



Prime Minister

MS 1/3

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## 1982 BUDGET

The proposals in Patrick Jenkin's letter of 13 February seem desirable, if we are serious in our efforts to encourage small and new companies.

The response to the Loan Guarantee Scheme suggests it may be filling a gap in the sources of credit for small companies. Unless the ceiling is raised, we would be cutting off what now looks like a successful experiment before it could be fully evaluated, which would make no sense at all for what may well prove a valuable scheme. I am sure that the limit should be raised to £300m, as Patrick suggests, but I agree that we should keep the limit on loans at £75,000.

Patrick's remarks about the Business Start Up scheme confirm the anxieties that we have discussed about incentives in this field. It is now possibly too late but I have no doubt that if you really want results in this field you will have to move to a repayment of tax by way of grant system and you will have to so simplify the rules that effectively-within prescribed categories-repayment is certain and not open to bureaucratic scrutiny. In the meantime I support Patrick's suggestions to boost the existing scheme.

I am copying this letter to the Prime Minister, the Lord Chancellor the Secretaries of State for Scotland, Wales, Trade, Industry, Social Services, Energy and Employment and to Sir Robert Armstrong.

Yours ever

MICHAEL HESELTINE