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ASJ 12/2

8 February 1982

I am writing on the Prime Minister's behalf to thank you for your letter of 4 February, which I will place before the Prime Minister.

I do not think that the Prime Minister received any impression from your remarks at NEDC last week that the CBI is not enthusiastic about the measures taken already by the Government to assist the small firms sector. I am sure the Prime Minister will be interested to read the extracts from Sir Terence Beckett's speech last June; as you say, many commentators at that time were still claiming that the Government's package was little more than window-dressing.

MICHAEL SCHOLAR

Jeremy Pope, Esq.

J/P

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ELDRIDGE, POPE & CO
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TELEGRAMS:-
"ELDPOPE, DORCHESTER"
TELEPHONE NO.
DORCHESTER (0305) 64801
TELEX 418166 EPVIN G
CO. REG. IN ENGLAND NO. 52308
VAT REG. NO. 185 3454 46

OUR REF. JP/JL YOUR REF.

REGISTERED OFFICE
DORCHESTER BREWERY
P.O. BOX NO. 2, DORCHESTER
DORSET, ENGLAND
DT1 1QT

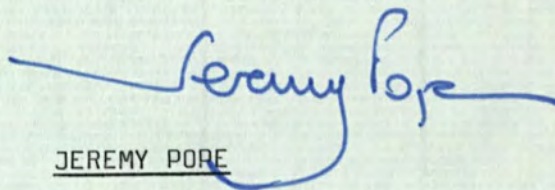
15th February, 1982

Michael Scholar, Esq.,
Private Secretary to the Prime Minister,
10 Downing Street,
London, S.W.1.

Dear Mr. Scholar,

Thank you for your letter of the 8th February, the contents
of which I note.

Yours sincerely,


JEREMY POPE



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OUR REF. JP/JL YOUR REF.

4th February, 1982

The Rt. Hon. Margaret Thatcher, M.P.,
The Prime Minister,
10 Downing Street,
London, S.W.1.

CB

Dear Prime Minister,

I am concerned lest the shortage of time and thus the fleeting nature of my introduction to our paper on Smaller Firms at yesterday's meeting of the N.E.D.C., may have left you with the impression that the C.B.I., is not enthusiastic about the measures taken already by the Government to assist the small firms sector.

For the record we were foremost of the few who actively supported the arrangements after the Chancellor's Budget Speech last year and, as I am certain staff at the Inland Revenue under Mr. John Isaac can vouch for, it was the help and advice of several members of the Smaller Firms Council and Sonia Elkin in particular, which moulded the original ideas into the more dynamic creature contained in the Finance Act. Incidentally both John MacGregor and John Isaac took the trouble to write and thank Sonia Elkin for our support and assistance.

As to public utterances in support of these proposals I enclose extracts from a speech delivered by Sir Terence Beckett in June at a time when many commentators were still claiming that the package was little more than window dressing. I also enclose an extract from the Business Opportunities supplement to the October issue of British Business following a winding-up speech I made at the first B.O.P. Conference in September.

If I may pursue my horticultural analogy of yesterday we are keenly in favour of the seedbed being tended and fertilised. However until the macro-economic climate rises above 45^oF. that investment will not bear fruit because the germination and growth will not have occurred. That is not to say the husbandry and preparation should stop. On the contrary we believe it to be of such importance that the excellent foundations laid last year should be extended.

Contd./.....



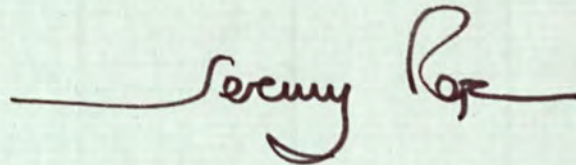
The Rt. Hon. Margaret Thatcher, M.P.

4th February, 1982

The concept of broadening the equity base of smaller companies, whether new or established, is evidently one which finds favour in the sight of Patrick Jenkin and his Department. We, of course, appreciate that in these difficult times the further extension of the Scheme may be regarded as unaffordable by Government. However, any extension of a scheme, which is designed essentially to help the enterprising help themselves, would be invaluable and in particular the creation of the concept of the Smaller Firms Investment Company. We are acutely aware that extensions might lead to abuse and tax evasion. That is an area where we are in close touch with the Inland Revenue but subject to proper safeguards is no reason for stifling initiative. As the distinction between A.I.F's, such as Electra House, and S.F.I.C's is frequently misunderstood I enclose a brief synopsis of their different attributes.

We are still strongly supportive of the initiatives taken by the Government and are greatly encouraged that apart from some differences in emphasis, which I highlighted yesterday, our perception of the place and contribution of the sector coincides so closely with that of the Government. Neither the Smaller Firms Council nor the C.B.I., are seeking to act irresponsibly by pressing for these extensions. In the case of the Smaller Firms parts of our Budget Representations we have said what we would like to see (as has the D.O.I. in its paper to N.E.D.C.) but the Chancellor and the Cabinet must naturally be the final arbiter in the matter.

