

Annual Report and Resource Accounts 2005-06

For the year ended 31 March 2006

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A DTI SERVICE



Annual Report and Resource Accounts 2005-06

For the year ended 31 March 2006

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Chief Executive's Foreword

I am encouraged by the recent positive statistics for the small business sector. There are now a record number of small and medium sized enterprises, nearly 600,000 more than seven years ago, start-ups are outnumbering closures, and SME productivity growth exceeded all firms' productivity growth over the four-year period 1999 - 2003.

It has been a busy and fulfilling year in which a lot of progress has been made. We have gone through an intense period of change as we transition from a headcount of 500 two years ago to 200 now, and having merged functions and recruited new people. It has been a challenging year for all our staff and I am really proud of the way that they have responded to the challenges we face. We have made excellent progress in building our new organisation in line with our agreed strategy of a leaner, more agile, focused and, above all, more influential agency.

This report records our activities and the achievements towards our goal of building an enterprise society in which small firms of all kinds can thrive and achieve their potential.

I am encouraged by the recent positive statistics for the small business sector. There are now a record number of small and medium sized enterprises, nearly 600,000 more than seven years ago, start-ups are outnumbering closures, and SME productivity growth exceeded all firms' productivity growth over the four-year period 1999 - 2003.

There is also evidence from the Global Entrepreneurship Monitor 2005 that Government is making headway in its aim of creating a more entrepreneurial society.

I want to record my thanks to all those who have supported us on our work this year. I want especially to thank our Ministers, and our Strategy Board, the Small Business Council, the Ethnic Minority Business Forum, the Small Business Investment Taskforce and the Capital for Enterprise Board who have all played important roles in our work over the past year. And finally, I would like to thank the SBS team for another successful year.



Martin Wyn Griffith

Chief Executive
12th July 2006

Role and Purpose

We are a centre of expertise and challenge within government, working with all the main departments that impact on small business, with the English Regional Development Agencies and the Devolved Administrations in Scotland, Wales and Northern Ireland. We also work with colleagues internationally and within the European Commission.

The Small Business Service was established in April 2000 as an agency of the Department of Trade and Industry.

Policy on small business is a matter for the Government as a whole. Many government departments, delivery agencies and other stakeholders play a role in shaping the UK environment for enterprise and entrepreneurs. The role of the Small Business Service is to lead the development of a coherent enterprise policy and align our partners to secure its implementation.

We are a centre of expertise and challenge within government, working with all the main departments that impact on small business, with the English Regional Development Agencies and the Devolved Administrations in Scotland, Wales and Northern Ireland. We also work with colleagues internationally and within the European Commission.

Our purpose is to make the UK an enterprise society which is the best place in the world to start and grow a business.

We have lead responsibility for DTI's Enterprise Public Service Agreement target, which is:

"To build an enterprise society in which small firms of all kinds thrive and achieve their potential, with

- i) an increase in the number of people considering going into business;
- ii) an improvement in the overall productivity of small firms; and
- iii) more enterprise in disadvantaged communities."

We also contribute to delivery of the following DTI Public Service Agreement targets to:

- **Promote fair and competitive markets;**
- **Increase the proportion of newly self-employed people who are women; and**
- **Raise the self-employment rate of under-represented ethnic minorities and reduce the gap with other groups.**

Technical notes explaining how each Public Service Agreement target is measured are available at www.dti.gov.uk/psa_target.html

Strategic development

The Government's policy on small business is set out in *'Small Business and Government: the Way Forward'*, which was published in 2002, and is available on our website at www.sbs.gov.uk/strategy The Government identified seven small business policy themes to promote economic growth, productivity, and

enterprise for all. In 2004 we published a cross-government action plan – *'A government action plan for small business'*, which can be found at www.sbs.gov.uk

Our seven policy themes are:





The policy themes provide a framework for the delivery of our Public Service Agreement targets.

We lead on some policy issues, and on others, we work in partnership with other government departments. We also work closely with the Regional Development Agencies in England and the devolved administrations in Scotland, Wales and Northern Ireland.

Business Link is the local service which helps people in England to start and grow their business successfully. The quality and delivery of the Business Link service is the responsibility of the Regional Development Agency in each region.

Our work supports DTI's purpose of 'Creating the conditions for business success; and helping the UK respond to the challenge of globalisation'.

Over the past year our focus has shifted further away from direct delivery of services into a strategic influencing role at the heart of government. We have become a smaller, leaner, more flexible organisation and reduced our headcount by some 60 per cent from the peak of over 500 two years ago.

Forward look

We will continue to be active across the seven policy themes that support the Government action plan and the delivery of our Public Service Agreement targets, but our priority in 2006-07 will be to focus on making significant progress in four key areas where our analysis and feedback tells us there is a need to push forward:

-
- Building an enterprise culture

 - Opening up public procurement

 - Simplification of business support

 - Better regulation

Building expertise in Small Business Issues – the enterprise and small business environment

Our Analytical Unit has a key role in building our position as a centre of expertise on small business issues and helps to ensure that all decisions which affect small business are only taken after reviewing the evidence on what is needed and what actually works. Lessons learned in the delivery of services for small business are fed back into further development of policy. In addition to producing all Government statistics on small businesses and monitoring progress against Public Service Agreement targets, our analysis team has been involved in a wide variety of other work this year. This has included a large programme of research to inform longer-term policy development, such as large business surveys to monitor attitudes and issues of concern to business. It has also included a sophisticated evaluation of the economic impact of Business Link operators and the promotion of knowledge sharing among, for example, academic researchers and government analysts, through holding seminars on key pieces of research, and publishing a round up of international research and policy development news which is disseminated to our partners.

There is clear evidence that the small business sector has become more dynamic over the last few years and is making a greater contribution to wealth creation. The creation and growth of new businesses stimulates new ideas, knowledge and skills, leads to job creation, and provides incentives for larger businesses to innovate through raising competition.

Data produced and monitored by our Analytical Unit shows that:

- The UK has a record number of businesses – 4.3 million Small and Medium Enterprises (SMEs) at the start of 2004 – nearly 600,000 more than seven years ago.
- Employment in SMEs has risen by over 900,000 (8%) since 1997.
- SME's productivity growth exceeded large firms' productivity growth over the four-year period 1999-2003.
- Survival rates (based on VAT registration and de-registration dates) are now much higher than a decade ago – with 92% of firms still registered after one year and 69% still registered after three years.

Studies produced by other organisations continue to indicate that the UK has one of the best environments in the world for starting and growing a business.

- According to the OECD, the UK has the lowest barriers to entrepreneurship of all the OECD countries assessed, for factors such as administrative burdens on start-up.

- A recent World Bank study found that the UK ranks ninth out of 155 countries in terms of ease of doing business.
- The Global Enterprise Monitor UK report (published by the London Business School in February 2006) highlights the following significant changes to enterprise culture:

More people are seeing and acting upon opportunities to start their own business – between 2001 and 2005, the proportion of adults who perceive good business

opportunities has more than doubled from 18.2% to 38.5%.

The proportion of the working age population who are expecting to start a business has nearly doubled, from 4.6% in 2002 to 8.6% in 2005.

The proportion who agree that they have the skills to start a business has increased from 40.2% in 2001 to 50.7% in 2005.



The Year in Retrospect

We have delivered on the objectives in our Business Plan for 2005-06. Below is a summary of our main activities.

Building an enterprise culture in the UK

■ We funded a successful 2005 'Enterprise Week' in November. At its heart was the message that enterprise is about having ideas and making them happen. The 2005 Enterprise Week built strongly on the success of the first event stimulating extensive media coverage. There were over 2,200 events – twice as many as in 2004 – run by more than 700 organisations, with 408,000 people taking part in the activities. There were two themed days – 'Women's Enterprise Day' and 'Social Enterprise Day'. One of the biggest events, "Make your Mark Challenge" involved over 11,000 young people in more than 1,500 teams from schools across the country participating in the UK's largest ever live simultaneous enterprise competition. The Government announced that each of the 11 finalists would be offered a work placement in a top company.

Enterprise Week is a national celebration of enterprise with events and activities held across the UK. It is led by the Enterprise Insight 'Make Your Mark' campaign, the first national campaign of its kind to promote enterprise culture among young people in the UK.

The aim of Enterprise Week is to engage and inspire young people, and stimulate debate about the importance of enterprise among the media, education, business, young people, politicians and the wider public.

■ We are increasing our funding for Enterprise Insight over the next two years, primarily in support of the development of local enterprise campaigns. These will mobilise action at a local level and develop local initiatives and good practice in support of the national campaign.

■ We launched "Enterprising Britain 2006"; the national competition to find the UK's most enterprising city, town, place or area. The competition was announced by the Government in 2004 and was developed by HM Treasury and us, working in partnership with the Regional Development Agencies and Devolved Administrations. The first winner was Sherwood Energy Village, and we will now run the competition on an annual basis, with the overall Enterprising Britain 2006 winner named at an awards event in September.

■ Building on the introduction of our national competition, we worked with the European Commission to develop a European 'Centres of Enterprise' award scheme. The successful launch of this award at the start of Enterprise Week was **one of DTI's top ten deliverables under the UK Presidency**. Following the launch of this award by the European Commission and the Secretary of State for Trade and Industry in November, we have agreed that the overall winner of the Enterprising Britain award will represent the UK at the first European Enterprise Awards in December 2006.

■ The Global Entrepreneurship Monitor report for the UK was released in February 2006. It showed some positive developments in our target audience:

- the proportion of the working age population who are expecting to start a business has nearly doubled, from 4.6% in 2002 to 8.6% in 2005.

- the proportion of adults expecting to start a business in the next three years doubles for those who have taken part in some form of enterprise education, training or work experience –16% of those who had taken enterprise training in school expected to start a business within the next three years compared with 7.7% of those who had no training.
- young people (18-24 year olds) are the most likely of any age group to be expecting to start a business in the next three years (13.4% in 2005, compared to 10.7% in 2004). They are the most likely to know an entrepreneur, and more likely to see entrepreneurship as a good career choice.

Social enterprise

■ There are many reasons that motivate people to go into business, including the desire to make a difference to society or the environment. Research published by us in July 2005 identified at least **15,000 social enterprises – businesses with social or environmental aims – contributing around £5 billion** to GDP. Social enterprises contribute to a range of other impacts to society and the economy that are not captured in the headline statistics. Primary and secondary outcomes may include job creation, skills development, increased community cohesion, environmental improvement, as well as wider macro-economic savings to the Exchequer.

■ The Small Business Service's Social Enterprise Unit has been the focal point for government activity to support and promote social enterprises. In 2005 we commissioned a review of the Government's 2002 social enterprise strategy (available on www.sbs.gov.uk/socialenterprise) and established a Working Group to take forward **a new action plan for social enterprise** that will be published in spring 2006. The new objectives of the new plan will be to

embed social enterprise within the way we think about business, including the way in which we support new and growing enterprises.

