

NEW BUSINESS CREATION IN SCOTLAND SINCE 2010

Dr. Paul Hopkins, SE Economic Research Team (Paul.Hopkins@Scotent.co.uk)

December 2018 (this paper was updated in March 2019 due to an error in the ONS data, now rectified)

What is this about?

This note presents analysis of ONS data¹. It highlights the change in new business creation since 2010. It also compares Scotland to elsewhere in the UK.

Why is this important?

Without new firms, there is less competition and the pool of companies who could become high-growth and mid-sized is smaller. Evidence also identifies new firms as the primary creators of new jobs in economies, and in Scotland they have an important role in sustaining jobs both in rural and urban areas².

Creating more new businesses would provide a larger business base from which to develop more growth as well as more mid-sized businesses (MSBs). Evidence also shows growth and high-growth is achievable anywhere in Scotland but in several areas, particularly rural and remote areas, the small business population is hindering further growth³. New business creation is the principal way of addressing this.

We know Scotland's start-ups perform well⁴. However, achieving and then sustaining growth ultimately becomes less common around the £4m-£5m turnover range, creating growth bottlenecks⁵. This weakens Scotland's ability to create more homegrown MSBs as seen by their growth being outpaced by foreign-owned MSBs, as well as MSB growth elsewhere in the UK.

Creating more MSBs matters because they disproportionately contribute to growth⁶ and are more innovative, more likely to export and have higher productivity. Creating more MSBs starts with the creation of more new businesses.

Five things you need to know

1. Creation of new businesses is not even across Scotland. It is strongest in the Edinburgh and Aberdeen City Regions, and around (but not necessarily within) Glasgow City, and weakest in rural and remote areas.
2. The creation of new businesses increased from 2010 to 2017 in Scotland but has declined in the last three years; with a rate of decline worse than all UK regions (except South West England). Only six local authorities (Glasgow City, Fife, South Lanarkshire, South Ayrshire, East and West Lothian had growth in new business creation relative to their business base from 2015-17 compared to 2012-14.
3. Despite continuing growth in 2015-17 contrary to most local authorities, Glasgow City underperforms relative to its business base in new firm creation; ranking in the third quartile in Scotland for percentage growth. Aberdeen City and Aberdeenshire saw significant declines in new business creation since 2015 because of the downturn in oil and gas.
4. Even if Glasgow, Aberdeen and Aberdeenshire all performed to the Scottish average, Scotland would remain in the third quartile across the UK for new business creation.
5. Should the pattern observed since 2010 continue, the disparities in economic performance across and within regions of Scotland are likely to increase. In addition, the opportunities to increase the numbers of high-growth and MSBs will be restricted, with consequences for increasing growth.

Business creation across all of Scotland is therefore fundamental to achieving the goal of inclusive and sustainable economic growth.

¹ Please note, there are limitations on the extent of the data. It does not enable analysis of the growth performance of the new business starts and those that survive. It is also not able to identify individual companies. ONS provides data at the aggregated level.

² Federation of Small Businesses, Scotland. '[Scottish smaller firms support up to 70% of rural private sector jobs](#)', 29 November 2018

³ <http://www.evaluationsonline.org.uk/evaluations/Search.do?ui=basic&action=show&id=651>

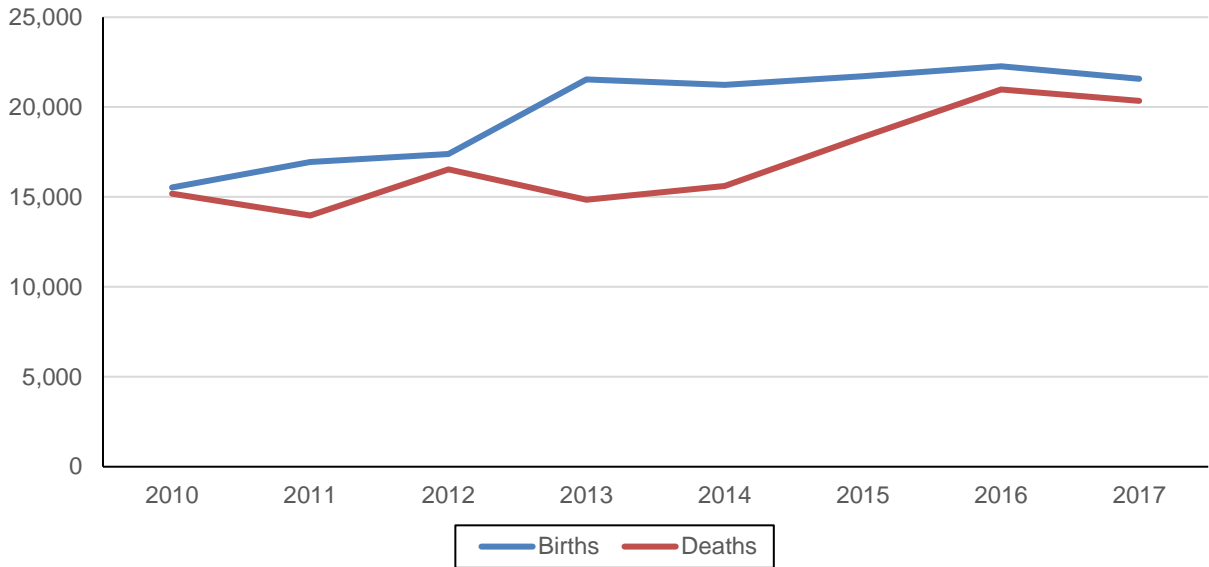
⁴ <http://www.evaluationsonline.org.uk/evaluations/Search.do?ui=basic&action=showPromoted&id=653>