Yours sincerely,



JEREMY POPE

Encs.



There can be no doubt that the importance of smaller firms are well recognised by the present Government. The launching of the Business Opportunities Programme last month provides firm evidence, and goes far beyond mere words and political rhetoric, heralding, as it does, constructive measures to help.

The CBI believes that the Business Start-up Scheme announced in the Budget is one of the most important contributions any Government has made towards encouraging the starting of new firms since the war. It has, as you will know, attracted considerable criticism in the Press and elsewhere because of certain restrictions attached to it. No one, least of all the CBI wants to see the scope of the scheme and thus its impact on job and wealth-creation so hedged about with conditions that it becomes impotent. But we believe it has some real potential and have therefore worked with the Government to prepare the amendments to the Finance Bill which, it is generally agreed are necessary if the Government's concept is to achieve the desired result, but recognising that there must be some protection against blatant abuse which would discredit the scheme.

Unfortunately, the other measures which the Chancellor took in his recent Budget to help smaller firms have been largely overlooked in all the controversy there has been on the Business Start-up Scheme. I have heard it said that small firms are never satisfied. Whatever they are given, they ask for more. That from having had all the characteristics of Oliver Twist, begging for affection and recognition from a basis of deprivation and starvation, they are now becoming Billy Bunters - overfed and greedy.

But that, as you all know, is very far from being the true picture, and those who allow the impression to arise do small firms no service. It has been necessary to be very straight with this and previous Governments about the real day to day problems facing the man or woman trying to set up a new business or run an existing one. The CBI has devoted considerable resources to doing just this. But when the Government does something positive for business then for God's sake, let's welcome it.

Take the loan guarantee scheme. We have had doubts about the potential of any such scheme for creating additional lending to small businesses. We were concerned on the one hand that the Government should not simply subsidise the bank's risk and on the other that the scheme did not result in pushing the frontiers of lending beyond projects that have the potential for commercial viability.

However, we have been surprised by the hostile reaction to the scheme from some groups which ought to know better and have lobbied so vigorously for its introduction. It has been condemned by them as being too expensive. But surely this is to miss the intention and object of the scheme. This is to push the risk forward so that projects where there is a short-fall in security or track record may be able to obtain funds. If the critics of the scheme feel it will fail to achieve this objective, they have grounds for concern, but it is not reasonable to criticise it because it does not provide cheap loans.

The banks have to decide if they want this business and then compete for it on commercial terms. Whether the level of the Government premium is too high must be tested. If it is set too low and the exchequer loses, this will add to Government borrowing. If it is too high people will not be prepared to pay.

So, I believe there must be a period of experiment in order to see whether a loan guarantee scheme is a cost effective way of stimulating new and small businesses and whether its terms are right. We must give it a try.

Small firms are not different from the rest

MacGregor: We are now determined to refocus on small firms.



Jeremy Pope, finance and planning director of the small but thriving Dorchester brewers Eldridge, Pope & Co, talks to Alan Williams about the problems of small businesses and firmly dispels the belief that small firms are in some way different from others.

Jeremy Pope knows all about brewing new business because in addition to being the chairman of the Confederation of British Industry's small firms council, he is finance and planning director of Dorchester brewers Eldridge, Pope & Co, a company he describes as a 'big small business' with some 250 employees in the brewery itself. The company has just finished overseeing a thorough modernisation and rationalisation of the works, which is still very much a local brewery, having avoided the rash of takeovers and mergers in the 1950s and 1960s, and although he confesses that it couldn't have been done at a more difficult time, he is confident that his major investment in new equipment was right and that as a result the company will be much better placed to take advantage of the upturn when it comes. He admits to being worried about the trading situation but is not pessimistic and shuns price cutting to gain a marginally larger slice of the market as a short-term expedient, preferring in difficult times simply to remain competitive and to instead emphasise quality and service.

Pope is dismissive of those who argue that small firms are somehow different from others and insists that, at the end of the day, what is good for business in general is good for small businesses in particular. However, he has great sympathy for the entrepreneur with an idea but little else who finds himself faced with a plethora of organisations and well-meaning advisors all bombarding him with information but in the end serving only to further confuse. **He is openly enthusiastic about the business opportunities programme, which he sees quite simply as a package for the small firm which is without parallel in recent history.** He acknowledges that, as with existing industries, no amount of government aid or assistance will make a basically weak company strong, but he thinks industry has been far too slow to recognise the enormous psychological barrier which has been broken down by getting a scheme under way which actually attracts individual investors into new businesses.

