



Annual Report and Resource Accounts 2006-07

For the year ended 31 March 2007

2006
2007

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A DTI SERVICE



Annual Report and Resource Accounts 2006-07

For the year ended 31 March 2007

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of the Government Resource and Accounts Act 2000.

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Throughout this report reference is made to the Department for Trade and Industry (DTI). On 28 June 2007 the Prime Minister made several changes in the way the Government is organised. This included the creation of a new Department for Business, Enterprise and Regulatory Reform (BERR), which has assumed much of the work of the former DTI, and incorporated the work of the Better Regulation Executive, formerly in the Cabinet Office.

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Chief Executive's Foreword

This is the final Annual Report of the Small Business Service (SBS) as an Executive Agency.

Last year was a further period of development and change. The Government review of enterprise policy led to a decision that SBS should cease operating as an Executive Agency and become a smaller, sharply focused enterprise policy unit within the Department of Trade and Industry's (DTI) Enterprise and Business Group. This change took effect from 1 April 2007.



Martin Wyn Griffith

Chief Executive

27 June 2007

We made good progress towards our goal of building an enterprise society in which small firms of all kinds thrive and achieve their potential. I want to record my thanks to our staff and all those who have supported us in our work. I want especially to thank our Strategy Board, the Small Business Council, the Ethnic Minority Business Forum, the Small Business Investment Taskforce, the Capital for Enterprise Board and the Women's Enterprise Task Force who all played important roles in our work over the past year.

Role and purpose

The Small Business Service (SBS) was established in April 2000 as an Agency of the DTI.

Small business policy goes across the whole of government. Many government departments, delivery agencies and other stakeholders play a role in shaping the UK environment for enterprise and entrepreneurs. The role of SBS is to lead the development of a coherent enterprise policy and align our partners to secure its implementation.

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

We are a centre of expertise and challenge at the heart of Government, working with all the main government departments that impact on small business, with the English Regional Development Agencies, the devolved administrations in Scotland, Wales and Northern Ireland and our colleagues internationally and within the European Commission.

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

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

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 other DTI Public Service Agreement targets:

PSA 3 – Promote fair and competitive markets;

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

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

Technical notes detailing how each PSA target will be achieved and progress measured can be found at www.dti.gov.uk/about/strategy_objective/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. In 2004 we also published a cross-government action plan – '*A Government Action Plan for Small Business*', both of which can be found at www.ecdti.co.uk.

Forward look

Since 2004 our focus shifted away from the direct delivery of services into a strategic influencing role at the heart of Government. Following a review of Enterprise policy in 2006, Ministers decided that SBS should be smaller and focus on small business and enterprise policy issues, with close links with business and other parts of Government. In contrast with its beginnings as an Executive Agency, which handled the delivery of various small business programmes, SBS no longer has a direct delivery role. In October 2006, Ministers announced that SBS would cease to be an Agency on 31 March 2007.

SBS now operates as a policy unit within DTI's Enterprise and Business Growth Group and focuses on the issues where Government action can influence the business environment; and on support for UK entrepreneurs – the people who make the difference in firms large and small.

The Year in Retrospect

We delivered on the objectives in our Business Plan for 2006-07. Below is a summary of our performance against the key operational targets in our business plan.



| Key Performance Indicator | Outturn and comment |
|--|---|
| <p>Expand the Enterprise Insight Campaign, through: the development and running of a bigger and wider reaching Enterprise Week in November 2006, and supporting the recently launched Local Enterprise Campaigns; and working with Enterprise Insight to develop further local and sectoral enterprise campaigns.</p> | <p>A successful third Enterprise Week was held in November 2006. More than 500,000 people attended some 3,180 events across the UK run by more than 1,400 organisations – a threefold increase in the number of events held during the first Enterprise Week in 2004. 20,000 people in 3,700 teams took part in the Make Your Mark Challenge.</p> |
| <p>Support the implementation and delivery of the Government’s Social Enterprise Strategy for growth in social enterprise.</p> | <p>The social enterprise Action Plan ‘Scaling New Heights’ was launched in November 2006. SBS worked closely with the Social Enterprise Unit within the Office of the Third Sector to develop and produce the finished document.</p> |
| <p>Promote the new www.supply2.gov.uk web portal (available through businesslink.gov.uk) for businesses wanting to win work with government departments; achieve 10,000 registered suppliers, 1,000 registered buyers, 4,000 small business opportunities and 20,000 visitors per month by July 2006.</p> | <p>Links via the businesslink.gov.uk website have been significantly improved which will increase visibility. The targets for registered suppliers and buyers for July were achieved, with the number of opportunities posted and visitors well on the way. New challenging quarterly targets were set for end of March 2007 at 13,000 additional suppliers per month, 1,560 additional buyers and 7,300 advertised low value opportunities. The latter target was achieved. A customer satisfaction survey has been commissioned, with results expected in early 2007-08.</p> |

| Key Performance Indicator | Outturn and comment |
|---|---|
| <p>Publish updated 'No Nonsense Guides to Small Business Funding' and 'Finance for High Growth Funding', including a web-based self-assessment tool, by March 2007.</p> | <p>Revised No Nonsense Guides to 'Small Business Funding' and 'Finance for High Growth Funding' are published on Businesslink.gov.uk. An interactive tool has been developed on Businesslink.gov to take users through the finance options. It incorporates a facility to provide users with an assessment of their finance readiness and direction to the most appropriate source of finance.</p> |
| <p>Complete the establishment of Pathfinder round of Enterprise Capital Funds, by October 2006. Subject to a successful Pathfinder round, we will announce arrangements for a second round of Enterprise Capital Funds by March 2007.</p> | <p>Five 'Pathfinder' Enterprise Capital Funds now established and investing throughout the UK. A second competitive bidding round for fund managers seeking to operate an Enterprise Capital Fund was launched in November 2006 inviting bids by February 2007. We will announce the successful bids later this year.</p> |
| <p>Deliver a programme of communication and events at national, regional and local level to disseminate learning and good practice from Phoenix Development Fund projects.</p> | <p>Dissemination events held in 5 regions, West Midlands, East England, North East, South East and London, attended by delegates from RDAs, Government Offices, Local Authorities, and others working in specialised business support activities in the region. Contribution and support was also given to a project run by EMDA, which will lead to the development of a series of events on business support and economic inclusion in 2007-08. Policy-makers from other Government Departments were involved earlier in the year in the delivery of a series of policy development workshops for RDAs.</p> |

