



*B/F with Policy and
response*

Treasury Chambers, Parliament Street, SW1P 3AG

01-233 3000

17 May 1984

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

Norman

REVIEW OF THE LOAN GUARANTEE SCHEME

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

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

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

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

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

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



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

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

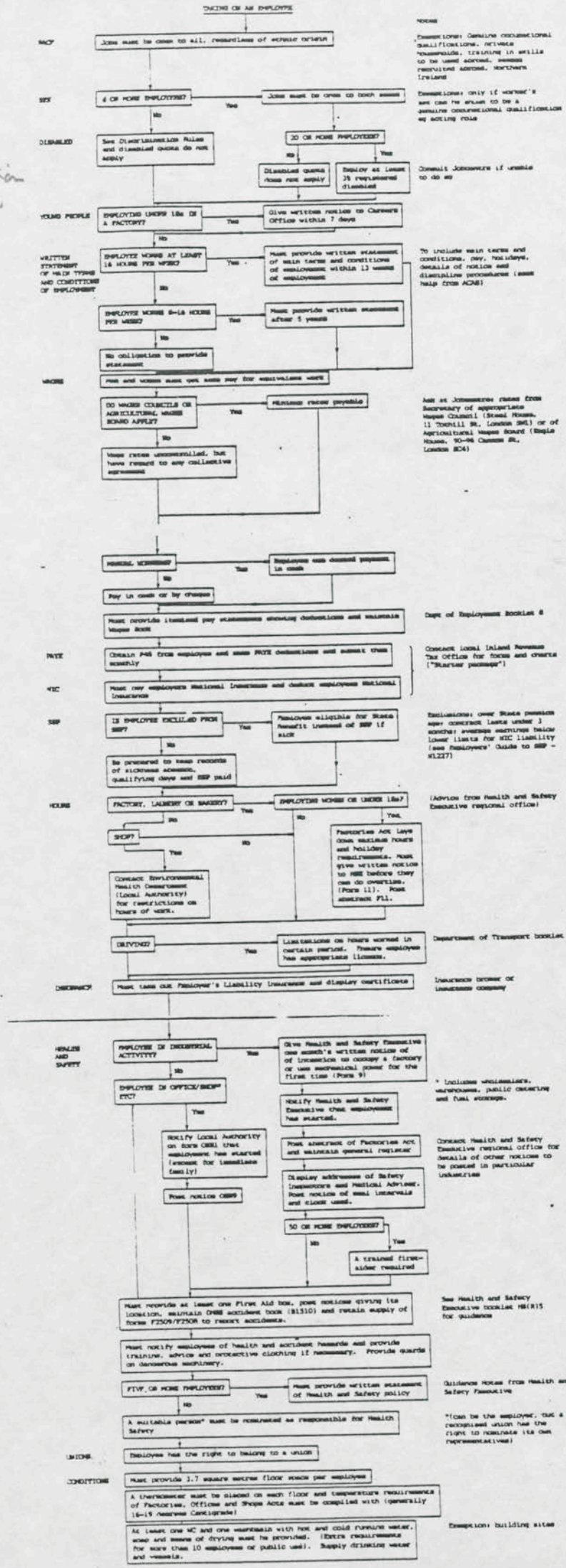
I am sure you are already considering with the participating financial institutions the administrative arrangements for tightening up the scheme. I believe my officials have recently put to yours some ideas for securing additional savings in this area and I think it would be useful if they too could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

