



National Audit Office

Supporting Small Business

REPORT BY THE COMPTROLLER AND AUDITOR GENERAL | HC 962 Session 2005-2006 | 24 May 2006

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National Audit Office

Supporting Small Business

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EXECUTIVE SUMMARY



1 The latest data, from 2003¹, showed that of the 3.5 million businesses in England all but 5,400 were either small (with fewer than 50 employees) or medium-sized (with 50 to 249 employees).² Small and medium-sized businesses are found in all sectors of the economy, account for half of all business turnover and employ 57 per cent of England's private sector workforce. The needs of small businesses are many and varied and in 2000, the Department of Trade and Industry (the Department), established the Small Business Service (SBS) with the vision to make the United Kingdom the best place in the world to start and grow a business.

2 An analysis commissioned by SBS reported that in 2003-04 the Government spent £2.6 billion in supporting small businesses.³ A variety of departments, agencies and local bodies were involved: less than 15 per cent of the total was spent by SBS.

3 Since its inception SBS has moved away from being a deliverer of services to influencing key Government policies and actions supporting potential entrepreneurs and small businesses. In particular SBS facilitated the development of, and is overseeing implementation of, the Government Action Plan for Small Business issued in January 2004, which flowed from the 2002 policy paper *Small Business and Government – the Way Forward*. SBS's expenditure for 2005-06 was £213 million. Its staffing was planned to reduce to 218 staff by 1 April 2006 and it achieved 190. This report examines SBS's performance management framework and its performance against its key targets. The report presents four aspects of its work in more detail – SBS's role in: influencing Government regulations and policies; facilitating small business access to finance; helping to join up services across Government; and providing advice and support to small business. Together these aspects of SBS's work represent 90 per cent of its expenditure.

4 *The Way Forward* set out three aims central to the Government's vision for the small business sector. In turn SBS is responsible for an enterprise Public Service Agreement (PSA) objective which contains three targets for achievement by 2008. SBS has focused on the Government's enterprise policy which comprises seven strategic themes. The activities which flow from these themes encompass a wide variety of different programmes which are the formal responsibility of a number of different accounting officers across Government.

The Government's aims:

Many more people, regardless of their background, having the desire, skills and opportunity to start a successful business.

Everyone with the ambition to grow their business being helped and supported.

A supportive business environment with all small businesses finding it easy to respond to Government and access its services.

PSA objective: To build an enterprise society in which businesses of all sizes thrive and achieve their full potential.

Targets: Increase in the number of people considering going into business;

Improve the overall productivity of small firms; and

More enterprise in disadvantaged communities.

The seven strategic themes:

Build an enterprise culture.

Encourage a more dynamic start-up market.

Build the capability for small business growth.

Improve access to finance for small businesses.

Encourage more enterprise in disadvantaged communities and under-represented groups.

Improve small businesses' experience of Government services.

Develop better regulation and policy.

Four workstreams:

Building the Business Link brand.

Developing the www.businesslink.gov.uk portal.

Progressing the strategic alignment of government funding.

Overseeing the introduction of common commencement dates for new regulations.

¹ This is the latest date which provides specific information for England as opposed to the United Kingdom.

² For the purposes of this report the term small business refers to small and medium-sized businesses.

³ *Mapping of Government Services for Small Businesses*, PACEC, 2005.

5 While the Small Business Service is responsible for achieving the PSA objective, not all of the actions undertaken to support the objective are its responsibility. Its task is to encourage other government departments and agencies to deliver the Government Action Plan, and so help the Government achieve its PSA objective.

6 In 2002, Government established a high level working group chaired by SBS, and comprising senior officials from the main departments contributing to the Action Plan, to improve the coherence and effectiveness of small business policy across Government. Since 2004, the group has concentrated on taking forward four workstreams. The group's current focus is the simplification of business support programmes.

7 The better targeting of support for business was a theme of Sir Peter Gershon's 2004 report *Releasing resources to the frontline*.⁴ The report called for government interventions in the private sector to be both efficient and effective. Sir Peter's recommendations on this and other issues were accepted by the Government and are being implemented through an Efficiency Programme designed to secure £21.5 billion of annual efficiency gains by March 2008. SBS has reduced its staff by over 300 since March 2004. This figure includes both efficiency savings and the transfer of functions. An example of the latter was the loss of about 130 posts when responsibility for running the Business Link network was transferred to the Regional Development Agencies.

8 *The Way Forward* and the Government Action Plan were welcomed by the small business community, as they brought together for the first time a cross-government view of support for the small business sector. But there are difficulties in managing these arrangements:

- **Complexity.** The small business sector is a complex policy area which requires several complementary activities to work together to achieve success. SBS considers that given these complexities it has achieved a great deal in developing a cross-Government policy for small businesses and a cross-Government Action Plan where before there was

none. There remain, however, a number of different expressions of the Government's intentions for small businesses as demonstrated by the Government's aims for the small business sector; the PSA objective and three targets; the seven strategic themes and the high level group's four workstreams. In addition the most recent cross-cutting review of Government expenditure on small business identified 15 Government Departments with 265 programmes aimed at small businesses. SBS is now leading work at both a national and regional level to reduce and simplify business support programmes in England. The Budget in March 2006, announced the Government's intention that the number of national, regional and local support programmes should be reduced from over 3,000 to 100. In addition to the complexity of the sector, factors external to Government affect the performance of the small business sector. These circumstances make planning a cost-effective package of interventions problematic.

- **Lack of precision and alignment in the performance measurement framework.** The complexity of the small business sector means that it can be difficult to link the Government's aims, the PSA objective and targets and the strategic themes. For example, some of the seven strategic themes overlap, and several themes contribute to each of the targets – making it difficult to assess which of the themes are having an effect on performance against those targets.
- **Monitoring.** SBS records in a database performance against the measures of success which were listed in the Action Plan, including the PSA targets. A few of these measures are published in the Department's Annual Report. At task level, SBS monitors progress with all the tasks which fall to it under the Action Plan. SBS does not, however, routinely collate progress on tasks outlined in the Action Plan which are the responsibility of other parts of Government. This means that SBS is not able regularly to assess and publish overall progress against the Action Plan, as originally intended.

4 *Releasing resources to the front line: Independent Review of Public Sector Efficiency*, Sir Peter Gershon, CBE, July 2004.

- **Evaluation.** Government interventions represent only one set of factors that influence small business performance. Periodic evaluation studies can help isolate the impact of government interventions. Three SBS evaluations of its major established programmes have used econometric techniques to produce estimates of net impact. A further two such evaluations pre-dated the existence of SBS. More evaluations, including an economic impact study of Business Link Operators, are in progress. But none of these evaluations has to date evaluated the impact of SBS as a whole or by reference to its strategic themes, or interpreted its or Government's contribution to higher level targets and aims.
 - **Coherence with the needs of small business.** Our survey of 12 business representative groups identified the areas they regarded as top priority for Government action. We found that there is a direct correspondence between the top two business priorities and the strategic themes. Other business priorities, for example, for a more favourable tax regime and a more skilled workforce also feature within the strategic themes but are expressed differently. In turn, the Government has objectives for greater enterprise and diversity which the business groups we consulted did not place among their top priorities.
- Top business needs:**

 - Better regulation
 - Better access to finance
 - More effective business support
 - Less government bureaucracy
 - Clear communication and information from government
 - A favourable tax regime
 - A more skilled workforce
- 9 We examined the work that Government has undertaken to date under the two top business priorities of better regulation and improving small business access to finance:
- **Better regulation and policy.** International surveys indicate that the United Kingdom is relatively lightly regulated, compared with many other countries, but that regulation places a disproportionate burden on small businesses. We examined how successfully SBS had influenced nine regulations (all but one introduced in 2003 and 2004) and two policies (from 2002 and 2003). In five of the 11 cases SBS had contributed fully to the development of the policy or regulation. In the others, SBS's involvement was more limited often because the other Department did not consult SBS in a timely manner. SBS have not systematically measured the effect of their contribution to developing new regulations or on the potential to reduce burdens further. But in one case, where SBS took forward the adoption of common commencement dates for new regulations, the Department estimated a reduction of burdens on business of around £20 million annually. Across the entire range of policy, funding and regulation activity, the Gershon Review highlighted the need for the Government to 'secure high levels of public benefit at the least cost to both businesses and to government itself.'⁵ The Government is taking forward broader plans to assess the overall scale of burdens imposed on small businesses, and ways to reduce them. Procurement exemplifies SBS's work on developing policy, where Government is looking to improve small business access to Government contracts, including developing a web portal that will facilitate access to lower value Government contracts.

5 *Releasing resources to the front line: Independent Review of Public Sector Efficiency*, July 2004, page 38.

- **Improving access to finance.** SBS has estimated that around 150,000 (3.4 per cent) of established small businesses each year have difficulty raising the finance they need, although up to 60 per cent of these businesses subsequently obtain finance through the market. The Government has taken a number of steps in this area to stimulate the existing financial markets in the United Kingdom. On debt finance, in 2005-06, the Government supported 5,800 firms through the long-running Small Firms Loan Guarantee. Reviews have shown that the scheme continues to provide valuable support for small businesses – particularly those without the collateral to attract commercial lending – and can also provide some wider economic benefits. But they also show that the scheme has high default rates and engenders high levels of displacement. SBS considers that high default rates can demonstrate that the scheme is encouraging lending at levels of risk that lenders would not normally consider and that high levels of displacement can enable more efficient and productive businesses to enter the economy. We observe that the scheme’s objectives envisage assistance to viable businesses and question the extent of the evidence of extra benefits commensurate with the increased risk, or of assisted businesses being more productive than those they displace.
 - In its 2003 report *Bridging the Finance Gap*, Government identified a gap in the equity funding of small businesses particularly for amounts between £250,000 and £2 million.⁶ The report estimated that between 9,000 and 18,000 firms would be suitable for such equity investments each year and that existing sources of equity financed between 3,000 and 6,000 firms. By the end of December 2005, Government backed equity finance schemes had invested £215 million in 558 businesses. These schemes have a number of objectives including demonstrating to potential investors that commercial returns can be made by funds that provide investment to fill the equity gap.
- 10** We also examined the work SBS has undertaken to improve Government’s understanding of small business issues and its ability to influence the rest of Government. In addition, we reviewed SBS’s work in managing the Business Link network, and introducing and overseeing the businesslink.gov web portal.
- **Joined-up services.** Small business issues rarely feature in top-level or supporting targets for Government Departments. In 2004, we surveyed officials in 25 Departments who deal with small businesses about their views of SBS. 15 respondents thought SBS was well placed to set the agenda for small business but 14 thought SBS was not communicating its role and purpose clearly. 17 respondents thought that SBS’s work had benefited their organisation and that SBS was a reliable source of objective information. We followed up these views in December 2005 and found some improvement to the ratings for communication and expertise but a less favourable view of SBS’s ability to set the Government’s agenda. Of the 12 business representative groups we surveyed, 11 agreed that SBS understands the small business environment and the issues facing small business owners and that, since 2000 when SBS was established, Government’s understanding of small businesses has improved. A quarter of these bodies cited the limited influence of SBS over government departments as a barrier to successful implementation of the Government Action Plan.

6 *Bridging the Finance Gap: next steps in improving access to growth capital for small businesses*, HM Treasury, December 2003.

- **Advisory services.** Government provides support to small businesses in many forms. We looked at two mechanisms operated or overseen by SBS – the Business Link network of 42 operators which provide advice to small businesses across England, and the businesslink.gov web portal. Business Link operators assisted more than 492,000 existing businesses in 2004-05, a penetration rate of businesses of over 14 per cent, a figure which had more than doubled since 2001-02. In 2004-05, Business Link also helped 172,000 pre-starts; that is people considering starting a business. To enable performance management by Business Link area, SBS sets and reports targets for penetration rates based on the Inter-Departmental Business Register, which includes businesses in all parts of the economy but not all very small businesses, and also include pre-starts in their calculation. On this basis Business Link achieved a penetration rate of 37 per cent in 2004-05. Customer satisfaction rates with Business Link have also increased, rising from 74 per cent in 2000-01 to 90 per cent in 2004-05. From 1 April 2005, the Business Link network has been managed by the Regional Development Agencies. The web portal, still managed by SBS, has also proved a success: website hits are 20 per cent ahead of target, it won a United Nations award in 2005 for the best e-content application for business in the United Kingdom and attracted 5.6 million unique visitors in the 12 months to 31 March 2006.
- 11 On value for money:**
- In light of the Efficiency Programme's emphasis on releasing funds for front-line services and the set of zero-based budget reviews to be included in the 2007 Comprehensive Spending Review,⁷ public bodies not directly involved in the delivery of public services need, more than ever, to demonstrate their effectiveness.
 - Government spends over £2.6 billion in providing support to small businesses. While SBS has evaluated a number of individual programmes it is not able to establish the overall impact of either its or wider Government activity on small businesses. It has acknowledged this problem and has recently commissioned consultants to review the quality of evaluative evidence on business support across Government, with the aim of moving towards a common set of performance indicators and evaluation techniques which will improve its ability to make judgements about the relative cost-effectiveness of departmental initiatives.
- In 2005-06, SBS spent £151 million providing direct support by facilitating access to finance (£110 million) and Phoenix Fund activities (£41 million), £8 million providing part-funding for consultancy support to small businesses to promote management best practice, and spent £35 million in supporting Business Link and joining up Government services primarily through funding for the businesslink.gov website. Most of the associated schemes or projects show progress against their specific objectives. Under SBS's tenure the Business Link network has, with constant levels of funding, improved the quality and volume of services provided – and so is clearly better value now than in 2000. Similarly, the web portal project has enjoyed higher volumes than expected and has been widely welcomed. On access to finance, evaluations of the Small Firm Loan Guarantee demonstrate the numbers of businesses that have been supported but also show high levels of default and economic displacement. These factors limit the cost-effectiveness of the scheme against its objectives. Possible wider effects on productivity have not been evidenced and need closer examination if they are to be the basis for judging scheme success.
 - Aside from the £151 million spent on direct business support, SBS also spent in 2005-06, £7 million to promote various forms of enterprise, £2 million on policy development and influencing and on research and evaluation, and £10 million on their own administration costs. In some areas, monitoring of results is not well-developed: for example there is no system to assess the impact of SBS's small business expertise on the development of regulations. And there are as yet no systematic measures of the added value SBS produces as an influencing organisation. SBS will in part address this issue through its plan to undertake further surveys of the views of government departments and agencies drawing upon an existing survey undertaken by the NAO for this report.

7 HM Treasury, Budget 2006, March 2006.

Recommendations

Our recommendations are consistent with the Gershon proposals and fall into two groups:

Recommendations to reduce complexity, facilitate evaluation and improve reporting of progress

a The current performance measurement framework could be simplified and given added force by:

- reviewing the PSA objective and targets to ensure that they best represent the Government's objectives for the small business sector and promote the desired changes;
- simplifying and aligning better the Government's vision, aims, PSA objective and targets and strategic themes; and
- ensuring that the way progress is measured reflects, as far as possible, the impact of Government's actions rather than the impact of external factors.

b SBS should consider improving its programme of evaluations by:

- ensuring that its evaluations of individual schemes link back to the Government's overall objectives for the small business sector and, where appropriate, to the PSA targets, as well as assessing progress against the scheme's objectives; and
- pulling together scheme evaluations and other evidence in Government-wide evaluations of performance against major Government small business aims and targets, to estimate the overall impact of Government actions.

c SBS has improved the evidence base designed to support its actions but evidence on the cost-effectiveness of some of the instruments it employs is incomplete. More comprehensive information would increase confidence that the package of activities proposed is cost-effective and it would help resource activities economically towards defined targets.

d The Government Action Plan has achieved some co-ordination between departments, but needs to be developed further to encourage more joint working across Government by:

- specifying more precisely the contributions expected of each government department;
- incorporating specific commitments from government departments on the actions they are undertaking and the resources they have committed to small business issues, in the way that Delivery Plans outline progress towards PSA targets; and
- ensuring that the monitoring and reporting arrangements for the Government Action Plan that were promised in the Plan are established. This could draw upon the scorecard approach used by SBS to report its own contributions.

e The Government should examine whether SBS has the ability and the appropriate level of authority to influence the other government departments with an interest in promoting enterprise, to ensure that a more dynamic small business sector is established.

