



House of Commons
Committee of Public Accounts

Supporting Small Business

Eleventh Report of Session 2006–07

*Report, together with formal minutes, oral and
written evidence*

*Ordered by The House of Commons
to be printed 22 January 2007*

HC 262
[incorporating HC 1300, Session 2005-06]
Published on 6 February 2007
by authority of the House of Commons
London: The Stationery Office Limited
£0.00

The Committee of Public Accounts

The Committee of Public Accounts is appointed by the House of Commons to examine “the accounts showing the appropriation of the sums granted by Parliament to meet the public expenditure, and of such other accounts laid before Parliament as the committee may think fit” (Standing Order No 148).

Current membership

Mr Richard Bacon MP (*Conservative, South Norfolk*)
Annette Brooke MP (*Liberal Democrat, Mid Dorset and Poole North*)
Greg Clark MP (*Conservative, Tunbridge Wells*)
Rt Hon David Curry MP (*Conservative, Skipton and Ripon*)
Mr Ian Davidson MP (*Labour, Glasgow South West*)
Mr Philip Dunne MP (*Conservative, Ludlow*)
Helen Goodman MP (*Labour, Bishop Auckland*)
Mr John Healey MP (*Labour, Wentworth*)
Mr Sadiq Khan MP (*Labour, Tooting*)
Mr Edward Leigh MP (*Conservative, Gainsborough*)
Sarah McCarthy-Fry MP (*Labour, Portsmouth North*)
Mr Austin Mitchell MP (*Labour, Great Grimsby*)
Dr John Pugh MP (*Liberal Democrat, Southport*)
Don Touhig MP (*Labour, Islwyn*)
Rt Hon Alan Williams MP (*Labour, Swansea West*)
Iain Wright MP (*Labour, Hartlepool*)

The following were also Members of the Committee during the period of the inquiry:

Angela Browning MP (*Conservative, Tiverton and Honiton*)
Kitty Ussher MP (*Labour, Burnley*)

Powers

Powers of the Committee of Public Accounts are set out in House of Commons Standing Orders, principally in SO No 148. These are available on the Internet via www.parliament.uk.

Publications

The Reports and evidence of the Committee are published by The Stationery Office by Order of the House. All publications of the Committee (including press notices) are on the Internet at <http://www.parliament.uk/pac>. A list of Reports of the Committee in the present Session is at the back of this volume.

Committee staff

The current staff of the Committee is Mark Etherton (Clerk), Philip Jones (Committee Assistant), Emma Sawyer (Committee Assistant), Anna Browning (Secretary), and Luke Robinson (Media Officer).

Contacts

All correspondence should be addressed to the Clerk, Committee of Public Accounts, House of Commons, 7 Millbank, London SW1P 3JA. The telephone number for general enquiries is 020 7219 5708; the Committee’s email address is pubaccom@parliament.uk.

Contents

Report	<i>Page</i>
Summary	3
Conclusions and Recommendations	5
1 Assessing the impact of government support for small business, and reducing its complexity	7
2 The burden of regulation on small business and access to finance	11
3 SBS's influence across government	14
Formal Minutes	16
Witnesses	17
List of written evidence	17
List of Reports from the Committee of Public Accounts Session 2006–07	18

Summary

In 2000, the Small Business Service (SBS) was established as an Executive Agency within the Department of Trade and Industry (the Department), responsible for overseeing government policies and plans for small businesses and delivering some business support services. On 26 October 2006, the Minister for Industry and the Regions announced that the SBS would be reformed to operate as a policy unit within the DTI's Enterprise and Business Group focusing on influencing the business environment and supporting entrepreneurs, but shedding its executive agency status and losing its service-delivery role to regional partners such as regional development agencies.

The SBS has been accountable for the Public Service Agreement (PSA) objective "to build an enterprise society in which businesses of all sizes thrive and achieve their full potential". In pursuing this objective, the SBS has had three PSA targets: an "increase in the number of people considering going into business"; to "improve the overall productivity of small firms"; and "more enterprise in disadvantaged communities". Of the £2.6 billion the Government has spent on supporting small businesses each year, the SBS has spent less than 15%. The SBS has had no formal authority over the 15 government Departments involved in small business support.

Given the large number of small businesses in England, the many sectors in which they operate and the variety of economic, social and government influences to which they are subject, any moves to improve small business performance are inherently complex. In an effort to reduce that complexity and help deliver quality support to all small businesses, the SBS created a performance framework bringing together multiple objectives, targets and strategic themes. Unfortunately, the resulting performance framework is complex. In particular, it has been difficult to see how success with the strategic themes would lead to the achievement of the targets, and how achieving targets would, in turn, satisfy the Government's aims and objectives.

The Government Action Plan for Small Business, designed to take forward the Government's objectives for small businesses, did not identify which bodies were responsible for the listed actions, or the scale of resources they would commit. The Action Plan required sharpening to make Government bodies accountable for their contributions and to highlight the need to rationalise support schemes.

There have been a number of shortcomings in relation to the SBS's involvement with government regulation. Although small businesses are dissatisfied with the volume and complexity of, and frequent changes to, regulation, the Government has no official statistics on the national cost to business of regulation or on the overall burden of compliance. The SBS's contribution towards the development of regulation and policy has been mixed, with cases where the SBS has been fully involved in ensuring regulations take small business priorities into account but other cases where it has not.

Many small businesses cannot obtain market finance, and the default rate for the Small Firms Loan Guarantee Scheme has been so much greater than the commercial rate it is not certain that the Scheme has promoted the generation of viable businesses.

The SBS's performance in influencing government for small business has been mixed. Although the SBS has stated that its position within "the Whitehall village" has enabled it to promote small business within government, there is evidence that influence has been limited. While measuring the SBS's performance in its influencing role is inherently challenging, the SBS lacks a system with which to assess its success as an "influencer".

On the basis of a report by the Comptroller and Auditor General (C&AG)¹, the Committee took evidence from the Small Business Service about its work influencing government on behalf of small business and delivering business support services.

1 C&AG's Report, *Supporting Small Business*, HC (2005-06) 962

Conclusions and Recommendations

- 1. Since we took evidence from the Department, the Government has announced that the SBS will be reformed as a smaller policy unit within the DTI, focused on influencing policy affecting small business.** The old SBS failed to convince us that it was contributing cost-effectively to the achievement of Government objectives for small business, so we endorse its downsizing. The new, smaller unit will need to do better than the old in showing that its benefits exceed its costs.
- 2. The Government's small business support network of around 3000 national, regional and local programmes is too large and complex.** Many small businesses find it difficult to understand and access the various support schemes, while the administrative costs to small businesses of dealing with so many different programmes are unnecessarily high. The Government announced in the 2006 Budget that it intended to cut the number of small business support programmes from 3000 to fewer than 100. The Department needs to take the lead by drawing up an action plan with milestones to achieve this objective, and coordinating government-wide action to that end.
- 3. The SBS, and the Government as a whole, has not been able to evaluate its impact against government aims and objectives for the small business sector.** Although the SBS was on course to meet two of the three PSA targets for the small business sector, indicators do not clarify whether the SBS had made progress because of its own or other government actions to support small business, or because of general factors such as the overall performance of the economy. The Department should take the lead in evaluating the Government's overall impact against its objectives for small businesses.
- 4. There are no official statistics on the national cost of regulation on small business.** The Government has embarked on a costing exercise to measure the burden of regulation on business, and a baseline should soon be established. As the Better Regulation Executive assesses regulatory burdens and the potential for cuts, the Department should ensure that small business circumstances are fully taken into account by consulting small businesses and offering their perspective on the impact of regulations.
- 5. There is a wide gap between the commercial default rate for small business and the default rate under the Small Firms Loan Guarantee Scheme.** The Graham Review of the Small Firms Loan Guarantee Scheme estimates that the Scheme has a default rate of 35% compared with a commercial default rate for small business of 4%. The Scheme's high default rate is partly attributable to intervening when the market will not but, with a default rate so much higher than the commercial rate, it is questionable whether the Scheme is best calculated to promote the generation of viable businesses. There needs to be a substantially higher proportion of viable outcomes among businesses assisted by the Scheme.
- 6. It has been difficult to assess the performance of the SBS in its role influencing the work of other government bodies, and the few indicators that exist have offered a mixed picture.** Many Departments have not consulted the SBS in a timely

manner before producing regulations that could affect small businesses, and there has been wider uncertainty over the SBS's progress in influencing government bodies to deliver better regulation. Government Departments and agencies have considered the SBS to be a reliable source of information, but poorly positioned to set the government-wide agenda on small business.

7. **The Government's Action Plan for small business lacks accountability as it does not identify which bodies are responsible for which actions or the scale of change required.** It also says nothing about the need to rationalise support schemes. The SBS have not published Action Plan progress updates on their website as they said they would. The Action Plan should be revised to clarify which bodies are accountable for actions, and the Department should publish updates on progress on their website.

1 Assessing the impact of government support for small business, and reducing its complexity

1. Over 99% of all businesses in the United Kingdom are defined as small (with fewer than 50 employees) or medium-sized (with 50 to 249 employees) businesses,² they have a combined annual turnover of about £1039 billion, and they are found in all sectors of the economy. Given this diversity and scale, how well small businesses perform is affected by a wide range of factors, including the quality of government support. In 2000, the Department of Trade and Industry (DTI) established the Small Business Service (SBS) to work alongside the rest of government to make the United Kingdom the best place in the world to start and grow a business. The SBS pursued this aim by attempting to influence the rest of government and by delivering some services. On 26 October 2006, the Minister for Industry and the Regions announced that the SBS would be reformed to operate as a policy unit within the DTI's Enterprise and Business Group focusing on influencing the business environment and supporting entrepreneurs, but losing its 'next steps' executive agency status and its service-delivery role.

