before the Committee on Small Business United States Senate, July 30, 1981).

It is a privilege and an honour to appear before this Committee as President Reagan's nominee for Chief Counsel for Advocacy of the US Small Business Administration.

At the time the SBA was established by Congress, government did not play such a dominant role in our lives. By the mid 1970s this was no longer true. As government grew, so did the potential for government policies and actions to inhibit small business growth and expansion. In 1976 Congress took a dramatic step towards recognising small business as first priority national concern. I believe we had arrived at the juncture where it was necessary to make a concious effort to shape our national policy in terms of the entire small business community. The impact of Federal policies, laws and regulations upon small business had grown tremendously, yet, small business did not have an effective voice in the development of those policies. The result was that small business was losing ground to other concerns and interests. Public Law 94-305 was the response to these perceived needs. It established the position of Chief Counsel and set out an extensive roster of duties. The fact that Congress made Chief Counsel a presidential appointment, requiring Senate confirmation, serves to underscore the importance which Congress attached to the need for a voice for small business within government.

In the original authorising statute (Public Law 94-305) and in subsequent statutes, principally the Regulatory Flexibility Act, the Congress has defined the responsibilities of the Chief Counsel and the role the Office of Advocacy is to play within the Federal system. The responsibilities are in four areas: policy development, economic research, ombudsman tasks and information. These are not discrete tasks, but all relate to the underlying Advocacy mission, that of effective spokesman for small business within the Federal Government.

The policy development responsibility is the key function of Advocacy and one which I intend to empahsise. Whether the policymaking is at the legislative or administrative level, there is an absolute need to have small business concerns considered in the process. Advocacy must provide information on small business problems, be able to suggest solutions and be in a position to assess the effect of existing policy on small business.

I believe no major Federal economic policies should be made without serious consideration of the effect those policies will have on the small business segment of the economy. Whether the subject be taxes, regulation, innovation or any other important issue, my first priority as Advocate is to have small business effectively involved in the policy decisions. Taxation, innovation, procurement, capital formation and retention, and government competition with small business are other issues in which I want Advocacy to speak with a strong and authoritative voice.

The Office of Advocacy is also required to co-ordinate and conduct research on small business. This research can be a great asset, as good policy must rest on a strong factual basis and not just political armwaving. Advocacy is now engaged in

two basic types of economic research. Advocacy's major research projects involve construction of a small business data base, which will serve as an essential econometric basis for analysing the status of small business and the effect of various policies on the small business community. Advocacy also engages in various applied research projects in which specific economic and policy issues related to small business are investigated.

A third responsibility of the Office of Advocacy is to act as an ombudsman for small businesses with individual problems with the Federal Government. This role is important because small business ought to have some central place in the government to turn with its questions and problems. Advocacy cannot solve all small business' problems or untangle all the red tape which can be created.

SXO.

11/83

BACKGROUND TO THE UK GOVERNMENTS SMALL FIRMS POLICY

In the UK, small firms employ a significant proportion of the total workforce and they are present in every sector of the economy. It is generally recognised that small firms can provide a significant number of the new jobs the economy requires and that this sector of the economy is a source of enterprise, innovation and growth.

The Government aims, therefore, to stimulate the development of small businesses and create an economic climate which will promote sustained growth. Government policy towards the small firms sector can be categorised under two broad headings: the provision of a supportive fiscal environment for owners, managers and investors where risk and effort are adequately rewarded, and the removal of unnecessary burdens and constraints. The policy is not one of positive discrimination in favour of small firms but rather one of designing measures to overcome the specific disadvantages of smallness. To do otherwise and create an environment which favoured smallness per se would be to create barriers to growth and encourage firms to stay small irrespective of their potential.

This policy is based on the conclusions of a report (Cmnd 4811) prepared by a Committee of Enquiry into Small Firms which had been established in 1969 under the Chairmanship of John Bolton.

Since 1971 a Minister within the Department of Industry has been given special responsibility for small firms and David Trippier MP, Parliamentary Under Secretary of State, currently holds this remit within the (combined) Department of Trade and Industry. He is supported by the Department's Small Firms Division which acts as a focal point within Whitehall for the interests of the small firms sector.

On taking up his post in June 1983 Mr Trippier emphasised that the time had come to consolidate the work already done in helping small firms. He placed particular emphasis on making sure that small firms are aware of what help is available; on further reductions in administrative and legislative burdens; improvements in fiscal incentives; and the encouragement of private sector initiatives such as local enterprise agencies (cf page 4).

Small Firms Division
Department of Trade and Industry
November 1983

STIMULATING FINANCE AND INVESTMENT

The Government fully recognises that raising finance can present special problems for small firms and that it can be a serious limitation to the growth of a business. The existing financial institutions have shown themselves increasingly aware of the special needs of the small business, and a variety of venture capital schemes have been introduced over the last few years by these and other organisations, such as the British Technology Group, which go a good way towards providing the flexiblity sought in the launching and further expansion of a small business enterprise.

The Government have taken many steps to improve the flow of this commercial finance through fiscal incentives and by way of specific schemes. Succeeding budgets since June 1979 have included measures to help the small business and the 1983 Budget proposals included yet a further package aimed at encouraging enterprise and risk-taking.

The Department of Trade and Industry's pilot Loan Guarantee Scheme was introduced on 1 June 1981. By the end of September 1983, over 12,000 guarantees had been issued covering loans totalling over £400 million. The Scheme seeks to improve the flow of commercial funds to new and existing small businesses with a viable proposition which cannot secure backing either through lack of security or a track record. Medium term loans of up to £75,000 are available with the government guaranteeing 80%.

Individuals have been encouraged to invest in small enterprise through the Business Expansion Scheme's new and generous tax relief. A further incentive is the Venture Capital Scheme under which losses on disposal of shares owned by individuals and investment companies (subject to certain restrictions) can be set against income rather than capital gains tax.

Profit-making has been encouraged and cash-flow eased through other fiscal incentives relating for instance to VAT, corporation tax, development land tax and relief for certain pre-trading expenditure.

To encourage more unemployed people to consider setting up their own business a pilot Enterprise Allowance Scheme was introduced in five areas to provide an allowance in lieu of unemployment benefit during the first year of self-employment. From August 1983 this was extended nationally with the provision of 25,000 places. The redundancy payments tax threshold has also been raised to try and interest more redundant workers in creating their own new job opportunities.

The European Community is an additional source of finance for the small businessman. European Investment Bank loans were at one time restricted to the Assisted Areas but since January 1983 these have been available throughout the country from a number of financial agents. Through the provision of exchange risk cover for agency agreements, the government has provided easier access for small firms to European funds and has made the finance available more attractive to the small firm.

PROVISION OF INFORMATION AND ADVICE

Small firms are characterised by their lack of time and resources. They need accessible and inexpensive information and advice. There is a role for both the public and the private sector in this area and the government has been active in both providing services and stimulating others to respond to small firms' needs.

The Department of Trade and Industy's Small Firms Service (SFS) is the main agency providing information and advice to the existing small business and the start-up. Information is available through a network of 12 regional Centres and counselling can be arranged with experienced businessmen at over 50 different locations. Counsellors provide confidential, impartial advice based on their wide range of business experience at a modest cost. Counselling is not a substitute for professional counsultancy and clients are not normally allowed more than 10 days in any one year. If he needs further specialist advice a client will be referred on to the appropriate professional source.

The SFS has experienced considerable growth in the recent past. Enquiries doubled in 1981/1982 reaching 212,000 and were over 250,000 in 1982/83. Counselling cases rose from 10,000 to in 1981/82 to over 16,000 in 1982/83. Additional resources of manpower and funds have been provided to cope with the demand.

The advice available through SFS was complemented by the launching of a Small Firms Technical Enquiry Service in June 1982. Small businesses are able to obtain free and fast answers to technical enquiries from the Production Engineering Research Association, either by contacting PERA direct or through their Small Firms Centre.

A number of other bodies in both the public and private sector such as Local Enterprise Agencies provide support services to small businesses. The SFS has been active in improving links with these bodies.

A series of regional conferences were held in 1981 involving a selective but representative group of agencies concerned with small firms, to discuss the prospects for improved communication and co-operation. A directory of agencies for each region has subsequently been produced and a Factsheet service providing topical information has been introduced for a mailing list of over 2,000 organisations involved in advising small firms. This has recently been complemented by the launch of a Departmental magazine "In Business Now" providing topical articles of interest on a bi-monthly basis.

The Government continues to take action to increase public awareness of the important measures which have been introduced to help small firms and improve attitudes towards risk taking and initiative. A Business Opportunities Programme of conferences and workshops which ended in February 1982 attracted some 7,000 people throughout the country. In the spring of 1983 the Government ran a major awareness campaign to publicise the assistance available to small firms A similar but less ambitious campaign is planned for early 1984.

LOCAL ENTERPRISE AGENCIES

The Local Enterprise Agency movement is important as a means of channelling large company support to small firms and bringing about effective collaboration between large firms and local authorities. LEA's are usually formed by large firms, local authorities and other organisations with the common aim of creating jobs and maintaining or improving the balance of the local economy by helping the development and expansion of small firms. They provide services on a local basis such as managerial and marketing advice, technical expertise, access to financial intitutions and management training using the resources provided by their sponsors and complementing the nationwide coverage of the Small Firms Service. It is currently estimated there are 160 LEA's; collectively they have a good regional spread.

The Government introduced a tax relief for contributions to agencies approved by the DTI in April 1982. By the end of September 1983, 107 LEA's had been approved, 9 of which maintained separate funds for approval purposes.

The private sector organisation primarily responsible for the development of LEA's is Business in the Community. It is run by a small executive unit of secondees from large companies including an AS from the DTI.

British Steel (Industry) Ltd is continuing to support small firms in the steel closure areas through the Sponsorship of LEA's which have access to BSC(I)'s Loan Fund. The EC has played its part through the provision of loans on attractive terms and grants in these steel closure areas.

MANAGEMENT EDUCATION AND TRAINING

Analysis of the reasons why small firms fail clearly demonstrates that in many cases the closure might have been prevented had those managing the affairs of the firm had greater knowledge of certain management skills. The Government is therefore concerned to try and meet this need for management education and training through facilities more geared to the needs of those running small firms.

Already the Manpower Services Commission and various other bodies are providing certain facilities in this area but more needs to be done to provide a full coverage of subjects, as well as to make the facilities available at a time and place convenient to those involved with small firms. The Department of Trade and Industry are therefore currently considering this issue with other relevant bodies.

ENCOURAGING EXPORTING

A range of assistance is available to the UK exporter from the British Overseas Trade Board (BOTB) with particular emphasis on advice and information.

Two new measures were introduced in 1982 of benefit to small firms. The first was the sponsorship by the BOTB of a free trial offer of up to £100 worth of technical advice from Technical Help to Exporters for manufacturing firms of under 200 employees until the end of 1983. The second was the extension of the Marketing Advisory Service so that the £115 fee is now refundable to firms who follow up a promising MAS report by visiting the market concerned. The refund is intended to be a contribution towards travel costs. This arrangement will run initially until the end of 1983.

The BOTB is also sponsoring a series of conferences in 1983 entitled "Banking on Exports" designed to help small and inexperienced exporters to deal with export finance.

STIMULATING THE PROVISION OF PREMISES

The Government has acted to meet the widespread shortage of small factories in England identified in a report prepared by Coopers and Lybrand and Drivers Jonas for the Department of Industry in 1980.

Substantial tax incentives have been provided through the small workshops scheme to encourage private investment in small business premises. Under the scheme, Industrial Buildings Allowance on capital expenditure incurred on the construction of premises not exceeding 2,500 sq ft was accelerated to 100% in the first year until 26 March 1983. A report by the Department of Industry has shown that the effect of the 100% allowance has been dramatic, leading to a 3-fold increase in the supply of small industrial premises and a significant improvement in private sector investment in them.

