

Revised Final Report

# **Prince's Scottish Youth Business Trust (PSYBT) Evaluation of Impact and Strategic Contribution**

2 May 2007

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**Private and Confidential**





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In conjunction with:



	<b>Contents</b>	<b>Page</b>
<b>1</b>	<b>Introduction</b>	<b>1</b>
1.1	Study Background	1
1.2	Study Objectives	1
1.3	Study Approach	1
1.4	Report Structure	2
1.5	Acknowledgements	3
<b>2</b>	<b>Rationale for Intervention</b>	<b>4</b>
2.1	Introduction	4
2.2	Policy and Strategic Context	4
2.3	Principal Aims and Activities of PSYBT	5
2.4	Framework for Assessment of Market Failure	5
2.5	Evidence of Market Failure	7
2.6	Summary of Rationale for Intervention	14
<b>3</b>	<b>PSYBT Activity Analysis</b>	<b>15</b>
3.1	Introduction	15
3.2	Number of Awards	15
3.3	Capital Awarded	18
3.4	Other Finance	22
3.5	Profile of Population	24
3.6	Survival Rates	32
3.7	Summary	33
<b>4</b>	<b>Operational Review</b>	<b>34</b>
4.1	Introduction	34
4.2	Critique of Operational Elements	34
4.3	Strengths and Weaknesses of PSYBT	56
4.4	Summary	58
<b>5</b>	<b>Economic Impact Assessment</b>	<b>60</b>
5.1	Introduction	60
5.2	Calculating Additionality	60
5.3	Net impact	63
5.4	Sensitivity analysis	63
5.5	Results by sector of activity	67
5.6	Results by PSYBT area	69
5.7	Indirect and induced impacts	69
5.8	Value for Money Assessment	70
5.9	Summary	72
<b>6</b>	<b>Conclusions and Recommendations</b>	<b>73</b>
6.1	Introduction	73
6.2	Summary of Key Findings	73
6.3	Strategic Contribution of PSYBT	74
6.4	Fit with other Start-up Support	75
6.5	Economic Impact of PSYBT	75
6.6	Recommendations	76
6.7	Summary	79

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## 1 Introduction

### 1.1 Study Background

The Prince's Scottish Youth Business Trust (PSYBT) is a key delivery vehicle for the Enterprise Networks in the delivery of start-up support to entrepreneurs aged between 18 and 25 years. The organisation is a company limited by guarantee and is funded by both the private and public sector. PSYBT provides low interest loans and grants along with an intensive programme of advisory support and aftercare. DTZ Consulting & Research was commissioned in October 2006 to evaluate the impact and strategic contribution of PSYBT on behalf of Scottish Enterprise (SE). The evaluation will also consider the contribution of PSYBT in the Highlands and Islands Enterprise (HIE) area.

### 1.2 Study Objectives

The overarching aim of the study is to assess the case for a continuation of the core funding provided by SE to PSYBT, which is due for renewal in April 2007. The main outputs of the study will be twofold:

- Firstly, an estimation of the likely economic impact of PSYBT's support for business taking into account the additionality of the activity, both in terms of the contribution to the outputs achieved and in terms of the number of additional start-ups generated; and
- Secondly, an assessment of the contribution PSYBT makes to the furtherance of SE's Growing Business Strategy in terms of volume and high-growth start-ups and the growth pipeline, and the contribution to SE goals for the 18-30 age group.

There are a number of other specific issues that the evaluation is required to address including the PSYBT delivery mechanism (including the Revolving Loan Fund), its fit with Business Gateway and other initiatives and private sector leverage.

In addition, the study has a strong **strategic focus** and is not just about evaluating the economic impact of PSYBT, but also its contribution to SE's strategic goals. Finally, the study has to make provision for

*".....a parallel comparative assessment of the contribution made by PSYBT in the Highlands & Islands Enterprise network area, looking at similar issues as the main evaluation for SE."*

### 1.3 Study Approach

The approach taken to the study is outlined in Table 1.1 and involved a 5-stage process. The evidence for the evaluation has been gathered from a variety of sources including:

- A survey of a sample of 344 beneficiaries who have received support from PSYBT between January 2004 and December 2005;
- A survey of a sample of 50 people who registered with PSYBT but did not receive an award;
- In-depth consultation with key stakeholders in SE, HIE and the Scottish Executive;
- In-depth consultation with the PSYBT Head Office staff and Regional Managers;

- In-depth consultation with a sample of PSYBT Regional Chairs, volunteers and Business Gateway staff.

**Table 1.1 Summary of Methodological Approach**

<i>Stage of Study</i>	<i>Activities</i>	<i>Outputs</i>
<b>Stage 1 – Inception &amp; Familiarisation</b>	<ul style="list-style-type: none"> <li>→ Client meeting to review scope of work</li> <li>→ Background briefing from PSYBT</li> <li>→ Exchange of documentation/contacts</li> </ul>	→ Inception Report
<b>Stage 2 – Secondary Research</b>	<ul style="list-style-type: none"> <li>→ Review of policy context</li> <li>→ Analysis of population data</li> <li>→ Mapping of start-up support</li> <li>→ Benchmark data</li> </ul>	→ Internal Briefing Paper
<b>Stage 3 – Stakeholder Consultation</b>	<ul style="list-style-type: none"> <li>→ Interviews with key stakeholders including: <ul style="list-style-type: none"> <li>- SE and HIE</li> <li>- Scottish Executive</li> <li>- PSYBT Head Office and Regional staff</li> <li>- PSYBT volunteers</li> <li>- BG staff</li> </ul> </li> </ul>	→ Input into questionnaire design and final report
<b>Stage 4 – Beneficiary Survey</b>	<ul style="list-style-type: none"> <li>→ Definition of population</li> <li>→ Production of sample framework</li> <li>→ Design of questionnaire</li> <li>→ Telephone survey of 344 beneficiaries</li> <li>→ Telephone survey of 50 non-beneficiaries</li> </ul>	<ul style="list-style-type: none"> <li>→ Questionnaires for each survey</li> <li>→ Tabulated results for each survey</li> </ul>
<b>Stage 5 – Analysis &amp; Reporting</b>	<ul style="list-style-type: none"> <li>→ Analysis of survey information</li> <li>→ Economic impact assessment</li> <li>→ Reporting</li> <li>→ Client presentation</li> </ul>	<ul style="list-style-type: none"> <li>→ Draft and Final Reports</li> <li>→ Presentation of results to client</li> </ul>

## 1.4 Report Structure

The remainder of our report is structured as follows:

- **Section 2** considers the background to PSYBT and the overall rationale for intervention from the perspective of SE and HIE, including an assessment of the evidence gathered relating to market failure;
- **Section 3** reviews the monitoring information gathered by PSYBT to assess activity levels in terms of the number of awards made and award recipients;
- **Section 4** reviews the operational aspects of PSYBT drawing upon evidence from the beneficiary and non-beneficiary surveys and the consultations with stakeholders;
- **Section 5** assesses the economic impact of PSYBT from the evidence gathered in the beneficiary survey; and

- **Section 6** draws upon the preceding sections to present our conclusions and recommendations.

## **1.5 Acknowledgements**

DTZ Consulting & Research would like to acknowledge the assistance received from all concerned throughout the evaluation. We would particularly like to extend thanks to the staff at PSYBT Head Office for their time and input to the project and to the Regional Managers and volunteers for their enthusiasm in participating in interviews and for sharing their knowledge and expertise with us. We would also like to thank consultees from the stakeholder organisations, both national and regional, for their time and input. Finally, we would like to acknowledge the contribution of the 394 PSYBT clients who participated in the surveys.

## 2 Rationale for Intervention

### 2.1 Introduction

As explained in the introduction, PSYBT is a key delivery vehicle for the Enterprise Networks in the delivery of start-up support to entrepreneurs aged between 18 and 25 years. The organisation is a company limited by guarantee and is funded by both the private and public sector<sup>1</sup> providing low interest loans and grants along with an intensive programme of advisory support and aftercare. This section explores the policy and strategic context within which the PSYBT support sits and sets out the principal activities of PSYBT and the market failures it aims to address. The section concludes with a discussion of the evidence on market failure gathered in the surveys.

### 2.2 Policy and Strategic Context

PSYBT has a very good policy and strategic “fit”. It is directly supportive of a *Smart, Successful Scotland*<sup>2</sup> and a *Smart, Successful Highlands and Islands*<sup>3</sup> and the policy and strategic context as articulated in the *SE Operating Plan 2006-2009*<sup>4</sup>, *HIE Network Operating Plan 2005-2008*<sup>5</sup> and the *Growing Business Strategy*.<sup>6</sup> The key supporting strands of PSYBT are its focus on:

- **Supporting Scotland’s business birth rate** – a key objective of PSYBT is to increase the number of new start businesses in the 18-25 year age group with a focus on disadvantaged groups – 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. This has been reinforced in the *Growing Business Strategy*;
- **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 18-25 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; and
- **Growing businesses and the growth pipeline** – by providing funding support of loans up to £5,000 and grants up to £1,000 along with advisory support, it is hoped that

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<sup>1</sup> Public sector support includes funding from Scottish Enterprise and European funding.

<sup>2</sup> A *Smart, Successful Scotland: Strategic direction to the Enterprise Networks and an enterprise strategy for Scotland* Scottish Executive Crown Copyright November 2004

[http://www.scottish-enterprise.com/publications/smart\\_successful\\_scotland\\_refresh.pdf](http://www.scottish-enterprise.com/publications/smart_successful_scotland_refresh.pdf)

<sup>3</sup> A *Smart, Successful Highlands and Islands: An enterprise strategy for the Highlands and Islands of Scotland* Highlands and Islands Enterprise, June 2005

<http://www.hie.co.uk/HIE-HIE-corporate-documents-2005-06/>

<sup>4</sup> *Operating Plan 2006-2009* Scottish Enterprise June 2006

<http://www.scottish-enterprise.com/publications/scottish-enterprise-operating-plan-2006-09.pdf>

<sup>5</sup> *Operating Plan 2005-2008* Highlands and Islands Enterprise May 2005

<http://www.hie.co.uk/HIE-HIE-corporate-documents-2005-06/hie-network-operating-plan---may-2005.pdf>

<sup>6</sup> *Implementing the Growing Business Strategy* Scottish Enterprise October 2005

PSYBT will improve the long term survivability of businesses and maximise their chances of growing and contributing to the “growth pipeline”.

### 2.3 Principal Aims and Activities of PSYBT

The PSYBT *Annual Report*<sup>7</sup> sets out the main aim of the organisation as the provision of essential finance and professional support to young people in Scotland aged between 18 and 25, so that they can set up their own business with a particular concern for the disadvantaged. This is achieved through the following principal activities:

- Promotion of the idea of enterprise to young people, and to those individuals and organisations able to influence young people;
- Provision of unsecured finance to establish viable new businesses and to fund the expansion of existing businesses;
- Provision of grants to disadvantaged young people starting up in business;
- Arrangement of the provision of appropriate support services to young people starting up, trading and expanding in business including pre start advice and counselling, business training and aftercare; and
- Support of government initiatives designed to promote the idea of enterprise and self-employment among young people.

### 2.4 Framework for Assessment of Market Failure

There is a good strategic ‘fit’ between PSYBT and the policy and strategic context driving the Enterprise Networks. However, what is important is the extent to which PSYBT addresses market failures and/or equity considerations. Clearly it is only if it does this that intervention can be justified.

The original rationale for PSYBT was to encourage new start-up businesses from unemployed young people. At the outset of the Trust in 1988 the arguments in terms of both market failures and equity considerations were strong due to:

- Mass unemployment;
- The low recognition entrepreneurship had in society at that time; and
- The market failures relating principally to information failures, which are likely to be particularly acute amongst the young and those that are disadvantaged (a specific focus of PSYBT).

However, a lot has changed over the last 18 years and the profile of the ‘young unemployed’ is now quite different in terms of:

- The much lower level of unemployment;
- The much higher proportion of school leavers entering further and particularly higher education;

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<sup>7</sup> *The Prince’s Scottish Youth Business Trust Annual Report and Accounts 2006*



- The much higher level of investment in business and entrepreneurial skills at school and in post-school education; and
- The consequent higher skill levels and abilities of the young that are considering starting their own business.

In economic terms an intervention must be based on the existence of market failure or equity considerations. In the case of PSYBT, 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, under-provide finance for the 18-25 age group. Such failures in the capital markets are compounded by the inherent funding problems facing those in the 18-25 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 18-25 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 financial assistance and non-financial support offered through PSYBT 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, in particular in the case of disadvantaged groups.

In terms of economic impact, PSYBT can enhance the performance of the Scottish economy in two main ways, by:

- Increasing the number of start-ups and hence the number of businesses trading in Scotland. This depends upon the PSYBT support encouraging a higher number of start-up businesses from the 18-25 year old age group, than would be the case without the support; and
- Improving the performance of businesses once they have started up. In effect, the financial support, advice and aftercare enables start-up businesses to trade more successfully than would be the case without such support – this could be an important issue for young entrepreneurs, for whom access to financial support can be difficult.

The success of the organisation in delivering these economic benefits will depend on the extent to which the market failures underpinning the rationale for intervention are proven; the beneficial economic impacts resulting from the intervention; and the extent to which these economic impacts are ‘additional’. The support provided by PSYBT is strongly integrated into the Business Gateway services and the significant contribution of the Business Gateway to PSYBT businesses, particularly in the provision of pre-start advice and support should be noted. We have tried to account for this in the assessment of value-for-money later in the report. The economic impact and additionality of PSYBT are discussed in detail in Section 5 of the study.

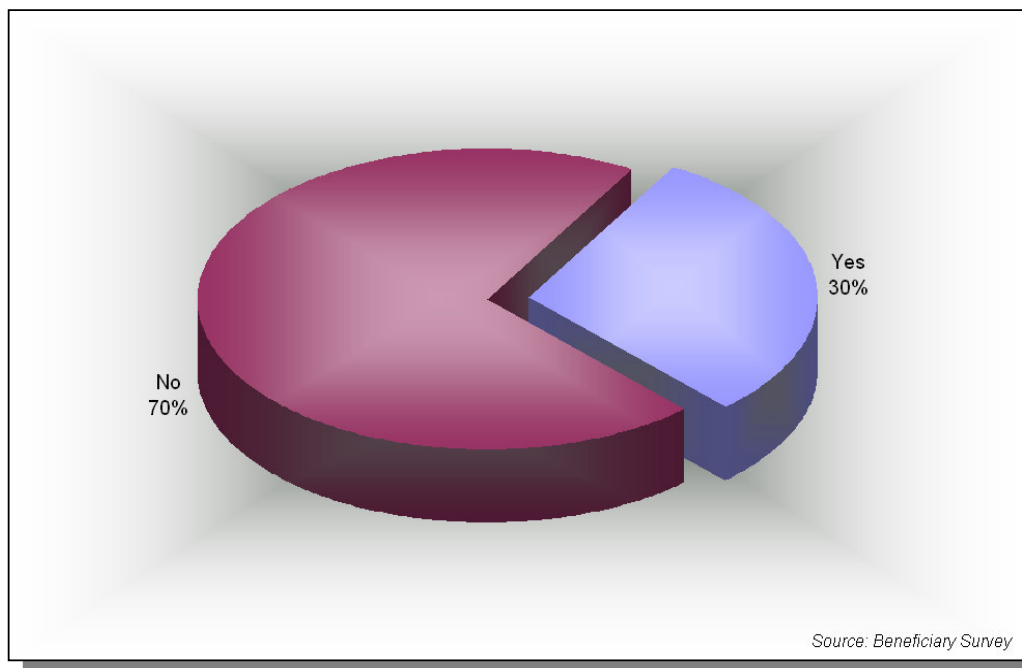
The surveys of PSYBT non-beneficiaries and beneficiaries contained a series of questions to allow us to make a judgement on the extent of market failure amongst the PSYBT client group and the evidence gathered is presented below.

## 2.5 Evidence of Market Failure

As described above, the main market failure present in PSYBT's client group is likely to be centred on access to finance (both perceived and actual). In order to assess whether financial institutions appear to be under-providing capital to this group the survey asked the PSYBT beneficiaries a series of questions related to the financial circumstances of their business at the start-up stage.

Figure 2.1 shows that 70% of the respondents had not attempted to obtain finance from any other source prior to their approach to PSYBT. This appears surprising at face value, but it could be argued that this reflects the nature of the client group where there may be an information failure in terms of where to go for finance and how to secure it.