2. The SBS created a performance management framework (**Figure 1**) to pursue its vision for small business. The framework is comprised of three aims, three targets, and seven strategic themes.³ The Government's three aims for small business were originally set out in the 2002 policy paper *Small Business and Government—the Way Forward*: “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”; and “a supportive business environment with all small businesses finding it easy to respond to government and access its services”. The PSA objective for which the SBS has responsibility—“to build an enterprise society in which businesses of all sizes thrive and achieve their full potential”—contains three targets for achievement by 2008. These are: an “increase in the number of people considering going into business”; to “improve the overall productivity of small firms”; and “more enterprise in disadvantaged communities”. The seven strategic themes are to:

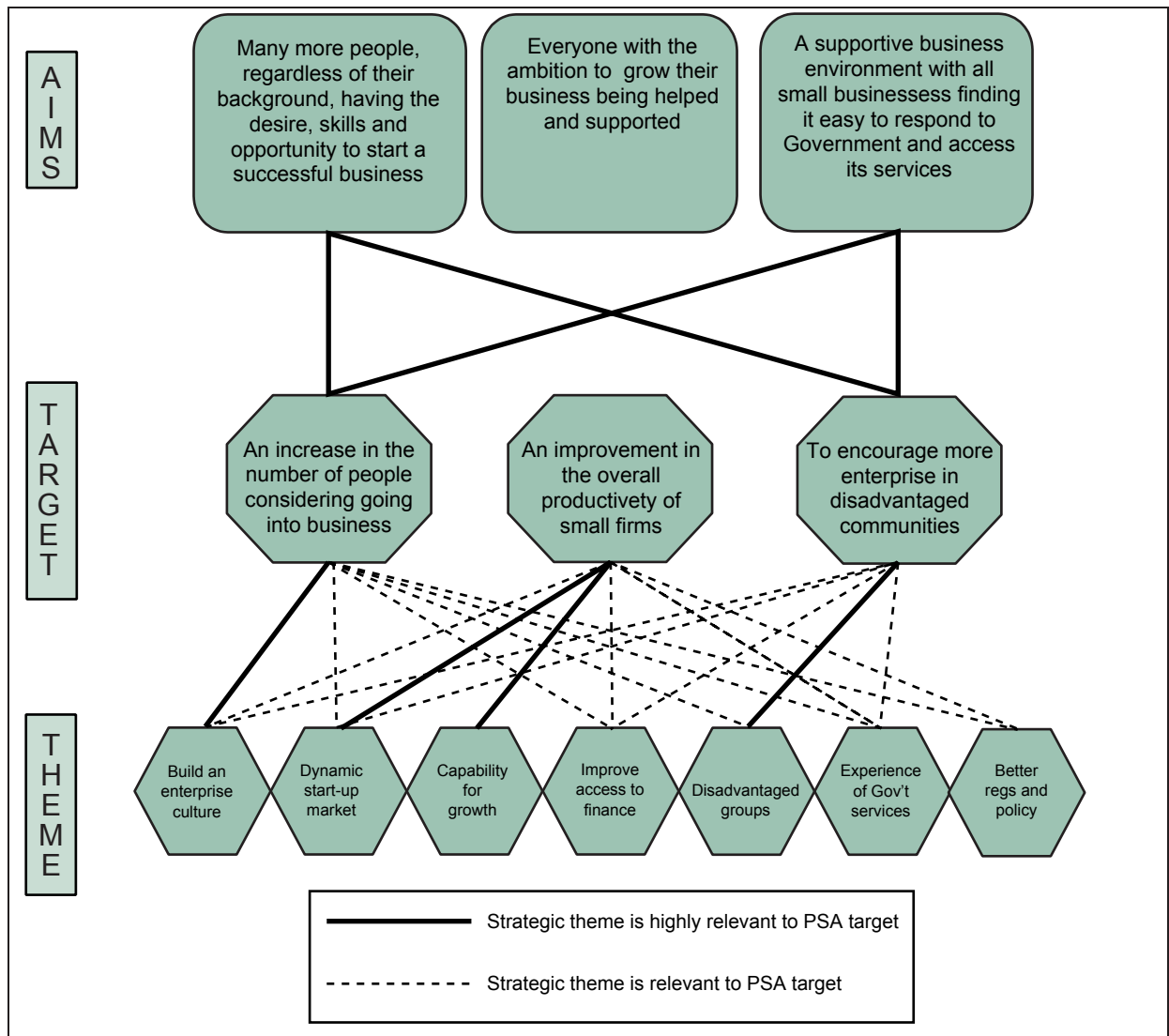
- “build an enterprise culture”;
- “encourage a more dynamic start-up market”;
- “build the capability for small business growth”;
- “improve access to finance for small businesses”;
- “encourage more enterprise in disadvantaged communities and under-represented groups”;

2 C&AG's Report, para 1

3 C&AG's Report, para 4

- “improve small businesses’ experience of government services”; and
- “develop better regulation and policy”.

Figure 1: The Small Business Service’s performance framework



Source: National Audit Office

3. However, the complexity of the performance management framework can make it difficult to assess the SBS's progress in supporting small businesses. For example, as there is no direct correlation between the strategic themes and government aims and targets, satisfying each of the strategic themes still may not be sufficient to meet all the government aims and targets. Furthermore, as many of the actions that would be needed to achieve the PSA objective for which the SBS is responsible are the responsibility of other parts of government, the performance of the SBS depends to a large degree on the performance of the rest of government.

4. The SBS has not been able to evaluate either its impact, or that of government overall, against government aims and objectives for the small business sector. In the evidence to the Committee, the SBS acknowledged that its cost-effectiveness was a key issue for the first time and stated that in 2004–05 it had generated a return of £2 for every £1 of programme expenditure and £8 for every £1 it spent on administration;⁴ but these cost-effectiveness ratios emerged only at our hearing, had previously played no part in SBS plans, key targets or reporting, and had not yet been independently verified. Any independent assessment would have had to consider, for example, whether these analyses took adequate account of the impacts of the interventions by other government bodies to support small business, which represented the majority of programme expenditure.

5. The SBS is on course to meet two of the three PSA targets for the small business sector. There has been progress to improve the overall productivity of small firms, with the productivity of small and medium sized businesses growing at a faster rate than all firms' productivity between 1999–2000 and 2001–02, but falling behind again in 2002–03.⁵ In line with the second PSA target, there are indications that more enterprise has been encouraged in disadvantaged communities, with the gap in VAT registrations between the most deprived and the least deprived areas of England falling by more than 5% between 2000 and 2003.⁶ However, these indicators do not clarify whether the SBS has made progress on these two PSA targets because of its own or other government actions to support small business, or because of general factors such as the overall performance of the economy. The SBS has not made progress in meeting its third PSA target to increase the number of people thinking about going into business, with the proportion of working adults considering starting their own business falling from the 2001 baseline of 11.6% to 11.3% by 2003.⁷ However, having set the original target on the basis of just one year's figures, the SBS decided that the target was unrealistic.⁸ The SBS subsequently reduced the original target from 14% by 2006 to 12.3% by 2008.

6. A cross-cutting study performed as part of Spending Review 2002 showed that the Government spent about £2.5 billion a year on at least 294 services for small businesses. Similar research sponsored by SBS reported that in 2003–04, 15 central government Departments provided 265 programmes to support small businesses in England. A survey of three of the nine English regions identified over 800 further services being provided at a local level.⁹ SBS admits this position is very complex, making it difficult for customers to access business support and inefficient and ineffective for government.¹⁰ SBS stated that it had persuaded the Treasury to include in this year's budget plans a target for the reduction of business support programmes across England from nearly 3,000 programmes to fewer

4 Q 9

5 C&AG's Report, para 2.7

6 C&AG's Report, para 2.8

7 C&AG's Report, para 2.6

8 Qq 53-56

9 C&AG's Report, para 5.3

10 Q 2

than 100 by 2010.¹¹ The SBS should co-ordinate government wide action to achieve this reduction target.

7. The Government Action Plan for Small Business was published in January 2004. The Plan builds on *Small Business and Government—the Way Forward*, identifies seven strategic themes, and consists of a range of ‘actions’ to be taken by government Departments to support small businesses. The SBS was charged with ensuring the implementation of the Action Plan. However, the SBS has not reported publicly on progress as originally intended, because it could not successfully manage changes in its information technology.¹² According to the SBS, the Action Plan launched 69 ‘actions’ of which 46 are complete, 7 are still ongoing and 16 have been superseded by other programmes. But the Plan does not set out which bodies are accountable for these ‘actions’, many of the ‘actions’ are vague, and it is questionable whether progress against them can be measured reliably. The Action Plan also contained 21 ‘measures of success’ and the SBS has indicated progress on 75% of them.¹³ The SBS has not, however, indicated how small businesses themselves have benefited from the Action Plan.

11 Q 3

12 Qq 60-62

13 Q 10

2 The burden of regulation on small business and access to finance

8. Small business representative groups identified better regulation and better access to finance as their priorities for government action.¹⁴ Surveys by the Federation of Small Businesses, amongst other organisations, have consistently found that small businesses are particularly dissatisfied with the volume and complexity of regulation and the frequent changes in legislation that affect business.¹⁵

9. The Government currently has no official statistics on the national cost to business of regulation or on the overall burden of compliance.¹⁶ The absence of such figures makes it impossible to set targets for managing and ultimately reducing the burden. The SBS said that it had helped to persuade the Government to embark on an exercise to measure the burdens of regulation, which is now almost complete.¹⁷ The Confederation of British Industry (CBI), however, thinks the SBS has not delivered on the issue of better regulation and stresses the negative impact that regulation has on the growth of the small business sector.¹⁸

10. The SBS's contribution towards the development of regulation and policy has been mixed. There are cases where the SBS has been fully involved in ensuring regulations take small business priorities into account. The SBS also has some anecdotal evidence of individual examples of its influence on regulations.¹⁹ But SBS cannot provide systematic analysis or evidence that the standing of the SBS has improved since the NAO undertook its initial work in 2004.²⁰ In many cases SBS involvement in the development of regulation and policy has been limited, often because the departments did not consult the SBS in a timely manner.²¹ It is telling, however, that neither the SBS nor six out of eleven departments surveyed by the NAO have been able to quantify any reduction in the burden of regulation as a result of SBS interventions.²²

11. A significant proportion of small firms still find it difficult to obtain the finance they need either to help to start up or to grow. The United Kingdom has one of the most developed financial markets in the world but the Government has identified a number of gaps in the market which means that the 'right' amount or the 'right' type of finance is not always available, for reasons unconnected with the viability of any particular proposal. SBS surveys have shown that around 20% of small businesses which were starting up or in their infancy and had sought an unsecured bank loan had found it difficult to raise the finance

14 C&AG's Report, Figure 4

15 C&AG's Report, para 3.2

16 C&AG's Report, para 3.3

17 Q 12

18 Ev 12

19 Qq 34, 52

20 Qq 35-41

21 C&AG's Report, para 9

22 C&AG's Report, para 3.9

they needed. The figure is slightly higher for new businesses, defined as those less than three years old. In total, around 150,000 small businesses face problems in seeking finance each year.