■ Government's role is to create an environment in which businesses can thrive, and provide the tools for them to do so. In September 2005 the Government launched the Community Interest Company – a new company form for social enterprises. **Over 200 social enterprises have registered with the independent Regulator as Community Interest Companies.**

The companies operate in a breadth of sectors including health, transport, education and environmental services.

■ Many of these sectors in which social enterprises operate are of concern to public policy. During 2005, we worked closely with the Home Office and HM Treasury to identify opportunities for social enterprises, and voluntary and community sector organisations, to have better access to public sector contracts. Work has begun on a series of pathfinders with local authorities to identify how the barriers can be overcome.

Encouraging a more dynamic start-up market

■ We provided funding for the National Council for Graduate Entrepreneurship to support their 'Flying Start' programme. The Council ran a total of **14 Flying Start Rallies** in England and Wales involving the Regional Development Agencies, Higher Education Institutions and business support community. The Rallies attracted 2,800 graduates and students. In addition to the Rallies, a three-day investment readiness programme was run in July involving 80 participants.

■ We established the National Council for Graduate Entrepreneurship in 2004. The Council's remit is to work with the Universities, Regional Development Agencies and their partners to encourage more students and graduates to think seriously about starting their own business, or working for themselves. The Council is funded jointly by the Small Business Service, the Department for Education and Skills and the Welsh Development Agency, and collaborates closely with similar initiatives in Scotland.

The Council's 'Flying Start' programme aims to inspire students and graduates to become entrepreneurial, and learn about starting up a business.

■ To help ensure greater consistency of help for people wanting to start a business, a core Business Link offer for start-ups has been agreed with the Regional Development Agencies. It includes development of a start-up pack and online diagnostic tool, and will be available from April 2006. During 2005/06 the Business Link network delivered support to over 186,000 people considering starting a business (an increase of around 8% on 2004-05 figures) and over 39,000 businesses in their first year of trading (an increase of around 2% on 2004-05 figures).

■ We launched the Start-Up Journey Manager tool through www.businesslink.gov.uk to guide users through the process of starting up a business. Phase 1 of the tool was launched in January. The release of phase 2 is planned for the latter part of 2006.

■ We launched the Business Incubation Fund to provide support for business incubators. Administration of the Fund has been outsourced to UK Business Incubation Ltd. Over 160 applications for funding were received. Following an initial assessment, including consultation with Regional Development Agencies, some 50 bids were put to an independent panel in November. The panel recommended over **30 organisations should receive support totaling over £4 million.**

■ New research, commissioned by our Analysts and undertaken by Durham University Business School (DUBS), found that a myth widespread among the public is that most small businesses fail, within the first year. In fact over 80% of new businesses survive their first year of trading. This, and other myths highlighted in the research report, may give people an exaggerated sense of the risks in starting up a business. We are now working with partners to find ways to use the research findings to influence national/regional marketing and communications aimed at encouraging more people to consider starting a business. A copy of the research report – *Myths Surrounding Starting and Running a Business* – is available on our web-site.

■ Again, the Global Entrepreneurship Monitor report for the UK released in February 2006 showed some positive developments:

- the proportion of the working age population who perceive good start-up opportunities has more than doubled, from 18.2% in 2001 to 38.5% in 2005.
- the proportion who agree that they have the skills to start a business has increased from 40.2% in 2001 to 50.7% in 2005.


Building the capability for small business growth

■ We published the Small Business Research Initiative (SBRI) performance figures for 2003-04 and 2004-05. Performance in both years was very good and comfortably exceeded the SBRI target with the 12 major spending departments procuring 10.6% of their extramural research and development from small business during 2004-05.

■ Under the Small Business Research Initiative (SBRI) government departments are required to procure at least 2.5 per cent of their extramural research and development (R&D) requirements from small businesses. The key aim is to make sure small businesses have a fair opportunity to bid for public sector R&D contracts. SBRI should increase the capacity of the UK's SME Research and Development sector to undertake R&D. The initiative was introduced for government departments on a voluntary basis in 2000 but was made mandatory in the March 2005 budget.

■ Following a recommendation in the Better Regulation Task Force Report on public procurement, we launched the Supplier Route to Government web portal – www.supply2.gov.uk. Low value procurement opportunities from across government will be posted on this new government website. Suppliers, including small businesses, will be able to post their details on the site for public sector buyers to peruse when carrying out tender exercises. In addition, small businesses will be able to access those contract opportunities.

■ The Better Regulation Task Force and Small Business Council report 'Government: Supporter and Customer?' (<http://www.brtf.gov.uk/reports/smeprocurement.asp>)



considered the difficulties faced by small businesses doing business with the public sector. A key recommendation was to ensure that small businesses have access to advice and training on doing business with both central and local government. We have been working with our partners, including Regional Development Agencies, to deliver a national programme to ensure this help is available for small businesses. Over 3,000 small businesses have been received training under this programme. We are now working on creating a modular version of this training online.

■ As part of the UK's Presidency, we supported the Social Enterprise Coalition on a EU Social Enterprise Public Procurement Colloquium. Alun Michael opened the Colloquium to promote the importance of social enterprise within enterprise and enterprise culture in the European Union, encouraging opportunities for social enterprise in procurement. Some 45 delegates attended from EU member states, including national government officials and social economy organisations to discuss common issues affecting social enterprise access to procurement markets, and develop suggestions on how social enterprise solutions can be encouraged through the procurement practices of public authorities. The Social Enterprise Coalition have produced a report of the event which has been placed on their website.

■ The "Achieving Best Practice in Your Business" product launched in 2004 has been adapted so that the material is now more easily accessible by Internet. The Business Performance Diagnostic has become increasingly popular and in the year to 31 March 2006 the Business Link network delivered 4,659 diagnostics, an increase of 38% on the previous year.

Improving access to finance for small businesses

■ Following clearance from the European Commission, the competitive bidding round for fund managers seeking to operate a 'Pathfinder' Enterprise Capital Fund was launched in July 2005 and closed in September. We received over 40 bids and intend to support up to five funds in this round. We are currently in the later stages of assessing the bids received and are being advised by the recently formed Capital for Enterprise Board on which bids should be supported. The first two Enterprise Capital Funds to be selected were announced in March at the same time the Government agreed to an additional £100 million being earmarked to continue the Pathfinder process.

■ Enterprise Capital Funds are designed to be commercial funds, investing a combination of private and public money in small high-growth businesses that are seeking up to £2 million of equity finance. The Government will provide up to two thirds of the capital in each Enterprise Capital Fund, in return for a preferred return of 4.5%, and a limited share in any profits of the fund. The preferred return is intended to cover the Government's cost of capital. In a longer term programme the profit share from successful funds should offset any losses on unsuccessful funds, leading to a broadly cost neutral programme.

■ A successful Risk Capital Summit 2005 – Investing for Growth and Competitiveness in Europe was held in October as part of the UK's Presidency. Around 300 delegates from the European Union, the United States and Asia attended the Conference. Delegates debated a number of key issues on how risk capital can support Europe as a leader in innovation, growth and enterprise. The Conference included a number of workshops underpinning the Lisbon Agenda.

The Conference supported the following key themes of the UK Presidency:

- Promoting Employment;
- Supporting research and innovation; and
- European Economic Reform

A number of significant outcomes resulted, including:

- Commitment by Heads of State at the Hampton Court Informal to improve the supply of risk capital across Europe;
- The conference outcomes are being utilised as part of the UK's negotiating position to influence CIP negotiations and have informed the report 'Creating an Innovative Europe' (The Aho Report);
- The European Commission are drawing on the draft Communiqué 'Financing Growth – The European Way' that is due to be published in spring 2006;
- DTI and the Small Business Service are using elements of the Conference Report as part of the UK's negotiating position to influence the CIP negotiations.

■ A simplified, strategically targeted and more consistently available Small Firms Loan Guarantee (SFLG) was introduced in December to reflect the recommendations of the Graham Review. The changes focus on start-ups and younger businesses with viable business plans but which do not have the necessary track record or assets to access debt finance. Through the use of a secure web portal and the allocation of lending limits, the decision to approve and administer individual loans has now been fully devolved to the participating lenders, whose performance will be supervised and audited. The lending decision is centred on the quality of the business proposition and lenders may provide up to £250,000 to each qualifying business on commercial terms.

■ The Small Firms Loan Guarantee has continued to attract a high take up. For the year to 31 March 2005, the SFLG guaranteed 7,130 loans with a total value of £480 million, and in the eight months from April to November 2005 prior to the changeover to the new form of SFLG, there were 5,160 loans guaranteed with a total value of £357 million

■ We are working with the Women's Enterprise Panel, Ethnic Minority Business Forum, Small Business Investment Taskforce, Regional Development Agencies and financial intermediaries to ensure that the access to finance strategy reflects the needs of the entire UK business community, including women entrepreneurs and ethnic minority businesses. We are undertaking a programme of research to address ethnic and gender access to finance issues, improving data on business angel activity and undertaking further research on investment readiness. We supported a series of regional road shows in conjunction with Regional Development Agencies to raise the financial awareness of women and ethnic minority entrepreneurs.

■ We are undertaking research to gain a better understanding of how social enterprises finance themselves compared to other types of business. This will help to identify whether there are any particular challenges faced by social enterprises in obtaining and using finance. We have also supported events to disseminate financial awareness training materials. These are being evaluated before we decide whether further action is required.

■ We worked with the Regional Development Agencies to ensure that financial support for the community finance sector will be maintained and we continue to work with the Community Development Finance Association to disseminate advice and best practice throughout the sector.

■ The new Board, called the 'Capital for Enterprise Board' was formed in Summer 2005. The recruitment process, using external advisers, selected candidates from an exceptionally strong field. The Board is chaired by David Quysner, Chair of Abingworth Ventures and the members are; John Spence, ex Lloyds TSB, Alison Loudon, a serial entrepreneur and business angel and John McCrory, ex Chief Executive of Westport Private Equity Ltd.

■ The Capital for Enterprise Board has overseen the implementation of the revised and updated Small Firms Loan Guarantee programme and the processes leading to the creation of our first Enterprise Capital Funds. The Board has been commissioned to report on the size and scope of any arm's length body to manage these interventions in the future. Their report is expected by the end of April 2006.

Encouraging more enterprise in disadvantaged communities and under represented groups

■ The promotion of enterprise to those ethnic minority groups who are under-represented in self-employment continues to be an important area of work. If the percentage of businesses owned by ethnic minorities matched the percentage of adults who are from ethnic minority groups, there would be over 100,000 extra businesses.

■ We worked with the Ethnic Minority Business Forum, Regional Development Agencies and other government departments to promote ethnic minority enterprise. We worked with the Ethnic Minority Business Forum to develop their Action Plan, "The Way Forward". We funded the Ethnic Minority Business Forum Conference on the National Employment Panel recommendations which brought together policy makers from across government and other organisations to highlight the importance of enterprise.