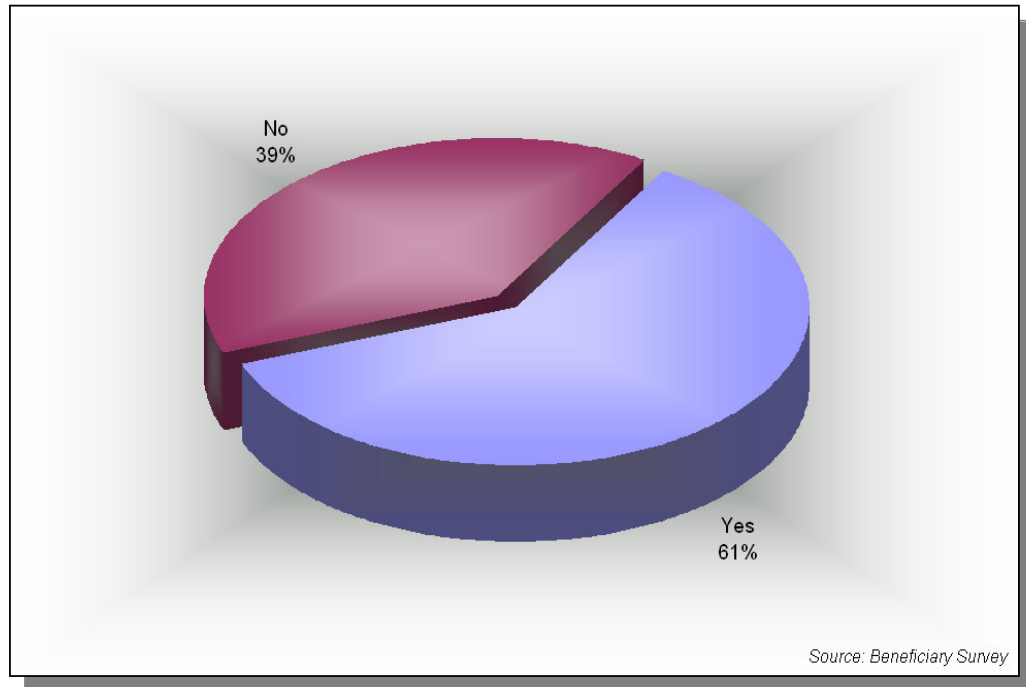
**Figure 2.1 - Had you tried to get finance from another source before approaching PSYBT?**



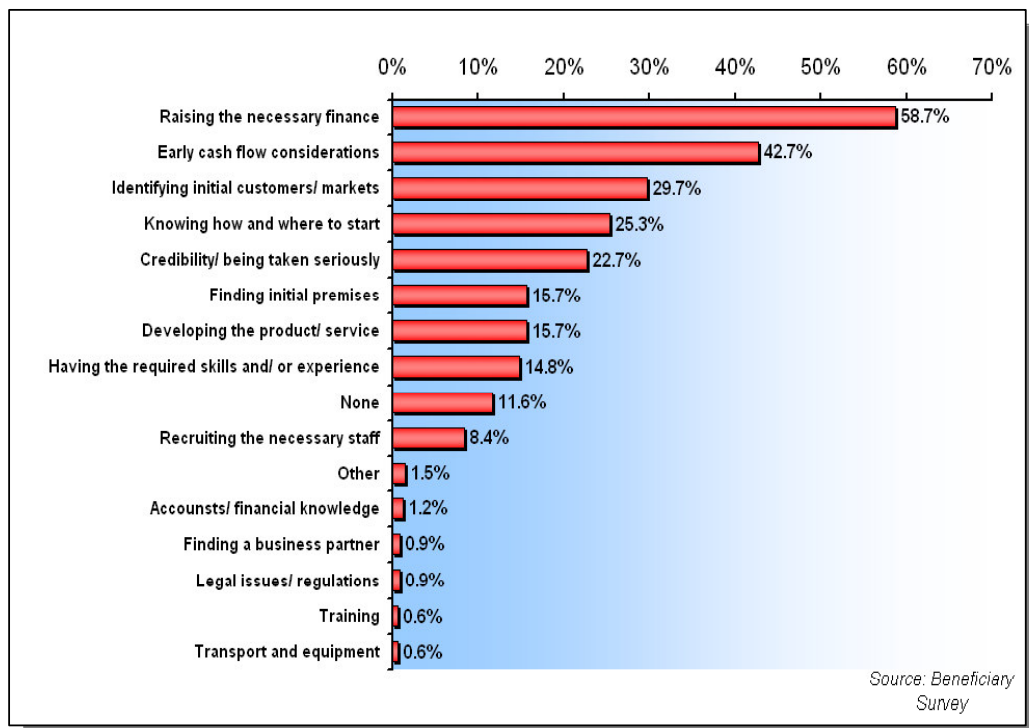
However, as shown in Figure 2.2 nearly two-thirds (61%) of those respondents who had not attempted to access finance elsewhere stated that they would have known where to go for financial assistance at that time. Therefore, while it is not possible to accurately determine the true extent of the market failure in the case of most of the respondents it appears that there is potentially a perceived market failure given that it is possible that many respondents did not approach any other sources as they felt that would be unlikely to obtain finance from that source. However, it is recognised that this cannot be fully ascertained from the information available. It could also be that the PSYBT loan is an attractive proposition given the low interest rates, but there is no evidence to support or refute this either. Nevertheless, the issue relating to access to finance is reflected in the responses to the question shown in Figure 2.3 where nearly 60% of respondents reported

that the most serious issue for them in setting up in business was raising the necessary finance. Furthermore, 43% reported early cash flow considerations as a concern.

**Figure 2.2 - Would you have known where to go for financial assistance at that time?**

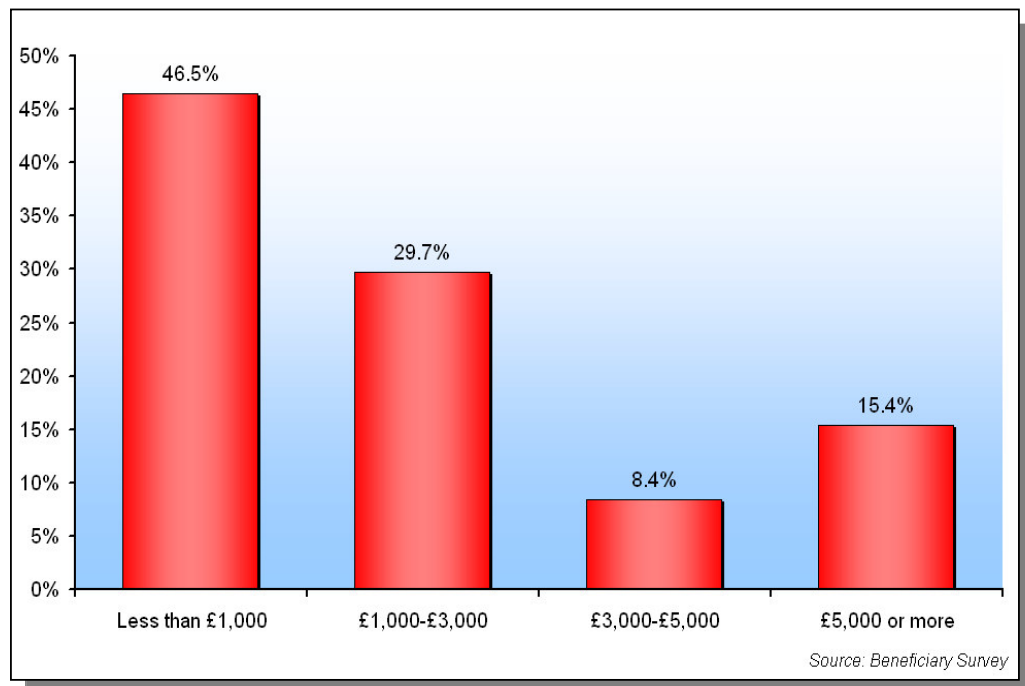


**Figure 2.3 - What were the most serious issues for you when setting up in business?**



Of the 30% of respondents who did attempt to obtain finance from another source prior to approaching PSYBT, 60% approached a bank or building society and 30% the Business Gateway. However, as indicated in Figure 2.4, capital from other sources was not extensive with the majority of respondents reporting that they had less than £1,000 available to start up in business excluding the PSYBT grant and/or loan.

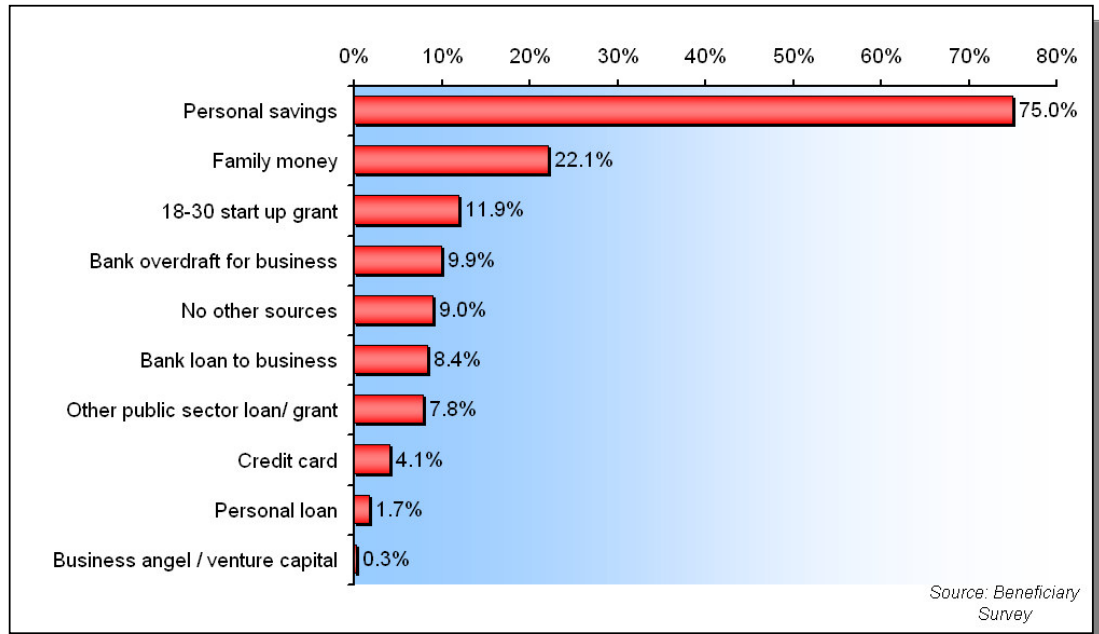
**Figure 2.4 - How much money did you have available for starting up in business?**



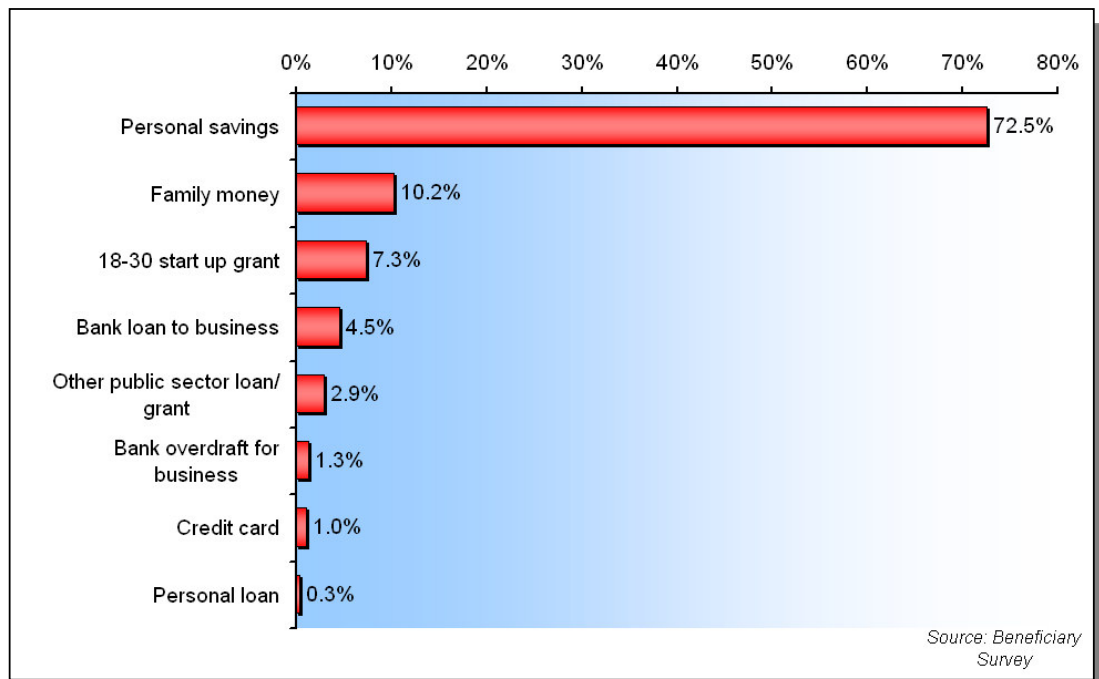
The sources of finance used by the respondents are shown in Figure 2.5 with the main source shown in Figure 2.6. It is clear that for the vast majority of respondents, personal savings or family money are the most common sources of start-up capital. Around 20% of respondents had received other public sector financial support (including the 18-30 Start-up Grant which was launched in October 2004).

Therefore, while 60% of the respondents who had approached another source of finance had approached a bank or building society only 8% had used a business bank loan and 10% a business overdraft (equating to around half of the 60% figure in terms of real numbers) in setting up their business which is perhaps an indication that the remainder were not successful in securing bank finance. Whilst it cannot be assumed that this is direct evidence of market failure it is indicative that the clients faced difficulty in securing finance from this traditional source.

**Figure 2.5 – Did you use any of the following sources of finance in setting up your business?**



**Figure 2.6 – Which was the main source of finance used in setting up your business?**



The survey explored the labour market status of the respondents prior to setting up in business and asked at what stage they were at in terms of setting up their business when they became involved with PSYBT. Table 2.1 shows that just under two-thirds (63%) of the respondents reported that they were very close to setting up in business, with most of the remainder (26%) stating that they had started planning although were not in a position to start-up imminently.

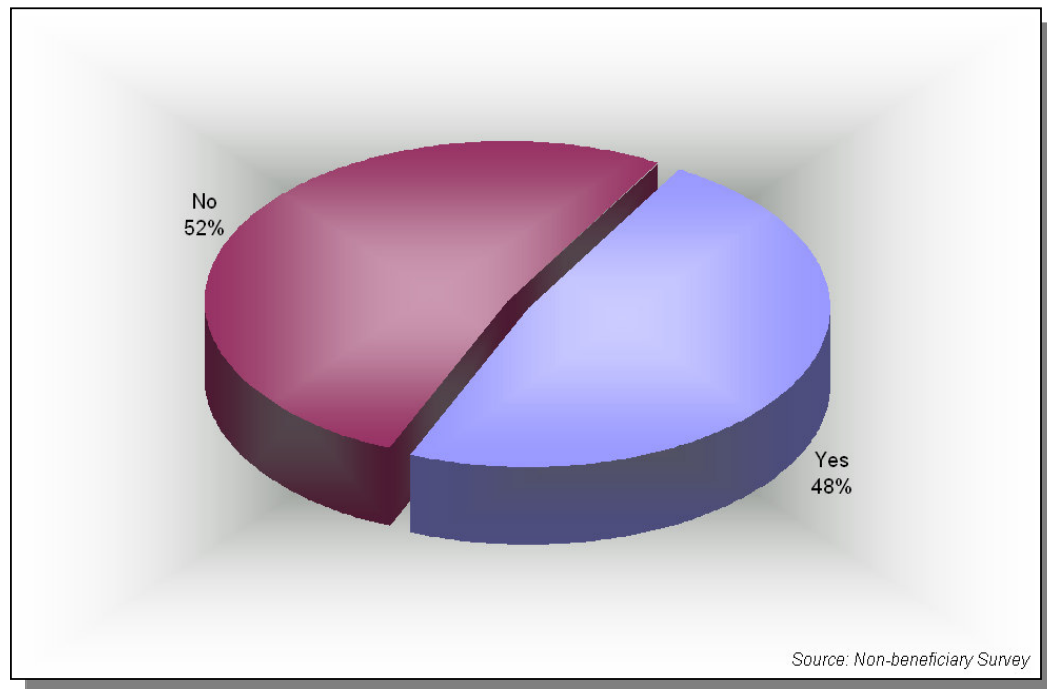
In term of the labour market status of the respondents prior to their setting up in business, most were in employment (58%) with just under a quarter (23%) unemployed. The remainder were either in full-time education, were self-employed in another business venture or were economically inactive.

**Table 2.1 – Status of Respondents Prior to PSYBT Engagement**

What stage in setting up your business were you at when you became involved with PSYBT?		
Response	Number	%
Very close to setting up business	215	63%
Had started planning, but start up was not imminent	90	26%
No serious plans to set up, but had an idea	28	8%
No plans at all, was motivated to set up by PSYBT	6	2%
Had already started	5	2%
<b>Total</b>	<b>344</b>	<b>100%</b>
What was your status prior to setting up in business?		
Response	Number	%
Employed	201	58%
Unemployed	79	23%
Student (including school)	41	12%
Economically inactive	6	2%
Self-employed in another business venture	17	5%
<b>Total</b>	<b>344</b>	<b>100%</b>
Source: Beneficiary Survey		

It is also interesting to consider what happened to those clients who registered with PSYBT but did not receive an award, as there may be evidence of PSYBT screening out clients where there is no market failure present. Of the 50 PSYBT clients in the non-beneficiary survey, just under half (48%) had set up in business without financial support from PSYBT.

**Figure 2.7 – Did you set up in business without PSYBT support?**



The vast majority of the respondents (78%) had been referred to PSYBT from the Business Gateway. Figure 2.8 explores the reasons given by the respondents for why they had not pursued further support from PSYBT after registering with the organisation. The most common reason given was that the respondents decided not to set up in business (42%). It is not clear the extent to which the Business Gateway or PSYBT had a role in the clients making this decision.

Of the remainder, a significant number secured finance elsewhere (18%) which also can be taken to be a positive finding as PSYBT is a “funder of last resort” and those potential clients who are likely to be able to seek funding from alternative sources may have been signposted by PSYBT or the Business Gateway.

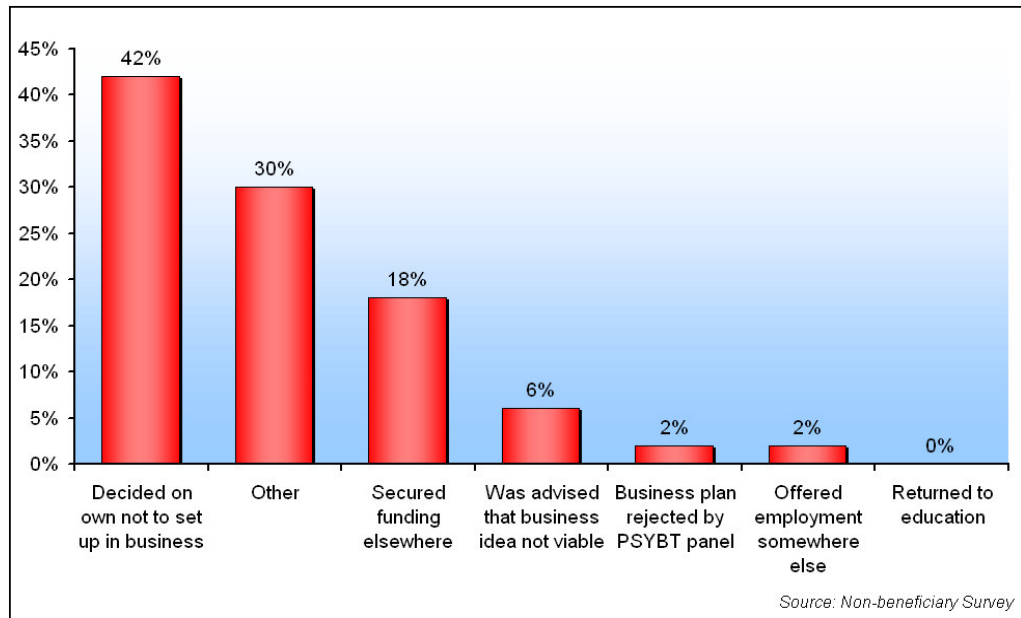
Qualitative comments offered by the respondents to illustrate this included:

*“I got a grant through the Business Gateway.”*

*“Because my turnover was quite high I did not qualify for a grant.”*

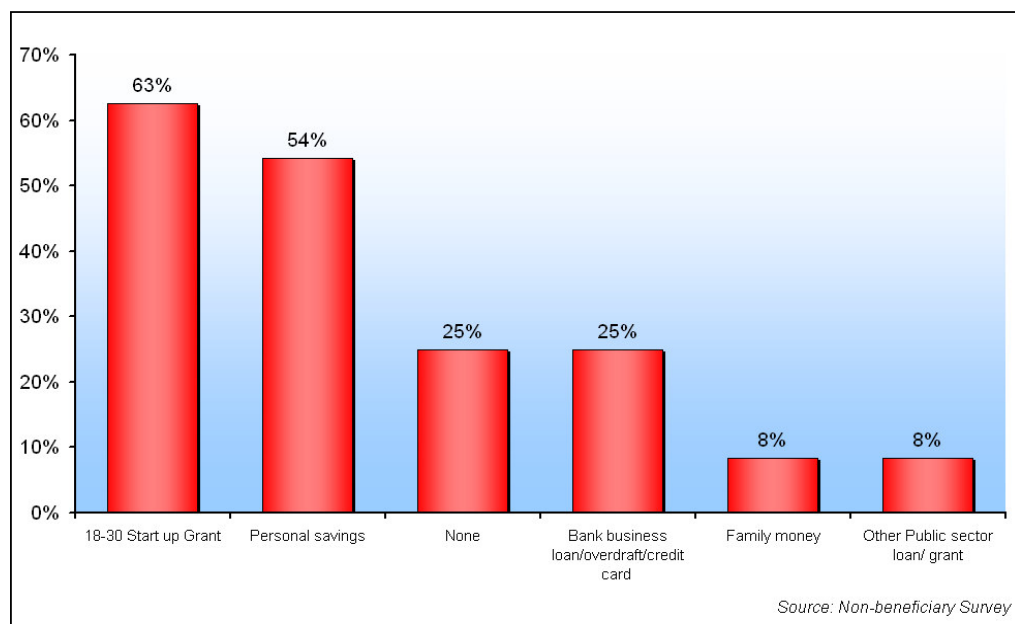
*“I didn't need their help as I got a start up grant from the Business Gateway and I also inherited money.”*

**Figure 2.8 - Reasons for not pursuing further support with PSYBT**



While some of the respondents who went on to set up in business had secured funding elsewhere, in nearly 63% of cases this was the 18-30 Start-up Award. More than half of the respondents who started a business used personal savings. Clearly in the majority of cases it is not banks that appear to be providing start-up capital to this group of entrepreneurs but alternative sources of public finance.