12. Most of these businesses eventually find some form of market finance, while some proposals do not merit support. At the hearing, the SBS estimated that each year only about 23,000 firms with viable business proposals could not find appropriate market finance.²³ The SBS extrapolated this figure by stating that of the 150,000 firms initially experiencing difficulties in obtaining finance, 80,000 found finance from a second source. Of the remaining 70,000 still unable to obtain funds, the SBS estimated that 42,000 (60%) did eventually obtain some from another source. SBS further estimated that 23% of the remaining 28,000 firms did not have viable business plans, leaving between 22,000 and 23,000 firms with viable plans that could not obtain market finance. The SBS argued that supporting “10,000 out of 23,000 is not bad going”. However, the reliability of the SBS’s estimates has not been confirmed. The SBS has not, for example, clarified its understanding of a “viable business proposal”. There is a lack of clarity as to the difference between the 80,000 the SBS says eventually found finance despite difficulties and the 42,000 that went on to obtain finance from other sources. And there is no confirmation that the 10,000 firms assisted by the SBS came from the 23,000 firms with viable plans unable to find market finance, and not from the wider pool of 150,000 small businesses that found it difficult to obtain finance.

13. Government support to improve access to finance takes two main forms. First, the long running Small Firms Loan Guarantee Scheme provides support for businesses which find it difficult to access debt finance. Secondly, a variety of venture capital funds and similar support schemes, which are part-funded by the Government and part-funded by the private sector, provide additional equity and capital funding.

14. The SBS has accepted that the high default rate of businesses assisted through the Small Firms Loan Guarantee Scheme is an issue. With a default rate so much higher than the commercial rate, it is questionable whether the Scheme is best calculated to promote the generation of viable businesses. However, the SBS considers that the objective of the Scheme is to encourage the banks to lend in areas of risk they would not normally accept. Following recent changes to the Scheme, it should be easier to understand where the banks are lending and the reasons for the default rates. The SBS hopes that lenders’ experiences with the proportion of borrowers that do not default would encourage them to lend on commercial terms without a guarantee,²⁴ but lenders are hardly likely to do so while default rates remain many times higher than the commercial norm.

15. On equity finance, the Government estimated that in 2003, of some £4 billion of equity finance invested in the United Kingdom, only 2% was invested in start-up companies and 5% in other early stage companies. The Government’s conservative estimate was that 6,000 to 12,000 small businesses a year were not obtaining the equity finance they required. In response, the Government has set up a number of schemes designed to stimulate an increased flow of private capital to mitigate this equity gap for new and growing businesses,

23 Q 14

24 Q 29

drawing on a mix of public and private funding. Figure 2 details the funds concerned and the number of companies helped by each of the schemes in 2004–05. SBS said that the number of companies helped by the schemes was less than 1,000²⁵. The figures show that in 2004–05 they assisted just 175 businesses. The Government has recently begun to establish a series of further funds, known as Enterprise Capital Funds, to help more businesses.

Figure 2: The number of small businesses supported by Government backed equity funds in 2004-05

Name of Fund	Firms supported in 2004–05	Government investment in 2004–05 (£m)
Regional Venture Capital Funds	61	20.0
UK High Technology Fund	38	19.3
Early Growth Funds	65	5.3
Community Development Venture Fund	11	5.0
Totals	175	49.6

Source: C&AG's Report, paras 4.9 and 4.18

3 SBS's influence across government

16. The SBS was only ever responsible for a small part of the total government budget that provided support to small businesses and it had no formal authority over the actions of other government bodies. Since its creation in 2000 it has undergone a gradual transition from being a deliverer of services to influencing government to take appropriate actions to support small businesses.

17. In evidence, the SBS considered that a key factor in securing influence was to remain part of “the Whitehall village”, rather than be outside it as a non-departmental public body. The SBS also felt that as an Executive Agency of the DTI, instead of being a unit within the Treasury or Cabinet Office, the SBS had the advantage of being within the Department responsible for creating the conditions for business success.²⁶ From April 2007 the SBS will lose its executive agency status and operate as a policy unit within the DTI's Enterprise and Business Group, responsible for influencing policy affecting small businesses.

18. The SBS has stated that its position within “the Whitehall village” has enabled it to sound the alarm bell over the complexity of small business support, leading to plans to streamline support;²⁷ to advocate the adoption of Dutch good practice to reduce regulatory burdens; and to persuade DEFRA to abandon plans to change regulations concerning the permitted angles of ramps used to load livestock into lorries that would have been costly for some small businesses.²⁸

19. Surveys of departmental officials' views have shown an increasing respect for SBS expertise.²⁹ Two-thirds of SBS staff have worked in small businesses and a quarter of those had set up or run their own business.³⁰ A NAO survey found that the vast majority of government departments considered the SBS to be a reliable source of objective and critical information.

20. These examples are, however, counter-balanced by evidence of more limited influence. Although 90% of new regulations affecting small businesses were subject to a meaningful Small Firms Impact Test as part of the Regulatory Impact Assessment process in 2004, the SBS nonetheless fell short of its target of 100%.³¹ The SBS did not judge the quality of the Test, and there was no formal process whereby the SBS identified which regulatory proposals were most likely to affect small businesses. Of greater concern, however, is that Departments considering new regulations consulted with the SBS at an appropriate time in only half the cases reviewed by the C&AG. The surveys which demonstrated respect for SBS expertise showed a declining regard for its ability to set the Government's agenda on small business issues.³²

26 Q 11

27 Q 3

28 Qq 12, 52

29 C&AG's Report, para 5.7

30 Ev 5, Note to Q 23

31 C&AG's Report, para 3.6

32 Q 42 and C&AG's Report, para 5.7

21. Organisations outside government have also expressed doubts about the extent of SBS influence. The CBI questioned whether the SBS had the power and attributes to ensure that the needs of small business were understood across government, or to implement initiatives so that they would benefit small businesses. The SBS disagreed but accepted that it does not always get its message across well to others, and has not been successful at showing where it has intervened to stop measures that could have been damaging to small business.³³

22. The SBS is without a system with which to assess its success as an “influencer”, although the very nature of the influencing role does not easily lend itself to performance measurement. At present, however, stakeholders inside and outside government have little insight into the wider value of the SBS. That deficiency has been compounded by the lack of good indicators on other issues that matter to business, such as the burden of regulation. The lack of good indicators not only makes it difficult to assess and communicate the SBS’s achievements, but can also prevent lessons from being learned about the need for SBS interventions, and their effectiveness.

Formal Minutes

MONDAY 22 JANUARY 2007

In the absence of the Chairman, Mr Don Touhig was called to the Chair

Mr Richard Bacon
Annette Brooke
Mr Philip Dunne
Helen Goodman

Mr Sadiq Khan
Mr Austin Mitchell
Mr Iain Wright

A draft Report (Supporting Small Business), proposed by the Chairman, brought up and read.

Ordered, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 22 read and agreed to.

Conclusions and recommendations read and agreed to.

Summary read and agreed to.

Resolved, That the Report be the Eleventh Report of the Committee to the House.

Ordered, That the Chairman make the Report to the House.

Ordered, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134.

[Adjourned until Wednesday 24 January at 3.30 pm.]

Witnesses

Monday 19 June 2006

Mr Martin Wyn Griffith, Chief Executive, **Ms Katrina Reid**, Director of Analysis and **Mr Rory Earley**, Director of Investment and SME Finance, Department of Trade and Industry's Small Business Service

Ev 1

List of written evidence

CBI

Ev 12

List of Reports from the Committee of Public Accounts Session 2006–07

First Report	Tsunami: Provision of support for humanitarian assistance	HC 25
Second Report	Improving literacy and numeracy in schools (Northern Ireland)	HC 108
Third Report	Collections management in the National museums and galleries of Northern Ireland	HC 109
Fourth Report	Gas distribution networks: Ofgem's role in their sale, restructuring and future regulation	HC 110
Fifth Report	Postcomm and the quality of mail services	HC 111
Sixth Report	Gaining and retaining a job: the Department for Work and Pensions support for disabled people into work	HC 112
Seventh Report	Department for Work and Pensions: Using leaflets to communicate with the public about services and entitlements	HC 133
Eighth Report	Tackling Child Obesity—First Steps	HC 157
Ninth Report	The Paddington Health Campus Scheme	HC 244
Tenth Report	Fines Collection	HC 245
Eleventh Report	Supporting Small Business	HC 262

Oral evidence

Taken before the Committee of Public Accounts

on Monday 19 June 2006

Members present:

Mr Edward Leigh, in the Chair

Mr Richard Bacon
Greg Clark

Helen Goodman

Sir John Bourn KCB, Comptroller and Auditor General and Mr Nick Sloan, Director, National Audit Office, were in attendance and gave oral evidence.

Mr Marius Gallaher, Alternate Treasury Officer of Accounts, HM Treasury was in attendance and gave oral evidence.

REPORT BY THE COMPTROLLER AND AUDITOR GENERAL SUPPORTING SMALL BUSINESS (HC 962)

Witnesses: **Mr Martin Wyn Griffith**, Chief Executive, **Ms Katrina Reid**, Director of Analysis and **Mr Rory Earley**, Director of Investment and SME Finance, Department of Trade and Industry's Small Business Service, gave evidence.