| Key Performance Indicator | Outturn and comment |
|--|---|
| <p>Lead work with business stakeholders, other government departments, Regional Development Agencies and other providers, to design and implement a solution for UK business support, which targets real need and uses resources effectively and efficiently in areas where the market alone would not provide a solution.</p> | <p>The Business Support Simplification Programme brings together central Government Departments, Regional Development Agencies and Local Government working to achieve a shared objective of improving and simplifying publicly-funded business support, by reducing the number of schemes from 3,000 to no more than 100 by 2010. This work is taking place in the context of the Transformational Government programme and the sub-national review of economic development.</p> |
| <p>Deliver further improvements to the www.businesslink.gov.uk web portal. This will include an International Trade Single Window delivering an online cross-government information and guidance website by November 2006.</p> | <p>Information and guidance for the International Trade Single Window was delivered on time. There is now much deeper content on businesslink.gov.uk in the field of International trade.</p> |
| <p>Conduct at least four reviews of the business experience of key areas of regulation focused on those areas viewed as most burdensome. Working with business and lead departments, we will identify and report on remedial actions. The first of these reviews, focused on employment law, is currently being piloted. Further areas for examination are likely to include health and safety, and environmental protection</p> | <p>The business experience review of employment law was completed in September 2006. Results were used to inform the Employment Law Simplification Review. Work on two further reviews, covering environmental protection and health & safety resulted in us identifying the possibility of more detailed work than originally envisaged and which needs to be considered by Ministers when determining which projects should be resourced by the new SBS policy unit from April 2007. A review on tax issues was cancelled because HMRC decided to undertake similar work this year.</p> |

| Key Performance Indicator | Outturn and comment |
|--|--|
| <p>Identify opportunities for deepening and extending departmental simplification proposals presented to the Better Regulation Executive, and work with departments to develop more business friendly approaches to development of regulation, its implementation, administration and communication, by November 2006.</p> | <p>SBS played a full role, working across Whitehall, to ensure Departmental simplification plans and regulatory proposals were business friendly. Nineteen plans were published between October and December 2006.</p> |

People and Governance

Pensions

The employees of the Agency were 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.

Small Business Service Strategy Board

The Minister for Industry and the Regions chaired the Strategy Board. The Board advised on strategy and objectives and monitored the Agency's performance. The Board was dissolved on 31 March 2007 when SBS ceased to be an Agency. Membership details are shown in the remuneration report.

Small Business Service Audit Committee

The Audit Committee advised the Chief Executive on risk and internal financial control measures. The Committee acted in a non-executive capacity. Rob Douglas chaired the Committee from September (the Committee was previously chaired by Teresa

Graham). Representatives from DTI's Finance and Resource Management Directorate and Internal Audit, the National Audit Office and SBS finance staff were invited to attend meetings.

Small Business Service Executive Team

The Executive Team met frequently during the year, on average once per month to discuss strategy, corporate management and planning issues. At the end of each quarter the Executive Team reviewed performance using our scorecard – a management tool for measuring where we want to be and our progress getting there. Membership details are shown in the remuneration report.

Performance Indicators

Our programme expenditure is reported in the DTI Accounts. The preparation of these accounts for 2006-07 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 | 2005-06 £ Millions | 2006-07 £ Millions |
|--|-------------------------------|-------------------------------|
| BusinessLink.Gov (delivered through Serco) | 28.6 | 22.2 |
| Phoenix Fund | 40.6 | 15.7 |
| Enterprise Fund – including SFLG, ¹ Smart/Grant for R&D and ² Grant for Investigating an Innovative Idea | 110 | 68 |
| Other support | 36.8 | 8.1 |
| Total programme expenditure | 216 | 114 |
| Administration expenditure | 13 | 14.8 |
| Total expenditure | 229 | 128.8 |

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.

Progress towards our PSA 6 targets

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

There are encouraging signs that attitudes to entrepreneurship amongst younger people are improving. The SBS Household Survey shows that the proportion of 16-24 year olds who are considering going into business has increased from 14.4 per cent on 2003 to 17.5 per cent in 2005.

The latest data on all people of working age is for 2005 and shows 11.6 per cent of adults considering going into business, no change from 2001 and 2003 levels. The 2007 position will be available in spring 2008 when the results of the biennial Household Survey become available. The 2007 data will be used to make the final assessment.

Supporting data in the meantime from the Global Entrepreneurship Monitor show that, in common with other countries, UK entrepreneurship has been fairly static over the last few years and the UK remains third in the G8.

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

The aim is for small firm productivity to grow more than all firm productivity. Over the period 1998-2004 small firms’ productivity growth grew by 23 per cent compared to growth of 20 per cent in all firms, so this measure is on course.

- **PSA 6(iii) More enterprise in disadvantaged communities**

The SR2002 target is for a one percentage point narrowing of the gap per year in VAT registration rates between the most and least deprived areas.

