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Treasury Chambers, Parliament Street. SW1P 3AG
01-233 3000

5 November 1984

David Trippier Esq MP
Parliamentary Under Secretary
Department of Trade and Industry
1 Victoria Street
LONDON SW1

A handwritten signature in dark ink, appearing to read 'David Trippier'.

SMALL BUSINESS LOAN GUARANTEE SCHEME*file with AT*

You wrote to me on 18 October about the future of this scheme. I have since seen Peter Walker's letter of 29 October and David Young's letter of 31 October.

You yourself have identified some of the problems associated with the present scheme and it is my own firm view that a loan scheme is not cost-effective. Nevertheless, I accept that it would create political difficulties if the present arrangements were simply allowed to lapse at the end of December. I think we therefore need to handle the extension of the scheme in as low a key as possible, while ensuring that we do not arouse expectations that a loan scheme has any permanent place in our plans for assisting small businesses.

I was interested to read your comments on the Business Expansion Scheme in this context. The latest information we have indicates that BES funds are going to really small companies as well as to some which are rather larger. We need a little more time before we can make a full assessment but this preliminary evidence does, I think, point in the direction of minimal further commitment to the Loan Guarantee Scheme. I understand, of course, that the BES does not apply to unincorporated businesses, but I am certainly prepared to consider whether a practical alternative could be devised for them.

My strong preference is therefore to make no change in the terms of the existing Loan Guarantee Scheme but simply to announce an extension for one further year. We may be criticised for not reducing the premium but we should be able to handle this without undue difficulty.

However, given the very tight public expenditure constraints under which we are currently operating, I fear I can hold

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out no hope of offering you any additional provision to meet the potential costs of extending the scheme. These must, in consequence, be met from within your agreed PES baseline. (I understand that costs arising from the present and preceding schemes are already covered in your PES provision). If you judge that you must give other items in your programme higher priority and that you cannot make room for any losses arising from an extension of the scheme, then I can see no alternative but to close it at the end of December.

Copies of this letter go to the Prime Minister, other members of E(A) and to Sir Robert Armstrong.

A handwritten signature in dark ink, appearing to read "Nigel Lawson".

NIGEL LAWSON

ECOM PD PT 5

Small Army



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CABINET OFFICE

From the Minister without Portfolio

70 Whitehall
London SW1A 2AS
Telephone 233 3299

The Rt. Hon. Lord Young of Graffham

The Rt. Hon. Nigel Lawson O.C., M.P., 31st October, 1984
Chancellor of the Exchequer,
H M Treasury,
Parliament Street,
London, S.W.1.

NSPM

Nigel

SMALL FIRMS LOAN GUARANTEE SCHEME

I read with interest David Trippier's letter to you of 18th October about the future of the Small Firms Loan Guarantee Scheme. I agree with David and Norman Tebbit that, while the operation of this scheme has clearly been less than satisfactory up to now, we should be looking to improve it rather than terminate it. To do the latter would, I believe, send fundamentally the wrong message to the business community about our commitment to small firms. I therefore believe that we should introduce an amended LGS, drawing on the lessons learned from operating the original Scheme.

In this respect, David has clearly given considerable thought to how the Scheme might be tightened up to improve its performance. I agree that the premium should be kept at the present 3%. As to the proportion of the loan to be guaranteed by the Government, I am, however, attracted to the idea of a one third/two thirds split for two reasons. First, because this simple breakdown is something which the banking and business community typically uses and understands. Secondly, because it would further raise the banks' exposure - albeit marginally - thus putting further pressure on the banks to get their initial loan decisions right and then to monitor the progress of the borrowing firms.

David Trippier's other proposals - for a business plan prepared with the assistance of an accountant, a system of regular quarterly monitoring and encouragement to use sources of outside advice such as the Small Firms Service - are all appropriate ways of seeking to improve the performance of the LGS.

I am copying this to the recipients of David Trippier's letter of 18th October.

