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PRIME MINISTER

18% earnings

5% loan in market

65,000. 500. *Beaumont*£300m - which relief
£200m to small business.Small Firms Policy: 10.30 am Tuesday, 14th October

Mr. Mitchell's minute of 11th July to you records that you agreed to hold this meeting in order 'to shift some of the road-blocks which are holding up progress on small firms' policy'. In addition to Mr. Mitchell, the Ministers attending will be the Chancellor of the Exchequer and the Secretaries of State for Industry, the Environment, Employment and Social Services. The Secretary of State for Trade will be in Greece and he has set out his views in his letter of today's date. He is to be represented by Mrs. Oppenheim.

2. Mr. Mitchell's main theme in his minute of 6th October is that the raising of finance is now the major outstanding problem facing those wishing to start-up or expand small firms. The three annexes to his paper list:-

- A. Work in hand.
- B. Further measures which he would like examined.
- C. The Government's achievements in this area over the last 15 months.

3. The Chancellor's office have circulated copies of a report by the Treasury's Interdepartmental Small Firms Working Group which sets out steps taken by the Government to reduce burdens on small firms. I do not think that the meeting will need to refer to this report since the ground is covered in Mr. Mitchell's Annex C.

HANDLING

① 4. After Mr. Mitchell has introduced his paper you might ask the
② Chancellor of the Exchequer if he wants to make any general comments. He may well wish to set the scene for the discussion by warning that, although he has some useful fiscal initiatives in mind, the scope for introducing concessions is inevitably limited by the cost to the PSBR of tax reliefs and of direct public expenditure.

5. I suggest that you might then use Mr. Mitchell's Annexes A and B as annotated agenda for the main part of the discussion. The objective might be to go through the points listed and to identify any which merit further or swifter

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action and any which should be ruled out. I doubt whether it is necessary to discuss Annex C, which summarises action already taken, but you might wish to conclude the meeting by asking whether there are any further points which Ministers think should be pursued. A number of the proposals are relatively detailed, and complicated, and I suggest that you should ask the Departments concerned to pursue them further outside the meeting.

Annex A

6. This is largely a list of work already in hand and you should be able to run through it relatively quickly. The items are conveniently grouped according to the responsibilities of the Ministers attending.

7. On the main points listed:-

(i) The Chancellor of the Exchequer will confirm that he is giving top priority to an examination of the feasibility and cost effectiveness of a scheme of tax relief for equity investment in small firms. The work is being carried out by the Treasury's FASE Group (Fiscal Aspects of the Strategy Exercise) and they have now recruited five outside experts, representative of the self-employed and those financing them, to help them on this work. I understand that they are likely to put proposals to Ministers by December.

(ii) The possibilities for management training for small firms can best be considered in the work which will follow the discussion in E on 15th October of the Secretary of State for Employment's paper on Industrial Training (E(80) 111).

(iii) De-rating of sealed parts of businesses premises has been considered before and ruled out. The main beneficiaries would be large rather than small firms. The loss of income would be a further burden on the local authorities unless the Government were to compensate them for it.

(iv) Mr. Mitchell's main complaint is likely to be against the proposed transfer of the provision of sickness pay for the first eight weeks to the employer. He will argue that if

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this applies to small firms it will negate most of the action which the Government has taken so far to help them. It may well be possible to do something to help small firms here but the Chancellor of the Exchequer will be anxious to avoid any major concessions - the proposals lead to DHSS staff savings of around 5,000 and to public expenditure savings in the order of £400 million a year (although the PSBR effect is broadly neutral because employers will be compensated by a reduction in their national insurance contributions). Consultations on this scheme have recently been completed and the Secretary of State for Social Services will be putting his proposals to H Committee on 21st October. In the meantime, and on the understanding that H will consider the problem of small firms, I suggest that the meeting should avoid pre-judging the question either way.

Annex B

8. The Chancellor of the Exchequer will be able to assure Mr. Mitchell that a review of a possible new scheme for stock relief is well in hand. He will probably be willing to agree that officials should look further at some of Mr. Mitchell's other proposals for tax relief, although with no assurance that they are all likely runners.

9. The proposal for a loan guarantee scheme has been examined before and the Chancellor and the Secretary of State for Industry have agreed that it should be left on ice. The Chancellor will probably remain of that view and argue that priority should be given to measures to encourage equity investment. As it is the banks have already increased their lending to small firms. It is questionable whether the introduction of the scheme would lead to additional lending and the Chancellor would not want to encourage the banks in that direction at this point in time. He will also want to avoid the risks of additional public expenditure which would occur to the extent that guarantees were called. There is however continuing pressure for the introduction of such a scheme and you will have seen that the Press have learnt of the fact that Ministers are to discuss it -
eg The Times, October 10th, page 19.



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10. Mr. Mitchell's third proposal for further action is that it might be sensible to merge the operations of the Department of Industry's Small Firms Service with those of the Department of the Environment's advisory service for manufacturing firms in the rural areas, COSIRA. I understand that the Secretaries of State for Industry and for the Environment are pursuing this, and so it should not be necessary for the meeting to discuss it.

CONCLUSIONS

11. In the light of the discussion you will wish to record conclusions:-
- (i) Taking note of Annex A and Annex C and identifying any items on which Ministers would like to see swifter progress.
 - (ii) Identifying those proposals in Annex B which should be pursued further by the Departments concerned and any further proposals which might be put forward at the meeting.

RA

(Robert Armstrong)

13th October 1980

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