**Figure 2.9 - Did you use the following sources of finance in setting up in business?**





## 2.6 Summary of Rationale for Intervention

### **Policy and Strategic Context**

- PSYBT has a strong fit with Scottish Executive and SE and HIE policy and strategy to support Scotland's business birth rate, contribute to the growth pipeline and to encourage a culture of entrepreneurship. Furthermore, the targeting of the 18-25 year age group contributes to policy goals for young people.

### **Assessment and Evidence of Market Failure**

- The rationale for PSYBT was originally based on encouraging start-ups from unemployed young people. The rationale evolved over time to address clear market failures relating to information failure and risk aversion in the younger age group.
- While it is not possible to definitively determine the true extent of the market failure, the fact that 70% of respondents in the beneficiary survey did not approach other sources of finance before approaching PSYBT could indicate that they believed the probability of securing funding from these sources was low. This is supported by the fact that nearly two-thirds of respondents not seeking external finance knew where to go for financial support.
- The majority of respondents reported that they had less than £1,000 available to start up in business excluding the PSYBT grant and/or loan. It is clear that for the vast majority of respondents, personal savings or family money are the most common sources of start-up capital. Therefore, this client group does not appear to be securing finance from traditional sources such as banks or building societies.
- In terms of the respondents who had not received a PSYBT award, the most common reason given for not pursuing support was that the respondents decided not to set up in business (42%).
- Furthermore, of the remainder, a significant number secured finance elsewhere (18%) which also can be taken to be a positive finding as PSYBT is a "funder of last resort" and those potential clients who are likely to be able to seek funding from alternative sources may have been signposted by PSYBT or the Business Gateway.

### 3 PSYBT Activity Analysis

#### 3.1 Introduction

This section presents the results of the analysis of the monitoring data on PSYBT activity. The analysis focuses on monitoring data collected by PSYBT from the start of 2003/04 to October 2006.<sup>8</sup> There are two main elements to this analysis:

- An analysis of PSYBT awards; and
- An analysis of the population of PSYBT clients.

This analysis provides useful background information for the evaluation and highlights the recent trends and current situation in terms of the main aspects of PSYBT activity by region. It should be noted that these data are based on monitoring data on all PSYBT clients not just the sample included in the survey.

#### 3.2 Number of Awards

As illustrated in Figure 3.1, whilst there was a slight decline in the number of awards issued between 2003/04 and 2004/05 (-3.5%), there has been a slight increase in the number of awards between 2004/05 and 2005/06 (6.3%). Overall the number of awards has remained fairly consistent over the time period in question.

**Figure 3.1 - Total Number of Awards (2003-2006)**

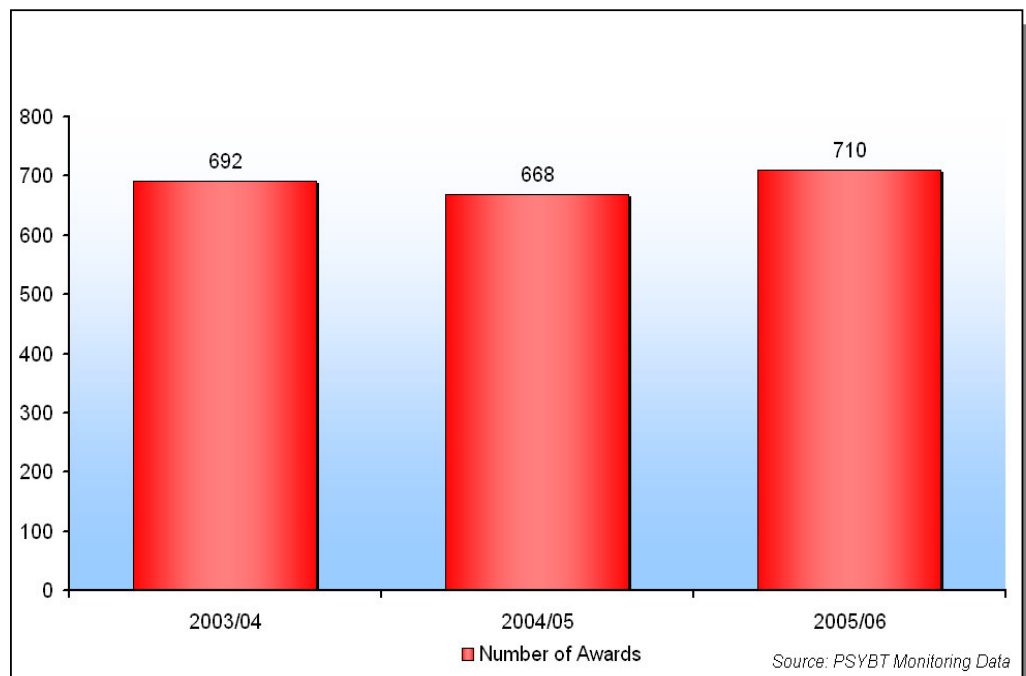
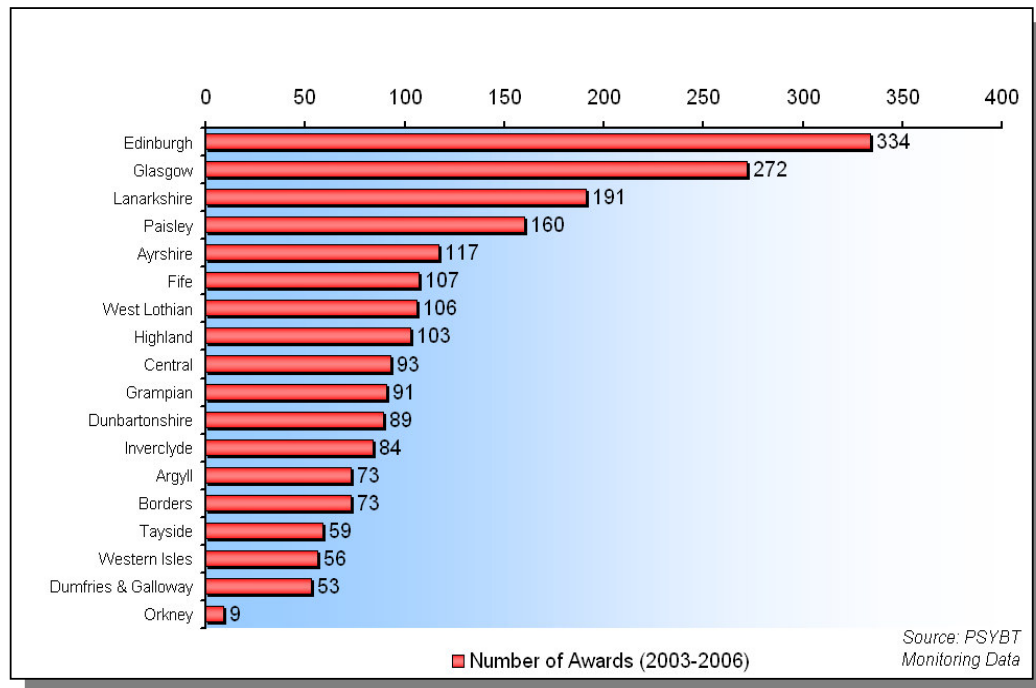


Figure 3.2 shows the number of awards in each of the regions in which PSYBT operates. Between 2003 and October 2006, Edinburgh issued the highest number of awards (334, an

<sup>8</sup> The PSYBT financial year runs from July to June.

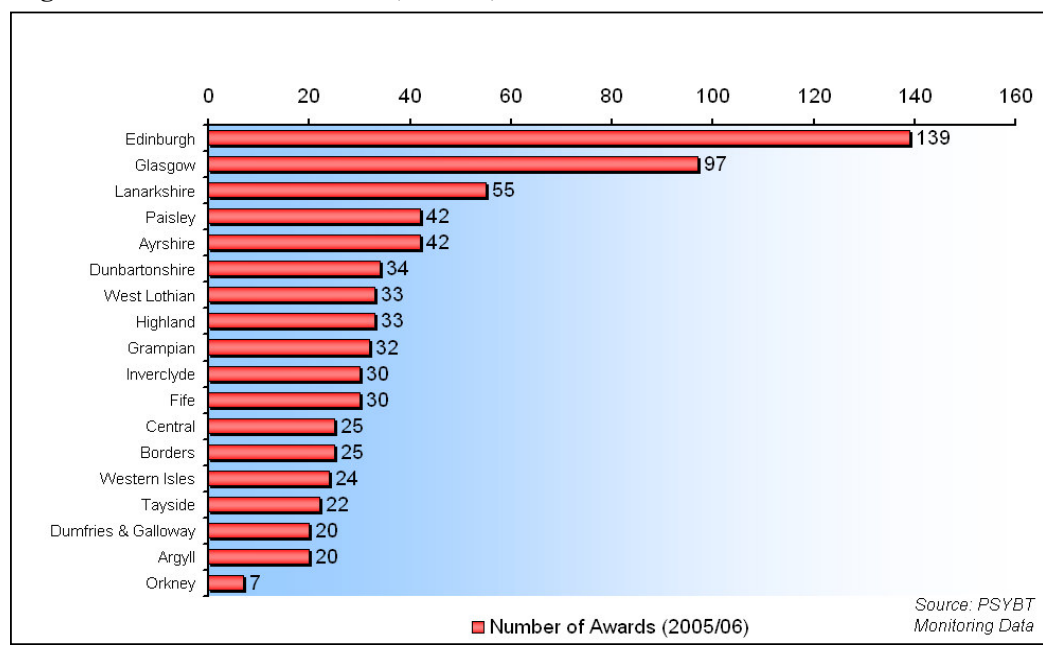
average of 111 awards per year). Orkney has issued the fewest number awards since 2003 (9, an average of 3 per year).

**Figure 3.2 - Number of Awards 2003-2006**



As illustrated in Figure 3.3, in 2005/06, Edinburgh has issued the highest number of awards (139). Orkney continue to issues the fewest number of awards. These differences follow closely the differences in population between the areas, but nevertheless there does appear to be a significant variation in the volume of activity by region.

**Figure 3.3 - Number of Awards (2005/06)**



As shown in Figure 3.4, 9 areas have experienced an increase in the number of awards issued since July 2003. Edinburgh has experienced the largest increase (39). In contrast, 8 areas have experienced a decline in the number of awards issued over the same period. Paisley has experienced the largest decline in the number of awards issued (-33).

**Figure 3.4 - Number of Awards - Absolute Change 2003-2006**

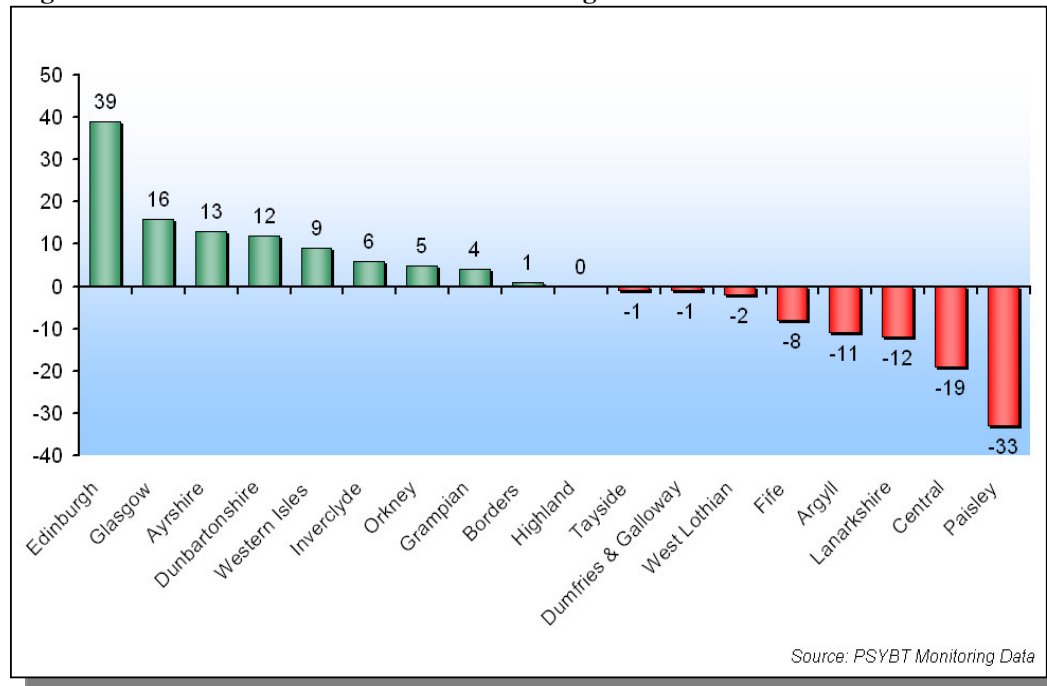
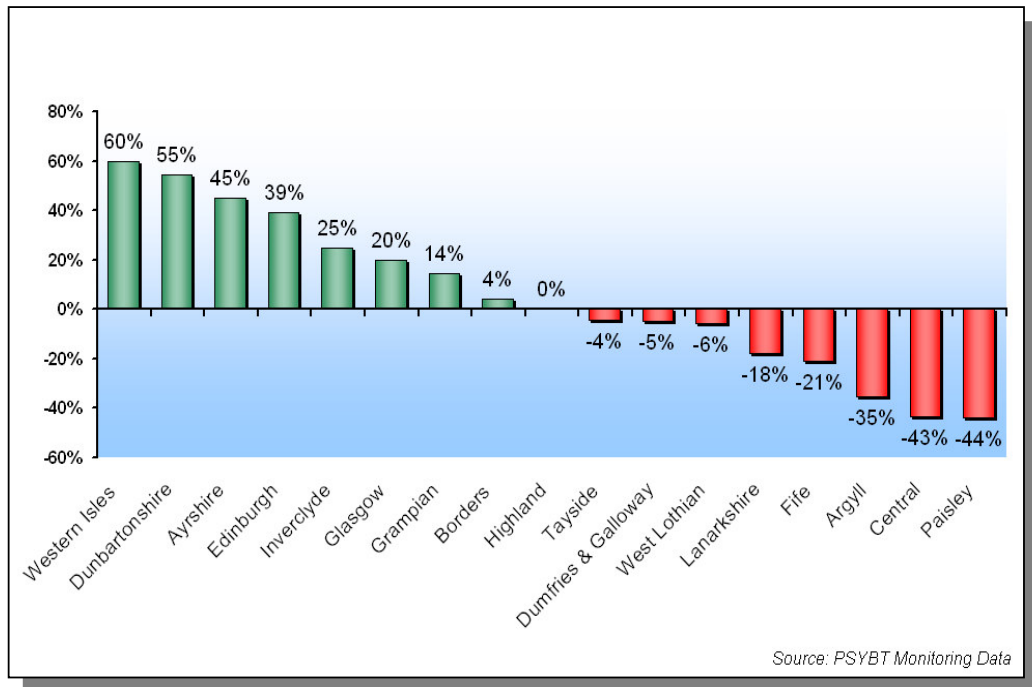


Figure 3.5 illustrates the percentage change in the number of awards issued between July 2003 and October 2006. The Western Isles has experienced the largest percentage increase over the period (60%) followed by Dunbartonshire (55%). While Edinburgh and Glasgow are ranked first and second in absolute terms, respectively, Edinburgh has experienced the fourth highest percentage increase in awards issued (39%) and Glasgow fifth (20%). Paisley has experienced the largest decline in absolute and relative terms (-44%) closely followed by Central (-43%).