The Chancellor announced in the 1982 Budget a further extension of the small workshops scheme for premises not exceeding 1,250 sq ft until 26 March 1985. He also clarified and extended the definition of industrial building and extended cover to include buildings occupied under licence as well as under lease.

The English Industrial Estates Corporation (EIEC), Welsh Development Agency (WDA), and Scottish Development Agency (SDA) have all been concentrating heavily on building small factories and workshops in the Assisted Areas with Government funds. These organisations have attracted over £40m investment from the private sector, which is mainly being invested in small units. Special rental and tenancy agreements have been devised to meet the needs of small businessmen and entrepreneurs. EIEC is undertaking several developments of small units in conjunction with universities in the AA's suitable for nurturing new high technology industries.

Measures have been taken to speed up and simplify planning procedures and planning authorities are expected to approve proposals for small business activities unless there are strong and specific reasons against them. When difficulties arise, the authorities are asked to seek compromise or alternative solutions rather than take enforcement or discontinuance action.

New areas are being explored. The results of a study jointly commissioned by the Department of Industry and Shell UK on the provision of common services for small workshops, have recently been published. The study also included an examination of the role of science parks in aiding the development of small businesses. The study's conclusions are under consideration.

REDUCING ADMINISTRATIVE AND LEGISLATIVE BURDENS

One of the central elements of Government policy since 1979 towards small firms has been to reduce those legislative and administrative burdens which can occupy a disproportionate amount of firms' time and resources.

Recent companies legislation has reduced the amount of detailed financial information small and medium-sized firms must file with the Registrar of Companies. Subject to certain exceptions, small firms are permitted to file only an abridged balance sheet. Arrangements have also been simplified for the approval of company names which will speed up company registration, and the Registry of Business Names has been abolished.

The Department of Trade published a Green Paper which initiated an informed debate on the case for introducing a new form of corporate entity specially adapted to the small family firm. But the concept did not receive sufficient support to justify further work on the idea.

Small businessmen have benefited along with other employers from the government's efforts in recent employment legislation to redress the imbalance of power between employers and unions; the Government has published new proposals which take that process further. The particular difficulties which small firms can experience over the dismissal provisions of employment legislation have been recognised. Industrial tribunals must now take into account the size and administrative resources of a firm in deciding unfair dismissal cases, and the very small firm (20 or less workers) is exempt from the unfair dismissal provisions of employment protection legislation for any employee who has worked for the firm for less than 2 years.

The Government have substantially reduced the burden of official forms. Measures are in hand to reduce by 750,000 a year the number of statistical returns compiled by industry for Government departments. Administrative forms are now subject to stringent new procedures aimed at reducing the number of forms, making necessary ones more intelligible and ensuring a more effective system of forms control. Further reduction of burdens remains a high priority for Government action.

REDUCING COST BURDENS

The government recognises that the level of public sector costs is a continuing source of concern to the small businessman. Direct action has already been taken such as the raising of the VAT registration limit (from £10,000 turnover in 1979 to £18,000 in 1983), and a reduction in the national insurance surcharge from 3½% in 1979 to 1% from 1 August 1983 and the reductions in the small companies rate of corporation tax.

The Governments success in reducing the rate of inflation will also have had a significant, impact on industry's costs.

The level of business rates remains one of the main areas of complaint. Some relief has already been provided through changes in the rating laws which benefit firms with smaller premises. Those up to a rateable value of £5,000 in Greater London, and £2,000 in the rest of the country can now pay by instalment and the range of mixed hereditaments which are eligible for domestic rate relief has been extended.

In addition all commercial ratepayers including small firms should benefit from the government's efforts to discourage excessive spending by individual authorities through the distribution of the rate support grant.

The Government have recently published a White Paper describing their proposals to introduce legislation to curb excessive and irresponsible rate increases by high spending councils. They also intend to extend the right to pay rates by instalment to non-domestic properties up to a rateable value of £10,000 in Greater London and £5,000 outside; require local authorities to consult local representatives of industry and commerce before setting their rates; and initiate a revaluation of non-domestic properties.

In so far as nationalised industries are concerned the Government continues to pursue policies designed to expose these bodies to competition and encourage them to operate on more commercial lines. In the longer term these policies should contribute to price constraint and benefit all consumers including small businesses. The Competition Act 1980 extended the range of issues which the Monopolies and Mergers Commission can investigate to include nationalised industries' efficiency, costs and services.

PUBLIC PURCHASING

While no precise figure of small firms' share of public purchasing is available, they are very important as suppliers to government purchasing departments, and local authorities, in a number of areas of goods and services, although in many cases they act as sub-contractors to main contractors.

Information on how to get into the purchasing "machine" has long been identified as a particular problem for the small firms. To try and meet this need a booklet has been published in the Small Firms Service series on "Tendering for Government Contracts" giving contact points and basic information on procedures. This has recently been complemented by a booklet produced by the Ministry of Defence "Selling to MOD" specifically targetted at helping the smaller firm find an entry into MOD's purchasing organisation and procedures.

The increased number of "Meet the Buyer" and "Can you Make It?" exhibitions and workshops up and down the country have also proved a useful way of encouraging small firms to consider new avenues of business and development. These events usually involve a mix of public and private sector purchasers and have been particularly helpful in breaking down small firms' resistance to approaching large institutions.

So far as central government contracts are concerned, direct action has aso been taken to simplify tendering and approval procedures for small firms. Contracts under £5,000 are now exempt from normal approval procedures; non-approved firms can tender for non-urgent contracts; and Departments have agreed to regularly review their approved lists with the intention of encouraging new suppliers, and rotate tender invitations as much as possible.

STATISTICS

While no precise figures are available, it has been estimated that in the UK small firms account for some 95% of all firms (Appendix A). They represent every sector of the economy from manufacturing to the small corner shop, employing approximately 25% of the total workforce and 36% of private sector employment, and accounting for some 20% of gross national product.

Even in periods of exceptional difficulty small firms have shown good defensive qualities in maintaining existing jobs. Between 1970 and 1980, small manufacturing firms employing less than 200 people increased their share of employment whilst employment in private sector manufacturing as a whole fell from 7.7 million to 6.1 million and 90 per cent of jobs lost were from larger firms.

Work with VAT data indicates a substantial turnover in the numbers and types of businesses. But despite the recession, over the period 1980-82, 20,000 more UK firms started to trade than went out of business. This represents a significant surplus equal to 1.5% of the stock of businesses. These results have been published in British Business and represent important progress in monitoring the small firms sector using existing sources, to avoid imposing new information burdens on firms. It is intended to publish up-dated statistics at regular intervals.

Encouraging though the figures are, there are relatively few small firms in the UK and they make a modest contribution to manufacturing employment compared with other major countries. There has been an increase in the number of self-employed people in the UK, up 12% in the two years prior to mid 1981 and it is estimated that there have been further increases so that the self-employed represent 10% of the employed workforce in mid 1983 as against just under 7½% in mid 1979, but we still have a very low level of self-employment compared with other major countries. This may go some way towards explaining the relative lack of small firms.

Estimates of the numbers of self employed have been published by the Department of Employment and the results from a survey of the international scene and those from work on births and deaths of firms in the UK have been published in British Business in a series of articles during 1982 on 29 January, 2 April, 23 July, 24 September and 19 November, and in 1983 on 8 April.

DEFINITIONS OF SMALL FIRMS

The different statistical definitions adopted in 1971 by the Bolton Committee of Inquiry (eg in manufacturing up to 200 employees) are still used as guidelines (see below). However, small firms are, for practical purposes, owned and run by one or two people and have a relatively small share of their market.

Industry	Statistical definition of small firms adopted by the Bolton Committee (turnover at 1963 prices)	Revised definition to allow for inflation* (turnover at Aug 1983 prices)
Manufacturing	200 employees or less	-
Retailing	turnover £50,000 pa or less pa or less	turnover £315,000
Wholesale Trades	turnover £200,000 pa or less	turnover £1,260,000
Construction	25 employees or less	-
Mining/Quarrying	25 employees or less	-
Motor Trades	turnover £100,000 pa or less	turnover £630,000 pa or less
Miscellaneous Services	turnover £50,000 pa or less	turnover £315,000 pa or less
Road Transport	5 vehicles or less	-
Catering	all excluding multiples and brewery-managed public houses	

* Estimated by applying the change in the general index of retail prices between the average for 1963 and August 1983, and rounding the result to the nearest £1,000. The retail price index is more appropriate for adjusting the turnover of some industries than for others.

APPENDIX B

SMALL BUSINESS IN THE UNITED KINGDOM 1976

Sector	Small Firms Numbers (thousands)	% of All Firms	Small Firms Turnover (£m)	% of All Firms	Employment (thousands)				
					Small Firms Employees	Self-employed	Small Firms Total	All Firms Total	% In Small Firms
Agriculture	150	95	4,500	57	175	245	420	700	60
Manufacturing	100	95	8,000	18	1,475	100	1,575	7,000	23
Construction	290	97	7,000	25	340	375	715	1,645	43
Transport	60	92	1,450	17	180	65	245	650	38
Wholesaling	75	94	8,400	16	290	25	315	845	37
Retailing	235	98	9,000	26	765	225	990	2,505	40
Finance	20	92	1,250	2	25	10	35	690	5
Porperty	20	92	1,250	2	25	10	35	690	5
Professional Services	50	91	1,670	29	170	105	275	580	47
Catering	100	95	4,240	63	515	65	580	905	64
Motor Trades	50	91	3,600	19	140	50	190	480	40
Other Services	105	93	2,650	31	390	160	550	955	58
All others	35	95	3,000	24	40	240	280	465	60
Total Private Sector	1,300	96	57,000	19	4,540	1,670	6,210	17,510	36
Public Sector								7,365	
Total	1,300	96	57,000	19	4,540	1,670	6,210	24,875	25

Small firms figures relate to firms having in 1976 an annual turnover of less than £150,000 (wholesaling less than £600,000, motor trades £300,000, manufacturing 200 employees and construction 25 employees).

Sources:
1 Numbers and turnover are derived from the BSO's VAT-based Register System (VBRS)
2 Estimates of numbers of employees are derived from the DE's Annual Census of Employment (ACE)
3 Estimates of the numbers of self-employed are derived from the Inland Revenue's Survey of Personal Incomes (SPI)
4 Use has also been made of the following sources: BSO - Annual Census of Production (ACOP)
BSO - ACOP (Construction)
DOE - Private Contractors' Construction Census (PCCC)

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CABINET OFFICE

From the Minister of State

Lord Gowrie

MANAGEMENT AND PERSONNEL OFFICE
Great George Street
London SW1P 3AL
Telephone 01-233 8610

The Rt Hon Norman Tebbit MP
Secretary of State for Trade
and Industry
Ashdown House
123 Victoria Street
London SW1E 6RB

14 November 1983

Dear Norman,

ADMINISTRATIVE AND LEGISLATIVE BURDENS ON SMALL FIRMS

Thank you for copying to me your minute of 4 November to the Prime Minister.

I support your efforts to reduce the burden of Government on small firms. My department has two particular interests. First, the Central Forms Unit is in the Cabinet Office (MPO) and Cecil Parkinson had already identified form filling as a difficulty. Second, as you may know, we are currently carrying out a multi-department review of Government contracts and procurement procedures. The study plan for this review identified as one of the issues to be looked at, "the effects on departmental procurement of..... policies designed to enhance the opportunities for small firms to bid for government business".

I am sure therefore that in these two areas MPO will be able to help in identifying some of the burdens placed on small firms and ways in which these might be reduced. I hope, therefore, that your officials will be in contact with mine to discuss what contribution we can make.

I am copying this letter to the Prime Minister, Nigel Lawson, Patrick Jenkin, Norman Fowler, Tom King and Sir Robert Armstrong.