Q1 Chairman: Good afternoon and welcome to the Committee of Public Accounts; I do apologise for the late start of our session today. Today we are considering the Comptroller and Auditor General's Report *Supporting Small Business* and we welcome Martin Wyn Griffith who is the Chief Executive of the Small Business Service. Would you like to introduce your colleagues?

Mr Wyn Griffith: I should. This is Ms Katrina Reid who is the director of the research and analytical unit in the Small Business Service and this is Mr Rory Earley who is director of our SME finance directorate who, I hope you have been briefed, is suffering from a pretty severe back problem at the moment and is advised to stand.

Q2 Chairman: Perhaps we can start at the complexity of these programmes and look at page 27, paragraph 5.3 of this report. It says towards the bottom of that paragraph 5.3 "This Report also identified that there were 265 programmes supporting small business provided by the 15 central government departments": 265 programmes. How are small businesses supposed to deal with 265 programmes?

Mr Wyn Griffith: I agree that it is an incredibly complex situation and what we have is 265 funding streams and thousands of schemes and interventions with small businesses. Successive governments have created and presided over this for a long time. The end result, as far as we are concerned, is an inaccessible business support system for customers that is inefficient and ineffective for government.

Q3 Chairman: So what are you doing about it?

Mr Wyn Griffith: What we have done, and this is a measure of the influence that SBS has had actually had in Government, is to raise the alarm bell in Government that this situation existed. Government was singularly unaware of this complexity until we came along and pointed it out and brought all the players in Government together, got the buy-in of officials and ministers, persuaded the Treasury and in my Budget letter to the Chancellor recommended that he set a target for the reduction of this complexity, to get 3,000 business support schemes down to fewer than 100 by 2010.

Q4 Chairman: I could ask why it has not already been done, but I suppose that would be unfair, would it?

Mr Wyn Griffith: It is fair to ask that question at this point.

Q5 Chairman: This problem has been around a long time.

Mr Wyn Griffith: It has been around a long time and it is time to get to grips with it.

Q6 Chairman: And you are the man to do it, are you? You have the bit between your teeth, have you?

Mr Wyn Griffith: Yes, we do have the bit between our teeth and a very able team and we have set up a substantive programme to take it on.

Q7 Chairman: Let us look at some of the complexity again. Let us look at figure three on page 12 of this Report "The Performance Framework set for Small Business Service" and figure four "A comparison of the needs of small business with SBS's strategic

 Small Business Service

themes” and drawing little lines from “The top seven needs of small business” across to “SBS’s seven strategic themes”. It almost looks like a test set for my nine-year-old son at school. It is incredibly complicated, is it not? Is it really necessary to have such a complex framework?

Mr Wyn Griffith: I do agree that it appears extremely complex, especially as portrayed in this chart in figure four, but I can assure you that the framework for enterprise policy is based on a very sound economic rationale and, in fact, if you ask Professor David Storey, one of the world’s experts on enterprise and entrepreneurship policy at Warwick Business School, he will tell you that this is one of the clearest and the most coherent enterprise policies in the world. No-one is as advanced as the UK is.

Q8 Chairman: Why do you use vague themes such as, in the right-hand column, “Building the capability for small business growth”? Why do you not just talk about a better trained workforce, which actually means something to small business?

Mr Wyn Griffith: Each and every one of those seven strategic themes addresses the market failures that we have identified as existing and although it is pleasing that the top seven needs of small business correspond and correlate quite well, it nonetheless is the case that Government’s policy needs to take on board all of the drivers of enterprise in the economy because we are trying to increase productivity in the economy. If we have identified the correct market failures, which we have, then it is a question of how we describe them. To take the example you have given me, building the capability for small business growth is about workforce development, but it is about a number of other things as well. It is about promoting innovation, it is about investing in R&D and a number of other issues. Yes, we could have an even more complex picture with a very long list of things that we are trying to do within those boxes, but we have tried to simplify it as best we can.

Q9 Chairman: On value for money, which is mentioned in paragraph 11 of the executive summary, it says “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”. If you do not evaluate your impact, how can we tell whether you are providing value for money?

Mr Wyn Griffith: Again I completely agree with you and I noted your press notice at the time of the publication of this Report. I agree with you wholeheartedly, especially as, to somebody who has come in from business like I have, have run my own business, the idea that you could not do a cost benefit analysis and know that you were getting a return on your investment seems to me to be anathema. The fact of the matter is that over the last five years we have done more than 50 evaluations on our programme budget and I can tell you, if you take the year 2004–05, in which we had a budget of around £300 million, that we can demonstrate from those evaluations, which cover 80% of the programme budget, that we returned net impact to the economy

of between £600 and £700 million, a factor of 2:1. If we then take our administration budget of £10 million, we can compare that with net savings to business that our people have helped generate through various interventions of £85 million, so we get a ratio of 8:1 in terms of return on investment, which is not bad.

Q10 Chairman: Let us look how effective you are being. If you look at page 9, paragraph 1.6 says “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”. Who is taking these actions?

Mr Wyn Griffith: All of the different government departments are taking those actions. There are 69 particular activities which have been in motion. I can tell you that 46 of those are now complete, that seven are still live and that 60 are now superseded by other projects and we are monitoring. There are 21 measures of success attached to that action plan and we have been monitoring all of them. It so happens that there is positive progress on 75% of those 21 key performance measures.

Q11 Chairman: You are a small executive agency in the DTI. Just how much clout do you have within Government? Would it not be better perhaps if you were located within the Treasury?

Mr Wyn Griffith: There are those who argue that if we were in the centre, either in Treasury or in Cabinet Office, we would have more weight, more clout. I certainly should argue that being inside the Whitehall village, close to ministers, supporting ministers and working with ministers to get things done is a positive advantage and a positive lever compared, say, with being outside the Whitehall village, constructed as a non-departmental public body. The advantage we have being sited in the DTI is that this is the Department which has as its purpose to create the conditions for business success, so we are united as one family in so doing. The advantage of us being an agency within the DTI is that we are focused on small business issues and needs whereas the Department has to balance the needs of employers, employees and consumers. There are strings to the bow of being an agency and there are strings to the bow of being within the DTI.

Q12 Chairman: What worries me about this, when you talk about your clout being within the DTI, is just how much you know about what is going on amongst your clients. If you look at page 17, paragraph 3.3, there is an extraordinary statement. “There are currently no official statistics on the national cost to business of regulation or the extent of the burden of compliance although in the Budget of 2005 the Government announced an initiative”, *et cetera, et cetera*. Why are there no official statistics on the national cost to business of regulation? This is a fairly key point, is it not? You are supposed to be the great champion of small business in the DTI. What are you doing about it?

Small Business Service

Mr Wyn Griffith: What we have done about it is champion the need to have not only a better regulation executive with the support of a Cabinet sub-committee chaired by the Prime Minister, but also played our part in persuading Government to embark on a major costing exercise measuring the burdens on business. That project is under way; it is almost complete. PWC are doing the lion's share of the work and KPMG are doing the work related to HM Revenue and Customs. Soon now a baseline will be established. We actually persuaded Government that this Government should pursue the Dutch standard cost model and set a target for the reduction of the burdens on business based on that baseline and the Government have announced that they will do that. We have done a number of things in terms of our clout to make a difference in that area. May I please clarify that the Better Regulation Executive is there to pursue the better regulation agenda? Our role is to make sure that departments take on board the needs and issues affecting small business and act on them. We do that to the best of our ability, given that we are a relatively small agency.

Q13 Chairman: Let us look at one practical example of something you could do, equity finance. This is dealt with in part four on page 23, paragraphs 4.5 and 4.6. This is quite crucial. There is an estimated unmet demand amongst small businesses for help with equity finance of perhaps 6,000 to 12,000 firms annually. How many firms did you actually help? A couple of hundred? You are just scratching the surface, are you not?

Mr Wyn Griffith: A few more than a couple of hundred.

Q14 Chairman: With equity finance?

Mr Wyn Griffith: Yes. In equity finance it is fewer than 1,000. May I just take you through the rationale here? May I just set in context this bald statistic, as stated in paragraph 4.20, that we have assisted fewer than 10,000 of the 150,000 small businesses each year that experience difficulties in obtaining external finance? For starters, we know from our evidence and research that three quarters of all businesses seeking finance in a year do so successfully with no problems from their first source. We estimate that 150,000 experienced difficulty obtaining finance from their first source. We also know that 80,000 obtained some finance or they obtained all their finance, but with difficulties, and that leaves us with a balance of 70,000, of which 60%, as the Report says in paragraph 4.20, go on to obtain finance from other sources. So we are left actually with 28,000 businesses who neither obtain finance from their first nor other sources. You will understand also that a number of propositions are put by businesses to either banks or to equity investors that are simply not viable, either because of a poor track record or because the plan is not up to scratch or whatever. Our evidence base says that approximately 23% of those propositions are non viable. So we are left with 22,000 viable but rejected propositions and, as the report says, yes, okay, we

have assisted fewer than 10,000 but nonetheless 10,000 out of 22,000 to 23,000 is not bad going. May I also say that it is not our role to be a state bank and we are not in the business of handing out grants? We are here to pump prime the private sector market and to co-invest alongside private equity players.

Q15 Chairman: What about the Business Link organisations mentioned in paragraph 6.7? They serve 14% of businesses annually. There is a website up and running now, so is it not about time this organisation had its funding cut?

Mr Wyn Griffith: I would argue not. It is a national service which works in several channels to market. One is that businesses actually need and want someone to talk to on what we call the face-to-face channel, that is face to face. Equally people are increasingly accessing the information they need on-line and that is good for them because it is quick, it is available 24 hours a days and it is cheap for Government. The percentage of the population which has been using the internet in the last 12 months is now at 65%; that is adults over 15. That is a significant penetration rate for web and interestingly broadband now at 35% penetration in the last five years. There is absolute reason to what you are saying: we are seeing an increase in take-up of the on-line channel and it is going to be important to maintain that and build on that success. Equally, we need to make sure that the advisers on the ground are still there and available to provide information, advice, to those who want to access it in the face-to-face channel.