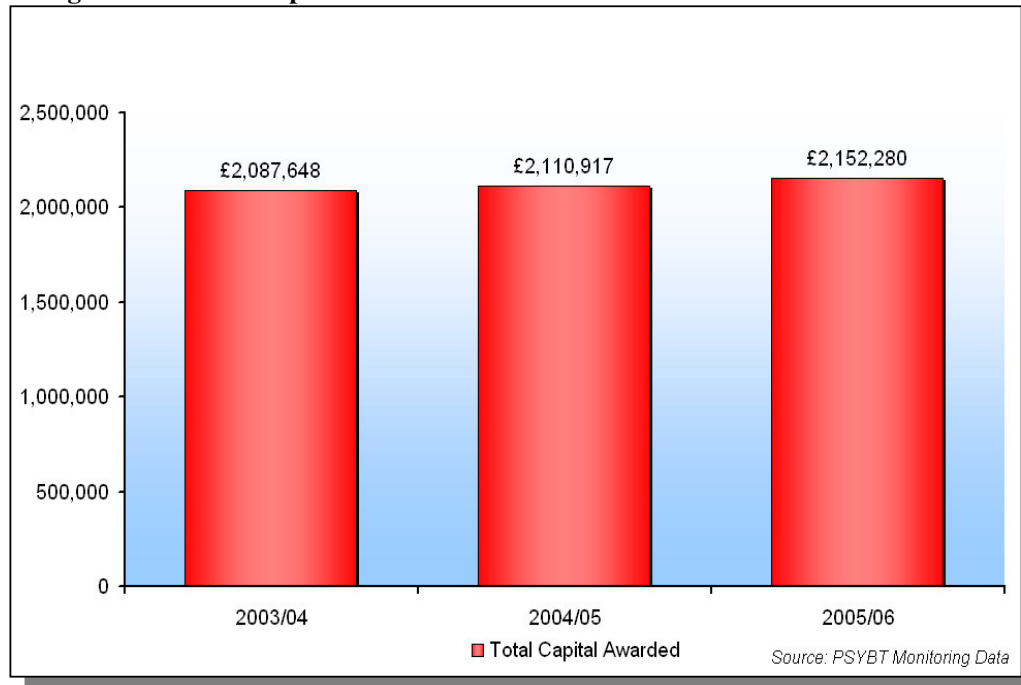
**Figure 3.5 - Number of Awards - % change 2003-2006 (excluding Orkney)**



### 3.3 Capital Awarded

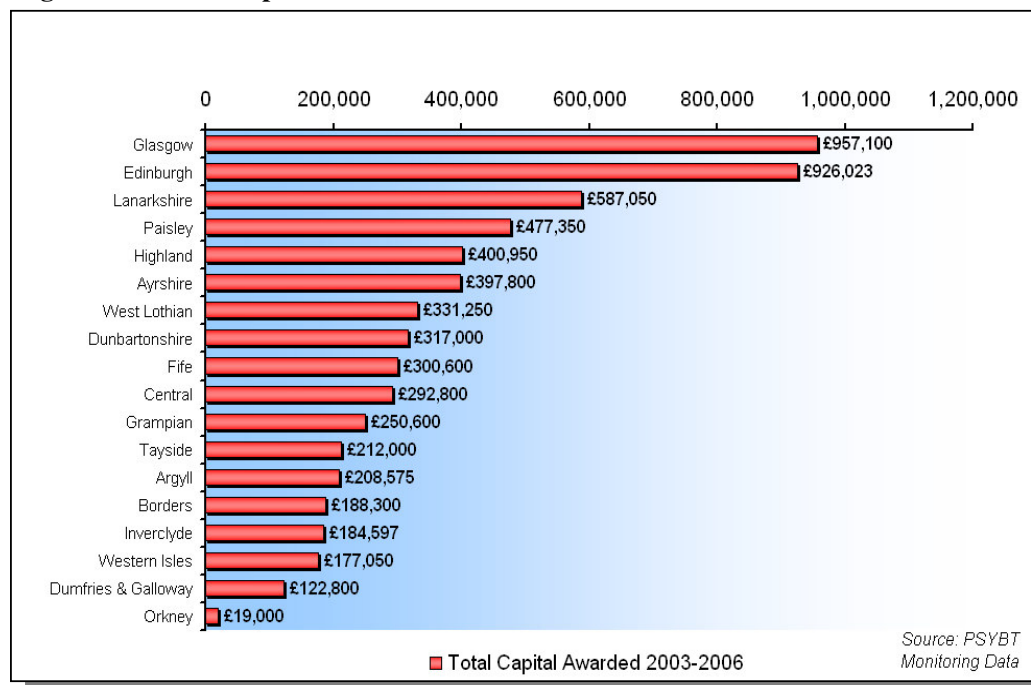
As illustrated in Figure 3.6, there has been a steady, but modest increase in the total amount of capital awarded by PSYBT since 2003. The total capital awarded has grown by 1.1% between 2003/04 and 2004/05 and a further 2% between 2004/05 and October 2006.

**Figure 3.6 - Total Capital Awarded 2003 to October 2006**



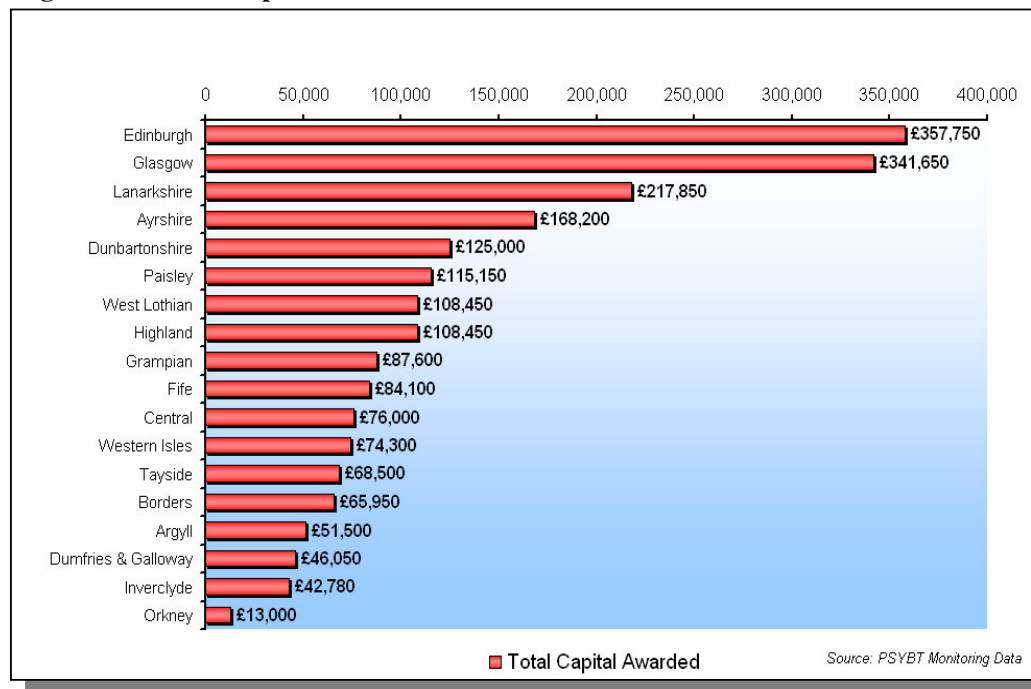
From July 2003 to October 2006 (Figure 3.7), Glasgow has awarded the greatest amount of capital of all the PSYBT regions (£957,100) accounting for 15% of the total capital awarded over the period. Orkney has awarded £19,000 accounting for just 0.3% of the total capital awarded over the period.

**Figure 3.7 - Total Capital Awarded 2003-2006**



As illustrated in Figure 3.8, during 2005/06 Edinburgh has awarded the greatest amount of capital (£357,750) accounting for 16.6% of the total capital awarded over the period. In contrast, Orkney has awarded the least amount of capital over the period (£13,000 or just 0.6% of the total capital awarded). This broadly reflects the profile of the number of awards made in each region.

**Figure 3.8 - Total Capital Awarded 2005/06**



The average loan and grant awards by region for 2005/06 are shown in Table 3.1. Across all regions, the average loan awarded was £3,581 and the average grant was £906. The highest average loan amount was in Highland at £5,475 with the lowest in Grampian at £2,547. The highest average grant amount was £1,200 in Orkney and the lowest was £641 in Inverclyde.

**Table 3.1 Average Loan and Grant Awards (2005/06)**

PSYBT Region	Average Loan Awarded	Average Grant Awarded
Tayside	£3,946	£875
Paisley	£3,705	£744
Edinburgh	£3,103	£936
Central	£3,426	£750
Glasgow	£4,307	£991
Orkney	£3,500	£1,200
Inverclyde	£2,659	£641
West Lothian	£3,448	£733
Grampian	£2,547	£917
Lanarkshire	£3,333	£850
Ayrshire	£3,781	£1,000
Fife	£3,300	£929
Dumfries & Galloway	£2,969	£978
Dunbartonshire	£4,174	£1,000
Highland	£5,475	£1,044
Western Isles	£3,930	£1,000
Argyll	£3,121	£842
Borders	£2,850	£845
<b>Total</b>	<b>£3,581</b>	<b>£906</b>

As shown in Table 3.2, the vast majority of the total capital awarded between 2003 and October 2006 was in the form of start-up loans (73.6%). A significant proportion of the total capital awarded came in the form of start-up grants (8.7%). Of the remaining capital, the majority was awarded in the form of expansions of non-PSYBT and PSYBT start-up loans and accelerator loans. Table 3.3 shows start-up loans and grants are the most common types of awards issued, representing 61.5% and 29.4% of all awards from 2003 to 2006.

**Table 3.2 Total Capital Awarded by Type of Award (July 2003-October 2006)**

Type of Award	Total Capital Awarded (2003-2006)	% of Total Capital Awarded
Loan - Startup	£4,675,800	73.6%
Grant - Startup	£552,045	8.7%
Loan - Expansion of non-PSYBT Startup	£217,900	3.4%
Loan - Expansion of PSYBT Startup	£183,600	2.9%
Loan - Growth Fund - Accelerator Loan	£498,000	7.8%
Loan - Growth Fund - Development Loan	£196,000	3.1%
Loan - CHEQUE RETURNED FOR RE-ISSUE	£25,500	0.4%
Grant - Expansion of non-PSYBT Startup	£1,000	0.02%
Grant - CHEQUE RETURNED FOR RE-ISSUE	£1,000	0.02%
<b>Total</b>	<b>£6,350,845</b>	<b>100%</b>

**Table 3.3 Number of Awards Issues by Type of Award (July 2003-October 2006)**

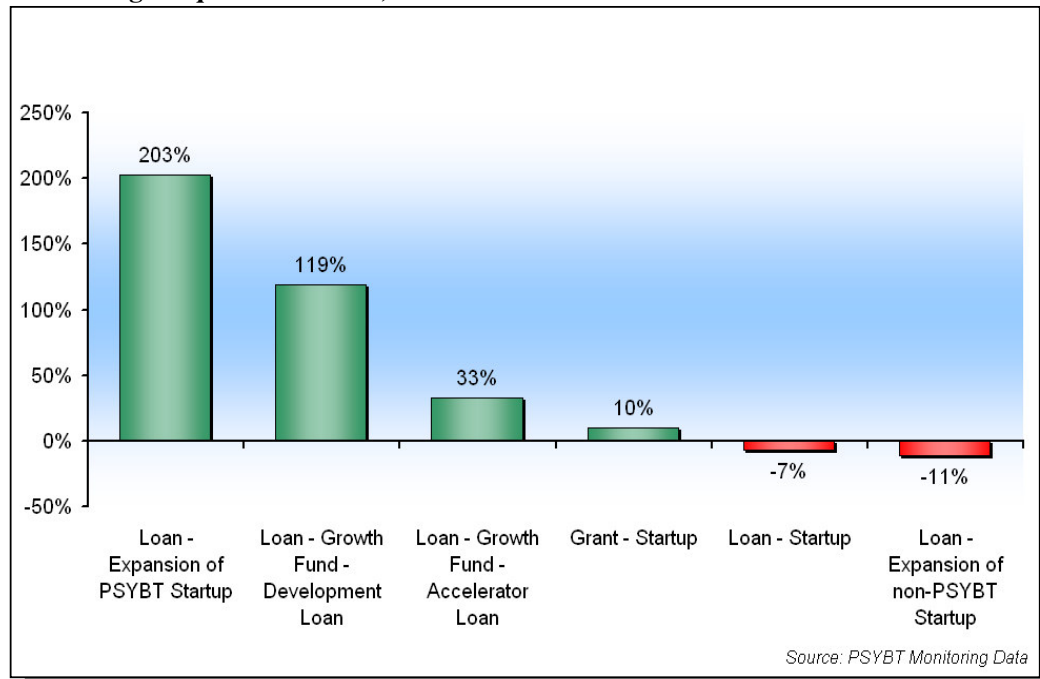
Type of Award	Number of Awards (2003-2006)	% of All Awards
Loan - Startup	1273	61.5%
Grant - Startup	608	29.4%
Loan - Expansion of non-PSYBT Startup	53	2.6%
Loan - Expansion of PSYBT Startup	70	3.4%
Loan - Growth Fund - Accelerator Loan	25	1.2%
Loan - Growth Fund - Development Loan	33	1.6%
Loan - CHEQUE RETURNED FOR RE-ISSUE	6	0.3%
Grant - Expansion of non-PSYBT Startup	1	0.05%
Grant - CHEQUE RETURNED FOR RE-ISSUE	1	0.05%
<b>Total</b>	<b>2070</b>	<b>100.0%</b>

Figure 3.9 shows the amount of capital awarded through expansion loans to PSYBT start up has increased more than any other type of award since 2003 (203% increase). The amount of capital being awarded through growth fund development loans and growth fund accelerator loans had also increased significantly over the period, 119% and 33%, respectively. This reflects a conscious effort within PSYBT to contribute to the growth pipeline. In contrast, despite the large amount of capital being awarded in the form of start-up loans, the amount of capital being awarded through start-up loans has decreased by 7% with the capital awarded through expansions of non-PSYBT start-up loans falling by 11% over the same period.

The PSYBT Growth Fund offers Development Loans of up to £10k and Accelerator Loans of up to £25k to businesses originally supported by PSYBT who are having difficulty in accessing funding in order to grow their business. Clients supported must have been in business for less than five years and be aged under 31. The fund was launched in July 2002, and has supported 91 businesses to date with the £1.1m invested leveraging a further £2.5m in other funding.



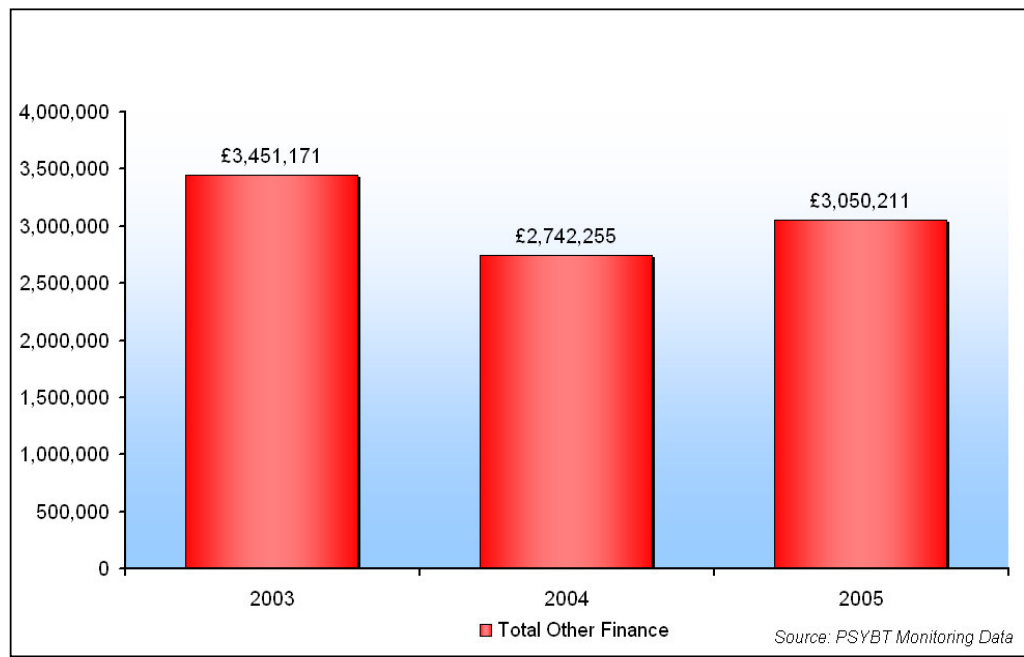
**Figure 3.9 - % Change in Capital Awarded by Type of Award (2003 to October 2006 – excluding cheques for re-issue)**



### 3.4 Other Finance

Figure 3.10 shows that the total value of the alternative finance used by PSYBT clients has decreased by 12% since 2003. However, between 2004 and 2005, this amount has increased by 11% to just over £3m.

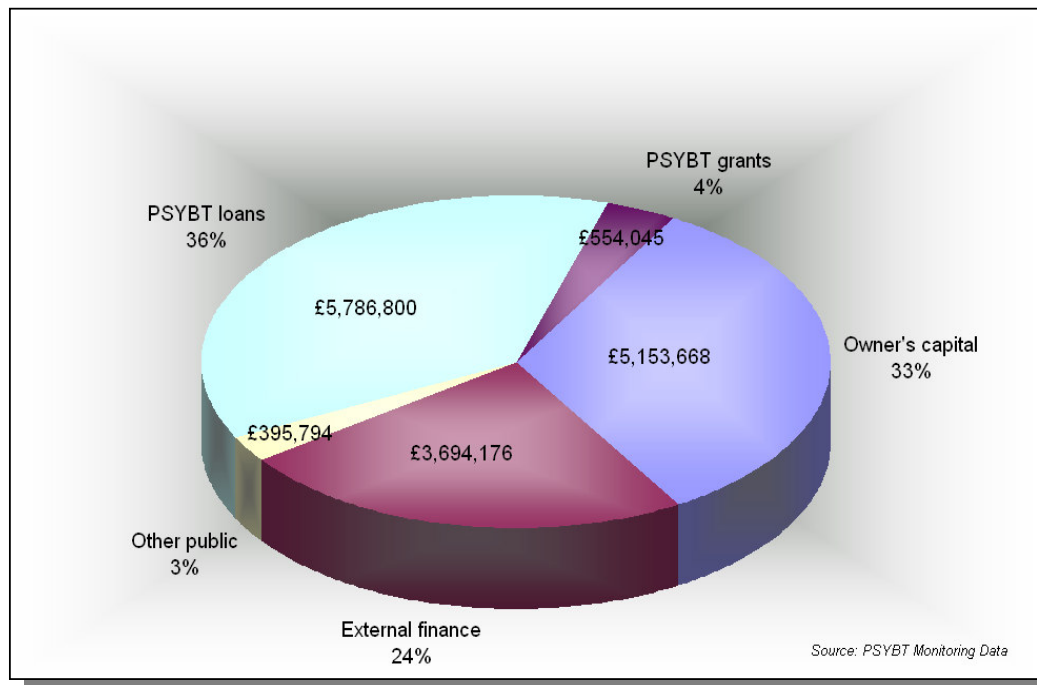
**Figure 3.10 Total Other Finance (2003-2006)**



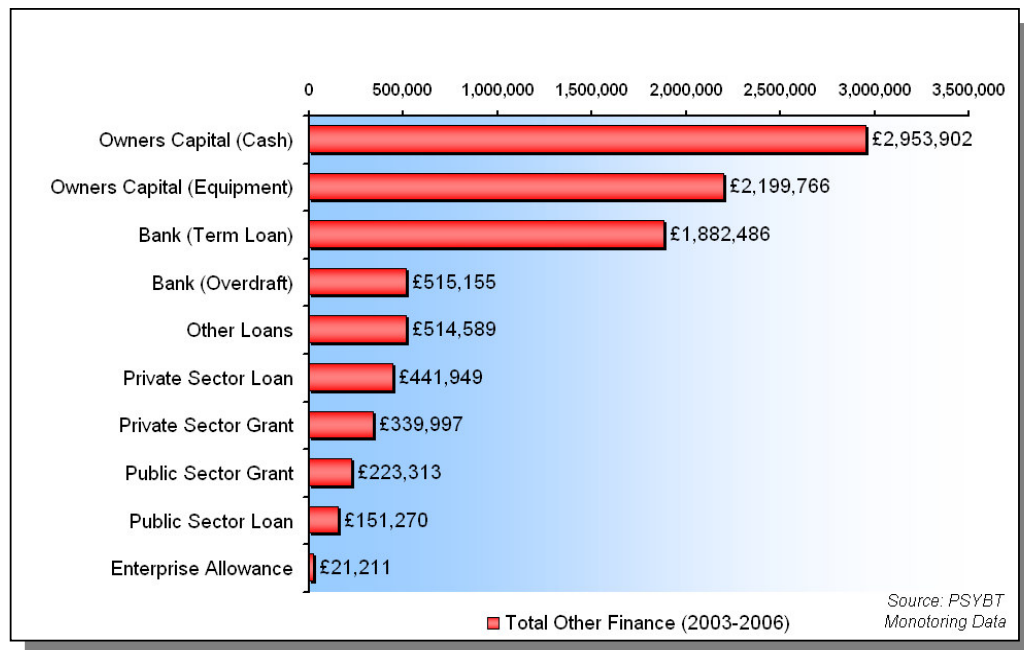
The sources of PSYBT and non-PSYBT finance used by clients are shown in Figure 3.11. PSYBT loans and grants account for 40% of funding used with a further third by the business owners' capital. Other private external finance accounts for just under a quarter (24%) of all capital used.