Lawson

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Small Firms
Part 5

30 OCT 1984

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SECRETARY OF STATE FOR ENERGY
THAMES HOUSE SOUTH
MILLBANK LONDON SW1P 4QJ

01 211 6402

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
HM Treasury
Parliament Street
London
SW1P 3AG

29 October 1984

SMALL BUSINESS LOAN GUARANTEE SCHEME

I have seen David Trippier's letter to you of 18/ October.

I hope we can agree to the new scheme he has suggested. Not only is it important to demonstrate our continuing commitment to small firms, but the scheme has potential as a reinforcement for the activities of NCB (Enterprise) Ltd in supporting and initiating job creation efforts in mining areas.

I am copying this letter to the Prime Minister, other members of E(A), and to Sir Robert Armstrong.

PETER WALKER

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Small Firms
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SWYDDFA GYMREIG
GWYDYR HOUSE
WHITEHALL LONDON SW1A 2ER
Tel. 01-233 3000 (Switsfwrdd)
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Oddi wrth Ysgrifennydd Gwladol Cymru

WELSH OFFICE
GWYDYR HOUSE
WHITEHALL LONDON SW1A 2ER
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01-233 6106 (Direct Line)

From The Secretary of State for Wales

The Rt Hon Nicholas Edwards MP

7 November 1984

SMALL BUSINESS LOAN GUARANTEE SCHEME

File with AT

David Trippier's letter to you of 18 October sets out proposals for a new small businesses Loan Guarantee Scheme.

The Loan Guarantee Scheme is certainly perceived by the small business sector as one of the more useful and positive measures we have introduced and I do very much agree with David Trippier's observation that in deciding upon the future of the scheme and the balance of the conditions we are treading on very delicate political ground.

Prior to the changes that were introduced to the Scheme earlier this year it was extensively used and on the whole to good effect in terms of business development and job creation. The more recent evidence suggests that the Scheme as constituted at present is dying on its feet: only thirteen guarantees were issued in Wales in the quarter to end-September. There is a very real danger that the small business sector will be quite disenchanted if we do not now strike the right note and I believe that David's proposals have been seen against that background.

It is not clear which of the changes that were introduced are thought to be the primary cause of the sharp reduction in take up. The implication of David's letter is that the increase in the premium has been the more significant and with that in mind I welcome the proposal to restore it to 3%. I welcome too the proposal to continue the guarantee at 70% though, like David Young, I would not see much wrong with a one-third/two-thirds split; and the proposals for business plans, monitoring etc all seem eminently sensible.

I am, however ...

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
HM Treasury
Parliament Street
London
SW1



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I am, however, not at all convinced that we should be going so far as to insist that an applicant must be unable to provide security. It is right and proper that an entrepreneur should make some financial commitment to the risks and he and others take to finance projects; but it is asking a lot to insist that an entrepreneur's personal assets are laid on the line. This provision could well be very restrictive and deter many prospective entrepreneurs. It will also convince many bank managers that they are right to regard security more highly than the prospects of the project. The establishment of a climate which encourages business enterprise is one of the major planks of our policy and schemes which assist the development of small businesses are part of that policy. If we accept this then we need to think carefully about imposing such a constraint that could render the scheme ineffectual and deter the growth of the small firms sector.

/ I am copying this letter to the Prime Minister, David Trippier, Lord Young, other members of E(A) and to Sir Robert Armstrong.

John

Neil

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NORTHERN IRELAND OFFICE
WHITEHALL
LONDON SW1A 2AZ

SECRETARY OF STATE
FOR
NORTHERN IRELAND

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
HM Treasury
Parliament Street
LONDON
SW1

6 November 1984

Dear Nigel,

SMALL BUSINESS LOAN GUARANTEE SCHEME

I have seen a copy of David Trippier's letter to you of 18 October 1984 about the future of the Small Business Loan Guarantee Scheme.

Whilst I can understand concern about the cost of the scheme to Government and the scale of the losses which have occurred to date, it is important not to lose sight of the value of the scheme. Although the level of scheme lending in NI has been low compared with other UK regions, it offers an important source of loan finance for small business and is of course an important proof of our commitment to the small firms sector.