■ Women make up 51% of the UK population and 47% of those active in the labour market, but only 27% of the self-employed. Following publication of the booklet "Promoting Female Entrepreneurship", which set out the economic case for women's business, the Government's objective is to take the UK further towards US levels of entrepreneurship. There would be at least 500,000 more businesses in the UK if US levels were matched. We are establishing a Task Force on Women's Enterprise to work with the Government and Regional Development Agencies over the next three years to increase levels of female entrepreneurship.

■ Our Women On-line campaign attracted 5,000 women visitors and 300 support organisations. The Regional Development Agencies are rolling out a special start-up advice toolkit for business advisers.

■ If we are to complete effectively in the accelerating global economy we have to develop that "can do" attitude in every section of the community – including women, young people and ethnic minorities. This is particularly crucial in communities with traditional low entrepreneurial activity. This is why we supported work linked to the Government's new Local Enterprise Growth Initiative, which was announced in the 2005 Budget. The initiative is a joint Office of the Deputy Prime Minister (ODPM), DTI and HM Treasury drive to release the productivity and potential of our most deprived local areas and their inhabitants through enterprise and investment, thereby boosting local incomes and employment. The initiative complements our PSA Target 6(iii) – "more enterprise in disadvantaged communities". It will be worth £50 million in 2006-07, rising to £150 million per year by 2008-09, and will provide flexible, devolved investment in some of England's most deprived areas. It will support locally developed and owned strategies that try out new or proven ways of stimulating economic activity and productivity growth through enterprise development.

■ We have been active in supporting ODPM on work to enhance enterprise in neighbourhood renewal. A joint DTI/ODPM Steering Group (including representatives from business) was formed to consider the impact which DTI and ODPM interventions have on the achievement of each others goals: greater levels of economic inclusion to help the economy grow faster, and a greater emphasis on economic and business development to ensure that regeneration efforts are more sustainable. The Steering Group has drawn together key national and regional stakeholders driving forward policy in the regeneration of deprived communities to take this work forward.

■ The Phoenix Challenge Fund continued to provide access to enterprise finance, through Community Development Finance Institutions, for people from disadvantaged communities, who have difficulty accessing funds from traditional sources.

■ Responsibility for public support of Community Development Finance Institution activity will pass to the Regional Development Agencies from April 2006. Following agreement between the DTI and HM Treasury, we arranged for the transfer of funds to the Regional Development Agencies for them to support of Community Development Finance Institutions activity in their regions.


■ The Phoenix Development Fund has financed around 160 projects during its lifetime, many of which used innovative methods to reach out to people and communities normally considered hard to reach by mainstream business support providers. Over the next year we will be working with other government departments, Regional Development Agencies and other stakeholders to ensure that the legacy of learning and good practice from the Phoenix Development Fund becomes embedded in mainstream provision of business support and regeneration programmes.

Improving small businesses' experience of government services

■ We successfully implemented new contractual arrangements for outsourcing the management of the business.gov programme. We are now working in partnership with the Serco Group to take the programme forward. The formal transfer of the Business.gov team took place in December, when some 80 people moved to the Serco Group.

■ www.businesslink.gov.uk won a gold award for 'best business communication website' at the UN World Summit Awards. The website has transformed the accessibility of e-services for small businesses. There were nearly 977,000 user sessions and 633,000 unique visitors in March. This brings the total to over 5.6 million unique visitors in the past 12 months. These visitors have also used the site tools in excess of 2.25 million times over the same period.

■ The Businesslink.gov team has worked with the Regional Development Agencies to develop local versions of the national site to maintain consistency across the network while supporting the diversity of local and regional business drivers within the regions. Initial plans were to agree a pilot programme and develop the concept. Following the success of the pilot programme, we have deployed/signed up 26 Local and regional versions of the national Businesslink.gov.uk site with plans to complete the rollout by April 2007.



■ Following a successful discussion with the Cabinet Office we received a Letter of Intent from eGovernment Unit on behalf of the Government Connect programme for the licensing of Sign Up Manager and our Registration and Enrolment Platform. This is likely to save a significant amount of time and money for customers, and is a prime example of how we can share best practice and deliver value for money.

■ Good progress has been made in developing Business Link services under the Regional Development Agencies' stewardship. The Business Link Strategy Board and Regional Development Agencies agreed a new Business Link Customer Proposition and Core Offer. The Customer Proposition and the Core Offer documents capture an agreed scope and definition for the service. We have launched the revised Business Link brand guidelines and run an advertising campaign in the national press.

■ Business Link performance has continued to improve, despite this being a transition year with management of the local service transferred to the Regional Development Agencies. Business Link provided support to record numbers of customers – 740,000 in the 12 months to 31 March 2006 with over 554,000 of these existing businesses. This is more than **double the number of businesses helped five years ago, and over 62,000 more than in 2004-05**. The number of businesses receiving intensive assistance from Business Link operators has also increased with nearly 44,000 in 2005-06. This is 15.6% up on the end of 2004-05. Customers are becoming increasingly satisfied with the service they receive. Overall customer satisfaction is 91.6%, 1.1% up on a year ago and a rise of 10.5 percentage points over the past five years. **Over 92% of users said they would be likely to re-use the service and 97% would be willing to recommend it to others.**

■ We have created a new Customer Directorate whose major responsibility is the simplification of business support across government. This programme, announced in the 2006 Budget and led by us, will involve teams from across Whitehall, regional and local organisations, removing duplication in business support products and services and inefficiencies in fund flows.

■ The Business Link Implementation Group recommended to the Business Link Strategy Board that “BLU”, in its current format and service offer, should not be funded by the Regional Development Agencies from April 2006. The current “BLU” format closed down on 31 March while the RDAs commission a new learning support service for Business Link advisers and managers.

Developing better regulation and policy

■ The Small Business Service works across Whitehall to ensure that the regulatory environment is the best possible one to start and grow a business. We also work with the businesslink.gov.uk team to develop tools that help small firms understand and comply with regulatory obligations at the least possible cost. In April 2005 businesslink.gov.uk launched an automated “regulatory update” service which notifies firms of regulatory changes. By the end of 2005 the service had received 72,000 visits with almost 3,000 businesses signed up for personalised alerts. Provisionally this is estimated **to save businesses at least £15.9 million over a three-year period.**

■ During the year we completed a review of the UK’s key regulatory and administrative processes using the World Bank’s ‘Doing Business’ surveys as a benchmark. The main focus of the first stage of the review was the VAT registration process. We worked in partnership with HM Revenue and

Customs to identify areas where the registration procedure could be improved, particularly in terms of speed. We are discussing with HMRC how to improve form design, both electronic and paper, to increase the number of applications which are correctly completed at the outset. In September the World Bank published its 2006 report, which included three new benchmarks. On a small number of the measures, and particularly on the ‘Paying Taxes’ benchmark, a number of queries arose on the accuracy of the data supplied to the World Bank by local partners. We met the World Bank and challenged a number of these returns and believe this may result in a more favourable assessment of the UK’s position later this year.

■ On company incorporation we believe it is important to deliver further benefits to customers. In the UK, around 85% of company registrations are done electronically with most being cleared in a couple of hours, and the majority in minutes. Over 950,000 companies have now been formed this way. The cost of electronic incorporation was reduced last year to £15, **saving business over £1.5 million.** It is important though that the UK keeps up with best practice in reducing administrative burdens still further with a system that is transparent, quick and low cost. We will work with Companies House to explore further options for accelerating company incorporation and reducing administrative burdens and costs to customers.

■ In March 2005 the Government accepted the Better Regulation Task Force recommendation in the ‘Regulation – Less is More’ report that common commencement dates should be extended to all policy areas impacting on business by April 2006. We led this work and by January seven departments and agencies had published an annual statement. We are playing a full role across Whitehall to help departments deliver on the Simplification and reduction of

Administrative Burdens agenda. We are working closely with the Better Regulation Executive to challenge Departments' simplification plans to ensure they are relevant and that they will chime with small businesses when published. We are also closely engaged in the Administrative Burdens exercise and when it has produced robust figures we will use these to establish priority areas for action.

■ We have led on initiatives, such as Common Commencement Dates and Regulation updates, that are making significant contributions to the savings identified by departments in simplification plans being prepared for publication later in 2006. In addition to this "top down" work we have recognised the need to assess the experience individual small businesses have of dealing with regulations. During 2005-2006 we began pilot work on a new project to directly visit a number of small businesses to establish, from "ground up", the experiences and difficulties businesses really face. This project will form a Key Agency Target for 2006-2007 and will help inform the priority areas for streamlining and simplification.

■ Working closely with Kingston University we are undertaking an 18 month research project that will give us a deeper understanding of how regulation affects business performance and growth that we will share with Whitehall policy makers. The interim results from this project are expected in summer 2006. Recent initiatives taken by us include hosting a half-day conference for Whitehall policy leads that examined the latest research on how small business responds to risk and regulation; a series of seminars for HM Revenue and Customs on how to ensure small firms considerations are fully taken into account in policy design. The Department for Environment, Food and Rural Affairs has also recently agreed to a similar programme. We have also made very considerable progress with the Food Standards

Agency in terms of ensuring policy makers really do "Think Small First".

■ Our tax team worked actively with policy teams in HM Treasury (HMT) and HM Revenue and Customs (HMRC). We:

- responded to the HMRC consultation paper "Working towards a new relationship: a consultation on priorities for reducing the administrative burden of the tax system on small business";
 - helped HMRC develop new guidance for small companies claiming the R&D tax credit, providing plain-English assistance to claimant companies and a template to help small companies determine their qualifying expenditure. SBS piloted the new guidance with small businesses in summer 2005;
 - looked at various issues around the Enterprise Investment Scheme with a view to improving the guidance;
 - assisted HMRC in its review of links with medium-sized businesses;
 - organised and facilitated a series of post-Budget 2005 and post- PBR 2005 meetings between HMT, HMRC and various professional and representative bodies, and organised small business tax forums to which HMT and HMRC colleagues were invited; and
 - arranged several "week in small business" placements for HMT officials. This formed part of their own personal development plans, giving key policy makers a better understanding of how small businesses operate and the difficulties that they face. The approach was based on a suggestion from the SBS report 'Less taxing tax'.
-

Organisation, People and Governance

Over the past year our focus has shifted further away from direct delivery of services into a more strategic influencing role at the heart of government. We have become a smaller, leaner organisation and this change has meant we need to find ways of working smarter and strengthen our skills base.

At 31 March 2006, there were 200 people, including secondees, contractors and agency staff, working for the Small Business Service.

Over the past year our focus has shifted further away from direct delivery of services into a more strategic influencing role at the heart of government. We have become a smaller, leaner organisation and this change has meant we need to find ways of working smarter and strengthen our skills base.

