



# **Review of the Business Start-Up Award for the 18-30s**

## **Final Report**

1 March 2006

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**Private and Confidential**

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Quality Assurance Record	
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## 1 Introduction

The Business Start-Up Award is a £1,000 grant, targeted at businesses started by people aged between 18 and 30. The scheme is funded by the Scottish Executive, operated by Scottish Enterprise and is marketed and delivered through the Business Gateway. It was launched as a pilot exercise, running for 18 months from October 2004 to March 2006. DTZ Pidea Consulting was commissioned in September 2005 to undertake a review to assess the impact of the scheme as it approached the end of the pilot stage. It is recognised that the review is taking place at an early stage and the findings should be interpreted in this context.

### 1.1 Scope of Review

The review assesses the effectiveness of the pilot scheme in terms of its potential economic impact and its contribution to Scottish Enterprise goals under *Smart Successful Scotland*. There are two main outputs of the review.

Firstly, it provides an estimate of the likely economic impact of the Award based on an assessment of the potential turnover and employment of the businesses supported under the scheme and the likely survival rates. This assessment considers additionality, both in terms of the contribution the Award and associated support has had on businesses and in terms of the number of additional start-ups generated by the scheme.

Secondly, it evaluates the efficiency of the scheme by looking at activity levels, market penetration and management processes and how these compare to other businesses receiving Business Gateway start-up services. Differences in take-up and delivery activity between LEC areas are also considered.

Some ancillary aspects of the scheme that were evaluated include the marketing campaign that promoted the Award; the pilot *Get Into Business*<sup>1</sup> training programme delivered by Careers Scotland and targeting FE college graduates interested in business start-up; and the additional support provided to PSYBT.

### 1.2 Study Approach

The methodology employed for the review followed a five-stage process as summarised in Table 1.1. The evidence for the review has been gathered from a range of sources including:

- A survey of a sample of 400 businesses that have received an Award;
- In-depth consultation with key stakeholders in Scottish Enterprise; and
- In-depth consultation with Business Gateway managers from a range of LECs, supported as necessary with discussions with contractors delivering Business Gateway services.

This primary research was underpinned by desk research, including an analysis of Scottish Enterprise's Knowledge Management Information System (KMIS) data and consideration of earlier Scottish Enterprise papers examining the Award scheme including appraisal and approval papers and audit reviews.

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<sup>1</sup> Due to delays in the roll out of this programme, it was not up and running during the time period covered by this review.

**Table 1.1 Summary of Methodological Approach**

<b>Stage</b>	<b>Activities</b>	<b>Outputs</b>
<b>i. Project Briefing</b>	Client meeting to review scope of work, approach, etc. Exchange of documentation/contacts	<ul style="list-style-type: none"> <li>▪ Contact lists</li> <li>▪ Project documentation</li> <li>▪ Project plan</li> <li>▪ Signed contract</li> </ul>
<b>ii. Desk Research</b>	Analysis of appraisal documentation Analysis of monitoring data	<ul style="list-style-type: none"> <li>▪ Paper on population statistics as at Sept 05</li> </ul>
<b>iii. Stakeholder Consultations</b>	Interviews with key stakeholders: <ul style="list-style-type: none"> <li>▪ SE National</li> <li>▪ LEC staff</li> <li>▪ BG contractors</li> <li>▪ PSYBT et. al.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Paper on qualitative issues derived from consultations</li> </ul>
<b>iv. Telephone Survey</b>	400 telephone interviews with award recipients	<ul style="list-style-type: none"> <li>▪ Questionnaire</li> <li>▪ Tabulated results</li> </ul>
<b>v. Analysis &amp; Reporting</b>	Client workshop to review emerging findings Analysis of economic impact	<ul style="list-style-type: none"> <li>▪ Presentation of preliminary findings</li> <li>▪ Draft and final reports</li> </ul>

### 1.3 Report Structure

The remainder of this report is structured as follows:

- **Section 2** looks at the background to the Scheme in terms of its history, rationale, objectives, development and roll-out of the pilot to date;
- **Section 3** profiles the Scheme activities;
- **Section 4** presents the findings from the beneficiary survey and calculates the economic impact of the scheme;
- **Section 5** draws upon the findings from the consultation process;
- **Section 6** presents a detailed economic assessment of the Scheme; and
- **Section 7** draws upon the preceding sections to present our conclusions and recommendations.

## **2 Background to the Scheme**

### **2.1 Introduction**

This section provides the context for the review by presenting the background to the Business Start-Up Award. The section is structured under the following headings:

- Origins of the Scheme
- Rationale for Intervention
- Strategic Fit
- Scheme Objectives
- Scheme Development & Funding
- Eligibility Criteria
- Marketing
- Management
- Monitoring and Evaluation

### **2.2 Origins of the Scheme**

The project forms a key priority in the Scottish Executive's current Programme for Government, and is funded by a direct contribution to Scottish Enterprise from the Scottish Executive. The funding covers the initial pilot for 2004/05 and 2005/06, with an additional commitment in 2006/07 to cover after-care support for Awards made in the pilot's latter stages. The Scottish Executive commitment comprises a £5.6m package of support, with an additional contribution of £1m to the Prince's Scottish Youth Business Trust (PSYBT) to cover their client throughput on the Award Scheme.

### **2.3 Rationale for Intervention**

The Board Approval Paper<sup>2</sup> for the scheme sets out the 'rationale' for targeting a grant award at the 18-30 age group. The key factors listed include:

- Evidence which suggests that the 18-30 age group is the most effective target group for a start-up grant:
  - There is more evidence of a funding constraint against this group
  - Current levels of 'coverage' by the support networks are lower for the under-30s than for other age groups and the business birthrate gap between Scotland and the rest of the UK is greater than other age groups
  - The number of potential recipients is at an appropriate level for the planned scale of the Award scheme

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<sup>2</sup> *Business Gateway Start-Up Grants for the 18-30 Age Group* SE Board Approval Paper, August 2004

- The objective is to increase the number of businesses started by this age group, chiefly by attracting newcomers into the business start-up process, providing an incentive encouraging businesses to be started at an earlier stage in life, with increased prospects for subsequent business growth and job creation, and additional entrepreneurship (e.g. through ‘repeat’ businesses started later in life).

The real rationale is developed in more detail in Annex 1 to the Board Paper. In economic terms an intervention must be based on the existence of market failure or equity considerations. In the case of the Award Scheme, it must be centred on the existence of one or more of the following market failures:

- **Asymmetric Information Failure** - this relates to the difficulty of securing finance by start-up businesses. The financial institutions overstate their assessment of risk due to imperfect information on the businesses seeking funding and, as a consequence, underprovide finance for the 18-30 age group. Such failures in the capital markets are compounded by the inherent funding problems facing those in the 18-30 age group – they will typically have much more limited personal finances with which to launch a business and hence their reliance on external funders will be greater.
- **Information Failure** – those in the 18-30 age group may also suffer from information failure in terms of where to go for finance and how to secure it. This could also compromise their access to funding.
- **Risk Aversion** – due to imperfect information on what is involved in setting up and running a business, young people may have a disproportionately high risk aversion to launching a new business. The offer of £1,000 under the Award Scheme is aimed at addressing such risk aversion.

While these market failures could exist in all age groups, it is argued that they are more acute in the younger age group. The economic impact assessment in Section 6 of this report will test the extent to which such market failures are present, the level of their significance, their impact and whether the extension of the pilot can be justified.

## 2.4 Strategic Fit

**Contribution to ‘Smart Successful Scotland’** – the rationale underpinning the business start-up award scheme is directly supportive of ‘Smart Successful Scotland’ and the policy and strategic context as articulated in SE’s Annual Operating Plan, in particular the Network goal of ‘Generating Entrepreneurial Dynamism’. The key supporting strands of the scheme are its focus on:

- Supporting Scotland’s business birth rate – the primary focus of the scheme is to increase the number of new start businesses – since the early 1990s the importance of a strong pipeline of new entrants has been recognised as being a key determinant of a healthy economy
- Encouraging entrepreneurship – the objective of the scheme is to encourage an entrepreneurial outlook in individuals that either would not have started a business, or would have postponed the decision
- Focus on youth – by targeting the 18-30 year old age group, the scheme is supporting a cohort of the population that suffers from a relatively low start-up rate compared to the population as a whole

- *Growing businesses* – by providing funding support of £1,000, it is hoped that the pilot scheme will improve the long term survivability of businesses and maximise their chances of growing

The objective of this evaluation study is to determine the extent to which the award scheme has fulfilled its objectives and provided a meaningful and cost-effective contribution to the goals of ‘Smart Successful Scotland’.

## 2.5 Scheme Objectives

The Scheme’s objectives are:

- To provide 4,500 grant awards of £1,000 each to businesses with a lead partner in the 18-30 age group during the 18 month pilot period (Oct 2004 to March 2006)
- To create 5,500 gross jobs at the end of three years
- To generate net sales of £19.4m at the end of three years

The process for grant applicants follows three stages:

1. Personal Development – Pre-start support for applicants that are not fully prepared for business start-up - this could be through pre-start support programmes such as Get into Business, *Shell*Livewire or the Think element of the “Think, Plan, Do” Business Gateway programme or through web-enabled tools.
2. Business Plan – It is a condition of the Award that applicants have gone through a relevant business start-up process culminating in the production of a business plan. Support offered includes the “Think, Plan, Do” workshops, advisory support and a business information service.
3. Approval - The final stage in the process involves the business plan being signed off by a Business Gateway Adviser to ensure the plan is sound, the business viable and that the application is not fraudulent. The eligibility criteria are discussed more in section 2.7 below.

This process is followed by an after-care service. For applicants aged 18-26 this involves mentoring support through PSYBT and for the 26-30 applicants the Business Gateway provides aftercare visits over three years.

## 2.6 Scheme Development

There were five stages in the development and roll-out of the Award Scheme, beginning in September 2002<sup>3</sup>. These are described in turn below.

### 2.6.1 Stage 1: Initial Discussions (September 2002 – February 2003)

The Scottish Executive and Scottish Enterprise began discussions in 2002 to determine a commitment to establish a grant scheme for business start-ups in the forthcoming Programme of Government. The available evidence on market failure was considered and the strategic fit of such a scheme with a *Smart, Successful Scotland* was assessed.

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<sup>3</sup> *The Business Start-Up Award for the 18-30s – Development Process* Paper by Brian McVey, Head of Enterprise Policy - Small Business Services, May 2005



The discussions resulted in the establishment of a number of key underlying principles, including agreement that the case for such a grant scheme could be made, provided the scheme was targeted appropriately. As alluded to in the preceding discussion of the rationale for intervention, strategic research completed by Scottish Enterprise had suggested that young people aged between 18 and 30 would make an appropriate target group, given the comparatively low level of business start-up and low take-up of start-up support from public agencies, therefore it was agreed that the proposals should proceed on this basis.

#### **2.6.2 Stage 2: Initial Appraisal (September-November 2003)**

The Scottish Executive undertook a detailed consideration of the evidence of the merits of the proposed scheme in terms of the ROAMEF model (Rationale, Objectives, Appraisal, Monitoring and Evaluation and Feedback). The key conclusion arising from discussion of this evidence was that the scheme's impact would be greater if the size of the grant was limited and the bureaucracy from the applicant's perspective was simplified. The output of this stage was a paper summarising the main implementation issues likely to be involved in taking the scheme forward.

#### **2.6.3 Stage 3: Development (December 2003-March 2004)**

A working team was formed involving representatives from Highlands & Islands Enterprise and PSYBT, the Business Growth Unit in Scottish Executive and the Small Business Services Division of Scottish Enterprise. Market Research was undertaken, to look at the potential market for the scheme and the likely response from the target audience. This aimed to test the operational validity of the proposed scheme and to inform the future marketing strategy.

The results of the research confirmed that the chosen target group would respond positively to the proposition. Work was also undertaken to develop the support infrastructure, including the development of training materials for students in FE Colleges and Universities. This led to the creation of the *Get into Business* programme by Careers Scotland.

Management and process issues were also considered including the need to protect against potential fraud, the eligibility criteria and how the programme could be integrated with the work of PSYBT. Building upon this research and analysis an outline approach and development plan for the project was drawn up. This was used to undertake a round of consultations with relevant stakeholders in the proposed scheme.

#### **2.6.4 Stage 4: Approval and Implementation (April—October 2004)**

This stage of the process involved the following steps:

- Drawing up detailed operational processes for managing the scheme within SE;
- Planning for implementing the scheme; and
- Steering the project through the necessary approval processes within Scottish Executive and Scottish Enterprise.

This process involved close collaboration between operational staff in Scottish Enterprise and the Scottish Executive, as well as consultation with stakeholders. The SE Board approved £5.6m for an 18-month pilot, with the funding split:

Grant funding	£4.5m
Marketing & administration	£0.8m
Support for partner delivery	£0.3m
<b>Total</b>	<b>£5.6m</b>

### **2.6.5 Stage 5: Operations (October 2004 onwards)**

Once formal approval was secured for the project, mechanisms for monitoring progress were put in place. The reporting of the take-up of the scheme was included in SE's monitoring systems. The marketing campaign was launched and Business Gateway staff were briefed. Scottish Enterprise Internal Audit completed a check of procedures in February 2005 and a further audit check was carried out in Autumn 2005.

