Qa 05148

To: MR LANKESTER

From: J R IBBS

The Prime Minister's Meeting on Small Firms

1. Mr Mitchell's note sets out progress to date and suggests some new initiatives. We have two comments.

Financial Assistance

2. We believe that the private sector (clearing banks, local enterprise trusts, firms like Job Creation Ltd) has recently done much in response to Government interest to develop imaginative schemes to assist small firms. By contrast, it is clear that PSBR constraints will prevent Ministers from adopting all Mr Mitchell's proposals for extra financial help from the Government and that Ministers will need to be selective. Last year Ministers agreed to put tax relief for individual equity investment in small firms high on their list (objective i. in Annex A). At that time the Inland Revenue found it impossible to devise a relatively simple scheme without opening the door to massive tax avoidance. Ministers commissioned further work and, at our suggestion, outsiders were brought in to advise. Two meetings have now been held with the outsiders and a consensus appears to be emerging that the formidable difficulties of the original scheme could be overcome by adopting a more limited version concentrating on the area of greatest need. This would give relief for small sums (perhaps up to £10,000) of outside capital (i.e. provided by someone other than the entrepreneur) for a start-up (up to the first three years of a new firm's life). Although this will not be as generous a scheme as some Ministers originally hoped, the CPRS believes it would be a valuable incentive to individuals to provide finance for small firms at a critical stage of their development. We suggest the Prime Minister should encourage it as top priority for financial support. If it can be drafted to keep out the avoidance industry it is likely to cost some tens of millions of pounds, rather than around £100m. as envisaged in last year's scheme. It will, of course, be necessary to consider in the total Budgetary context whether even such a reduced scheme can be afforded.

Advisory Services

3. The most important non-fiscal proposal is the strengthening of the Department of Industry's Small Firms Service and its merger with COSIRA. We agree that the Small Firms Service could learn much from COSIRA and that some expansion to take on a more active role would be a good idea. We wonder, however, whether a merger is necessary to achieve this end. There is a risk that a merger would create a top-heavy bureaucratic structure and dilute COSIRA's effectiveness in the niche it has established so well without bringing large benefits to the Small Firms Service. If the Small Firms Service is expanded one problem it should concentrate on is helping firms find their way through the Government machine. Some local authorities have successfully set up industrial development officers who act as go-between for new small firms and the right people in central Government Departments, local government and the statutory undertakings (such as water authorities or electricity boards). Where possible the Department of Industry should encourage other local authorities to set up such contact points; if they do not the Small Firms Service should do so itself.

4. I am sending a copy of this minute to Sir Robert Armstrong.

JR

13 October 1980