Figure 3.12 breaks down the other sources of finance used by PSYBT clients. Clearly, owners' own capital is the main source of alternative finance for PSYBT clients, representing 55.8% of all other finance. Bank loans, overdrafts and enterprise allowances are also relatively common sources of finance for PSYBT clients. While public sector grants and loans are identified as alternative sources of finance, they are relatively uncommon.

**Figure 3.11 – PSYBT and non-PSYBT Funding used by Clients (2003-2006)**



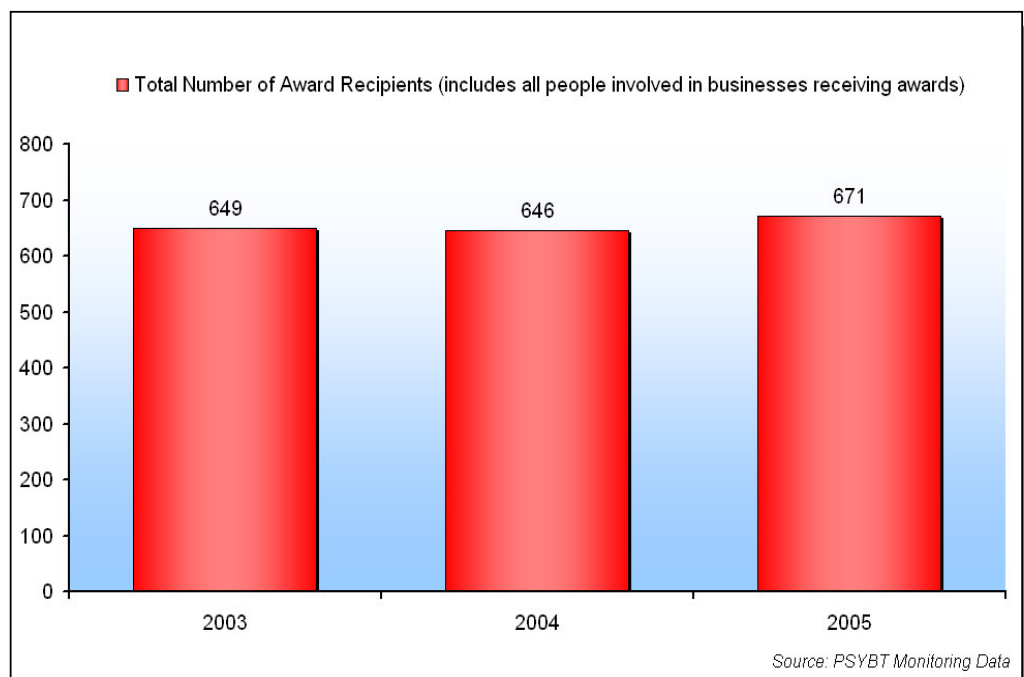
**Figure 3.12 - Other Finance used by PSYBT Clients (2003-2006)**



### 3.5 Profile of Population

Figure 3.13 shows the trend in the total number of award recipients since 2003 is consistent with the increase in capital awarded over the same period. The number of award recipients has increased by 3% since 2003.

**Figure 3.13 -Total Number of Award Recipients (2003-2006)**



As illustrated in Figure 3.14, the number of award recipients by region is also, on the whole, consistent with the capital awarded by region over the same period. Edinburgh has the highest number of award recipients (314), representing 16% of the total for all areas.

**Figure 3.14 - Total Number of Award Recipients (2003-2006)**

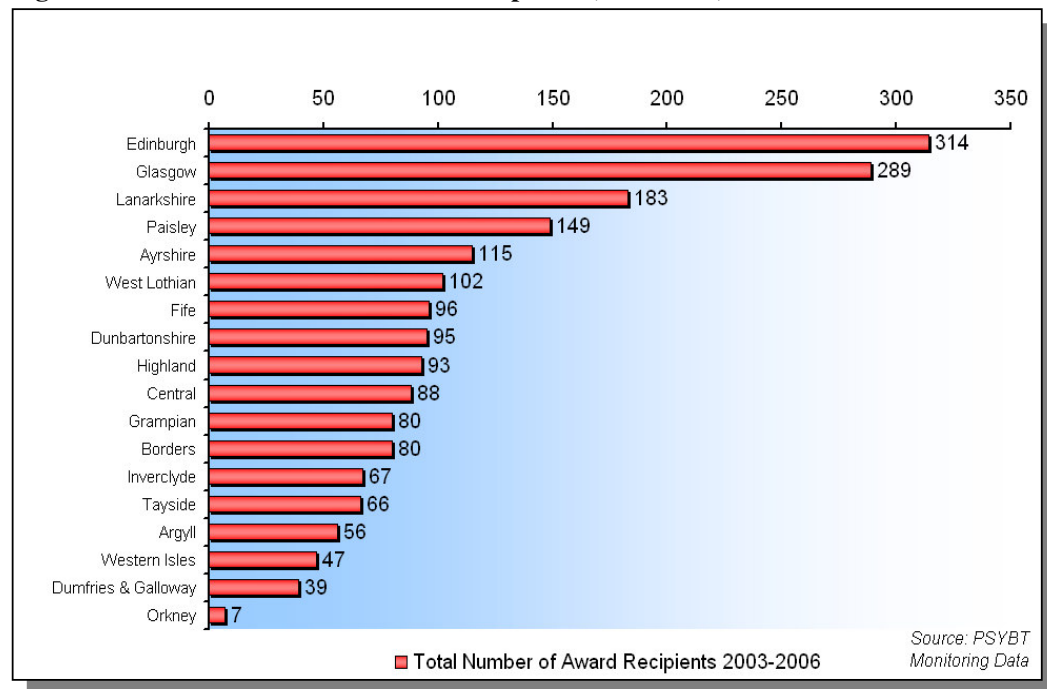
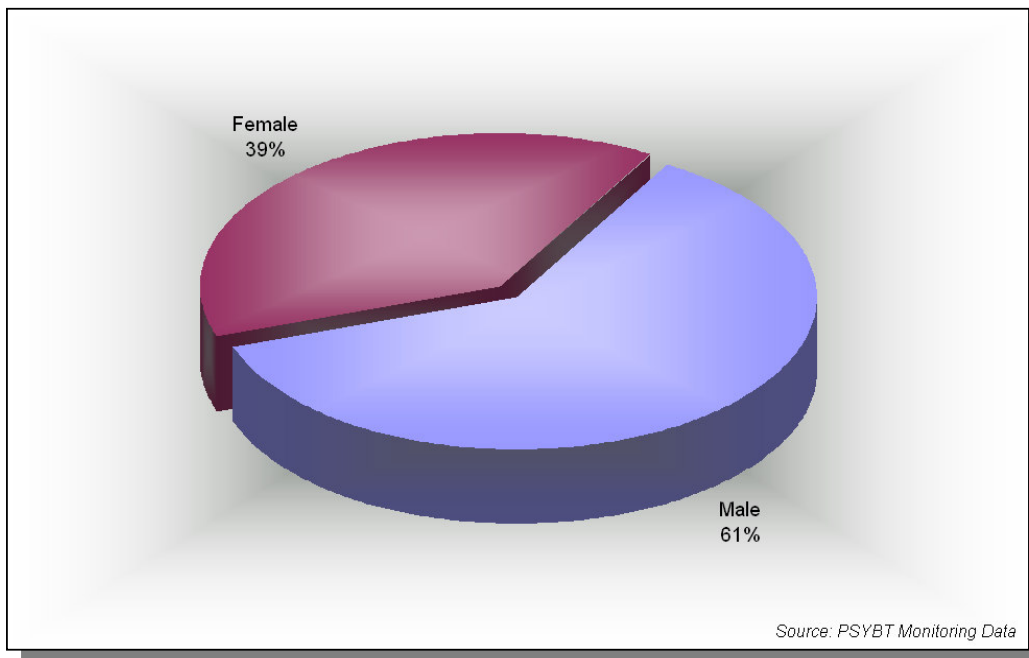


Figure 3.15 shows that since 2003, the majority of PSYBT clients have been male (61%). However, as illustrated in Figure 3.16, the disparity between the number of male and female PSYBT clients is declining. The number of females using the service has increased by 22% since 2003 and the number of males using the service has declined by 7% over the same period.

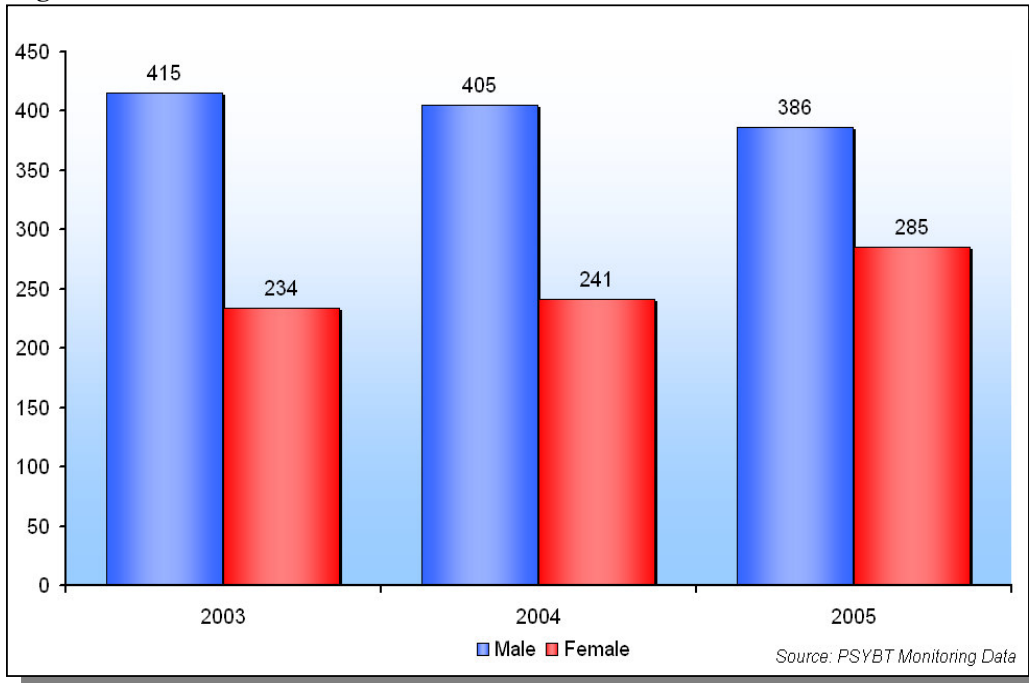
This is a very positive finding as it is commonly accepted that the UK has one of the lowest proportions of entrepreneurial women in the developed world. Research commissioned in 2004 by Scottish Enterprise<sup>9</sup> indicated that women comprise only 26% of the self-employed and only 12-14% of businesses are majority owned by women in Scotland. Furthermore, women-owned businesses represent around 10% of high growth businesses and around a third of total new starts. PSYBT is clearly a contributor to the gender equality agenda in terms of business start-ups.

<sup>9</sup> *Sharpening the Focus on Women's Enterprise* Scottish Enterprise, 2005

**Figure 3.15 - Total Award Recipients – Gender Split (2003-2006)**



**Figure 3.16 - Gender Trends – 2003-2006**



As shown in Figure 3.17, the majority (53%) of PSYBT clients are not in employment at the point of applying for PSYBT support.

**Figure 3.17 - Total Award Recipients – Employment Status at Application (2003-2006)**

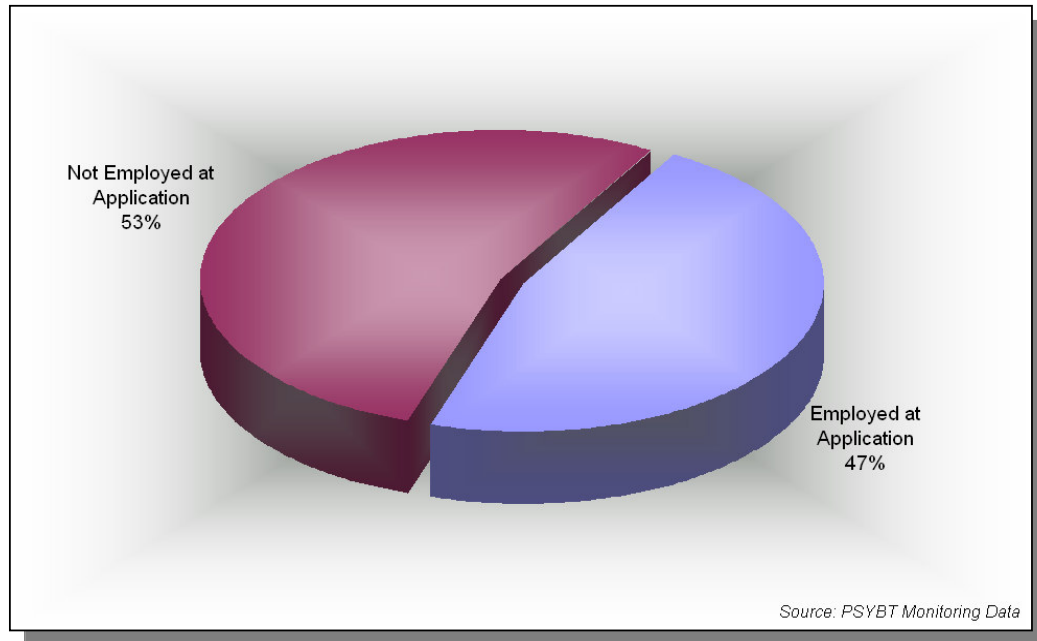
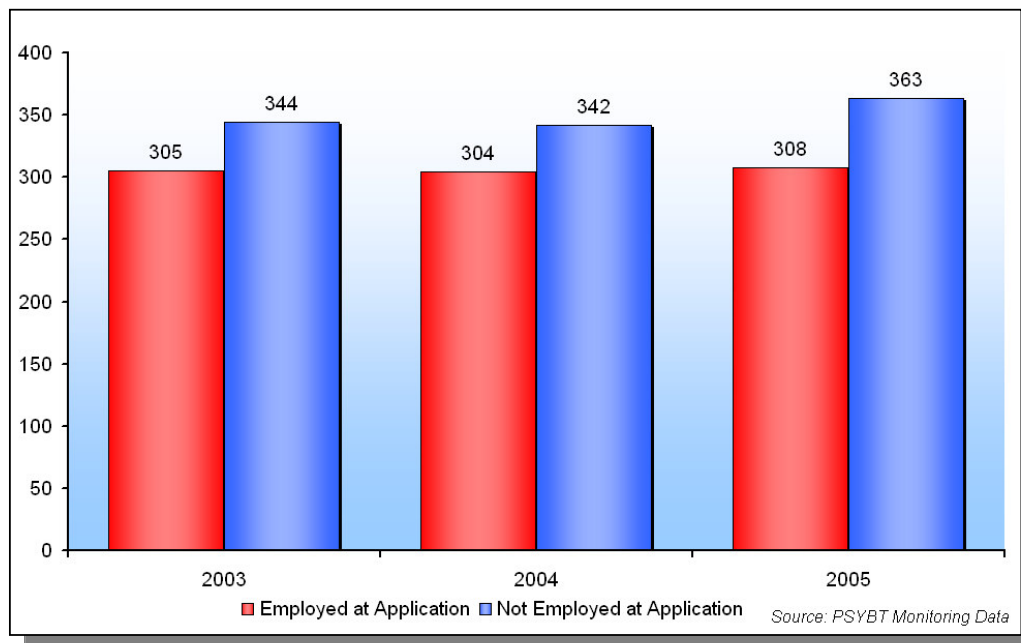


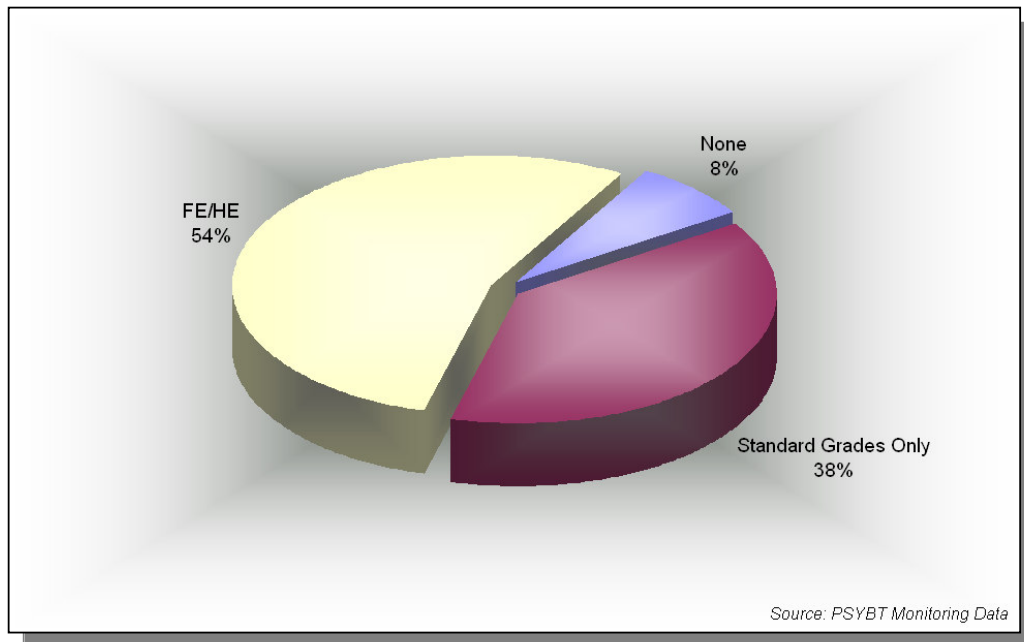
Figure 3.18 shows that between 2003/04 and 2005/06, there has been an increase of 5.5% in the number of PSYBT clients who are unemployed at application. The number of clients employed at application has remained relatively constant at just over 300.