### **2.7 Eligibility Criteria**

The principles underpinning the eligibility criteria for the Award were based on those for other similar volume award schemes such as the E-Awards and the Broadband Initiative. The grant eligibility criteria are as follows<sup>4</sup>:

- 50% or more of the business's owners are in the designated age group of 18-30 years;
- The business has not yet started and is not engaged in an activity where employees have self-employed status, but are effectively full-time staff (e.g. construction);
- There is a valid business plan in place that contains key information and is verified by an accredited Business Gateway adviser;
- The applicant has participated in a business start-up development process including, as a minimum, the core Business Gateway start-up service;
- The applicant has a valid business-banking facility that can be confirmed by the bank; and
- The applicant has completed the relevant pro forma and has signed up to the appropriate monitoring and evaluation requirements.

The grant is awarded to the business and not the individual applicant; therefore only one grant application can be made per business.

Subsequent audits have raised questions about the quality of the business plans that were presented by early applicants to the scheme. The evaluation assesses whether this concern has been adequately addressed

### **2.8 Marketing**

The research to inform the marketing campaign was started well in advance of the scheme's actual launch. The marketing budget for the scheme was £600,000, with the bulk

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<sup>4</sup> *Business Gateway Start-Up Grants for the 18-30 Age Group* SE Board Approval Paper, August 2004  
*Business Start-Up Grant Eligibility Criteria and Development Plan* Presentation to Business Gateway, February 2004

of the spend (£400,000) frontloaded in the first 6 months. MR UK carried out extensive research on behalf of Scottish Enterprise to give a focus to the campaign.

The key strands of the marketing campaign were:

- Intensive preparatory work which was carried out before the ministerial announcement of the scheme;
- The early involvement of the market research organisation which held focus groups to test the approach with the target audience; and
- Discussions with the creative agencies (Family and WWAV Rapp Collins) who produced mood boards to give the Scheme an image. These were tested with the focus group participants prior to the launch.

The focus group research found that the target audience favoured a campaign that took their business ambitions seriously and did not over-complicate the details with eligibility criteria. The message also came through that the Scheme should not try to be “cool” or patronising to the audience. The overall message was summed up by the slogan “turning a passion into a profession”. The campaign used images of happy people and tried not to show faces so that the campaign was not specifically limited to certain age groups or a particular gender.

The market penetration goal was fairly ambitious – the KMIS data suggested that only 10% of the start-ups that came through the Business Gateway prior to the launch of the Award were aged between 18 and 30. The target was to generate 4,500 applicants within 18 months of the Scheme. SE was advised by the agency early on that a TV campaign would reach the widest possible audience. Adverts were not placed in the national press or national magazines as the audience went outside Scotland.

Marketing activity was heaviest during the first 6 months of the campaign and consisted of the following:

- **TV advertising** – directing the viewer to text a message for more information, or to download information from the website;
- **Press advertising** – directing the reader to text a message for more information (the source of the enquiry from either the TV or the press campaign was differentiated by a different message); and
- **Promotional events** – leaflet distribution in FE colleges and at major shopping centres (e.g. Braehead).

The campaign was started well in advance of the launch of the Scheme and the approach was to encourage a response from young people (either by text or by logging on to the website). It aimed not to present an image of one particular type of person in order to have a good breadth of appeal. The TV campaign had a good reach, and the various strands of the campaign generated a large number of text enquiries. The website has also been well used.

Many of the text enquiries generated by the campaign were from individuals who were not interested in starting a business. This was thought to be due to the fact that the campaign did not provide any detailed information, but this was acknowledged by Business Gateway managers to have been a broadly appropriate approach and little criticism was levelled at

the campaign for this reason. It was generally felt that it could have been made clearer that the grant was a business start-up award, rather than a competition or promotion, but that too much detail would not be desirable.

There was some concern among Business Gateway managers that the campaign alienated older age groups and made them feel that the Business Gateway is either exclusively or primarily for young people, however, this was a minority view.

## **2.9 Management**

The management of the Scheme appears to be effective and coordination nationally appears strong. Both Scottish Enterprise and the Scottish Executive heavily audit the Award Scheme and the Project Manager has monthly meetings with the Scottish Executive.

The Business Gateway consultations covered the area of Scheme management and feedback from this process is presented in Section 5.

### **2.9.1 PSYBT**

Initially applicants under the age of 26 were to be routed through PSYBT and a contract was set up to facilitate this but the Business Gateways quickly realised that not everyone under 26 wanted to go through PSYBT. A PSYBT application form was added to the Award packs, and Business Gateway Advisors were asked to advise those under 26 that while they could use the Gateway services, PSYBT could provide advice and loans.

Three months after the launch of the Award scheme PSYBT figures were low. Scottish Enterprise tried to address this low PSYBT activity. PSYBT suggested this was because they were not receiving referrals from Scottish Enterprise. The application form was changed to encourage referrals and greater flexibility was introduced to allow those under 26 to access the Award through the Business Gateway and still use PSYBT for other support.

PSYBT was given the details of anyone who expressed an interest in their services. Mandatory PSYBT referral for all under 26 was resisted as it was felt that they did not have the processes in place for this. PSYBT wanted to integrate the Start-up Grant with their existing process, but it was felt by Scottish Enterprise they should be administering in line with the Scottish Enterprise process.

### **2.9.2 Get Into Business**

It was intended that the Scheme would be supported by a new enterprise training programme developed by Careers Scotland entitled *Get Into Business*. The programme is designed to target graduates from Further Education colleges to provide them with a formal qualification in business and a business plan that they can use in taking forward an application to the Start-up Award Scheme.

Due to delays in this programme getting up and running, it is only now taking off and therefore was not applicable to the time period of this review with the survey focussing on grant recipients from the first 6 months of the pilot period.

## 2.10 Monitoring and Evaluation

An Internal Audit<sup>5</sup> was conducted in September 2005 as a follow up to a previous audit undertaken in March 2005, which had found a number of issues relating to the delivery of the Scheme. The follow up audit concluded that significant progress has been made to rectify the issues raised in the previous review.

Much of the focus of audit activity has been to ensure that fraudulent claims are not being processed. The requirement for a business bank account is an important part of the mechanism to prevent this.

The quality of business plans was also an early concern and this was the subject of an independent review. This review considered 78 business plans, 40% of these were from businesses that had ceased trading (all had ceased trading in their first three months of operation). A number of areas of the business plans were assessed including introduction, business, location, market information, people, capital expenditure, sources of finance, CV, and financial information.

Particular areas of concern included CVs, financial projections, marketing, and profit and turnover levels. This review also raised concerns regarding the quality and consistency of data being stored in the CRM system.

None of the businesses that had ceased trading were judged, overall, to have strong business plans - most (65%) were considered “fit for purpose”, with a worrying proportion (35%) considered weak. This compares to strong plans in more than a quarter (28%) of the sample taken from surviving businesses and around half judged fit for purpose (49%). All of the businesses in the sample had received the start-up award, **regardless of the quality of the business plan**. This has been addressed and will be assessed again in the near future.

## 2.11 Summary and Conclusions

The Scheme has a strong fit with Scottish Executive and Scottish Enterprise policy and strategy to support Scotland’s business birth rate and to encourage a culture of entrepreneurship. The rationale for intervention was based on clear market failures relating to information failure and risk aversion in the younger age group. The appraisal of the project was robust.

The delivery of the project has a number of elements of good practice. The marketing of the Scheme was highly effective and it has been well managed. Initial issues with the monitoring of the Scheme appear to have been resolved. Overall, there are no significant issues relating to the rationale for intervention and the delivery of the project.

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<sup>5</sup> *Network Follow Up Review of Business Gateway Start Up Grant for the 18 to 30 Year Age Group*  
Scottish Enterprise Network Audit Services, September 2005

### 3 Scheme Activity

#### 3.1 Take-Up of Award – National Level

Data provided by the KMIS system suggest that the Award scheme has had a major influence on the level of start-ups generated by the 18 to 30 year old age group. As Table 3.1 shows, in the 11 months after the launch of the scheme (the policy-on period), 34% of the SE assisted start-ups recorded fell into the 18 – 30 year old group, compared to just 14% of start-ups in the preceding 11 months (the policy-off period).

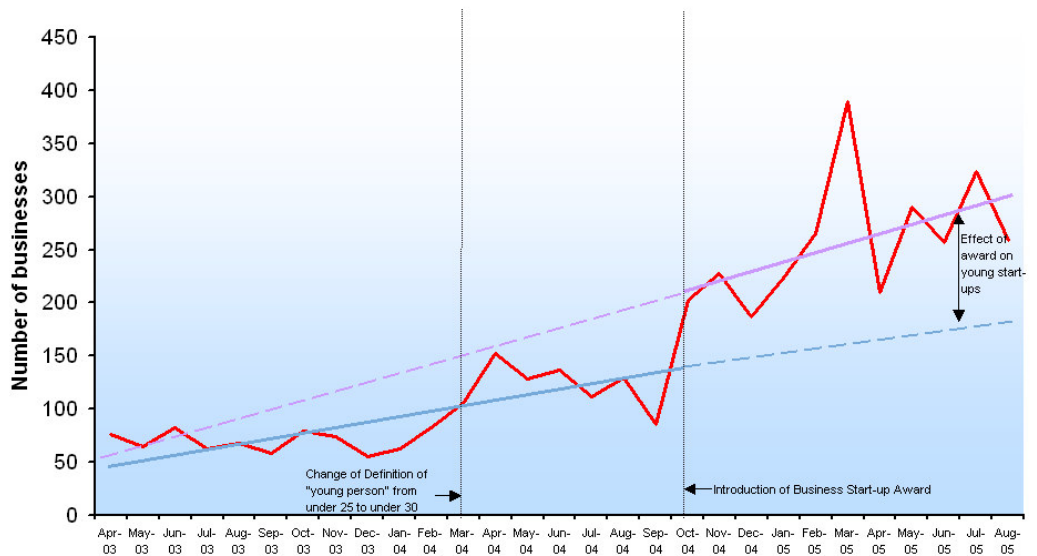
**Table 3.1 Start-up Award Up-take, pre and post-launch**

	Pre-award (November 2003 – September 2004, 11 months)			After award launched (Oct 2004 – Aug 2005, 11 months)		
	No of young start-ups	Young start-ups as a % of all start-ups	Young start-ups per 1000 of population * aged 18 - 30	No of young start-ups	Young start-ups as a % of all start-ups	Young start-ups per 1000 of population * aged 18 - 30
Total (all LECs)	1123	14%	1.5	2835	34%	3.8

\* Population figures are estimates in June 2004, latest available figures published by General Register Office for Scotland

Figure 3.1 shows the trend in young start-ups over the time period for which data is available. There is a clear increase in young start-ups from the date of the scheme’s launch. Also illustrated in Figure 3.1 is an indication of the trend before the launch of the award in blue and following its introduction in purple. The difference between these two trends is indicative of the effect of the Award scheme, however it should be noted that there might be other factors that have influenced growth in start-ups over this period.

**Figure 3.1 – Start-ups in 18–30 Age Category, April 2003 to August 2005**



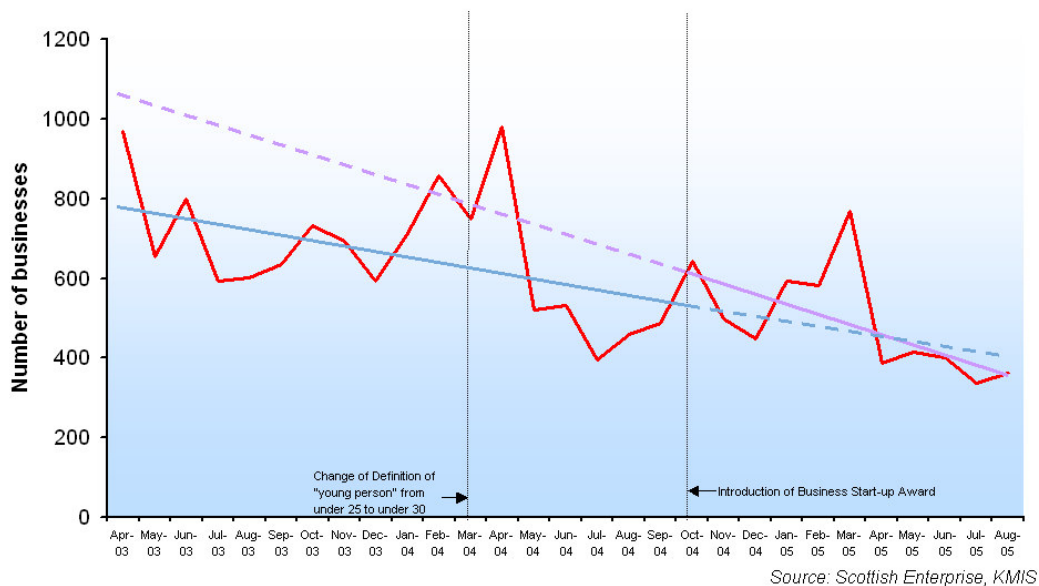
Source: Scottish Enterprise, KMIS

This increase in start-ups in the 18–30 age group shown above has been accompanied by a decrease across the Scottish Enterprise area as a whole in SE assisted start-ups outside the 18–30 age group. This is illustrated in Figure 3.2, where the blue line is an indication of the trend before the launch of the award following its introduction in purple. This decline was evident before the introduction of the Award scheme, but it would appear that since the launch of the scheme the decline has worsened.