Yours,

Gowrie

LORD GOWRIE

Flow policy
Small firms
Pt 4

File

PM

bc. Mr. Howe

10 DOWNING STREET

7 November, 1983

From the Private Secretary

Dear Colin,

ADMINISTRATIVE AND LEGISLATIVE BURDENS ON SMALL FIRMS

The Prime Minister has seen your Secretary of State's minute of 4 November. She is content with the way in which he proposes to tackle the remit to identify and reduce the administrative and legislative burdens on small firms.

I am sending a copy of this letter to John Kerr (HM Treasury), John Ballard (Department of the Environment), Steve Godber (Department of Health and Social Security), Barnaby Shaw (Department of Employment), Mary Brown (Lord Gowrie's Office) and Richard Hatfield (Cabinet Office).

Yours sincerely

Andrew Turnbull

(A. Turnbull)

C. McCarthy, Esq.,
Department of Trade and Industry

Prime Minister ① c/NO

Agree this is a sufficiently non bureaucratic way to proceed?

AT 4/11

JU839

PRIME MINISTER

ADMINISTRATIVE AND LEGISLATIVE BURDENS ON SMALL FIRMS

I have discussed with David Trippier the action to be taken in the light of your wish, as set out in your Private Secretary's letter of 10 October, that there should be no inter-Ministerial Group to investigate the reduction of administrative and legislative burdens, but that this should be treated as a routine matter. David of course has also spoken with you. I have asked him to set out to identify a number of specific burdens in a set number of Departments - through bilateral discussions which may occasionally involve other Ministers - and to make recommendations to me by the end of the year. I hope that the report which I can then submit to you will allow us to make real progress, especially in the light of the feeling shown at the Party Conference.

2 I am sending copies of this minute to Nigel Lawson, Patrick Jenkin, Norman Fowler, Tom King, Grey Gowrie and Sir Robert Armstrong.

NT

N T

4 November 1983

Department of Trade & Industry

Econ Pol : Small Firm Pt 4

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CONFIDENTIAL

Ref. No: IN (83) 12
3.11.83

BRIEF FOR THE DEBATE ON

GOVERNMENT MEASURES TO ASSIST SMALL BUSINESS

ON FRIDAY 4TH NOVEMBER 1983

CONTENTS

Conservative Research Department,
32 Smith Square,
London SW1
Tel. 222 9000

Enquiries on this brief to:
Brian Jenks

BACKGROUND

The Report of the Bolton Committee of Inquiry on small firms in 1971 defined a small firm as one with up to 200 employees in the manufacturing sector, and elsewhere one to which certain arbitrary limits were applied, e.g. a turnover of £50,000 or less in the retailing trades.

There are now estimated to be 1,700,000 small businesses in this country. They employ about 6 million people, a quarter of the working population, and account for 20 per cent of GNP.

Small firms still play a smaller role in our economy than is the case with our overseas competitors. We have fewer small firms relative to population and a smaller proportion of our workforce in small manufacturing establishments than any other industrialised nation. The evidence from other countries is that a high small firms ratio has been accompanied by high levels of growth and output. In both Japan and Switzerland the percentage of those employed in small firms is double the British figure.

Most of our rivals have, for much longer than this country, pursued positive policies of fostering small businesses and many, notably Japan, America, Germany and Holland, have long-established channels of communication between their small firms and their governments to ensure that small business interests are always considered when decisions are taken. Although the UK has, since 1979, done much to catch up with its competitors, the problems of the small firms sector have for a long time been a symptom and a cause of our comparative decline as an industrial nation.

CONSERVATIVE POLICY

Conservatives believe that small businesses and the self-employed have a vital role to play in the recovery of our economy, because of their qualities of flexibility, competitiveness and their ability to create employment; because of their willingness to work night and day to meet a customer's requirements; above all because of their determination to show enterprise. The health of small businesses is vital to the future of the whole economy.

Between 1979 and 1983 this Conservative Government has introduced more than 100 measures to help small businesses, putting a higher priority than any previous government on encouraging and assisting them, at a time inevitably difficult for many because of the world wide recession. We are determined to press on with this approach, as our Manifesto clearly shows. It is noticeable that the Labour Manifesto scarcely mentions small businesses.

The Conservative approach will include:-

Inflation and Interest Rates

Continue the policy of reducing inflation so that wage increases will be moderate and goods competitively priced, and through this and continued success in reducing government borrowing, keep the pressure on for lower interest rates.

Taxation and Finance

Many of the 100 plus measures have taken the form of tax relief for small businesses and for individuals investing in them, because we believe that they want to be able to plough more of their earnings back into their own businesses; and of schemes to assist the flow of finance. We shall build to develop these policies, and in particular:-

* encourage financial institutions first to take the risk and provide more medium and long term capital to enable businesses to start and then to finance growth in the initial trading periods;

* encourage use of the business expansion scheme and monitor its progress to ensure that it does provide a ready flow of funds from the individual investor to the expanding company.

Premises

Continue to stimulate the private sector and local authorities to provide an adequate supply of small sized premises which offer some flexibility for the newly started and expanding business.

Co-operation with Large Business - Procurement

Foster an atmosphere of confidence in business in which small business will work with large business to their mutal benefit. Introduce more measures to stimulate small business to compete on level terms for Government and local authority contracts.

Information

Continue to expand services of Department of Industry's Small Firms Division in the areas of counselling, technical and design assistance and training. Continue to publicise this to ensure that every potential businessman knows that assistance is available to him and has immediate access to it.

Bureaucratic burdens

Continue to reduce legislative burdens, including form filling and red tape:

> "There is no shortage of enterprise in Britain today. What we need to do is encourage those with that enterprise, reward them, remove obstacles from them and where appropriate guide and help them. That is what a Conservative Government is determined to go on doing"
>
> (Mr. John MacGregor at the 1983 Business Enterprise Show).

CONSERVATIVE ACHIEVEMENTS

Conservatives since 1979 have done more to help and promote small business than any previous Government. Since 1979 there have been over 100 measures to encourage the foundation and growth of small firms, and each Budget has contained a package of measures specifically for this purpose. The emphasis has been on removing obstacles and improving incentives, especially through the tax system. Small firms have also benefited, like their larger counterparts, from the Government's efforts to improve the climate for commerce and industry in general, and in particular its policies to bring down inflation and interest rates.

The following is a summary of the most important measures designed to help small business:-

1. TAXATION - PERSONAL

1.1 Business expansion relief - income tax relief of up to £40,000 p.a. on cost of subscribing for minority shareholding in new and existing private trading companies.

1.2 Relief for loss on disposal of shares in unquoted traded companies; income tax relief for individuals, corporation tax relief for investment companies.

1.3 Companies buying their own shares - payments to shareholders in certain conditions not regarded as distributions so no ACT payable by company and only capital gains tax for recipient shareholder.

1.4 Loans to individual to invest in private company: interest qualifies for relief without requirement for 5 per cent shareholding providing individual works at least half time in the business.

1.5 Reduced rate of income tax, increased personal allowances, increased threshold for investment income surcharge.

1.6 Income tax relief for pension contributions for self-employed increased.

1.7 Indexation of capital gains tax from 1982/83 with increases in exemption limits also indexed.

1.8 Hold over relief for capital gains so that assets can be transferred to/from members of a family or settlement without immediate requirement to pay tax.

1.10 Gifts are now ignored if made more than 10 years previous.

1.11 Development land tax annual exemption raised to £50,000.

2. TAXATION - COMPANY

2.1 Corporation tax for small profits reduced to 38 per cent and threshold raised to £100,000 with marginal relief up to £500,000.

2.2 VAT registration limit raised to £18,000.

2.3 Relief for expenditure incurred up to 3 years before commencement of trade allowed as a deduction in first accounting period.

2.4 Tax relief on contributions to enterprise agancies set up to encourage small businesses.

2.5 Industrial buildings allowance of 100 per cent on workshops with floor space of less than 1,250 square feet.

2.6 Industrial buildings initial allowance raised to 75 per cent for all other industrial buildings.

2.7 Requirement for close companies to distribute trading profits removed.

3. FINANCIAL

3.1 Loan guarantee scheme: Loans of up to £75,000 available from banks for periods of 2 to 7 years. Government guarantee applies to 80 per cent of each loan; in addition to normal rate of interest customer pays a premium of 3 per cent of which 2.4 per cent passes to Department of Industry to meet obligations under guarantees.

3.2 IT grants: Numerous schemes for providing grants to assist meet costs of technical development.

3.3 Small engineering firms investment scheme to assist meet cost of capital equipment.

3.4 Finance made available through Government schemes and agencies such as BTG, COSIRA, Oakwood Finance.

3.5 Arrangements with UK banks to provide loans from European Investment Bank and European Coal and Steel Community to small firms no longer restricted to assisted areas.

3.6 Hire purchase controls on cars and consumer goods abolished.

3.7 Price controls abolished.

4. ADVISORY INFORMATION

4.1 Small firms service of Department of Industry expanded in the areas of advice, technical assistance, new booklets.

4.2 Small firms technical advisory service and free consultancy to small firms.

4.3 Business opportunities programme to increase public awareness of measures which have been introduced to help small business. New publicity campaign launched March-June 1983 with booklet "How to Make Your Business Grow".

5. EMPLOYMENT

5.1 Enterprise allowance to provide £40 per week for up to one year to unemployed persons setting up own new businesses.

5.2 Measures to make it easier for small businesses to take on employees on a short term basis, relieve them of the obligations to re-instate.

5.3 Young workers scheme to encourage business to employ young people at realistic wages.

6. PLANNING

6.1 Instructions given to local planning authorities to relieve small businesses of detailed planning requirements in some cases, e.g. small extensions to industrial buildings, change of use from general industrial to warehouse.

6.2 No planning application needed for small extensions to industrial buildings.

Additional comment is made on certain of the above measures:-

Loan Guarantee Scheme - A scheme developed to fill a gap in the capital market, where money had not formerly been available to start or develop a business, perhaps because of lack of collateral security. Loans extended by the major clearing banks and the ICFC would be guaranteed by the Department of Industry in return for a special risk premium. Individual loans are limited to £75,000. By September 1983 some 11,500 guarantees had been issued, to a total loan value of £375 million. It is estimated that the scheme has created well over 30,000 new jobs.

Business Start-up Scheme - now Business Expansion Scheme - A novel scheme to encourage outside equity investment in new trading companies, by allowing the cost of such investment to rank as a deduction to the investor for income tax purposes at the time it was made. The relief, available at the investor's top marginal rate, was initially restricted to an investment of £10,000 in any one year. In 1982 that figure was increased to £20,000 and in 1983 to £40,000. The Scheme applied to most forms of enterprise, but not more than 50 per cent of a company's share capital was eligible, and the investor had to be an outsider, i.e. not the owner or employee of the business, or a close relative. The 50 per cent

requirement was dropped in 1983. An investor was allowed to participate in the Scheme through the medium of an approved investment fund, which would enable his investment to be aggregated with others and invested in a wider range of qualifying companies than might have been available to him as a single investor. The life of the Scheme has been extended to 1986, and a possible annual take-up of £75 million is envisaged.

Local Enterprise Agencies - encouraged by the Government, are privately financed organisations providing help and advice to new businesses. In the 1982 Budget these agencies were assisted when contributing companies were allowed to deduct for tax purposes the value of their contributions.

Enterprise Allowance - This Scheme was set up in 1982 to encourage unemployed people to set up in business, by paying them £40 a week for their first year to offset the loss of unemployment benefit. Five pilot schemes were originally set up and there were about 2,000 successful applications. From August 1983 the Scheme has been extended to the whole country, with an allotment sufficient for 25,000 applicants. Applicants have to invest at least £1,000 of their own money.