Recommendations to improve business support programmes

f In March 2005, the Government announced a series of actions to measure, and ultimately reduce, the volume of regulation faced by business. The actions include a programme of administrative burden reductions, and a consolidation of regulatory and inspection bodies. As part of this process SBS should identify those areas of Government regulation which most impose burdens on small businesses, explore with the departments concerned how they will use regulation simplification plans to reduce those burdens, and make sure that cuts in burdens for small businesses are targeted within the overall regulatory reform programme.

g SBS should track any reductions in burdens, or increase in benefits, that its involvement in the development of regulations has stimulated, and use that information to help target its resources and demonstrate to departments the value of its regulatory expertise.

h The Government should develop measures to track the adoption of procurement practices by public bodies that offer appropriate access to public contracts, and to check that small businesses are aware of procurement opportunities.

i The *Bridging the Finance Gap* review estimated the size and nature of a number of gaps in the finance market, which a variety of interventions – some old, some new – now aim to address. Viewed at the micro level, a scheme like the Small Firms Loan Guarantee has been a lifeline to many small businesses who would not be the success they are today without its help. At the macro level the scheme has had a higher default rate than commercial lending and similar schemes in other countries, and has displaced non-assisted businesses. These might be indicators of positive impact but might be cause to question the value for money of the scheme. There are now a large number of schemes to help finance small businesses, each with its own objectives and indicators. SBS in conjunction with the Treasury, should review the evidence on the impact of the schemes as a group against the key estimates of beneficial change identified in *Bridging the Finance Gap*. They should clearly state their expectations of progress against those key estimates to help judge whether the package of finance schemes is providing value for money.

j SBS, working with the Regional Development Agencies, should improve the cost-effectiveness of Business Link Operator monitoring by:

- moving to a single, national survey of customer satisfaction;
- explaining clearly the methodology they have adopted for reporting the penetration rates achieved by Business Link Operators in public documents; and
- reviewing, as planned, the first year's estimates of the value added by Business Link to understand the variations in performance between Business Link Operators, and so helping raise overall performance.

PART ONE

Introduction

1.1 The latest data available (from early 2003) showed that there were nearly 3.5 million businesses in England, over 99 per cent of which were small (0 to 49 employees), 22,000 of which were medium-sized (50 to 249 employees) and 5,400 were large (250 or more employees). Small and medium-sized enterprises accounted for 51 per cent of business turnover and employed 57 per cent of the total private sector workforce in England.

The Small Business Service

1.2 Following a public consultation, in April 2000 the Department established the Small Business Service (SBS) as an executive agency with the vision to make the United Kingdom the best place in the world to start and grow a business. The consultation concluded that:

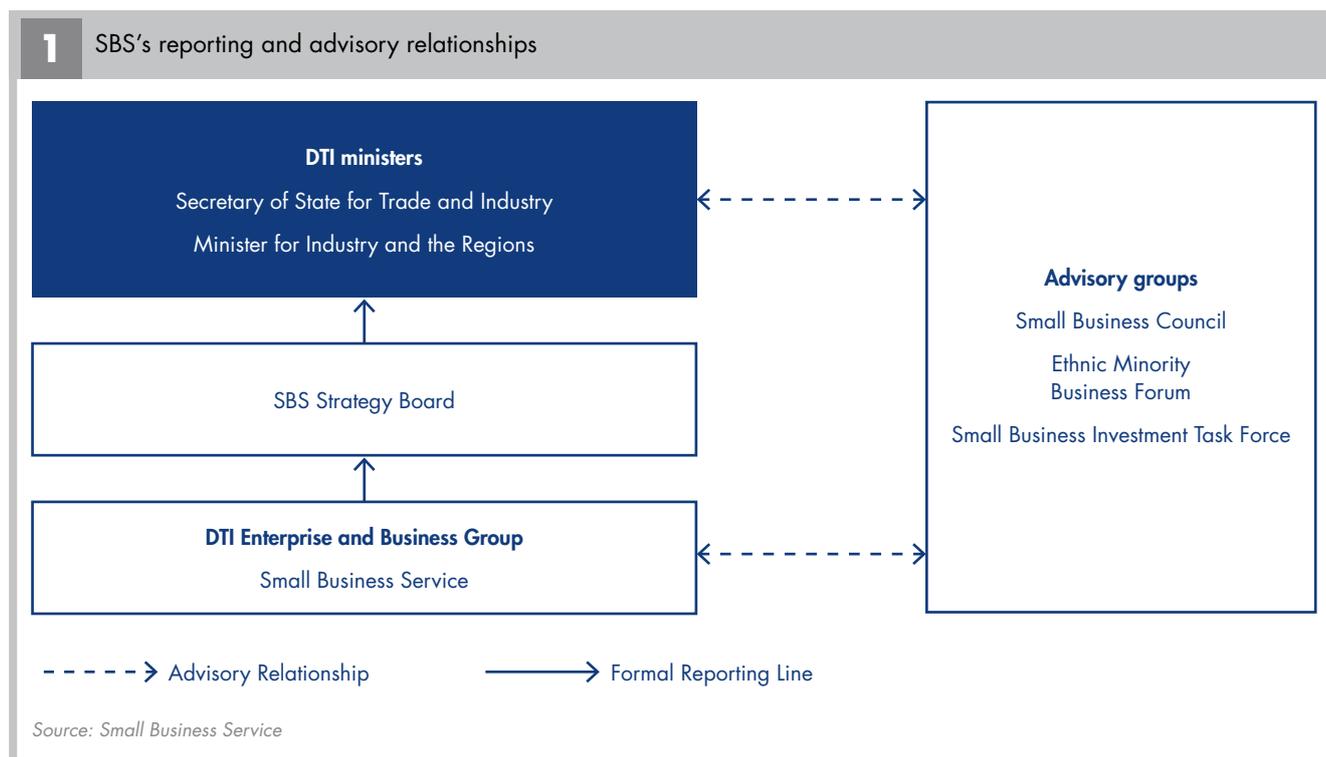
“Small businesses can find access to the information and finance they need more difficult. They find it harder to absorb the costs and risks of investment and research and development. They are often unable to draw on the same range of experience and skills within their own business as larger companies. And they have far fewer resources to get to grips with government regulation; and less opportunity to influence government thinking.”⁸

1.3 SBS’s task is to work with government departments to build an enterprise society where small businesses can thrive and achieve their potential, to improve the quality and coherence of support programmes for small business and reduce the level of regulatory burden they face.

Figure 1 shows SBS’s position within the Department of Trade and Industry.

1.4 SBS has responsibility for pulling together Government policy on small businesses. It is advised by the Small Business Council, a non-departmental public body comprising members drawn from small businesses, which also advises the Secretary of State for Trade and Industry. SBS also has a Strategy Board, which includes the Minister for Industry and the Regions, which agrees the strategy and objectives of SBS, monitors SBS’s performance, agrees its business plans and provides general advice. Two further sources of advice are the Small Business Investment Task Force which advises on the progress being made to ensure that all enterprises with potential can access the finance they need, and the Ethnic Minority Business Forum which provides independent advice on Government’s policies for small businesses as they relate to ethnic minority businesses.

8 *The Small Business Service – A Public Consultation*, Department of Trade and Industry, 1999.



The changing role of the Small Business Service

1.5 In 2002, the Government sponsored the *Cross Cutting Review of Government Services for Small Business*.⁹ This review catalogued for the first time the large number of government departments and agencies that provide money and support for small businesses and estimated that total Government spending at that time totalled £2.5 billion, of which less than 15 per cent was being spent by SBS. The *Cross Cutting Review* recommended that SBS should move away from the direct delivery of services to small businesses and should place more emphasis on acting as a strong and influential voice for small businesses across Government. In response, in December 2002, SBS published *Small Business and Government – the Way Forward*.¹⁰ This document set out a strategic framework for a government-wide approach to helping small businesses based around seven strategic themes identified as the key drivers for success in economic growth, improved productivity and enterprise for all.

1.6 *The Way Forward* accepted that SBS should change from being a deliverer of services to small businesses to one which co-ordinates and influences the actions of all parts of Government in supporting small businesses. In January 2004, the Government published an Action Plan for Small Businesses which established a range of actions for a number of government departments to undertake in support of small businesses and made SBS responsible for ensuring that the Action Plan was implemented.

1.7 As a result of the decision to change the remit of SBS, in November 2004, its Chief Executive undertook a review of the organisation's size and structure. The outcome of this review was a new structure for SBS based upon three groups covering policy, corporate services and delivery strategy and management respectively, and a target to reduce the number of staff at the Agency from about 500 at 1 April 2004 to 218 by 1 April 2006. It achieved 190 staff in post as at that date. The reduction includes both efficiency savings and the transfer of functions. An example of the latter was the loss of about 130 posts when responsibility for running the Business Link network was transferred to the Regional Development Agencies.

⁹ *Cross Cutting Review of Government Services for Small Business*, Department of Trade and Industry, September 2002.

¹⁰ *Small Business and Government – the Way Forward*, SBS, December 2002.

1.8 In 2005-06, SBS spent £151 million providing direct support for small businesses through grants and facilitating access to finance, although these figures include the costs of administering those various schemes. SBS also spent £8 million providing part funding for consultancy support to small businesses to promote management best practice. SBS spent £35 million in supporting Business Link, primarily through funding the businesslink.gov website and £19 million on other costs, including policy development and influencing, research and evaluation and their own administrative costs, making a total expenditure of £213 million (see Figure 2). This compares with expenditure of £380 million in 2004-05.

1.9 This report examines SBS's performance against all its key targets and its own internal performance measures, its role in influencing Government regulations and policies and also examines its main areas of expenditure: facilitating small business access to finance including funding for under-represented groups, and Government services providing advice and support to small business which together cover 90 per cent of SBS's expenditure. The main fieldwork for this study was undertaken in 2004, with further work on improving access to finance undertaken in 2005 and we have updated all our findings to spring 2006. We conducted our initial survey of government departments and agencies in 2004 and undertook a follow-up survey in December 2005.

2 A breakdown of SBS's expenditure for 2005-06

Activities	£ million	Sub-total £ million
Access to finance/enterprise in under-represented groups		
Access to finance	110.1	
Phoenix Fund	40.6	150.7
Enterprise, encouraging start-ups and capability for growth		
Management Best Practice	8.5	
Promotion of Enterprise	6.1	
Other	1.0	15.6
Supporting Business Link		
Businesslink.gov (including call handling and website)	29.0	
Business Link marketing	3.6	
Business Link University	2.1	34.7
Policy development/research and evaluation		1.6
Administration		10.4
Total		213.0

Source: Small Business Service

PART TWO

Small Business Service targets and performance

2.1 This part of the report examines the aims set for the small business sector, the key targets set for SBS, and its performance against those targets. It also summarises the performance management framework; a complex set of aims, targets and strategic themes, which identify some, but not all of the actions small businesses would most like to see from Government. Progress against SBS targets is mixed, and it is hard for SBS to identify the impact of its own or wider Government actions on the small business sector, as distinct from the impact of other factors such as the general economic cycle.

The Government's performance framework for supporting small businesses

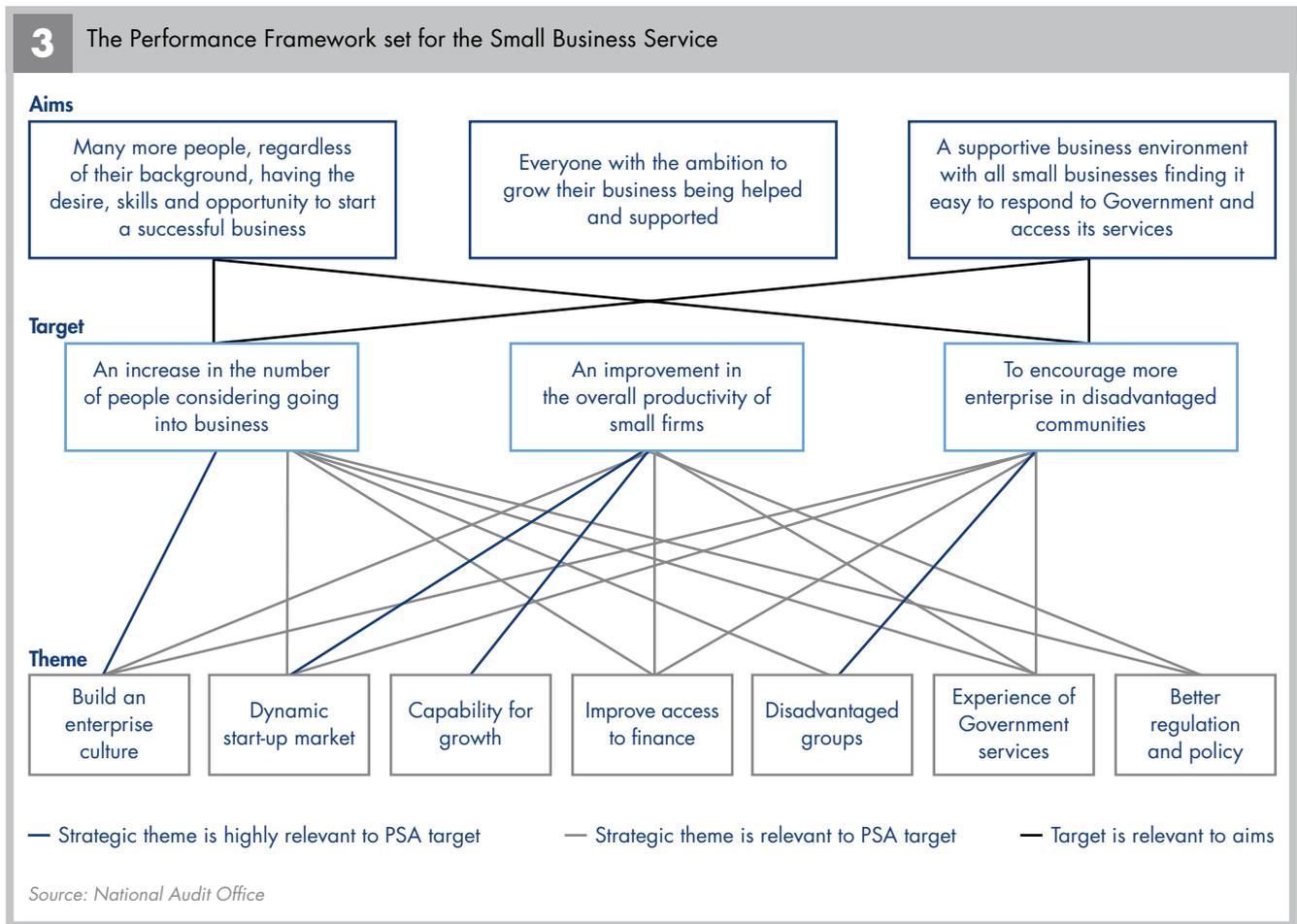
2.2 The Government views a thriving small business sector as vital for improving the United Kingdom's economic performance. **Figure 3 overleaf** maps out the Government's aims, PSA sub-targets and strategic themes governing its intervention in the development of the small business sector. The diagram shows that the links between the strategic themes and aims, through key targets, is complicated. Most themes link to more than one target, while the targets' contribution to the overall aims is unclear.