One explanation offered for this decline is the cessation of the E-Award<sup>6</sup> - however it is important to note that this may not indicate a loss in start-up activity overall, but rather a reduction in new start-ups accessing support from the Business Gateway. It was felt by a number of Business Gateway managers that availability of grant support does act as an incentive to encourage potential entrepreneurs to make use of the Business Gateway where they are then able to access a wider range of support services. It was also suggested by some Business Gateway advisors that businesses were receiving the Award where the business belonged to a young person in name only but was being run by another party (in particular parents setting up businesses in the name of their son or daughter). However, this does not appear to be a major issue across the Scheme and there has not been a problem with fraudulent behaviour.

Other explanations offered for the decline in activity outside of the 18-30 age group is that the targeted marketing at this group may have discouraged people outwith this category to start up. It was also suggested that the LECs or Business Gateway contractors might have influenced the numbers by focussing their attention on the younger age category at the expense of those outwith this group.

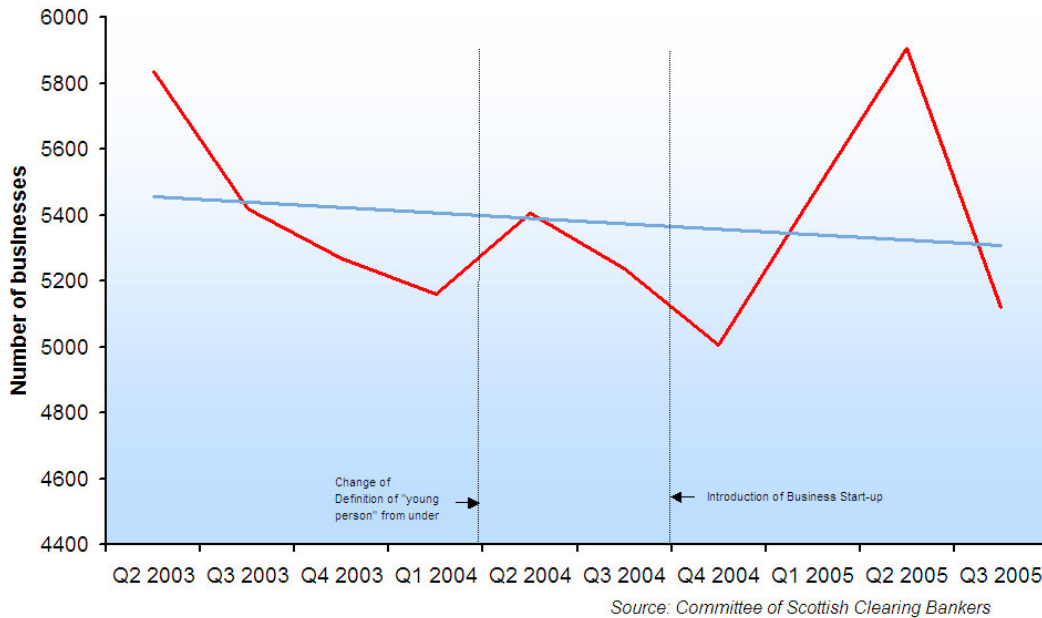
**Figure 3.2 – Start-ups Outside the 18 – 30 Age Category, April 2003 to August 2005**



<sup>6</sup> See Second City Associates “Business Gateway Young Persons Start-up Grant,” this view was also echoed by Business Gateway managers involved in the consultation process for this review

By way of a benchmark, Figure 3.3 shows the overall slight decline in the trend based on Scottish Clearing Bankers data over an equivalent period. However, overall numbers of start-ups appears to have been fairly consistent.

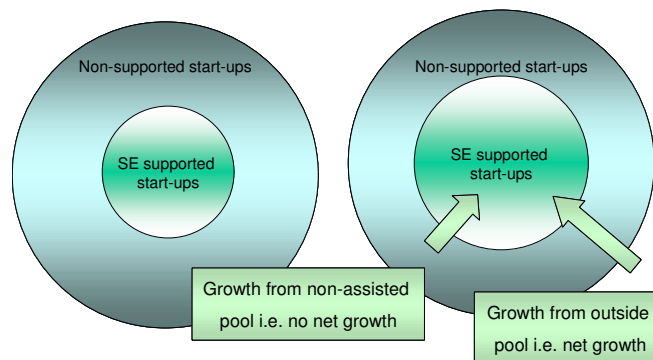
**Figure 3.3 – All Scottish Banks Start-ups, April 2003 to August 2005**



In conclusion:

- The Start-up Award has been successful in attracting start-up businesses into the Business Gateway Network – **positive effect**;
- But, it has not necessarily been successful in growing the total number of start-ups in Scotland – **negative effect**;
- Indeed, there is evidence of displacement of support from the 30+ age group to the under 30s.

**Figure 3.4 – Potential Net Impact of Start-Up Award**





### 3.2 Take Up of Award – LEC Level

KMIS data also allows us to look at the variation in the level of uptake by LEC areas as shown in Table 3.2. This shows:

- Pre-launch, young people accounted for between 9% and 17% of all start-ups across all LEC areas;
- In an equivalent time period after the launch of the award scheme, this figure jumped to between 18% and 54% of all start-ups; and
- The rate of start-ups per 1000 of the population aged 18–30 jumped from a low of 0.8 and a high of 2.6 per 1000 pre-policy to between 2.1 and 5.2 per 1000 after the introduction of the policy.

**Table 3.2 Start-up Award Up-take, pre and post-launch by LEC**

	Policy Off Pre-Launch of Award Scheme (November 2003 – September 2004, 11 months)			Policy On Post-launch (October 2004 – August 2005, 11 months)			
	No of young start- ups	Young start-ups as a % of all start-ups	Young start-ups per 1000 of population * aged 18 - 30	No of young start- ups	Young start-ups as a % of all start-ups	Young start- ups per 1000 of populati on * aged 18 - 30	% change in young start- ups
SE Ayrshire	105	16%	2.1	264	54%	5.2	151%
SE Edinburgh and Lothian	245	15%	1.6	739	43%	5.0	202%
SE Renfrewshire	100	18%	2.0	221	40%	4.5	121%
SE Fife	95	15%	1.8	244	38%	4.5	157%
SE Lanarkshire	134	14%	1.4	307	37%	3.1	129%
SE Borders	31	15%	2.6	59	34%	4.9	90%
SE Grampian	75	9%	1.1	266	31%	3.8	255%
SE Dumfries and Galloway	27	10%	1.6	88	30%	5.2	226%
SE Glasgow	102	13%	0.8	266	26%	2.1	161%
SE Tayside	67	13%	1.2	169	25%	2.9	152%
SE Dunbartonshire	49	10%	1.7	123	23%	4.2	151%
SE Forth Valley	93	17%	2.2	89	18%	2.1	-4%
<b>Total (all LECs)</b>	<b>1123</b>	<b>14%</b>	<b>1.5</b>	<b>2835</b>	<b>34%</b>	<b>3.8</b>	<b>152%</b>

\* Population figures are estimates in June 2004, latest available figures published by General Register Office for Scotland

Note – only 11 months of KMIS data were available from the date of the scheme launch. Data in the 11 months preceding launch are used as a comparator, but note that there may be some seasonal variation which might affect the comparison

### **3.3 Summary and Conclusions**

The Award Scheme appears to have had a major impact on the number of start-ups within the 18-30 age group. Business starts in this group rose from 1,123 in the 11 months prior to the Scheme's introduction to 2,835 in the 11 months after its launch – a rise of 150%. The number of SE assisted starts outwith this age group has declined over this period as has the number of businesses as recorded by the Scottish Banks. This suggests that the Scheme has been highly effective in increasing the start-up rate in the younger category. However, it is not clear whether these increased numbers are from the non-assisted pool or whether the Scheme has attracted people into starting up where they would not have otherwise, therefore resulting in an overall net growth in the number of new businesses started.

## 4 Survey of Beneficiaries

### 4.1 Introduction

This section sets out the findings from the survey of Award beneficiaries. The sample consisted of 400 individuals who had received the Start-up Award. This section analyses the responses to the survey and establishes the quality of support and its impact to date and the potential future impact. It is structured under the following headings:

- Methodology
- Profile of Beneficiaries
- Influences on Start-Up
- Scheme Marketing and Uptake
- Scheme Impact
- Key Findings

### 4.2 Methodology

The efficacy of the research was maximised through a conscious decision to target the sample of Scheme participants to the population of recipients in the first 6 months of the Scheme's operation from October 2004 to March 2005. This gives a minimum of eight months and a maximum of 13 months' trading results to analyse.

This gave a population of around 1,300, which was a sufficiently large base from which to sample. Sample size is something that must reflect a balance between cost and methodological rigour. However, it is essential to achieve a representative, reliable and robust data set from the survey. The sample structure must be statistically significant to provide survey data upon which Scottish Enterprise can be confident in making decisions. To achieve this an achieved sample of 400 was proposed, which gives the following levels of data accuracy:

	Sample/Cell Size	Data Accuracy
Total Sample	400	± 4.1%
Analysis by 2 variables	200	±6.4%

In terms of drawn sample size, a 2:1 ratio was adopted giving a drawn sample size of 800. Quotas were set by LEC based on Scheme uptake over the first six months. An introductory letter was sent to all customers in the drawn sample, to inform them that the survey was taking place, explaining that they might be contacted in order to provide their opinion on various issues and encouraging them to participate. This form of prior notification is a vital part of the process in terms of informing customers of the impending survey, gaining their buy-in and co-operation and ensuring that they understand what is involved in survey participation, greatly improving survey response rates and co-operation.

### 4.3 Profile of Beneficiaries

**Survival Rate** - of those interviewed, 384 were still trading and only 16 had ceased to trade. On the surface this appears to indicate a very high survival rate. However, it is possible that those who had ceased to trade will be under-represented, due to difficulties in contacting the individuals involved. There is also the possibility that companies may not actually be 'trading'.

However, of 800 letters issued to grant recipients only 43 were returned (5%) marked as no longer trading at that address. The 96% survival rate indicated by the survey compares to a survival rate across Scotland of 92% at 12 months for all VAT registered businesses.<sup>7</sup>

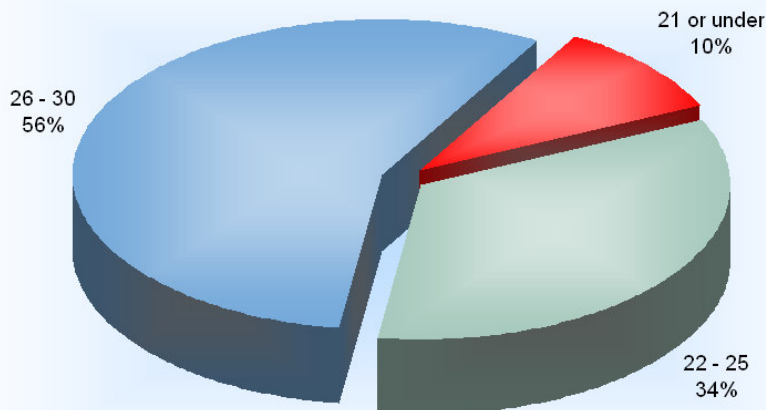
Those in the survey sample that had ceased to trade gave a variety of reasons for winding down the business including insolvency and family commitments.

**Gender** - Just over half (53%) of those interviewed were male.

**Qualifications** - More than a third (38%) of those interviewed have a degree and around a quarter (24%) have an HNC or HND<sup>8</sup>. Just over one in ten (11%) had no qualifications.

**Age** - The age structure of interviewees is shown in Figure 4.1. The largest group is in the upper age category, which seems to support the decision to change the original target group to include the over 25s.

**Figure 4.1 – Age Structure of Interviewees**



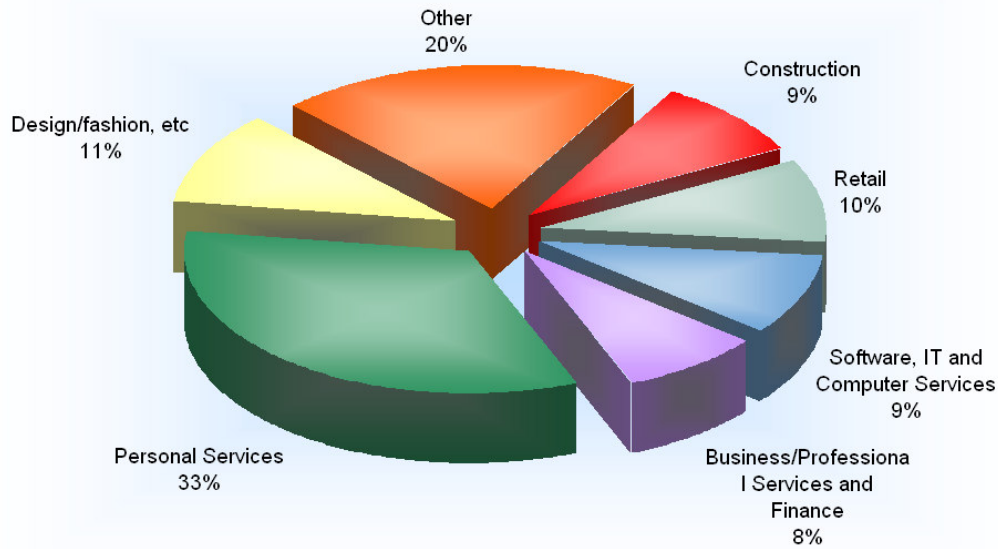
*Source: Research Resource, adapted by DTZ Pleda Consulting*

**Sector** - the industrial sector of the businesses interviewed is shown in Figure 4.2. The largest proportion of businesses is in Personal Services, which includes a range of lifestyle businesses.