**Figure 3.18 - Employment Status at Application 2003-2006 (excludes those not recorded)**

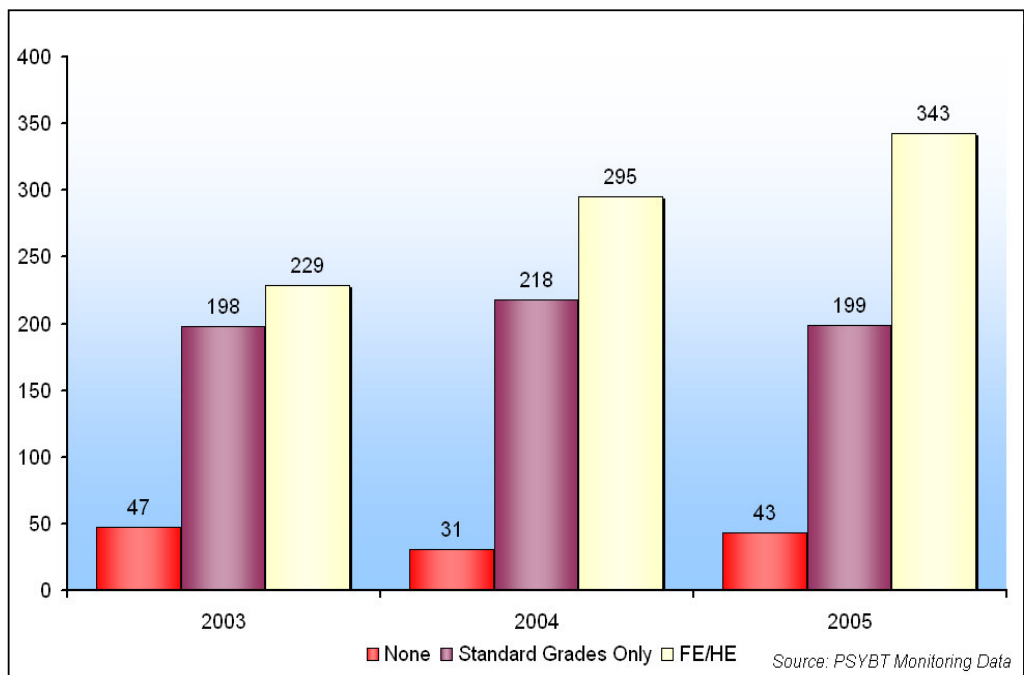


Between 2003 and October 2006 the majority of PSYBT clients (54%) have completed some form of Further and/or Higher education (Figure 3.19). A significant proportion of PSYBT clients (38%) are qualified to Standard Grade level only. Just 8% of PSYBT clients have no qualifications.

**Figure 3.19 - Total Awards Recipients – Qualifications (2003-2006)**



**Figure 3.20 - Qualifications of Award Recipients 2003-2006**



There has been a steady increase in the number of PSYBT clients that have completed some form of Further or Higher education (Figure 3.20). Indeed, the number of PSYBT clients qualified to this level has increased by 50% since 2003. In contrast, those qualified to Standard Grade level has remained relatively constant. There has been a slight decline (-8.5%) of PSYBT clients who have no qualifications. While national policy drives to encourage young people into FE and HE can explain some of this increase, it still seems to be a strong trend despite these external influences.

As illustrated in Figure 3.21, the vast majority (48%) of PSYBT clients come into contact with the service following a referral from the Business Gateway (Enterprise Agency). Recommendations from friends is clearly a far greater source of referrals than, for example, referrals from educational establishments, Job Centre Plus or advertisements in the press.

**Figure 3.21 - Source of Referral Totals (2003-2006)**

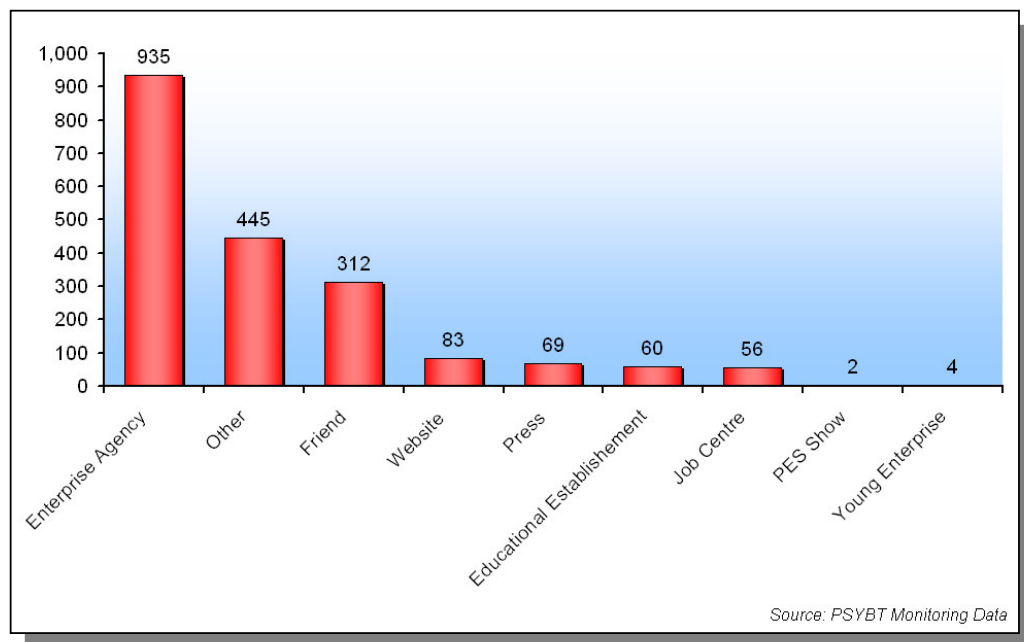
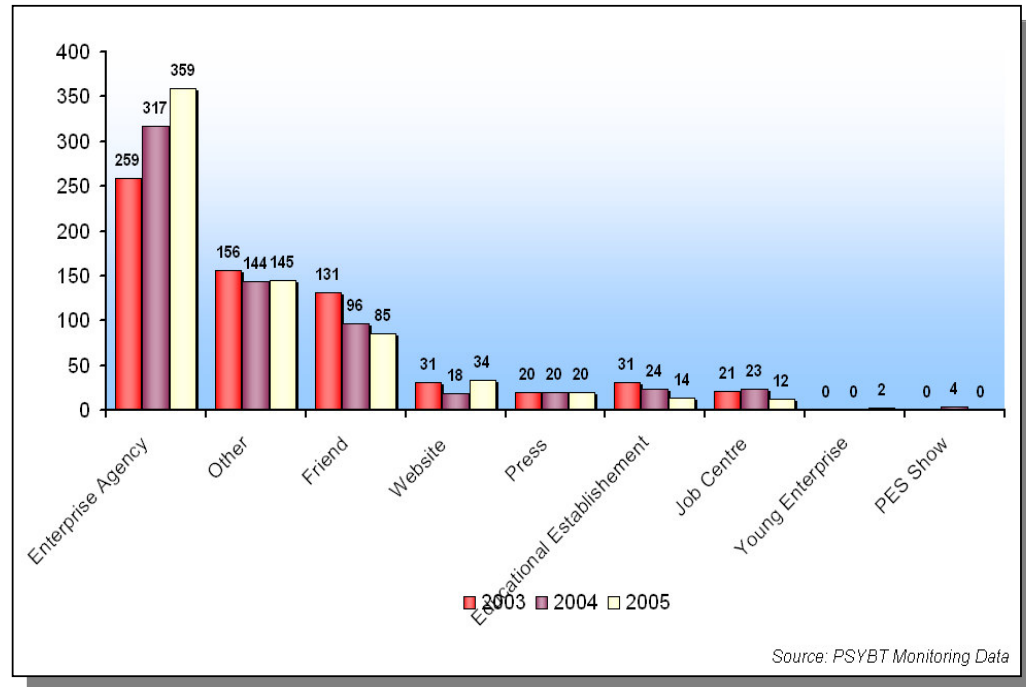


Figure 3.22 shows the number of PSYBT clients referred from the Business Gateway (Enterprise Agency) has grown by 39% since 2003, which reflects the strong contribution made by the Business Gateway to PSYBT's operational model. In contrast, the number of people being referred to PSYBT from a friend declined by 35% over the same period.



**Figure 3.22 Source of Referral Trends (2003-2006)**



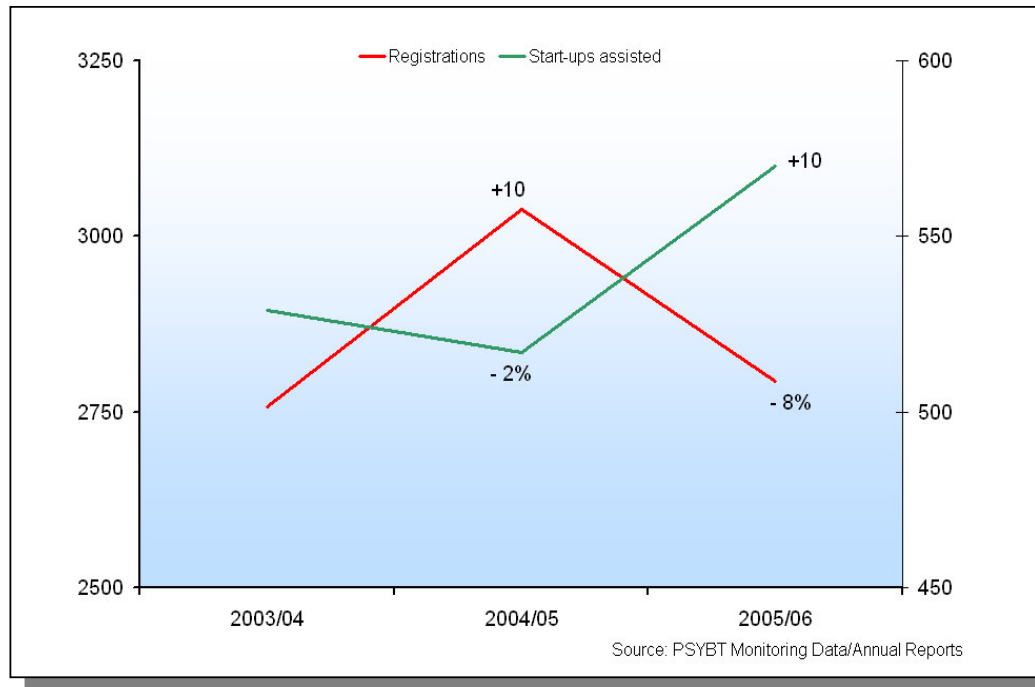
Figures 3.23 and 3.24 show the trend in the number of registrations and start-ups since 2003/04. Registrations increased by 10% between 2003/04 and 2004/05, with the number of start-ups increasing by 10% between 2004/05 and 2005/06, reflecting the fact that there is a time lag from registration to the point of starting up in business.

It had been expected that the number of registrations with PSYBT would increase significantly in light of the introduction of the 18-30 Start-up Award. This does not appear to have been the case. Our limited consultations with Business Gateway staff indicated that all clients in the PSYBT age group entering the Business Gateway would be automatically registered with PSYBT. Given the increase in numbers of young people approaching the Gateway as a result of the Start-up Award, which was introduced in October 2004, it might have been expected that the number of young people being registered with PSYBT would have continued to increase significantly into 2005/06.

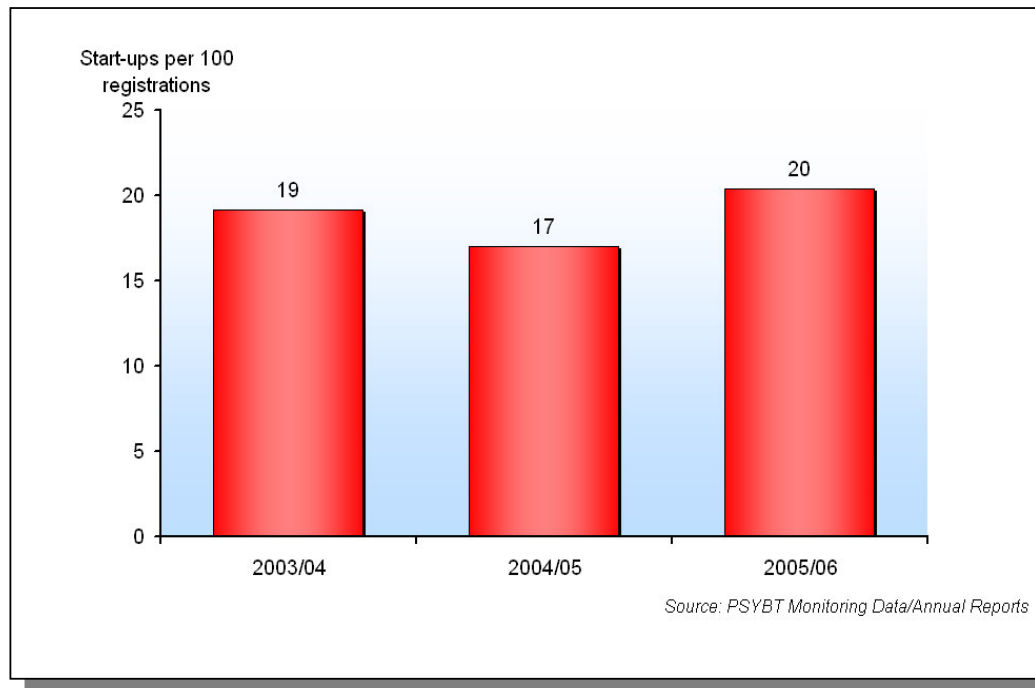
The number of young people aged between 18 and 30 starting up in business more than doubled in the 11 months following the introduction of the Start-up Award compared to the previous 11 months.<sup>10</sup> This implies an increased flow of people between 18-25 who would have been eligible for PSYBT support, which would suggest that all of the young people coming through the Gateway are not being registered with PSYBT as a matter of course. However, it could be that this is down to customer choice and young people are refusing the opportunity to engage with PSYBT even at the registration stage.

<sup>10</sup> *Review of the Business Start-up award for the 18-30s* DTZ Pidea Consulting (now DTZ Consulting & Research) for Scottish Enterprise, March 2006

**Figure 3.23 Trend in Registrations and Start-ups Assisted (2003-2006)**



**Figure 3.24 Start-ups Assisted per 100 Registrations (2003-2006)**



### 3.6 Survival Rates

PSYBT has undertaken analysis of the survival rates of its assisted businesses between 2002/03 and 2004/05:

- Year 1 82%
- Year 2 70%
- Year 3 67%

Evidence from an assessment of survival rates in SE assisted businesses<sup>11</sup> found the following survival rates:

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

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%

Therefore, survival rates for PSYBT supported businesses appear to be higher than those for all SE assisted businesses. Given that the comparatively larger scale of all VAT registered businesses, it is to be expected that the survival rate would be higher. **Overall, the PSYBT survival rates seem to indicate that the support model is successful in starting sustainable businesses.**

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<sup>11</sup> *Monitoring Business Survival Rates* DTZ Pidea Consulting (now DTZ Consulting & Research) for Scottish Enterprise, February 2003

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

### 3.7 Summary

#### Analysis of Awards

- The **total number of awards** issued increased by **2.6%** between 2003 and October 2006
- Between 2003 and October 2006, **Edinburgh** issued the highest number of awards (**334**, an average of 111 per year). **9** areas have experienced an **increase** in the number of awards issued since 2005. **5** areas have experienced a **decline** in the number of awards issued over the same period. With the exception of Orkney, the **Western Isles** has experienced the largest percentage increase over the period (60%) followed by **Dunbartonshire** (55%). **Paisley** has experienced the largest decline in absolute and relative terms (-44%) closely followed by **Central** (-43%).
- The **total capital awarded** has grown by **1.1%** between 2003/04 and 2004/05 and a further **2%** between 2004/05 and October 2006. Since 2003, **Glasgow** has awarded the greatest amount of capital of all the PSYBT regions (£957,100) accounting for 15% of the total capital awarded over the period. During 2005/06 **Edinburgh** has awarded the greatest amount of capital (£357,750) accounting for 16.6% of the total capital awarded over the period.
- The vast majority of the total capital awarded between 2003 and October 2006 was in the form of **start-up loans** (£4,675,800 or **73.6%**). The amount of capital awarded through **expansion loans to PSYBT start-ups** has increased more than any other type of award since 2003 (**203%** increase). The amount of capital being awarded through **growth fund development loans** and **growth fund accelerator loans** had also increased significantly over the period, **119%** and **33%**, respectively.
- Despite the large amount of capital being awarded in the form of start-up loans, the amount of capital being awarded through **start-up loans** has **decreased by 7%** with the capital awarded through **expansion loans to non-PSYBT start-ups** falling by **11%** over the same period.

#### Analysis of PSYBT Clients

- The number of **award recipients** has **increased by 3.4%** since 2003. **Edinburgh** has the highest number of award recipients (**314**), representing **16%** of the total for all areas.
- Since 2003 the **majority of PSYBT clients have been male (61%)**. However, the disparity between the number of male and female PSYBT clients is declining. The number of **females using the service has increased by 22%** since 2003 indicating the contribution of PSYBT to the gender equality agenda for start-up support.
- The majority (**53%**) of PSYBT clients are **not in employment** at the point of applying for PSYBT support. Since 2003, there has been an **increase of 5.5%** in the number of PSYBT clients who are not employed at application.
- Between 2003 and October 2006 the majority of PSYBT clients (**54%**) have completed some form of **Further and/or Higher education**. The number of PSYBT clients qualified to this level has increased by 50% since 2003. Just **8%** of PSYBT clients have **no qualifications**.
- The vast majority (**48%**) of PSYBT clients come into contact with the service following a referral from the Business Gateway. Recommendations from friends is clearly a far greater source of referrals than, for example, referrals from educational establishments, Job Centre Plus or advertisements in the press.
- Overall, the PSYBT survival rates seem to indicate that the support model is successful in starting **sustainable businesses**.

## **4 Operational Review**

### **4.1 Introduction**

This section reviews the current operations of PSYBT drawing upon various elements of the research including:

- PSYBT monitoring data;
- Background information/literature on PSYBT;
- Consultations with PSYBT staff (including Regional Chairmen, Regional Managers, Panel Members and Aftercare Volunteers);
- Stakeholder organisations including the Scottish Executive and the Business Gateway;
- A survey of PSYBT clients who did not go on to receive PSYBT support (“non-beneficiaries”); and
- A survey of PSYBT clients who started up in business with the support of PSYBT (“beneficiaries”).