⁵ http://intranet.scotent.co.uk/A-z/T-knowledge_exchange/Documents/Maximising%20the%20Growth%20Board%20Evidence%20paper.docx

⁶ <http://www.evaluationsonline.org.uk/evaluations/Search.do?ui=basic&action=show&id=652>

Business Creation and Growth

Business births and deaths in Scotland 2010-17



Source: SE analysis of ONS data

After strong growth from 2010 to 2013 the business birth rate in Scotland has plateaued, allowing the death rate to catch up. As a result, from a net birth rate (births minus deaths) of 6,690 in 2013, the net growth in new businesses in 2017 was 1,225. It is likely this will lead to a weakening of the pipeline of early-stage growth potential companies.

This trend is different from that seen in the UK. In 2017 the business birth rate declined, at a similar rate to Scotland; yet the death rate also rose (net business creation of +25,070 compared to +126,095 in 2016). This is largely driven by a rise in deaths in London as opposed to other regions.

Scotland’s share of the UK’s new business births fell year on year from 2010-16, and despite an increase in 2017 is 1.0% lower in 2017 than it was in 2010. The most significant declines were seen from 2014/15 and 2015/16 which the evidence further highlights, is mostly a consequence of a sharp decline seen in Aberdeen City because of the fall in the oil price.

More positively, **Scotland’s share of deaths has declined over the same period; from 6.1% in 2010 to 5.7% in 2017.** Again, mirroring the pattern across 2014/15 and 2015/16 there was a spike in Scotland’s share of deaths, peaking at 7.3% of the UK total in 2016. This serves to highlight, as this paper will explore further, the dependency on cities and urban areas of Scotland’s economic performance and business creation.

Scotland’s percentage of UK business births and deaths 2010-17

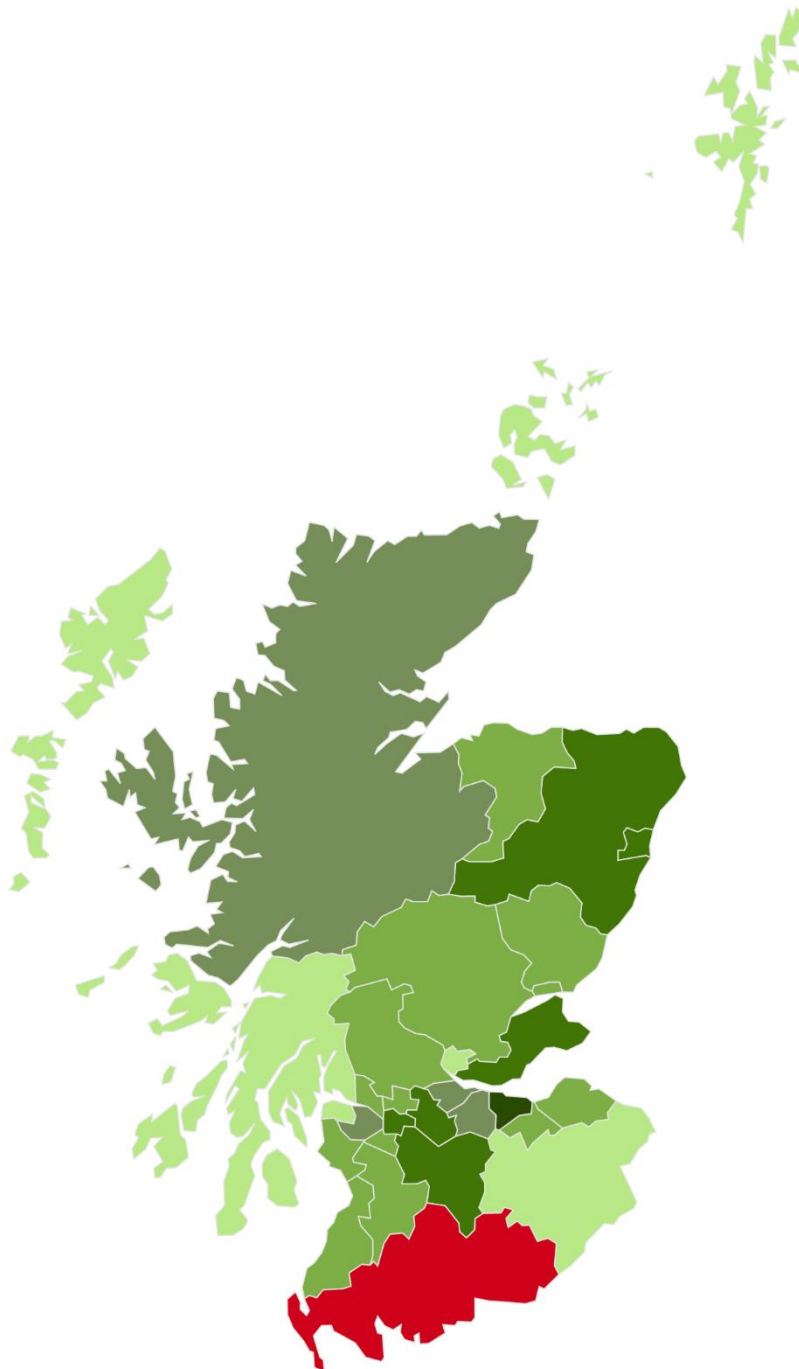
	2010	2011	2012	2013	2014	2015	2016	2017
Births	6.6%	6.5%	6.5%	6.2%	6.1%	5.7%	5.4%	5.6%
Deaths	6.1%	6.1%	6.6%	6.3%	6.3%	6.5%	7.3%	5.7%