Q16 Chairman: Let me just sum up. We have some arrangements which you accept are very complex. I question how much clout you have within Government. You have great difficulty apparently evaluating your own programmes. Instead of just having so many programmes and having people talking to each other all the time, having meetings about what has performed better, why not rationalise them down to 12 programmes which business can understand and get on with, 12 simple programmes which might actually achieve something?

Mr Wyn Griffith: That is exactly what we are embarking on in the business support simplification programme and that programme is based on the DTI experience of the last few years where we managed to reduce 200 schemes that the DTI were running down to fewer than 10. It is actually seven now and we are getting better impact and better value for money by doing that. We have taken that experience and we in the Small Business Service were intricately involved in that process within DTI. We led much of the work and are taking that out across Government. It is actually a measure of our influence and clout in Government that every major department which is responsible for the £2.5 billion of spend listed in the report is on board with this programme, signed up with cabinet-minister commitment at every level. As I said, the Chancellor has announced a target to reduce it to fewer than

 Small Business Service

100. Seven might be pushing it, because the fewer-than-100 target needs to take account not only of products and services, but also of the channels to market. There are several good rationales for there being different channels into the market.

Q17 Helen Goodman: May I ask you to turn to page 33 and look at figure 17 which is the survey of customers on their experience of using Business Link? One thing that comes out of this is that the satisfaction rating on the competence and knowledge of Business Link advisers is poor, although this is of high importance. That is quite serious, is it not, because if you go seeking knowledge and knowledge is precisely what is not there, it seems to be quite a fundamental problem? Would you like to comment on that?

Mr Wyn Griffith: I absolutely should and at two levels. One is just to pass a warning shot that this is a 2003 survey and it is now 2006. The work we have done over the last three years to transform Business Link is, in my view, quite an extraordinary achievement. The Report does pay homage to the turnaround in Business Link with the increase in customer satisfaction that we have got from 81% back in 2001 to 91.5% now this year. We have also squeezed the gap in satisfaction levels between each of the 45 operators. We have halved that gap, so it is a much more consistent network. Recognition of that point, and I take it at face value, is also one of the reasons why we have invested regularly in what we call "The BIU", our corporate university. We have been spending £1 million a year making sure that the entire network of advisers, chief executives, advice team managers has the ability to share knowledge, learning and network with each other across the network in order to build that competence and knowledge. It is one of the things which have driven the satisfaction ratings.

Q18 Helen Goodman: I must admit that I was a bit surprised that they had increased to the levels that you have said they had in the Report, because of course I get to talk to businessmen in my constituency and the feedback that I have had from them over the past year about Business Link has not been wholly complimentary. One of the things that I should like to ask you is what sort of backgrounds you look for in employing people at Business Link?

Mr Wyn Griffith: I should like to make two points really. One is that I completely understand that you get those bad news stories coming through your surgeries and you would. It would be rare in all fairness to get a stream of people coming in to tell you how wonderful the service had been. The fact of the matter is that 92% will re-use the service; 97% are willing to recommend it to others. Just to put that in context.

Q19 Helen Goodman: That could be that they go back because they think that the Business Link people have their hands on some money, not because the advice and the competence and knowledge are of a good quality.

Mr Wyn Griffith: Well 97% would recommend it. To answer your key question about the kind of people, may I be personal and say people like me who have started and grown their own businesses in the creative industries, who decided after 10 years that there was more to life than doing what I was doing and wanted to get out and find another vehicle for my career, went to Henley to do an MBA and fell in love with strategic planning, wanted to get into consultancy, was way too old to be employed by the big four consultancies and discovered in 1996 a thing that Michael Heseltine had set up in 1994–95, this thing called Business Link. Back in 1996 I was able to take to Business Link, as an adviser then, all of the experience I had had as a corporate employee at EMI, all the experience I had had starting and growing my own business, all of the theoretical knowledge I had acquired doing an MBA and share that with customers.

Q20 Helen Goodman: Obviously you run the organisation, so you are going to be one of the best people that Business Link has employed.

Mr Wyn Griffith: Well I did not run it then.

Q21 Helen Goodman: Do you know what proportion of people in Business Link has experience of setting up businesses and working in small businesses?

Mr Wyn Griffith: When Patricia Hewitt was Minister for Small Business she made it one of the key criteria in the bidding guidance for the new SBS contracts back in 2000–01 that advisers should have experience of being an entrepreneur. I cannot tell you here and now in 2006, because I do not have the data in my head, what proportion had that experience.

Q22 Helen Goodman: The impression I have been given is that we have a lot of people who have worked in clearing banks, who may be able to read a balance sheet but do not have a particularly entrepreneurial attitude to life, which is what I would thought you needed here.

Mr Wyn Griffith: When I joined Business Link as an adviser in 1996, it was definitely the case that there was a huge majority of people, especially for those customers who were thinking of starting a business at that pre-start-up phase, who were, on the whole, advised by retired bank managers who were looking for a day to two days' work. We have transformed that model recently. Of course there are always going to be situations where you will have constituents who have had bad experiences or they have not quite understood what the proposition is of the business, we have fallen short in explaining what it is that Business Link is there to do and therefore their expectations are not met. These things will happen; it is a complex network.

Q23 Helen Goodman: It would be very helpful if you could check what the actual background is of the

Small Business Service

frontline advisers.¹ Could we move on to Part Four, which is about finance and about your returns to the money that you are investing? Could you remind me what the rate is at which new businesses fail at the moment in this country? I have in my head that something like the majority fail within two years. Is that right or is that out of date?

Mr Wyn Griffith: Survival rates currently are at an all-time high. We are at 92% survival after one year and around 60% after three years; 67% after three years. Those are survival rates. Start-up rates are also at their highest level for a decade. We have high start-up rates, high survival rates.

Q24 Helen Goodman: So you must be getting something right.

Mr Wyn Griffith: That would be my assertion; at least the Government are anyway.

Q25 Helen Goodman: I want to ask the NAO then why they have been so critical of the high default rate in the small firms' loan guarantee scheme in this report and whether those criticisms are really reasonable against this background of greater success in the sector as a whole.

Mr Sloan: The comparison is between the commercial default rate of about 4% with the scheme's default rate of between 30% and 35%. Both our expectation and the reason why this featured in the evaluation where it was raised is if this were a scheme which was genuinely addressing a market failing, one would expect that the default rates would be, if not the same, at least similar—that you would not find an order of magnitude difference in the default rates.

Q26 Helen Goodman: I understand that, but what I do not understand is how the default rate can be 35%, if the survival rate up to the end of year is 92%? I cannot quite fit these two facts together. What is going on?

Mr Sloan: The default rates quoted are calculated on the basis of loans issued for up to 10 years, so they are survival rates over a period and they are the survival rates particularly for the loan guarantee scheme. The 92% is for the economy as a whole with mainly commercial lending and indeed that is the

nature of the point we are trying to make, that this population of projects is not the same as normal commercial projects.

Q27 Helen Goodman: Are you comparing the total population of businesses or are you comparing new businesses and small businesses? To make a valid comparison you would have to make it with similar sorts of businesses, not including the BPs of this world.

Mr Sloan: My understanding is that these figures relate to normal commercial lending for small business and that was what was included in the evaluation.

Mr Wyn Griffith: That is correct.

Q28 Helen Goodman: Do you have any comments on that?

Mr Wyn Griffith: There are two things: one is, let us not confuse survival rates of businesses over a year and three years, the numbers I was giving you, 92% and 67%, with the default rate of the small firms' loan guarantee scheme. The default rate is measuring the number of loans which effectively call on the Government for the guarantee to be paid up. May I also clarify for the Committee that there is a danger in this paragraph because the 30% to 35% default rate is by volume of loans, by the number of loans and it is compared with the 4% mentioned two lines below, which is calculated by the value of the loans. It is not actually an apples and apples comparison: it is an apples and pears comparison.

Q29 Helen Goodman: What do you think would be a proper comparison?

Mr Wyn Griffith: More like twice the 4%. More like 8%, so that still leaves us with a gap. May I please just bring in Mr Earley to explain the whole rationale of this intervention, the small firms' loan guarantee?

Mr Earley: Just to confirm what Martin said, on a strictly like-for-like basis the 35% should be compared to something between 6% and 8% for bank lending and there is a factor of difference. The objective of the small firms' loan guarantee scheme is to encourage the banks to lend in areas of risk which they would not normally do, so a high default rate can be a demonstration that they are actually doing that. They are testing a new area, they are seeing a 30% default rate in that area, they are learning the characteristics of the 70% which do not default with the intention then that they should be able to go and lend to them on commercial terms without a guarantee and then move onto another area of risk. So having a 30% default rate is not necessarily a bad thing for a small firms' loans guarantee programme. I should like to add to that however that there is some justification in the NAO questioning here because we have not always been able to understand what has been driving default rates in the past. We can now. Following the Graham review of the small firms' loan guarantee, we have an absolute ability to understand precisely where the banks are lending and how they are lending and what is driving the default rates with

¹ *Note by witness:* Local management of the Business Link operators has been devolved to Regional Development Agencies (RDAs) since April 2005 with the Small Business Service retaining responsibility for the brand at a national level. Recruitment criteria for frontline advisers agreed with RDAs include experience of working in a small or medium business and industry wide standards for skills and knowledge have been adopted. Nationally Business Line operators employ over 800 full time frontline brokers/advisers of whom 56% have set up or run their own business. This figure does not include the advisers who have relevant experience of working in small and medium firms, or the advisers employed by sub regional partners who deliver services to customers on behalf of Business Link operators. When a similar exercise was carried out in the SBS recently to find out how many staff had experience of the SME sector it revealed that two thirds of staff had worked in small or medium firms of whom a quarter had set up or run their own business.

Small Business Service

each lender. We shall now be able to have very detailed strategic discussions with them with the intention of driving the default rates down to appropriate levels. If those levels were driven down to the 6% to 8%, there would be no need for a small firms' loan guarantee scheme.