I would agree with David's suggestion that we might now attempt to amend the scheme to reduce losses whilst maintaining its attractiveness to the business community. The proposals which he has put forward should encourage greater discipline both on the part of borrowers in terms of the preparation of their proposals and on the part of the banks in their monitoring of client companies, and I would support an extension of the scheme along these lines.

I am copying this letter to the Prime Minister, other Members of E(A) and to Sir Robert Armstrong.

*Yours,
Douglas*

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Small Firms.

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SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
HM Treasury
Parliament Street
LONDON
SW1P 3AG

6th November 1984

Dear Nigel,

SMALL BUSINESS LOAN GUARANTEE SCHEME

David Trippier copied to me his letter to you of 18 October about this Scheme.

You may recall that at the time of the Scheme review in April this year, I agreed that it should continue and made some suggestions about modifying it to take account of the financial control weaknesses. I am still firmly of the view that the Scheme should continue as one of the main planks of our small firms policy.

In April I was opposed to increasing the premium from 3% to 5% because of the prospect of this leading to a reduced usage and to a greater failure rate because of the additional repayment burden. I welcome therefore David Trippier's latest proposal regarding the premium. His suggestions about control are very much in line with my own thoughts, both in terms of minimising our losses and, perhaps more importantly in the long term, doing what we can to ensure small firms are set on a sound financial footing.

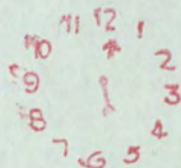
I fully accept the need for a well-developed business plan and periodic financial monitoring. I have some reservations about requiring the business plan to be prepared by a qualified accountant: provided the proposer knows what is expected there is some benefit in him preparing the plan himself since it both encourages him to think through all the implications of his business idea and it minimises his costs. These are not, however, reservations I would wish to press if accountancy input were felt by others to be an essential element of any new scheme.

I am copying this letter to the Prime Minister, other members of E(A) Committee and to Sir Robert Armstrong.

*Yours sincerely,
Chambers*

ECON POL: Small firms: A-S

-7 NOV 1984





C O N F I D E N T I A L

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ATC/ka

2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref: J/PSO/17559/84

Your ref:

5 November 1984

Dear Nigel,

SMALL BUSINESS LOAN GUARANTEE SCHEME

I have seen David Trippier's letter to you of 18 October and also Peter Walker's response of 29 October.

I would also like to offer my support for a continuation of this scheme which has proved a useful complement to the assistance for small firms provided through the urban programme.

I also consider that the best way to reduce the failure rate of businesses benefitting from the scheme is through a requirement for applicants to prepare a more comprehensive business plan and by regular monitoring thereafter, rather than by an excessively high premium on the loan. I think therefore that David's suggestions for revising the scheme are on the right lines.

I am copying this letter to the Prime Minister, other members of E(A) and to Sir Robert Armstrong.

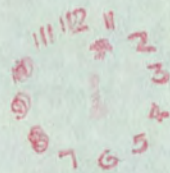
Yours
Patrick

PATRICK JENKIN

The Rt Hon Nigel Lawson MP

C O N F I D E N T I A L

- 6 NOV 1984



ECNO

2 pp's.



CABINET OFFICE

*From the Chancellor of the
Duchy of Lancaster*
Lord Gowrie

MANAGEMENT AND PERSONNEL OFFICE
Great George Street
London SW1P 3AL
Telephone 01-233 8610

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
HM Treasury
Parliament Street
London SW1P 3AG

2 November 1984

Dear Nigel,

SMALL BUSINESS LOAN GUARANTEE SCHEME

File with AT

I have seen David Trippier's letter of 18 October about a new Small Business Loan Guarantee Scheme.

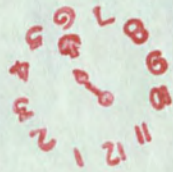
I agree with David that discontinuing the Scheme would be difficult to defend. With 81,000 jobs created, at a cost of some £620 per job, the Scheme represents good value for money. The proposed control arrangements should help to tighten up the Scheme and provide opportunities to encourage the banks both to improve their own funding appraisals and to take earlier remedial action when firms are heading for trouble.

I am copying this letter to the Prime Minister, other members of E(A) and to Sir Robert Armstrong.

*Lawson,
Nigel*

GOWRIE

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