Source: SE analysis of ONS data

Overall growth in the business base

Analysis of birth and death rates by local authority highlights those that have seen the highest levels of growth since 2010. **31 of 32 council areas saw a net increase in their business population.** Only Dumfries & Galloway (with 70 more deaths than births) saw a decline over the period.

Net business growth in Scotland 2010-17



Between 2010 and 2017 seven council areas in Scotland saw a net increase of over 1,000 in their business base through births and deaths. These were:

1. Edinburgh City +4,635
2. Glasgow City +2,020
3. Aberdeen City +1,970
4. Aberdeenshire +1,795
5. North Lanarkshire +1,755
6. Fife +1,710
7. South Lanarkshire +1,505

Aberdeen was on course to achieve a higher rate but since 2014 deaths outpaced births until 2017. Similarly, since 2015-16, Aberdeenshire has seen a net decrease of -90.

In 2010, nineteen local authorities in Scotland saw a net decrease with more deaths than births. This potentially reflects fall-out from the recession as companies closed.

In 2013 and 2014 all council areas saw a net increase. From this strong performance across Scotland, 2016 and 2017 has seen an increase in areas where deaths have exceeded births. This has been concentrated in rural and island authorities.

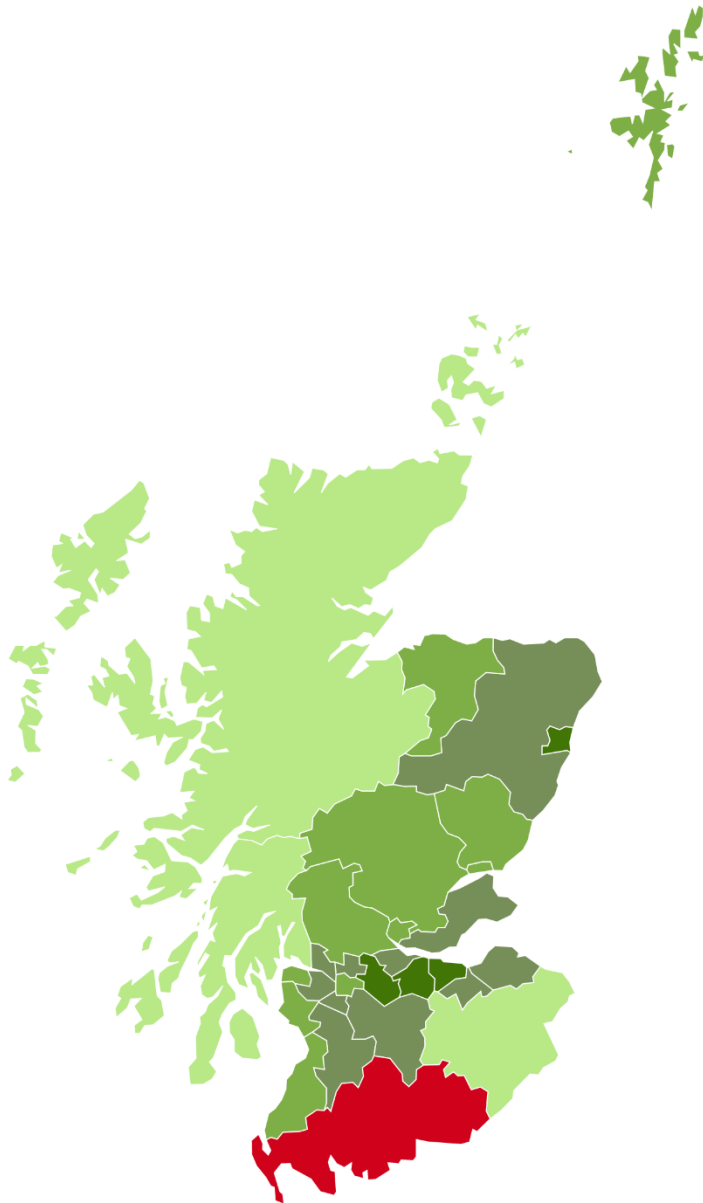
All regions have seen a net increase, but this varies considerably from an +8,420 net in Edinburgh and South East to +50 in the South of Scotland. In regional terms, the East and West are far outpacing the other regions in terms of net business creation.