There has been on average more than a one percentage point narrowing in the gap in VAT registration rates between the most and least deprived areas per year. Overall, the gap has narrowed by 6.3 percentage points between 2000 and 2005.

The SR2004 target is to increase self-employment rates in the most deprived areas, better capturing activity below the VAT threshold which was being missed by the SR2002 target.

For SR2004 we therefore switched to a self-employment measure. Of people of working age in the 15 per cent most deprived wards in England, year ending December 2006, 6.5 per cent are self-employed, which is the highest figure in the six years for which we hold data.

Serving our customers

Performance against Customer Service Standards:

| Target | 2005-06 | 2006-07 |
|--|---------------------|---------------------|
| 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.

This is the final set of accounts for the Small Business Service Agency which ceased to be an Agency on 31 March 2007. The Direction will be rescinded after these accounts are laid before Parliament.

Financial Regime

The SBS was a gross running cost Agency funded from the Department of Trade and Industry's (DTI) Parliamentary Request for Resources 1. On 1 June 2006 the Social Enterprise Unit transferred to the Cabinet Office. In accordance with government policy on Machinery of Government changes the whole of its budget and expenditure are excluded from the Agency 2006-07 accounts and included in the Cabinet Office 2006-07 accounts. Expenditure on these services in 2005-06 was £576,677. The 2005-06 comparative figures have been restated to reflect these changes and give like with like comparisons.

The administrative cost of running the SBS increased from some £12.73m in 2005-06 to £14.84m in 2006-07. The net increase is due to the £3.78m increase in provision for early departure costs arising from the restructuring of SBS offset against staff efficiency savings and reduction in staff numbers.

Going Concern

With effect from 31 March 2007 the Small Business Service ceased to be an Agency. See Forward look in the Annual Report.

As the Agency was funded by DTI and a substantial part of the functions continue within it, balance sheet assets and liabilities have been transferred to DTI at book value and the accounts have been prepared on a going concern basis.

The balance sheet at 31 March 2007 shows negative Taxpayers Equity of £1.878m. 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 was and is a 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.

Such approval for amounts required for 2007-08 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 had 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. It 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 2006 to 31 March 2007 SBS payments were examined and 98% of payments were made on time, 95% were made on time in 2005-06.

Auditors

The accounts of the SBS were audited by the Comptroller and Auditor General (NAO) with a notional audit fee of £26,000. 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.

Public Accounts Committee Hearing

In May 2006, the National Audit Office published a report on the Small Business Service (SBS). This was followed by a Public Accounts Committee (PAC) hearing on 19 June 2006 (PAC Report published on 6 February 2007). The main criticisms outlined in the PAC Report were the need for SBS to demonstrate its impact against government aims and objectives (and whether it represented value for money), to reduce the Government's small business support network of 3,000 programmes to under 100, to measure the burden of regulation on business and to ensure SMEs are taken into account when planning regulatory changes, the wide gap between the commercial default rate for small business and that under the Small Firms Loan Guarantee Scheme (SFLGS), and to publish an update to the Government's Action Plan for small business.

The Government Response to the Report was published on 26 April 2007. A number of changes have been made in response to the PAC Report. SBS is now a strategic DTI policy unit, better placed to carry out its role, and its effectiveness will be formally assessed through an annual stakeholder survey. The number of business support programmes is being reduced through the Business Support Simplification Programme and Government has committed to a 25% target net reduction of administrative burden by 2010. Changes have been made to the SFLGS and an update to the Action Plan on small business is due to be published later this year.

Important events occurring after the year end

New SBS business model

The 2006 Review of Enterprise Policy led to changes to the SBS business model from 1 April 2007. SBS has become a much leaner policy focussed unit operating within the DTI Enterprise and Business Group.

The new SBS business model, with its greater emphasis on influencing policy development, has resulted in changes to our previous activities portfolio. SBS will continue to have a leading role on policy on enterprise issues, access to finance and simplification of business support, and will retain a dedicated multi-disciplinary analytical team. We no longer have a direct role in delivering business support services.

The main changes to our business are summarised below:

| Activity | Change |
|--|---|
| Enterprise promotion | Extension of contract with Enterprise Insight. |
| Regulation | The SBS role will be to embed the Think Small First approach to policy development and support the Better Regulation Executive. We will also provide challenge, when necessary, on major issues of concern to small businesses. |
| Businesslink.gov.uk | Management transferred to HMRC on 1 April 2007. SBS maintains a protective interest in the brand and customer proposition. |
| Supervision of the Government's investments in equity funds and of the Small Loans Guarantee. | To be managed by an arms length delivery company being established by DTI. |
| Procurement policy | Transferred to OGC. |
| Supply2gov.uk | Management transferred to DTI Enterprise and Business Group. |
| Small Business Research Initiative (SBRI) | Transferred to OSI. (September 2006). |
| Support for Advisory bodies (SBC, EMBF, and SBIT). | New arrangements for engaging with business are being established. These arrangements will not involve dedicated, exclusive resources. |
| Corporate Services (HR, business planning, organisational development, contract management etc). | Transferred to DTI Enterprise and Business Group. |

Remuneration Report 2006-07

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:

[Martin Wyn Griffith](#) 15/4/02 to 14/4/05 extended to 30/4/08

[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

Further information about the work of the Civil Service Commissioners can be found at www.civilservicecommissioners.gov.uk.