We initiated a "Team SBS" internal development programme. Its emphasis is on working together as a team, including: more project working; learning together and sharing knowledge; emphasising the importance of effective two-way internal communication across all parts of the Agency; recognising achievement; and celebrating and rewarding success.

TeamSBS is the Small Business Service's internal development programme.

It is a wide ranging and co-ordinated programme of activity designed to deliver continuous improvement designed to foster:

A team that works together – knows its job and does it really well, drawing on the right people with the right skills

A team that talks and shares what it knows

A team that has big wins and celebrates its successes.

Employee Involvement

The Small Business Service is committed to a policy of clear and open communication with all its employees.

The Agency recognises the Civil Service Trade Unions.

Equal Opportunities

The Small Business Service is committed to a policy of equal opportunities for all, regardless of gender, race, age, religion, disability or sexual orientation. It participates in DTI activities to secure equal opportunities and values the diversity of its staff and customers.

We are committed in particular to:

- providing a service that is accessible and fair;
- removing barriers to selection;
- providing equal opportunities for people to develop and progress; and
- treating all our staff fairly.

Investors in People

The Small Business Service is part of the DTI's reaccreditation for Investor in People recognition.

Pensions

The employees of the Agency are covered by the Principal Civil Service Pension Scheme, which is a non-contributory scheme. The rates of employer's contribution are determined from time to time by the Government Actuary and advised by HM Treasury. More information is provided at note 3 to the Resource accounts and in the Remuneration Report.

Corporate governance

The Chief Executive, supported by the Small Business Service Executive Team, is responsible for the governance of the agency.



Small Business Service Strategy Board

The Minister of State for Industry and the Regions chairs the Strategy Board. The Board advises on strategy and objectives and monitors the agency's performance. At 31 March 2006, the Board members were:

Alum Michael, MP, Minister of State for Industry and the Regions (Chair)

Barry Gardiner, MP, Minister for Competitiveness

Martin Wyn Griffith, Chief Executive, Small Business Service

John Alty, Director General, Fair Markets Group, DTI

Rodney Buse, Independent Member

Ann Cormack, Managing Director, Service Development, Small Business Service

Mark Gibson, CB, Director General, Business Group, DTI

Teresa Graham, OBE, Independent Member

Stephen Lyle Smythe, Deputy Chief Executive, Small Business Service

Eleanor Mack, Head of Enterprise Team, HM Treasury

Andrew Summers, CMG, Independent Member

Rosa Wilkinson, Managing Director, Policy, Small Business Service

Small Business Service Audit Committee

The Audit Committee advises the Chief Executive on risk and internal financial control measures. The Committee acts in a non-executive capacity. Teresa Graham chairs the Committee. The Deputy Chief Executive of the Small Business Service is also a member. Representatives from DTI's Finance and

Resource Management Directorate and Internal Audit, the National Audit Office and Small Business Service finance staff are invited to attend meetings.

Small Business Service Executive Team

The Executive Team meets each month to discuss strategy, corporate management and planning issues. At the end of each quarter the Executive Team review and discuss performance using our scorecard – a management tool for measuring where we want to be and our progress getting there. At 31 March 2006, the Executive Team members were:

Martin Wyn Griffith, Chief Executive

Stephen Lyle Smythe, Deputy Chief Executive

Ann Cormack, Managing Director, Service Development

Rosa Wilkinson, Managing Director, Policy

Adam Dawson, Director, Simplification of Business Support

Rory Earley, Director, Investment and Access to Finance

Hilary Norman, Director, Social Enterprise

Katrina Reid, Director, Analysis

Managing risk

Our risk register is reviewed quarterly and risks are considered at various stages of a project or activity. In addition, risks related to each strategic theme are considered when the DTI objective delivery scorecard is reviewed each quarter. We have taken steps to embed risk management across the agency as part of our ongoing management of change process. Our key strategic risks are covered in our Business Plan.

We are represented on the DTI Agencies Risk Forum.

Performance indicators

Our programme expenditure will be reported in the DTI Accounts. The preparation of these accounts for 2005-06 is not yet completed and so the figures for

programme expenditure have not yet been audited. A summary of our total expenditure is shown below.

Small Business Service	2004-05 £ Millions	2005-06 £ Millions
Business Link Operators Local Network	140	0
Farm Business Advice Service	5	0
Business Link Call Handling and website (see Business.Gov)	9	0
Business.Gov (delivered through Serco from December 2005)	9	28.6
Phoenix Fund	28	40.6
Enterprise Fund – including SFLG, ¹ Smart/Grant for R&D and ² Grant for Investigating an Innovative Idea	147	110
Other support	48	36.8
Total programme expenditure	386	216
Administration expenditure	15	13
Total expenditure	401	229

¹ Delivery of Grant for R&D and the legacy Smart was delegated to Regional Development Agencies on 1 April 2005. Funds were transferred to RDA "Single Pot" allocations.

² Responsibility for Grant for Investigating an Innovative Idea was transferred to DTI's Innovation Group on 1 April 2005.

Performance against the key operational targets in our Business Plans for 2004-05 and 2005-06 is set out below.

2004-05

Key Performance Indicator	Outturn and comment
<p>Deliver a national enterprise awareness event involving public and private sector partners in November 2004</p>	<p>The first national 'Enterprise Week ' was held from 15-21 November 2004. Over 1,100 events took place across the country, organised by more than 420 organisations. There was good media coverage of the Week with all but one of the national dailies containing articles about enterprise week and over 900 items in regional newspapers. Media comment was positive and there was strong central government commitment.</p>
<p>Complete the establishment of the Council for Graduate Entrepreneurship by May 2004.</p>	<p>The Council was launched on 13 September 2004. 3 short research studies have been completed, the findings of which will be used to develop the Council's business plan. Working with the Regional Development Agencies, design of their Flying Start programme aimed at encouraging more graduates to start a business, has been completed.</p>
<p>Ensure by March 2005 that Business Link (both the website and the face-to-face service) is effectively promoting and delivering the DTI's new portfolio of business support products – particularly those relating to innovation, knowledge transfer and best practice.</p>	<p>Business Link advisers trained on DTI's business support products. A Technology and Design workshop involving the Design Council, Regional Development Agencies and Business Link Operators explored methods of brokerage in the innovation and technology area and has been followed up with interested parties. From February 2005, in association with the Patent Office, Business Link advisers are being offered Intellectual Property Rights training. Further training is also being provided on DTI business support products.</p>

Key Performance Indicator	Outturn and comment
<p>Complete an action plan for carrying forward the recommendations of the review of the Small Firms Loan Guarantee by December 2004, and launch a pathfinder round of Enterprise Capital Funds within one month of State Aid approval being received.</p>	<p><i>Small Firms Loan Guarantee Key elements of implementation project identified and discussed with lenders November 2004. More detailed scoping and timetabling of those elements to HM Treasury in January 2005. Externally recruited project manager joined November 2004.</i></p> <p>Enterprise Capital Funds European Commission scrutiny procedure undertaken for Enterprise Capital Funds State Aid clearance. Lobbying produced a good level of support from industry and other Member States. Pathfinder launch delayed to Spring 2005 (subject to European Commission approval)</p>
<p>Launch the second round of the City Growth Strategies and Phoenix Fund Building on the Best projects from April 2004, monitor their progress and begin a programme of events to share best practice by February 2005.</p>	<p>26 Building on the Best projects announced in April 2004. 25 projects completed March 2006, other one in June 2006.</p> <p>6 pilot initiatives with Housing Associations announced in May 2004 and 3 more in place in September 2004. Projects completed by March 2006.</p> <p>13 "enterprise for people with mental health issues" projects launched in November 2004.</p> <p>11 projects completed March 2006, other 2 by July 2006.</p> <p>Launch of Phase 2 of City Growth in April 2004 with 10 new areas in 6 Regions. Strategies published March 2006.</p> <p>Phoenix Bursary Fund announced in April 2004. Projects launched during 2005/06 to promote business support for creative industries in disadvantaged areas for refugee communities.</p> <p>Events to share best practice: May 2005 (all projects); October 2005 (Offenders); both with associated publications; widely disseminated. Further action to capture learning from all projects and share lessons with key stakeholders launched December 2005, ongoing into 2006/07.</p>

Key Performance Indicator	Outturn and comment
<p>Plan the transfer of responsibility for the management of Business Link Operator contracts to the Regional Development Agencies within a national framework that maintains core service standards with effect from April 2005.</p>	<p>Joint Small Business Service and Regional Development Agencies Business Link Strategy Board (BLSB) set up to manage the transfer of responsibility for managing Business Link Operator contracts to the Regional Development Agencies from 1 April 2005, and implement the new Business Link business and brand model. Work to deliver the Business Link brand transformation is being taken forward under the stewardship of the BLSB. One of its first tasks has been to build an agreed Business Link National Framework and that work is now completed.</p> <p>The Framework defines the context within which the Regional Development Agencies, Government Departments and the Small Business Service will operate the Business Link brand.</p>
<p>Complete a public consultation so that government can consider whether to extend the concept of common commencement dates for regulations to new areas of domestic law, and publish the responses.</p>	<p>Consultation was completed on 3 September 2004. 81% of businesses were in favour of the adoption of common commencement dates. A summary of the public responses was published in December 2004 and is available on our website: www.sbs.gov.uk.</p> <p>The Chancellor of the Exchequer announced in the Pre-Budget Report on 2 December that the Government would extend common commencement dates to other areas of domestic law that impact on business, starting in 2005 with health and safety, company and consumer law, and work and pensions law. The dates are 6 April and 1 October.</p>
<p>Monitor, evaluate and drive forward implementation of the government-wide Action Plan for Small Business published in January 2004, updating the web-based implementation programme available at www.sbs.gov.uk on a regular basis.</p>	<p>Significant progress has been made with implementing the actions set out in the Government Action Plan. Progress has been assessed and updated on a quarterly basis on our website www.sbs.gov.uk website.</p>

2005-06

Key Performance Indicator

Outturn and comment

Increase enterprise awareness in young people by supporting a further *Make your Mark: Start Talking Ideas* campaign culminating in a successful second Enterprise Week in November 2005 targeted on people in a wider 14-30 age group.

A successful Enterprise Week was held in November 2005. There were: 408,000 attendees (up 150% on 2004); across 2,215 events (up 89%) organised by 722 organisations, with the support of 3,874 businesses; 71% of the events were targeted at the under 25 age group. Media interest increased by 40%, with over 1,204 pieces of coverage and items in all of the national daily papers. BBC news provided daily coverage throughout Enterprise Week, including coverage on the breakfast, lunch and evening bulletins on launch day.

Continue to support and promote social enterprise by completing a review of the Government's three-year strategy by July 2005, and establishing future priorities for action.

Review completed. Alun Michael announced the key points of the refreshed action plan to 800 attendees at the Social Enterprise Coalition's Voice 06 conference in January. The new Action Plan will be published in May 2006.