<sup>7</sup> *One year survival rates of VAT registered businesses by region (2003)* Small Business Service, February 2006

<sup>8</sup> Note – some individuals provided more than answer to this question

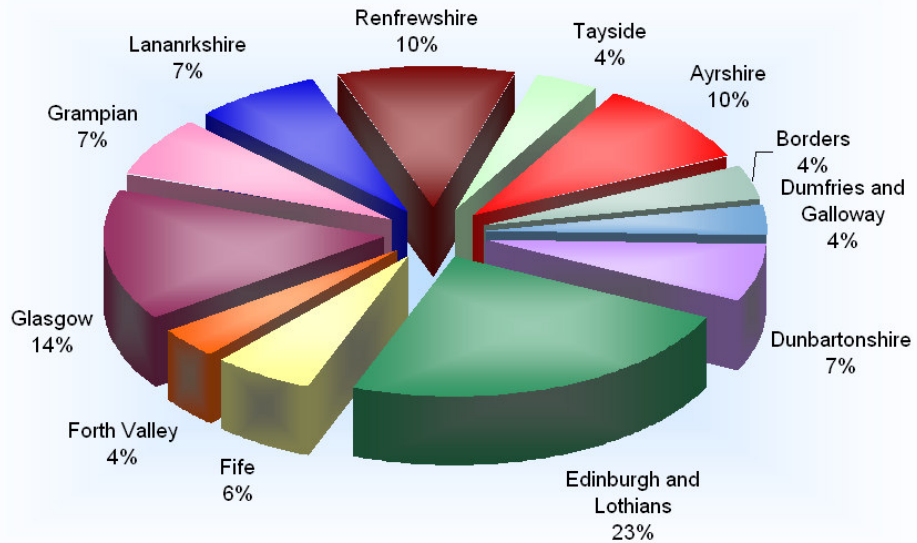
**Figure 4.2 – Industrial Sector of Interviewees**



Source: Research Resource, adapted by DTZ Pineda Consulting

**Geography** - the sample was drawn from each of the 12 LEC areas. The level of representation of each area was based on uptake in the first 6 months of the scheme and is shown in Figure 4.3. This broadly reflects the distribution of the population of young starts across the LECs as shown above in Table 3.2, with a slight over-representation of Fife and Lanarkshire and under-representation of Dunbartonshire and Glasgow.

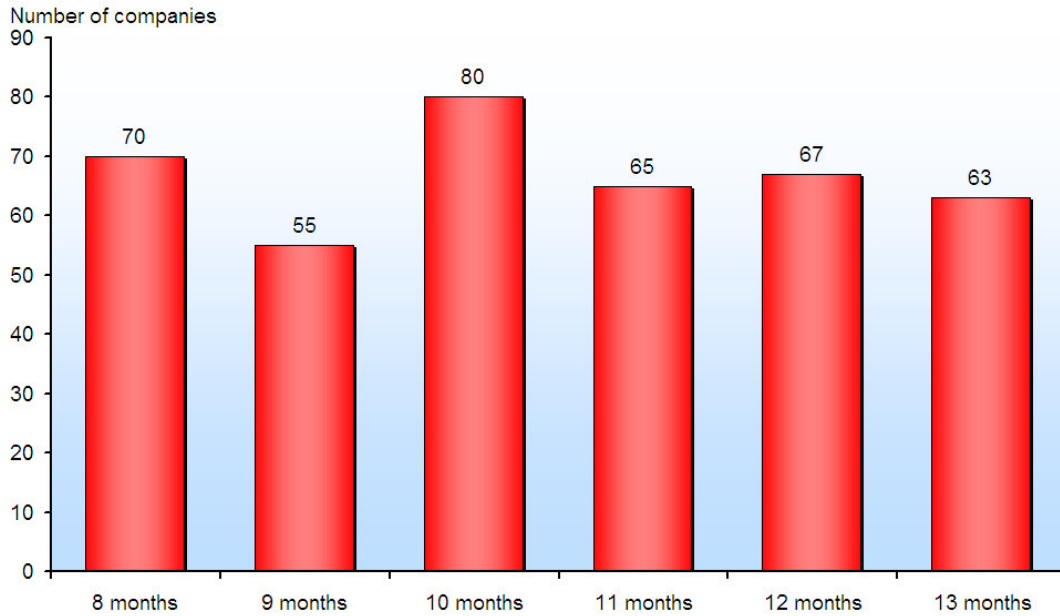
**Figure 4.3 – LEC Breakdown of Interviewees**



Source: Research Resource, adapted by DTZ Pineda Consulting

**Length of Trading** - the survey sample was drawn from the population of grant recipients from the first 6 months of the Scheme, therefore the businesses in question have been trading from anything between 8 and 13 months. Figure 4.4 shows that nearly half of the businesses in the sample had been trading for 11 months or more.

**Figure 4.4 – Length of Trading of Start-Up Businesses**



Source: Research Resource, adapted by DTZ Piedad Consulting

#### 4.4 Influences on Start-Up

**Characteristics of Start-up Businesses** - two thirds (66%) of those interviewed said that they had been motivated to start up in business because they wanted to be their own boss. Other common motivations for starting up in business included spotting a gap in the market or an opportunity (11%) and encouragement from friends and/or family (7%).

Most businesses (73%) were started with the expectation that at the end of the first year they would employ only the interviewee, and more than half (57%) did not expect a turnover in excess of £20,000, with a further **14% saying they had no target turnover before they started up**. This finding supports the concerns raised earlier in the report over the quality of the business planning of grant recipients.

**The majority of those interviewed (70%) had less than £3,000 available for starting up in business.** This suggests that the Award amount is set at a level where it is likely to constitute a large proportion of start-up finance in many cases. These characteristics suggest that the beneficiary profile is heavily dominated by micro businesses with very modest growth plans – at least initially. One would expect a high proportion of such businesses to remain as sole traders/lifestylers.

Just over half (52%) of those interviewed said that when they heard about the Start-up Award they had already begun to start up, **suggesting that in many cases the Scheme did not induce the individual to start up**. A further 30% had started to plan but start-up of the business was not imminent. However 19% said they either had no serious plans or no

plans at all to start up in business before they heard about the Scheme. The question of the additionality of the Scheme is picked up in the impact section below.

**Business Barriers** - the difficulties identified by those interviewed are summarised in Table 4.1. Most difficulties surrounded raising the necessary finance, with other common difficulties involving early cash flow, knowing how and where to start and identifying initial customers. This reflects the anticipated market failures in this client group as set out in Section 2. Of those interviewed 18% said that they did not encounter any serious problems when starting up.

**Table 4.1 – Serious difficulties encountered when setting up in business**

<i>Difficulty encountered</i>	<i>Proportion of respondents*</i>
Raising the necessary finance	41%
Early cash flow considerations	29%
Knowing how and where to start	25%
Identifying initial customers	23%
No major problems	18%
Credibility/being taken seriously	11%
Finding Initial Premises	9%
Developing the product/service	7%
Other	9%
*Note – some individuals identified more than one major difficulty	

**Sources of Advice** – while 34% of those interviewed had tried to get advice from another source before they applied to the Scheme, in most cases this was through the Business Gateway (40% of those seeking advice from another source) or more informally by asking family or friends (20% of those seeking advice from another source). Of those seeking advice from another source 66% said that advice was either very useful or useful.

A far greater proportion of respondents in the *Annual Survey of Small Businesses*<sup>9</sup> had sought advice from someone (63%). Of these respondents, 34% had taken advice from a public sector support agency.

While a small proportion of those interviewed had tried to seek finance from another source before they found out about the Award, 84% of those interviewed said that they had not and about half of these respondents (48%) said they would not have known where to go for finance at that stage. This finding provides supporting evidence for the existence of information failure across approximately 40% of the beneficiaries.

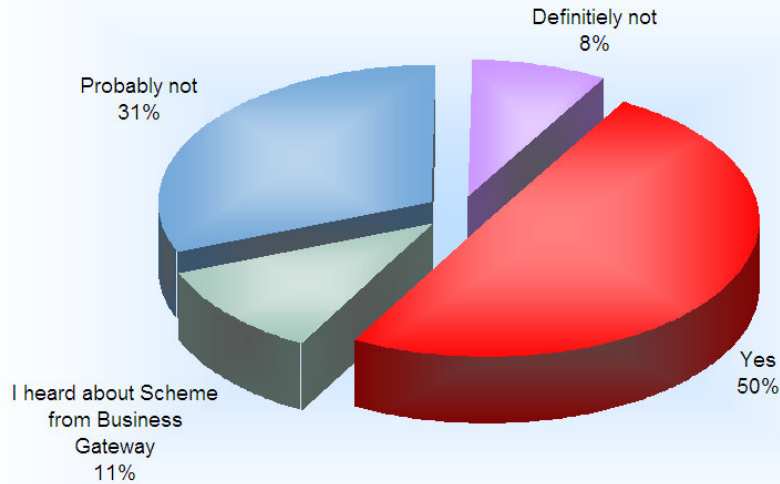
Of the 65 respondents that had sought finance from another source, just over half (54%) had been successful in securing other funding to start up in business and further 11% reported that they had partial success in securing funds.

When asked whether they would have known to approach the Business Gateway for start-up assistance had it not been for the Scheme, 50% of the interviewees would have and a further 11% heard about the Scheme through contact with the Gateway as shown in Figure 4.5. The remaining 39% would not have known to approach the Business Gateway for start-up advice, which indicates that the Scheme may have been successful in raising awareness of the services offered by the Business Gateway amongst this group thus bringing in a client group that might not otherwise have been reached.

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<sup>9</sup> *Annual Survey of Small Businesses in Scotland 2003* Scottish Executive, Crown Copyright 2005

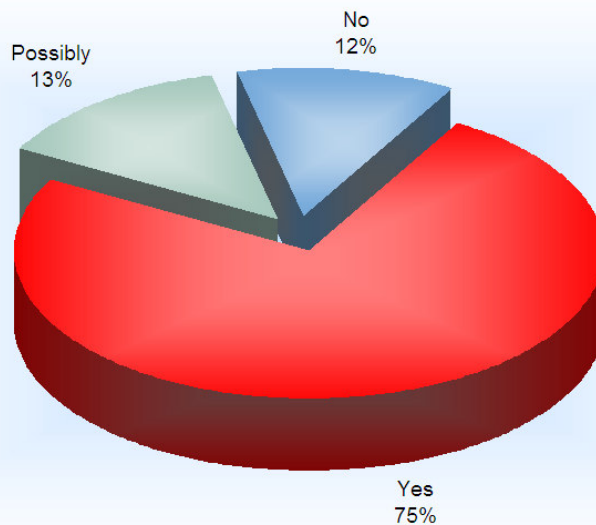
**Figure 4.5 – Awareness of Business Gateway as a Source of Support**



*Source: Research Resource, adapted by DTZ Pineda Consulting*

The Award Scheme beneficiaries were also asked if they would have approached the Business Gateway without the incentive of the Scheme. Only 12% said they would not have approached Business Gateway without a financial incentive, suggesting perhaps that the Scheme has had an effect on raising young people's awareness of the services the Business Gateway has to offer.

**Figure 4.6 – Likelihood of Approaching the Business Gateway in Absence of Award**



*Source: Research Resource, adapted by DTZ Pineda Consulting*

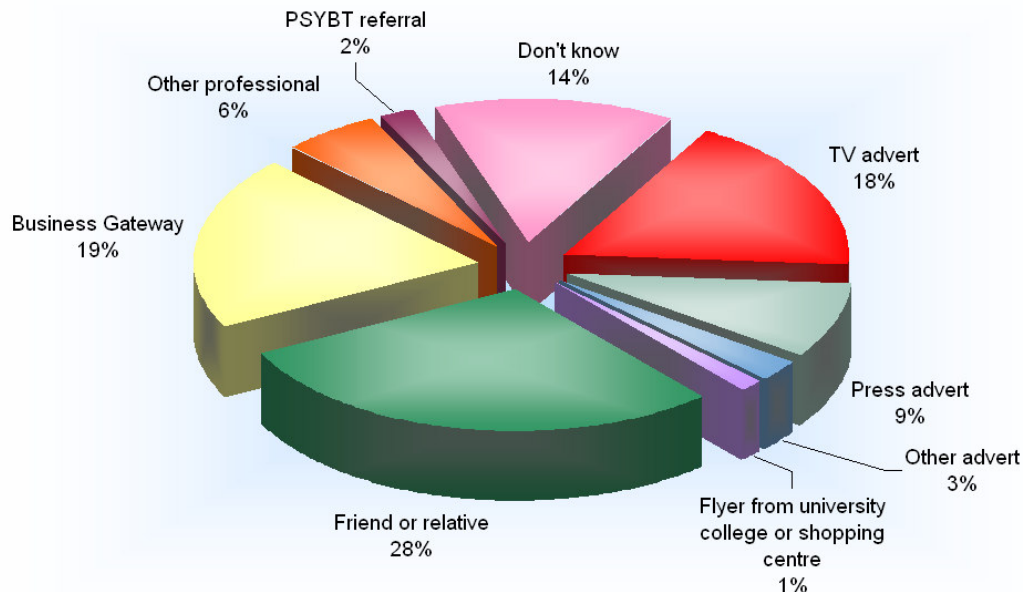


## 4.5 Scheme Marketing and Uptake

**Scheme Awareness** - just over a quarter (28%) of those interviewed heard about the Scheme from a friend or relative as shown in Figure 4.7. Other important sources of information were the Business Gateway itself (19% of those interviewed found out about the Scheme in this way) and TV advertising (18%). The relatively high proportion of interviewees who were referred to the Scheme by the Business Gateway suggests that many were already seeking advice from the Business Gateway prior to their involvement in the Scheme.

