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bcc: J. Redwood

cc MASTER

10 DOWNING STREET

From the Private Secretary

24 July, 1984

Dear *Carlson*,

Administrative and Legislative Burdens
on Small Firms

The Prime Minister held a meeting today to review progress on reducing the administrative and legislative burdens on industry, and in particular on small firms. Present were the Lord Chancellor, the Home Secretary, the Chancellor of the Exchequer, Lord Gowrie, the Minister for Social Services and the Parliamentary Under-Secretaries of State in the Departments of Employment, the Environment and Trade and Industry (Mr. Clark, Mr. Macfarlane and Mr. Trippier). Also present were Sir Robert Armstrong and Mr. Redwood.

The Prime Minister said she was very disappointed at the progress of this exercise. All too often Departments appeared to be justifying the existence of regulations and were not questioning actively enough whether the regulations could be withdrawn, simplified or modified in their application to small firms. The Secretary of State for Trade and Industry was also disappointed; there were insufficient successes to justify an announcement to Parliament before the recess.

Mr. Trippier gave a short presentation on the growth of small firms and the administrative burdens they faced. In 1983 the net increase in the number of new enterprises was 47,000 compared with 23,000 in 1982. The increase in start ups had been small, from 163,000 to 168,000, the increase in the net figures being attributable to a smaller number of enterprises ceasing to trade. This reflected the improved business conditions in 1983. It was disappointing that the number of businesses coming into existence had not improved more.

Mr. Trippier then took the meeting through two charts, the first on the steps required to establish a new business,

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and the second on the steps necessary to take on a new employee. He identified a number of points on the charts at which the position was particularly unsatisfactory. Under Community legislation there had to be a transfer of undertakings when any company was taken over by another. This meant that new employees had to be taken on on their previous terms and conditions, even though these might have been too generous and might have contributed to the demise of the business. Often the only way round was to put a company into liquidation. A number of Departments were involved in issuing licences either directly or via local authorities. There were also many obstacles to be overcome for businessmen who wanted to acquire premises. In hiring employees, the employment protection legislation provided an important obstacle. Further obstacles were provided by the numerous health and safety regulations which required no less than 2,000 HMSO publications. It was noted that the Chancellor had produced a helpful starter pack to explain to potential employers their obligations in relation to taxation and national insurance contributions.

The Secretary of State for Trade and Industry put forward a number of suggestions. All Departments, from the top down, should be fully aware of the regulations generated by their policies. There should be an active search to see whether existing regulations could be abolished, simplified or re-packaged. Where new policy proposals were put forward papers should identify explicitly the impact of regulation on small firms. He recommended that it should become standard practice for papers to Cabinet Committees to provide this information, though he did not wish to carry this to the point of including information in new Bills. He had considered the proposal for an Enabling Bill to provide general exemption for small companies but had concluded this would be wrong. There were a number of abuses, e.g. of fire regulations, which occurred within the small firms sector and which the Government could not ignore. He proposed to announce shortly the re-packaging of DTI's schemes under four headings.

The Prime Minister said Sir Robin Ibbs had offered to conduct a scrutiny of compliance costs which looked at all the activities that the Government requires employers and business to undertake. This would pull together the activities of all Departments involved and provide a basis on which discussions could be taken about the compliance costs which were necessary and those which could be dispensed with. He proposed to launch this in September and complete it by the end of the year. It was agreed that this would be an extremely helpful initiative.

Mr. Macfarlane reported that DoE Circular 22/80 had had a noticeable effect in reducing the impact of planning

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controls but more needed to be done. The Department was planning a further Circular on industrial development. In addition, the Department intended to identify a sympathetic local authority who would, as a pilot project, establish a "one stop shop", from which businessmen seeking premises could acquire all the necessary consents.

In discussion, it was pointed out that the adoption of Community legislation by the last Government on the transfer of undertakings had been done without adequate interdepartmental consultation. It was necessary to consider whether EQ(O) was adequate for scrutinising the burden of regulations stemming from community legislation. It was suggested that much of the health and safety legislation could be repackaged, with job centres providing contact points for businessmen. It was also suggested that there were a number of areas in which local authorities were continuing to exercise unnecessary controls.

The Secretary of State for Employment in his letter of 19 July to the Secretary of State for Trade and Industry had argued that it would be unwise to make any changes to the rights of employees under the employment protection legislation against the background of the dispute over GCHQ. While it was recognised that there was validity in this point, it was argued that employment protection legislation was the constraint about which small firms felt most strongly. Even if no announcement were to be made soon, work could continue, though it was agreed that this would be best carried forward separately from the rest of the exercise.

Summing up, the Prime Minister said that Sir Robin Ibbs' offer to conduct a scrutiny on compliance costs was accepted. All Departments should develop greater consciousness of the regulations generated by their policies and should continue to question whether such regulations could be abolished or simplified. Sir Robert Armstrong should consider whether the Cabinet Office machinery was able to scrutinise adequately the impact on regulation of Community legislation; and he should consider how best papers to Cabinet Committees could bring out the impact of policy proposals on regulation and small firms. The Secretary of State for Employment should consider how to repackage health and safety legislation and how job centres might be used to provide access points for businessmen. Further study on employment protection legislation should be carried forward separately. The Secretary of State for Employment should prepare a circular urging local authorities to reduce controls on industrial development. Efforts should continue to identify a local authority willing to conduct a pilot project for the "one stop shop" approach for providing the consents necessary for the

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acquisition of premises; and should review whether there were areas in which the local authorities were operating controls which were no longer necessary. No further work should be done on an Enabling Bill. The repackaging of DTI's schemes should be announced as soon as possible. The group should reconvene in October to review progress.

I am copying this letter to Richard Stoate (Lord Chancellor's Office), Hugh Taylor (Home Office), David Peretz (HM Treasury), John Ballard (Department of the Environment), Steve Godber (Department of Health and Social Security), David Normington (Department of Employment), Mary Brown (Lord Gowrie's Office), Richard Hatfield (Cabinet Office) and Sir Robin Ibbs.

Yours sincerely

Andrew Turnbull

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Department of Trade and Industry.

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