Strategy Board Members

The Minister for Industry and the Regions chaired the SBS Strategy Board. The Board advised on strategy and objectives and monitored the Agency's performance. The Board was wound up on 31 March 2007 when SBS ceased to be an Agency. Members of the Strategy Board during the year were:

- Margaret Hodge, MP, MBE, Minister for Industry and the Regions (Chair) from 1 May 2006
- Martin Wyn Griffith, Chief Executive, Small Business Service
- Stephen Lyle Smythe, Deputy Chief Executive, Small Business Service to 14 January 2007
- John Alty, Director General, Fair Markets Group, DTI
- Georgina Butcher, Independent Member from 1 September 2006
- Ann Cormack, Managing Director, Service Development, Small Business Service
- Teresa Graham, OBE, Independent Member to 31 August 2006
- Rodney Buse, Independent Member to 31 August 2006
- Rob Douglas, CBE, Independent Member from 1 September 2006
- Mark Gibson, CB, Director General, Enterprise and Business Group, DTI
- Julie Kenny, CBE, DL, Chair of Small Business Council from 1 May 2006
- Eleanor Mack, Head of Enterprise Team, HM Treasury
- Andrew Summers, CMG, Independent Member
- Rosa Wilkinson, Managing Director, Policy, Small Business Service

Martin Wyn Griffith, John Alty, Ann Cormack, Mark Gibson, Eleanor Mack, Rosa Wilkinson and Stephen Lyle Smythe are/were Civil Servants. These members did not receive any further remuneration for their work on the Strategy Board. Rodney Buse, Teresa Graham, Andrew Summers, Rob Douglas and Georgina Butcher were 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 to 14 January 2007

Ann Cormack, Managing Director, Service Development from

Rosa Wilkinson, Managing Director, Policy

Adam Dawson, Director, Business Support to 14 November 2006

Rory Earley, Director, Investment & SME Finance

Hilary Norman, Director, Social Enterprise to 1 June 2006

Katrina Reid, Director, Analytical Unit

Tracey Vegro, Director of Enterprise Strategy from 5 September 2006

Emma Ward, Director of Enterprise Environment from 4 September 2006

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 had any company directorships or significant interests which may conflict with their managerial responsibilities.

Salary and Pension Entitlements

The following sections provide details of the remuneration and pension interests of the Executive Team.

Remuneration

| | 2006-07 | | 2005-06 | |
|---|-----------------|--|-----------------|--|
| | Salary £'000 | Benefits in Kind (to nearest £100) | Salary £'000 | Benefits in Kind (to nearest £100) |
| Mr Martin Wyn Griffith Chief Executive | 155 - 160 | Nil | 155-160 | Nil |
| Mr Stephen Lyle-Smythe Deputy Chief Executive to 14/1/07 | **80 - 85 | Nil | 100-105 | Nil |
| Ms Rosa Wilkinson Managing Director Policy from 11/7/2005 | 80 - 85 | Nil | **60-65 | Nil |
| Ms Ann Cormack Managing Director Service Development from 3/10/2005 | 110-115 | Nil | **50-55 | Nil |
| Ms Hilary Norman * Director Social Enterprise to 1/6/06 | 35 - 40 | Nil | 60-65 | Nil |
| Mr Rory Earley Director Investment Fund Management and Access to Finance | 85 - 90 | Nil | 80-85 | Nil |
| Ms Katrina Reid Director of Analysis from 13/6/2005 | 60 - 65 | Nil | **45-50 | Nil |
| Mr Adam Dawson Director Intelligent Customer Function from 1/10/2005 to 14/11/06 | 45 - 50 | Nil | **35-40 | Nil |
| Ms Tracey Vegro Director Enterprise and Strategy from 5/9/06 | **35 - 40 | Nil | N/A | N/A |
| Ms Emma Ward Director Enterprise and Environment from 4/9/06 | **35 - 40 | Nil | N/A | N/A |

* Hilary Norman's pay costs as Director of Social Enterprise Unit are not included in the expenditure in the Operating Cost Statement.

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

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.

Benefits in Kind

The monetary value of benefits in kind covers any benefits by the employer and treated by the Inland Revenue as a taxable emolument.

Pension Benefits

| | Accrued pension at age 60 as at 31/3/07 and related lump sum £'000 | Real increase in pension and related lump sum at age 60 £'000 | CETV at 31/03/07 £'000 | CETV at 31/03/06 £'000 | Real Increase in CETV £'000 | Employee contribution and transfers in £'000 |
|---|---|--|---------------------------|---------------------------|--------------------------------|---|
| Mr Martin Wyn Griffith Chief Executive | 5-10 Plus lump Sum of 20-25 | 0-2.5 Plus lump Sum of 2.5-5 | 114 | 89 | 21 | 0-2.5 |
| Mr Stephen Lyle-Smythe Deputy Chief Executive To 14/1/07 | 45-50 Plus lump Sum of 135-140 | 0-2.5 Plus lump Sum of 0-2.5 | 1,102 | 1,089 | 10 | 0-2.5 |
| Ms Rosa Wilkinson Managing Director Policy from 11/7/2005 | 15-20 Plus lump Sum of 55-60 | 0-2.5 Plus lump Sum of 5-7.5 | 276 | 241* | 31 | 0-2.5 |
| Ms Ann Cormack Managing Director Service Development from 3/10/2005 | 0-5 Plus lump Sum of N/A | 0-2.5 Plus lump Sum of N/A | 36 | 12 | 20 | 2.5-5 |
| Ms Hilary Norman Director Social Enterprise To 1/6/06 | 0-5 Plus lump Sum of N/A | 0-2.5 Plus lump Sum of N/A | 20 | 15 | 4 | 0-2.5 |
| Mr Rory Earley Director Investment Fund Management and Access to Finance | 35-40 Plus lump Sum of N/A | 0-2.5 Plus lump Sum of N/A | 513 | 481 | 17 | 2.5-5 |
| Ms Katrina Reid Director of Analysis from 13/6/2005 | 10-15 Plus lump Sum of 30-35 | 0-2.5 Plus lump Sum of 2.5-5 | 228 | 202 | 18 | 0-2.5 |
| Mr Adam Dawson Director Intelligent Customer Function from 1/10/2005 | 0-5 Plus lump Sum of N/A | 0-2.5 Plus lump Sum of N/A | 32 | 21 | 9 | 2.5-5 |
| Ms Tracey Vegro Director Enterprise and Strategy from 5/9/06 | 15-20 Plus lump Sum of 50-55 | 0-2.5 Plus lump Sum of 0-2.5 | 269 | 262 | 8 | 0-2.5 |
| Ms Emma Ward Director Enterprise and Environment from 4/9/06 | 0-5 Plus lump Sum of 10-15 | 0-2.5 Plus lump Sum of 0-2.5 | 49 | 43 | 6 | 0-2.5 |