Negative net growth	0 - +250	+250- +500	+500- 1000	+1000 - +2000	+2000 plus
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Source: SE analysis of ONS data.

Net growth as a percentage of the business base

Net growth in business as a percentage of the business base 2010-17 (by local authority)



Source: SE analysis of ONS data

Negative	0 – +5%	+5%–+10%	+10%–+15%	Over +15%
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Analysis of the growth in business creation as a percentage of the existing business base provides insight of where in Scotland is overperforming and underperforming relative to its size.

The most dynamic areas for new business creation as a percentage of the business base was ***greatest in Edinburgh City (+19.7%), Aberdeen (+17.2%), and West Lothian (+17.0%).***

Only Dumfries & Galloway saw a percentage decrease due to seeing more deaths than births overall since 2010 (a decline of -0.9%).

However, ***the lower growth rate in some of the higher business density areas, particularly in the West of Scotland (Glasgow City ‘only’ grew +8.3%) but also in the Tay Cities drags Scotland’s growth down to +11.1%.***

In the South and the Highlands, the data highlights a static business base without much churn and new dynamism being injected. Births and deaths totals are considerably lower in addition to net business creation being a lower percentage of the existing base.

These regions are more likely to have council areas with more deaths than births (including across multiple years).

This poses a challenge in terms of achieving inclusive sustainable growth across Scotland. Without new business creation, there is no growth, which can ultimately lead to significant imbalances in economic performance as well as other challenges such as a drain in talent away from these regions towards the cities, thus increasing the imbalance.

In addition to this analysis, there may be relationships between the sector composition of the business base or of the new businesses being created. The industry breakdown by region will be analysed in a future research note.

Further analysis of high-growth firms and mid-sized businesses (using the same data source) is being analysed. This will allow a full picture of growth across regions, highlighting both challenges and opportunities for policy.

Net growth as a percentage of the business base 2010-17 (by local authority)

Business creation growth rate (%)	Local authority and performance (%)			
15%+ growth (accelerated growth)	City of Edinburgh	+19.7%	West Lothian	+17.0%
	Aberdeen City	+17.2%	North Lanarkshire	+16.7%
			West Dunbartonshire	+15.1%
10-15% growth (high-growth)	Midlothian	+14.7%	East Dunbartonshire	+11.7%
	Falkirk	+14.4%	Renfrewshire	+11.5%
	Fife	+14.1%	East Ayrshire	+11.4%
	East Lothian	+14.3%	Aberdeenshire	+11.3%
	South Lanarkshire	+13.2%	SCOTLAND	+11.1%
	East Renfrewshire	+13.2%		
5%-10% growth (medium growth)	Inverclyde	+9.7%	Perth & Kinross	+7.5%
	Dundee City	+9.2%	Shetland Islands	+7.4%
	Clackmannanshire	+9.1%	Moray	+7.3%
	North Ayrshire	+9.0%	South Ayrshire	+6.9%
	Glasgow City	+8.3%	Stirling	+6.4%
	Angus	+7.6%		
0%-5% growth (low growth)	Highland	+5.0%	Scottish Borders	+2.0%
	Eilean Siar	+4.8%	Argyll & Bute	+1.4%
	Orkney Islands	+4.7%		
Negative growth (-0%)	Dumfries & Galloway	-0.9%		

Source: SE analysis of ONS data

Quartile performance as a percentage of the business base highlights the underperformance of Glasgow City, which comes towards the bottom of the third quartile alongside more rural areas in the Highlands and in the South of Scotland.

If Glasgow achieved the Scotland average of +11.1% the Scottish average would increase to +11.6% but would shift Scotland's performance across the UK (remaining in the third quartile).