We examine the operations of PSYBT from engaging clients through pre-start support, the Panel and aftercare reviewing the strengths and weaknesses of PSYBT from the perspectives of clients, staff and stakeholders.

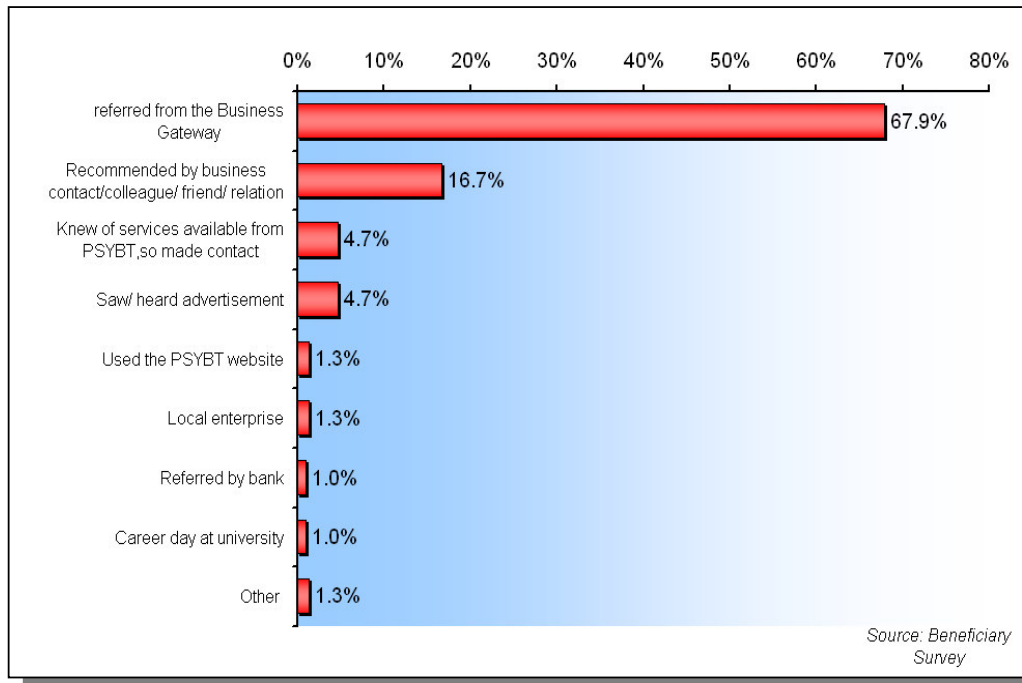
### **4.2 Critique of Operational Elements**

#### **4.2.1 Engagement with PSYBT**

The beneficiary survey found that more than two-thirds of respondents had been referred to PSYBT from the Business Gateway (see Figure 4.1). This is to be expected given that the Business Gateway in most areas, hosts PSYBT. Even in those areas in which the Business Gateway does not host PSYBT, the two services tend to work very closely with each other. Indeed, Regional Managers recognise the extent to which PSYBT relies on referrals from this source.

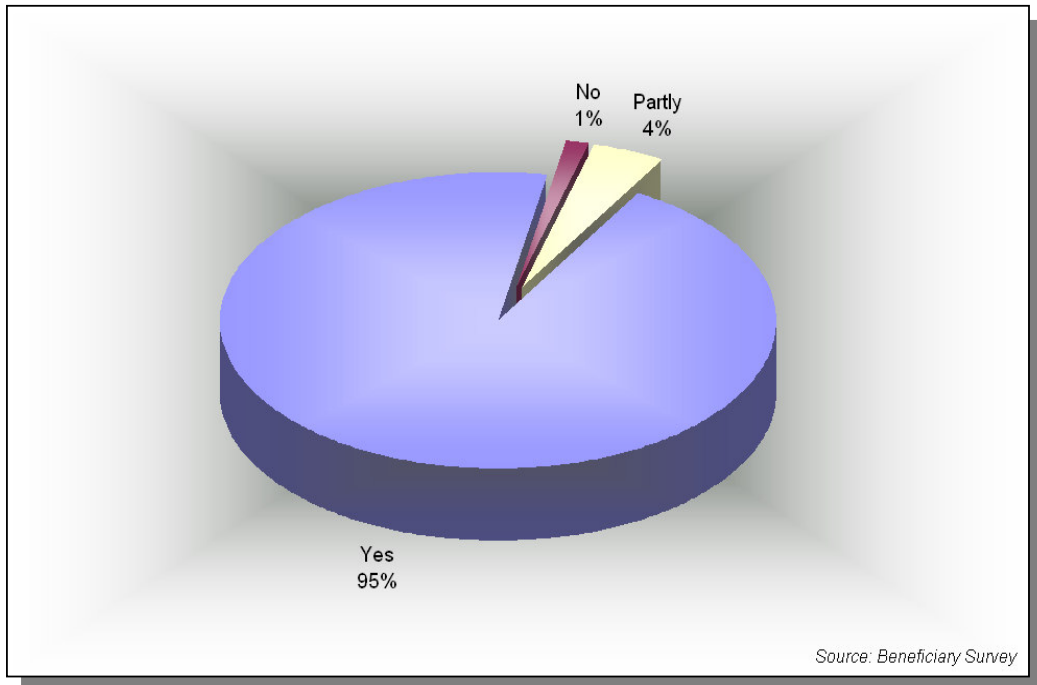
Consultations with Regional Managers revealed that when a potential PSYBT client contacts PSYBT directly, they are often referred to the Business Gateway. They can then assess the needs of the client and the PSYBT Regional Manager will often work closely with Gateway Advisers during this initial assessment of the client. There are, however, no formal criteria or definition of what constitutes a PSYBT client or, indeed, a definition of “disadvantaged”. It tends to be the case that all clients falling within the 18-25 year old age bracket who have not been able to get financial assistance anywhere else, will be referred to PSYBT.

**Figure 4.1 - What led you to your initial involvement with PSYBT?**

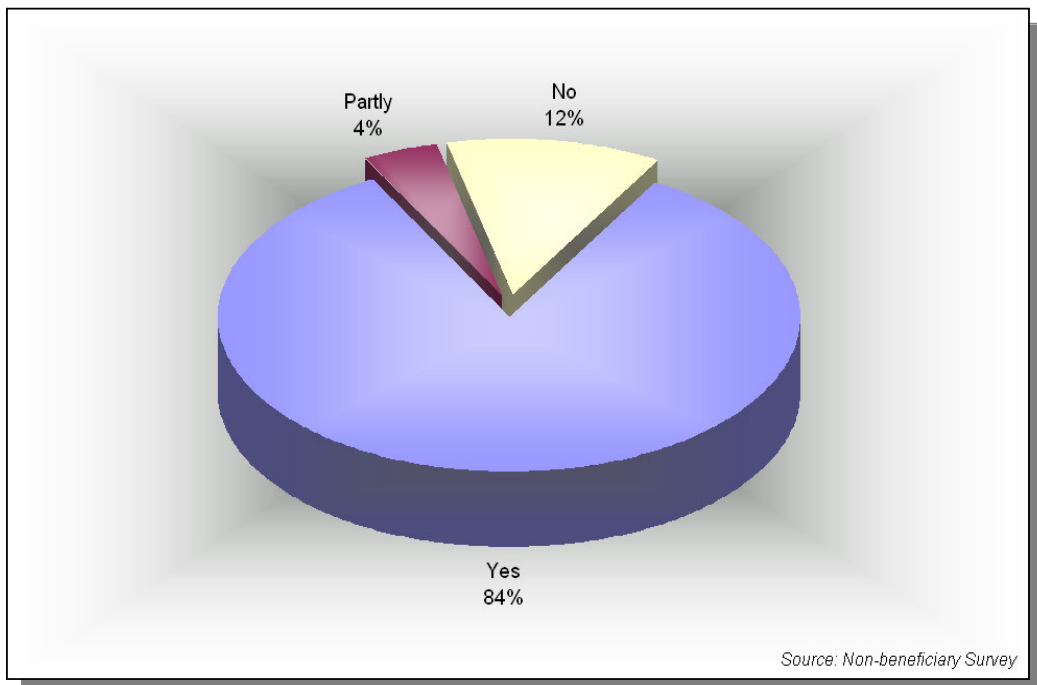


As illustrated in Figure 4.2, the vast majority (95%) of respondent beneficiaries claim that, from the outset, they clearly understood the service being provided by PSYBT and how the support would be delivered. Figure 4.3 reveals that while those who did not go on to receive PSYBT support were slightly less aware of the service being offered, 85% still claim to have properly understood the service that would be provided by PSYBT. However, PSYBT staff believe that, due to the close working of PSYBT and Business Gateway, and the way in which the services are marketed jointly, there is often confusion amongst potential PSYBT clients with respect to the distinct roles of PSYBT and Business Gateway. It could be argued that this is not an issue as it is important that the clients receive the services they require and not necessarily that they appreciate who is delivering that service to them.

**Figure 4.2 - Did you feel from the outset that you understood the service being provided by PSYBT and how it would be delivered? (Beneficiaries)**



**Figure 4.3 - Did you feel from the outset that you understood the service being provided by PSYBT and how they would be delivered? (Non-beneficiaries)**

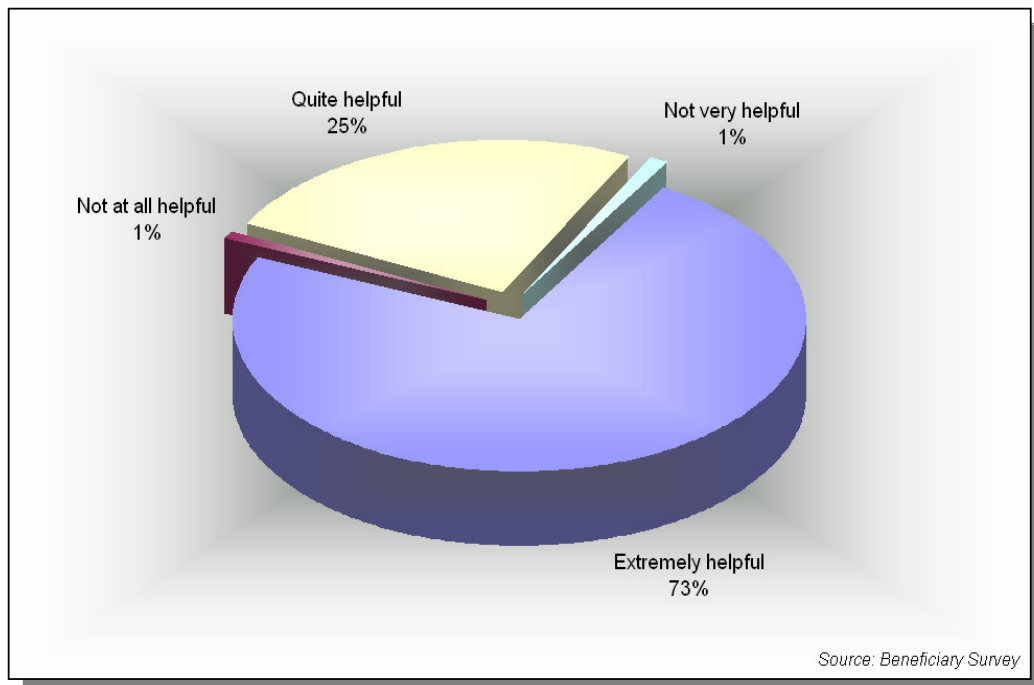


The Regional Manager will, typically, be the first point of contact for PSYBT clients. The extent to which Regional Managers engage with each client varies between regions. Clearly, it is more challenging for Regional Managers in the areas in which there are a large number of PSYBT applicants to work as closely with each client in comparison to their counterparts in areas with fewer applicants. In addition, Regional Managers in geographically large/dispersed areas face additional challenges and time constraints due to the travel time that is often required by themselves and/or the client. In general, Regional Managers appear to be very dedicated to delivering the service.

Regional Managers will often work very closely with clients and, in many cases, provide support and advice on issues not directly related to the client's proposed business. PSYBT often deal with very disadvantaged clients who may have a number of serious problems such as substance abuse or illiteracy. In these cases, some Regional Managers claim to have acted in a dual role to the client as a business adviser and a social worker. Delivering such a service often requires a significant amount of 'goodwill' from Regional Managers and their support staff in terms of sacrificing their personal time for the benefit of their clients.

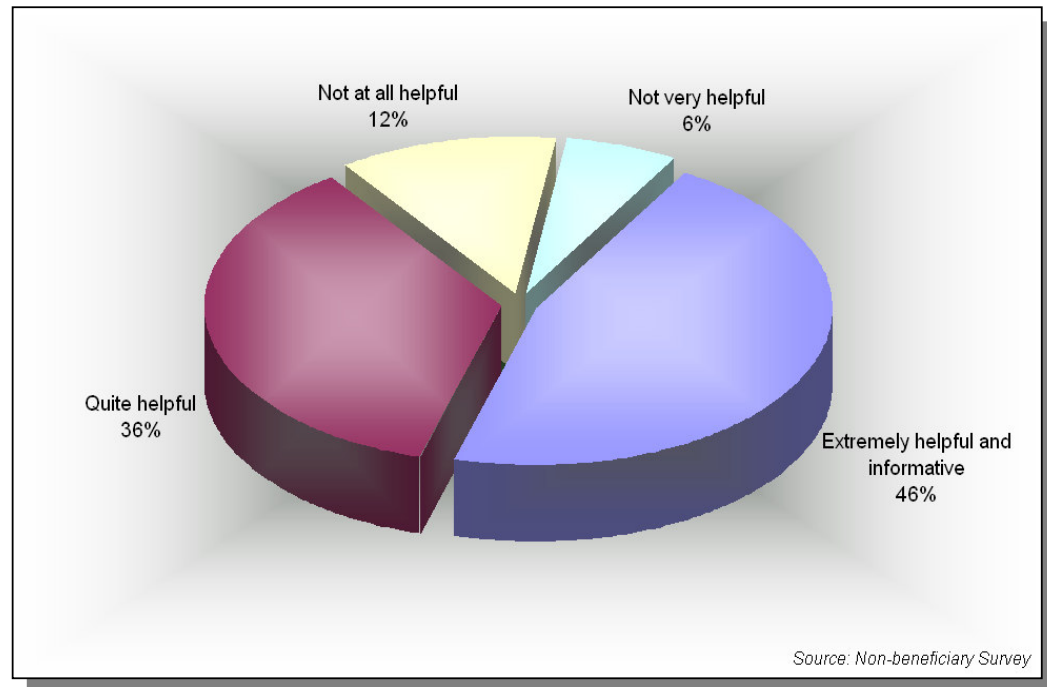
As illustrated in Figure 4.4, the vast majority (73%) of respondent beneficiaries claim that the contact that they had with the Regional Manager as "extremely helpful". Just 2% of respondent beneficiaries claimed that their Regional Manager was not helpful. These findings are, therefore, aligned with the findings of consultations with Regional Managers. As illustrated in Figure 4.5, those who did not go on to receive support from PSYBT, while less emphatic than PSYBT beneficiaries, provide a positive picture of the contact that they had with their Regional Manager. The higher proportion of respondents stating the contact was not helpful may well reflect the fact that the initial contact led to the potential clients being told that their business idea was not viable or that they were not eligible for PSYBT support.

**Figure 4.4 - How would you describe the contact you had with the PSYBT Regional Manager at the time you were registering with PSYBT? (Beneficiaries)**





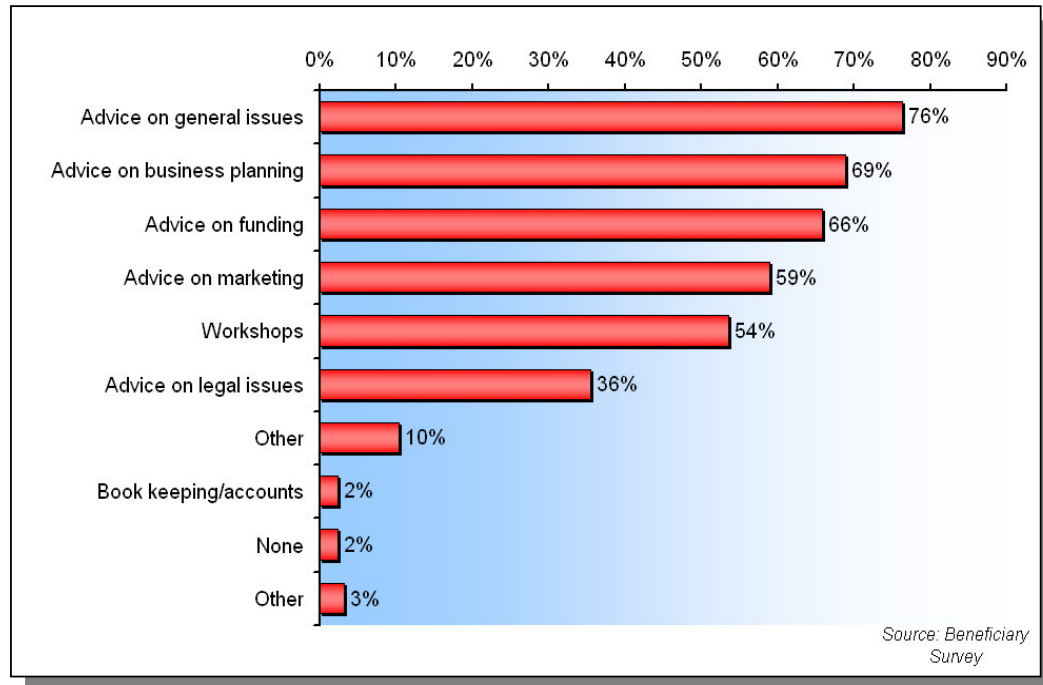
**Figure 4.5 - How would you describe the contact you had with the PSYBT Regional Manager at the time you were registering with PSYBT? (Non-beneficiaries)**



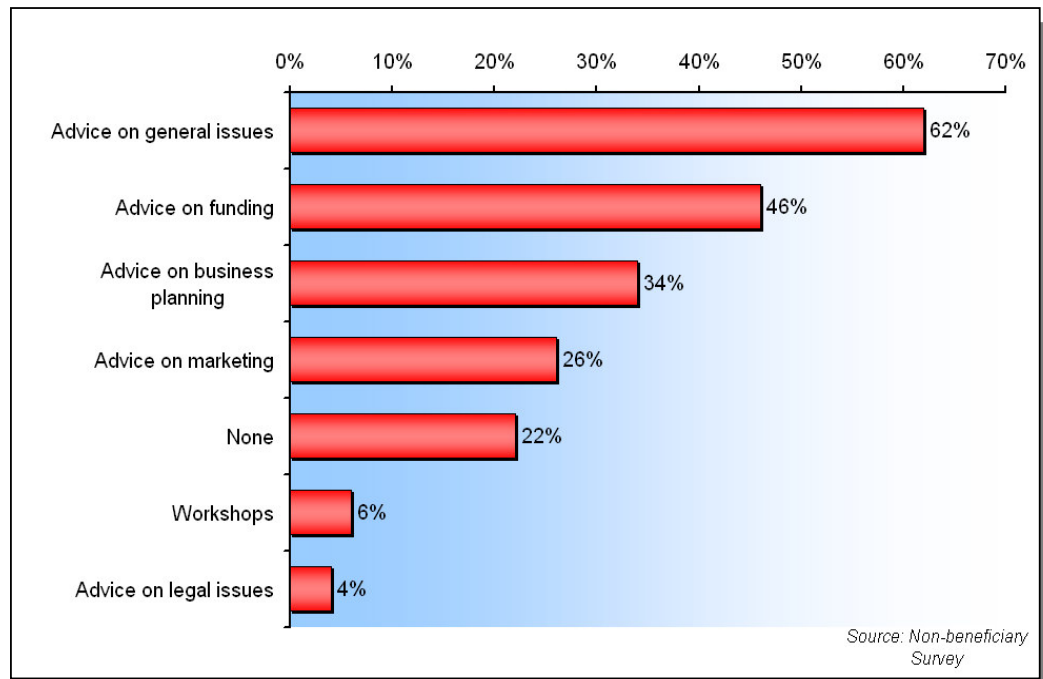
As shown in Figure 4.6, more than three-quarters (76%) of PSYBT beneficiaries received advice on 'general issues'. This is consistent with the claims of Regional Managers and other PSYBT staff that they are typically required to provide support that is not specifically business-related. Whilst the one-to-one nature of PSYBT support is regularly stated by PSYBT staff as being a crucial aspect of the service, a significant proportion (54%) of beneficiaries have also attended workshop events. In addition, it is common for beneficiaries to have received advice on business planning, funding, marketing and legal issues. While many Regional Managers claim that clients often require assistance and training on book keeping, it appears to be a particularly uncommon form of support.