Increase the availability of risk capital for high growth potential businesses, by launching a pathfinder round of Enterprise Capital Funds within two months of European Union state aid clearance.

Initial review of bids was completed in December 2005. The first two Enterprise Capital Funds to be selected were announced in March at the same time the Government agreed to an additional £100 million being earmarked to continue the Pathfinder process.

Hold a conference on risk capital in October 2005 as part of the UK's European Union Presidency to highlight the importance of risk capital for small businesses with growth potential, and explore ways of increasing its availability in the UK and elsewhere in the European Union.

A successful risk capital conference was held in October. Some 300 delegates from the EU, the US and Asia attended and debated a number of key issues on how risk capital can support innovation, growth and enterprise.

Work with our lender partners to launch a simplified, better targeted and more consistently available form of the Small Firms Loan Guarantee (SFLG) by December 2005 in line with the recommendations of the Graham Review.

The new form of SFLG went live on 1 December 2005. Phase 2 is underway to add improved functionality to the web portal and to develop performance management and accountability measures. The Project Board agreed plans and proposed deliverables for 2006/07. The Capital for Enterprise Board is taking a close interest in the development of appropriate performance management metrics for the new form of SFLG.

Key Performance Indicator	Outturn and comment
<p>Encourage female entrepreneurship by implementing recommendations being made by the Women's Enterprise Panel to increase the proportion of women-owned businesses by March 2006, and take decisions on whether to establish a National Women's Business Council by July 2005.</p>	<p>The December Pre Budget Report announced that from spring 2006 the Task Force on Women's Enterprise would work with Government and the RDAs, over three years, to increase levels of female entrepreneurship by accelerating the implementation of the Women's Enterprise Action Plan. Contracts have been agreed with 5 English Regions to run pilot enterprise units to test the feasibility of establishing Regional Women's Enterprise Units. They will develop and test different models of business support for women.</p>
<p>Work in partnership with the English Regional Development Agencies to focus the Business Link service on information, diagnostic and brokerage services, and further improve on current levels of Business Link market penetration and customer satisfaction.</p>	<p>From April 2006 Business Link will provide impartial information with diagnosis of customer needs and brokerage to other service providers, opportunities and products from the public, private and voluntary sectors.</p> <p>Market penetration of all customers has increased from 666,000 in 2004-05 to 740,000 in the 12 months ending March 2006. Customer satisfaction was up from 90.5% in 2004-05 to 91.6% at end March 2006. Over 92% of users said they would be likely to re-use the service and 97% said they would be willing to recommend it to others.</p>
<p>Improve small business access to public sector procurement and R&D opportunities by launching a Supplier Route to Government web portal by October 2005, and re-invigorating the Small Business Research Initiative so that more government departments are meeting the target of procuring 2.5% of the R&D from small and medium size businesses.</p>	<p>We launched the new www.Supply2.gov.uk web portal in March. A marketing and PR plan, together with a launch strategy has been agreed.</p> <p>The SBRI target has been comfortably exceeded. The 12 major spending departments procured 10.6% of their extramural research and development from small business during 2004-05.</p>

Key Performance Indicator	Outturn and comment
<p>Complete a review of the UK's key regulatory and administrative processes using the World Bank's Doing Business survey as a benchmark and, with the Small Business Council, make recommendations on the scope for streamlining and simplifying these processes by January 2006.</p>	<p>Review completed. Recommendations on streamlining or simplifying procedures have been discussed with the responsible Departments and Agencies. Suggestions have been included in our input to the 2005 Pre-Budget report and Budget 2006. In some instances questions have arisen about the accuracy of the data used by the Doing Business report and queries have been raised with the World Bank. The project has also raised the profile of the Doing Business methodology with Departments and has encouraged them to consider streamlining procedures with small business in mind.</p>
<p>Increase the Small Business Service's influence on small business issues within government, across the regions and internationally by building our capabilities as a source of expertise, leadership and challenge.</p>	<p>Independent analysis from a survey of stakeholders found that 11 out of 12 of the stakeholder groups agreed that the SBS understands the small business environment and since the SBS was established, government's understanding of the small business environment has improved. This is further supported by case study evidence. We ran a central development programme for our senior staff to improve our leadership and influencing capabilities. We led the UK's negotiations on the EU Commission's proposed Competitiveness and Innovation Framework Programme and set the agenda for formal European Council discussions during the UK Presidency. We helped facilitate Member States' agreement on, and secured key improvements to, the proposal before ensuring a smooth handover to the Austrian Presidency. We were instrumental in helping the Commission develop the European Enterprise Awards and we held a number of talks with the Commission and accession Member States on SME access to finance issues.</p>

Progress towards PSA targets

The SBS has lead responsibility for DTI PSA 6 Enterprise:

- PSA 6(i) Increase in the proportion of people thinking about setting up a business or becoming self-employed.

The latest data is for 2003 and shows 11.3% of adults considering going into business – no change from 2001 levels. The 2005 position will be available in Summer 2006 when the results of the biennial SBS Household Survey of Entrepreneurship will be published on the SBS website.

- PSA 6(ii) Improvement in the overall productivity of small firms

For each of the four years 1999 to 2002, the productivity of small firms grew more than the productivity of all firms. For 2003, although the productivity of small firms grew again (by 3.3 per cent), it did not grow as much as productivity in all firms (4.3 per cent). However, overall for the period 1998 to 2003, the productivity of small firms grew more than it did for all firms.

- PSA 6(iii) More enterprise in disadvantaged communities

There has been a narrowing of the gap in start-up rates (measured as VAT registrations per 10,000 adults) between the most and least deprived areas between 2000 and 2004. Whilst there was no change to the rate in the least deprived areas (42), the most deprived areas saw an increase from 25 to 28.

For the 2004 Spending Review, a new self-employment measure was introduced, which would better capture small business activity, particularly below the VAT threshold. The latest available data shows that 6.4% of people of working

age in deprived areas in England (year ending February 2006) are self-employed, compared with the baseline of 5.9%, so there are some early positive signs.

The SBS also contributes to delivery of two DTI Public Service Agreement targets – PSA 9 Gender Equality and PSA 10 Maximising Potential in the Workforce:

- PSA 9 4(ii) – Increase the proportion of newly self-employed people who are women

There has been some progress against this measure – in the year to May 2004 (baseline), 32.4% of all newly self-employed people were women, rising to 35.9% (year to August 2005), but falling back slightly to 33.8% (year to November 2005). The number of self-employed women is now approaching 1 million, the highest volume since records began in 1984.

- PSA 10(a) – Raise the self-employment rate of under-represented ethnic minorities and reduce the gap with other groups.

There has been some progress against this measure – in the year to May 2005 (baseline), under-represented ethnic minority groups had a self-employment rate of 5.6% compared to 9.6% for other groups. Latest data (year to February 2006) shows that the rate for under-represented groups has increased to 6.1% whilst the rate for other groups is unchanged. Therefore the gap has narrowed from 4 percentage points to 3.4 percentage points, the smallest gap for nearly four years.

More detail on the data sources, coverage and target levels for these measures can be found at http://www.dti.gov.uk/psa_target.html. More detail on progress can be found in the DTI Departmental Report 2006.

Serving our customers

A service statement for the Small Business Service is published on our corporate website (www.sbs.gov.uk/standards). We are committed to providing a high quality service to small businesses and take any complaints seriously. Our website (www.sbs.gov.uk) provides information on our complaints procedure.

Performance against Customer Service Standards:		
Target	2004-05	2005-06
100 per cent of visitors seen within 10 minutes of agreed appointment time	100 per cent	100 per cent
100 per cent of correspondence answered within 15 working days of receipt	100 per cent	100 per cent



This section covers the financial part of the overall management commentary. Operational issues are covered in the Annual Report.

These accounts have been prepared in accordance with a Direction given by HM Treasury in pursuance of section 7(2) of the Government Resources and Accounts Act 2000.

Financial Regime

The SBS is a gross running cost agency funded from the Department of Trade and Industry's (DTI) parliamentary Request for Resources 1. In October 2005 the vast majority of DTI's Business Support Unit joined SBS bringing with it an allocated budget of £1,156k and related expenditure and staff. From 1 April 2005 responsibility for the management of regional and local Business link services has moved to Regional Development Agencies. Expenditure on these services in 2004-05 was £3.8m. The 2004-05 comparative figures have been restated to reflect these changes and give like with like comparisons.

The administrative cost of running the SBS has decreased from some £15.2m in 2004-05 to £13.3m in 2005-06. The decrease is due to staff efficiency savings and a reduction in the year's provision for early departure costs as the majority of departures were provided for in 2004-05.

Going Concern

The balance sheet at 31 March 2006 shows negative Taxpayers Equity of £1,249k. This reflects the inclusion of liabilities falling due in future years that are to be financed by drawings from the UK Consolidated Fund. Such drawings will be from grants of Supply approved by Parliament, to meet Net Cash Requirement of the Department of Trade and Industry of which the Small Business Service is part. Under the Government Resources and Accounts Act 2000, no money may be drawn from the Fund by the Department of Trade and Industry other than required for the service of the specified year or retained in excess of that need.

In common with government departments, the future financing of the Small Business Services liabilities is accordingly to be met by future grants of Supply to the Department of Trade and Industry and the application of future income, both to be approved annually by Parliament. Such approval for amounts required for 2006-07 has already been given and there is no reason to believe that future approvals will not be forthcoming. It has accordingly been considered appropriate to adopt a going concern basis for the preparation of these financial statements.

Cash

The SBS has access to the DTI's Bank of England account for processing payments.

Payments to suppliers

The SBS is committed to the prompt payment of bills for goods and services received. Payments are normally made as specified in the contract: if there is no contractual provision or other understanding, they are due to be paid within 30 days of receipt of the goods or services, or presentation of a valid invoice or similar demand, whichever is later.

SBS has the responsibility for the Late Payment of Commercial Debts (Interest) Act 1998. The Agency collates data from across Whitehall and from businesses, monitoring the progress towards shortening the time taken for making payments.

In the period from 1 April 2005 to 31 March 2006 SBS payments were examined and 95% of payments were made on time, 93% were made on time in 2004-05. The Agency is working to improve its payment performance further.

Auditors

The accounts of the SBS are audited by the Comptroller and Auditor General (NAO) with a notional audit fee of £22,000. No other work was completed in relation to SBS administration costs.

The Accounting Officer is not aware of any relevant audit information of which the National Audit Office is unaware. He has taken all reasonable steps to make himself aware of any relevant audit information and to establish that the NAO are aware of that information.

Important events occurring after the year end

On 24th May 2006 the National Audit Office published a value for money review of the Small Business Service entitled Supporting Small Business (HC962).

During 2006-07 the Small Business Service's responsibility for social enterprise will transfer to the Cabinet Office.