Performance in business creation as a percentage of the business base 2010-17 (Quartiles)

Top	Second	Third	Bottom
City of Edinburgh	East Lothian	Dundee City	South Ayrshire
Aberdeen City	South Lanarkshire	Clackmannanshire	Stirling
West Lothian	East Renfrewshire	North Ayrshire	Highland
North Lanarkshire	East Dunbartonshire	Glasgow City	Eilean Siar
West Dunbartonshire	Renfrewshire	Angus	Orkney Islands
Midlothian	East Ayrshire	Perth & Kinross	Scottish Borders
Falkirk	Aberdeenshire	Shetland Islands	Argyll & Bute
Fife	Inverclyde	Moray	Dumfries & Galloway

Source: SE analysis of ONS data

Analysis of the regional performance demonstrates net business creation is driven by city regions, particularly Edinburgh and the South East as well as Aberdeen City and Shire. The Glasgow City Region is one of the strongest performers, but as noted above is underperforming in part due to Glasgow City.

Net growth as a percentage of the business base 2010-17 (by region)

Business creation growth rate (%)	Region and performance (%)	
10-15% growth (high-growth)	Edinburgh & South East	+15.6%
	Aberdeen City & Shire	+13.8%
	Glasgow City Region	+11.6%
	SCOTLAND	+11.1%
5%-10% growth (medium growth)	Tay Cities	+10.6%
	Stirling, Clackmannan & Falkirk	+10.2%
	Ayrshires	+9.0%
0%-5% growth (low growth)	Highlands and Islands	+4.8%
	South of Scotland	+0.4%

Source: SE analysis of ONS data. Please note Fife is included in both Edinburgh & South East, as well as Tay Cities; and Scottish Borders are included in both Edinburgh & South East, as well as the South of Scotland.

The following table sets out how many additional net business births would have been needed for the 17 Underperforming council areas to match the Scotland average performance of +11.1% (2010-17).

By local authority performance 2010-17.

Local authority	Region	Below Scottish average
Dumfries & Galloway	South of Scotland	-919 net births
Highland	Highlands & Islands	-830net births
Glasgow City	Glasgow City Region	-660 net births
Scottish Borders	South of Scotland	-548 net births
Argyll & Bute	Highland & Islands	-471 net births
Perth & Kinross	Tay Cities	-263 net births
Stirling	Stirling, Clackmannan & Falkirk	-223 net births
South Ayrshire	Ayrshires	-192 net births
Angus	Tay Cities	-165 net births
Moray	Highlands & Islands	-155 net births
Orkney Islands	Highlands & Islands	-109 net births
North Ayrshire	Ayrshires	-96 net births
Eilean Siar	Highlands & Islands	-92 net births
Dundee City	Tay Cities	-87 net births
Shetland Islands	Highlands & Islands	-68 net births
Inverclyde	Glasgow City Region	-30 net births
Clackmannanshire	Stirling, Clackmannan & Falkirk	-28 net births

Source: SE analysis of ONS data

The weakest performing local authority relative to the size of its business base is Glasgow City.

Whilst there are significant variances in regions, business creation relative to business population in Scotland is overperforming in the East (driven by Edinburgh, Fife and West Lothian) and in Aberdeen City, and in pockets around Glasgow.

The creation of new businesses is perhaps unsurprisingly, a biggest challenge in the South of Scotland as well as the Highlands but ***all regions (except Edinburgh and South East) have local authority areas underperforming.***

Of the 32 local authorities in Scotland, 15 were above the Scottish average whilst 17 were below, suggesting a divide in business creation (that may extent to business growth such as high-growth firms and mid-sized businesses.