LABOUR'S RECORD AND POLICY

The period of the last Labour Government was disastrous for small businesses, which suffered not only from Labour's general economic mismanagement, but also from Socialist hostility to free enterprise and privately owned small firms. The main problems they had to contend with were:-

a) Rising Inflation and Costs: Small businesses had to compete for labour with the public sector and with large companies which had been forced by the unions to concede massive wage rises.

b) Penal Taxation: Under Labour an excessive level of personal taxation made enterprise and risk-taking very unattractive.

c) The Employment Protection Act 1971: The provisions of this Act applied equally to small businesses, larger companies and the public sector. Small firms found these burdens especially expensive and onerous.

The Labour Manifesto of 1979 did not even consider small businesses. Labour's Manifesto of 1983 only mentions them in passing. However, although it does not bother to examine the problems of small businesses, it contains several proposals - apart from its economic policies which would prove disastrous - which can only give cause for alarm. In particular, Labour propose:-

- A workers' right to turn an enterprise into a co-operative, apparently without needing the consent of the owner.
- A wealth tax and the restoration of high rates of other forms of personal taxation.
- Price and profit controls, but not wage controls.
- Restoration and extension of the rights of the Trades Unions.
- Restoration of public monopolies like the Post Office and British Telecom, whose excessive price rises damaged small businesses under the last Labour Government.
- Extension of public planning powers to cover many small firms via local authority enterprise boards.
- Strengthening of the Sex Discrimination Act in a way likely to harm small businesses.
- Withdrawal from the EEC.

BJ/SJB
2 November 1983

cc MASTER

FILE

RW

10 DOWNING STREET

From the Private Secretary

19 October, 1983

Dear Tom,

The Prime Minister last night met Lord Caldecote, Chairman of ICFC, who was accompanied by Mr. Tindale and Mr. Foulds. Mr. Trippier was also present. The discussion covered a number of issues in the field of small firms.

Lord Caldecote expressed reservations about the Loan Guarantee Scheme which he said ran counter to the need to encourage small firms to expand their equity. He was much more enthusiastic about the Business Expansion Scheme which met this need. Mr. Trippier reported that applications for the Loan Guarantee Scheme were on a plateau of around 550 a month and that the review of the scheme had just been launched. It was noted that the number of funds for channelling investment into the Business Expansion Scheme now stood at 14 and a further 14 had been submitted for approval.

Mr. Tindale said he preferred to emphasise direct investment in small companies rather than through intermediaries. In this way people with business experience as well as capital to invest could provide a guiding hand for the smaller firm. He reported that the failure rate for ICFC investments was one in five though it was lower - one in three - for management by-outs. However, he suspected that this might have been influenced by tough business conditions in the last two years.

The Prime Minister asked the ICFC representatives what they thought were the main obstacles to the expansion of small firms. They identified the lack or portability of pensions which made it difficult for small firms to tempt experienced managers away from larger firms. Similarly the tax treatement of stock options made it difficult for the smaller firm to provide a sufficient attraction to offset the undoubted risks such a manager would be undertaking in leaving an established job.

/Lord Caldecote

Lord Caldecote noted that the recovery was still very patchy. In particular there were very few signs of it in the older industrial areas and it seemed likely that a substantial number of firms would not survive.

I am sending a copy of this letter to John Kerr (H.M. Treasury).

Yours sincerely

Andrew Turnbull

(Andrew Turnbull)

T.J. Cassidy, Esq.,
Department of Trade and Industry

PRIME MINISTER

Visit of Lord Caldecote

Lord Caldecote, Chairman of ICFC, is coming for a meeting (drinks) at 17.30 pm on Tuesday. He will be bringing with him Mr. L.V.D. Tindale, the Deputy Chairman and Mr. H.G. Foulds, the Chief Executive. They will be accompanied by David Trippier.

The idea of the meeting arose when Lord Caldecote sent you a copy of ICFC's survey of small firms - Flag A. The main conclusion reached in the survey was that the companies in which ICFC invests have relatively rapid growth and fairly high profitability compared with other larger companies. Since the number of companies which ICFC backs constitutes only a very small proportion of the total number of firms in the small/medium sized sector, all the survey really says is that ICFC has been reasonably successful in backing viable businesses. The survey is also of limited interest to the Government since it does not extend beyond 1979/80.

In consequence it would be better not to concentrate the discussion on the survey itself. However, ICFC is by far the most important private sector body providing funds for small/medium sized companies. It would be better to explore with Lord Caldecote a number of wider questions:

(i) how small firms are faring and whether the recovery is working through to them;

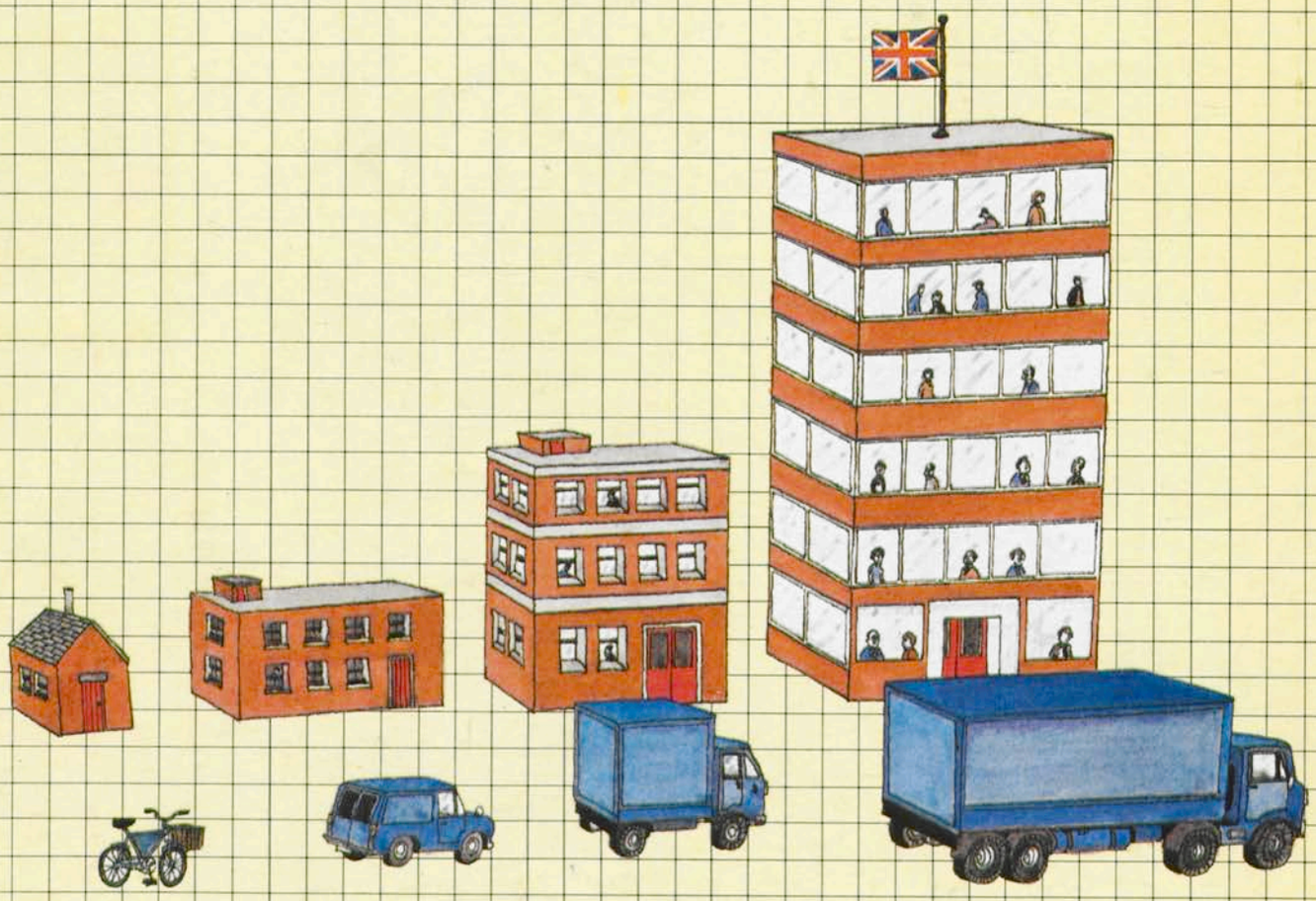
(ii) what impact Government schemes (see attached booklet) are having; and

(iii) what are the main obstacles to expansion of such companies.

AT

17 October 1983

HOW TO MAKE YOUR BUSINESS GROW



A practical guide to Government schemes

Most of these schemes are available to all businesses — whether you are well established or just starting — up to those employing 200 people.

For instance, why not check out the Loan Guarantee Scheme, the schemes to help you attract outside capital or the advisory services. And are you up to date on the recent changes in the unfair dismissal rules? See the section on employing people.

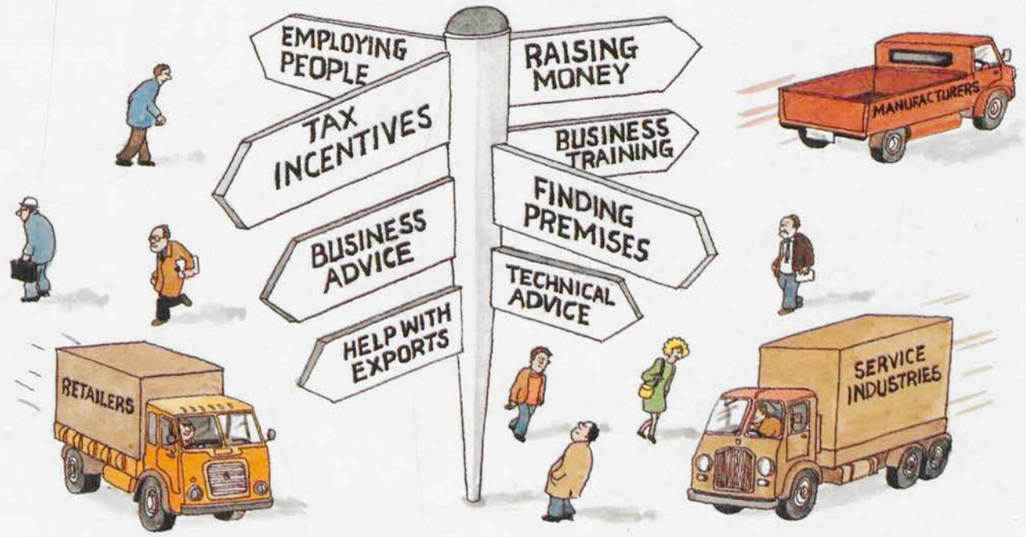
Manufacturers will be particularly interested in Support for Innovation, grants in the Assisted Areas and the loans from Europe — as well as the sections on technical advice and export services.

Just starting in business? Almost everything might be of interest to you. But you might be particularly interested in the Loan Guarantee Scheme, the schemes to help you attract outside capital or the Enterprise Allowance. Or in the sections that tell you about the rules for tax losses, the various advisory services and the business training schemes.

So check the Contents list to find which schemes interest you. And then use the CONTACT points to learn more about them.

April 1983

CONTENTS



RAISING MONEY

For the new or expanding business, getting enough money at the right time is often the biggest problem. If you have difficulty in raising finance, consider the following:

Loan Guarantee Scheme

This scheme is operated in conjunction with the banks. It provides up to £75,000 for viable projects where, for instance, you have not had time to build up a proven track record, or you cannot provide security. The lending decision is taken by your bank. Around 10,000 businesses have already discovered that the guarantee is given quickly and with no fuss.

CONTACT

Bank managers.

Capital from outside investors

If your business is carried on through a company, why not consider the advantages of getting outsiders to invest in it? Raising extra capital by issuing shares rather than by borrowing saves paying interest.