He feels that people already in business have an important role to play in the generation of new enterprise, and that projects like the young enterprise scheme, where teenage school children are actually encouraged to run their own little enterprises under guidance, deserve much more support from the business fraternity than they usually get. He readily admits that, if it hadn't been for

his family business interests, he would probably not have gone into industry himself after his legal training because the general feeling among his peers was that industry was somehow boring and not particularly respectable compared to a career in the professions.

He is keen to get more professionalism into industry now for he feels that the typical small business is characterised by a surfeit of enthusiasm – which he adds wryly is probably no bad thing, given some of the frustrations – but also by a compensating lack of professionalism. Far too many people, he feels, when they start a business begin with no more than a vague pipe-dream. They seem to feel that they need to do no more than pour their heart out to their bank manager and then get upset when he fails to come up with the cash. He is adamant that before anybody starts out in business they need to know precisely what they want to do and how they hope to do it. And they have got to be prepared to pull round them a workable team of people of like mind.

But doesn't that advice clash with his views about industry and the professions? Not at all, it seems. He is all in favour of getting as much advice as possible, particularly from an accountant, before presenting a case to the bank, but insists that in the end the real test of the competence of an embryonic management is its ability to assimilate and use the advice it is given. It seems that to succeed, the principal of a small company has got to be prepared to throw aside the mantle of the production manager and look further afield. He feels that too many of the people he meets who are setting up companies, although great experts in their own field, are so blinkered and mesmerised by that activity that they haven't been prepared to look further afield until forced to do so by external factors. And for that reason, he says, they tend to regard any new government legislation or taxation proposals as by definition an irritant deliberately introduced by government simply to frustrate their particular activity, whereas in fact in most cases the fault is simply that they haven't organised themselves adequately so as to be able to deal with the normal burden of administering a company which of course includes ensuring an adequate flow of management information. Surprisingly, many smaller firms still turn their face against the accountancy skills which are in fact crucially important to the survival of any

company, large or small. Jeremy Pope is quite adamant on this point. However good a technologist or salesman a principal may be, unless he has the skeleton of an efficient management and accounting system behind him, he is almost bound to fail, says Pope, particularly in an inflationary environment where costs and prices need to be constantly monitored.

What then, does he think are the prerequisites for a successful entrepreneur? First, it seems, it is

no good going into business nowadays unless you are prepared to be totally dedicated and committed to hard work.

Secondly, even if it has to be imported, some professional experience in law or accountancy, banking or finance, is a must so as to establish a regime which considers developments carefully rather than one that lives from day to day and is characterised by instant decisions.

Thirdly, a realisation that, whether one likes it or not, it is

government that makes rules about Vat, taxation and so on and that it really is a waste of time and totally counter-productive to be constantly complaining about the rules of the game. Pope thinks that, instead of regarding the Vat inspector as the enemy, progressive management should realise that a basic Vat system, for example, can also be a very useful management tool if used properly because it measures the value that is added and therefore can be made to provide information

that might not otherwise be produced.

And finally, a warning that complacency is apparently the killer of all invention. Too many companies, says Pope firmly, stop thinking about the future when they are reasonably successful and subconsciously begin to rest on their laurels. And that in his book is the beginning of the end. 'Clogs to clogs in three generations.' Now there's a thought. I wonder if there's a market for plastic clogs . . .

MAIN DIFFERENCES BETWEEN SMALL FIRMS INVESTMENT COMPANIES (SFICs)
AND APPROVED INVESTMENT FUNDS (AIFs)

AIFs exist under the Government's "Business Start-Up Scheme" to bring together the funds of a number of investors and spread them over a number of separate business starts. Effectively AIFs act as the agents or nominees for the individual investor.

SFICs, as proposed by the CBI, would act as intermediaries between investors and smaller companies. Individual investors would buy shares in the SFIC and obtain tax relief on their investment. The SFIC itself would then invest in a portfolio of eligible small companies.

Although there are similarities between SFICs and AIFs the important differences are as follows:

AIF

1. Can accept investment only from individuals.
2. Invests as a nominee of the investor.
3. Investment is confined to equity in "new" businesses.
4. Because the individual has title to the shares in the new business, at the end of the qualifying period he has to find his own purchaser if he wishes to realise the shares. If the business has not gone public this can present difficulties.
5. Funds require the specific and individual approval of the Revenue to allow the managers to act on behalf of individuals to spread their investments over a broad range of new business start ups.

SFIC

Can accept investments from funds and institutions as well as individuals.

The investor takes shares in the SFIC which itself takes shares in the company.

A SFIC may make loans or take equity in existing as well as new businesses.

As the investor purchases shares in the SFIC, the SFIC itself provides some sort of a market for shares as new investors come in. Further, it is quite possible that the SFIC itself might go public and will market its shares, although its investments may all be in private companies. This would make the realising of shares in the SFIC very straightforward.

SFICs would be governed by their own constitutions, general company law and specific existing legislation (such as the Prevention of Fraud Investments Act) which protects investors. They would be a great deal less complex and more flexible.