Helen Goodman: Absolutely; I understand that.

Q30 Greg Clark: Mr Wyn Griffith, one of your seven strategic aims is developing better regulation and policy. What exactly is better regulation in the context of small businesses?

Mr Wyn Griffith: The better regulation agenda is a broad term which tries to encapsulate a whole range of initiatives which are intended to deliver regulation which provides necessary protection but implemented in a cost-effective manner, that the five principles set out by the Better Regulation Commission, namely proportionality, accountability, consistency, transparency and targeting are adhered to and that there is good practice in the process of doing regulatory impact assessments such that the costs and the benefits of a proposed regulation are fully taken into account.

Q31 Greg Clark: Considering that is one of your seven strategic aims that seems to require quite a lot of explanation.

Mr Wyn Griffith: May I also clarify that this is one of the Government's strategic themes.

Q32 Greg Clark: This is one of your seven strategic aims. That is right, is it not?

Mr Wyn Griffith: Care here, because there needs to be a distinction. The seven strategic themes are the market failures that Government in totality needs to address. Our responsibility within the better regulation agenda is to support the Better Regulation Executive, whose lead responsibility it is to pursue the better regulation agenda and our other responsibility is to make sure that other government departments are using our network's knowledge and evidence to carry out better regulation.

Q33 Greg Clark: That is right. You are the champion in Government.

Mr Wyn Griffith: We are the champion for the needs of small firms and small firms need better regulation in line with all those principles that the Better Regulation Commission have set out but the lead in Government is the Better Regulation Executive.

Q34 Greg Clark: Paragraph 3.9 of the Report says that in five of the 11 cases that the NAO reviewed you were unable to assess whether your intervention had led to any quantifiable reduction in the burden of regulation. How can you measure whether you are meeting this strategic aim?

Mr Wyn Griffith: I was particularly interested that the NAO equally had difficulty doing any kind of assessment on the basis of outputs or outcomes, that their analysis is based on the inputs, the number of hours put in. It is extremely difficult to attribute the value of 504 hours spent with the Home Office on issues around anti-social behaviour to direct

outcomes in the economy, as the Report says in paragraph 2.1. Nonetheless we know that we are having an impact. If I could take just one example recently of the company law reforms, we know that the package that the Government are currently putting together is worth £100 million in terms of benefits to business and we know that we have done the one thing that small business wants which is simplify the rules: removal of certain requirements which are simply unnecessary, like having to have a company secretary, the provision of model articles in the memoranda and articles, such that the smaller firm set up for a specific purpose with fairly standard objectives can just get going based on a model form, an idea that we stole with pride from Australia.

Q35 Greg Clark: If your responsibility is to fight the corner for small business in Government, what does it say for your influence, touching on some of the Chairman's questions, that when they were conducting their survey the NAO found that in these six out of 11 cases in which they could not find any evidence of your involvement it was because the other department did not consult the SBS in a timely manner. If you were so crucial, why do six out of 11 think that you do not need to be consulted?

Mr Wyn Griffith: May I also put this in context in that this fieldwork was done a long time ago?

Q36 Greg Clark: So it has changed.

Mr Wyn Griffith: Yes, it has improved, as the report says.

Q37 Greg Clark: May I ask the NAO why they are putting forward a report which is so out of date? Clearly Mr Wyn Griffith is saying it is irrelevant now.

Mr Sloan: It is not irrelevant Mr Clark. We consulted the departments concerned about the regulations they had actually been involved in. Since that time the whole situation on regulations changed inasmuch as the Better Regulation Executive has been tasked now with this new review. My understanding is that the way that the SBS will operate in future will be rather different under the locus of that review.

Q38 Greg Clark: How about now? Is this an accurate reflection of its influence?

Mr Sloan: To the best of my knowledge. We followed up some of these influence surveys at Mr Wyn Griffith's request and there have been no material changes in the overall picture.

Q39 Greg Clark: So it is representative, Mr Wyn Griffith.

Mr Wyn Griffith: It was representative in 2005; it was an improving picture from 2004.

Q40 Greg Clark: The National Audit Office has just said that there has been no material change.

Mr Wyn Griffith: There will have been a material change, but it is not evidenceable because a further survey has not been done by NAO.

Small Business Service

Q41 Greg Clark: Who is right? We have one witness saying there has been a material change and one saying there has not been. This is pretty fundamental.

Mr Wyn Griffith: We believe that it is an improving picture, which is what I was trying to get across, even by the analysis that is presented in the Report on page 29.

Sir John Bourn: No material change in the sense in which auditors use the term. There is no change of sufficient significance to alter the general picture, which is not to say, as Mr Wyn Griffith says, that there have not been some further developments of an advantageous character.

Q42 Greg Clark: Indeed, but they are not material, which reinforces the Chairman's point that this service does not seem to be punching its weight in Whitehall. We have had a letter from the CBI on this point² in which the person who is the Head of Enterprise at the CBI has written to the Committee to say it is quite clear that the Small Business Service has not delivered on better regulation and that this is damaging for UK businesses. The CBI, the Confederation of British Industry, said that you have not delivered on better regulation. We see from the report that in only five out of 11 cases can you show that you have contributed. How are we possibly to take the view that yours is an effective organisation?

Mr Wyn Griffith: May I offer this by way of a response? The Report also says that 11 out of 12 of the business representative organisations said that SBS did understand.

Q43 Greg Clark: Why does the CBI write to us?

Mr Wyn Griffith: Maybe the CBI is the one in the 12 that did not say it. Eleven out of 12 said that we do understand business and that since the SBS was set up Government's understanding of small business issues has increased.

Q44 Greg Clark: On the CBI point. The CBI are not a fly-by-night organisation, they are reasonably well resourced to comment on these things and they have taken the trouble to write to the Committee, knowing that we were having this hearing, to draw to our attention this problem as they see it. They say, in terms, that it is quite clear that the SBS has not delivered on better regulation. Why do they say that?

Mr Wyn Griffith: May I try to answer the question? If you look at table 13 on page 29, what that analysis by the NAO is saying is that the majority of government departments, in fact more than two thirds, say that we have benefited their work, that we are a reliable source of objective and critical information, that we are well positioned to set the government-wide agenda.

Q45 Greg Clark: Government departments not businesses.

Mr Wyn Griffith: It also points out that we are not very good at putting our message across. I would put it to you that perhaps the reason, but you would have to ask the CBI, why they say that is because we have not been very good at telling our story of what we have been achieving in Government.

Q46 Greg Clark: You are defending yourself by saying that government departments think you do a good job, but the Confederation of British Industry think you do such a bad job that you are actually damaging for UK business.

Mr Wyn Griffith: I am defending myself by saying that 11 out of 12 of the business representative organisations, as evidenced by the Report, say that actually we do understand what is going on.

Q47 Greg Clark: When the CBI say this it must concern you.

Mr Wyn Griffith: Of course it does.

Q48 Greg Clark: I assume that you have gone to them to try to understand why. You must know why they think that.

Mr Wyn Griffith: Yes; absolutely Mr Clark.

Q49 Greg Clark: Can you share with us why they think that you are not doing a good job?

Mr Wyn Griffith: What I shall share with you is that I was not aware of the letter.

Q50 Greg Clark: Were you aware that they did not think you were doing a good job?

Mr Wyn Griffith: I am aware of the public criticism they have put through the press as this report was published.

Q51 Greg Clark: Do you understand the reasons why they think you are not doing a good job?

Mr Wyn Griffith: I can understand why.

Q52 Greg Clark: Tell me. I am genuinely interested to know why.

Mr Wyn Griffith: Genuinely two things: one is that I do not think we have been good at telling our story and we have not been particularly good at getting out the examples of where we have intervened in Government to stop things happening. I give you one example, Defra were about to introduce regulation that was going to change the angle of ramps by which livestock would be loaded onto lorries and trucks. This was going to create a huge cost for small business. We took Defra through all of the rationale for why they should not do this and in the end they put their hands up and said we were absolutely right and they would not do that. I have a number of examples like that where our intervention has stopped something from happening that otherwise would have happened, but it is not in the public domain, so I can understand why they would perhaps have the impression that we are not achieving anything.

² Ev 12-13

Small Business Service

Q53 Greg Clark: We do not have time to go into too many details. Let us take another example of your work. One of your PSA targets is to increase the number of people considering going into business, is it not?

Mr Wyn Griffith: Yes.

Q54 Greg Clark: Is it correct that the target has been reduced from a target of 14% by 2006 to 12.3% by 2008? Is that correct?

Mr Wyn Griffith: Yes, that is correct.

Q55 Greg Clark: Is it common practice in the SBS to make PSA targets less ambitious when you find that they are not going to be met?

Mr Wyn Griffith: No, it is not, but on that particular objective I actually think it is my responsibility as an accounting officer to make sure that we have smart objectives, that they are specific, they are measurable, above all they are achievable, realistic and time-bound, which they are. In this particular case it was our view that getting to that point was neither achievable nor realistic and we had conversations with the Treasury about that.

Q56 Greg Clark: This is *Alice in Wonderland* stuff is it not? If you are not going to achieve the target, then from your smart definition you revise the target down? What is the point of such a target?

Mr Wyn Griffith: It is not quite that bad. The implication of not realigning the target is that we would start spending money in a way that was not consistent with what our aims were. May I please bring in Ms Reid, who has come today, to give you the answer on that target reduction?

Ms Reid: The problem was that in SR2002 when the target was set we only had one year's data on the number of people considering going into business. Before the SBS no-one knew at all how many people were considering going into business, how serious they were, where they were located and so forth, so the target was originally set without any long-term trend. We did not know what was achievable and, as a result of that, it was revised downwards.

Q57 Greg Clark: Why did you set a target, if it was plucked from the air?

Ms Reid: You have to think about the history of the development of PSAs in that originally when PSAs were first set, they were mainly aspirational.

Q58 Greg Clark: So you say it is no longer aspirational?

