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PRIME MINISTER

1 I am very suspicious of this proposed change. It will not be more efficient - it will just employ more people. Geoffrey Howe wrote to you on 3 March about an enterprise campaign and mentioned his hope that it might be possible to announce in the budget some form of partnership between the various Government advisory services to small firms. I am writing in the absence of Keith, who has been closely involved in our deliberations.

2 We have been discussing what might be possible in this area with Michael Heseltine and we have concluded that it is possible to bring services offered by the Department of Industry through the Small Firms Service and those offered by the Council for Small Industries in Rural Areas (COSIRA) together in a partnership which would eventually lead to a single unified public service organisation. The attached draft press notice gives an outline of what is proposed.

3 At present the Small Firms Service of the Department of Industry offers small firms throughout England an information and a business counselling service, while COSIRA provides for small firms with up to 20 employees in rural areas of England a business advisory service together with other services. There has been some considerable criticism of the duplication of

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services to small firms and a bringing together of these two services would be a first step along the road to meeting this criticism and developing the service. Michael, Keith and I have a strong preference for the services to be provided by a non-Civil Service organisation and this will require legislation. The Development Commission, of which COSIRA is a subsidiary, could provide a basis for the new service but in its existing form would not be suitable. Thus legislation will be required to reconstitute it and to furnish it with the appropriate powers. We appreciate that legislation cannot be introduced quickly and steps would need to be taken in the interim to bring about better coordination between the two small firms services.

4 In trying to devise a structure for the new organisation we have been very conscious of the need to satisfy two objectives which are not mutually compatible. On the one hand there is the rural lobby who will view any merger of the Development Commission and COSIRA with other organisations as an indication of a diminution in the Government's commitment to preserving the rural areas, while on the other there is the small firms lobby who would view the Development Commission in its existing form as being quite inappropriate to provide services to small firms throughout the country. Thus we have tried to walk a very narrow tightrope between these two objectives and at the same



time to pave the way for a new organisation which can carry forward our policy of giving every encouragement to the creation and support of small firms.

5 While in due course a new organisation would be created, it would not in practice be an additional public sector agency, since it would evolve from the Development Commission. No additional funding should be required beyond the modest extra provision already earmarked for the extension of the Small Firms Service and there would be no reduction in the services available in rural areas. But we do need your agreement and that of colleagues to the commitment to legislate as soon as practicable, for the change in Ministerial responsibility for the Development Commission that would be involved, and the establishment of a new Ministerial Committee whose existence would be made public.

*No - this
is confusing
change with
efficiency
The former
does not
mean the latter*

6 In addition, I would be grateful for your agreement to the changes that will be necessary in the size and structure of the Development Commission to enable us to develop an organisation which will be able to meet the needs of a population of 1.3 million small firms as opposed to the 20,000 in COSIRA's present catchment area.

7 Since Geoffrey Howe would like to make a preliminary announcement of these changes in his Budget Speech, the matter



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is I am afraid very urgent and your early views would be appreciated.

8 I am copying this minute to Geoffrey Howe, Michael Heseltine, Francis Pym, Jim Prior, George Younger, Nicholas Edwards and Christopher Soames, and to Sir Robert Armstrong.

AW

JP

J M

6 March 1981

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DRAFT

PRESS RELEASE

The Government is determined to give every encouragement to the creation and support of small firms.

The Chancellor of the Exchequer has announced a range of new initiatives to add to those already available that provide the necessary incentives.

It is the Government's intention to create a unified public service organisation reporting to the Secretary of State for Industry which will have responsibility for business advisory and related services for small firms throughout England.

At the moment these services are divided between the Small Firms Service run by the Department of Industry and COSIRA which is a wholly owned subsidiary of the Development Commission which is sponsored by the Department of the Environment.

Much valuable work has been done but this fragmentation of effort and resources is inconsistent with the priority that the Government want and attach to this important field. The Government will coordinate the strengths of both the Small Firms Service and COSIRA in one organisation and strengthen the total effort with the minimum of administrative change.



There is no administrative vehicle currently available capable of taking on this task. The Development Commission in its existing form would not be suitable: but re-constituted and with appropriate powers it could provide the basis for the new service. Legislation will be introduced to effect this as soon as possible. In the meantime measures will be taken by John MacGregor MP, the Minister with special responsibility for Small Firms, and Nigel Vinson, MVO, the Chairman of the Development Commission, to bring about better coordination of the existing small firms services and the expertise available therein.

There will also be a new Committee of all the Ministers concerned with the promotion of an effective and vigorous small firms sector, under the Chairmanship of the Department of Industry. In addition to coordinating policy for the small firms sector as a whole, this Ministerial Committee will oversee the coordination of the two services.

The Development Commission and COSTRA play an important role in the encouragement of small business in the countryside. This work must be preserved. The Secretary of State for the Environment will be a member of the new Committee of Ministers, and there will be no diminution in the range and standard of services provided by the Development Commission and COSTRA in the rural areas. The budget for rural areas will remain the responsibility of the Department of the Environment.



The Small Firms Service will receive an increase in resources (of about £1 million in 1981/82). In addition, arrangements will be considered for the Service to be associated with similar activities under the urban programme and also for it and COSIRA to be associated with the new Community Enterprise Programme being introduced by the MSC.

Department of Industry

6th March 1981