Within the 18 to 30 year old age group, 23% of those aged 26 and over but only 13% of those aged 21 and under found out about the Scheme from the Business Gateway. Those under 21 were more likely than the rest of the age group to have found out about the scheme from friends or family, with 38% finding out about the Scheme in this way, compared to just 26% of those over 26.

**Figure 4.7 –Awareness of the Scheme**



Source: Research Resource

**Business Gateway Communication** - the vast majority (97%) of those interviewed found the process of texting for more information either easy or very easy. Only 4% said that they did not receive a pack of start-up information from the Business Gateway, and 63% of respondents felt that it was very useful and raised awareness of things they had not previously considered.

The respondents were asked which aspect of the pack they felt to be of most use and 37% thought the positive encouragement it gave them to start up was the most useful factor. The other aspects found to be of use were the identification of useful contacts (28%) and the insight it offered into the services offered by the Business Gateway (19%).

**Start-up Support** - the most common help received by those interviewed was one to one advice (75%), advice on funding (72%) and business planning advice (60%). This advice

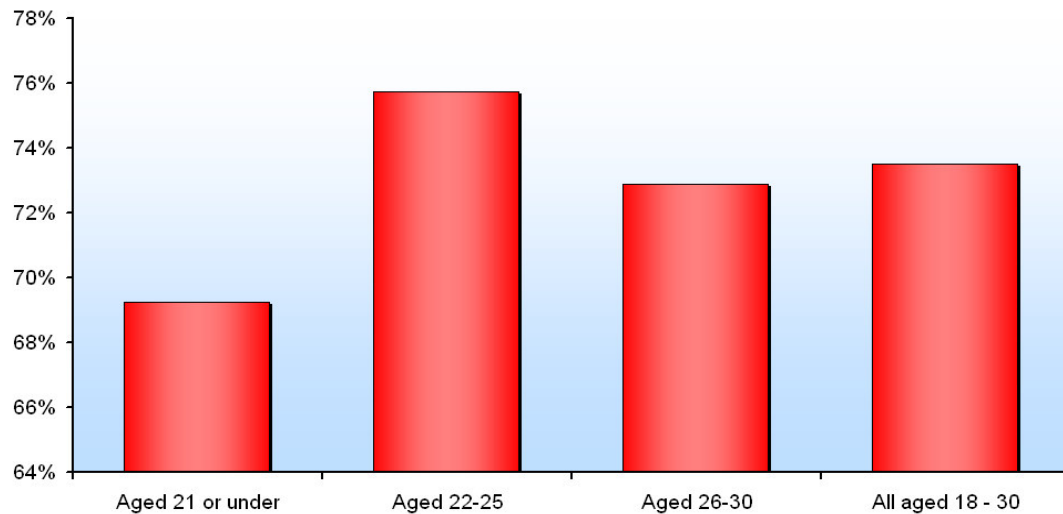
was judged to have been useful by almost all who received it. Advice on staffing was considered the least useful of all the help on offer, however 83% of those accessing said it was useful.

Eighty eight percent of those interviewed had received some help with preparing their business plan from a Business Advisor and 89% found the business planning process useful.

**Application Process** - the application process was thought to be straightforward by 95% of those interviewed, with the remaining 5% suggesting it was fairly complex but manageable. Processing times were described as either speedy or reasonable by 91% of those interviewed and less than 1% said they thought the process was excessively lengthy.

**Interface with PSYBT** - across all of those interviewed, 74% said that they had heard of PSYBT before starting out in business. Awareness was highest in the 22 to 25 year old age group (76%), and lowest among those aged between 18 and 21 (69%). This is shown in Figure 3.8 below:

**Figure 4.8 – Awareness of PSYBT by Age at Award Application**

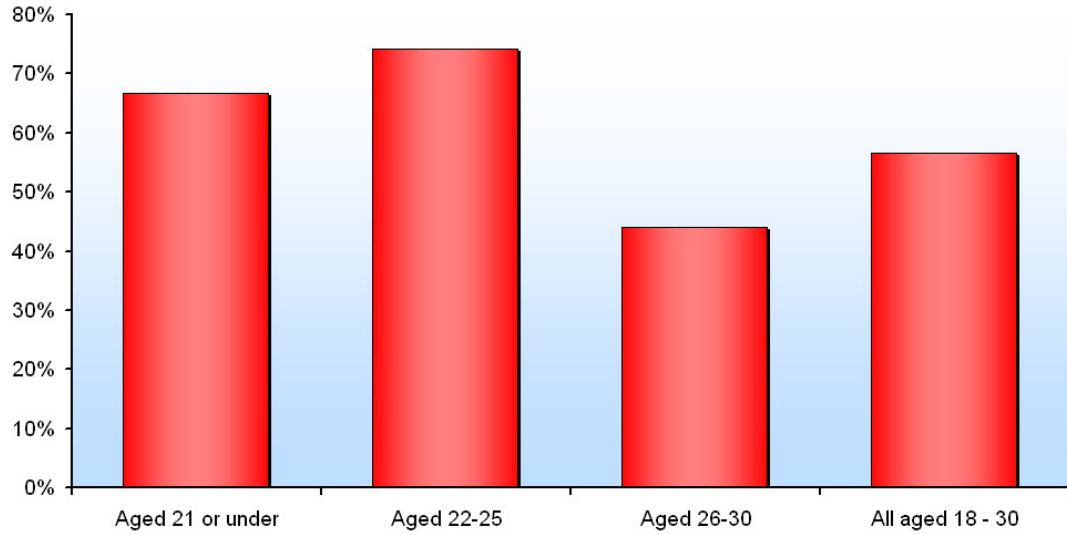


*Source: Research Resource, adapted by DTZ Pineda Consulting*

Most said that they had been made aware of the services offered by PSYBT during their application for the grant. Those aged between 22 and 25 had been made aware of PSYBT services more often than other age groups. This is shown in Figure 4.9. As might be expected, fewer of those aged over 25 had been given this information, as PSYBT services are not generally available<sup>10</sup> to those aged over 25.

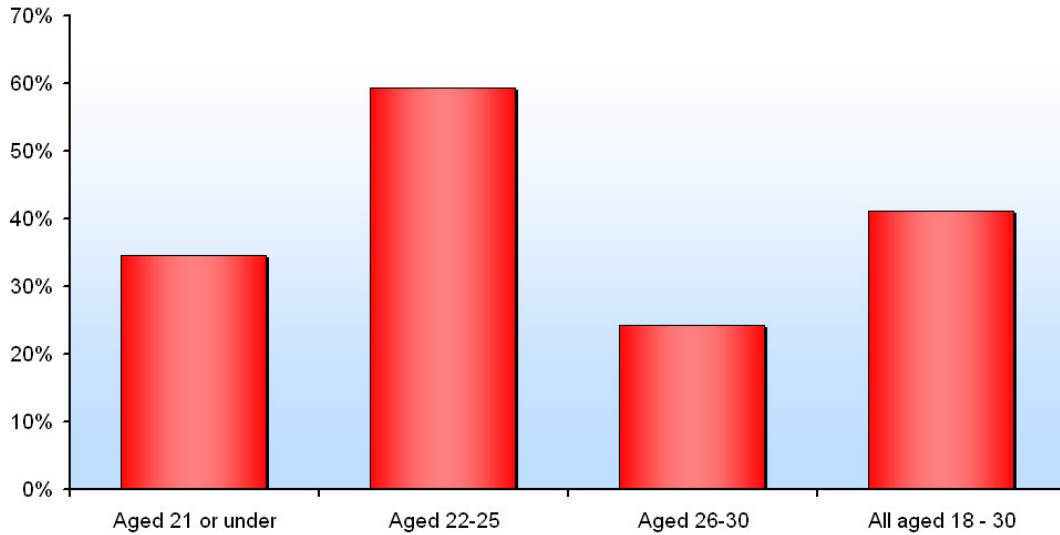
<sup>10</sup> Those with a disability can access PSYBT services until age 30

**Figure 4.9 – Awareness of the Services Offered by PSYBT by Age**



Source: Research Resource adapted by DTZ Pidea Consulting

**Figure 4.10 – Take Up of PSYBT Support by Age**



Source: Research Resource, adapted by DTZ Pidea Consulting

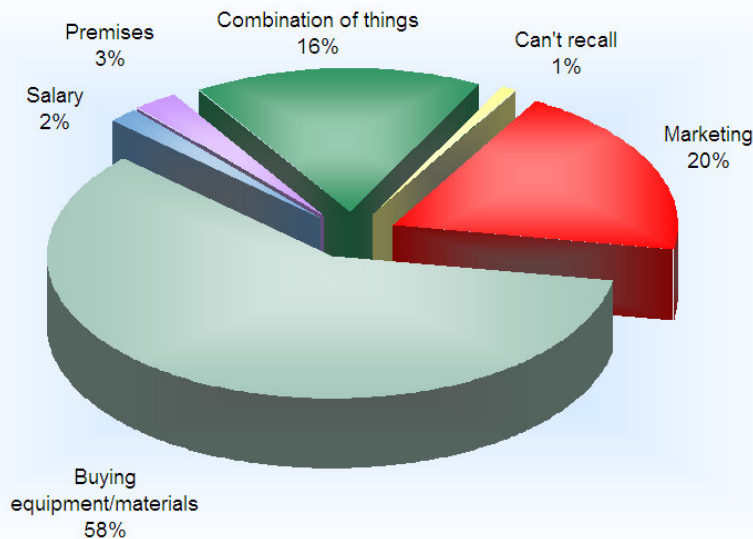
Despite relatively high levels of awareness, only 41% of those interviewed decided to pursue support form PSYBT. Surprisingly, 24% of those over 25 said that they had pursued this option despite PSYBT support not being generally available to this age group. Fifty nine percent of those aged 22 to 25 said they chose to pursue the PSYBT support option, whilst only 35% of those aged 21 or under did.

With hindsight, most (87%) of those who had started businesses felt that the initial funding they secured (including the Start-Up Award) had been sufficient to launch the business. Going forward, half (50%) of those interviewed said that they had received further business advice from the Gateway after the initial start up phase and this was usually in the form of ongoing support and advice.

#### 4.6 Scheme Impact

**Application of Funding** - the Scheme participants were asked what they had used the grant money for and Figure 4.11 shows that the predominant use of the grant funding was for the purchase of equipment, materials or stock. It should be noted that the respondents were able to give multiple responses to this question so the percentage figures in Figure 4.11 relate to 507 responses.

**Figure 4.11 – Use of the £1,000 Grant Award**



*Source: Research Resource, adapted by DTZ Pineda Consulting*

**Leverage** - it might be expected that the grant funding would potentially leverage funding from other sources, but for 88% of the businesses this did not appear to be the case. Of the 12% of cases that did leverage additional funding, this was generally through a bank loan (34%) or PSYBT (38%).

**Deadweight Assessment** - in order to assess the level of deadweight in the Scheme, the respondents were asked what impact it would have had on their decision to set up in business if they had not received the grant. Table 4.2 shows that 90% of the respondents felt that they would have set up in business anyway in the absence of the Scheme award. **Only 10% would not have set up in business at all.**

**Table 4.2 – Impact of Award on Decision to set up in Business**

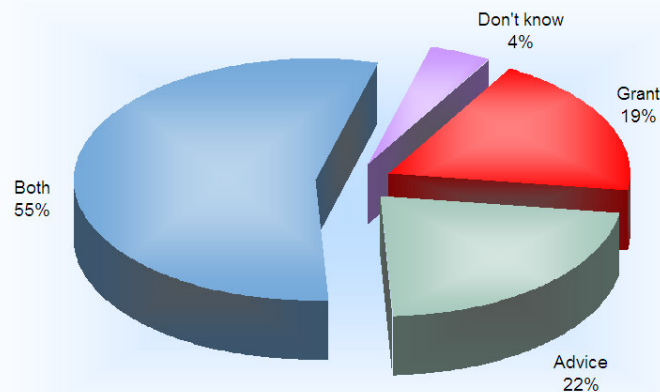
<i>Impact of Award</i>	<i>Proportion of respondents</i>
I would have set up in business anyway	45%
I would still have set up in business, but at a later date	35%
I would still have set up in business, but the quality would have suffered	8%
I would still have set up in business, but on a smaller scale	3%
I would not have set up in business at all	10%

The respondents were asked the same question in relation to the impact of the advice received from the Business Gateway. Table 4.3 shows similar problems relating to very high deadweight. Figure 4.12 shows the relative importance of the advisory and grant elements of the support. Clearly, the combination of financial and non-financial support impacted on the majority of respondents’ decisions to start up.