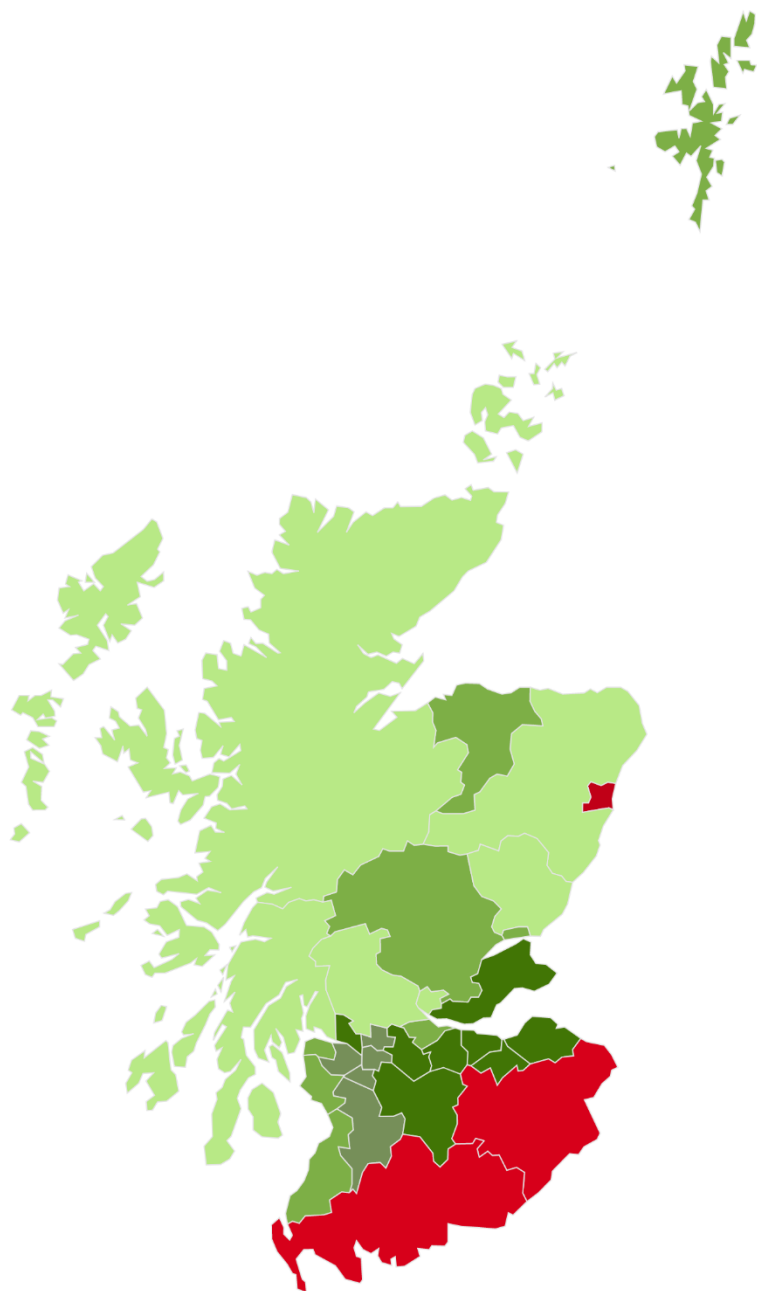
This divergent performance presents a challenge over how far business creation is prioritized as well as the allocation of resources across all public and private bodies, to achieve the Government's objective of sustainable inclusive economic growth.

Full details of the results and trends contained within this report can be found on individual infographics at the available links (for SE staff, they can be downloaded from the Strategic Research intranet page.

Aberdeen City and Shire Ayrshires Edinburgh and South East Glasgow City Region Highlands and Islands South of Scotland Stirling, Clackmannan and Falkirk Tay Cities
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'Hot spots' – business creation in the last 3 years

**Net growth in business as a percentage of the business base
2015-17 (by local authority)**



Source: SE analysis of ONS data

Looking at the latest trends over the last three years, **29 of 32 local authority areas saw an increase in business creation** (as a percentage of the business base), an increase of +3.6% across Scotland.

Edinburgh & South East	+6.2%
Glasgow City Region	+5.4%
Ayrshires	+4.3%
Tay Cities	+4.3%
Scotland	+3.6%
Stirling, Clackmannan & Falkirk	+2.1%
Highlands & Islands	+1.0%
South of Scotland	-0.3%
Aberdeen City & Shire	-0.6%

Source: SE analysis of ONS data

The pattern is for weaker growth in the more rural and less urban areas, which as noted previously, presents a range of policy challenges.

The exception to this is the declines of -1.5% and only +0.1% growth seen in Aberdeen and Aberdeenshire between 2015 and 2017.

This was in sharp contrast to their overall growth from 2010 to 2017 (+17.2% and +11.3% respectively) and from 2012 to 2014 (+12.2% and +7.2%).