* DTI Pensions Unit have revised the CETV at 31 March 2006

Note: None of the above has a partnership pension account.

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).

The accrued pension quoted is the pension the member is entitled to receive when they reach 60, or immediately on ceasing to be an active member of the scheme if they already are 60.

Further details about the CSP arrangements can be found at the website

www.civilservice-pensions.gov.uk.

Cash Equivalent Transfer Values

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 Superannuation 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.

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 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.



Martin Wyn Griffith
Chief Executive
27 June 2007

Statement of Agency's and Chief Executive's Responsibilities

Under Section 7(2) of the Government Resources and Accounts Act 2000 the Treasury 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 have been prepared on an accruals basis and 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 was 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 DTI 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.

On the 20 March 2007 the DTI Accounting Officer confirmed that the Small Business Service's Chief Executive's responsibilities as SBS Accounting Officer would continue for activity relating to 2006-07 until the Agency Resource Accounts were signed and laid before Parliament. At that time the Accounts Direction would be rescinded and his role as an additional Accounting Officer would end.

Statement on Internal Control

1. Scope of responsibility

As Accounting Officer, I had responsibility for maintaining a sound system of internal control that supported the achievement of the Small Business Service (SBS) policies, aims and objectives, whilst safeguarding the public funds and departmental assets for which I was personally responsible, in accordance with the responsibilities assigned to me in Government Accounting.

I was advised by:

- The SBS Strategy Board. This was chaired by the DTI Minister for Industry and the Regions and included senior officials from DTI and HM Treasury, as well as a number of independent members. The Strategy Board advised me on the strategic direction of the Agency. It also monitored SBS performance; and
- The SBS Executive Team. This was our management board and comprised SBS Directors and I. The Executive Team was the SBS's governing body. It advised me on issues such as resource allocation, performance and the management of risk; and
- The SBS Audit Committee. This provided independent advice on internal control issues. It also served as a risk committee and advised me on the SBS risk register. The Audit Committee also advised on the Internal Audit work programme in the SBS and considered reports from Internal Audit on the outcome of their audits.

I worked with Ministers and DTI top management through the Strategy Board, other meetings and correspondence. I was a member of the DTI Enterprise and Business Group's Senior Management Team. I involved 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 was designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it could therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control was based on an ongoing process designed to identify and prioritise the risks to the achievement of SBS 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 was in place in the SBS for the year ended 31 March 2007 and accorded with HM Treasury guidance. SBS ceased to be an Agency on 31 March 2007. From 1 April, up to the date of approval of the annual report and accounts, we have been subject to the DTI's internal governance system, which is described in the DTI's Departmental Report.

3. Capacity to handle risk

Risk management was embedded in the SBS business planning and reporting systems. For example, the SBS Scorecard included reports on the risks associated with the delivery of our Key Agency Targets and priorities. The scorecard and risk register were reviewed quarterly by the SBS Executive Team. The SBS used DTI courses and these included the management of risk e.g. in policy-making. Staff were also coached in the identification and management of risk as part of their training in project management.

SBS developed a robust project management and reporting system, 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 strengthened SBS's business planning capabilities and helped to further embed risk management as part of a more pro-active project management system.

4. The risk and control framework

The highest risk areas for the SBS during 2006-07 were: (a) national/regional contributions to enterprise policy might show insufficient understanding or prioritisation of the issues, (b) insufficient stakeholder buy-in on the Business Support Simplification Programme, (c) reduction in SBS research resources might lead to gaps in the evidence base, (d) wider stakeholder engagement plans might not be followed through effectively, and (e) risks arising from the SBS restructuring and transition programme.

Risk was 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 project management meetings).

From 1 April 2007, SBS is operating as a policy unit in the DTI's Enterprise and Business Group. The Enterprise and Business Group Central Team will be responsible for HR and business planning across the Group, including the maintenance of a Group Risk Register.

5. Review of effectiveness

As Accounting Officer, I had responsibility for ensuring the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control was informed by the work of the internal auditors and the executive managers within the Department who had 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 was 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 took steps to address weaknesses and ensure continuous improvement of the system.

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

I was also advised on corporate governance issues by the Corporate Services Group within the SBS organisational structure. Senior managers within this group covering such areas as finance, HR, planning, and organisational development meet regularly to consider the governance of SBS and how this can be further improved.

6. Significant internal control problems

There have been no significant internal control problems in 2006-7.

7. Change of Accounting Officer

On the 20 March 2007 the DTI Accounting Officer confirmed that my responsibilities as SBS Accounting Officer would continue for activity relating to 2006-07 until the Agency Resource Accounts were signed and laid before Parliament. At that time the Accounts Direction would be rescinded and my role as an additional Accounting Officer would end.



Martin Wyn Griffith
Chief Executive
27 June 2007

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

I certify that I have audited the financial statements of Small Business Service for the year ended 31 March 2007 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 Cash flow Statement and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having being audited.

