



JU839

PRIME MINISTER

① Prime Minister Agree this is a sufficiently non-bureaucratic way to proceed?

Yes

AT 4/11

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.

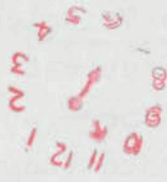
2 I am sending copies of this minute to Nigel Lawson, Patrick Jenkin, Norman Fowler, Tom King, Grey Gowrie and Sir Robert Armstrong.

NT

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4 November 1983

ECOV R2L : Small Form P-4



- 4 NOV 1983



RM
cc. Mr. Hunt

10 DOWNING STREET

7 November, 1983

From the Private Secretary

Dear Colman,

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



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.

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CABINET OFFICE

450

NBPM

AT 1411

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

Ben 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

Elow Policy
Small bins
Pt. 4.

BRIEF FOR THE DEBATE ON
GOVERNMENT MEASURES TO ASSIST SMALL
BUSINESS

ON FRIDAY 4TH NOVEMBER 1983

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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 mutual 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 agencies 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



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

Nov. 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 verbatim 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 authoritative 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 campaigned 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 1983EDINBURGH CONFERENCEINQUIRY COMMITTEE

Mr Roy Assersohn	Publisher, "YOUR BUSINESS" Magazine
Lord Bruce-Gardyne	Former Financial Secretary to the TREASURY
Monsieur Gustave Deleau MEP	President, COMITE EUROPEEN DE PATRONAGE, France; Chairman of CHAMBRE DE COMMERCE, Bethune; Member of the EUROPEAN PARLIAMENT
Mr Michael Grylls MP <u>Chairman</u>	Vice Chairman, UK EYSME National Organising Committee; Chairman, BACKBENCH PARLIAMENTARY TRADE & INDUSTRY COMMITTEE
Monsieur Robert Holtz	Chairman, FEDERATION INTERNATIONALES DES PETITES ET MOYENNES ENTERPRISES INDUSTRIELLES, France
Sir John Hoskyns	Head of Prime Minister's POLICY UNIT 1979-82
Mr Diarmid McLaughlin	Director of the Secretariat of the ECONOMIC & SOCIAL COMMITTEE
Mr William Nicoll	Director General, COUNCIL OF THE EUROPEAN COMMUNITIES
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

Sir Charles Villiers MC

Director, BRITISH STEEL CORPORATION
(INDUSTRY) LIMITED

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 1983EDINBURGH CONFERENCE

Mr Ian Adam	Partner, PRICE WATERHOUSE & CO; Edinburgh
Mr Roy Assersohn	Publisher, YOUR BUSINESS Magazine
Mr Douglas Bain	Industrial Development Division, SCOTTISH ECONOMIC PLANNING DEPARTMENT
Mr Barry Baldwin FCA	Member of the UK EYSME Organising Committee
Mr Graham Bannock	Director, ECONOMIST INTELLIGENCE UNIT
Lord Bruce-Gardyne	Former Financial Secretary to the TREASURY
Ms Marion Bieber	Director, ECONOMIST CONFERENCE UNIT
Monsieur Claude Brullant	EUROPEAN PARLIAMENT
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.
Monsieur Gustave Deleau MEP	President, COMITE DE PATRONAGE, France
Mr Robin Duthie CBE	Chairman, SCOTTISH DEVELOPMENT AGENCY
Mr J. Eversley	TYNE & WEAR ENTERPRISE TRUST
Mme Colette Flesch	Chairman, Luxembourg EYSME Committee.
Mr Julian Forster	Consultant in Management
Dott. Manlio Gerozzzi	President, CONFARTIGIANTO, Italy; Member of the ECONOMIC & SOCIAL COMMITTEE
Ms Teresa Gorman	Director, BAWTA LIMITED
Mr Graham Gosney	Head of Group Personnel Department UNITED BISCUITS PLC
Mr Michael Grylls MP	Vice Chairman, UK EYSME Committee; Chairman, BACKBENCH PARLIAMENTARY TRADE & INDUSTRY COMMITTEE
Mr Edward Hall	ASSOCIATION OF BRITISH CHAMBERS OF COMMERCE
Mr John Hamilton	ARTHUR YOUNG McCLELLAND MOORES & CO

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 ENTREPRISES 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
Mr Edward Potts	REGENERATION LIMITED
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 ADMINISTRATION
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.

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.

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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 entire 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 liaison 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 liaison 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 Subcontracting Specialists maintain close liaison 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 feasibility study of the idea. Once the feasibility 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 government enterprises.

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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 conscious 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 emphasise. 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 coordinate 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.

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 flexibility 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 Industry'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 consultancy 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 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 institutions 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 Government's 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 also 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.

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
Property	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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