Ms Reid: It is still aspirational in the sense that a one percentage point increase in the number considering going into business actually equates to 300,000 additional people a year, so it is still a stretching target.

Q59 Greg Clark: Paragraph 3 of the Report refers to the SBS as being instrumental in developing and implementing the action plan for small business. Why have you not honoured your pledge to publish updates on your website of the progress being made?

Mr Wyn Griffith: We did. Up until June last year we had done the web monitoring and it had worked quite well, although, as I said to you earlier, there were 69 activities.

Q60 Greg Clark: Can I just stop you there? Paragraph 5.18 of the Report on page 31 talks about this. It says "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". Is that right?

Mr Wyn Griffith: We did up until this time last year and then this time last year, we were (a) changing servers and (b) reviewing what the content looked like.

Q61 Greg Clark: Come on. You are not serious. You were changing servers so you could not publish them.

Mr Wyn Griffith: I am putting my hand up. We were changing servers and reviewing it.

Q62 Greg Clark: Are you seriously suggesting that? It is disgraceful to have as an excuse for not publishing a piece of information on your website that you are changing servers for a year. This is not a serious answer to the Committee.

Mr Wyn Griffith: May I please answer the question? It is a serious answer to the Committee. Please, if you could let me pursue the point. Because we were changing servers we reviewed what the content looked like and how useful it was and we came to the conclusion that the cost of transferring the data from one place to another place was actually not worth it. Hands up, what we have not done, and what we should have done because we have been monitoring the action plan all the way through, is go on and actually publish a further annual statement of the progress on the action plan in this last year. I have to tell you, and it is one of the points which has been very useful about this NAO work, that we have learned something too and we have already put into place remedial action to correct that because we do, and we should, at least annually publish progress against the action plan.

Q63 Greg Clark: So what you have just told us is that you had a commitment to publish the information, you were changing the server and when you looked closely at it, you decided actually the information was so useless that there was no point publishing it in the first place.

Mr Wyn Griffith: No, I did not say it was useless, I said it was—

Q64 Greg Clark: You said it was not worth publishing it.

Mr Wyn Griffith: No, it was unwieldy in the form in which it was and it needed sorting out and that is the action that we are now taking. It is not true to say that we did not monitor the action plan: we did.

Greg Clark: My time is up. Government departments may rate you highly, the CBI do not and we shall have to take a view.

Small Business Service

Q65 Mr Bacon: Mr Wyn Griffith I was interested in your example from Defra because on Friday I had a round table with some farmers in my constituency running significant farming businesses which would probably qualify as small to medium-sized enterprises. One of them said that at any one time he always had some auditors auditing something in his business because there are so many different agencies of Government and indeed of course there are one or two from the private sector if they are supplying supermarkets. He counted up in one year 97 different audits that he had to fulfil, which is a couple a week. You gave the example of the ramp that Defra were about to introduce. What you are basically saying is the taxpayers were paying for Defra to come along with what was manifestly a silly policy with all kinds of deleterious consequences and then the taxpayers come along to pay you to try to stop them. That is what you were saying, was it not?

Mr Wyn Griffith: What I am saying is that were there no focal point in government to do the best that it can do to pursue the needs of small business and to bring some intelligence and rationalisation to Government's efforts, all of which stand up in their departmental silo as per the objectives that they have in that department but when taken in the round and viewed from the customer's point of view, as you rightly say, do not necessarily add up. It is our role to try to do something about that.

Q66 Mr Bacon: That basically means cohering all these nine different departments or whatever it is.

Mr Wyn Griffith: It is a similarly complex problem to what we are trying to do with the simplification of business support. Successive governments have created and presided over such complexity and we have raised the alarm bell in Government and said it is time to do something about it. Part of the simplification programme that I have talked to you about is that we shall also be looking at the very issue that you raise about the complexity of audits because the same happens for each of those 265 funding streams; you can imagine there is an auditor somewhere behind each one.

Q67 Mr Bacon: I can. May I ask you to turn to page 30? In paragraph 5.10, it says "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". It goes on to say that the "directors were tasked at board level with developing and agreeing a concordat with each department as a focus for the relationship". Why did you stop trying to agree concordats with the main departments?

Mr Wyn Griffith: There are two very honest answers to this point in 5.10. Again it is partly a learning curve for us. One is that concordats are a mechanism in Government for agreeing how to proceed, but in my experience and judgment they get filed in the filing cabinet and do not necessarily stimulate the kind of engagement that we wanted to have across Government. So we abandoned that methodology and moved to this more account management structure. I have to say, and the Report does not

bring out, that it was in that moment that we were reducing our headcount from 500 people down to 200 and shifting our entire focus, as part of our business strategy, from being this delivery agency which was delivering services to customers through to now becoming a much leaner organisation focused on influencing policy and the activities of Government.

Q68 Mr Bacon: This is a theme, is it not Mr Wyn Griffith? Some of the children's charities have been criticised for moving away from delivering services to being key influences instead. Why be a deliverer of actual services when you can just be a key influence and if you are to be a key influence—which is now the point, is it not, that is what you are basically saying—the test then has to be how good you are at key influencing?

Mr Wyn Griffith: Yes; absolutely.

Q69 Mr Bacon: The evidence so far that I have seen is that you are not very good at it.

Mr Wyn Griffith: I am not sure I would agree with that. The Report points out that more than two thirds of Government said we added value to their organisation, that 11 out of 12 business representative organisations think that since we were established Government's understanding of small business has improved.

Q70 Mr Bacon: On the same page, page 30, it also says in that figure 14 that, funnily enough, two thirds of the most commonly cited barriers were accounted for by just three issues: ineffective communication and coordination between Government and business, the limited influence of SBS, of your organisation, over other government departments and the lack of credibility of SBS and Government generally with small business.

Mr Wyn Griffith: I take that at face value. Again it refers back to a period of time when we were moving from one position to another. Two years have passed since then. We are now configuring for a headcount of 200; fewer people, of higher calibre, handing responsibility for the management of programmes out to others, either in the private sector or in the public sector so that we can focus on this role and improve on those very factors.

Q71 Mr Bacon: And you have started to improve your stakeholder engagement more generally as well.

Mr Wyn Griffith: We are trying to as we reconfigure our new executive team because we have been through a turnover in the executive team and we want to make sure that the new team is doing that extremely well.

Q72 Mr Bacon: May I ask you a couple of basic questions about SBS? In paragraph 3 on page 1 it says that you spent £213 million, but it also says that of the £2.6 billion in 2003–04 spent by Government, less than 15% of the total was spent by SBS. Well

 Small Business Service

15% of £2.6 billion is presumably £390 million, is it not? What is the difference between the £213 million and the—

Mr Wyn Griffith: I understand the difference is in the years. Our budget is, on page 10, £213 million.

Q73 Mr Bacon: I am just reading paragraph 2 “ . . . the Government spent £2.6 billion in supporting small businesses. A variety of departments, agencies and local bodies were involved: less than 15% of the total” that is in that year, of the £2.6 billion “was spent by SBS”. Well 10% would be £260 million, so presumably add £130 million and we get to £390 million. Is that not right?

Mr Wyn Griffith: You could argue that it is technically correct. It says less than 15% of the total was spent by SBS.

Q74 Mr Bacon: Right. Well £213 million is actually less than 10%. So what is the amount?

Mr Wyn Griffith: We are spending £213 million in the year 2005–06. The analysis of £2.6 billion comes from 2003–04, so we do not have a direct correlation.

Q75 Mr Bacon: Right. How much of the £213 million that you spend goes on what might be called education? You mentioned Henley in passing. Mr Heseltine was mentioned earlier. I have had constituents who had help from a scheme that stemmed from his time at DTI which eventually led them to go to Cranfield on a six-month course. They run a very successful, now nationwide, operation of putting gyms and leisure centres inside hotels and their headquarters happens to be in my constituency. They have a national chain now and they started from a pretty straightforward background with no fancy degrees but they got to go to Cranfield and it all stemmed from there. My question is: out of your £213 million, how much goes on that sort of thing, on helping people go to Cranfield and places like it?

Mr Wyn Griffith: The nearest equivalent to the story that you are telling would be the new entrepreneur scholarships that we have just set up whereby, and it is small money, a few hundred thousand pounds, actually only probably 15 college graduates go to America to study entrepreneurship with the Kauffman Foundation.

Q76 Mr Bacon: From memory the Chancellor of the Exchequer mentioned something about that in the Budget very recently, but have there not been slugs out of this £200 million going towards helping people go to Henley, go to Cranfield?

Mr Wyn Griffith: Those budgets would be handled mostly by the Learning and Skills Council and the Department for Education and Skills.

Q77 Mr Bacon: In that case can we ask about the LSC? On page 28 figure 12 says over £1,650 million goes to the Learning and Skills Council. That is presumably just because the Learning and Skills

Council spends over £5 billion. That is presumably the proportion of the LSC that is devoted to small- and medium-sized enterprises. Is that right?

Mr Wyn Griffith: The LSC’s budget is close to £10 billion.

Q78 Mr Bacon: Well this £1,600 million then is what?

Mr Wyn Griffith: This £1.7 billion would be funding FE colleges’ provision of courses which would be of benefit to small businesses and/or individuals thinking of starting a business. So that would be the bulk of it. Within that there would be a budget this year of £243 million, next year £400-and-something million, the year after a bit more than that for a programme called *Train to Gain* which the Learning and Skills Council have just launched, which is based on the employer training pilots which were the test model for whether it makes sense to compensate businesses to the tune of £3,000, £4,000, £5,000 in order to pay the costs of an employee going to be trained. There would be a number of things in there that are of direct relevance to small businesses.

Q79 Mr Bacon: How much of this £200 million that you have—you said it was about 15 scholarships and that is peanuts—how much of the £1.7 billion is going on sending people for short or medium courses at top-flight management education institutions?

Mr Wyn Griffith: I do not have that data in my head but, if you want to know, I can certainly get a note for you.³

Q80 Mr Bacon: I do. If it were significant, you would probably know about it, would you not?

Mr Wyn Griffith: I just do not know. May I do the research and send you a note?