Respective responsibilities of the Agency, the Chief Executive and auditor

The Agency and Chief Executive, as Accounting Officer, are responsible for preparing the Annual Report, which includes the Remuneration Report, and the financial statements in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions made there under 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 and the part of the Remuneration Report to be audited 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 report to you whether, in my opinion, certain information given in the Annual Report, which comprises the Chief Executive's Foreword, Role and Purpose, Strategic Development, Forward Look, The Year in Retrospect, People and Governance, Performance Indicators, Serving our customers and the unaudited part of the Remuneration Report, is consistent with the financial statements. 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.

In addition, I report to you 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 HM Treasury regarding remuneration and other transactions is not disclosed.

I review whether the Statement on Internal Control reflects the Agency's compliance with HM Treasury's guidance, and I report if it does not. I am not required to consider whether this statement covers 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. 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

Audit Opinion

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 there under by HM Treasury, of the state of the Agency's affairs as at 31 March 2007, and of the net operating cost, recognised gains and losses and cash flows 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
- The information given within the Annual Report, which comprises the Chief Executive's Foreword, Role and Purpose, Strategic Development, Forward Look, The Year in Retrospect, People and Governance, Performance Indicators, Serving our customers and the unaudited part of the Remuneration Report, is consistent with the financial statements.

Audit Opinion on Regularity

In my opinion, 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.

Report

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
29th June 2007

The maintenance and integrity of the Small Business Service website is the responsibility of the Accounting Officer; the work carried out by the auditors does not involve consideration of these matters and accordingly the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

Operating Cost Statement

for the year ended 31 March 2007

| | Notes | 2006-07 | | 2005-06 Restated* |
|---------------------------------|-------|----------------|----------------|----------------------|
| | | £'000 | £'000 | £'000 |
| Administration Costs | | Staff Costs | Other Costs | |
| Staff costs | 3.1 | 8,270 | | 8,726 |
| Other administration costs | 4 | | 6,573 | 4,000 |
| Totals | | 8,270 | 6,573 | |
| Net Operating Costs | | 8,270 | 6,573 | 12,726 |
| Net Operating cost total | | | 14,843 | 12,726 |

* See notes 1.2 and 20

Statement of Recognised Gains and Losses

for the year ended 31 March 2007

| | Notes | 2006-07 | 2005-06 |
|---|-------|----------|------------|
| | | £'000 | £'000 |
| Net gain/(loss) on revaluation of tangible fixed assets | 12 | 1 | (4) |
| Recognised Gains and Losses for the financial year | | 1 | (4) |

The notes on pages 30-40 form part of these accounts.

Balance Sheet

as at 31 March 2007

| | Notes | 2007 | 2006 Restated* | |
|--|-------|-------|-------------------|----------------|
| | | £'000 | £'000 | £'000 |
| Fixed assets | | | | |
| Tangible assets | 7 | | 15 | 19 |
| Debtors falling due after more than one year | 8.1 | | 0 | 39 |
| Current assets | | | | |
| Debtors | 8.1 | 75 | | 81 |
| | | 75 | | 81 |
| Creditors (amounts falling due within one year) | 9.1 | (197) | | (279) |
| Net current Assets | | | (122) | (198) |
| Total assets less current liabilities | | | (107) | (140) |
| Creditors (amounts falling due after more than one year) | 9.1 | | 0 | 0 |
| Provision for liabilities | 10 | | (1,771) | (1,106) |
| Total Net Liabilities | | | (1,878) | (1,246) |
| Taxpayers' Equity | | | | |
| General fund | 11 | | (1,879) | (1,246) |
| Revaluation Reserve | 12 | | 1 | 0 |
| | | | (1,878) | (1,246) |

* See notes 1.2 and 20

Signed:



Martin Wyn Griffith

Chief Executive

27th June 2007

The notes on pages 30-40 form part of these accounts.

Cash Flow Statement

for the year ended 31 March 2007

| | Notes | 2006-07 | 2005-06 |
|--|-------|----------|-----------|
| | | £'000 | Restated* |
| | | £'000 | £'000 |
| Net cash outflow from operating activities | 13.1 | (12,306) | (10,773) |
| Capital expenditure and financial investment | | 0 | 0 |
| Financing from Department of Trade and Industry | 13.3 | 12,306 | 10,773 |
| Increase/(decrease) in cash in the period | | 0 | 0 |

* See notes 1.2 and 20

The notes on pages 30-40 form part of these accounts.

1 Statement of Accounting policies

These financial statements have been prepared in accordance with the 2006-07 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 were transferred from the responsibility of one part of the public sector to another was accounted for using merger accounting. The results and cash flows of the combining entities have been brought into account from the start of the financial year in which the transfer occurs. Prior year comparative figures have been 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 was 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 were 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 was 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 was funded by the DTI parliamentary Request for Resources 1 to meet expenditure incurred, inclusive of VAT. Where VAT was recoverable by the Small Business Service the expenditure shown in the Operating Cost Statement is net of VAT and the recoverable VAT has been offset against Vote funding from the DTI. Outstanding recoverable VAT on expenditure was 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 was 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 was based on the average of opening and closing balances, for 2006-07 (£1.878m) and for 2005-06 (£1.246m).