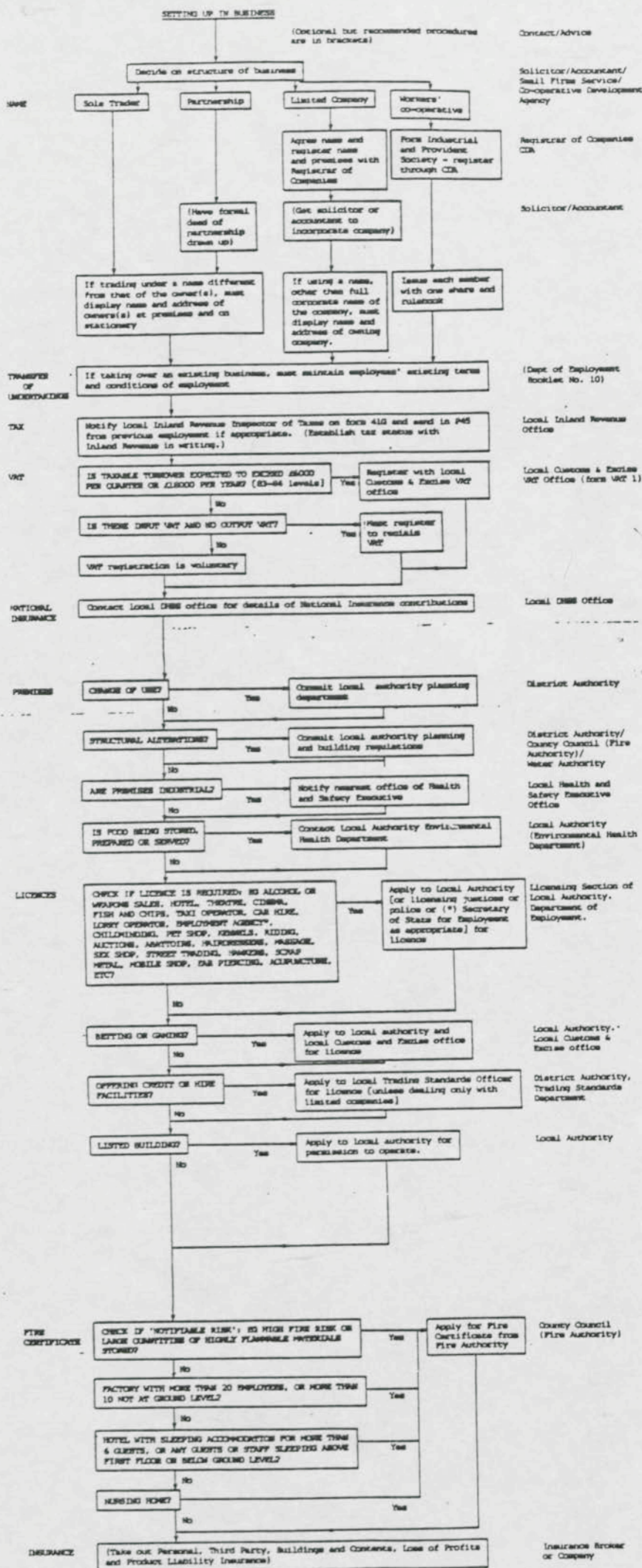
Copies of this letter go to the Prime Minister, the Secretaries of State for Northern Ireland, Scotland, Wales, the Environment and Employment and to the Governor of the Bank of England.

NIGEL LAWSON

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

AT







JU347

Secretary of State for Trade and Industry

NB PM
cc NO 2
DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET

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21 May 1984

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

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

AT
22/5

D Nigel,

REVIEW OF THE SMALL FIRMS LOAN GUARANTEE SCHEME

Thank you for your letter of 17 May.

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

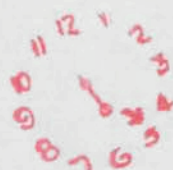
Copies of this letter go to the Prime Minister, Secretaries of State for Northern Ireland, Scotland, Wales, the Environment and Employment and to the Governor of the Bank of England.

cf
Norman

NORMAN TEBBIT

ECON POL: Small Firms: Pl-4

22 MAY 1984





JU289

Secretary of State for Trade and Industry

B/E via Treasury response
AT 115
CCJR
Copies of 1 May letter being sought
DEPARTMENT OF TRADE AND INDUSTRY
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10 May 1984

CONFIDENTIAL

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

D Nigel

REVIEW OF THE LOAN GUARANTEE SCHEME

Thank you for your letter of 1 May. *attached*

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

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

Total		22
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This provision is on a balance of risk of 70:30 and an increase in the premium of 5%. This will help tighten up evaluation and improve additionality. I do not think I can go further than this since that would so reduce the take up of the scheme as to frustrate our objectives.

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

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



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

4 *Norm*

NORMAN TEBBIT

enc

JU290A

DRAFT ARRANGED QUESTION AND ANSWER

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

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

ECON 402: Small Firms: Bx