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MINUTES of a Meeting held at 10 Downing Street on
TUESDAY 14 OCTOBER 1980 at 10.30 am to discuss Small Firms Policy

PRESENT

Prime Minister

Chancellor of the Exchequer

Secretary of State for Industry

Secretary of State for
Employment

Secretary of State for the
Environment

Secretary of State for Social
Services

Minister of State, Department
of Trade (Mrs Oppenheim)

Parliamentary Under-Secretary
of State, Department of Industry
(Mr Mitchell)

Sir Robert Armstrong
Mr D J L Moore

1. The meeting considered a note of 6 October from the Parliamentary Secretary, Department of Industry to the Prime Minister on small firms policy. They also had before them a note of 13 October from the Secretary of State for Trade.
2. The Parliamentary Secretary, Department of Industry said that in the first six months of 1980 start-ups and closures of small firms were broadly in balance. More recently however there were signs of an increase in the rate of closures, mainly because of a drop in orders and the high costs of borrowing on overdraft. So far the organisations representative of the small firms had welcomed the measures taken to help them and had been restrained in public criticism of the Government over the difficulties still facing them. It was however likely that their frustration over these difficulties would come increasingly to the surface, particularly if no concessions were made to them over the proposed transfer of the provision of sickness pay for the first eight weeks to the employer. There were four main components of the Government's policy towards small firms: to reduce the burdens facing new firms starting up and expanding; to give incentives through lower personal taxes; to increase resources within the firms; and to improve advisory services. The Government had already introduced a number of useful measures to help small firms but financing

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remained as the major outstanding problem. Annex A to his note summarised measures currently under consideration; Annex B proposed some further measures; and Annex C listed the achievements in the Government's first fifteen months of office.

A: MEASURES UNDER REVIEW

Fiscal Measures

3. In discussion of the fiscal measures currently under consideration, and listed in Annex A to the note, the Chancellor of the Exchequer made the following points -

- i. The Treasury's FASE Group, which now included five outside experts, were giving priority to examination of a limited scheme of tax relief for equity investment in small firms. Their aim was to make proposals by Christmas and he hoped that it would be possible to introduce a scheme in his next Budget. The Treasury were also looking at the possibility for the introduction of small business investment clubs, although it was uncertain whether any new measures could be introduced in the next Budget.
- ii. It would be too costly to make any early changes in capital taxation, although he did not rule out the possibility of further changes later on in this Parliament.
- iii. The proposal for a system of estimating quarterly payments of VAT by small firms had been thoroughly examined before, and ruled out as having considerable practical difficulties. He accepted however that the meeting would welcome some help to small firms in this direction and he would ask the Minister of State, Treasury, Mr Rees, to consider this further with Mr Mitchell.
- iv. Mr Rees had recently visited America to examine fiscal incentives there, and in particular those aimed at high technology growth industries. He was now considering whether any of these ideas might be suitable for introduction here. Mr Rees would cover the possibility of a scheme of share options for employees but it would be necessary to avoid tax-free handouts and the Chancellor could not give an assurance at this stage that any such scheme could be included in the next Budget.

v. The Secretary of State for Trade, in his note of 13 October, had pointed to the case for following up the amendments to company law to permit companies to purchase their own shares by tax changes. Treasury Ministers were now considering this although he could not guarantee at this stage that changes could be made in the next Budget.

Training

4. The Secretary of State for Employment said that it might be possible to do something further for training of managers of small firms in the course of the current review of industrial training. This would not however necessarily be through the Industrial Training Boards, since it was likely that they would be reduced in number.

Rates

5. Rates were a considerable burden on industry but there was no early prospect of de-rating sealed parts of business premises. It would cost too much at a time when local authority finances were already under strain.

Gas Boards

6. The Secretary of State for Trade would make proposals later in the year when he had completed his consultations on the Monopolies and Mergers Commission's Report on Gas Boards.

Sick Pay

7. The Secretary of State for Social Services said that consultations were now completed on the Green Paper proposing the transfer of the provision of sickness pay for the first eight weeks to the employer. His provisional judgment was that to win support for the legislation to enable these changes it would be necessary to make some further financial concessions to firms, without losing the major staff savings which were in prospect. He would wish to discuss the options further with the other Ministers concerned and, on a confidential basis, with representatives of the employers. These discussions would cover, among others, the special problems of the small firms. He would then put proposals to the Home Affairs Committee, although it was unlikely that he would be able to do so by 21 October as had been hoped.

B. POSSIBLE FURTHER MEASURES

Corporation Tax

8. The Chancellor of the Exchequer said that a review of stock relief was well in hand. When it was completed he would consult other Ministers. He would be willing to consider any detailed proposals Mr Mitchell might put forward on the carry-back of first year allowances for investment and on start-ups. It would however be necessary to look carefully at the costs and practicality of any such schemes. He noted the meeting's view that it would be better to relate any reliefs to profits and to avoid the risks of giving what would effectively be grants to basically unprofitable companies.

Loan Guarantee Scheme

9. In discussion it was pointed out that, while the banks had made some progress in increasing their lending to small firms, they were still moving too slowly. In particular they were sometimes unhelpful in meeting the requirements of small firms wishing to expand. They demanded too high a collateral - often a pledge of the owner's house - for such lending. There should now be an urgent re-examination of the possibilities for introducing a scheme to deal with this problem. The scheme should not involve subsidies; and it was suggested that, with allowance for the costs of starting it up, it might be on the lines of the self-financing Agricultural Credit Corporation. The introduction of such a scheme, or even renewed discussion of its possibility, might well stimulate the banks to greater activity in this area.

Management Advisory Services

10. The Secretaries of State for Industry and for the Environment were discussing the case for combining the activities of the Department of Industry's Small Firms Advisory Service with that of the Department of the Environment's Council for Small Industries in Rural Areas (COSIRA).

11. THE PRIME MINISTER, summing up the discussion said that the meeting had taken note of a number of measures on which work was in progress. The possibilities for further fiscal concessions were constrained by the costs and if the Parliamentary Secretary, Department of Industry, wished to ask the

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Chancellor of the Exchequer to consider any of his proposals further he should indicate what priority he attached to them. The meeting was particularly concerned that the banks were still failing to offer loans on reasonable terms to small and expanding firms. The Chancellor of the Exchequer and the Secretary of State for Industry should now consider this further and discuss the possibilities for introducing an unsubsidised loan guarantee scheme with the Bank of England, the clearing banks, and other lending institutions.

The Meeting -

1. Took note of the work in progress summarised in Annex A of the Parliamentary Secretary, Department of Industry's note of 6 October, and of the points made in discussion of it.
2. Invited the Parliamentary Secretary, Department of Industry to put to the Chancellor of the Exchequer any specific proposals he wished to make for further fiscal changes helpful to small firms, and to indicate the priority he attached to them.
3. Invited the Chancellor of the Exchequer, in consultation with the Secretary of State for Industry, to bring forward proposals as soon as possible, taking account of the points made in discussion, for the possible introduction of a new scheme of lending to small firms.

CIRCULATION: Those present.

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