Share Buy-back legislation

In the past, many owner-managers have not liked the idea of having outside investors because they were afraid of losing control of their business. Recent Share Buy-back legislation makes such worries unnecessary. It is now possible for owner-managers to sell shares to outsiders and make an agreement with them that the company will buy back the shares after a certain time.

Business Expansion Scheme

This scheme, which extends and improves the Business Start-up Scheme, is designed to encourage outside investors to buy shares that you issue. An outsider who invests in an unquoted trading company can in many cases get tax relief on the cost of his investment. So, if his top tax rate is 60% or 75%, the Government could pay 60% or 75% of the cost of the investment.

Other incentives

If tax relief is not available under the Business Expansion Scheme, then, under the Venture Capital Scheme, the investor can set any loss on the shares against his income or trading profits, rather than against his capital gains. And, unlike the Business Expansion relief, the Venture Capital relief can be claimed by investment companies.

If he borrows money in order to invest in your company, an investor will normally get tax relief on the interest he pays on the money borrowed.

CONTACT

Accountants.

Enterprise Allowance

This is a new scheme to help unemployed people set up in business. If you have been unemployed for three months, and if you go into business, you could be paid an Enterprise Allowance of £40 a week for up to a year after your other unemployment benefits cease. At present the allowance is only available in parts of North East Lancashire, Coventry, the Medway towns, Wrexham, Shotton and North Ayrshire, but it will be available nationally from 1 August 1983.

CONTACT

Jobcentres.

Support for Innovation

Are you planning to develop a new product or process? The Government might pay up to one-third of the cost of research and development and there is no minimum cost if you are a small firm. You should get a decision within 8–12 weeks if your development meets the following conditions:

- The product or process you are developing must be new or significantly better than the old one. You do not have to be the first in the world but we do look for innovation or improvement. You will not get a grant for an old product in a new colour!
- You must stand a reasonably good chance of completing the project and you must intend to exploit the results commercially if successful. In particular you must have the necessary management and technical skills, manpower and finance to fund your part of the project.
- The grant must make something happen. So you must show that you need the grant to carry out the project in the form proposed *or* that it will help you do it more quickly. So please do not start until the Department of Industry gives the go-ahead!

And if you are also looking to a bank for funds, the Department of Industry operates a joint appraisal scheme. If you so wish, the Department will make available to a bank its appraisal of the technical merits of your proposal. This could help the bank form an opinion on whether the project is worthwhile.

From 1 June 1983 there will also be grants towards the cost of market assessment studies, and towards the cost of production tooling, capital equipment and certain other pre-production costs.

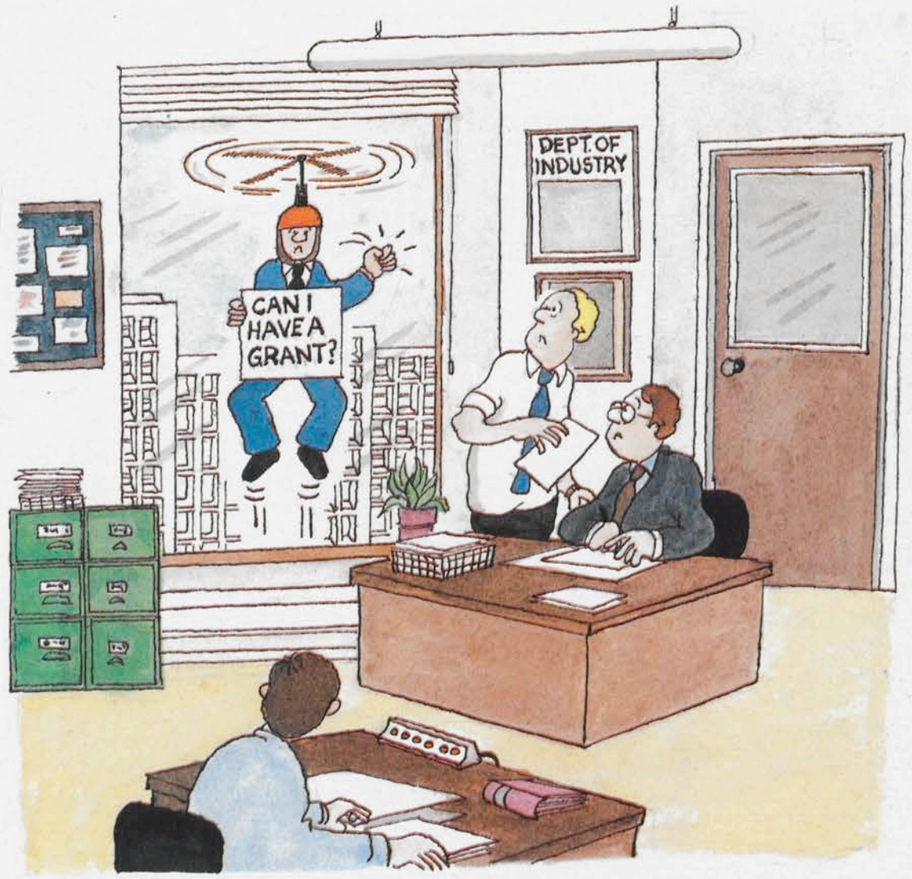
Small Engineering Firms Investment Scheme

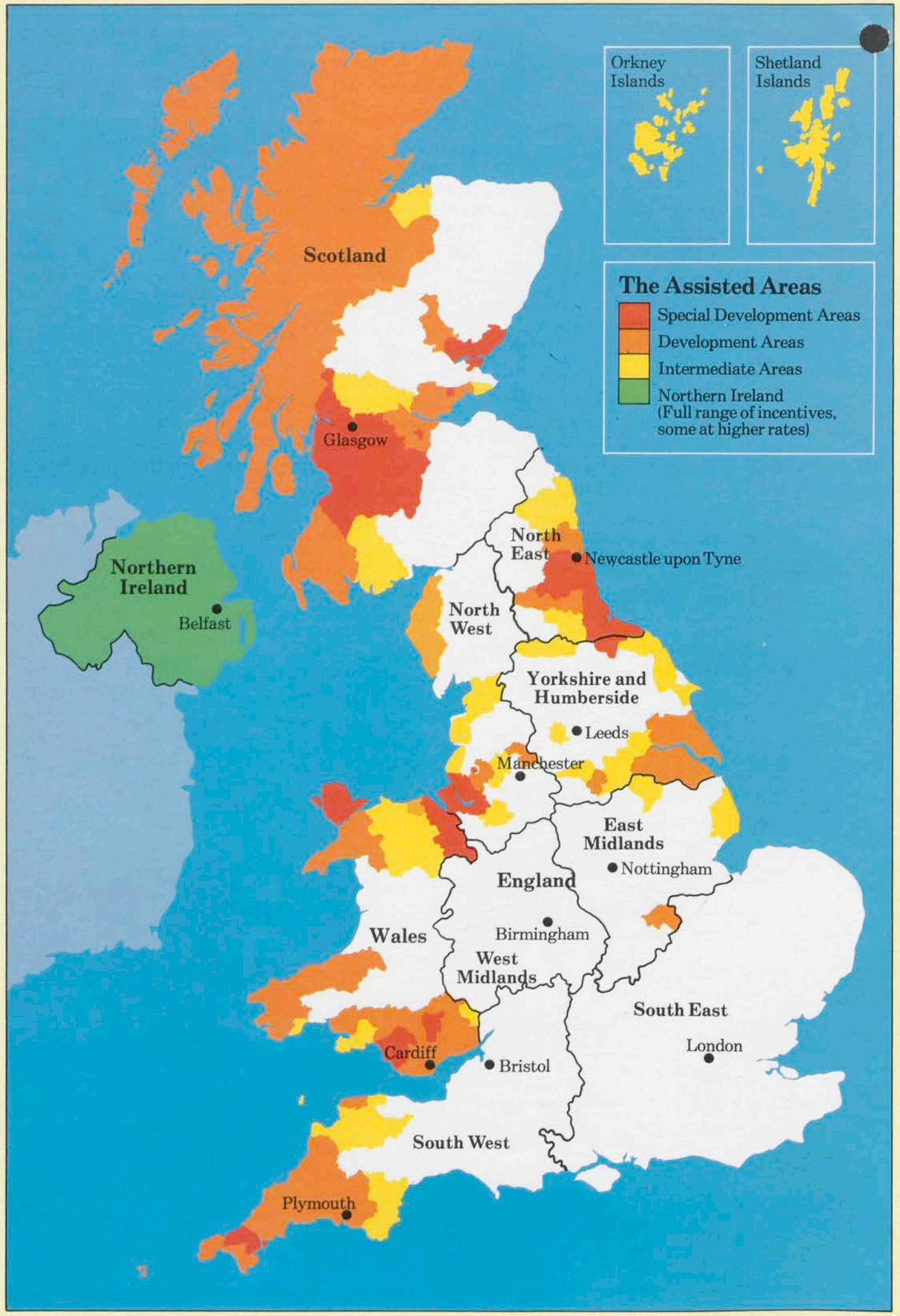
This scheme (which first ran up to May 1982) has been reintroduced. Grants are available to help engineering firms (employing up to 500 people) invest in certain types of advanced capital equipment.

CONTACT

Department of Industry Regional Offices, Scottish Office, Welsh Office or Northern Ireland Office

Belfast (0232) 34488
Birmingham 021-632 4111
Bristol (0272) 291071 ext 3228
Cardiff (0222) 824183
Glasgow 041-248 2855
Leeds (0532) 443171 ext 257
London 01-603 2060
Manchester 061-236 2171 ext 646
Newcastle upon Tyne (0632) 324722
Nottingham (0602) 56181
Plymouth (0752) 21891





Grants in the Assisted Areas

Certain parts of the country have been designated Assisted Areas. These in turn have been divided into Intermediate, Development and Special Development Areas. Check the map to see whether you might qualify for the following assistance.

Regional Development Grants

If you are a manufacturer, the Government will give you grants towards the cost of new buildings, plant and equipment purchased for use in Development and Special Development Areas. These are Regional Development Grants, which are payable at 15% in the Development Areas and 22% in the Special Development Areas.

CONTACT

Your nearest Regional Development Grant Office

Billingham, Stockton-on-Tees (0642) 553671
Bootle, Merseyside 051-922 4030
Cardiff (0222) 492611
Glasgow 041-221 9833

Selective Financial Assistance

Developments or projects anywhere in the Assisted Areas (ie in Intermediate, Development or Special Development Areas) can attract Selective Financial Assistance. This is available to manufacturers and certain service trades (but purely local consumer services, such as shops and pubs, are not eligible). The level of grant is negotiable and the Government will pay only the minimum necessary for the project to go ahead. But the assistance may be granted in addition to Regional Development Grants. There are four conditions:

- The project must be of some national benefit. This does not mean that it has to be very large — the majority of the projects assisted are small — but it should result in some genuine economic benefit such as increased efficiency, more exports or fewer imports.
- The project must create or preserve jobs in the Assisted Areas.
- You must stand a reasonably good chance of completing the project successfully. In particular you must have the necessary management and technical skills, manpower and finance to fund your part of the project.
- The grant must make something happen. So you must show that you need the grant to carry out the project in the form proposed *or* that it will help you to do it more quickly *or* that it will lead to its location in the Assisted Areas. So, if you want a grant, please do not start until the Department of Industry gives the go-ahead!