**Table 4.3 – Impact of Advice from the Business Gateway on Decision to set up in Business**

<i>Impact of Award</i>	<i>Proportion of respondents</i>
I would have set up in business anyway	41%
I would still have set up in business, but at a later date	33%
I would still have set up in business, but the quality would have suffered	12%
I would still have set up in business, but on a smaller scale	3%
I would not have set up in business at all	11%

**Figure 4.12 – Impact of Grant and Advice on Decision to Start Up**



Source: Research Resource, adapted by DTZ Pleda Consulting

The Scheme participants were asked to give examples to illustrate the nature of the impact the Award has had on their experiences of starting up in business. The main impacts appear to have been in terms of the direct financial impact of the grant (29%), the general help in starting up (13%), allowing the business to start up sooner than would have otherwise been the case (9%) and boosting confidence (8%).

The advice received from the Business Gateway appears to have had a greater impact in terms of boosting the confidence of the respondents (18%) and the greatest impact was the direct impact of receiving good advice from a Business Adviser (22%).

It is encouraging to note that with the benefit of a few months trading behind them, the vast majority of Scheme participants (91%) felt that they made the right decision to set up in business when they did. Most of the respondents (89%) reported that would have set up in the same location in the absence of the grant.

More than half (58%) of the businesses appear to have a significant number of competitors in the local area. The customer base of the start-ups is predominantly locally based with half of the respondents having 90% or more of their customers based locally. This is discussed more fully in the context of potential displacement in Section 6.

#### 4.6.1 Direct Impact

The survey attempted to gather data in order to calculate the economic impact of the Scheme in terms of the direct, indirect and induced impact (i.e. net of deadweight and displacement). The direct impact of the intervention is that which occurs within the supported companies themselves. In this case, this is recorded as attributable turnover (or output) increases. It should be noted that 23% of the respondents reported that they did not know what their turnover had been since the launch of their business and thus were excluded from the analysis.

The following process was adopted when calculating the direct impact of the start-up awards:

- Average monthly turnover was collected for each company and then weighted according to the proportion that was attributable to the grant award. The weightings used for additionality were based on the survey responses (question D4) and were as follows:

**Table 4.4 – Calculation of Scheme Additionality**

If you had not received the Award/ grant, what impact would it have had on your decision to set up in business?		
Response	Additionality Percentages	% of respondents
None, I would have set up in business anyway	0%	45%
I would still have set up in business, but at a later date	25%	35%
I would still have set up in business, but the quality of what I have done would have suffered – I wouldn't have thought it through as well	25%	8%
I would still have set up in business, but on a smaller scale	25%	3%
I <b>would not</b> have set up in business at all	100%	10%
<b>Note:</b> DTZ has used its assessment of the survey findings in its estimation of the 25% additionality percentages.		

- The average additional turnover by sector was then used to produce a grossed up figure for the population of 2,835 companies supported to date between October 2004 and August 2005. We have assumed that the survey sample was representative of the total population of supported companies.
- The number of companies was then adjusted to take account of the likely survival rate of companies for Year 1. A survival rate figure of 81% has been used, which reduces the number of companies to 2,296. Appendix B provides details of the assumptions made in calculating current and potential future impact.
- Displacement has then been accounted for at 80%, based on the figure used by Scottish Enterprise in its appraisal process. This accounts for the fact that a proportion of turnover in the new start companies will have captured market share from existing Scottish companies, which does not represent an absolute gain to the country as a whole, but simply a redistribution. **The issue of displacement is considered further in Section 6 of the report.**
- This final attributable monthly impact figure was then multiplied by 12 to give an estimated annual impact.
- This process was then repeated for employment levels.

The following table illustrates the value of output (turnover) across the population of supported companies that is attributable to the grant, after accounting for the likely survival rate of businesses, additionality, deadweight and displacement.

**Table 4.5 – Direct Impact of Start-up Support, by Sector in Year 1**

<b>Industrial sector</b>	<b>Number of supported companies</b>	<b>Average net turnover per company</b>	<b>Total annual net turnover per sector</b>	<b>Total employment impact*</b>
Primary industries	27	£866	£23,681	1.4
Energy/ utilities	7	£0	£0	0.0
Other manufacturing	62	£465	£28,573	4.9
Construction	191	£447	£85,633	11.1
Transport/ distribution	41	£125	£5,126	0.6
Retail	212	£912	£193,193	13.8
Wholesale	14	£0	£0	0.9
Hotel/ catering/ restaurant	116	£1,358	£157,804	6.6
Motor trade	14	£0	£0	0.3
Software/ IT and computer services	212	£1,625	£344,268	12.1
Finance	7	£0	£0	0.0
Business/ Professional Services	212	£473	£100,223	7.2
Media/ Publishing	116	£376	£43,688	6.9
Personal service	759	£447	£338,749	43.9
Design/ fashion etc	246	£607	£149,427	13.5
Other please specify	62	£507	£31,177	3.2
<b>All sectors</b>	<b>2,296</b>	<b>£654</b>	<b>£1,501,542</b>	<b>126.2</b>

\* survey responses were a mixture of FTEs and absolute employee numbers

The following key points should be noted:

- Annual net additional direct impact is estimated at **£1.5m** after accounting for the likely survival rate of businesses, additionality, deadweight and displacement, with the largest absolute impact occurring in the software/IT and computer services sector. This sector also has the largest annual impact per supported company.
- New net additional employment associated with the award is estimated at **126 jobs**, with a third of these concentrated in the personal service sector. This is not unexpected, given the highly labour intensive nature of this industry.

In appraising the Award Scheme Scottish Enterprise anticipated:

- a deadweight level of 50%, accounting for those companies which would have started up, or achieved some degree of their monthly turnover, regardless of the support received. Based on the responses to this question in the survey, we have calculated deadweight at 89%, which is a major finding, influencing both economic impact and value-for-money. **However, we have serious concerns regarding the validity of the assumptions based on the survey findings and this is discussed in detail in Section 6.**
- average gross turnover of £72,000 for supported companies by the end of year 3. Our survey suggests that average gross turnover was £30,500 in year 1, just under half of the anticipated level for Year 3. By sector, supported companies in the transport / distribution industry (£77,500) were the only ones on average to exceed the anticipated Year 3 level. The extent to which the average turnover of £30k will grow over the next two years is not known. However, a series of assumptions have been made to enable the calculation of potential future impact. These assumptions are detailed in sub-section 4.6.3 and in Appendix B.
- an average of 2 people per business by the end of year 3. Based on the survey results, there are currently 1.6 FTEs per supported business at year 1, or 80% of the anticipated level for year 3. However, it should be noted that the DTZ survey might be overstated, due to the lack of clarity in survey responses on headcount versus FTEs.

In summary, the direct turnover and employment impacts associated with the scheme are as follows:

**Table 4.6 – Summary of Direct Impacts**

<b>Summary of impacts</b>		
<b>Indicator</b>	<b>Total</b>	<b>Per company</b>
Gross Turnover	£70,048,240	£30,504
Gross employment	3,692	1.6
Net Turnover (after deadweight)	£7,507,711	£3,269
Net employment (after deadweight)	631	0.3
Final turnover impact (after displacement)	£1,501,542	£654
Final employment impact (after displacement)	126	0.05



#### 4.6.2 Indirect, Induced and Total Impact

Indirect impact occurs when the new-start businesses spend money with their suppliers, who in turn will need to recruit new employees. Induced impact occurs when those people employed either directly or indirectly spend their incomes in the economy. The extent of these impacts has been calculated based on the multiplier analysis of the Scottish Executive's 2002 Input Output tables.

**Table 4.7 – Total Net Impact on Scottish Output**

<b>Industrial sector</b>	<b>Direct Impact</b>	<b>Indirect Impact</b>	<b>Induced Impact</b>	<b>Total Net Impact</b>
Primary industries	£118,406	£91,645	£21,354	£231,404
Energy/ utilities	£0	£0	£0	£0
Other manufacturing	£142,866	£38,446	£31,483	£212,796
Construction	£428,167	£275,741	£124,294	£828,202
Transport/ distribution	£25,629	£9,136	£6,643	£41,408
Retail	£965,964	£401,978	£280,093	£1,648,034
Wholesale	£0	£0	£0	£0
Hotel/ catering/ restaurant	£789,022	£134,642	£255,093	£1,178,757
Motor trade	£0	£0	£0	£0
Software/ IT and computer services	£1,721,340	£295,827	£464,126	£2,481,292
Finance	£0	£0	£0	£0
Business/ Professional Services	£501,117	£378,714	£94,709	£974,540
Media/ Publishing	£218,440	£161,819	£73,009	£453,269
Personal service	£1,693,743	£555,229	£640,172	£2,889,143
Design/ fashion etc	£747,134	£23,196	£159,160	£929,490
Other please specify	£155,885	£101,325	£10,912	£268,123
<b>All sectors</b>	<b>£7,507,711</b>	<b>£2,467,700</b>	<b>£2,161,047</b>	<b>£12,136,458</b>

In summary, Scottish turnover is anticipated to increase by some £12m as a result of the start-up grant scheme. However, adjusting this impact for displacement (assumed at 80% following SE consultation), this figure would be reduced to £2.4m.

By the same measure, employment impact is estimated at 1,012 jobs, reduced to around 202 following displacement effects.

**Value for Money** – assuming a total allocation of funding to date of 63% (2,835 recipients as a proportion of the final target of 4,500) this yields a cost of £3.5m. This gives a cost per direct job of £27,778. It should be noted that this does not include the cost of the advice and start-up support services accompanying the grant.

#### 4.6.3 Potential Future Impact

It is possible to estimate the likely impacts over Years 2 and 3 using the impact data from Year 1 of the Scheme and evidence on the likely survival rate of these firms and their likely turnover and employment levels over Years 2 and 3. Evidence from an assessment of survival rates in SE assisted businesses<sup>11</sup> found the following survival rates:

<sup>11</sup> *Monitoring Business Survival Rates* DTZ PIEDA Consulting for Scottish Enterprise, February 2003

- Year 1 70%
- Year 2 65%
- Year 3 60%

This seems rather low compared to the findings from the survey of a Year 1 survival rate of 96%. However, we would question the validity of this figure given the evidence in the survey that suggests a significant proportion of the businesses are not actually “trading” (e.g. 23% reported that they did not know what their turnover was). The Small Business Service<sup>12</sup> reports the following survival rates for all VAT registered businesses in Scotland:

- Year 1 92%
- Year 2 81%
- Year 3 69%

It is likely that the survival rates of all VAT registered businesses would be higher given the comparatively larger scale of the businesses. The survival rate of the businesses started under the Scheme is likely to fall between these two ranges. Therefore, it has been assumed that the survival rates of the businesses in the Scheme would be as follows:

- Year 1 81%
- Year 2 73%
- Year 3 65%

The DTZ Pida Consulting report of 2003 on survival rates reported the following turnover figures for business start-ups:

- Year 1 £45,000
- Year 2 £70,000
- Year 3 £100,000

The actual figure for average turnover in Year 1 from the Scheme survey was £30,500 and the target for the end of Year 3 is £72,000, which seems reasonable given the Year 1 figure. These figures are broadly proportionate to the increases over 3 years in the DTZ Pida Consulting report (Year 1 = 68% and Year 3 = 72%). Therefore, it has been assumed that the likely turnover of the businesses in the Scheme would be as follows:

- Year 1 £30,500
- Year 2 £49,000
- Year 3 £72,000

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<sup>12</sup> *One year survival rates of VAT registered businesses by region (2003)* Small Business Service, February 2006

The final set of assumptions to be made relate to the employment in businesses. The survey reports an average of 1.6 jobs and the target of 2 jobs by the end of Year 3 seems low in this context. Therefore, we have calculated the likely employment over years 2 and 3 by assuming that employment will increase broadly in line with turnover, so an average productivity figure of £19,000 has been used based on the Year 1 actual figures. This results in the following employment figures:

- Year 1            1.6
- Year 2            2.6
- Year 3            3.8

Appendix B details the assumptions made in calculating the Scheme impact. Table 4.7 shows the potential impact of the pilot Scheme over the next 2 years.

**Table 4.7 – Summary of Direct Impacts Years 1 to 3**

<b>Summary of impacts Year 1</b>		
<b>Indicator</b>	<b>Total</b>	<b>Per company</b>
Gross Turnover	£70,048,240	£30,504
Gross employment	3,692	1.6
Net Turnover (after deadweight)	£7,507,711	£3,269
Net employment (after deadweight)	631	0.3
Final turnover impact (after displacement)	£1,501,542	£654
Final employment impact (after displacement)	126	0.05
<b>Summary of impacts Year 2</b>		
<b>Indicator</b>	<b>Total</b>	<b>Per company</b>
Gross Turnover	£101,421,800	£49,007
Gross employment	5,407	2.6
Net Turnover (after deadweight)	£10,870,303	£5,252
Net employment (after deadweight)	924	0.4
Final turnover impact (after displacement)	£2,174,061	£1,050
Final employment impact (after displacement)	185	0.09
<b>Summary of impacts Year 3</b>		
<b>Indicator</b>	<b>Total</b>	<b>Per company</b>
Gross Turnover	£132,696,120	£72,010
Gross employment	7,036	3.8
Net Turnover (after deadweight)	£14,222,258	£7,718
Net employment (after deadweight)	1,202	0.7
Final turnover impact (after displacement)	£2,844,452	£1,544
Final employment impact (after displacement)	240	0.13
<b>Summary of total direct impacts Years 1 to 3</b>		
Final direct turnover impact	<b>£6,520,054</b>	
Final direct employment impact	<b>240</b>	

The total direct impacts over Years 1 to 3 are as follows:

- Total net additional direct impact over Years 1 to 3 is estimated at **£6.5m** after accounting for additionality, deadweight and displacement.
- Total new net additional employment associated with the award at Year 3 is estimated at **240 jobs** after accounting for additionality, deadweight and displacement.