³ *Note by witness:* As stated in response to Question 78, the majority of the £1.7 billion of LSC spend mentioned in the Report funds vocational training courses at Further Education colleges that benefit small businesses and the self employed. From 2003/04 an initiative to support leadership and management training for owners and managers has been delivered through Business Link operators. The programme offered a diagnostic session leading to a personal development plan and then up to a £1,000 grant towards training or development activities, such as short or medium leadership or management courses, that would help to achieve the objectives in that plan. This could contribute towards the cost of formal training leading to a qualification, although most employers have preferred to undertake a formal course not leading to a qualification or have a period of mentoring/coaching. The programme had funding of over £30 million over three years and will have helped 17,000 owners and managers of small and medium enterprises. The programme has now finished and funding for leadership and management has been absorbed into the budget for the *Train to Gain* programme aimed at encouraging the full range of training for managers and employees in small and medium enterprises. Availability for specific types of support will depend upon regional priorities identified by Regional Skills Partnerships. The Government has also set up a private sector led Ministerial Advisory Panel on leadership and management to make recommendations on improving the level of leadership in British firms. As part of its remit, the Panel has been discussing with business schools how business education could best support the development of leaders and managers in the UK.

 Small Business Service

Q81 Mr Bacon: Yes, I should very much like to know. It seems to me, and I may be wrong, that that probably, judging from the experience of my own constituents, is likely to do more good than many of the other things you can do. Quite frankly, if you have a good business idea and you understand many of the fundamentals of finance and marketing, which are the two things that most business schools drive around, and you know how to put a really good business case together and you know how to access sources of finance and to present your case properly, generally speaking you stand much more chance of finding money. I used to act for a venture capitalist and the problem for them was not money; they had money coming out of their ears. The problem was finding a good home for it. There are not enough good homes and the reason there are not enough good homes is there are not enough good trained people out there to provide good homes. Surely the answer to that is to train those people rather than spending it on zillions of different initiatives.

Mr Wyn Griffith: We would agree with you on that. There is a definite gap in the number of viable proposals. Certainly Mr Earley has been a huge advocate of what we call investment readiness, which is getting SMEs more prepared and able to pitch their business propositions, because it is one of the gaps that both the private equity markets see, but that we also see. There is quite a bit of effort in that area.

Q82 Mr Bacon: Can we go back to your £200 million? You mentioned the Chancellor's 15 scholarships. These are top American business schools are they?

Mr Wyn Griffith: Yes and the Kauffman Foundation, a leading charitable foundation, a billion-dollar institution which is focused on promoting entrepreneurship around the world; Ewing Marion Kauffman, who was a very successful pharmaceutical businessman who endowed billions to this foundation.

Q83 Mr Bacon: None of that money that was announced by the Chancellor in the Budget recently, I just happen to remember that announcement, is for British management educational institutions like LBS or Cranfield or Henley.

Mr Wyn Griffith: Bear in mind that DfES are also—this is why I should like to get you a note on this so it is proper and comprehensive—running a leadership and management programme and I believe that does deploy some of the business schools. It is fair to say that a small chunk of our budget, just in excess of £1 million, is being spent on an institution called the National Council for Graduate Entrepreneurship, where we are taking final-year students during Enterprise Week and giving them the opportunity to explore the possibility of starting a business and what all of that means and tuning in. It has been a huge success. I went to one of these flying-start rallies in Yorkshire last year in Enterprise Week; 300 undergraduates turned up. I was absolutely amazed because in my time at university I doubt whether there would have been 20. All were very interested in

exploring self-employment, entrepreneurship, as a viable career option which is absolutely at the heart of our objectives.

Q84 Mr Bacon: You mentioned earlier that you thought there was a case for being at the centre in Whitehall, in the village near to ministers. You said it with a slight tone of desperation. Perhaps I am wrong. Has someone suggested sending you somewhere out into Coventry or Newcastle or Cornwall to promote local employment or something? Are you hanging on by your fingernails Mr Wyn Griffith?

Mr Wyn Griffith: No, not yet. We are very happy where we are doing what we are doing.

Q85 Mr Bacon: I am sure that you are happy where you are. My question is: are there others who are less happy where you are?

Mr Wyn Griffith: I do not know the answer to that question. All I would say to you is that some would argue that—and mostly those outside the government system—surely it would make more sense if we were part of the Treasury or Cabinet Office and we could drive things out from the centre. Our experience has been that because we have deployed processes by which we engage other government departments, partners across Government, to do things that will benefit small businesses it is actually far more useful. I am less interested in structures than I am in building the relationships and the networks which enable us to do our work. In fact the NAO are doing some work at the moment on the success we had with our web portal, businesslink.gov.uk, and they have cited three examples of good practice here in terms of the way we have brought about collaboration across Government and involved all these stakeholders.

Q86 Mr Bacon: It sounds to me Mr Wyn Griffith, and I am sure you are doing your best, as though you are sitting there in this federal fiefdom system in Whitehall and you do not have any influence. You basically have responsibility without power, do you not? It boils down to well-meaning guff.

Mr Wyn Griffith: I disagree, because the power is derived from two things: one is knowledge and the other is having a cabinet minister who is responsible for us. If we provide advice to ministers that will push Government in a certain direction, then the government system applies and the power is there. Do we have influence? We do. Every six months we formulate all of our ideas, aggregate them all and I write to the Chancellor to influence the things that he is putting into the Pre-Budget Report and the Budget Statement. There is more power, if you like, derived from knowledge and evidence and a good argument in terms of influencing a government agenda than being in control of the totality of the spend of Government. Would I bid to have control of £2.5 billion of publicly funded business support? No, it would be the wrong thing for us to do. It is far better that others take the responsibility for managing those programmes and leave us to get on with trying to influence the system.

 Small Business Service

Mr Bacon: Given your track record so far it may be that you are right, but I have run out of time.

Q87 Chairman: That concludes our hearing Mr Wyn Griffith. If I were in your shoes, I would still be worried that the principal voice of business, the CBI, says it is quite clear that SBS has not delivered on better regulation. I would be worried that they say that they estimated that there are 2,700 business support schemes available to business in England alone and offer this back-handed compliment, which is not very helpful to you either, “We therefore support the efforts by the SBS to cut the number to 100 by 2010, but again question whether the SBS will have sufficient clout across Whitehall to deliver this initiative in a manner that will benefit businesses”. I said on an earlier occasion, that if the Small Business Service cannot show that the benefits it generates outweigh its costs then why have it? I said that we should create a simple law of good governance. If a new government service’s benefits do not outweigh its costs, then do not have it. The jury must be out on your efforts and maybe we should look at the

concept of having a much more high-powered team within the Treasury which can actually deliver deregulation.

Mr Wyn Griffith: May I reply?

Q88 Chairman: You may reply; I give you the last word.

Mr Wyn Griffith: A high risk strategy. May I just reiterate that the benefits derived from our spend are at least 2:1 and that is a conservative estimate. On our programme spend, we estimate it to be a ratio of 8:1. From where we stand we pass the test of whether we are deriving benefits in the economy and savings to business on the back of the spend which we, SBS, and our £200-odd million are responsible for. Secondly, I completely agree that if one of the leading business representative organisations has doubts about our ability to change and bring about change in the government system, then that is something that I shall pursue actively myself with them and shall certainly seek their help in bringing about a more successful outcome for Government.

Chairman: Thank you for the way you have given evidence and your obvious commitment to your job. Thank you very much.

 Letter from CBI to the Committee Chairman

I write in relation to the National Audit Office Report, *Supporting Small Business* published 24 May 2006. The CBI believes that this Report provides a useful contribution to the debate on how small businesses should be supported in the UK over the coming few years.

The Government was right to set itself a vision to “make the UK the best place to start and grow a business in the world”. However, delivering this vision can only be achieved if a body close to government has the power and influence to ensure that small and growing business needs are paramount across all of government. The NAO is therefore right to question whether the Small Business Service (SBS) has these attributes and whether it has delivered on its remit since its establishment in 2000.

As you may know, the CBI is currently undertaking a series of reports based on each of the SBS’s seven strategic themes. We argued that while there has been progress in some of the seven areas, others require much more work especially when measures against the targets that the SBS set themselves and taking into consideration feedback from CBI members across the UK. The findings of our reports have much in common with the NAO’s findings.

It is quite clear that the SBS has not delivered on better regulation and there are question marks over whether the structures that the government has put in place will deliver the regulatory and enforcement framework heralded in the Prime Minister and Chancellor’s endorsement of the Hampton and Arculus reports. This is damaging for UK businesses, and in particular, has reduced the capability for small business growth. It is crucial that the whole of government now recognises the negative impact of the regulator burden on risk taking and enterprise, and takes steps to reduce that burden.

The CBI supports the business support simplification programme that is being undertaken under the leadership of the SBS. In a report in January, we estimated that there are 2,700 business support schemes available to businesses in England alone, and argued that this number should be cut, with money diverted to schemes which are supported by business, address market failures and fill-gaps. We therefore support the efforts by the SBS to cut the number to 100 by 2010, but again question whether the SBS will have sufficient clout across Whitehall to deliver this initiative in a manner that will benefit businesses. We were pleased to see that the NAO Report replicates the CBI methodology for calculating penetration rates of Business Links.

We believe that the NAO Report has not given sufficient reflection on the positive and important role played by the SBS in ensuring access to finance for small and growing businesses. The Small Firms Loan Guarantee scheme provides finance where no alternative is available. Regional Venture Capital Funds and Enterprise Capital Funds are also important in addressing market failures in the provision of risk capital. These schemes have recently been re-endorsed by the CBI membership and have an important role to play in the future in continuing to ensure that businesses can access appropriate finance.

The CBI believes that the analysis in the NAO Report has provided a useful challenge to the existing framework in government to represent small and growing business. While there has been progress in some key areas, much more work is required to “make the UK the best place in the world to start and grow a business”. The CBI will continue to work with all departments across government to ensure that the needs of small and growing businesses are taken seriously.

13 June 2006