CONTACT

Department of Industry Regional Offices, Scottish Office, Welsh Office or Northern Ireland Office

Belfast (0232) 34488
Birmingham 021-632 4111
Cardiff (0222) 824057
Glasgow 041-248 2855
Leeds (0532) 443171 ext 239
London 01-603 2060
Manchester 061-236 2171 ext 646
Newcastle upon Tyne (0632) 324722
Nottingham (0602) 56181
Plymouth (0752) 21891 ext 28

Loans from Europe

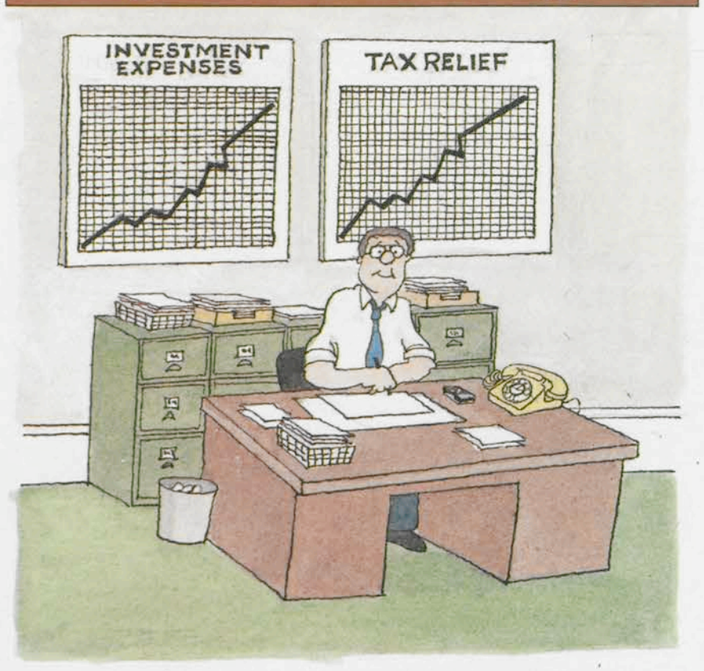
Loans are available from the European Investment Bank (EIB) and the European Coal and Steel Community (ECSC). EIB loans are available throughout the UK. They are for seven or eight years at fixed rates of interest — usually one or two per cent less than the interest payable on similar loans from UK sources of finance. They may be used to pay for 50% of the cost of capital expenditure in manufacturing industry, certain industry-related services and tourism. ECSC loans are similar except that they are 3% cheaper even than EIB loans — but they are restricted to firms which create jobs in areas affected by coal and steel closures.

The loans are made through the institutions listed below, but some do not operate outside the Assisted Areas. They carry out the commercial appraisal of the borrower's project. The loans are in sterling because the Government provides insurance cover against exchange rate fluctuations. The charge for this insurance is included in the interest rates mentioned in the previous paragraph.

CONTACT

	EIB loans outside the Assisted Areas	EIB loans inside the Assisted Areas	ECSC loans
Barclays Bank			☐
Clydesdale Bank			☐
Co-operative Bank			☐
ICFC	☐	☐	☐
Midland Bank	☐	☐	
National Westminster Bank	☐	☐	☐
Royal Bank of Scotland			☐
Scottish Development Agency		☐	☐
Welsh Development Agency		☐	☐
Department of Industry Regional Office, Scottish, Welsh or Northern Ireland Office.		☐	

TAX INCENTIVES



For the owner or investor

You get tax relief for interest paid on money you borrow to invest in your own business — even if it is a company or partnership.

There are special tax reliefs for people who invest in your business. These are described on page 2.

And there is now less tax to pay when you sell business assets, or sell your business, or when either you or other investors sell shares in your company:

- You might be able to claim a range of Capital Gains "rollover" reliefs.
- Capital gains on assets which you have held for more than a year are reduced to take account of inflation. And gains of £5300 a year are exempt from tax.
- When calculating any Capital Transfer Tax due on a gift, earlier gifts are now ignored if made more than ten years previously.

For the business

The following tax reliefs are of particular value to growing businesses:

- Some of your heaviest expenditure will be on capital items — for example machinery, vehicles, business premises. There are special allowances (Capital Allowances) for the cost of many of these items. For some — for example machinery and equipment — you will be entitled to an allowance in the first year for the whole of the cost. For others — for example industrial premises — you will get an allowance for a proportion of the capital cost in the year in which you buy it and the remainder over a number of years.
- If you buy a new small industrial workshop of not more than 116 sq m (1250 sq ft) of internal floor space, you can deduct the full cost (excluding the land) in the first year. This special incentive applies until March 1985.
- You may also have to buy stocks for your business. If so you may be able to claim Stock Relief. This helps to offset the effect of inflation on your business. If you hold substantial stocks in your business this relief can be very helpful in a period when prices are rising. It applies to most businesses which hold stocks of more than £2000.
- Tax losses are not uncommon in the early years of business, particularly if capital allowances and stock relief have been claimed. They may be used to reduce other tax bills, or to produce tax repayments. A company can carry the loss forward or set it against profits earned in the previous year, or in certain circumstances the previous three years. If you are in a partnership or self-employed you can carry the loss forward to set against business income, or it can be set against any other income you have in the same or next year.
- You can also have losses made in the first four years of your business set against your income for the previous three years. So you could get a repayment of tax which you paid before the business began.
- The small companies rate of Corporation Tax is only 38% for profits up to £100,000.
- Most of the expenditure you incur in setting up your business (pre-trading expenditure) will be allowable in the first tax year.
- VAT registration starts at a turnover of £18,000 and you can claim repayment of VAT on goods and services supplied before your registration.

CONTACT

Accountants.

BUSINESS ADVICE

The following agencies can help you on a wide range of business problems. They can also tell you whether and how you can take advantage of the schemes that interest you.

Small Firms Service

The Small Firms Service can give you information on all management problems. More than that — the Service's business counsellors (all experienced businessmen — not civil servants) can give you sound, practical, impartial and confidential advice on your project, whether you are developing a going concern or just starting. In particular the Service can help you draw up a business plan, raise money, choose the right premises, plan your marketing or re-jig your production. And they can suggest how you might best benefit from the other services described in this booklet.

CONTACT

Phone the operator and ask for Freefone 2444.

Marketing Advisory Service

The Department of Industry is currently considering establishing a marketing advisory service for small and medium-sized firms. The starting date is not yet known. In the meantime, advice on marketing can be obtained from the Small Firms Service.

CONTACT

The Small Firms Service: phone the operator and ask for Freefone 2444.

CoSIRA

Do you want to start or expand a small manufacturing or servicing business in a rural area or country town in England? If so, the Council for Small Industries in Rural Areas can help you with technical, management and financial advice and training. CoSIRA can also help you find premises and raise finance.

CONTACT

Your local CoSIRA office (see the phone book) or phone Salisbury (0722) 6255.

Agencies in Scotland, Wales and Northern Ireland

If you live in Scotland, Wales or Northern Ireland there are local agencies which can put you in touch with all the services described in this booklet and help you with finance, training and advice. Why not find out more about the Scottish Development Agency, the Highlands and Islands Development Board, the Welsh Development Agency, Mid-Wales Development or, in Northern Ireland, the Local Enterprise Development Unit?

Incidentally, some of the schemes mentioned in this booklet have slightly different rules in Northern Ireland. The Local Enterprise Development Unit there will let you have further information.

CONTACT

Use the reply-paid postcard at the end of this booklet.

Local Enterprise Agencies

Are you near an Enterprise Agency? These are small local advisory organisations, usually funded by large companies with local authority support. They provide business advice, counselling and training. They could be a useful ally — they know the local scene.

CONTACT

Use the reply-paid postcard at the end of this booklet.

Local authorities

Many local authorities are becoming increasingly involved in economic development and are adopting a wide range of measures designed to encourage industry and employment. Some have premises to offer on industrial estates. Others provide finance, advice or general information about services in their area.

CONTACT

Your local authority. Ask for their industrial development or economic development officer.

Professional advisers

Your accountant, bank manager or solicitor will probably be familiar with the schemes and facilities mentioned here. They know how to tap Government resources on behalf of independent businesses. A great deal of factual and statistical information is also available from commercial and reference libraries. And, if you are a member, why not use the resources of your business club, chamber of commerce, chamber of trade, trade association or CBI regional office?

TECHNICAL ADVICE

Technical Enquiry Service

Don't you sometimes wish you had more technical knowledge? How often has it taken you weeks or months to find out which material to use, which equipment to buy? Why not use the Technical Enquiry Service, which provides free technical advice for all medium-sized and small manufacturing companies. They can give you information over the phone or provide consultancy for up to five man-days — all at no cost to you.

CONTACT

Ring the Production Engineering Research Association (PERA) on Melton Mowbray (0664) 64133 and ask for extension 444.

Manufacturing Advisory Service

If you employ more than 60 people, you should use the Manufacturing Advisory Service. In addition to answering three technical enquiries, they offer 15 man-days of free technical or production planning consultancy, which may be followed by 15 man-days at half cost.

CONTACT

Ring PERA on Melton Mowbray (0664) 64133 and ask for the Manufacturing Advisory Service. Or, in the North West of England, ring Salford University Industrial Centre on 061-736 8921 and ask for the Manufacturing Advisory Service.

Keeping up with new technology

Time and time again, it has been shown that price advantages can be beaten by better design, quality and performance. The classic case is microelectronics, where few firms had the internal expertise to exploit the new technology. Some took no action — and were forced out of business, beaten by others who took advice and set out to learn about the micro.

But the Department of Industry has a range of programmes to inform you about new technologies and to help with internal training. Grants are available to help you employ consultants and to help you introduce new technology through development projects. The Department is currently concentrating on microelectronics, computer-aided design, computer-aided manufacture, computer-aided production management, robotics, flexible manufacturing systems and fibre optics. Why not find out more?

CONTACT

Department of Industry Regional Offices, Scottish Office, Welsh Office or Northern Ireland Office

Belfast (0232) 34488
Birmingham 021-632 4111
Bristol (0272) 291071 ext 3228
Cardiff (0222) 824183
Glasgow 041-248 2855
Leeds (0532) 443171 ext 257
London 01-603 2060
Manchester 061-236 2171 ext 646
Newcastle upon Tyne (0632) 324722
Nottingham (0602) 56181
Plymouth (0752) 21891

FINDING PREMISES

If you want to move or to expand your existing premises, you'll find it is now much easier than it used to be.

Planning controls relaxed

All local authorities have been asked to cut planning delays and speed up permissions for small firms. You no longer need planning permission to change from light industrial to warehouse use, or vice versa, for premises of 235 sq m (2530 sq ft) or below. And planning applications are not needed for industrial extensions of up to 20% of your present area, subject to a maximum increase in floor area of 750 sq m (8073 sq ft).

CONTACT

Your local authority's planning department.

Premises in Assisted Areas

A wide range of industrial and commercial accommodation is available for rent or sale in the Assisted Areas (see map on page 4) and premises can be built to your specific order, or altered to suit your needs. Some of the premises are less than 116 sq m (1250 sq ft). Leases can be tailored to the needs of small businesses and rent-free periods are sometimes available.

CONTACT

In England: The English Industrial Estates Corporation, Newcastle upon Tyne (0632) 874711.

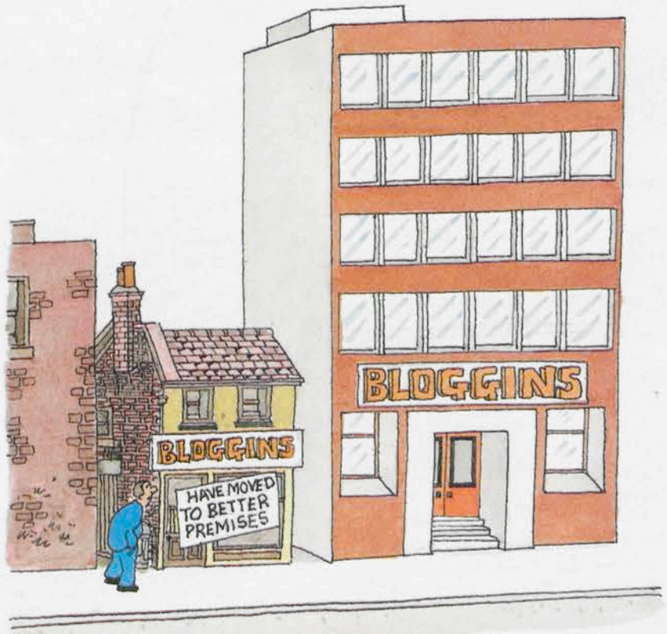
In Scotland, Wales and Northern Ireland: Use the reply-paid postcard at the end of this booklet to contact your Development Agency.