Page 7 of the Annual Report gives a forward look on SBS activities

Remuneration Report 2005-06

Remuneration Policy

The remuneration of senior civil servants is set by the Prime Minister following independent advice from the Review Body on Senior Salaries.

In reaching its recommendations, the Review Body has regard to the following considerations:

- the need to recruit, retain and motivate suitably able and qualified people to exercise their different responsibilities;
- regional/local variations in labour markets and their effects on the recruitment and retention of staff;
- Government policies for improving the public services including the requirement on departments to meet the output targets for the delivery of departmental services;
- the funds available to departments as set out in the Government's departmental expenditure limits;
- the Government's inflation target.

The Review Body takes account of the evidence it receives about wider economic considerations and the affordability of its recommendations.

Further information about the work of the Review Body can be found at www.ome.uk.com.

Service Contracts

Civil service appointments are made in accordance with the Civil Service Commissioners' Recruitment Code, which requires appointment to be on merit on the basis of fair and open competition but also includes the circumstances when appointments may otherwise be made.

Unless otherwise stated below, the officials covered by this report hold appointments, which are open-ended until they reach the normal retiring age of 60. Early termination, other than for misconduct, would result in the individual receiving compensation as set out in the Civil Service Compensation Scheme.

Officials on fixed term contracts are:

Martin Wyn Griffith 15/4/02 to 14/4/05 extended to 30/4/07

Hilary Norman 20/9/04 to 19/09/07

Adam Dawson 1/02/05 to 31/1/08

Ann Cormack 3/10/05 to 2/10/08

Strategy Board Members

The Minister for Industry and the Regions chairs the SBS Strategy Board. The Board advises on strategy and objectives and monitors the agency's performance. At 31 March 2006, the Board members were as listed in the Annual Report page 21: Martin Wyn Griffith, John Alty, Ann Cormack, Mark Gibson, Stephen Lyle Smythe, Eleanor Mack and Rosa Wilkinson are Civil Servants. These members do not receive any further remuneration for their work on the Strategy Board. Rodney Buse, Teresa Graham and Andrew Summers are each paid £5,000 per annum plus travelling expenses for their work on the Board.

Executive Team

Members of the Executive Team during the year were:

Martin Wyn Griffith, Chief Executive

Stephen Lyle Smythe, Deputy Chief Executive

Ann Cormack, Managing Director, Service Development from 3/10/05

Rosa Wilkinson, Managing Director, Policy from 11/7/2005

Adam Dawson, Director, Business Support from 1/10/05

Rory Earley, Director, Investment & SME Finance

Hilary Norman, Director, Social Enterprise

Katrina Reid, Director, Analytical Unit from 13/06/2005

Mark Holden, Director Intelligent Customer Function to 30/9/05

Stephen Kennet, Director Business Support Implementation and Regions to 30/6/05

Mandy Mayer, Director Policy, Development and Challenge to 31/7/05

The team were appointed under the Civil Service Management Code. Their remuneration is determined as for any member of the Civil Service.

None of the above Executive Team members has any company directorships or significant interests which may conflict with their managerial responsibilities.

The salaries and pension entitlements of the Executive Team were as follows:

	Salary including performance pay	Real increase in pension at age 60	Real increase in lump sum at age 60	Total accrued pension at age 60 at 31/03/06	Total lump sum at age 60 at 31/03/06	CETV at 31/03/05 (Nearest £000)	CETV at 31/03/06 (Nearest £000)	Employee contributions and transfers-in	Real increase in CETV after adjustment for inflation and changes in market investment factors (nearest £000)
	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Mr Martin Wyn Griffith Chief Executive Prior year salary (Notes a and b)	155-160 140-145	0-2.5	2.5-5	5-10	15-20	51	89	0-2.5	22
Mr Stephen Lyle-Smythe Deputy Chief Executive Prior year salary	100-105 90-95	0-2.5	2.5-5	40-45	130-135	878	1089	0-2.5	37
Ms Rosa Wilkinson Managing Director Policy from 11/7/2005 Prior year salary	**60-65 N/A	2.5-5	7.5-10	15-20	50-55	159	224	0-2.5	43
Ms Ann Cormack Managing Director Service Development from 3/10/2005 Prior year salary	**50-55 N/A	0-2.5	N/A	0-5	N/A	0	12	0-2.5	10
Ms Hilary Norman (formerly Brown) Director Social Enterprise Prior year salary	60-65 **25-30	0-2.5	N/A	0-5	N/A	4	15	0-2.5	8
Mr Rory Earley Director Investment Fund Management and Access to Finance Prior year salary	80-85 70-75	0-2.5	N/A	30-35	N/A	359	481	2.5-5	11
(Ms Katrina Reid Director of Analysis from 13/6/2005 Prior year salary	**45-50 N/A	0-2.5	2.5-5	0-10	25-30	135	202	0-2.5	33
Mr Mark Holden Director Intelligent Customer Function to 30/9/05 Prior year salary	**55-60 75-80	0-2.5	N/A	0-5	N/A	18	30	2.5-5	6
Mr Adam Dawson Director Intelligent Customer Function from 1/10/2005 Prior year salary	**35-40 N/A	0-2.5	N/A	0-5	N/A	11	21	2.5-5	7
Dr Stephen Kennett Director Business Support Implementation and Regions to 30/6/2005 Prior year salary	**15-20 70-75	0-2.5	0-2.5	25-30	80-85	453	492	2.5-5	7
Ms Mandy Mayer Director Policy, Development and Challenge to 31/7/2005 Prior year salary (Notes a and b)	**25-30 75-80	0-2.5	N/A	35-40	N/A	482	554	0-2.5	8

** Part year salary (related to SBS, as a director).

a) opted to join the premium scheme

b) pension details assume maximum commutation of pension for lump sum

Members of the Executive Team received no benefits in kind.

Salary

'Salary' includes gross salary; performance pay or bonuses; overtime; reserved rights to London weighting or London allowances; recruitment and retention allowances, and any other allowance to the extent that it is subject to UK taxation. None of the above received benefits in kind. This report is based on payments made by the DTI.

All salary rises take effect from 1 April.

Pension

a) Pension benefits are provided through the Civil Service Pension (CSP) arrangements. From 1 October 2002, civil servants may be in one of three statutory based 'final salary' defined benefit schemes (classic, premium, and classic plus). The schemes are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under classic, premium and classic plus are increased annually in line

with changes in the Retail Prices Index. New entrants from 1 October 2002 may choose between membership of premium or joining a good quality 'money purchase' stakeholder arrangement with a significant employer contribution (partnership pension account).

b) Employee contributions are set at the rate of 1.5% of pensionable earnings for classic and 3.5% for premium and classic plus. Benefits in classic accrue at the rate of 1/80th of pensionable salary for each year of service. In addition a lump sum equivalent to three years' pension is payable on retirement. For premium, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike classic, there is no automatic lump sum (but members may give up (commute) some of their pension to provide a lump sum). Classic plus is essentially a variation of premium, but with benefits in respect of service before 1 October 2002 calculated broadly as per classic.

c) The partnership pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 3% and 12.5% (depending on the age of the member) into a stakeholder pension product chosen by the employee from a selection of approved products. The employee does not have to contribute but where they do make contributions, the employer will match these up to a limit of 3% of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.8% of pensionable salary to cover the cost of centrally-provided risk benefit cover (death in service and ill health retirement).

Further details about the CSP arrangements can be found at the website www.civilservice-pensions.gov.uk.

Cash Equivalent Transfer Values

Columns 7 & 8 of the above table show the member's cash equivalent transfer value (CETV) accrued at the beginning and end of the reporting period. Column 10 reflects the increase in CETV effectively funded by the employer. It takes account of the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.

A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the pension benefits accrued in the former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies. The CETV figures and from 2003-04 the other pension details include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the Civil Service Pension arrangements and for which the Civil Service Vote has received a transfer payment commensurate to the additional pension liabilities being assumed. They also include any additional pension benefit accrued to the member as a result of their purchasing additional years of pension service in the scheme at their own cost. CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries.

Please note that the factors used to calculate the CETV were revised on 1 April 2005 on the advice of the Scheme Actuary. The CETV figure for 31 March 2005 has been restated using the new factors so that it is calculated on the same basis as the CETV figure for 31 March 2006.

The real increase in the value of the CETV

This reflects the increase in CETV effectively funded by the employer. It takes account of the increase in accrued pension due to inflation, contributions paid by the members (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.



Martin Wyn Griffith
Chief Executive
12th July 2006

Statement of Agency's and Chief Executive's Responsibilities

Under Section 7(2) of the Government Resources and Accounts Act 2000 the Treasury have directed the Small Business Service to prepare a statement of accounts for each financial year in the form and on the basis set out in the accounts direction. The accounts are prepared on an accruals basis and must give a true and fair view of the SBS's state of affairs at the year end, its operating costs, recognised gains and losses and cash flows for the financial year.

In preparing accounts the SBS is required to:

- observe the accounts direction issued by the Treasury, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards have been followed, and disclose and explain any material departures in the financial statements;
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Service will continue in operation.

The Accounting Officer for the Department of Trade and Industry has designated the Chief Executive of the Small Business Service as the Accounting Officer for the Administrative costs of SBS. His relevant responsibilities as Accounting Officer, including his responsibility for the propriety and regularity of the public finances and for the keeping of proper records, are set out in the Accounting Officers' Memorandum issued by the Treasury and published in Government Accounting. SBS programme and capital expenditure is reported in the DTI accounts.

Statement of Internal Control

1. Scope of responsibility

As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of the Small Business Service's policies, aims and objectives, whilst safeguarding the public funds and departmental assets for which I am personally responsible, in accordance with the responsibilities assigned to me in Government Accounting.

I am advised by: -

■ The SBS Strategy Board. This is chaired by the Department of Trade and Industry's Minister for Industry and the Regions and includes senior officials from DTI and Her Majesty's Treasury, as well as three independent members. The Strategy Board advises me on the strategic direction of the Agency. It also monitors SBS performance; and

■ The SBS Executive Team. This is our management board and comprises SBS Directors, the Deputy Chief Executive and myself. The Executive Team is the SBS's governing body. It advises me on such issues as resource allocation, performance and the management of risk; and

■ The SBS Audit Committee. This provides independent advice on internal control issues. It also serves as a risk committee and advises the Executive Team on the SBS risk register. The Audit Committee advises on the Internal Audit work programme in the SBS and considers reports from Internal Audit on the outcome of their audits.

I work with Ministers and DTI top management through the Strategy Board, other meetings and correspondence. I am a member of the DTI Enterprise Business Group's Senior Management Team. I involve Ministers in the management of risk at a strategic level, considering major factors that could prevent SBS objectives being achieved.

2. The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of Small Business Service policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in the Small Business Service for the year ended 31 March 2006 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance.