Comparing the seven themes with business priorities for Government action

2.3 We asked a sample of business representative bodies to state their views of the need for Government action to support small businesses, and to prioritise the resulting actions. **Figure 4 on page 13** shows how the resulting priorities match the seven themes in the Action Plan. The top two priorities of small business correspond directly with the Government's strategic themes while there is a clear relationship between two other needs of business on government services and a third strategic theme. Other business priorities for a more favourable tax regime and a more skilled workforce are not identified as strategic themes but feature as part of themes on better regulation and building capability for growth. Viewed from the other perspective, the Government has broader objectives for social and economic development than those espoused by business, so themes related to an enterprise culture and diversity have no direct equivalents at this level of priority.

The SBS scorecard

2.4 SBS has developed a scorecard process to monitor progress against the seven strategic themes. Until 31 March 2005, SBS brought all its main objectives and 26 performance measures together in one document, which it updated quarterly, measuring overall progress on each theme against a traffic light system. This scorecard approach had the merit of bringing together assessments of progress with tasks, broader objectives and targets, and of SBS's internal capacity to deliver but also had the following limitations:



- there was no clear indication as to why the activities chosen under each theme were the best ones to obtain progress, or that they were resourced to a level likely to achieve objectives or targets;
- the process did not identify the relevant external factors which influenced progress against key indicators, so progress on an indicator such as small firms’ productivity was difficult to relate to SBS action;
- similarly, the process did not identify or summarise key actions of Government partners in the Action Plan, so assessments of prospects and progress under each theme were partial; and
- the scorecard contained few indicators of efficiency or value for money.

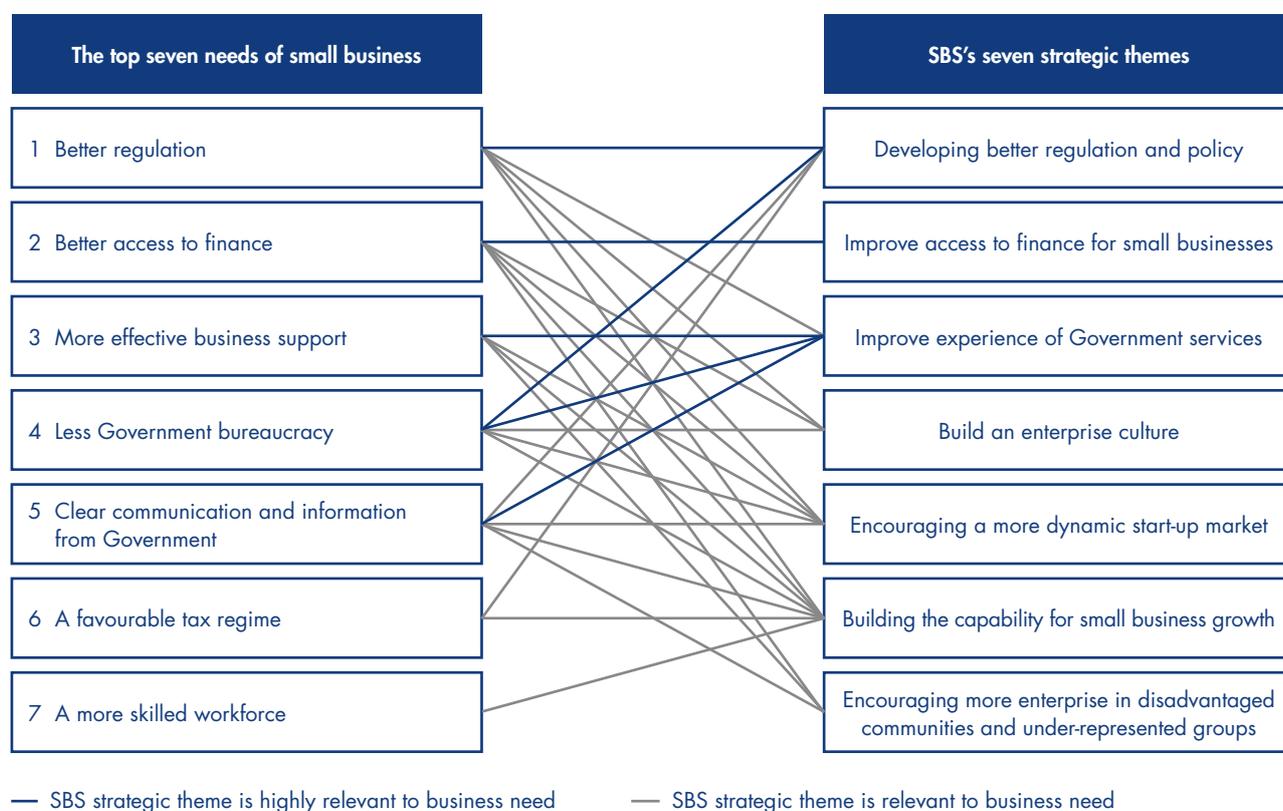
From 1 April 2005, SBS adopted a new format for monitoring and assessing progress. Project managers were appointed to be responsible for delivering key objectives under the seven strategic themes. They were required to develop a project plan which outlines their

key deliverables and each month those managers produce a report which assesses progress against each of those deliverables. This information is then aggregated into a brief quarterly progress report for senior management and a more substantial report for SBS’s Strategy Board. Examples of such projects are the measures being taken to open up Government procurement to small businesses and a project designed to increase enterprise amongst women. This revised reporting process provides a strong focus on SBS task management but continues to reflect the limitations outlined above and in addition lacks an explicit link with SBS’s key performance targets.

Progress against targets and under the seven themes

2.5 SBS reported that performance to date against its key targets and under the strategic themes has been mixed. Latest monitoring data against the three PSA targets shows that progress is good against two with no progress against the remaining target.

4 A comparison of the needs of small business with SBS's strategic themes



Source: National Audit Office

The number of people considering going into business

2.6 This target is to record the proportion of people considering starting their own business. As a baseline in 2001, SBS recorded that 11.6 per cent of adults in England were considering starting their own business or becoming self-employed. The latest data from the SBS Household Survey of Entrepreneurship shows that this figure dropped to 11.3 per cent for 2003 – not a statistically significant decrease, but not indicating progress towards the target of 14 per cent by 2006. More detailed analysis of these data shows that a fall in the proportion of young people considering going into business underlies the lack of progress. The target has been reduced to 12.3 per cent by 2008.

The productivity growth of small businesses

2.7 The purpose of this target is to measure the improvement in productivity of small firms compared to the improvement in productivity of all firms. Productivity is measured using the Office for National Statistics' Annual Business Inquiry, a survey of around 70,000 businesses. The results show that small businesses are slightly less productive

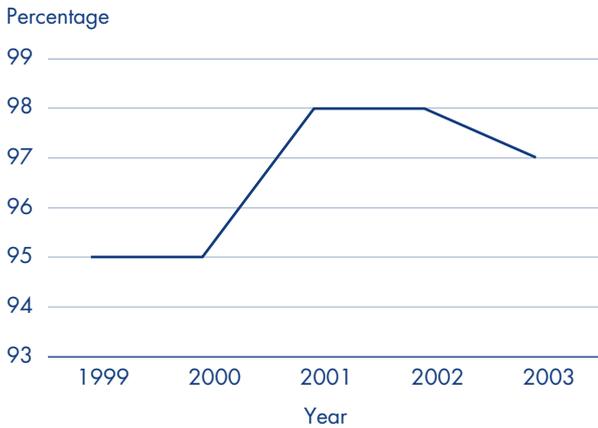
than large businesses but that the productivity of small and medium sized enterprises grew at a faster rate than all firms' productivity for the three years from 1999-2000 to 2001-02 before falling behind again in 2002-03. Because of the large size of the survey, the level of any sampling errors will be small (**Figure 5 overleaf**).

The level of enterprise in disadvantaged communities

2.8 The third target is designed to measure the effect SBS has on encouraging entrepreneurship in the most disadvantaged communities. SBS currently assesses progress by measuring the gap between the proportion of people in the 20 per cent most deprived areas in England and the 20 per cent least deprived areas in England which establish a business. SBS bases its analysis on the number of registrations for Value Added Tax in those areas. With a baseline year of 2000 SBS's objective is to reduce the gap by one percentage point each year until 2006. **Figure 6 overleaf** shows that between 2000 and 2003 the gap reduced by more than five percentage points against a target for that period of four points.

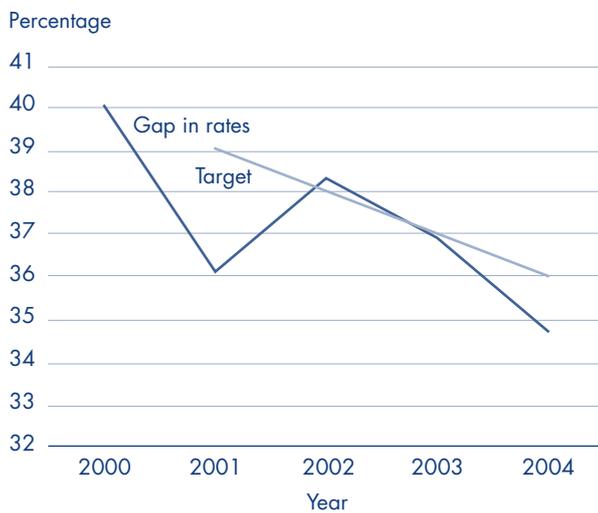
5 The growth in the productivity of small and medium sized firms compared to the productivity growth of all firms

The productivity of small firms expressed as a percentage of all firms' productivity



Source: Small Business Service

6 The gap in Value Added Tax registrations between the most deprived and the least deprived areas of England



Source: Small Business Service

SBS scorecard assessments

2.9 SBS's assessment of its progress under the seven themes is also mixed but improving. **Figure 7 below** shows that progress is on track for three of the themes, while for the remaining four themes remedial action is in hand to ensure that progress will be adequate.

We identified some of the problems that had caused the amber assessments:

- **A more dynamic start-up market:** the quality and consistency of the support which Business Link Operators offer clients who are looking to start up a business has been patchy. SBS and the Regional Development Agencies initiated a project to provide a consistent level of support across England but this was held up by the slow progress made by the Business Link Strategy Board in agreeing the scope of the support to be provided.
- **Building the capability for growth:** many small businesses remain concerned about a lack of skills in the workforce.
- **Encouraging enterprise in under-represented groups:** progress on tackling the gap in the rate of women's self employment and that for men is being hindered by a range of issues.

7 SBS's summary performance on the seven strategic themes to 31 March 2006

Strategic theme	Classification
Build an enterprise culture.	Green
Encourage a more dynamic start-up market.	Amber
Build the capability for small business growth.	Amber/Green
Improve access to finance for small businesses.	Green
Encourage more enterprise in disadvantaged communities and under-represented groups.	Amber/Green
Improve experience of Government services.	Amber/Green
Develop better regulation and policy.	Green

Source: Small Business Service

Factors hindering assessment of SBS performance

Lack of attribution

2.10 Performance measures should be chosen so that changes in value can be attributed to the actions of the organisation in question.¹¹ Attribution is a challenge for all performance measures based on outcomes, but is particularly relevant for organisations such as SBS which influence the outcomes, rather than provide or fund services which dominate outcomes. If SBS could take account of the effects of general influences such as the state of the economy on its PSA targets then the resulting measures would more truly reflect SBS's performance although this does pose some technical difficulties. The same issue applies at a more detailed level. There are a range of factors, for example, which influence the development of an enterprise culture and the attitudes of potential entrepreneurs. Some factors Government can influence to a certain extent such as increasing the skills of potential and existing entrepreneurs, or altering financial incentives through the tax regime. Other factors such as attitudes to financial risk, society's views of entrepreneurial behaviour, or the relative rewards of corporate as opposed to self employment are less easily influenced by Government or SBS.

2.11 SBS has no overall logic map to chart the way these various factors interact, or assess what their relative impact may be on achievement of aims and targets. The absence of such mapping makes it harder to assess whether the proposed activities and intervention are necessary or sufficient to achieve targets. And when monitoring progress, the lack of a logic map hinders understanding of the impact of variances from planned government activity, or the effect of external factors on small businesses.

Obtaining suitable data

2.12 To be useful for target-setting and monitoring purposes, statistics must be available which address the performance issues; which are collected sufficiently frequently to permit effective management responses; are produced quickly after the period to which they relate; and cover the issues. Much of the activity-level data produced for the scorecard satisfy these criteria. But two main issues arise:

- data on the existence and activities of small businesses are not routinely produced at local levels, hindering the ability to monitor activity in disadvantaged areas, or for individual Business Link Operators, for example; and
- data to monitor performance against the PSA targets come from large national surveys and databases and can take up to 18 months from the period end to be made available.

SBS accepts that these are issues that need addressing and is working with a range of other government departments including Her Majesty's Revenue and Customs, the Department for Work and Pensions and the Office for National Statistics to examine ways of improving the quality of data on small businesses without imposing further burdens on business.

11 *Choosing the Right FABRIC – A Framework for Performance Information*, NAO, HMT et al, March 2001.

Programme evaluation does not address broader performance questions

2.13 SBS has an Analytical Directorate which is responsible for improving the evidence base on enterprise and small business issues and making sure that full use is made of that evidence in policy development. It also commissions strategic evaluations to assess the impact and cost effectiveness of existing policies. The Analytical Directorate has around six evaluation projects under way at any one time. We examined the evaluations currently published on the SBS website – details at Appendix 3.

The main issues arising were:

- the evaluation programme is centred on specific schemes or activities: there have been no evaluations of SBS as a whole, or any focused on the higher level aims and targets. And SBS commissioned evaluations of schemes have not always linked their findings to those aims and targets;
- the scheme evaluations have provided useful indications of how to focus the schemes, or manage their implementation, better. Only those of larger-scale schemes have addressed negative impacts of interventions, such as the displacement or substitution of existing businesses by those assisted – one of the key risks of industry intervention schemes;
- assessment of net impact is technically difficult for smaller or newer interventions. Where such interventions are to continue, or may be scaled up, assessments of net impact are needed to inform judgements about actual and prospective value for money; and
- evaluations and associated research need to be designed to support better monitoring by gathering more information on the significance of external factors on performance.

PART THREE

Better regulation and policy

3.1 The burden of regulation is one of the key issues identified by small businesses which requires Government action. This part reviews SBS's efforts to minimise regulatory burdens and to ensure that small business circumstances are reflected appropriately in Government policy – illustrated by policy developments on opening up Government procurement to small businesses. It concludes that information on the overall regulatory burden, and on SBS's work to minimise burdens, is limited but acknowledges current cross-Government work to measure and reduce the burdens. On procurement, Government has taken action to reduce barriers to small businesses' ability to compete for contracts, but the impact on the share of Government procurement awarded by small businesses is uncertain.

Minimising regulatory burdens

3.2 We examined the impact that Government regulations have on small businesses. Studies show that overall the United Kingdom is a relatively lightly regulated country. For example, the World Bank¹² named the United Kingdom as the ninth best country (out of 155) in which to do business, by reference to the level of regulation, rights to property and the ease of access to finance. Regulations, however, place a disproportionate burden on small businesses relative to larger firms. A study commissioned

by SBS¹³ in 2002 estimated that compliance costs for businesses with less than 20 employees were at least 35 per cent more, relative to their size, than for businesses with over 500 staff. The study concluded that little progress had been made to reduce the disproportionate burden of regulation on small businesses. A more recent study by the Federation of Small Business¹⁴ found that small businesses are in particular dissatisfied with the volume and complexity of regulation and the high rate of change in legislation.

3.3 There are currently no official statistics on the national costs to businesses of regulation or the extent of the burden of compliance although in the Budget of 2005 the Government announced an initiative to be run by the Better Regulation Executive which is designed to measure the cost of complying with regulations with a view to setting targets to reduce the size of the burden. The Small Business Council has voiced the need to measure the ways in which cumulative burdens affect differently sized businesses. SBS's Business Plan states that success in developing better regulation and policy will be evident if SBS can reduce the proportion of small businesses citing regulation as an obstacle to growth and if the United Kingdom's relative position in international comparisons of regulatory burdens is maintained. In December 2004, Government also established a cross-Whitehall group on the Cumulative Impact of Regulation chaired by the

¹² *Doing Business in 2006: Creating Jobs*, The World Bank, 2005.