Enterprise Zones

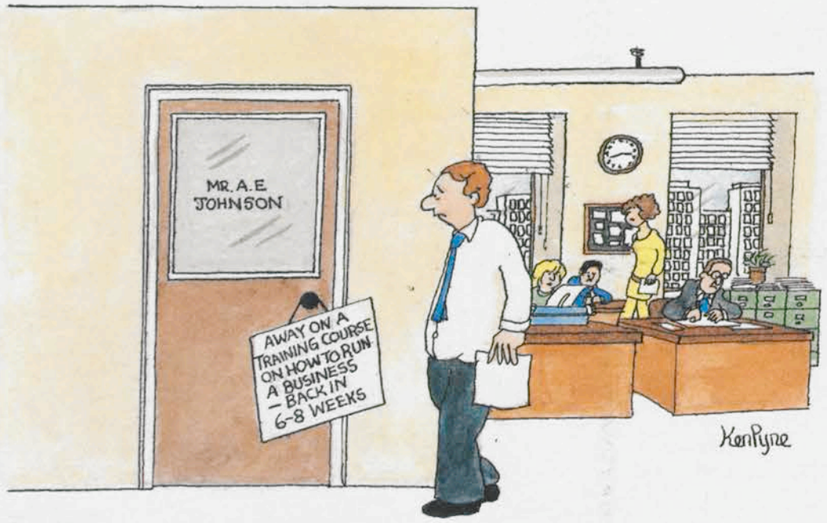
The Government has set up 11 Enterprise Zones and is currently setting up 12 more. If you are in or move to one of these zones you will be totally exempt from rates and almost free of planning controls. You will also get 100% tax relief on the cost of all new buildings. These benefits will last at least ten years.

CONTACT

Local authorities in the Enterprise Zones.



BUSINESS TRAINING



The Manpower Services Commission runs a range of courses to help those starting a business to do so sooner, on a firmer footing and with better prospects for survival and growth. Courses are available for:

- People who wish to become self-employed (Skill into Business Courses).
- People who wish to set up a small business which will employ others as well as themselves (Small Business Courses).
- People who wish to launch more sophisticated ventures with real growth potential (New Enterprise Programmes).

Over 2000 places will be available on these courses this year.

Or if you are already in business, ask about the MSC's Management Extension Programme. This can provide you with an experienced businessman — with skills matched to the needs of your business — for between 26 and 52 weeks. And he doesn't cost you a penny!

CONTACT

Use the reply-paid postcard at the end of this booklet.

EMPLOYING PEOPLE

Employing people is a serious responsibility and it is worth spending some time and trouble getting it right from the start. There are some necessary rules, of course, but it is not as difficult as you may think to follow them. The Government has already relaxed many conditions to make them fairer and less of a burden for smaller firms. For instance:

- If you employ 20 people or less, an employee cannot complain of unfair dismissal unless he or she has worked for you for at least two years.
- If he or she has worked for you for two years, the Industrial Tribunal still has to take account of the size of your firm, and your administrative resources, when deciding whether the dismissal was fair.
- If you employ five people or less, you do not need to take back a woman employee following the birth of her baby unless it is reasonably practicable for you to do so, or you can offer her suitable alternative work.

CONTACT

Jobcentres and solicitors for information on maternity provisions and dismissal procedures.

Jobcentres for advice on recruitment and training.

The Health and Safety Executive for advice on safety procedures.

And use the reply-paid postcard at the end of this booklet to send for a simple guide to unfair dismissal law.

HELP WITH EXPORTS

BOTB services

Is there a market for your product or service overseas? How would you go about selling it? Will it meet the local technical standards?

The British Overseas Trade Board (BOTB) has a wide range of export services and assistance to help you find the answers to these and all the other questions that arise in exporting. If they do not know they will put you in touch with people who do. The range of services provided come in these broad categories:

Investigating export markets

- The BOTB headquarters in London provides specialist advice on exporting to individual countries and can make specific enquiries overseas on your behalf.
- There is a Statistics and Market Intelligence Library in London and other product-based information is also available to help assess markets.
- The Market Advisory Service can ascertain the potential of your products in the market and help with finding an agent.
- Technical Help to Exporters will help you meet local standards. (There is a free trial offer for small businesses until the end of 1983.)
- The Overseas Status Report Scheme provides a check on the general standing (not financial) of a prospective partner or agent.
- The Export Market Research Scheme can pay for part of the cost of overseas market research.

Notifying export opportunities

- The Export Intelligence Service provides you with details of opportunities for your products as they are received from overseas.

Entering export markets

- There are opportunities to take part in overseas trade fairs and missions on favourable terms.
- The Market Entry Guarantee Scheme will provide 50% towards the cost of setting up sales facilities in overseas markets. This contribution is repayable by a levy on sales: if there are no sales there is no repayment.
- The BOTB Publicity Unit can advise on how to promote your products in overseas markets.
- There is also advice from the Simplification of International Trade Procedures Board (SITPRO) on the problems associated with delivering the goods.

CONTACT

BOTB Regional Offices

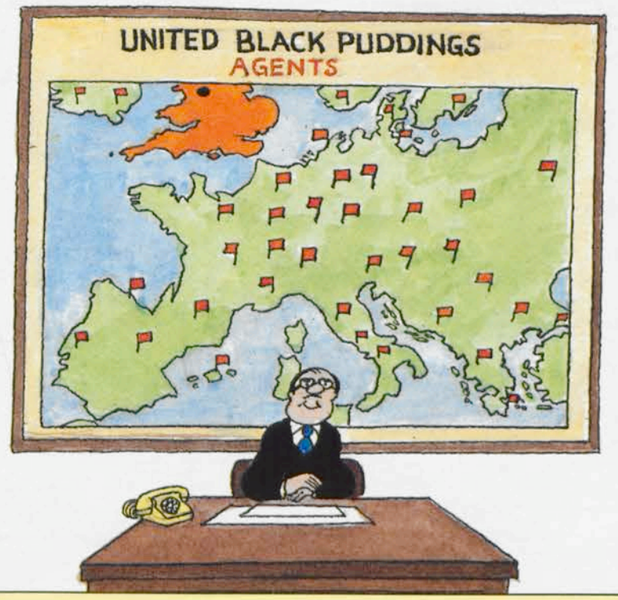
Belfast (0232) 233233
Birmingham 021-632 4111
Bristol (0272) 291071 ext 3223
Cardiff (0222) 824171
Glasgow 041-248 2855
Leeds (0532) 443171 ext 271
London 01-730 9678
Manchester 061-236 2171 ext 602
Newcastle upon Tyne (0632) 324722
Nottingham (0602) 56181

Export credit guarantees

The Export Credits Guarantee Department can provide help in two main ways: it can insure you against the risks of not being paid for your exports; and it can give a guarantee to your bank under which you can obtain finance for your export business, often at a favourable rate of interest.

CONTACT

Your local Export Credits Guarantee Department office (see the phone book).



FURTHER INFORMATION

The Small Firms Service issues the following publications:

The Small Firms Service

Starting your Own Business

Setting up a New Business

Elements of Bookkeeping

Employing People

Management Accounting

Marketing

Tendering for Government Contracts

How to Start Exporting

The Small Workshops Scheme

The Technical Enquiry Service

The Small Firms Service can also provide copies of these publications:

The Loan Guarantee Scheme

The Business Start-up Scheme

Support for Innovation

A Summary of Incentives for Industry (Regional assistance)

Should I be Registered for VAT?

Enterprise Zones

Unfair Dismissal

The British Overseas Trade Board's Export Services

The Export Credits Guarantee Department

Manpower Services Commission Training Courses

Please send me the following publications:
(Tick appropriate boxes)

- ☐ The Loan Guarantee Scheme
- ☐ The Share Buy-back Legislation
- ☐ The Business Expansion Scheme
- ☐ Support for Innovation
- ☐ Regional Assistance
- ☐ Loans from Europe
- ☐ Should I be Registered for VAT?
- ☐ The Ins and Outs of VAT
- ☐ The Small Firms Service
- ☐ The Council for Small Industries in Rural Areas (CoSIRA)
- ☐ The Scottish Development Agency
- ☐ The Highlands and Islands Development Board
- ☐ The Welsh Development Agency
- ☐ Mid Wales Development
- ☐ The Local Enterprise Development Unit
- ☐ Enterprise Agencies
- ☐ The Technical Enquiry Service
- ☐ The Manufacturing Advisory Service
- ☐ Enterprise Zones
- ☐ Unfair Dismissal
- ☐ The British Overseas Trade Board
- ☐ The Export Credits Guarantee Department
- ☐ MSC Training Courses
- ☐ Starting Your Own Business
- ☐ Full list of Government schemes for growing businesses

Please send me_____further copies of "How to Make Your Business Grow".

Name (print) _____

Address _____

_____

_____

Prepared by the Department of Industry and the Central Office of Information, April 1983.

Printed in England for Her Majesty's Stationery Office by Brightman & Stratton Ltd. Dd. 8333691 Pro 19774


BLOGGINS
INDUSTRIES
BLOGGINS I
ALL MY OWN
(AND THE GOVERNMENT'S)
WORK

ICFC SMALL FIRMS SURVEY

POINTS FOR DISCUSSION

BACKGROUND

Investors in Industry (3i) is a restructured and streamlined version of Finance for Industry. The Industrial and Commercial Finance Corporation (ICFC) is a subsidiary of 3i and was itself founded in 1945. ICFC is a major provider of finance for small and medium-sized business with long term capital for growth. It finances start-ups, development, expanision and management buy-outs and until the proliferation of venture capital funds of the last few years, was virtually the only source of this sort of finance.

Their Small Firms Survey is a statistical analysis of around one quarter of ICFC's 1980 protfolio and selects a number of companies in which ICFC have invested. As such is not representative of the small firm sector as a whole. The sample is based on 687 companies in which ICFC have invested up until 1979/80, but these companies are likely to have good growth potential in order to attract ICFCs interest. So the survey is likely to contain a significant bias towards the more efficient or innovative small firm. Their last survey was published in 1977.

POINTS FOR DISCUSSION

a Distribution and service companies amounted for almost 32% of the sample (as opposed to 26.4% in 1977). Manufacturing

companies were down to 62.9% (against 67.5% in 1977).

b There has been a marked tendency for the size of the companies invested in (in terms of Net Assets) to become bigger (17.8% had net assets of above £500,000 in 1970/1 compared with 38.1% in 1976/7). This may be the result of high rates of inflation throughout the 1970's, but it would be interesting to know whether ICFC saw better opportunities among the "larger" small firms.

c In many cases, applicants have sought funds from ICFC because expansion or further development could not be financed from retained earnings, conventional borrowing or personal sources. ICFC claim to meet these needs by providing equity in various forms, secured loans or debentures. Have recent changes in the taxation of small firms helped them significantly to generate internal resources for financing growth?

d ICFC's sample shows an ability to maintain relatively high levels of growth (in terms of total net assets) and profitability. Is this due to the special nature of ICFCs clients (with high growth potential and longer term profitability) or do they see it as a wider trend in the small firms sector?

e How do ICFC view the recent development of a more broadly based venture capital market in the UK? How much is this likely to offset longer term trends for economic growth and employment?

File

10 DOWNING STREET

From the Private Secretary

10 October 1983

ADMINISTRATIVE AND LEGISLATIVE BURDENS ON SMALL FIRMS

The Prime Minister has seen your Secretary of State's proposal in his minute of 7 October to set up a Ministerial group to examine the burdens and restrictions on small companies. She has also noted his wish to announce this at the Party Conference.