3. Capacity to handle risk

Top management have taken a lead in embedding risk management into the SBS planning and reporting systems. For example, the SBS scorecard includes reports on the risks associated with the delivery of the Government's seven core strategies for small business. The scorecard and risk register are reviewed quarterly by the Executive Team. The SBS uses DTI courses and these include the management of risk e.g. in policy-making. Staff are also trained in the identification and management of risk as part of their training in planning, performance reporting and project management.

In 2005/6, the SBS introduced a comprehensive Programme Plan, based on the projects and programmes in the SBS Business Plan. Each month project managers were asked to report progress towards achieving deliverables and managing risks. This tracking and reporting mechanism has enhanced SBS's planning capabilities and helped to embed risk management as part of a more pro-active project management system. Plans are well advanced to develop a Programme Plan for 2006/7.

4. The risk and control framework

The highest risk priorities for the SBS during 2005/6 have been (a) the need to deliver major headcount savings and also enhanced policy leadership and influencing role following the CSR2004 and the subsequent Chief Executive's review, (b) the need to ensure that Government enterprise services are inclusive and serve the needs of all parts of the community and (c) to ensure that the DTI, other government departments and the EU take sufficient account of the burden of regulation on SMEs.

Risk is identified in the course of the SBS and DTI planning processes, through regular reviews of risk (e.g. at Executive Team meetings and meetings of directorate senior management teams) and at risk self-assessment workshops.

SBS will continue to maintain a risk register, based on the following four key areas of strategic risks:

- national/regional contributions to enterprise policy display insufficient understanding or prioritisation of the issue
- support services with which the SBS is associated encounter continuity, quality, etc problems
- SBS understanding of business or wider economic issues is insufficient to reflect or predict needs
- stakeholders (including staff) or the media do not understand or value SBS's work

5. Review of effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the executive managers within the department who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports. I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the Executive Team and the Audit Committee and a plan to address weaknesses and ensure continuous improvement of the system is in place.

The effectiveness of the system is reviewed by the Executive Team (e.g. by reviewing a summary of internal control returns from directorates), and the SBS Procurement Officer audits the procurement processes in the areas of SBS that have significant procurement activity. I am advised on internal control by reports from DTI Internal Audit.

I have also established a Corporate Services Group within the SBS organisational structure. Senior managers within this group covering such areas as finance, HR, planning and organisational development met initially fortnightly, and currently meet monthly, with the Deputy Chief Executive to consider how the governance of SBS can be further improved.

The Corporate Services Group in 2005/6 :

- established a Leadership Development Team and implemented a Leadership Development Programme to enhance the skills and capabilities of top management against the needs of the SBS organisation;
- continued to improve the quality of financial records related to SBS on the DTI's Oracle 11(i) accounting system;
- made substantial progress on a review of SBS's risk appetite, that will be communicated to staff
- introduced a TeamSBS programme to improve the internal operation of the agency; and
- began a review of the Agency Framework Document that sets out the respective responsibilities of the DTI and the Agency. The revised document will need to be taken forward in the light of a review of the SBS's operational model in the lead up to the comprehensive spending review 2007.
- in light of NAO's value for money report on SBS, we are looking at the performance management framework as part of work for the Comprehensive Spending Programme.

6. Significant internal control problems

There have been no significant internal control problems in 2005/6.



Martin Wyn Griffith

Chief Executive

12th July 2006

Certificate and Report of the Comptroller and Auditor General to the House of Commons

I certify that I have audited the financial statements of the Small Business Service for the year ended 31 March 2006 under the Government Resources and Accounts Act 2000. These comprise the Operating Cost Statement and Statement of Recognised Gains and Losses, the Balance Sheet, the Cashflow Statement and the related notes. These financial statements have been prepared under the accounting policies set out within them.

Respective responsibilities of the Agency, the Chief Executive and auditor

The Agency and Chief Executive are responsible for preparing the Annual Report and the financial statements in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions made thereunder and for ensuring the regularity of financial transactions. These responsibilities are set out in the Statement of Accounting Officer's Responsibilities.

My responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements, and with International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000. I also report whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. I also report to you if, in my opinion, the Annual Report is not consistent with the financial statements, if the Agency has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by relevant authorities regarding remuneration and other transactions is not disclosed.

I review whether the statement on page 35 reflects the Agency's compliance with HM Treasury's guidance on the Statement on Internal Control, and I report if it does not. I am not required to consider whether the Accounting Officer's statements on internal control cover all risks and controls, or to form an opinion on the effectiveness of the Agency's corporate governance procedures or its risk and control procedures.

I read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises only the sections of the Annual Report entitled Chief Executive's Foreword; Role and Purpose; Strategic Development; Forward Look; The Year in Retrospect; Organisation, People and Governance; Performance Indicators; Financial Review and the unaudited part of the Remuneration Report. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information

Basis of audit opinion

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements and the part of the Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the Agency and Chief Executive in the preparation of the financial statements, and of whether the accounting policies are most appropriate to the Agency's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements and the part of the Remuneration Report to be audited are free from material misstatement, whether caused by fraud or error and that in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Remuneration Report to be audited.

Opinions

In my opinion:

-
- the financial statements give a true and fair view, in accordance with the Government Resources and Accounts Act 2000 and directions made thereunder by HM Treasury, of the state of the Agency's affairs as at 31 March 2006 and of the total recognised gains and losses and cashflows for the year then ended;

 - the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000; and

 - in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.
-

I have no observations to make on these financial statements.



John Bourn

Comptroller and Auditor General
National Audit Office
157-197 Buckingham Palace Road
Victoria
London SW1W 9SP
14th July 2006

Operating Cost Statement

for the year ended 31 March 2006

	Notes	2005-06		2004-05 Restated
		£'000	£'000	£'000
Administration Costs		Staff Costs	Other Costs	
Staff costs	3.1	9,142		9,452
Other administration costs	4		4,162	5,740
Totals		9,142	4,162	
Net Operating Costs		9,142	4,162	15,192
Net Operating Cost total			13,304	15,192

* See note 1.2 and 20

Statement of recognised gains and losses

for the year ended 31 March 2006

	Notes	2005-06 £'000	2004-05 £'000
Net gain/(loss) on revaluation of tangible fixed assets	12	(4)	(1)
Recognised Gains and Losses for the financial year		(4)	(1)

All activities are continuing

The notes on pages 46-55 form part of these accounts.

Balance Sheet

as at 31 March 2006

	Notes	2006	2005
		£'000	Restated* £'000
Fixed assets			
Tangible assets	7	19	25
Debtors falling due after more than one year	8.1	39	19
Current assets			
Debtors	8.1	83	83
		83	83
Creditors (amounts falling due within one year)	9.1	(284)	(109)
Net current Assets		(201)	(26)
Total assets less current liabilities		(143)	(18)
Creditors (amounts falling due after more than one year)	9.1	0	0
Provision for liabilities	10	(1,106)	(1,615)
Total Net Liabilities		(1,249)	(1,597)
Taxpayers' Equity			
General fund	11	(1,249)	(1,597)
Revaluation Reserve	12	0	0
		(1,249)	(1,597)

*See notes 1.2 and 20

Signed:



Martin Wyn Griffith

Chief Executive

12th July 2006

The notes on pages 46-55 form part of these accounts.

Cash Flow Statement

for the year ended 31 March 2006

	Notes	2005-06	2004-05
		£'000	Restated*
		£'000	£'000
Net cash outflow from operating activities	13.1	(11,220)	(11,440)
Capital expenditure and financial investment		0	0
Financing from Department of Trade and Industry	13.3	11,220	11,440
Increase/(decrease) in cash in the period		0	0

* See notes 1.2 and 20

The notes on pages 46-55 form part of these accounts.

1 Statement of Accounting policies

These financial statements have been prepared in accordance with the 2005-06 Government Financial Reporting Manual (FReM) issued by HM Treasury. The accounting policies contained in the FReM follow UK generally accepted accounting practice for companies (UK GAAP) to the extent that it is meaningful and appropriate to the public sector. Where the FReM permits a choice of accounting policy, the accounting policy which has been judged to be most appropriate to the particular circumstances of the Small Business Service for the purpose of giving a true and fair view has been selected. The particular accounting policies adopted by the Small Business Service are described below. They have been applied consistently in dealing with items considered material in relation to the accounts.

1.1 Accounting Convention

These accounts have been prepared under the historical cost convention modified to account for the revaluation of fixed assets at their value to the Small Business Service by reference to their current costs.

1.2 Transfer of Functions : Restatement of Prior Year Comparators

In accordance with the Financial Reporting Manual, where functions are transferred from the responsibility of one part of the public sector to another this will be accounted for using merger accounting. The results and cash flows of the combining entities are brought into account from the start of the financial year in which the transfer occurs. Prior year comparatives figures are re-stated for consistency of reporting. See note 20.

1.3 Tangible Fixed Assets

Tangible assets have been stated at current cost using Office of National Statistics indices. The minimum level for capitalisation of a tangible fixed asset is £1,000, however, all computer related equipment is capitalised.

1.4 Depreciation

Depreciation is provided at rates calculated to write off the valuation of tangible fixed assets on a straight line basis over their estimated useful lives. Asset lives for Equipment and Computers are in the range of three to five years.

1.5 Operating leases

Rentals payable under operating leases are charged to the operating cost statement on a straight line basis over the term of the lease.

1.6 Value added tax

The Small Business Service is covered by the VAT registration of the Department of Trade and Industry (DTI), which is responsible for paying over and recovering from HM Customs & Excise any VAT on behalf of the Small Business Service.

The Small Business Service is funded by the DTI parliamentary Request for Resources 1 to meet expenditure incurred, inclusive of VAT. Where VAT is recoverable by the Small Business Service the expenditure shown in the

Operating Cost Statement is net of VAT and the recoverable VAT is offset against Vote funding from the DTI. Outstanding recoverable VAT on expenditure is included in VAT debtors (note 8).

1.7 Administration Expenditure

Administration costs reflect the costs of running the Small Business Service as defined under the administration cost control regime.

1.8 Capital Charge

A charge, reflecting the cost of capital utilised by the Small Business Service is included in operating costs. The charge is calculated at the real rate set by HM Treasury of 3.5% on the average carrying amount of all assets less liabilities. For the Small Business Service the charge is based on the average of opening and closing balances, for 2005-06 (£50,555) and for 2004-05 (£40,033).

1.9 Pensions

Past and present employees are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS) which are described in note 3.1. The defined benefit schemes are unfunded and are non-contributory except in respect of dependants' benefits. The Small Business Service recognises the expected cost of these elements on a systematic and rational basis over the period during which it benefits from employees' services by payment to the PCSPS of amounts calculated on an accruing basis. Liability for payment of future benefits is a charge to the PCSPS. In respect of the defined contribution schemes, the Small Business Service recognises the contributions payable for the year.