Following through the calculation of the total direct, indirect and induced impacts over Years 1 to 3, the results are as follows:

- Total net additional direct, indirect and induced impact over Years 1 to 3 is estimated at **£10.5m** after accounting for additionality, deadweight and displacement.
- Total new net additional direct, indirect and induced employment associated with the award by the end of Year 3 is estimated at **386 jobs** after accounting for additionality, deadweight and displacement.

#### **4.7 Summary of Key Findings**

In summary, the key findings to emerge from the beneficiary survey are as follows:

- Only 16 of the 400 businesses had ceased to trade
- 14% of the businesses had no target turnover prior to starting up which raises questions as to the quality of the business planning of grant recipients
- 70% had less than £3,000 funding available for starting up in business
- 81% of businesses had already committed to starting their business or were planning to start. Only 19% said they either had no serious plans or no plans at all to start up in business before they heard about the Scheme
- The difficulties encountered in setting up a business were centred on problems with raising the necessary finance and early cash flow and 84% of those interviewed said that they had not tried to seek finance from another source before they found out about the Award
- The survey findings indicate that the Scheme has been successful in raising awareness of the services offered by the Business Gateway and in bringing in a client group that would not otherwise have been reached
- 74% said that they had heard of PSYBT before starting out in business, but only 41% decided to pursue support from PSYBT.
- 87% of those who had started businesses felt that the initial funding they secured (including the Start-Up Award) had been sufficient to launch the business and 88% of the businesses had not leveraged funding from any other source
- There was 89% deadweight where respondents felt that they would have set up in business anyway in the absence of the Scheme award
- 91% felt that they made the right decision to set up in business when they did

- Annual net additional direct, indirect and induced impact is estimated at **£2.4m** (impact to date - £10.5m over 3 years)
- Net additional direct, indirect and induced employment associated with the award is estimated at **202 FTEs** (impact to date – 386 at end Year 3)
- This gives a cost per job of **£27,778** for year 1 falling to **£14,583** by the end of Year 3.

## **5 Business Gateway Survey**

### **5.1 Introduction**

This Section summarises the key points to emerge from the programme of in-depth consultation with Business Gateway managers from a range of LECs. The managers' consultations were supported as necessary with discussions with contractors delivering Business Gateway services. The findings are presented below under the following headings:

- Structure of the Award;
- Scheme Management;
- Future Developments; and
- Wider Policy Implications.

### **5.2 Structure of the Award**

Business Gateway Managers were clear on the eligibility criteria and why eligibility was restricted to a particular age group, although some felt that perhaps there was a risk that this approach left those over 30 feeling 'alienated.' There was also some suggestion that a disproportionately large number of the businesses started up were "lifestyle" businesses, with little ambition or potential for growth.

The quality of business plans had been an issue, but Business Gateway Managers felt that approval processes had improved and that plans were "fit for purpose." Given the high proportion of lifestyle businesses launched with funding from the Scheme there was a recognition that many plans did not require to be lengthy or detailed. Generally, Business Gateway Managers did not think that young people were less well prepared than other groups to start up in business, and in fact the modern education system perhaps equips them better with entrepreneurial and business planning skills.

The level of funding was generally felt to be appropriate, sufficient to provide a boost without introducing an excessive audit or administrative burden. Some suggestions were made that the Award could be tied to specific items of expenditure (e.g. capital equipment) but it was acknowledged that in practice this would probably be too complex to administer.

### **5.3 Scheme Management**

Guidance on the implementation of the Scheme was widely considered to be appropriate. Although there were some initial "teething problems" and adjustments made after launch, it was broadly felt that these are simply part of the process of introducing a new initiative. Some forms were not ready in advance of the launch. Business Gateway Managers did suggest that it might have been useful to have changes and additions specifically highlighted in any new guidance to aid the process of taking adjustments on board and keeping contractors well informed.

It was also highlighted that audit exercises should have been based on the guidance in place at the relevant point in time and not that in place at the time of the audit (older versions of guidance were not available for this purpose). Briefing of contractors was at the discretion of individual Business Gateways. Some areas developed "briefing packs" for contractors and there may have been scope for some coordination at the SE National

level. This would have reduced the burden on individual LECs and helped to ensure consistency in delivery across different parts of the Scottish Enterprise area.

Contractual arrangements have not yet been an issue in most LEC areas so far, however, indicatively it would seem that much of the administrative burden of grant applications has been borne by contractors. To alleviate this problem, one area had already introduced relatively flexible contracting arrangements and adjusted the contract to remain fair to the contractor. In another area, the Business Gateway contract was due for renewal and there has been an increase in costs, some of which is related to the Scheme. It can be expected that this will occur in other areas as contracts are renewed, and there is some concern that there is no support from SE National for this. However, the additional administrative burden on contractors arising as a result of the introduction of the new Customer Relationship Management (CRM) system was a significantly bigger concern than the launch of the Scheme.

Links with PSYBT were generally felt to be good. Many Business Gateways have a representative of PSYBT situated on-site and there were various arrangements in place to signpost young people to PSYBT services. Some Business Gateway Managers felt that PSYBT processes put some young people off (they take a long time, the panel process is intimidating, they generally offer loans rather than grants) but that this meant that, in many cases, PSYBT resources were therefore being focused on those most in need of additional support and advice.

Trends in start-up activity appear to show that young start-ups have increased at the expense of other start-up activity. Business Gateway Managers generally suggested a number of potential explanations for this:

- Without a financial incentive fewer over 30 year olds are prepared to provide the information required to register their business as a “Business Gateway Start Up”
- With a financial incentive more under 30 year olds are prepared to provide the information required to register their business as a “Business Gateway Start Up”
- The advertising campaign has alienated those over 30, and made them feel that the Business Gateway does not have as much to offer them

It was not felt that this shift in activity had occurred because young people take up a disproportionate amount of Business Advisors time.

## **5.4 Future Developments**

There is a feeling that the long-term effects of this Scheme remain to be seen, and there was a general hope that it may change entrepreneurial culture among young people and deliver some sustainable businesses with strong potential for growth. However there was some concern that the Award is not linked to need, and more importantly, not linked to potential. It was recognised, though, that more sophisticated Award criteria would add to the administrative burden of the scheme.

The marketing was broadly felt to have been successful and, in particular, appropriate for the target age group. Initially it generated a large number of “dead ends” from people not clear on what the Scheme was for, with no interest in setting up a business. However, this has calmed to some extent, and there was no requirement for a fundamental shift in focus.

The Business Gateway is generally felt to be the most appropriate delivery body for the Grant and the relatively straightforward award criteria make it suitable for administration by contractors. There was some indication that there is an issue relating to the divorce between power and responsibility. The budget is held and administered at a national level, but individual Business Gateways have responsibility for ensuring awards are made appropriately and the necessary procedures are followed without the sanction of being able to withhold payment to contractors as they are paid by SE National.

## **5.5 Wider Policy Implications**

After some effort by Scottish Enterprise to move away from an image as a grant-giving organisation, there was some concern that the high level of publicity surrounding this scheme had “undone” some of this.

## **5.6 Summary and Conclusions**

The Business Gateway Managers were generally satisfied with the structure of the Award and appreciated the need for a Scheme that was relatively simple to administer. Implementation guidance was considered appropriate although it was suggested that there could have been central coordination of briefing information for contractors to ensure consistency.

The additional administrative burden on contractors as a result of the new CRM system was raised as a concern. While there was some reticence to predict the longer-term effects of the Scheme, there was a degree of optimism that it would stimulate a more entrepreneurial culture within the target group and produce some sustainable businesses.



## **6 Economic Assessment**

### **6.1 Introduction**

This Section provides an economic assessment of the project by considering the achievement of project objectives, the continued relevance of the intervention to the strategic context within which it is delivered, the existence of market failure, the impact of the Scheme and its value for money.

### **6.2 Project Objectives**

The objectives of the Scheme were set out in Section 2 and are as follows:

- To provide 4,500 grant awards of £1,000 each to businesses with a lead partner in the 18-30 age group during the 18 month pilot period (Oct 2004 to March 2006)
- To create 5,500 gross jobs at the end of three years
- To generate net sales of £19.4m at the end of three years

At the end of the first year of the pilot period, the Scheme appears to have made the following progress towards its objectives:

- 2,835 grant awards over an 11-month period – equivalent to 63% of the target in 61% of the pilot period (11 out of 18 months)
- 3,692 gross jobs created by the end of year 1 or 67% of the target for year 3
- £2.4m of net sales generated by the end of year 1 or 13% of the target for year 3

On the basis of progress to date, it can be concluded that while the programme appears to be on track for meeting the anticipated number of grant awards and looks set to exceed the target for gross employment, the generation of net sales appears to be well below the anticipated level.

### **6.3 Strategic Context**

The rationale underpinning the business start-up award scheme continues to be directly supportive of ‘Smart Successful Scotland’ and the policy and strategic context as articulated in SE’s Annual Operating Plan, in particular the Network goal of ‘Generating Entrepreneurial Dynamism’ in terms of supporting Scotland’s business birth rate, encouraging entrepreneurship, targeting young people and supporting growing businesses.

The Scheme appears to have been successful in encouraging business start-ups in the 18-30 category and starts in this age group increased by 150% over the first 11 months of the pilot. However, it is the objective of this evaluation study to determine not only the extent to which the award scheme has fulfilled its objectives and provided a meaningful and cost-effective contribution to the goals of ‘Smart Successful Scotland’, but also whether or not the Scheme is the most appropriate means to achieve these objectives and goals. This is considered more fully in Section 7.

## 6.4 Rationale

The rationale for the Scheme was set out in Section 2. The Scheme's objective is to increase the number of businesses started by the 18 to 30 age group with the aim of encouraging businesses to be started at an earlier stage in life, with increased prospects for subsequent business growth and job creation, and additional entrepreneurship.

The rationale for intervention is based on the following assessment of market failure:

- **Asymmetric Information Failure** - this relates to the difficulty of securing finance by start-up businesses. The financial institutions overstate their assessment of risk due to imperfect information on the businesses seeking funding and, as a consequence, under-provide finance for the 18 to 30 age group.
- **Information Failure** – those in the 18 to 30 age group may also suffer from information failure in terms of where to go for finance and how to secure it, which could also compromise their access to funding.
- **Risk Aversion** – due to imperfect information on what is involved in setting up and running a business, young people may have a disproportionately high risk aversion to launching a new business.

The vast majority of respondents (84%) had not tried to get finance from another source before responding to the Scheme so it is difficult to assess whether there is an asymmetric information failure amongst this group.

The evidence from the survey supports the assertion that the client group may suffer from an information failure in terms of where to go for finance with 41% of respondents stating raising the necessary finance as a difficulty encountered in starting up in business and 48% of those that had not tried to get finance from another source stating that they would not have known where to go for financial assistance prior to participating in the Scheme.

Furthermore, 39% of respondents would not have known to approach the Business Gateway for start-up advice and there were a number of non-financial barriers to start-up with 25% reporting serious difficulties in knowing how and where to start and 11% stating issues with credibility and being taken seriously.

The significant increase in start-up numbers within this age group since the commencement of the Scheme could be taken as an indication that the Scheme is helping to overcome risk aversion in this group.

## 6.5 Impact

### 6.5.1 Summary of Survey Findings

The impact of the Scheme was discussed in detail in Section 4 and the following economic impacts were calculated based on the survey data:

**Table 6.1 – Summary of Direct, Indirect and Induced Impacts**

<b>Summary of impacts</b>		
<b>Indicator</b>	<b>Total</b>	<b>Per company</b>
Gross Turnover	£70,048,240	£30,504
Gross employment	3,692	1.6
Net Turnover (after deadweight)	£7,507,711	£3,269
Net employment (after deadweight)	631	0.3
Final turnover impact (after displacement)	£1,501,542	£654
Final employment impact (after displacement)	126	0.05
Final turnover impact (direct, indirect & induced)	£2,427,292	£1,057
Final employment impact (direct, indirect & induced)	202	0.09

However, we have concerns regarding the economic impact and value-for-money of the programme. There are significant uncertainties surrounding the two key figures for deadweight and substitution. These two factors are based on a number of key assumptions and the study has a number of contradictions in the available evidence. The uncertainties surrounding the assumption under each of the elements is discussed in turn below.