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 recognised the expected cost of these elements on a systematic and rational basis over the period during which it benefited 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 recognised 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

| | 2006-07 | 2006-07 | 2005-06 Restated | 2005-06 |
|--|---------------|---------------|---------------------|---------------|
| | Outturn | Allocation | Outturn | Allocation |
| | £'000 | £'000 | £'000 | £'000 |
| The Agency's allocation from the Vote | 14,869 | 15,458 | 12,726 | 13,678 |

3. Staff Numbers and Related Costs

3.1 Staff Costs Comprise

| | 2006-07 | | | 2005-06 Restated | | |
|-----------------------|----------------------------------|------------|--------------|----------------------------------|------------|--------------|
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| | Permanently employed staff | Others | Total | Permanently employed staff | Others | Total |
| Wages and salaries | 6,157 | 247 | 6,404 | 6,231 | 714 | 6,945 |
| Social security costs | 541 | 1 | 542 | 548 | 0 | 548 |
| Other pension costs | 1,324 | 0 | 1,324 | 1,233 | 0 | 1,233 |
| Total | 8,022 | 248 | 8,270 | 8,012 | 714 | 8,726 |

The Principal Civil Service Pension Scheme (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 2006-07, employers' contributions of £1,324,186 were payable to the PCSPS (2005-06 £1,233,288) at one of four rates in the range 17.1% to 25.5% (2005-06 16.2% to 25.6%) of pensionable pay, based on salary bands. The schemes Actuary reviews employer contributions every four years following a full scheme valuation. From 2007-08 the salary bands will be revised but the rates will remain the same. The contribution rates are set to meet the cost of the benefits accruing during 2006-07 to be paid when the member retires, and not the benefits paid during this period to existing pensioners.

Employees can opt to open a partnership pension 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:

| | 2006-07 numbers | | 2005-06 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 | 0 | 3 | 0 |
| Investment and SME Finance | 21 | 2 | 24 | 8 |
| Business Support Implementation and the Regions residual work | 0 | 0 | 4 | 0 |
| Customer Directorate | 40 | 3 | 39 | 49 |
| Corporate Services | 20 | 0 | 20 | 1 |
| Policy, Development and Challenge Analysis | 54 | 0 | 59 | 0 |
| | 27 | 1 | 25 | 0 |
| Total | 165 | 6 | 174 | 58 |

From the 1 April 2007 the SBS Policy Unit has a permanent core staff of 50, plus additional staff working on time limited transitional issues and projects.

4. Other Administration Costs

| | 2006-07 £'000 | 2005-06 Restated £'000 |
|---|------------------|------------------------------|
| Administrative costs | 867 | 1,509 |
| Operating leases | 17 | 159 |
| General administrative costs | 884 | 1,668 |
| Non cash items: | | |
| Cost of capital | (55) | (51) |
| Net loss on revaluation | 0 | 4 |
| Depreciation | 5 | 8 |
| Profit/loss on disposal of fixed assets | 0 | (5) |
| Auditor's remuneration* | 26 | 22 |
| Overhead recharged from DTI | 708 | 934 |
| Accommodation costs | 1,225 | 1,398 |
| Early Departure costs | 3,780 | 22 |
| Total non cash | 5,689 | 2,332 |
| Total costs | 6,573 | 4,000 |

* 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 did not have any capital allocation. The DTI 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 2006-07 £'000 | Equipment and Computer 2005-06 £'000 |
|--|---|---|
| Gross cost or valuation | | |
| at 1st April 2006/2005 | 39 | 81 |
| Transfers from DTI | 0 | 1 |
| Disposals | (6) | (44) |
| Revaluations net | (13) | 1 |
| at 31 March 2007/2006 | 20 | 39 |
| Depreciation | | |
| at 1st April 2006/2005 | 20 | 56 |
| Provided in the year | 5 | 8 |
| Disposals | (6) | (49) |
| Revaluations net | (14) | 5 |
| at 31 March 2007/2006 | 5 | 20 |
| Net Book Value at 31 March 2006/2005 | 19 | 25 |
| Net Book Value at 31 March 2007/2006 | 15 | 19 |
| Asset financing | | |
| Owned | 15 | 19 |
| Net book value at 31 March 2007/2006 | 15 | 19 |
| The additions were a transfer from DTI and were not a cash purchase. | | |

Fixed asset have been transferred at book value to the SBS Policy Management Unit within DTI's Enterprise and Business Group from 1/4/07.

8. Debtors

8.1 Analysis by type

| | 2006-07 | 2005-06 Restated |
|--|-----------|---------------------|
| | £'000 | £'000 |
| Amounts falling due within one year: | | |
| Staff debtors | 54 | 29 |
| Other debtors | 4 | 14 |
| VAT | 17 | 37 |
| Prepayments | 0 | 1 |
| Total < 1 year | 75 | 81 |
| Amounts falling due after more than one year: | | |
| Staff debtors | 0 | 39 |
| Total Debtors | 75 | 120 |

Debtors have been transferred at book value to the SBS Policy Management Unit within DTI's Enterprise and Business Group from 1/4/07.

8.2. Intra-government Balances

| | 2006-07 | 2006-07 | 2005-06 Restated | 2005-06 Restated |
|--|---|--|---|--|
| | Debtors: amounts falling due within one year £'000 | Debtors: amounts falling due after more than one year £'000 | Debtors: amounts falling due within one year £'000 | Debtors: amounts falling due after more than one year £'000 |
| Balances with other central government bodies | 17 | 0 | 41 | 0 |
| Balances with bodies external to government | 58 | 0 | 40 | 39 |
| At 31 March 2007/2006 | 75 | 0 | 81 | 39 |

9. Creditors

9.1 Analysis by type

| | 2006-07 | 2005-06 Restated |
|--|------------|---------------------|
| | £'000 | £'000 |
| Amounts falling due within one year | | |
| Trade Creditors | 58 | 81 |
| Accruals | 139 | 198 |
| | 197 | 279 |
| Amounts falling due after one year | 0 | 0 |

Creditors have been transferred at book value to the SBS Policy Management Unit within DTI's Enterprise and Business Group from 1/4/07.