¹³ *Regulatory Burdens of Small Business: A Literature Review*, Chittenden F, Kauser S and Poutziouris P, SBS, October 2002.

¹⁴ *Lifting the Barriers to Growth in UK Small Business – Biennial Survey 2004*, Federation of Small Business.

Deputy Chief Economist of the Department of Trade and Industry. As part of the research programme supporting this group SBS and the Department have commissioned projects, respectively, to examine the impact of regulation at different stages of the lifecycle of small businesses, and the costs and benefits of regulation in areas of competition and consumer affairs.

3.4 The only attempt to analyse the aggregate costs and benefits of regulations in the United Kingdom to date has been made by the British Chambers of Commerce. They have analysed the costs and benefits of all Regulatory Impact Assessments available from 1998 to 2004.¹⁵ Regulatory Impact Assessments show the costs to business, consumers and government but also illustrate the benefits to each of those parties. **Figure 8** shows that regulation secures significant benefits for consumers and marginal benefits for government by imposing significant net burdens on business. The Department of Trade and Industry maintains that in such a calculation the benefits of regulations are almost certainly underestimated due to the difficulties in quantifying benefits for the Regulatory Impact Assessments and point out that there can be significant fluctuations in both the costs and benefits in individual years that can distort the figures in the table. Furthermore, the Department considers that a simple aggregation of costs can be misleading; some regulations may impose costs which firms might have incurred anyway or some costs may be one-off costs. But regardless of the balance between costs and benefits of individual regulations there is agreement that the gross costs placed on business can be substantial and that unnecessary burdens are detrimental to the United Kingdom's economic performance.

3.5 Some other countries have made an official estimate of the total burden of regulation. In the United States of America the Office of Management and Budget has assessed the cost of regulations. (**Figure 9**).

SBS's contribution to the development of new regulations

3.6 Regulatory Impact Assessments should show whether the benefits of the regulation justify the costs to the economy and are reviewed by the Regulatory Impact Unit in the Cabinet Office. In February 2003, in response to recommendations from the Small Business Council, the Small Firms' Impact Test was added to Regulatory

8 Costs and benefits to business, consumers, and government of Regulatory Impact Assessments 1998 to 2004

1,089 RIAs introduced between 1998 and 2004	Gross costs, one-off and recurring (£ million)	Benefits, one-off and recurring (£ million)	Net costs/benefits (£ million)
Business	(23,425)	8,180	(15,245)
Consumers		9,422	9,422
Government	(7,220)	7,530	310
Business, Consumers and Government	(30,645)	25,132	(5,513)

Source: National Audit Office summary of the British Chambers of Commerce Database of Regulatory Impact Assessments, prepared by Tim Ambler (London Business School) and Francis Chittenden and Chanyeon Hwang (Manchester Business School)

Impact Assessments to assess whether there may be a disproportionate or heavy burden on small businesses. One of SBS's targets has been to ensure that 100 per cent of new regulations affecting small businesses are "subject to a meaningful Impact Test". In 2004, 90 per cent of such regulations had an Impact Test. But SBS does not judge the quality of the test, and there is no formal sift process by which SBS can assess those regulatory proposals which most affect small businesses and which most need SBS input.

3.7 We examined how SBS tries to ensure that the needs of small businesses are considered when government departments introduce new regulations and reviewed nine regulations (all but one introduced in 2003 and 2004) accordingly. We also examined the impact SBS had on two policies (introduced in 2002 and 2003). A list of the regulations and policies we examined is at **Figure 10** along with the approximate value of SBS's inputs into the development of each regulation and policy.

3.8 For the 11 cases, we found that SBS had no set pattern to its interventions. We found examples based on ad hoc contacts from other government departments and also examples of continuous collaborative working. An example of the latter is SBS's work in influencing tax and finance issues in conjunction with HM Revenue and Customs which has received significant praise from both the small business sector and other government departments (**Case Study 1 on page 20**) – success was founded on early and continuous engagement. Alternatively on the Office of the Deputy Prime Minister's

¹⁵ Not all Regulatory Impact Assessments were available: 1,089 are listed in the database, out of a total of 1,132 that were produced from August 1998 to June 2004.

9 Regulation in the United States of America

In the United States of America, the Office of Management and Budget is an organisation set up to assist the President of the United States in developing and executing his policies and programmes. One of its functions is to provide an annual statement of the costs and benefits of Federal regulations. The Office of Management and Budget's report for 2004 stated that the estimated annual costs of the regulations it had reviewed for the period from October 1993 to September 2004 ranged from \$34.8 billion to \$39.4 billion. The estimated annual benefits of those regulations ranged from \$69.6 billion to \$276.8 billion.

The Small Business Administration (SBA) through its Office of Advocacy has a role in challenging the need for, and reducing the impact of Federal red tape and regulation on small businesses. One of the SBA's major long term objectives is to *minimise the regulatory burden on small businesses through effective advocacy*. It has a target up to 2008 to *achieve a yearly regulatory cost saving that increases at a rate of 10 per cent annually over the baseline of \$3.8 billion*. The following table shows SBA's performance against that target from Financial Year 2000.

	FY2000 actual	FY2001 actual	FY2002 actual	FY2003 target	FY2003 actual	FY2004 target	FY2004 actual	FY2005 target	FY2005 actual
Regulatory savings achieved by SBA (\$billion)	3.6	4.4	21.1 ¹	4.0	6.4	4.6	17.1	5.1	4.0
SBA's admin expenditure on this work (\$000)	7,126	7,175	7,780	9,709	8,680	8,877	9,360	9,994	10,787

Source: Small Business Administration Annual Report 2005

NOTE

1 This figure is an anomaly with the bulk of the savings attributable to one regulation. As such SBA does not use it in any performance or target calculations although it is a valid saving.

10 SBS inputs into the NAO Case Studies of nine Regulations and two Policy Initiatives

Government Department/Agency	Regulation	SBS total time input estimate (hours)	SBS total input estimate ¹ (£)
Office of the Deputy Prime Minister	Trading and charging	35	1,300
Office of the Deputy Prime Minister	Renewable energy	21	500
Health and Safety Executive	Worker involvement	14	300
Home Office	Anti-social behaviour	504	13,900
Department for Food & Rural Affairs	Solvent emissions	224	5,000
Department for Food & Rural Affairs	Environmental liability	133	5,300
Low Pay Commission	Minimum wage	84	17,100
Department for Trade & Industry	Flexible working	252	9,300
Department for Education & Skills	Childcare standards	84	3,100
Government Department/Agency	Policy Initiative	SBS total time input estimate (hours)	SBS total input estimate (£)
Office of Government Commerce	Procurement	2,100	59,500 ²
Home Office	Crime affecting business	77	4,200
Total		3,528	119,500

Source: National Audit Office analysis

NOTE

1 Includes staff and other costs.

2 SBS and OGC worked closely together on this project-based example of policy implementation.

CASE STUDY 1

SBS's close working relations with the Inland Revenue and HM Customs

A chartered accountant and small business tax adviser was seconded to SBS in 2003. After consulting small businesses, SBS produced a joint action plan with the then Inland Revenue and Customs and Excise. This work programme is underpinned by a written concordat and the Department and SBS meet bi-monthly to work together on small business finance and tax issues.

For instance, when the Inland Revenue led a formal consultation on corporation tax, SBS facilitated a meeting for small businesses and professional representative bodies to debate and feed back on the implications for small businesses. The small business sector said that this meeting was useful and the Inland Revenue said the discussions had enabled earlier buy-in to the issues facing small businesses which meant that policy making could be influenced earlier in the process. The Chancellor of the Exchequer subsequently announced that the changes being made would not result in a disproportionate administrative burden for smaller businesses.

Feedback from Customs and Excise stated that the forums and meetings facilitated by SBS helped provide a consistent 'single voice' to small businesses. Although this work was based on the personal initiative of the staff member seconded to SBS, it shows how effective relationship building and a joined-up, strategic approach to putting small business concerns at the centre of the agenda, produced useful and productive linkages.

Local Government Bill (2003), which concerned local authorities' power to trade and charge for services, SBS was involved in discussions on the bill at the proposal stage in May 2002, but when the draft bill was released for consultation SBS did not comment. Only early in 2004 did SBS raise concerns about aspects of the legislation that had been present in the consultation draft.

3.9 For the 11 cases, we asked the people we interviewed from the other government departments to evaluate the balance of benefits and costs from their experience of working with the SBS, where the benefits are defined as the impact on the policy/regulation and the costs are primarily time inputs. In five of the 11 cases, respondents said that the benefits outweighed the costs. The other government departments and SBS were unable to quantify any reduction in the burden of the regulation on small business as a result of the interventions from SBS.

3.10 One of the outcomes of the Chief Executive's review of SBS in late 2004 was a reduction in the amount of resource SBS is putting into monitoring new regulations. SBS is now concentrating on strategically important regulatory topics and departments and reducing its work on reviewing individual proposals for regulation. There is little empirical evidence available to help strike the balance between strategic influence and review of individual regulations.

SBS's work to open up Government procurement to small businesses

3.11 An SBS survey of central Government procurement in 2004-05 which covered £5.28 billion of an estimated total spend of £13 billion across central Government (excluding health and defence expenditure) showed that 58 per cent of contracts by number were awarded to small firms which represented 22 per cent of the total by value. But there is no ready way to assess whether these levels represent cost-effective procurement. SBS-commissioned research published in March 2005 showed that there is little scope for any generalised quantification of the benefits of procuring from smaller firms. In part this is because circumstances vary so much from case to case and also because much of the benefit of procuring from small firms arises from higher quality which is difficult to value. The report concluded that there was no sound basis for deriving an optimal level of procurement from smaller firms for Government, whether in aggregate or in any specific market. But the report did identify small business strengths – more committed customer service, specialisation and adding to competition for public contracts.

3.12 Government policy has focused on improving small business access to government procurement competitions. In May 2003, the Better Regulation Task Force and the Small Business Council issued a joint report entitled *Government: Supporter and Customer* which identified a number of barriers faced by small businesses when trying to compete for government contracts. Four of the report's recommendations, designed to help small businesses compete more effectively for government contracts, were assigned to SBS.

3.13 The report noted that SBS and the Office of Government Commerce had already launched a web portal in January 2003 which provided help and guidance for all businesses tendering for government contracts, as well as links to departments' procurement web pages. The report recommended that by spring 2005 the portal should advertise lower value contracts from across government and publicise information on future contract opportunities. In December 2004, SBS expected an extended portal, also enabling small businesses to complete pre-qualification documentation online, to be operational by summer 2005. After extended negotiations with potential contractors the portal went live on 31 March 2006 (www.supply2.gov.uk).

3.14 In 2000, the Government announced the Small Business Research Initiative under which departments, agencies and the Research Councils had volunteered to procure at least 2.5 per cent of their research and development activity from small businesses. In 2005, the Government announced that this would now be a mandatory target. Implementation is being led by SBS with the support of the Treasury and the Office of Government Commerce and in 2004-05 the total resources made available for research and development under the initiative by the 12 biggest spending Government Departments was over £2.5 billion of which £269 million was spent with small firms.

3.15 The joint report from the Better Regulation Task Force and the Small Business Council also recommended that SBS should provide advice and training to small businesses on how to do business with central government and local councils. In response SBS worked with the Office of Government Commerce on two pilot studies aimed at helping small businesses gain access to government procurement contracts (**Figure 11**).

3.16 Following on from the West Midlands pilot (**Case Study 2 on page 22**), training for small businesses through the Regional Development Agencies in how to compete for Government contracts was rolled out to all the nine English regions starting in the East Midlands, using training materials developed by the Office of Government Commerce. The initial training was completed in all nine regions as planned by the end of March 2006.

11 SBS working with the Office of Government Commerce

In response to the Better Regulation Task Force and Small Business Council report entitled *Government: Supplier and Customer* (2003) the Office of Government Commerce and SBS initiated two pilot projects running from June 2003 for a year aimed at identifying ways to improve small businesses' success in selling to government. The lessons learned from these pilot projects have been fed into national projects on procurement.

One pilot was based in the West Midlands with a sister project in Haringey, north London (**Case Study 3 on page 22**). There was regular contact between the projects and an SBS representative sat on the project board for both pilots. 500 small and medium-sized enterprises were involved in the West Midlands project.

The aims of the pilots were to find ways of making public sector contracts more accessible to small businesses and making the procurement process simpler. The pilot in the West Midlands created an electronic portal to facilitate small business access to procurement opportunities. In each pilot *How to Tender* workshops and other training sessions were attended by over 200 small businesses to help them to boost their capacity to compete. The Haringey pilot also worked with the local Council to encourage the use of Plain English in procurement documents and trained the Council staff involved in procurement to "think SME".

We found that SBS established a good working relationship with the Office of Government Commerce with joint action plans in place. The plans summarised the activities of the pilots and focused on developing the lessons learned from them into workable national programmes. The Office of Government Commerce took the lead in this project as it had the required resources and expertise. The Office of Government Commerce noted that there had been greater engagement from the SBS following the recruitment of additional resources in mid-2003.

Source: National Audit Office analysis

CASE STUDY 2

The West Midlands SME (small and medium-sized enterprise) Procurement Pilot

The objective of the pilot was to simplify the way small businesses find out and bid for government contracts and streamline the procurement process.

The pilot established a simple web portal for government buyers in the region to advertise low value contracts. 17 stakeholders from local and central government took part. 500 small businesses registered with the portal. 73 procurement opportunities were placed on the portal against a target of 50. 33 of these contracts had been awarded as at November 2004, when the pilot was evaluated. 21 per cent of all these were won by pilot small firms, and 58 per cent in total by small and medium sized enterprises.

The pilot also offered training on how to put a tender together; 302 free places were filled.

A simplified pre-tender questionnaire was also tested. A standard pre-tender document has now been developed for use with the national procurement portal (paragraph 3.13).

Finally, nine prime contractors in the region were primed to open up opportunities in their supply chain to small and medium sized enterprises.

CASE STUDY 3

The Haringey SME Procurement Pilot

The Haringey 'Trade Local' project aimed to build the skills of small and medium sized enterprises in the Haringey area to tender for and secure public and private sector contracts and encourage local public bodies to review their procurement strategies to take better account of small businesses when tendering.

Between July 2003 and March 2005, over 500 local small businesses received direct training including guidance on filling in pre-qualification questionnaires and responding to tenders. Nearly half these businesses were owned by black and ethnic minority business people. Those who responded to a survey of users considered the training to be effective or very effective.

Haringey and Enfield Councils also set up a website to promote the project and to advertise procurement opportunities. The response to the website has been more mixed but 74 per cent still found it useful or very useful in promoting opportunities. The evaluation of the project was unable to identify whether the businesses involved have won more public sector business.

3.17 The Better Regulation Task Force and Small Business Council joint report also proposed that SBS should work with the Local Government Procurement Forum to agree a policy which recognised the potential for small businesses as contractors and suppliers. Local government spends around £40 billion a year on procurement. SBS officials worked with the Office of the Deputy Prime Minister and the Local Government Procurement Forum to draw up a concordat which SBS hoped a large number of local authorities would endorse. The concordat was launched on 1 March 2005 by the Office of the Deputy Prime Minister: as at April 2006, 62 out of 388 local authorities in England had signed up to the concordat.

3.18 Finally, the Better Regulation Task Force and Small Business Council joint report recommended that SBS should publicise the mechanism for small businesses to report non-compliance with the Government Procurement Code of Good Practice. SBS placed a copy of the Code on the Office of Government Commerce's website and provided a link to the Code on the Business Link website. SBS does not at present have any data on the number of complaints received and acknowledges that it needs to do more work to further publicise the Code.