### 6.5.2 Deadweight

We have a number of concerns surrounding the validity of the assumptions on additionality. The survey would suggest that deadweight is extremely high at around 89%. However, there is contradictory evidence that additionality is not so problematic:

- The statistics on the number of start-ups in the 18-30 category suggest that there has been a huge increase in the volume of start-ups in this group since the introduction of the Scheme – numbers have increased by around 150% over an eleven month period compared with an equivalent period prior to the introduction of the award.
- The survey findings point to the existence of a high degree of market failure in the form of information failure with respondents reporting that they were unclear as to where to go for finance and how to secure it:
 

*84% had not sought finance from any other source and 48% of those would not have known where to go for financial assistance.*
- This would contradict the high level of deadweight in that it could be argued that despite the respondents stating that they would have started up a business in the absence of the support, the reality is that this may not have been a viable option for many of the grant recipients.
- It is likely that deadweight will lie somewhere between 50% (the SE assumption used in the initial appraisal) to 90% (the calculated figure from our survey of beneficiaries), but based on the contradictory evidence available this is difficult to bottom out. This issue is fundamental to the calculation of impact and requires further analysis to arrive at the most robust assessment. In order to strengthen the impact assessment, a series of sensitivities have been undertaken and these are presented below following the discussion of displacement.

### 6.5.3 Displacement

At the outset of the study, SE stated the assumption that displacement was around 80%, based on previous work on similar interventions. However, we believe there is considerable uncertainty surrounding this assumption due to the profile of the beneficiaries:

- The scale of the start-ups in terms of capital is small with 70% of the beneficiaries reporting that they had less than £3,000 available at the pre-start phase.
- There is clear evidence, both from the survey and previous work undertaken for SE, of a lack of business planning capability among the recipients of the award.
- The vast majority of businesses started appear to comprise one person, likely to be working from home.
- The survey findings suggest that the majority are entering highly competitive locally based markets with a high service focus.

Therefore, we have significant concerns regarding the assumptions surrounding the level of displacement in the market and once again this is central to the calculation of the impact of the Scheme and requires further discussion.

The survey respondents were asked to identify the proportion of their customer base that is located in each of the following areas:

- Locally
- Within Scotland
- Outside Scotland but within the UK
- Outside the UK

This can be used as a proxy measure to indicate the level of displacement as the higher proportion of the businesses customers based locally and within Scotland, the higher the likely level of displacement. The relative proportions given to each geographical area were weighted according to the frequency of responses. When the weighted figures for each area are compared, they are distributed in the following proportions:

- Locally – 67%
- Within Scotland – 22%
- Outside Scotland but within the UK – 9%
- Outside the UK – 3%

Therefore, it could be argued that displacement would equate to the proportion of the businesses' customers based within Scotland, that is **88%**<sup>13</sup>. This suggests that displacement may be higher than the 80% assumed by SE.

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<sup>13</sup> Due to rounding the sum of the categories 'Locally' and 'Within Scotland' is 88%.

Given our significant misgivings about the impact assessment assumptions, a series of sensitivities were undertaken on both the deadweight and displacement assumptions.

#### 6.5.4 Sensitivity Analysis

Based on the findings of the survey taken at face value, deadweight appeared to be high at 89%. As shown in Table 6.1, this was based on the question on the impact the grant had on the respondents' decision to set up in business. Given the high proportion of people indicating that they had commenced the business start-up process, the level of additionality for the middle responses relating to the timescale, quality and scale of the businesses was set at 25%. When these figures are applied to the turnover figures provided by the respondents, overall deadweight comes out as 89%.

However, given the concerns raised above regarding deadweight and additionality we would question this figure and have undertaken further analysis after re-weighting the partial additionality allocations from 25% up to 75%. In normal circumstances in an evaluation of this type the Medium Additionality option would be regarded as a fair and balanced method of calculating the impact of an intervention.

**Table 6.2 – Deadweight Sensitivities**

If you had not received the Award/ grant, what impact would it have had on your decision to set up in business?				
Response	Additionality			
	Low	Medium	High	Maximum
None, I would have set up in business anyway	0%	0%	0%	25%
I would still have set up in business, but at a later date	25%	50%	75%	75%
I would still have set up in business, but the quality would have suffered	25%	50%	75%	75%
I would still have set up in business, but on a smaller scale	25%	50%	75%	75%
I <b>would not</b> have set up in business at all	100%	100%	100%	100%
Total additionality	11%	18%	25%	45%
Total deadweight	89%	82%	75%	55%

However, in this instance we would argue that this would understate the benefit of the Scheme as it is unlikely that all of the 45% of respondents who stated that they would have set up in business in the absence of the Scheme would have done so in reality. Similarly, we believe that that the proportions who would have set up in business but at a later date, on a smaller scale or lower quality are likely to be smaller. For these reasons, we suggest that is more appropriate and robust to move to the Maximum Additionality figures in Table 6.1.

Indeed, this is supported by SE's initial appraisal of the start-up grant<sup>14</sup> where the paper cites previous work on business start-up that asserts that estimates based on a question in a survey of programme participants will tend to overestimate deadweight given the tendency for respondents to overestimate their own potential to go into business. Furthermore, the 2003 evaluation of PSYBT questioned previous estimates of programme deadweight of 65% believing it to be an overestimate given that the majority of clients would have been unlikely to raise the finance in the absence of PSYBT.

<sup>14</sup> *Start-Up Grant – Initial Appraisal* Paper prepared by Scottish Enterprise, September 2003

In addition to the sensitivities on deadweight, it was also felt to be appropriate to conduct sensitivities on displacement for the reasons set out above. Table 6.3 sets out the results of the sensitivity analysis conducted on the turnover impact figures. The shaded box in the top right hand corner represents the net additional turnover based on the survey assumption of 89% deadweight and SE's assumption of 80% displacement. The shaded boxes in the bottom left hand corner are where we feel the impact is more likely to lie given that we feel deadweight should be significantly lower and displacement higher.

**Table 6.3 – Turnover Sensitivities**

Displacement	Deadweight			
	55%	75%	82%	89%
60%	£12,587,311	£7,108,532	£5,055,808	£3,003,085
80%	£6,293,656	£3,554,266	£2,527,904	£1,501,542
85%	£4,720,242	£2,665,699	£1,895,928	£1,126,157
90%	£3,146,828	£1,777,133	£1,263,952	£750,771
95%	£1,573,414	£888,566	£631,976	£375,386

This yields an overall net additional impact of somewhere between £1.6m and £3.1m. When the same analysis is conducted with the employment impact data the expected number of net additional jobs created is expected to fall between 94 and 187 as shown in Table 6.4.

**Table 6.4 – Employment Sensitivities**

Displacement	Deadweight			
	49%	62%	73%	83%
60%	748	555	404	252
80%	374	277	202	126
85%	281	208	151	95
90%	187	139	101	63
95%	94	69	50	32

## 6.6 Value for Money

The survey findings indicated a cost per net additional job of £27,778. However, if displacement is assumed to be 90% and deadweight 49% this falls to £18,717, but raising the displacement figure to 95% results in a cost per job of £37,234. The initial appraisal of the project estimated the cost per additional job at £18,000.<sup>15</sup>

**Table 6.5 – VFM Sensitivities (Cost per job)**

Displacement	Deadweight			
	49%	62%	73%	83%
60%	£4,679	£6,306	£8,663	£13,889
80%	£9,358	£12,635	£17,327	£27,778
85%	£12,456	£16,827	£23,179	£36,842
90%	£18,717	£25,180	£34,653	£55,556
95%	£37,234	£50,725	£70,000	£109,375

The sensitivities above only take into account the direct impacts from the Scheme. Table 6.6 shows the figures for the total impact including direct, indirect and induced effects.

**Table 6.6 – Total Impact (Direct, Indirect and Induced) Sensitivities**

Scenario		Impact		
Deadweight	Displacement	Turnover	Employment	Cost per job
89%	80%	£2,427,292	202	£17,327
55%	90%	£5,159,412	307	£11,401
55%	95%	£2,579,706	154	£22,727

This sets the context for the recommendations contained within the following concluding section to the report.

<sup>15</sup> *Start-Up Grant – Initial Appraisal Paper* prepared by Scottish Enterprise, September 2003

## **7 Conclusions and Recommendations**

### **7.1 Introduction**

This Section concludes the review of the Business Start-up Award for 18-30s by reviewing the evidence for the continued relevance of the project in terms of the strategic context and rationale for intervention. The management and delivery of the project is assessed and the Scheme impact considered before our recommendations for the future of the intervention are presented.

### **7.2 Strategic Context and Rationale**

As noted in Section 6, the rationale underpinning the business start-up award scheme continues to be directly supportive of 'Smart Successful Scotland' and the policy and strategic context in terms of supporting Scotland's business birth rate, encouraging entrepreneurship, targeting young people and supporting growing businesses.

The Scheme's objective is to increase the number of businesses started by the 18 to 30 age group with the aim of encouraging businesses to be started at an earlier stage in life, with increased prospects for subsequent business growth and job creation, and additional entrepreneurship. It appears to have been successful in encouraging business start-ups in the 18-30 category and starts in this age group increased by 150% over the first 11 months of the pilot.

In terms of assessing the extent to which market failure is still present, it is difficult to assess whether there is an asymmetric information failure amongst this group given that the vast majority of respondents (84%) had not tried to get finance from another source before responding to the Scheme.

The available evidence from the survey supports the assertion that the client group may suffer from an information failure in terms of where to go for finance with 41% of respondents stating raising the necessary finance as a difficulty encountered in starting up in business and 48% of those that had not tried to get finance from another source stating that they would not have known where to go for financial assistance prior to participating in the Scheme.

Furthermore, the significant increase in start-up numbers within this age group since the commencement of the Scheme could be taken as an indication that the Scheme is helping to overcome risk aversion in this group.

However, for reasons developed below we have significant reservations in recommending the continuation of the pilot programme as we believe the value for money of the project can be questioned primarily based on the economic impact assessment. The achievement of the broad Scheme objectives and the strategic goals could be met by targeting the funding elsewhere.

### **7.3 Management and Delivery**

The management and delivery of the Scheme appears to have been sound with internal audits picking up issues relating to the monitoring of the programme that were addressed during the pilot. The quality of the business plans was called into question, but this has been recognised and is the subject of continuing review. The marketing of the Scheme appears to have been highly successful in encouraging take up and there are lessons to be learned from this successful campaign.



The Business Gateway Managers were generally satisfied with the structure of the Award, but highlighted the administrative burden placed on contractors as a result of the new CRM system as a concern. While it is felt that it is too early to fully assess the impact of the Scheme, there was a degree of optimism that it would stimulate a more entrepreneurial culture within the target group and produce some sustainable businesses. Overall, there are no major issues relating to the management and delivery of the Scheme and it appears to have been well coordinated.

## 7.4 Scheme Impact

As discussed in Section 6, we have significant concerns regarding the economic impact and value-for-money of the programme. There are significant uncertainties surrounding the two key figures for deadweight and substitution. These two factors are based on a number of key assumptions and the study has a number of contradictions in the available evidence.

Based on the findings of the survey taken at face value, deadweight appeared to be high at 89%. However, given our concerns regarding deadweight and additionality we would question this figure and would argue that this understates the benefit of the Scheme as it is unlikely that the 89% of respondents who stated that they would have set up in business in the absence of the Scheme would have done so in reality.

Indeed, this is supported by SE's initial appraisal of the start-up grant<sup>16</sup> where the paper cites previous work on business start-up that asserts that estimates based on a question in a survey of programme participants will tend to overestimate deadweight given the tendency for respondents to overestimate their own potential to go into business.

At the outset of the study, SE stated the assumption that displacement was around 80%, based on previous work on similar interventions. However, we believe there is considerable uncertainty surrounding this assumption due to the profile of the beneficiaries and would argue that displacement is more likely to be above 90%.

Taking these points into account in the economic impact assessment yields an overall net additional impact of somewhere between **£1.6m and £3.1m**. When the same analysis is conducted with the employment impact data the expected number of net additional jobs created is expected to fall between **94 and 187**.

The survey findings indicated a cost per net additional job of £27,778. However, if displacement is assumed to be 90% and deadweight 49% this falls to **£18,717**, but raising the displacement figure to 95% results in a cost per job of **£37,234**. In the context of the massive displacement of activity we would question the value for money of the programme.

While the Scheme may have encouraged an increased number of people within the 18-30 category to start-up in business there is some question as to the quality of the businesses started. The Scheme also appears to have fallen considerably short of its target for the generation of net sales. The question to be answered is whether the funding should be used in this way where support is in effect **high volume but low impact**, or whether it should be targeted more effectively to be **low volume but high impact**?

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<sup>16</sup> *Start-Up Grant – Initial Appraisal* Paper prepared by Scottish Enterprise, September 2003

## 7.5 Recommendations

The aim of this review was to assess the effectiveness of the Business Start-Up Award for the 18-30s pilot scheme in terms of its potential economic impact and its contribution to Scottish Enterprise goals under *Smart Successful Scotland*. It is our recommendation that Scottish Enterprise and the Scottish Executive reflect upon the lessons learned from the pilot scheme in determining the future of the Award. We have significant reservations in recommending the continuation of the pilot scheme, as we believe the value for money of the project can be questioned primarily based on the economic impact assessment. We believe the achievement of the broad Scheme objectives and the strategic goals could be met by targeting the funding elsewhere.

Should a decision be taken to continue with the Scheme beyond the pilot period we recommend that it be targeted at those applicants that can demonstrate a business plan to a set of required standards set out clearly for Business Gateway Advisers to allow consistency in approach and to ensure that the funding is targeted at those businesses most likely to survive and grow thus contributing to the Scottish economy.