SBS does not have a taxation creditor as this is shown in the Payroll contractor's accounts – the contractor is paid in advance.

9.2 Intra-government Balances

| | 2006-07 | 2006-07 | 2005-06 Restated | 2005-06 Restated |
|--|------------|---|--|---|
| | £'000 | £'000 | £'000 | £'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 |
| Balances with other central government bodies | 0 | 0 | 7 | 0 |
| Balances with bodies external to government | 197 | 0 | 272 | 0 |
| At 31 March 2007/2006 | 197 | 0 | 279 | 0 |

10. Early Departure Provision

Amounts falling due within one year

| | 2006-7 | 2005-06 |
|---|--------------|--------------|
| | £'000 | £'000 |
| Balance as at 1 April 2006/2005 | 1,106 | 1,615 |
| Provided in the year due to change in discount rate | 34 | 22 |
| Provided in year for additional departures | 3,746 | 0 |
| Provision utilised in the year | (3,115) | (531) |
| Balance as at 31 March 2007/2006 | 1,771 | 1,106 |

The Small Business Service met 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 provided 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 2.2 per cent in real terms. The discount rate in 2005-06 was 2.8%.

There were 36 early retirements agreed during 2006-07. Full provision of all future costs of early retirement was made, at discounted rates. The increase in the provision in the current financial year amounts to £3,780,480. For 2005-06 the provision for 3 early retirements was £22,070.

The provision has been transferred at book value to the DTI from 1/4/07.

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

| | 2006-07 | 2005-06 |
|---|----------------|-------------------|
| | £'000 | Restated £'000 |
| Balance at 1 April | (1,246) | (1,597) |
| Net operating cost for the year | (14,843) | (12,726) |
| Net financing from the DTI | 12,306 | 10,773 |
| Services provided by DTI, including accommodation | 1,933 | 2,332 |
| Financing for non-cash charges: | | |
| Cost of capital | (55) | (51) |
| Transfer of assets | | 1 |
| Auditor's remuneration | 26 | 22 |
| Balance at 31 March | (1,879) | (1,246) |

12. Revaluation Reserve

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

| | 2006-07 | 2005-06 |
|---|----------|----------|
| | £'000 | £'000 |
| Balance at 1 April 2006/1 April 2005 | 0 | 0 |
| Arising on revaluation during the year (net) | 1 | (4) |
| Gain/Loss charged to Operating Costs | 0 | 4 |
| Balance at 31 March 2007/31 March 2006 | 1 | 0 |

13. Notes to the Cash Flow Statement

13.1 Reconciliation of operating cost to operating cash flows

| | Notes | 2006-07 | 2005-06 |
|---|-------|-----------------|-------------------|
| | | £'000 | Restated £'000 |
| Net operating cost | 11 | (14,843) | (12,726) |
| Adjustments for non-cash transactions | 4 | 5,689 | 2,332 |
| (increase)/decrease in debtors | 8.1 | 45 | (18) |
| increase/(decrease) in creditors | 9.1 | (82) | 170 |
| Early Departure provision utilised in year | 10 | (3,115) | (531) |
| Net cash outflow from operating activities | | (12,306) | (10,773) |

13.2 Analysis of Capital Expenditure

| | Notes | 2006-07 | 2005-06 |
|---|-------|----------|----------|
| | | £'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

| | 2006-07 | 2005-06 |
|---|---------------|-------------------|
| | £'000 | Restated £'000 |
| Financing from Department of Trade and Industry | 12,306 | 10,773 |
| Net Financing | 12,306 | 10,773 |

14. Capital Commitments

The Small Business Service had 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. In 2006-07 IT operating leases were replaced with rental agreements.

| | 2006-07 | 2005-06 |
|--|----------|-----------|
| | £'000 | £'000 |
| Obligations under operating leases comprise | | |
| Other | | |
| Expiry within one year | 1 | 88 |
| Expiry after 1 year but not more than five years | 0 | 3 |
| | 1 | 91 |

Commitments have been transferred at book value to the SBS Policy Management Unit within DTI's Enterprise and Business Group from 1/4/07.

16. Financial Instruments

The Small Business Service had no borrowings and relied on departmental grants for its cash requirements and was therefore not exposed to currency risks. It also had no material deposits and all material assets and liabilities were denominated in sterling, therefore it was 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 had no contingent liabilities against its administrative expenditure.

18. Losses

| | 2006-07 | 2005-06 |
|----------------------------------|----------|----------|
| | £'000 | £'000 |
| Administrative write-offs | 0 | 3 |

19. Related Party Transactions

DTI was regarded as a related party. During the year, the Small Business Service had various material transactions with the DTI. In addition, the Small Business Service 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 had undertaken any material transactions with the Small Business Service during the year.

20. Transfers of Functions

In June 2006 the Social Enterprise Unit (SEU) transferred to the Cabinet Office. In accordance with FReM requirements for Machinery of Government changes, its budget and costs for the whole of 2006-07 were transferred with it. The 2005-06 comparative figures have been adjusted by SEU's expenditure of £576,637 to show the prior year operations on a comparable basis. On the balance sheet debtors have been reduced by £2,196 and creditors by £4,383 to remove the SEU assets/liabilities. There were no fixed asset adjustments required.

21. Post Balance Sheet Events

SBS ceased to be an Agency on 31 March 2007. From 1 April 2007 it has operated as a policy unit within DTI and will continue to do so for the foreseeable future. The cessation is explained in more detail in the Management Commentary, Important Events Occurring After the Year End.

The financial statements were authorised for issue by the Accounting Officer, Martin Wyn Griffith, on the 24 July 2007.

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