3.19 The Office of Government Commerce has also acted to make more transparent to Government the supply chains of the companies which are its biggest suppliers, in an attempt to provide more opportunities for small firms. In 2005, the Office of Government Commerce drew up an initial list of around 30 suppliers which it wanted to talk to request that they make their supply chains more open and transparent. Three of these key suppliers have been influenced to change the wording on their websites to positively promote the use of small and medium sized businesses. In July 2005, the Office of Government Commerce also issued new guidance on supply chain management.

3.20 In the United States of America, the Small Business Administration is a leading and successful advocate of fair procurement opportunities for small businesses with the long term goal to increase the opportunities for small businesses to receive open and fair access to Federal contracts. The Federal Government buys over \$400 billion in goods and services per year and has set a statutory goal to award 23 per cent of its purchases to small businesses. The Federal Government achieved over 22 per cent in each year between 2000 and 2002 and met or exceeded the target in 2003 and 2004. SBS will in future publish an annual review of government departments' procurement spending and look to extend this reporting to local government.

PART FOUR

Improving access to finance

4.1 One of the key issues identified by the representative groups in our survey was the difficulty that a proportion of small firms face in accessing the finance they need to either help their business start up or assist their business to grow. The United Kingdom has one of the most developed financial markets in the world but there are a number of gaps in the market which means that the ‘right’ amount or the ‘right’ type of finance is not always provided by the markets for reasons unconnected with the viability of any particular proposal. Based on analysis of the finance gaps established in its 2003 *Bridging the Finance Gap* review, Government has taken the decision to stimulate the commercial market to provide sources of finance for the small and medium business sectors in an attempt to address these market failures.

4.2 Government intervention primarily falls into three types of support:

- providing support for those businesses which either have limited collateral against which they can borrow or a weak track record for borrowing purposes. The main vehicle Government uses is the Small Firms Loan Guarantee;
- providing the stimulus for generating additional sources of equity and capital funding. Government, primarily through the SBS, has set up a number of venture capital funds and similar support schemes; and
- improving the access to finance for under-represented groups.

This part of the report examines the progress made in each of these areas.

Debt financing

4.3 SBS surveys show that around 20 per cent of small businesses which are starting up or in their infancy, and which have sought an unsecured bank loan, have difficulty in raising the finance they need. This figure rises slightly for new businesses – defined as those less than three years old. SBS has therefore estimated that around 150,000 small businesses face problems in seeking finance each year.

4.4 The main vehicle which Government created to mitigate this problem is the Small Firms Loan Guarantee. This was established in 1981 and provides a guarantee that the Government will step in and reimburse the banks for 75 per cent of the net outstanding balance of any loan made under the scheme where the lender defaults. The loans are those which the banks would otherwise not wish to support because the borrower does not have the necessary security to offer the banks or does not have an established track record of financial management. In 2004-05 the scheme guaranteed 7,130 loans having a total value of £481 million. The scheme cost the taxpayer £40 million in that year – the cost of the defaults – down from £60 million the previous year. In 2005-06 the scheme supported some 5,800 firms.

4.5 The Small Firms Loan Guarantee has been subject to three external reviews, the most recent being the Graham Review of 2004 which was commissioned jointly by HM Treasury and the Department. This Review noted it was surprised by how little was known about the scheme’s impact or purpose but recommended the scheme be retained with a revised focus and more efficient methods of delivery. It recommended that availability of

the scheme be restricted to those businesses which are under five years old. The Review noted that default rates for the scheme between 1993 and 2000, the latest figures available, averaged between 30 per cent and 35 per cent. This compared with typical default rates on normal small business bank lending of around four per cent. The Review also noted that other countries' government loan guarantee schemes had default rates much closer to those of normal small business lending but acknowledged that other countries have different banking structures and guarantee schemes with different rules which make such comparisons problematic. High default rates reduce the total value of loans that can be guaranteed for a given budget, but the Review noted that high default rates can demonstrate that the scheme is encouraging lending at levels of risk that the lenders would not normally consider. The Review also accepted that loans made to start-ups and young businesses were more likely to trigger defaults than those made to established businesses. The Review did not establish whether the higher levels of risk had been matched by higher economic rewards. The Review, however, has led to changes in the way the Small Firms Loan Guarantee is run that are intended to give rise to improved credit assessments of potential borrowers and better monitoring of loans with the aim of reducing default rates.

4.6 The Graham Review did not seek to identify directly the economic benefits that the scheme generates. However, an earlier evaluation¹⁶ of the Small Firms Loan Guarantee issued in 1999 had found that for around 70 per cent of firms (60 per cent by value of loans) the scheme generated funding beyond that available from other sources. It estimated that the net benefits to the economy were an additional 0.3 to 0.6 jobs per assisted firm and net additional turnover per firm of between £16,000 and £29,500 in the 18 months following the loan. That estimate took account of surveys which indicated that between 76 per cent and 86 per cent of the additional activity generated in firms supported by the scheme might have displaced activity occurring elsewhere in the national economy. SBS considers that this level of displacement may not be a negative factor as it can enable more efficient and productive firms to enter the economy. The evaluation also suggested that 53 per cent of firms were using the finance they received to develop a new product or service, 64 per cent to open up a new market, 25 per cent to develop a new process and 32 per cent to introduce a sector leading edge technology - activities which could provide a wider economic benefit.

4.7 We observe that while research does indicate the value in competitive markets of business entry to, and exit from, markets as one means of increasing productivity, it does not

follow that the same benefits would flow from entry which was stimulated by financial assistance. The 1999 evaluation did not establish the relative efficiency of the businesses assisted by the Small Firms Loan Guarantee or of the firms that were displaced. More generally, the Government has no general objectives related to the need for increases in the degree of "churn" in the United Kingdom's population of small businesses. We observe that the Graham Review recommended some changes to improve the focus and efficiency of the Small Firms Loan Guarantee, and has put forward some success measures against which the scheme should be judged in two to three years time

Equity and risk funding

4.8 SBS has found that potential investors in the equity market will often invest only when they have researched the viability of a firm and its business proposal. Particularly for smaller investments the costs of this research and the higher risks that smaller businesses can pose provide barriers to small firms accessing this source of financing. In 2003, of the £4 billion of equity finance invested in the United Kingdom only two per cent was in start-up companies and five per cent in other early stage companies. The lack of available equity finance is particularly acute for investments between £500,000 and £2 million. There is also a geographical dimension to venture capital investments with 36 per cent by value being made in London. *Bridging the Finance Gap* offered a conservative estimate of demand for equity finance of between 9,000 and 18,000 businesses annually with between 3,000 and 6,000 businesses obtaining such finance from informal sources, such as private individuals.

4.9 The Government has established a number of schemes designed to stimulate an increased flow of private capital to fill the equity gap for new and growing small businesses. The main purpose of the schemes has been to demonstrate to private investors that commercial returns can be achieved by investing in such businesses. There have been three main fund types established to date as follows:

- **Regional Venture Capital Funds:** A fund was set up in each of the nine English Regions designed to facilitate equity investments of up to £500,000. The Government has committed £74.4 million to the funds which now have over £250 million in total commitments. In 2004-05, Government expenditure of £20 million supported investment in 61 small businesses and by December 2005, 218 small businesses had been supported in total. The funds are

¹⁶ Evaluation of the Small Firms Loan Guarantee Scheme, KPMG, 1999.

expected to run for 10 years, investing until summer 2008. No more Regional Venture Capital Funds are being established. An early assessment of the Funds in August 2003 identified that there was no evidence that the funding was displacing existing venture capital funding for small businesses. It found that the overall quality of applicants was disappointing compared to expectations but that despite this fund managers had been able to find enough high quality propositions in which to invest. The evaluation was unable to measure the impact of the programme on small businesses and the wider economy.

- **The UK High Technology Fund:** This was established to encourage institutions to invest in early-stage, high technology venture capital specialist companies. The Government invested £20 million in 1999-2000 and 2000-01. This fund attracted £106 million in commitments from private investors to add to the Government's investment. In 2004-05, investments with a total value of £19.3 million were made in 38 businesses. By the end of June 2005, 216 small businesses in total had been supported since the Fund was established.
- **Early Growth Funds:** These were established to ensure that every region in England has access to early growth funding by making risk capital investments of up to £100,000. The first fund became operational in October 2002. In 2004-05, investments with a total value of £5.3 million were made in 65 businesses. As at December 2005, 107 small businesses had been supported since the Funds were established.

4.10 In April 2003, the Government issued a consultation paper on improving the access to growth capital for small businesses.¹⁷ Most consultees responded that despite existing measures a small but important minority of growing companies continued to be constrained by the equity gap. They thought that a variation of the United States Investment Company model, in existence for 45 years, could play a role in supporting greater private sector investment to fill the equity gap.

4.11 The Government accepted this proposal and is establishing a series of Enterprise Capital Funds. These funds are privately managed, commercial funds investing a combination of private and public money in small growth-orientated businesses seeking up to £2 million of equity finance. There is no maximum size set for any one fund or the amount that any one fund can invest in an individual business, but the Government will commit no more than £25 million to a single fund or no more than twice the

amount of private capital, whichever is lower. Government will require a prioritised return on its investment but will accept the capital being returned on an equal basis.

4.12 In May 2004, the European Commission opened a formal investigation into Enterprise Capital Funds under State Aid rules. It gave clearance for the scheme to go ahead in May 2005. Bids to run the initial Pathfinder funds were received from 45 organisations in 2005 and the first two funds to be established with a combined value of £55 million were announced in the Budget in March 2006. Up to three further funds could be announced as part of the Pathfinder round of funds.

4.13 At present the scheme is being administered by SBS but the Government is considering establishing a state-owned delivery company which would oversee the Enterprise Capital Funds and the other Government-supported equity schemes. Any company would be overseen by a successor to the Capital for Enterprise Board which was established in July 2005 to advise SBS. This Board consists of a number of experienced private sector financiers.

Improving access to finance in under-represented groups

4.14 In 2003, there were 9.6 million people of working age living in deprived areas of the United Kingdom of which 2.5 million people were claiming some form of benefit and even more were in low paid jobs. Enterprise can be an opportunity for some of these people to improve their situation, however, analysis undertaken by the Bank of England in 2002 showed that, compared to people in other areas, self employed people in deprived areas are twice as likely not to have a bank account and are less likely to own their own home or to hold significant assets that they can use as collateral. But existing small businesses in deprived areas are just as likely as businesses in other areas to seek finance. Bank loans that are offered to people in deprived areas are typically offered at higher interest rates, are smaller in value and shorter in duration than elsewhere. Ethnic minority businesses are more likely to experience difficulties accessing finance than the small business population as a whole, and African Caribbean businesses face particular disadvantages in accessing bank loans and greater problems in providing collateral. The evidence on women entrepreneurs accessing finance is more mixed and SBS is currently undertaking more research in this area.

¹⁷ *Bridging the Finance Gap: a consultation on improving access to growth capital for small businesses*, HM Treasury and SBS, April 2003.

4.15 Government has set up three main instruments to assist businesses in under-represented groups to access finance more easily:

- Support for Community Development Finance Institutions;
- The Community Development Venture Fund; and
- Community Investment Tax Relief.

4.16 Community Development Finance Institutions (CDFI) are independent financial institutions that provide capital and support to individuals and organisations that cannot obtain mainstream finance. The Institutions include Credit Unions, Mutual Guarantee Societies and Social Banks. Part of the SBS's Phoenix Fund which was launched in 1999 was devised to provide funding to a number of these bodies. The Phoenix Fund provided £50 million of funding to 60 such bodies in three rounds between 2001 and 2004 (**Case Study 4**). An evaluation commissioned by SBS¹⁸ of the first two rounds examined the outcomes from £20 million of funding offered to 41 Community Development Finance Institutions and used to support 48 different projects.

4.17 The evaluation received responses from 28 of the Institutions that received funding. The evaluation found that 26 of these were newly created directly as a result of Phoenix funding and that by the end of 2003, £5.5 million of the £20 million allocated had been drawn down and issued – a rate of draw down slower than expected. 900 loans had been made at an average size of £6,000 while matched funding levered into the enterprises concerned totalled £7.3 million. Default rates varied significantly across the Institutions between zero and 25 per cent although all were below the Phoenix Fund ceiling of 40 per cent. The evaluation concluded that 616 new businesses had been created, 290 existing business expanded and 1,750 full-time jobs had been created as a result of the Phoenix funding.

4.18 The Community Development Venture Fund was launched in May 2002. The Government is investing £20 million on a pound for pound basis with private sector investors. The Fund aims to stimulate the provision of venture capital to viable small businesses that are located in the 25 per cent most deprived wards in England. The Fund is being managed on a commercial basis by Bridges Community Ventures Limited. As at September 2005, £15.3 million of the possible total £40 million in the fund had been invested. During 2004-05, Government expenditure of £5 million supported investments in

CASE STUDY 4

Support provided by the Phoenix Fund for a new CDFI

The Phoenix Fund provided £600,000 to a new CDFI for lending purposes and £150,000 to cover administrative costs. The CDFI offers loans of up to £10,000 for start-ups and up to £15,000 for businesses operating for less than four years.

The CDFI also offers ongoing business support and counselling and requires those provided with a loan to agree to be monitored by Business Link staff.

At the time of the evaluation in early 2004 the fund had loaned over £500,000 to 53 local businesses of which 60 per cent were start-ups. The scheme had created 245 jobs and safeguarded 113 more.

11 businesses. By September 2005, 17 small businesses had been supported in total. No evaluation of the impacts of the Fund has been undertaken to date.

4.19 The Community Investment Tax Relief was launched in 2003 and allows accredited Community Development Finance Institutions to offer investors five per cent tax relief on the amount they invest in such bodies for five years. SBS manage the accreditation process. In the first year of operation of the relief SBS provided accreditation to 23 Institutions. Five of these bodies actively used their accreditation to raise additional finance.

4.20 At present the Government's schemes designed to improve access to finance assist fewer than 10,000 of the 150,000 small businesses each year that experience difficulties in obtaining external finance, although a survey produced in 2004 indicated that up to 60 per cent of these firms subsequently obtain finance through the market. SBS point out that these schemes have a number of objectives, one of which is to demonstrate to potential investors that commercial returns can be made by investing in the small business equity gap.

4.21 The Government estimated, in its *Bridging the Finance Gap* review, the nature and scale of financing gaps and it has established a large number of schemes to help small businesses access the finance they need. Individual schemes are subject to monitoring and periodic evaluation against their specific objectives. At present, however, it is not clear what effect the Government's actions to improve access to finance are having in addressing the challenges. It is important that the Treasury and the SBS set a process for judging the progress the schemes are making in addressing the financing gap to enable them to assess whether the schemes overall are providing value for money.

18 An Evaluation of Phoenix Fund Support for Community Development Finance Institutions, GHK, May 2004.

PART FIVE

Joined up Government services for small businesses

5.1 SBS is responsible for only a small part of the total Government budget affecting small businesses. To secure a coordinated response to the Government Action Plan, it must influence its partners to adopt appropriate policies. This part reviews the information available on Government support, the quality of SBS's engagement with partners and the arrangements to monitor Action Plan implementation. The part concludes that steps have been taken to improve coordination across Government, but weaknesses exist in the coverage and reliability of information, there is scope for SBS to increase its influence and deepen its relationships with Government partners, and there is a need to strengthen monitoring of Action Plan implementation.