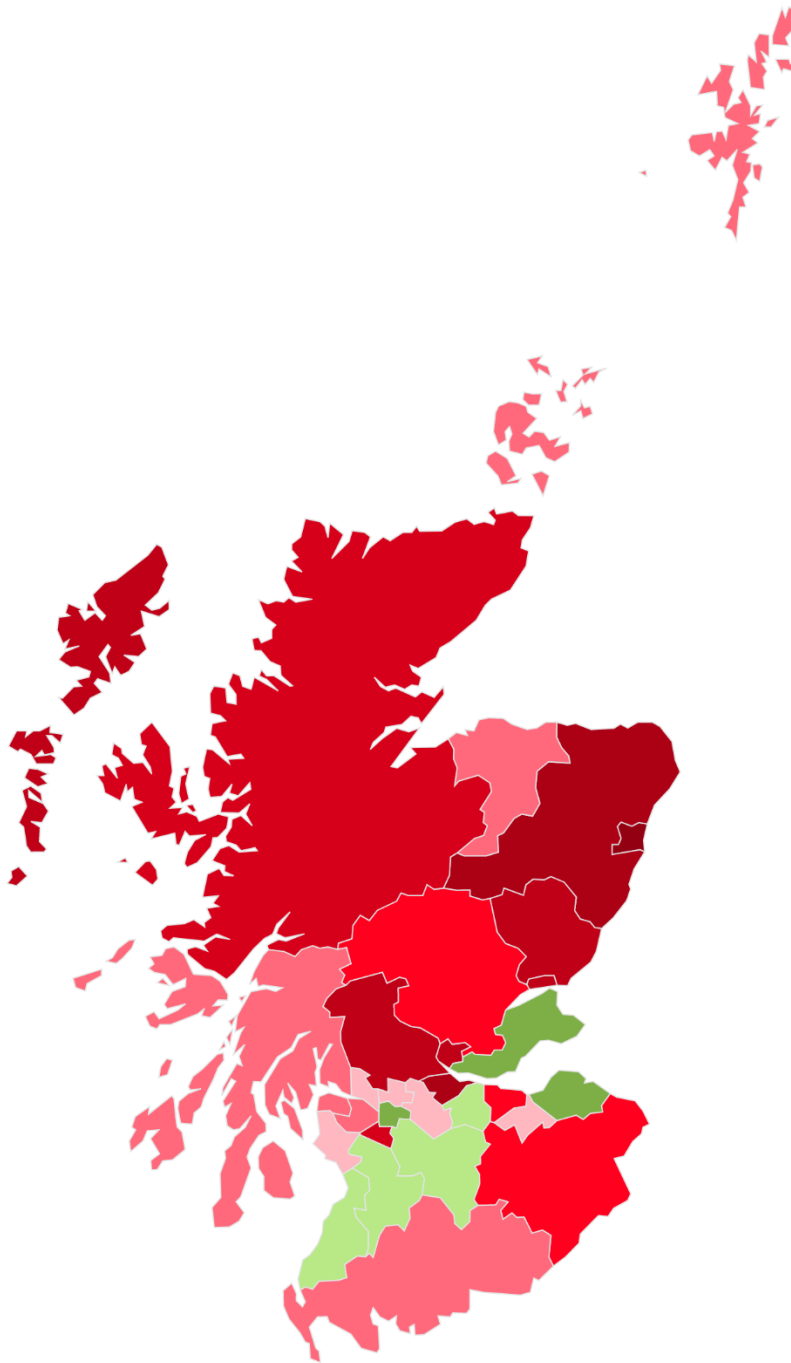
This demonstrated the effect of the downturn in the oil and gas industry and might explain some of the reductions seen in areas in the Tay Cities and Highlands.

However, this reflects a more challenging trend in business creation across the clear majority of Scotland in the last three years.

Whilst more businesses are being created, the performance across Scotland is worsening.

Even though 29 of 32 local authorities in Scotland saw an increase in their new business creation in 2015-17 (compared to 2012-14), only 6 of these were at a higher rate than 2012-14. This means steady growth of the last three years is worse than the prior period across the overwhelming majority of Scotland.

**Net growth as a percentage of the business base between
2012/14 and 2015/17 (by local authority)**



The steady growth of the last three years evaporates when compared to the prior three-year period (2012-14).

Despite continued overall growth, the trend for business creation across Scotland is slowing.

Only six local authorities saw an increase in business creation in the last three years compared to the prior three-year period. No region improved their performance.

Glasgow City Region	0.0%
Ayrshires	-0.2%
Edinburgh & South East	-1.1%
Tay Cities	-1.4%
South of Scotland	-1.9%
Scotland	-2.3%
Highlands & Islands	-2.3%
Stirling, Clackmannan & Falkirk	-4.6%
Aberdeen City & Shire	-9.8%

Source: SE analysis of ONS data

Given the city-centric focus of business creation in the cities, their combined underperformance relative to expectation, in addition to the sharp decline felt in Aberdeen in the last three years have had a significant impact on Scotland's recent performance.

However, ***this should not mask the challenge of accelerating business creation (and subsequently growth) across all of Scotland***, with an emphasis perhaps required on less urban and rural areas.