1.10 Early Departure Costs Provision

The Department of Trade and Industry (DTI) is required to meet the additional cost of benefits beyond the normal PCSPS benefits in respect of employees who retire early. The DTI provides in full for this cost when the early retirement programme has been announced and is binding on the DTI. The DTI may, in certain circumstances, settle some or all of its liability in advance by making a payment to the Paymaster General's account at the Bank of England for the credit of the Civil Superannuation Vote. The amount provided is shown net of any such payments.

2. Outturn against final Administration Budget

	2005-06	2005-06	2004-05 Restated	2004-05
	Outturn £'000	Allocation £'000	Outturn £'000	Allocation £'000
The Agency's allocation from the vote	13,304	14,625	15,192	17,953

3. Staff Numbers and Related Costs

3.1 Staff Costs Comprise

	2005-06			2004-05 Restated		
	£'000	£'000	£'000	£'000	£'000	£'000
	Permanently employed staff	Others	Total	Permanently employed staff	Others	Total
Wages and salaries	6,552	714	7,266	7,530	191	7,721
Social security costs	576	0	576	633		633
Other pension costs	1,300	0	1,300	1,098		1,098
Total	8,428	714	9,142	9,261	191	9,452

The PCSPS is an unfunded multi-employer defined benefit scheme but the Small Business Service is unable to identify its share of the underlying assets and liabilities. A full actuarial valuation was carried out as at 31 March 2003 and details can be found in the resource accounts of the Cabinet Office: Civil Superannuation (www.civilservice-pensions.gov.uk).

For 2005-06, employers' contributions of £1,299,705 were payable to the PCSPS (2004-05 £1,098,168) at one of four rates in the range 16.2% to 25.6% (2004-05 12 to 18.5 per cent) of pensionable pay, based on salary bands. The schemes Actuary reviews employer contributions every four years following a full scheme valuation. The salary bands and contribution rates were revised for 2005-06 and will remain unchanged until 2008-09. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred, and they reflect past experience of the scheme.

Employees joining after 1 October 2002 could opt to open a partnership account, a stakeholder pension with an employer contribution. No employees have opted to open a partnership account.

3.2 Average Number of Persons Employed

The average number of whole-time equivalent persons employed (including senior management) during the year within the Directorates of the Small Business Service was as follows:

	2005-06 numbers		2004-05 numbers Restated	
	Staff permanently employed by SBS	Others engaged on SBS objectives	Staff permanently employed by SBS	Others engaged on SBS objectives
Chief Executive's Office	3		4	
Investment and SME Finance	24	8	36	6
Social Enterprise	8		8	1
Business Support Implementation and the Regions	4			
E-Services			20	4
Customer Directorate	39	49	15	
Centralised budget			10	
Strategy, Governance and Learning			57	3
Corporate Services	20	1		
Enterprise, Innovation and Skills			5	
Enterprise Policy			45	1
Marketing & Brand			5	1
Policy, Development and Challenge	59			
Analysis	25		5	
Total	182	58	210	16

4. Other Administration Costs

	2005-06	2004-05
	£'000	Restated £'000
Administrative costs	1,543	1,139
Operating leases	159	164
General administrative costs	1,702	1,303
Non cash items:		
cost of capital*	(51)	(40)
Net loss on revaluation	4	0
Depreciation	8	9
Profit/loss on disposal of fixed assets	(5)	0
Auditor's remuneration**	22	15
Overhead recharged from DTI	971	1,494
Accommodation costs	1,489	1,351
Early Departure costs	22	1,608
Total non cash	2,460	4,437
Total costs	4,162	5,740

* Cost of capital charge is no longer separately identified in the operating cost statement
** Auditor's remuneration includes no non-audit fees or expenses

5. Income

The Small Business Service has no administrative operating income.

6 Capital Allocation

The SBS does not have any capital allocation. The DTI has transferred assets to the SBS at gross cost or valuation as at 3 April 2000, with the associated accumulated depreciation.

7. Tangible Fixed Assets

	Equipment and Computer 2005-06 £'000	Equipment and Computer 2004-05 £'000
Gross cost or valuation		
at 1st April 2005/2004	81	67
Transfers from DTI	1	25
Disposals	(44)	
Revaluations net	1	(11)
at 31 March 2006/2005	39	81
Depreciation		
at 1st April 2005/2004	56	57
Provided in the year	8	9
Disposals	(49)	
Revaluations net	5	(10)
at 31 March 2006/2005	20	56
Net Book Value at 31 March 2005/2004	25	10
Net Book Value at 31 March 2006/2005	19	25
Asset financing		
Owned	19	25
Net book value at 31/3/2006/2005	19	25

The additions were a transfer from DTI and were not a cash purchase.

8. Debtors

8.1 Analysis by type

	2005-06 £'000	2004-05 Restated £'000
Amounts falling due within one year:		
Staff debtors	30	37
Other Debtors	14	32
VAT	38	13
Repayments	1	1
Total < 1 year	83	83
Amounts falling due after more than one year:		
Staff debtors	39	19
Total debtors	122	102

8.2 Intra-government Balances

	2005-06 Debtors: amounts falling due within one year £'000	2005-06 Debtors: amounts falling due after more than one year £'000	2004-05 Restated Debtors: amounts falling due within one year £'000	2004-05 Restated Debtors: amounts falling due after more than one year £'000
Balances with other central government bodies	42	0	44	0
Balances with bodies external to government	41	39	39	19
At 31 March 2006/2005	83	39	83	19

9. Creditors

9.1 Analysis by type

	2005-06 £'000	2004-05 Restated £'000
Amounts falling due within one year		
Trade Creditors	81	39
Accruals	203	70
	284	109

9.2 Intra-government Balances

	2005-06 £'000	2005-06 £'000	2004-05 Restated £'000	2004-05 Restated £'000
Creditors: amounts falling due within one year		Creditors: amounts falling due after more than one year	Creditors: amounts falling due within one year	Creditors: amounts falling due after more than one year
	£'000	£'000	£'000	£'000
Balances with other central government bodies	7	0	13	0
Balances with bodies external to government	277	0	96	0
At 31 March 2006/2005	284	0	109	0

10. Early Departure Provision

	2005-06 £'000	2004-05 £'000
Amounts falling due within one year		
Balance as at 1 April 2004/2005	1,615	595
Provided in the year due to change in discount rate	22	0
Provided in the year for additional departures	0	1,608
Provision utilised in the year	(531)	(588)
Balance as at 31 March 2006/2005	1,106	1,615

The Small Business Service meets the additional cost of benefits beyond the normal PCSPS benefits in respect of employees who retire early by paying the required amounts annually to the PCSPS over the period between early departure and normal retirement date. The expenditure is likely to be incurred over a period of 10 years. SBS provides for this in full when the early retirement programme becomes binding by establishing a provision for the estimated payments discounted by the Treasury discount rate of 2.8 per cent in real terms. The discount rate in 2004-05 was 3.5%.

There were 3 early retirements agreed during 2005-06. Full provision of all future costs of early retirement has been made, at discounted rates. The increase in the provision in the current financial year amounts to £22,070. For 2004-05 the provision for 23 early retirements was £1,607,954.

11. Reconciliation of Net Operating Cost to changes in General Fund

	2005-06	2004-05 Restated
	£'000	£'000
Balance at 1 April	(1,597)	(690)
Net operating cost for the year	(13,304)	(15,192)
Net financing from the DTI	11,220	11,440
Services provided by DTI, including accommodation	2,460	2,845
Financing for non-cash charges:		
Cost of capital	(51)	(40)
Transfer of assets	1	25
Auditor's remuneration	22	15
Balance at 31 March	(1,249)	(1,597)

12. Revaluation Reserve

The revaluation reserve reflects the unrealised element of the cumulative balance of indexation and revaluation adjustments.

	2005-06	2004-05
	£'000	£'000
Balance at 1 April 2005/1 April 2004	0	1
Arising on revaluation during the year (net)	(4)	(1)
Loss charged to operating costs	4	0
Balance at 31 March 2006/31 March 2005	0	0

13. Notes to the Cash Flow Statement

13.1 Reconciliation of operating cost to operating cash flows

	Notes	2005-06	2004-05 Restated
		£'000	£'000
Net operating cost before cost of capital	11	(13,304)	(15,192)
Adjustments for non-cash transactions	4	2,460	4,437
(increase)/decrease in debtors	8.1	(20)	51
increase/(decrease) in creditors	9.1	175	(148)
Early Departure provision utilised in year	10	(531)	(588)
Net cash outflow from operating activities		(11,220)	(11,440)

13.2 Analysis of Capital Expenditure

		2005-06	2004-05
		£'000	£'000
Tangible fixed assets additions	7	0	0
Proceeds of disposal of fixed assets		0	0
Net cash outflow from investing activities		0	0

13.3 Analysis of financing from Department of Trade and Industry

Notes	2005-06	2004-05 Restated
	£'000	£'000
Financing from Department of Trade and Industry	11,220	11,440
Net Financing	11,220	11,440

14. Capital Commitments

The Small Business Service has no capital commitments against its administrative expenditure.

15. Commitments under Leases

Commitments under operating leases to pay rentals during the year following the year of these accounts are given in the table below, analysed according to the period in which the lease expires.

	2005-06	2004-05
	£'000	£'000
Obligations under operating leases comprise		
Other		
Expiring within one year	88	0
Expiry after 1 year but not more than five years	3	165
	91	165

16. Financial Instruments

The Small Business Service has no borrowings and relies on departmental grants for its cash requirements and is therefore not exposed to currency risks. It also has no material deposits and all material assets and liabilities are denominated in sterling, therefore it is not exposed to interest rate risk or currency risk.

As permitted by FRS13 debtors and creditors which mature or become payable within 12 months from the balance sheet date have been omitted from this disclosure.

17. Contingent liabilities

The Small Business Service has no contingent liabilities against its administrative expenditure.

18. Losses

	2005-06 £'000	2004-05 £'000
Administrative write-offs	3	0

19. Related Party Transactions

DTI is regarded as a related party. During the year, the Small Business Service has had various material transactions with the DTI. In addition, the Small Business Service has had various material transactions with other Government Departments and other central Government bodies. None of the Strategy Board members, key managerial staff or other related parties has undertaken any material transactions with the Small Business Service during the year.

20. Transfer of Functions

In October 2005 the majority of the DTI's Business Support Unit transferred to the SBS bringing with it an allocated budget of £1,156k and related expenditure and staff. From 1 April 2005 responsibility for the management of regional and local Business Link services was transferred from the SBS to the Regional Development Agencies. Expenditure on these services in 2004-05 was £3.8 million. The accounts show the effects of these transfers as if they had occurred at the start of the 2005/06 financial year. The 2004/05 comparative figures have been adjusted to show the prior year operations on a comparable basis.



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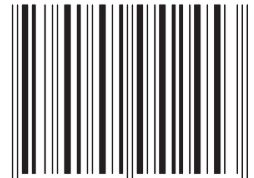
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