Support for small businesses across Government

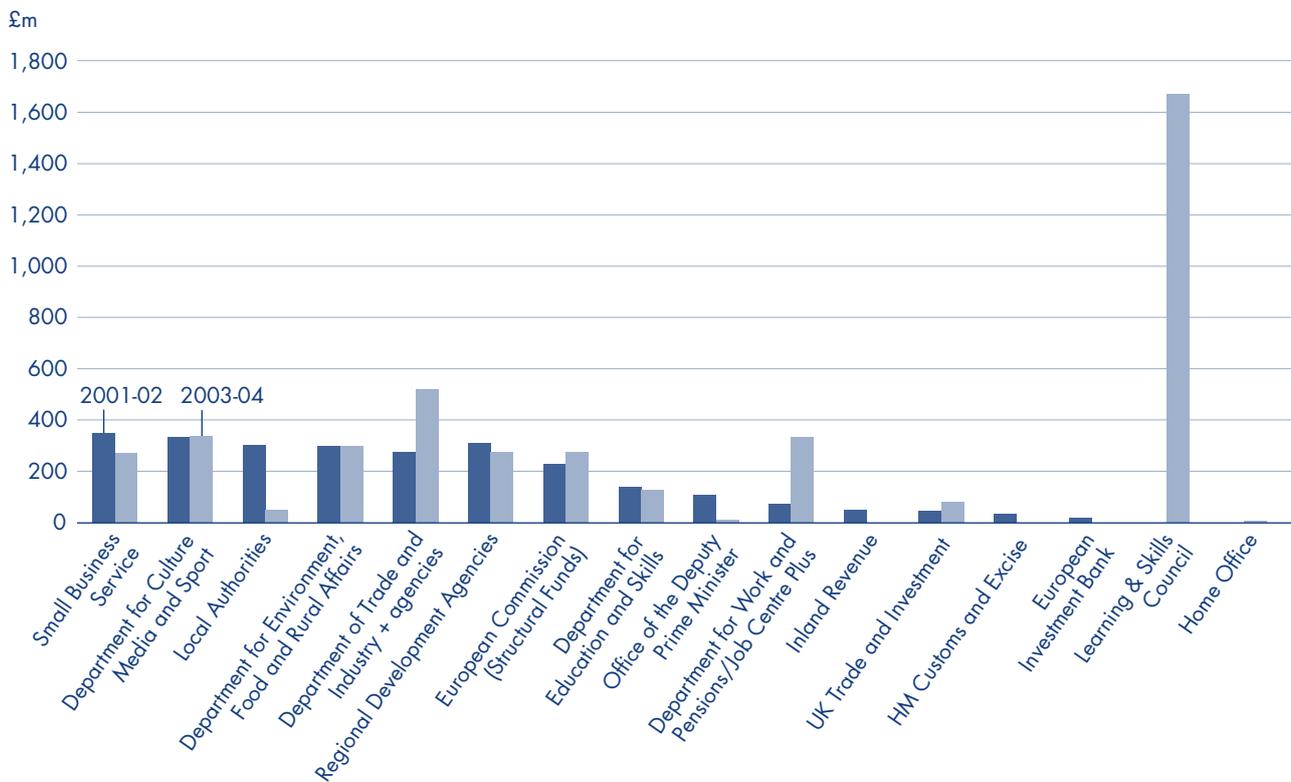
5.2 Departmental management information systems do not routinely identify activities or support directed towards small businesses, and a cross-government view of activities and support can be obtained only through ad hoc exercises. The *Cross Cutting Review of Government Services for Small Businesses*, published in 2002, estimated that Government spent about £2.5 billion a year on services for small businesses, excluding tax measures and Common Agricultural Policy payments in 2001-02. The *Cross Cutting Review* found that support schemes aimed explicitly at small businesses (72 per cent of total expenditure) benefited 10 per cent of all such businesses. It found:

“Different bodies carrying out similar activities for different reasons, and no mechanisms for judging the value of the whole”.

It recommended that better data on expenditure and services across Government should be collected before the next Spending Review in 2004.

5.3 In 2004, SBS commissioned a study of Government support services for small businesses to update the estimate of Government money being spent on services to small businesses. **Figure 12 overleaf** details the level of expenditure in the two reviews. The latest report, published in June 2005, found that financial support for small businesses totalled nearly £4.3 billion in 2003-04. After allowing for transfers of functions between bodies since 2002, overall expenditure levels were similar – with one important exception. The 2003-04 total included £1.7 billion spent by the Learning and Skills Council on vocational training used by small businesses, a category omitted from the earlier review. This report also identified that there were 265 programmes supporting small businesses provided by the 15 central government departments and agencies it had surveyed and over 800 services for small businesses in the three of the nine English regions it had examined. These latter services are provided by such bodies as Business Link Operators, Local Authorities, The Learning and Skills Councils and Enterprise Agencies.

12 Expenditure on Small and Medium-sized enterprises by Government bodies 2001-02 and 2003-04



Source: The Cross Cutting Review of Government Services for Small Businesses (2002) and Small Business Service: Mapping of Government Services for Small Business (2005)

5.4 Assembling even these broad estimates of expenditure proved difficult and time-consuming. And the reliability of some of the more detailed analyses was compromised by a degree of non-response from Government bodies to the questions posed in SBS’s survey. This information is also limited to an estimation of inputs: neither of the reviews aimed to collect data on outputs or the impacts of those Government programmes.

5.5 Recognising the profusion of business support programmes, SBS is now leading work at both a national and regional level to reduce and simplify business support programmes in England. The Budget in March 2006 announced the Government’s intention that the number of support programmes should be reduced from over 3,000 to 100.

SBS’s engagement with stakeholders

Other government departments’ and stakeholders’ perceptions of SBS

5.6 As part of our study, in 2004 we surveyed 25 government departments and agencies that deliver services to small businesses to establish their view of the effectiveness of SBS in overseeing the Government Action Plan and taking forward the Government’s agenda for small businesses. In response to four of the survey questions, 15 respondents thought that SBS was well placed to set the agenda for small businesses across Government but in turn 14 respondents did not consider that in practice SBS was communicating its role and purpose clearly and extensively across Government. More positively, 17 respondents stated that SBS’s work had benefited their department or agency and that SBS was a reliable source of objective information.

5.7 We followed up these results at the end of our study in 2005, to track any changes (**Figure 13**). The results show the original and later assessments for the 16 instances where direct follow-up with an individual or person in a similar post was possible. Overall, there had been a modest improvement in the ratings, with better ratings for communication and expertise offset by lower ratings for SBS's ability to influence a Government-wide agenda.

5.8 We also asked the 12 representative business groups referred to in Part 2 of this report to identify the main barriers to successful implementation of the Government Action Plan. **Figure 14 overleaf** shows that three issues accounted for nearly two thirds of the most

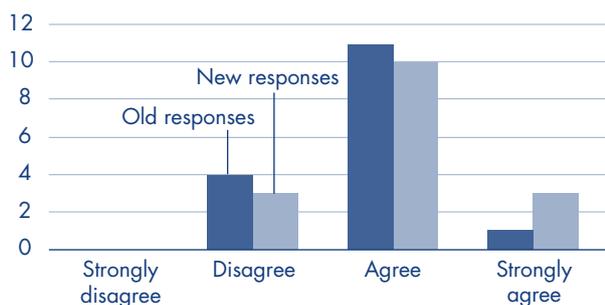
commonly cited barriers: namely ineffective communication and coordination between Government and business, the limited influence of SBS over other government departments and the lack of credibility of SBS and Government generally with small businesses.

5.9 More positively our surveys indicated that SBS has the potential to provide an effective focus for small businesses across Government. For example, 11 of the 12 groups surveyed agreed that SBS understands the small business environment and the issues facing small business owners (**Case Study 5 overleaf**) and that since 2000, when SBS was established, Government's understanding of the small business environment has improved. (**Figure 15 overleaf**).

13 Comparison of original and follow-up responses to our 2004 survey of government departments and agencies

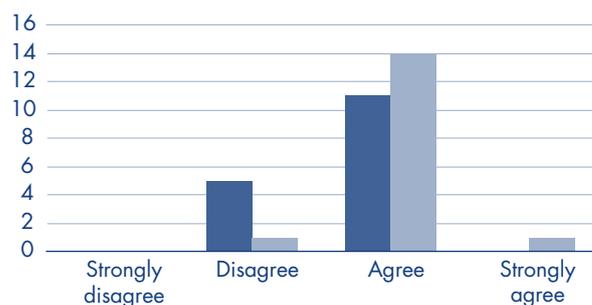
SBS has benefitted your department/agency

Number of responses



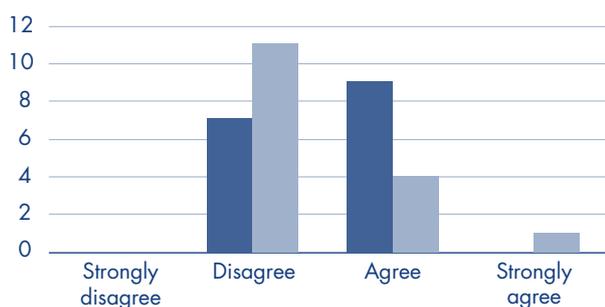
SBS is a reliable source of objective and critical information

Number of responses



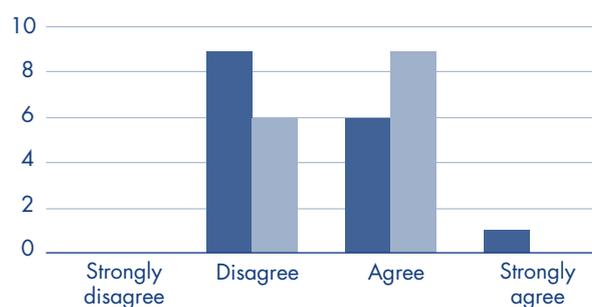
SBS is well positioned to set Government-wide agenda

Number of responses



SBS is good at putting the message across¹

Number of responses

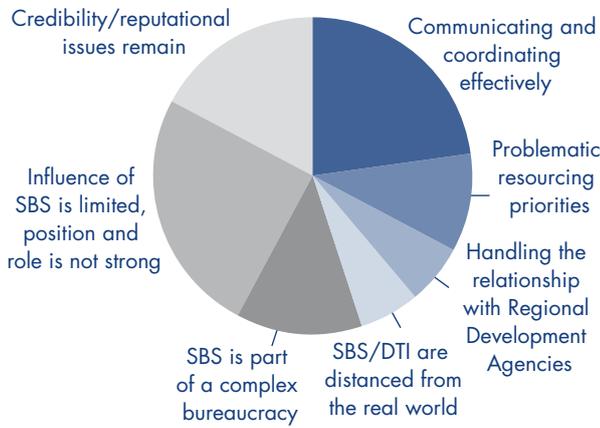


Source: National Audit Office survey of government departments

NOTE

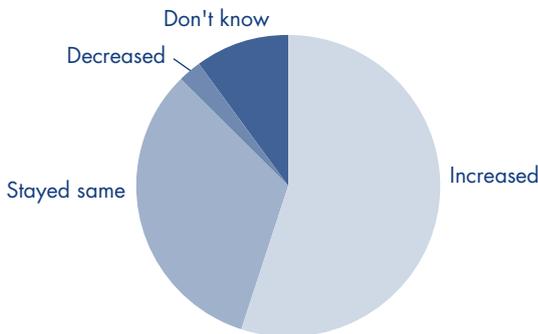
¹ One respondent no longer felt able to comment on this question.

14 Most commonly cited barriers to successful implementation of the Government Action Plan for small business



Source: National Audit Office survey of business representative groups

15 Changes in the extent to which Government understands the concerns of small business



Source: National Audit Office analysis of survey responses from business groups and other government departments and agencies

CASE STUDY 5

The views of representatives of the Federation of Small Business on SBS

"The individuals I have spoken to from SBS have always given me the impression that they have the expertise and the understanding and put across a pragmatic view about what the needs of small businesses are... SBS needs to promote themselves better to businesses and to business organisations like the FSB than perhaps they have done in the past."

"I don't believe that SBS has had time to settle for a reasonable length of working time without a new strategy, without a new vision, without some new idea coming along... The Federation of Small Business wholeheartedly would like to see SBS succeed because it is the only real answer for small businesses."

"I think some of the power has been taken away from SBS and perhaps it would be better if it was given back to SBS so it would have more control over what's happening in the regions".

SBS's relations with key government departments

5.10 In November 2003, SBS decided that developing a successful relationship with nine key Departments would be an essential part of achieving the Government's Action Plan. SBS tasked its directors at board level with developing and agreeing a concordat with each department as a focus for the relationship. Two agreements, with the now merged HM Revenue and Customs, were signed, but SBS has since decided that formal concordats are not necessarily the right way forward with other departments particularly those most focused on policy issues. Until March 2005, SBS made an assessment of the quality of the nine relationships on a quarterly basis and at that date it acknowledged that problems in staffing meant that the refinement of the role of these key relationship managers and the appointment of individuals to the roles had not been undertaken as planned. As a result the Chief Executive of SBS took the lead in maintaining relations with the key departments and the Managing Director of Policy within SBS was given the remit to follow up the lead set by the Chief Executive. SBS has started work to improve its stakeholder engagement more generally, including holding workshops with a number of departments, most notably with HM Treasury.

5.11 The *Cross Cutting Review* also recommended that a senior working group of important service providers across Government be formed to improve the interactions between small business and Government. As a result, the Whitehall Group, chaired by SBS, was formed in July 2002 to improve the coherence and effectiveness of small business policy across Government. Alongside the publication of the Government Action Plan in January 2004 this body was re-formed as the High Level Small Business Group with a focus on improving small businesses' experience of Government services.

5.12 The objectives of the High Level Small Business Group are clearly defined and linked to the seven strategic themes of SBS. The High Level Small Business Group has developed a work plan to support these objectives as the guardian of the Government Action Plan. All the major stakeholders across Government with an interest in small business matters have been involved in the group with the exception of the Regional Development Agencies. The group decided at its meeting in February 2006 that a Chief Executive of one of the Regional Development Agencies should be invited to join the group. They will shortly do so. The group has met regularly since 2004.

5.13 The High Level Small Business Group concentrated on taking forward four work streams:

- Development of the Business Link brand;
- Joining up Government services: developing the businesslink.gov.uk portal;
- The Strategic Alignment of Funding and Targets Project: a project designed to increase awareness of publicly funded support services for small business in areas where such services are less used; and
- The introduction of Common Commencement Dates for new regulations.

These four work streams are related to, but do not represent the totality of, the seven strategic themes set out in the Action Plan. The group's current focus is on the simplification of business support programmes.

5.14 We asked members of the High Level Small Business Group similar questions to those discussed in paragraph 5.6. The responses were broadly favourable: of the six members who responded, all but one thought SBS had benefited their services, and was good at putting its message across. Expertise in small business affairs attracted the highest ratings – this was also reflected in

the qualitative comments we received, where SBS's ability to facilitate communication with small businesses and related bodies were common themes. SBS's positioning to take forward the Government-wide agenda again attracted the lowest ratings, although here there was still a net positive view, in contrast to the findings at working level in paragraph 5.7.

The extent to which Government Departments consider small business issues

5.15 One indicator of the priority that Government Departments attach to the aims and objectives in the Government Action Plan is the extent to which they are embedded in their strategic plans and management information systems.

5.16 We examined the 2004 Public Service Agreements of the 11 major Government Departments involved in formulating the Government Action Plan. In the 2004 Spending Review only the Department of Trade and Industry referred to small businesses in its Public Service Agreement – and that is the Department which sponsors the Small Business Service.

Monitoring progress against the Government Action Plan

5.17 The Government Action Plan sets out the actions required of other departments but the Action Plan was weak on detail, with few targets, milestones or metrics specified that would form a basis for monitoring progress. SBS do not have information on the activities or achievement of the other Departments, except on those activities where SBS has a direct role to play in progressing the projects concerned, such as one on promoting Enterprise in Education where SBS works with the Department for Education and Skills to raise awareness of enterprise in schools.

5.18 As a result of this lack of data, monitoring of Government progress as a whole against the Action Plan is deficient, with attention focused on progress with tasks and discussion of emerging events at the expense of analysis of overall progress towards Government small business aims and objectives. In addition, SBS has not been able to meet the commitment laid out in the Action Plan that it would regularly publish updates of the progress being made against the Action Plan on its website.

