



10 DOWNING STREET

From the Private Secretary

19 October, 1983

Dear Tom,

The Prime Minister last night met Lord Caldecote, Chairman of ICFC, who was accompanied by Mr. Tindale and Mr. Foulds. Mr. Trippier was also present. The discussion covered a number of issues in the field of small firms.

Lord Caldecote expressed reservations about the Loan Guarantee Scheme which he said ran counter to the need to encourage small firms to expand their equity. He was much more enthusiastic about the Business Expansion Scheme which met this need. Mr. Trippier reported that applications for the Loan Guarantee Scheme were on a plateau of around 550 a month and that the review of the scheme had just been launched. It was noted that the number of funds for channelling investment into the Business Expansion Scheme now stood at 14 and a further 14 had been submitted for approval.

Mr. Tindale said he preferred to emphasise direct investment in small companies rather than through intermediaries. In this way people with business experience as well as capital to invest could provide a guiding hand for the smaller firm. He reported that the failure rate for ICFC investments was one in five though it was lower - one in three - for management by-outs. However, he suspected that this might have been influenced by tough business conditions in the last two years.

The Prime Minister asked the ICFC representatives what they thought were the main obstacles to the expansion of small firms. They identified the lack or portability of pensions which made it difficult for small firms to tempt experienced managers away from larger firms. Similarly the tax treatment of stock options made it difficult for the smaller firm to provide a sufficient attraction to offset the undoubted risks such a manager would be undertaking in leaving an established job.

/Lord Caldecote

Lord Caldecote noted that the recovery was still very patchy. In particular there were very few signs of it in the older industrial areas and it seemed likely that a substantial number of firms would not survive.

I am sending a copy of this letter to John Kerr (H.M. Treasury).

Yours sincerely
Andrew Turnbull

(Andrew Turnbull)