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FILE

cc: J Redwood

10 DOWNING STREET

From the Private Secretary

21 May, 1984

Dear Callum,

LOAN GUARANTEE SCHEME

The Prime Minister has seen the exchange of correspondence between your Secretary of State and the Chancellor on the Loan Guarantee Scheme. She suggests that the way forward should be to close the present scheme, which is proving excessively costly, as soon as possible. A replacement scheme should be introduced immediately with a guaranteed proportion of 70 per cent and a premium of 5 per cent. While the small business sector may complain, it will be up to them to justify why a scheme, which was orginally intended to be self-financing, should have easier terms when it will cost £6 - 9 million a year. A new scheme should be announced as lasting in this form at least until December 1984, with the announcement making it clear that the search for further savings and improvements in the administration of the scheme will continue.

The Prime Minister understands that your Secretary of State has agreed to find off-setting savings for the new scheme, with the exception of £1 million required in 1984-85. She suggests that this £1 million, along with the costs of the existing scheme for which no provision exists, should be considered together with other potential over-spends on DTI programmes.

I am sending a copy of this letter to David Peretz (HM Treasury), Derek Hill (Northern Ireland Office), John Graham (Scottish Office), Colin Jones (Welsh Office), John Ballard (Department of the Environment), David Normington (Department of Employment) and to John Bartlett (Governor of the Bank of England's Office).

Yours sincerely

Andrew Turnbull

(A. Turnbull)

C. McCarthy, Esq.,
Department of Trade and Industry

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PRIME MINISTER

LOAN GUARANTEE SCHEME

There is a dispute between DTI and the Treasury on the financing and future of the Loan Guarantee Scheme. There are two elements:

i. where the money is to come from to finance the losses on the present scheme;

ii. whether a new scheme should be introduced and if so how long it should last and how it should be financed.

On the old scheme, there is an argument about £13 million of losses for which there is no provision. The Chancellor suggests that this be looked at as part of the overspend on DTI's total programme. The urgent need is to close the existing scheme as soon as possible.

On a new scheme, both Treasury and DTI agree that the guaranteed/unguaranteed split should be 70/30 and the premium be 5% (compared with 80/20 and 3% at present). Even this will cost £23 million over the next four years. DTI have agreed to find savings for £22 million from next year but are still squabbling with the Treasury over the £1 million required this year.

I suggest the way forward should be:

i. closure of the existing scheme immediately.

ii. introduction of a new scheme. To close the scheme without a replacement would put the Government in the position of defending this decision to the small business lobby.

/ iii.

iii. That tough conditions be set, ie 70/30 and 5% for the premium. The small business lobby will complain but the onus of proof will be on them to justify why the conditions should be more relaxed when a scheme which was intended to be self-financing is still costing £6-9 million a year.

iv. That the costs of the old and new scheme be found from savings in DTI's other programmes.

v. That the new scheme be announced as lasting at least until December but that it be made clear that the search is still going on for ways of tightening up the management of the scheme, eg by requiring proper appraisal and monitoring of applications.

Agree a minute to Mr. Tebbit making these points?

AT

Yes MT

18 May 1984

18 May 1984

MR TURNBULL

LOAN GUARANTEE SCHEME

Resolving the dispute between Treasury and DTI could take the following course:

1. It is desirable to carry on with some form of Loan Guarantee Scheme.

2. It should be made clear that losses are going to be reduced through tightening up Scheme management, and by throwing more of the risk onto the private sector banks involved. 70 per cent guarantee and a 5 per cent premium represents a useful improvement.

3. The most important decisions taken will be those about how to minimise losses made under the scheme.

4. The Treasury are right that the main public expenditure question is how to meet losses incurred under the existing scheme. This should be part of a review of the total overspend on the DTI programme.

5. The revamped Scheme, with much tougher criteria, lower guaranteed percentage, and high premium, could represent a cheaper way of supporting enterprise than many other pursued under DTI programmes. It should, however, be financed through reductions in other DTI programmes.

If the Prime Minister is happy with this analysis, she could write to the Treasury and the DTI reiterating the need for much tougher criteria, the need to make offsetting reductions in the DTI budget to cope with the losses incurred so far, and endorsing the new guarantee proportion.

John Redwood

JOHN REDWOOD

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NB PM

~~cc NO~~

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Secretary of State for Trade and Industry

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.

Yr
Norman

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22 MAY 1984