PART SIX

Advisory services provided by Government

6.1 The Government provides a range of support to small businesses through many public bodies. This Part examines two such mechanisms operated or overseen by SBS that are designed to facilitate access to Government sponsored or private sources of help and advice. First, there is the network of Business Link Operators in England and secondly, a cross-government web portal designed to provide easy access to a range of government department's websites. Historically, there have been problems with variability in the quality of service offered by Business Link Operators, and with their lack of market penetration. There have also been difficulties in gaining easy access to information on a wide range of relevant services across Government. This part shows that SBS made good progress in addressing these issues, and that the web portal is proving a significant success.

Business Link

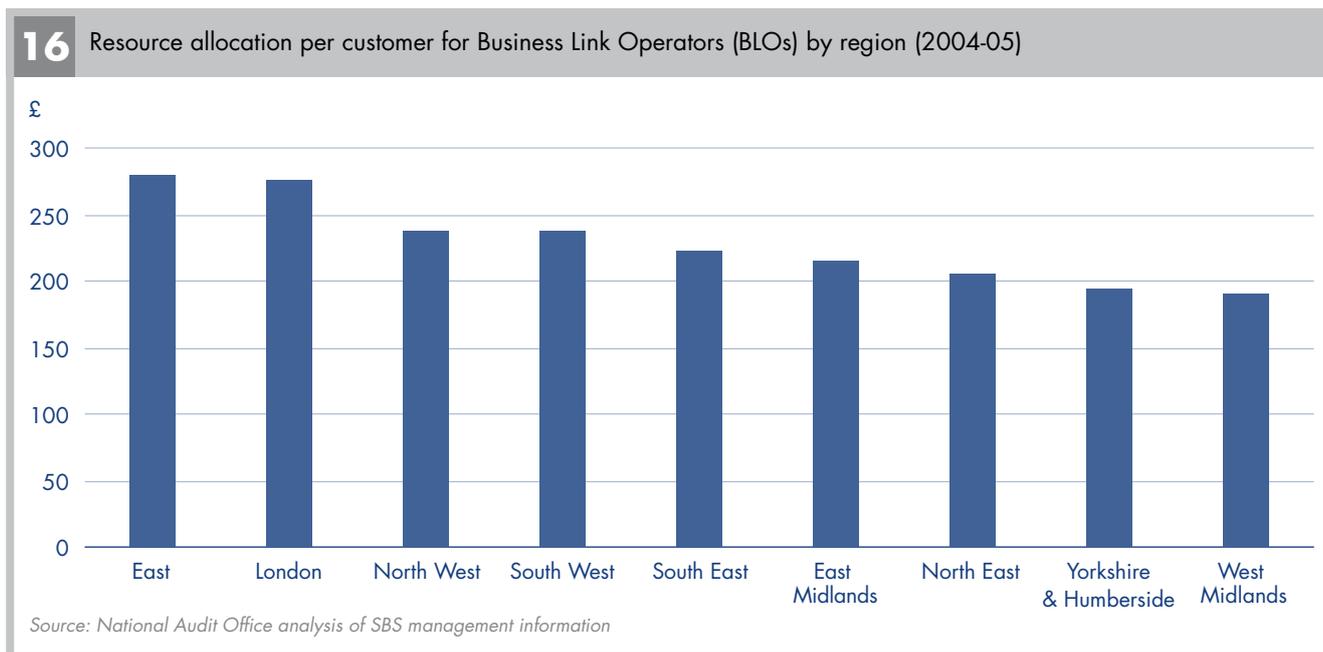
6.2 Until 31 March 2005, SBS was responsible for managing the Government's support for a network of 42 Business Link Operators. These are independent companies which aim to reach out to small and medium-sized businesses and provide them with better access to support services. They provide support and advice to small businesses through both face-to-face contact and by telephone services. Until 31 March 2005, SBS had a contract with each Business Link Operator and monitored performance against that contract. From 1 April 2005, responsibility for establishing and managing performance against contract was transferred to the nine Regional Development Agencies. SBS remains

the owner of the brand and responsible for its strategic direction. Regional Development Agencies now share Business Link performance data with the Business Link Strategy Board – a partnership between SBS and the Regional Development Agencies.

6.3 In 2004-05, SBS's budget for funding the Business Link Operators was £140 million. Funding to each Business Link Operator was calculated mainly by reference to the number of small businesses in its catchment area, along with elements for actual business stock, business start-up rates and social deprivation. As a result Business Link Operators had differing resources available to spend supporting each small business in their area. The funding provided by SBS did not take account of other income available to Business Link Operators to provide services for small businesses nor take into account the volume or quality of services actually provided. **Figure 16** shows that this approach resulted in a wide variation in the unit cost to Government of customers serviced.

The importance of Business Link to customers

6.4 In 2003, an SBS-commissioned survey reported on a variety of factors of potential relevance to customers, analysed to show their relative importance (**Figure 17**). These results reflect high ratings for staff attitudes and quality of service, but also the most common reason for dissatisfaction – the inability to provide relevant information.

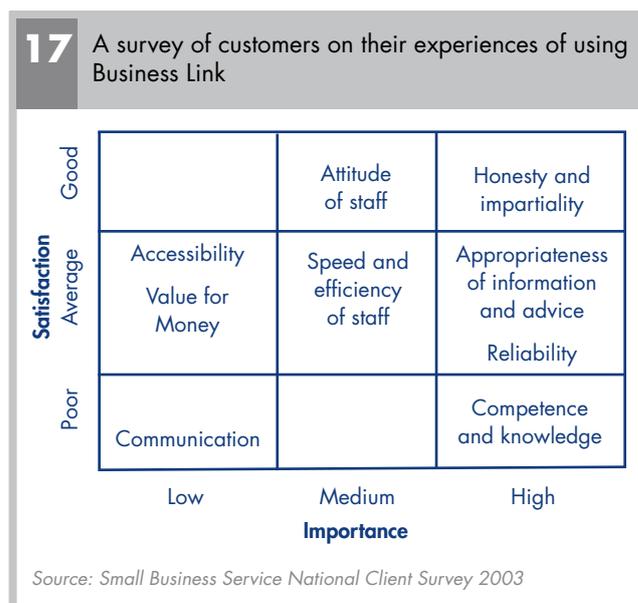


6.5 In addition to those small businesses that used the services offered by Business Link, SBS also surveyed a sample of non-users to find out why they had not used Business Link. The most common response was that they did not consider there was any need to use the services – a finding supported by the fact that more than a third of respondents used other sources of business advice, while a fifth thought Business Link Operators had insufficient expertise in their particular field. On probing, almost half of respondents said that, although aware of Business Link, they did not know the range of services on offer. Just two per cent said that they had heard that Business Link was not very good. The survey consultants identified a need for further promotion of Business Link’s portfolio of services.

The Business Link performance framework

6.6 Historically, the main issues arising from Business Link performance have centred on the wide variation in the volume and quality of services provided by Business Link Operators. In response, SBS developed a performance measurement framework which measures the performance of each Business Link Operator in three ways. Two elements have been in force since 2001-02 – namely market penetration (a measure of the relative number of small businesses within their area with which

Business Link Operators have had significant contact in any year), and the level of customer satisfaction expressed by users of the service. A third element, measuring the Gross Value Added by the work of Business Link Operators to the performance of small businesses was launched in 2004. At the insistence of SBS, this measurement framework was retained by the Regional Development Agencies when they took over responsibility for managing Business Link in April 2005.



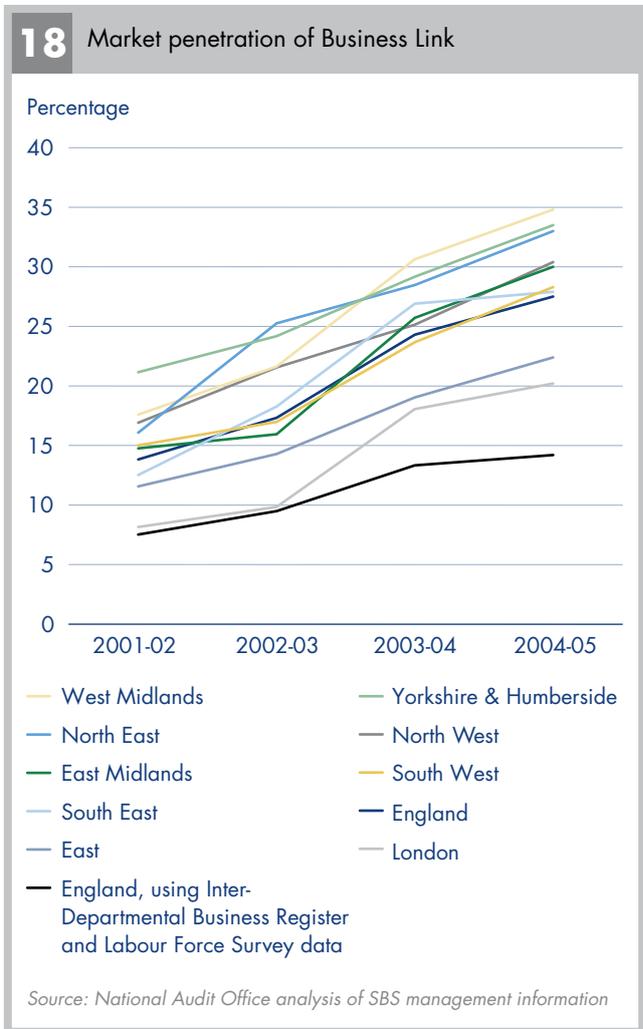
The market penetration achieved by Business Link

6.7 Business Link Operators helped nearly 492,000 existing businesses in 2004-05 and over 172,000 pre-starts – that is people who were interested in starting a business. Market penetration is the percentage of small businesses in their area that Business Link Operators have helped in a given year. On the basis of these figures average Business Link Operator market penetration more than doubled from 6.6 per cent in 2001-02 to 14.2 per cent in 2004-05, a period during which SBS funding of Business Link Operators fell in real terms. This statistic cannot be broken down to individual Business Link Operators, however, and so cannot be used in SBS’s monitoring framework. Instead, SBS set and reported targets for Business Link Operators, and for overall performance, by reference to the Inter-Departmental Business Register. While this is the most comprehensive list of businesses used by Government it captures about half of all small businesses. It can, however, be analysed by Business Link Operator areas and so has been used to inform Business Link Operator performance monitoring, and as the basis for national targets. As a result, targeted and reported market penetration was almost double the levels shown above – moving from 13.8 per cent in 2001-02 to 27 per cent in 2004-05. From 2003-04 SBS also published a measure of Business Link Operator penetration which added contact with pre-starts to the total of contacts made with existing small businesses. Using this way of calculating the rate of penetration, SBS reported a total penetration figure of 37 per cent in 2004-05 up from 33.9 per cent in 2003-04.

6.8 Figure 18 shows the reported penetration rate achieved in each region for each year to 2004-05. It shows that an improving performance is common to all regions, although there are differences in average market penetration between regions. SBS has not analysed the reasons for such variations, but suggests that there is some correlation between funding levels and the level of penetration achieved in different regions, while on the demand side there are cultural differences in the willingness of small businesses to use business support services. Businesses in the North East Region, for example, appear to be far more inclined to use any such services – whether public or private – than small businesses in London.

Customer satisfaction with Business Link

6.9 Measurement of the Business Link network’s performance on customer satisfaction also changed since measurement began in 2001. For 2000-01, performance was measured by using findings from a report by MORI which found that 74 per cent of users were satisfied with the service. From 2001-02, Business Link Operators employed a market research agency to conduct a sample survey to measure progress towards its customer satisfaction target. Data from the Business Link Operators showed that from October 2001 to September 2002 over 80 per cent of their customers were ‘fairly’ or ‘very’ satisfied with the service they received and in the four years to 2004-05 customer satisfaction rates either met or exceeded the target and stood at 90 per cent in that year.



6.10 There are, however, some areas where the survey methods for obtaining data on customer satisfaction could be improved:

- samples do not have to reflect the proportions of different types of customer;
- the level of non-response from businesses approached was not recorded in survey results and the possible significance of bias from non-response was not explored; and
- methods for aggregating Business Link Operator survey results do not take account of the number of customers within each Business Link Operator area.

A single survey would improve the consistency of the data and, we estimate, save around £250,000 a year.

6.11 Notwithstanding these issues, the close contract management of Business Link Operators undertaken by SBS led to significant improvements in customer satisfaction performance, particularly among the weaker performers with a consequent reduction in the variability of performance between individual Business Link Operators. For example, the range in performance of Business Link Operators in the West Midlands region varied between 64 and 84 per cent in 2001-02. By 2003-04 this variation had reduced to between 86 and 88 per cent.

6.12 Customer satisfaction rates measured on this basis are now at a very high level. Other measurement methods can highlight different quality issues. For example, SBS undertook a series of five surveys of the opinions of small businesses (the forerunner of its Annual Small Business Survey) between August 2001 and autumn 2002 which showed satisfaction rates climbing from 56 per cent to 71 per cent by the final survey. These surveys confirmed the trend for improving customer satisfaction, if at different absolute levels from the Business Link Operator surveys. SBS also commissioned a National Client Survey in 2003 which showed that satisfaction with Business Link Operators was 63 per cent. These surveys asked different questions and used different rating scales from those in the Business Link-run surveys, which may explain part of the difference. But other differences may also be important – such as the time from the contact with Business Link Operators to the time of the survey, or the association of quality of service questions with questions about impacts on business performance.

The benefits of using Business Link

6.13 In 2004, SBS piloted a method to assess a third aspect of Business Link performance: the additional benefits that accrue to those businesses which have used Business Link services, known as Gross Value Added. In 1998, a value for money review compared the performance trends of users and non-users of Business Link Operators and found that, for the majority of indicators, using Business Link made businesses perform better. During the three-year period covered by the research, the average small firm increased in size by 0.4 jobs, increased its turnover by £76,000, profits by £9,000, net assets by £13,000 and its exports by £6,000 if it had received Business Link support, compared to the performance of those businesses that had not used Business Link. Contact with business associations suggests that Business Link Operators are particularly valuable in helping start-ups and new businesses (**Case Study 6 overleaf**). SBS has commissioned a further evaluation of the economic impact of the Business Link network to be published later in 2006. The first full year of results from the existing measures of value added were produced for 2004-05. These showed strong performances from some Business Link Operators but also significant variations in performance. Business Link Operators do not yet have targets for the performance they should achieve for the measures of value added.

6.14 More generally, the measurement of all aspects of Business Link Operator performance is currently being reviewed by the Regional Development Agencies and SBS as all parties consider that the current performance measures do not accurately capture the real value of the Business Link brand to business.

Transferring the management of Business Link Operators to the Regional Development Agencies

6.15 As part of its policy to increase regional and local management of services and local decision making, in March 2004, the Government announced that it was going to transfer responsibility for oversight of Business Link Operators from SBS to the Regional Development Agencies. The change was designed to integrate Government's support for small businesses more effectively within regional economic strategies. The Regional Development Agencies also took over responsibility from SBS for administering grants for research and development for small businesses, having already taken over responsibility for the Enterprise Grant Scheme in 2004.

6.16 In 2003, SBS piloted the transfer of responsibility for overseeing Business Link Operators to the Regional Development Agencies in three of its nine regions – North West, East Midlands and West Midlands. An independent evaluation of the pilots found an impressive range of development activity but identified “a lack of tangible evidence of change in any of the regions to date”.¹⁹ Despite this reservation the transfer of responsibilities in the remaining six regions took place with effect from 1 April 2005 although no cost benefit analysis of the proposed change was produced. The Small Business Council was “particularly unhappy” at the decision to introduce the transfer of the Business Link Operators to the Regional Development Agencies “without any consultation”.