This is highlighted when adjusting Aberdeen and Aberdeenshire's 2015 to 2017 performance, as well as



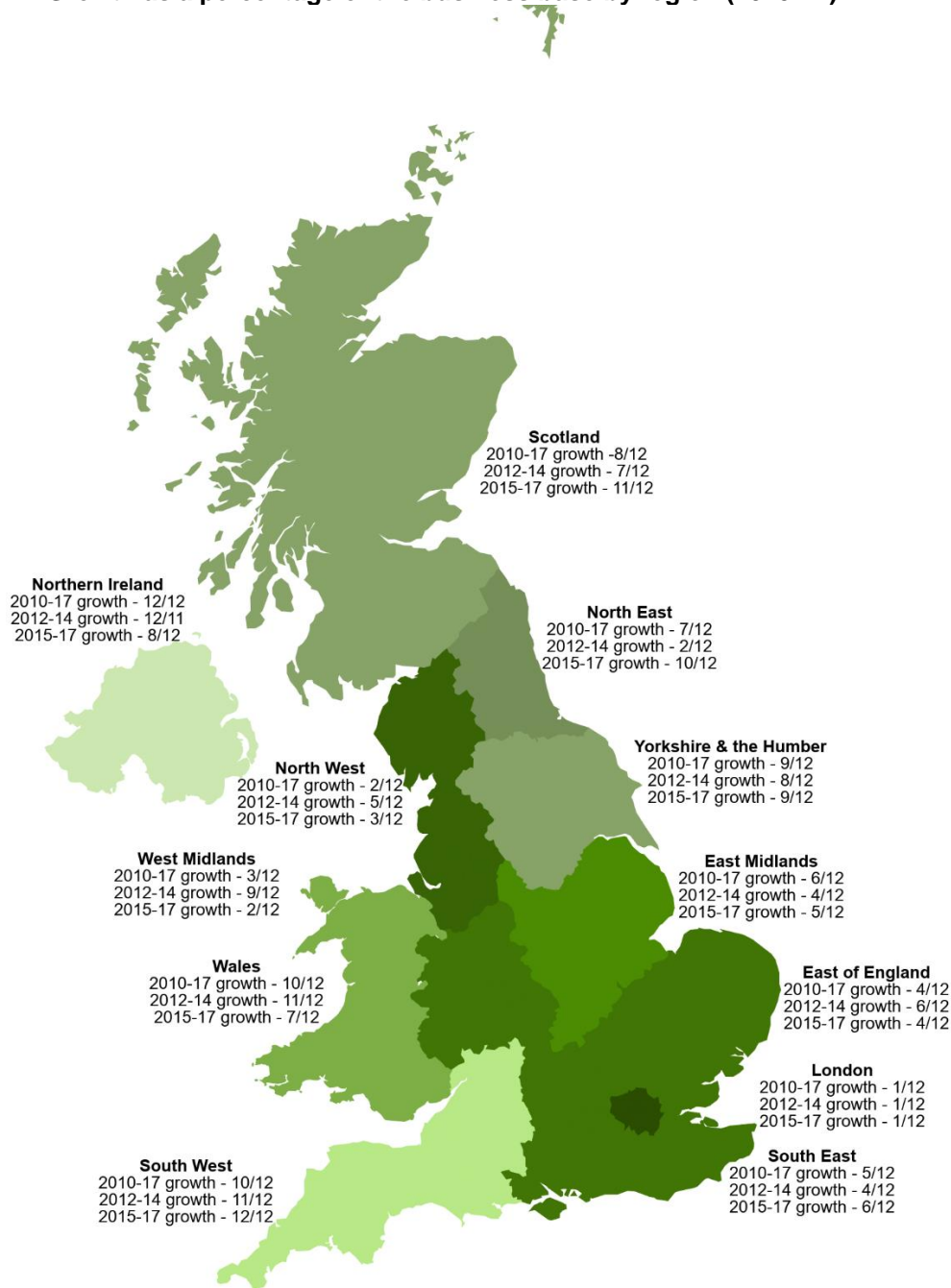
Source: SE analysis of ONS data

Glasgow's relative underperformance since 2010, to the respective Scottish averages for these time periods. This would have increased the overall trend in business creation in Scotland from 2010-17, from +11.1% to +11.7%. ***However, this does not improve Scotland's quartile performance across the UK; it remains in the third quartile.***

UK regional comparison

- Scotland ranks in the third quartile amongst UK regions for net business creation as a percentage of its business base from 2017.
- To move into the top quartile would have required an *additional* +8,059 net businesses created between 2010-17.
- Excluding London, the UK average is +12.3% meaning Scotland would have required an additional +2,634 net births between 2010 and 2017 to achieve the average of all regions except London.
- The UK average including London is +16.0% which means Scotland would have needed an additional +6,293 net business births to match this level of performance.

Growth as a percentage of the business base by region (2010-17)



Whilst Scotland's overall performance is improving, it has slowed in the most recent years compared to elsewhere in the UK, leaving a growing gap in business creation.

The last three years of data highlights a worsening of Scotland's performance in the UK context compared to 2012-14. Whilst most regions have seen a decline, only the South West saw a greater decline than Scotland.

This is largely due to the oil and gas downturn, with Aberdeen's rate of business creation down 13.7% and Aberdeenshire down 7.1%.

However, this should not mask the bigger issue.

Even if the decline been more reflective of that seen across Scotland, then ***Scotland would have remained in the bottom quartile for performance from 2015-17.***