The Prime Minister has commented that much of the ground was gone over earlier by David Mitchell and she considers this subject should be treated as a routine matter, not requiring establishment of a high-level Ministerial group. It follows, therefore, that she would not wish your Secretary of State to make such an announcement, which in any case she feels should have come most properly from her after seeking the consent of the Ministers involved.

I am sending copies of this letter to Margaret O'Mara (HM Treasury), Roger Bright (Department of the Environment), Ellen Roberts (Department of Health and Social Security), Mary Brown (Minister of State's Office, Privy Council Office) and Richard Hatfield (Cabinet Office).

B. Shaw (Empt)

Andrew Turnbull

Steve Nicklen, Esq.,
Department of Trade and Industry.

NR

I have informed Tindale + Foulds & Trippier's office.

Steve Sells 8/10/83

PRIME MINISTER

You are having drinks with Lord Caldecote and David Trippier on 18 October to talk about the former's study of small businesses. Lord Caldecote has asked if he can bring with him the Deputy Chairman of Finance for Industry, Mr. Tindale, and the Chief Executive, Mr. Foulds.

Do you agree, or would you prefer to keep the occasion smaller?

7 October 1983

Put in Diary
+ phone
Dr Trafford
(DTI) Office
10/90

10 DOWNING STREET

Lord Caldicotte's
meeting on Small Firms,
Tuesday 18 Oct. 17.30hrs

Can he bring with him:

1) The deputy chairman,
Mr. LVD Tindale;

2) The Chief executive,
Mr. HJ Foulds.

Could we then let
Mr. Tindale's secretary
(Miss Judy Barwick)
know the answer, on:
~~01~~ 928 7822

Prime Minister ①

A valuable exercise provided it is conducted with minimum bureaucracy

Agree X and Y?

AT 7/10

ECNO

JH 755a

PRIME MINISTER

I should have thought this was a routine matter. I doubt this scattering reviews around and condemnation.

ADMINISTRATIVE AND LEGISLATIVE BURDENS ON SMALL FIRMS

We discussed at our recent meetings the importance of further reducing the bureaucratic burdens and legislative restrictions on business.

Moreover we should need to identify the Minister involved & get their consent.

2 Following that I propose that we should now set up a small working group of those Ministers most involved to examine the burdens and restrictions weighing on small companies. I would expect them to report back to me with firm proposals for improvements within six months.

X

Such a group should be set up from No 10 - but I doubt it's necessary not

3 I would propose to take the chair myself at the first meeting of the group, and then hand over to David Trippier for subsequent meetings. I propose to invite colleagues from Treasury, Environment, Health and Social Services and Grey Gowrie (because of his particular interest in the problem of forms). Other Ministers could be invited if a particular subject required it.

4 I am keen to give a visible sign of our determination to continue our programme of assistance to small companies. If this proposal meets your approval I may decide to announce it on

Y

Thursday at the Party Conference.

5 The appendix lists the broad headings that I would ask the group to examine.

6 I am sending copies of this minute to Nigel Lawson, Patrick Jenkin, Norman Fowler, Grey Gowrie and Sir Robert Armstrong.

C.P.

C P

7 October 1983

Department of Trade and Industry

APPENDIX

List of Broad Headings to be Examined by Committee of Ministers

i) procedures for the collection of PAYE, VAT and other taxes;

ii) the existing requirements for statistical returns and form filling;

iii) the procedures for obtaining aid under Government schemes, particularly those of the Department of Trade and Industry;

iv) planning procedures, although the DOE Planning Circular 22/80, which is being re-issued has speeded up planning applications by small firms;

v) employment legislation, especially the procedures of Industrial Tribunals;

vi) health and safety regulations:

vii) the regulations and procedures of Highway Authorities and the Department of Transport;

viii) social security legislation and procedures;

ix) deposits required from start-up businesses by some nationalised industries.

Prime Minister (2)
To note. The wording of the statement correctly keeps all options open, including winding up. AT 5/10

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
TELEPHONE DIRECT LINE 01-215 3781
SWITCHBOARD 01-215 7877

From the Parliamentary Under Secretary
of State for Industry

Rt Hon Nicholas Ridley MP
Financial Secretary
HM Treasury
Parliament Street
LONDON SW1

5 October 1983

Dear Nicholas,

SMALL BUSINESS LOAN GUARANTEE SCHEME REVIEW

As you know the Loan Guarantee Scheme was introduced on 1 June 1981 as a three year pilot measure with an original allocation of £50m for each of the three years. However, the full £150m was exhausted in the first year and following two earlier reviews of the Scheme it was decided to increase the overall allocation to the current figure of £600m. The experiment is due to be completed in May 1984 and at the present level of demand there should be no difficulty in staying within this ceiling. But clearly before we are going to be in a position to be able to take any decisions on what is to happen when the pilot phase ends, it will be necessary to carry out a further fundamental review of the operation and the impact of the Scheme so far.

I therefore intend to announce in the House shortly after the recess that over the next few months I will be conducting a wide ranging review of the Loan Guarantee Scheme. This will involve analysing all of the available statistical data, including the information on Scheme losses. It remains very difficult to predict with any degree of certainty the extent to which the tightening up by the banks after the last review will have reduced the failure rate for more recent lending. I will want to obtain the views of the banks on this issue and by the end of the year we will have a better data base on which to make judgements. I will also have the benefit of the results of a third sample telephone survey and the outcome of a second, more balanced, study by outside consultants Robson Rhodes into a sample of 150 Scheme borrowers. As before, I envisage that these studies will be published in due course. I will also be meeting bankers, small firms representative organisations and others, as well as taking full account of the many comments and representations I have received from Parliamentary colleagues and elsewhere. I will be announcing the review by way of an arranged Parliamentary Question and a copy of my proposed reply is enclosed.

I expect most of the elements of the review to be completed by the end of this year and of course your officials and those of other interested Departments will be brought into the review and the subsequent discussions as necessary. I hope to be in a position to put forward recommendations to colleagues for the future of the

Scheme by early next year. Clearly at this stage we must keep an open mind about the possible options, but I should like to be able to announce the conclusions to be drawn from the review, and any decision on its future, well before May 1984 if at all possible.

I have copied this letter to the Prime Minister, the Secretaries of State for the Environment and Employment and the Secretaries of State for Scotland, Wales and Northern Ireland.

Yours ever

David

DAVID TRIPPIER

Enc.

DRAFT ARRANGEDPQ ON REVIEW OF THE LOAN GUARANTEE SCHEME

Question: To ask the Secretary of State for Trade and Industry whether he intends to conduct a further review of the Small Business Loan Guarantee Scheme.

Answer: Over the next few months I will be carrying out a fundamental review of the operation of the pilot phase of the Scheme, which is due to end in May 1984. This review will form the basis of any decisions on the future of the Scheme. I shall look closely at a wide range of issues relevant to the Scheme's performance including the extent to which Scheme lending has been genuinely additional to what the banks would have undertaken under conventional terms and the effect of the Scheme on the structure and performance of Scheme borrowers. I will also want to consider the impact of the Scheme on bank lending practices, including the effect of any tightening up by the banks after their early experience, in particular in relation to the personal contribution of Scheme borrowers.

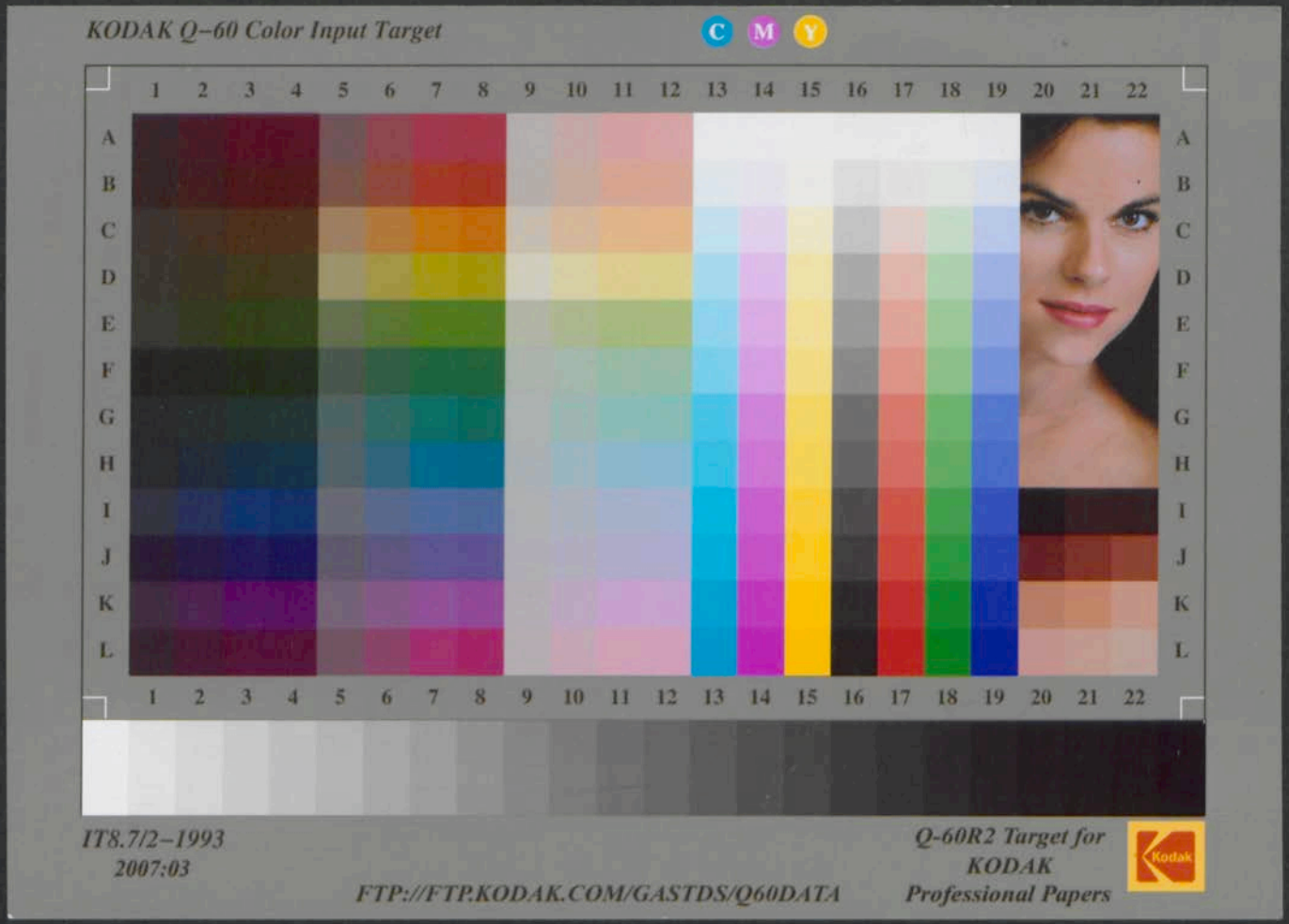
During the review I will want to assess any available statistical information and to examine the results of a further sample telephone survey carried out by my Department. I have also commissioned a second detailed analysis of Scheme borrowers by outside consultants Robson Rhodes, who have been asked to look in depth at 150 Scheme borrowers, 50 of which have been subject to a claim under the guarantee arrangements, and 100 cases where the business is continuing to operate. I will be holding a series of meetings with banks and financial institutions involved in the Scheme, and with the main small firms representative organisations.I will also take full account of the many comments and representations I receive from Hon Members, my Department's Small Firms Service and individual small businesses.

PART 3 ends:-

FERB to Scottish Office 25/9.

PART begins:-

PUSS DTI to FST 5/10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