6.17 As a result of the transfer of responsibilities for the Business Link Operators to the Regional Development Agencies and as part of its plan to reduce its overall size SBS disbanded its regional teams of over 130 staff. From April 2005, SBS has instead had nine National Policy Director posts – one tasked to develop links in each region. These post holders work with key stakeholders in the regions to ensure that the regional economic strategies take account of the needs of small businesses and ensure that the evidence and knowledge the post holders glean from the regions are fed into national policy making on small business issues. The post holders have a direct link with the rest of SBS’s senior management by being an integral part of SBS’s new policy development team.

Businesslink.gov.uk

6.18 Businesslink.gov.uk is a web portal which went live in April 2004. Its purpose is to offer a one-stop, online service which provides free and easy access to all the information and advice which is available for small businesses from across Government. The idea is that businesses can click onto the website and gain immediate access to all the information they need to help their business succeed, including links to over 8,000 pages of Government services and information.

6.19 A number of key government departments and agencies were involved in the creation of the web portal including the Department of Trade and Industry, HM Treasury, HM Revenue and Customs, Companies House, the Department of the Environment, Food and Rural Affairs and the Department for Education and Science. SBS has been responsible for overseeing the development and introduction of the web portal which has been hosted by British Telecom. SBS forecast that developing and running the website cost £49.9 million from 2002-03 to 2005-06.

6.20 Between April 2004 and March 2006 the web portal received over 15.4 million ‘hits’ – significantly above the target for that period of 12.9 million. In a survey of a thousand users of the web portal which took place in September to November 2004, 60 per cent of respondents found the website either extremely useful/relevant or very useful/relevant. Only six per cent found it not very useful/relevant while 89 per cent of respondents said they would recommend the portal to other potential users. The website won the gold award in the International Visual Communication Association’s 2004 awards for best business communications in its website category and in August 2005 won an award from the United Nations for best e-content application for business in the United Kingdom. It received 5.6 million unique visitors in the 12 months to 31 March 2006.

CASE STUDY 6

The views of the Federation of Small Business on what Business Link Operators can offer

“I think Business Links are absolutely brilliant for ‘business start-ups’. If I was starting up a business I’d be knocking on their door straight away... For business start-ups there’s just so much available for them at Business Link”.

“Business Links is definitely the place to go to for start-ups”.

“We are seeing that it’s more likely to be newer businesses that are more likely to ask the Business Link service for advice”.

“I think that if Business Links were taken away, you would see a reduction in the creation of new businesses”.

19 Regional Business Support Pilots Evaluation Stage 2, ECOTEC, March 2004.

APPENDIX ONE

Study methodology

The study addresses questions about the strategic management of SBS, the Government's small business agenda and progress towards associated key targets; and a more detailed examination of progress in four key areas – access to finance, regulation, joined-up services, and advisory services. The methods set out below apply to a large extent to all the questions, but the policy review and survey material relates mainly to the questions on strategic performance and joined-up services.

Documentary and literature review

Government policy and plans have been set out in a succession of policy papers, and associated reviews and plans. We reviewed this material, and in particular the *Cross-Cutting Review of Government Services for Small Business*, and *Small Business and Government – the Way Forward*, both published in 2002; the 2004 Government Action Plan for Small Business and associated Evidence Base, and a 2005 follow-up to the *Cross-Cutting Review*. We also reviewed material associated with the downsizing of SBS and its reorientation towards a policy rather than service delivery role. Internal SBS plans and monitoring reports were also important sources, together with evaluation reports of assistance schemes. This material gave a good view of Government and SBS views on the issues facing small businesses, of Government policy, and on SBS views of progress.

To gain a broader view on the small business scene, we reviewed 60 articles, books and studies and identified common and recurring issues and themes on starting and growing small businesses and small business support in the United Kingdom and overseas. While this material offered different perspectives on the issues facing small businesses, it confirmed that the issues identified by Government were in broad accordance with those raised by commentators.

Surveys

Government runs several large-scale, professionally designed and managed surveys involving small businesses. They include surveys run by the Office for National Statistics and Government Departments as well as SBS. We drew on this work in assessing progress towards Government objectives and in assessing satisfaction with Government services: we considered running a similar survey ourselves, but small businesses have complained about the burdens of official surveys, and we decided that there would be little value added.

We ran two small surveys of expert audiences to fill gaps in knowledge and to consider issues specific to SBS's performance. We surveyed 25 government departments and agencies which have significant contacts with SBS and provide support for small businesses. We contacted staff designated as "small business champions", or staff with considerable dealings with SBS, in summer 2004 to ascertain their views on:

- Whether SBS is well placed to set the agenda for small business across Government;
- Whether SBS is communicating its role and purpose well across Government;
- Whether SBS had clearly benefited the work of the department or agency on small business matters; and
- Whether SBS is a reliable source of objective information on small business matters.

We followed-up their responses in late 2005 to see if their views had changed and received 16 responses that we could directly compare with the first survey.

The original survey had a response rate of 96 per cent (25 respondents replied from a sample of 26).

Respondents:

The Patent Office; The Office of Government Commerce; Companies House; The Cabinet Office; The Department for Regulatory Impact Assessment; Inland Revenue; HM Customs and Excise (now HMRC); The Department for Environment, Food and Rural Affairs; HM Treasury; The Insolvency Service; The Environment Agency; The Department for Education and Skills; The Design Council; The Countryside Agency; The Arbitration and Conciliation Advice Service; The Department of Culture, Media and Sport: creative industries and tourism divisions; The Office of the Deputy Prime Minister; The Department of Work and Pensions; The Home Office; and five Learning and Skills Councils.

We also asked key members of the Whitehall High Level Working Group for their views on the work of SBS and its position in Government and received six responses.

The second survey was of groups who represent small businesses or have major links with small businesses. We sought information on the following issues:

- The main needs of small businesses from Government;
- The main barriers to successful implementation of the Government Action Plan for small businesses;
- Whether SBS can be an effective focus for small business issues across Government;
- Whether SBS understands the issues facing small businesses; and
- Whether Government’s understanding of those issues has improved since the SBS was formed in 2000.

The questionnaire was sent to 18 groups of which 15 people replied from 12 organisations.

Respondents:

The Home Business Alliance; The British Chambers of Commerce; The Confederation of British Industry; three Enterprise Agencies on behalf of the National Federation of Enterprise Agencies; The Ethnic Minority Business Forum; The Federation of Small Business; The Forum for Private Business; The Institute of Business Advisers; The Institute of Chartered Accountants; The Institute of Directors; Prowess; The Small Business Bureau; and The Small Business Council.

Visits to Regional SBS Offices and Business Link Operators

We visited SBS regional offices in Yorkshire and Humberside, the North West and the East of England to interview staff from SBS, Government Offices, Regional Development Agencies, Business Link Operators, and other stakeholders such as Learning and Skills Councils, Enterprise Agencies and Business Groups. This enabled us to explore the issues arising from the surveys and the literature review, to discuss local access to and delivery of business support services and to evaluate the integration and performance of the SBS teams in the regions. The regions were chosen to cover a range of small business circumstances, and to reflect some regions which had participated in the trial transfer of SBS regional staff to the Regional Development Agencies.

Case studies

We chose four case studies in areas of importance to both Government and business representatives: regulation and policy; access to finance; joined-up services; and advisory services.

For the case study of SBS influence on the development of regulations and policies affecting small businesses the majority of the structured interviews were carried out on our behalf by PricewaterhouseCoopers. We investigated the quality of the relationships between SBS and colleagues in other government departments, looked for the outputs of joint work, and explored examples of good practice and areas for improvement.

The study of joined-up services drew heavily on our survey of small business champions in Government Departments, and on analysis of high-level Departmental plans and targets.

All the case studies made use of SBS policy documentation, planning and monitoring systems, and, where available, programme evaluation studies.

Expert advisers

The NAO is grateful to experts on small business matters who provided advice and guidance throughout the Value for Money examination. A list of its members is shown in **Figure 19**.

19 Membership of Expert Panel

Graham Bannock	Founder of Bannock Consulting and author of several publications on small business issues
James Brathwaite, CBE	Chairman of the South East England Development Agency
Peter Cleasby	Skills and Rural Enterprise Division, Department for Food, Environment and Rural Affairs
Neal Landsberg	Managing Director, Marketrite Ltd
Professor Monder Ram, OBE	Professor of Small Business, De Montford University. Member of the Government's Small Business Council
Phil Burgess	Former Chief Executive of Business Link Operator, (BLO) now a consultant on small business matters

We are also grateful to the British Chambers of Commerce, for the use of its Database of Regulatory Impact Assessments, prepared by Tim Ambler (London Business School) and Francis Chittenden and Chanyeon Hwang (Manchester Business School).

We are also grateful to representatives of the Federation of Small Business who provided assistance with the completion of the report.

APPENDIX TWO

Chronology of changes to the Small Business Service and business support

Changes in Year:	2000	2001	2002
The role of SBS	<p>Small Business Service is created as an agency of DTI to champion small businesses within Government and to make the United Kingdom the best place in the world to start and grow a business.</p> <p>Nine regional management teams established.</p>	<p>smallbusiness/europe established in Brussels to strengthen the voice of United Kingdom small businesses in Europe.</p>	<p>New SBS Chief Executive appointed. SBS publishes its strategy entitled <i>Small Business and Government – The Way Forward</i>. This embraces seven strategic themes which replace SBS’s previous four priorities.</p>
DTI/Government inspired changes and SBS management changes	<p>Small Business Council established to be the voice of small businesses.</p> <p>Enterprise Grants replace small-scale Regional Selective Assistance Grants, delivered by Government Offices.</p>	<p>Responsibility for Regional Supply Offices transfers to Regional Development Agencies.</p> <p>Business Incubation Fund launched.</p> <p>Business Link University launched.</p> <p>Development Fund for Rural Renewal launched.</p>	<p>The Cross-Cutting Review of Government Services for Small Business is published. This sets out a cross-Whitehall agenda for supporting small businesses.</p> <p>Early Growth Fund launched.</p> <p>Regional Venture Capital Funds launched.</p> <p>SBS takes over delivery of Enterprise Grant Scheme delivered via SBS regional teams (instead of Government Offices).</p> <p>SBS takes over delivery of Smart Scheme.</p>
Business Link Operator contracts	<p>Business Link network is reduced from 83 Business Link partnerships with over 240 outlets to 45 Operator areas (England).</p>	<p>Business Link national contact centre created.</p> <p>Business Link Operator Inspections begin.</p>	<p>Business Link national contact centre closed.</p> <p>Business Link Operator Inspections replaced by business performance reviews.</p> <p>New Business Link Operator performance management framework put in place.</p>

2003	2004	2005
<p>SBS staff move from Government offices and are co-located with the Regional Development Agencies (RDAs) in eight of nine regions.</p> <p>SBS publishes its <i>No Nonsense Guide to Government Rules and Regulations</i>.</p>	<p>SBS staff functions are moving from delivery to policy influencing.</p> <p>SBS's Chief Executive undertakes size and structure review which confirms SBS as a centre of small business expertise across Government.</p>	<p>New SBS structure adopted. Staff numbers fall to 190 by the end of 2005-06.</p> <p>SBS Regional Teams close. New SBS Regional posts created.</p> <p>SBS publishes its <i>No-Nonsense Guide to Small Business Finance and Finance for Higher Growth companies</i></p>
<p>DTI introduces plan to reduce number of DTI business support schemes from over 100 to less than 20.</p> <p>Grants for Incubation Studies introduced.</p> <p>Grant for Research and Development launched as the successor to the SMART scheme.</p>	<p>Government Action Plan published to be co-ordinated by SBS, includes many cross-departmental actions.</p> <p>High-Level Whitehall Group of senior civil servants to oversee progress against the Action Plan is established.</p> <p>Inaugural UK Enterprise Week involving many government departments.</p> <p>National Council for Graduate Entrepreneurship launched.</p> <p>Enterprise Grants/Regional Selective Assistance transferred to Regional Development Agencies. (Selective Finance for Investment in England.)</p>	<p>Responsibility for oversight of grants for Research & Development transferred to Regional Development Agencies.</p> <p>Enterprise Capital Funds launched.</p>
<p>Brokerage Model is outlined for Business Link Operators.</p>	<p>Launch of www.businesslink.gov.uk web portal to improve small business access to government departments and services.</p>	<p>Transfer of the management of Business Link Operators to the Regional Development Agencies.</p>

APPENDIX THREE

Published SBS evaluation reports and their main findings

Title of report	Main findings
<p>Evaluation of the RDA Business Support Pilot (report issued May 2004). The report examined the pilot schemes established in three of the nine regions to test the transfer of responsibilities for overseeing the work of Business Links from SBS to the Regional Development Agencies.</p>	<p>There is a lack of tangible evidence of change in any of the regions to date (but) there is an impressive range of development activity. The pilots acted as a stimulus to debates nationally and within non-pilot regions regarding improvements to business support. For all regions the early developmental stages have taken longer than expected.</p>
<p>Evaluation of the Investment Readiness Demonstration Projects and Fit4 Finance. This report was published in June 2004. It covered six Demonstration projects and the Fit4Finance scheme.</p>	<p>Participating small businesses were positive about their involvement in the projects and the majority said they were “very satisfied” or “satisfied”. The initial awareness raising stage delivered tangible benefits in terms of an increased understanding of the financing options and interest in equity.</p>
<p>Early Assessment of the Company Rescue Scheme Pilots. Report issued in February 2003. It examined the concerns that a large number of small businesses are being wound up due to a lack of appropriate support mechanisms.</p>	<p>The support provided has assisted in providing small and medium-sized businesses facing difficulties with access to support to meet their immediate problems and prevent their failure. There is evidence in all pilot areas that the support has succeeded in preventing businesses from failure. It remains to be seen whether client businesses will go on to achieve long-term survival.</p>
<p>Evaluation of the Teacher Company Scheme. The report was issued in September 2002. The report examined projects completed between 1 April 1997 and 31 March 2001. Expenditure in that period was £84.5 million.</p>	<p>The Teacher Company Scheme is attracting innovative companies as company partners. 63 per cent of companies involved believed that the technical objectives of the programme were fully or almost fully met, only 39 per cent felt this had been achieved on the commercial objectives.</p>
<p>Evaluation of the Phoenix Development Fund. This report was issued in November 2004 and examined 80 projects set up under the fund.</p>	<p>The report identified that the Fund had helped 12,000 people in disadvantaged areas to think of setting up an enterprise of which 2,770 had actually started up, and 3,175 people had been helped to expand their enterprise. There was a wide range in the cost of interventions and in the cost of achieving results between projects.</p>
<p>Assessment of the Development Fund for Rural Renewal. This report was issued in April 2004 and examined the outputs of 18 projects that received funding from the fund.</p>	<p>The Fund was set up to support enterprise in areas disadvantaged as a result of the Foot and Mouth outbreak of 2001. The majority of the projects have demonstrated identifiable and potentially sustainable benefits which have translated into maintained or increased turnover. Value for Money was not a part of the study.</p>
<p>Evaluation of City Growth Strategies. This report was issued in April 2004 and examined the model and processes for establishing seven City Growth Strategies and their impacts.</p>	<p>Seven ‘cities’ (four in London, three elsewhere) were supported to develop City Growth Strategies: a strategy for regeneration with the development of business at its core. The evaluation found that all the strategies are coherent and viable but concluded that it was too early to provide definitive conclusions on the impact of the strategies.</p>
<p>Evaluation of Phoenix Fund Support for Community Development Finance Institutions (CDFI). This report examines the success of funding through two rounds of Phoenix fund support for CDFIs.</p>	<p>CDFI offer funding for clients in areas where traditional banks do not usually penetrate. The evaluation shows that the programme has had a major and positive impact on the role of CDFIs. The economic analysis indicates that CDFI activity is relatively efficient in terms of the public sector costs required to generate employment in disadvantaged communities but this analysis is constrained by the lack of clear accounting and reporting costs by CDFIs.</p>