As shown in Figure 4.7, while non-beneficiaries do not go on to receive financial support and aftercare from PSYBT, a significant amount of support is provided before that stage. It is common for many of this group to have received advice on general issues and funding. While more than two-thirds (69%) of beneficiaries claim to have received advice on business planning, just over a third (34%) of non-beneficiaries claim to have received this form of support. Consultations revealed that the business planning process is a crucial part of PSYBT support. This process is explored in the next section.

**Figure 4.6 - What support did you receive through PSYBT? (Beneficiaries)**



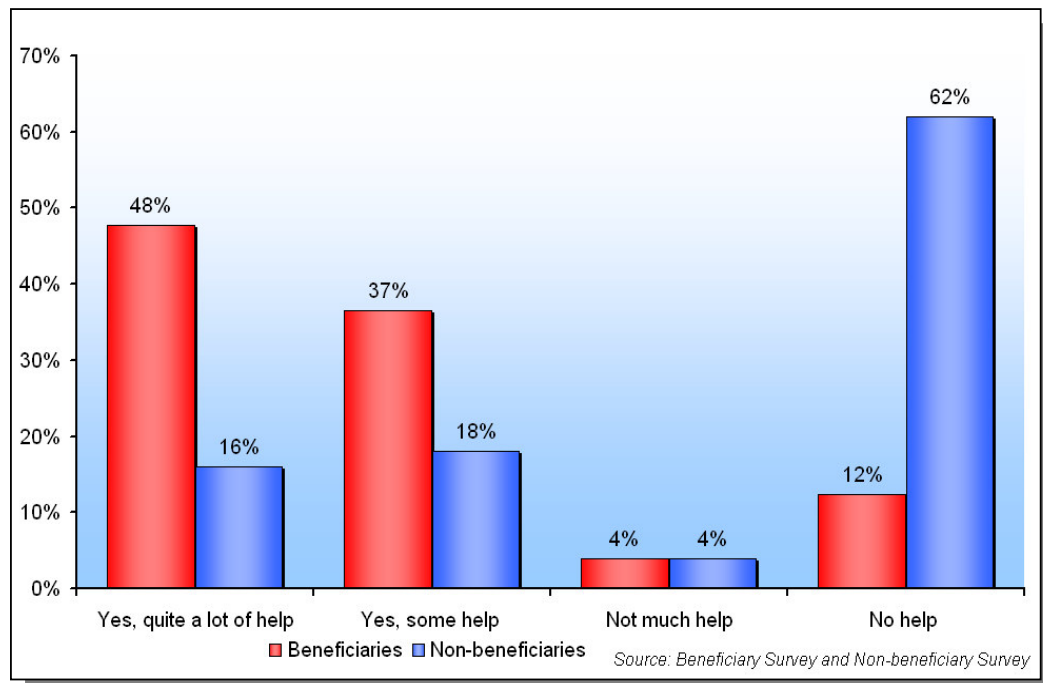
**Figure 4.7 - What support did you receive through PSYBT? (Non-beneficiaries)**



#### 4.2.2 The Business Planning Process

The business planning process is regarded by PSYBT staff as being a crucial component in helping clients to start up in business. Indeed, a robust business plan is a pre-requisite for clients wishing to progress to the formal PSYBT panel. As illustrated in Figure 4.8, the vast majority (85%) of respondent beneficiaries received a lot or some help in preparing their business plan. In contrast, the vast majority of non-beneficiaries (62%), claim to have received no help at all in preparing their business plan, which is not surprising since many of these respondents either decided not to start up a business or set up on their own.

**Figure 4.8 - Did you receive help in preparing your business plan?**



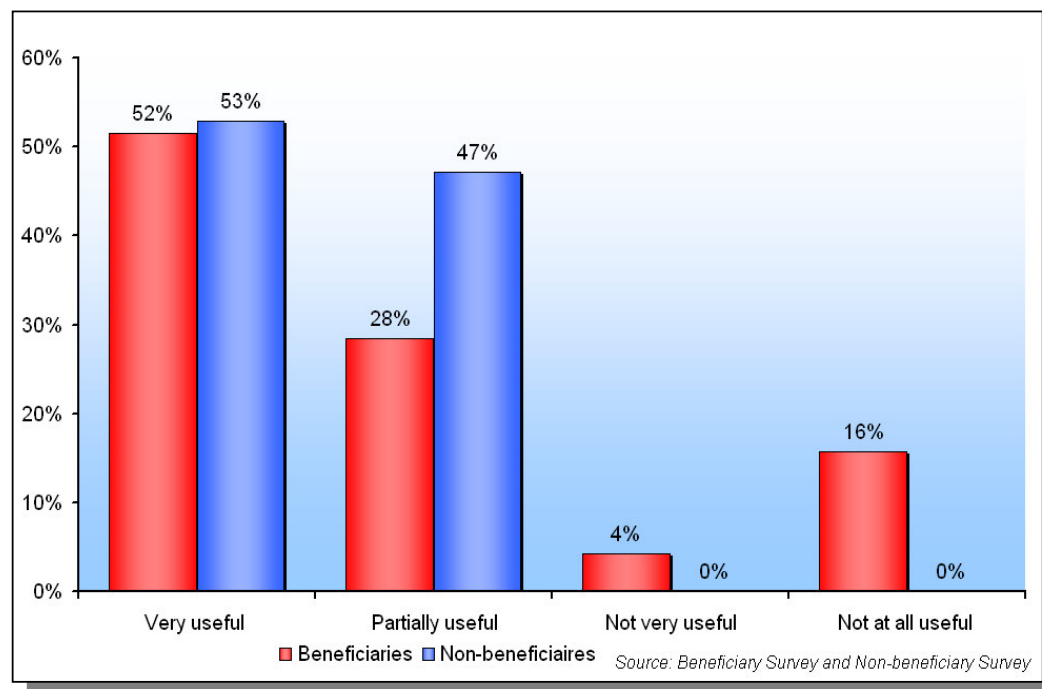
Consultations revealed that there are regional differences in the way in which clients are assisted in developing their business plan. In most areas the business planning process is initiated and progressed by Business Gateway Advisers. At the stage when the Business Gateway Adviser believes that the plan is complete or developed to a sufficient level, the client and their business plan will be referred to PSYBT. At this stage, the PSYBT Regional Manager will meet with the client to review their business plan and discuss what steps are necessary to progress to the panel stage. In the areas in which Business Gateway does not play a central role in the business planning process, the development of business plans is often the responsibility of the PSYBT Regional Manager or an outside Enterprise Agency.

Consultations with Regional Managers revealed that, in the majority of cases, further development of business plans is required before the client is sufficiently prepared to go forward to the PSYBT Panel. Regional Managers have highlighted that the quality of business plans can vary depending on which Business Gateway Adviser or other Enterprise Agency has provided the initial support. Many Regional Managers communicate with

these advisers in an attempt to ensure the quality and consistency of business plans and to ensure that they understand the requirements of the PSYBT Panel.

The way in which advice is provided can also vary depending on the specific needs of each client. PSYBT claim that some clients are capable of independently preparing high-quality business plans. However, the majority of clients appear to benefit from advice from both PSYBT the Business Gateway. In general, PSYBT staff believe that the quality and intensity of the business planning advice is tailored correctly for each client. As illustrated in Figure 4.9, the majority of respondent beneficiaries (52%) found the business planning process to be very useful. The vast majority of those who did not go on to receive PSYBT support were also very positive about the business planning process.

**Figure 4.9 - How useful did you find the process of preparing your business plan?**



Some Regional Managers expressed concerns over the ownership of business plans. There have been instances when a client has been referred to PSYBT with a business plan of which they have very little knowledge or understanding. While these cases do not appear to be common, Regional Managers typically have to work closely with clients in order to develop their knowledge and understanding of their business plan prior to going to the Panel. The Panel process is explored below.

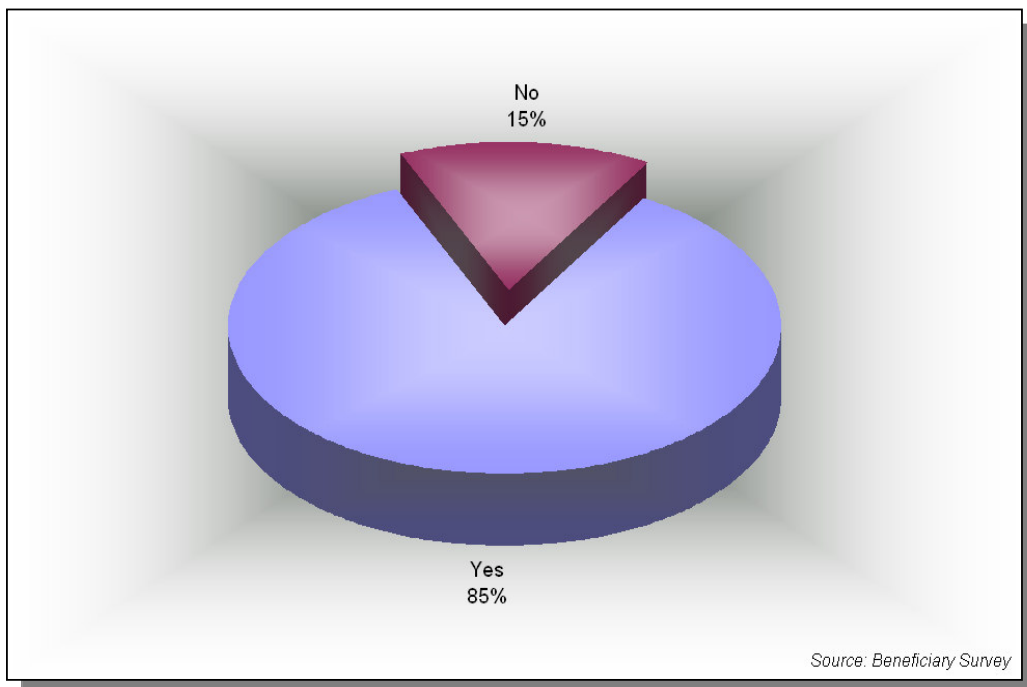
#### 4.2.3 The PSYBT Panel Process

When a client's business plan is judged by the Regional Manager to have a sufficient case for PSYBT support, the client will be taken forward to meet the PSYBT Panel. The frequency of Panels varies between regions. Regions that have a greater number of clients have more frequent Panels. For example, Edinburgh, which has the highest number of applications, holds Panels on a fortnightly basis. Other regions, such as Grampian and Central arrange to hold Panels on a monthly basis. The Panels generally consist of the

PSYBT Regional Chairman and 2-3 volunteers. All Panel members will have significant experience in business.

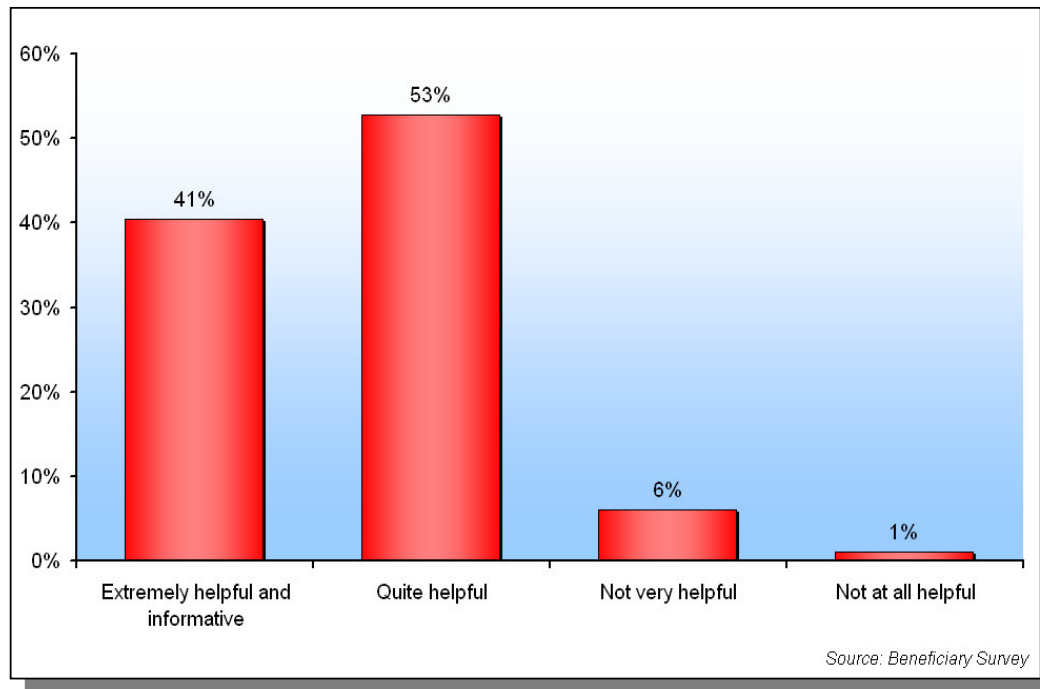
During the Panel, the client and their business plan are scrutinised. The client will be asked a number of questions in order to assess their knowledge of their proposed business and their ability. The fundamental aspect for the Panel is to reach a decision regarding the client's request for financial support. Consultations with Panel members revealed that they try to ensure that each client gets the correct amount of financial assistance. While this often means offering the client less money than they requested, it is not uncommon for the Panel to award clients with more money than they requested should they deem it necessary. In addition, as illustrated in Figure 4.10, some clients are given conditional approval. This may involve, for example, re-focusing their business plan in a number of ways.

**Figure 4.10 - Did the panel approve your application with no conditions attached?**



While the primary goal of the Panel is the assessment of the client and their business plan, PSYBT staff believe that it is a useful process for the client. In particular, it is felt that the Panel process will help the client to clarify further their business goals and identify any weaknesses in their business plan. As illustrated in Figure 4.11, this belief is somewhat justified as 41% of respondent beneficiaries claimed that the Panel was extremely helpful and informative.

**Figure 4.11 - Did you find the presentation to the PSYBT Panel helpful in the process of business start-up?**

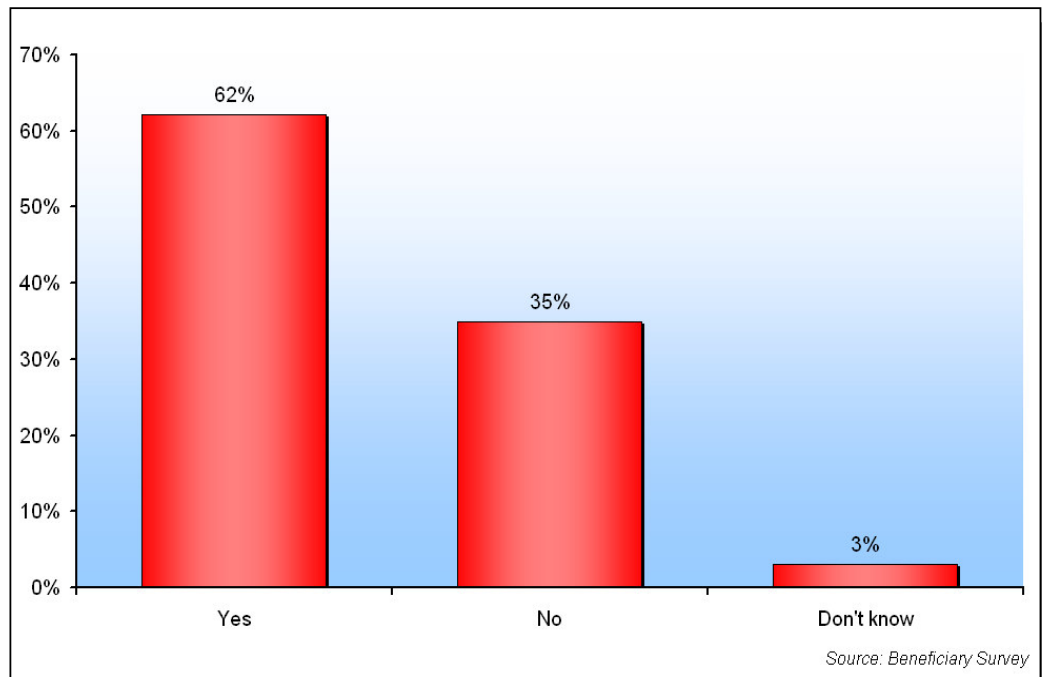


#### 4.2.4 Aftercare Support

Consultations with senior PSYBT staff revealed that aftercare support is regarded as a particularly strong element of the service. As illustrated in Figure 4.12, 62% of respondent beneficiaries have a designated aftercare advisor. Consultations with PSYBT staff would suggest that significantly more than 62% of PSYBT beneficiaries are assigned an aftercare advisor. While aftercare support will always be offered and the benefits promoted to clients, it is, however, recognised that clients do not always require aftercare support. Some of the businesses in our sample might also have completed the aftercare process given the time lag since their support.

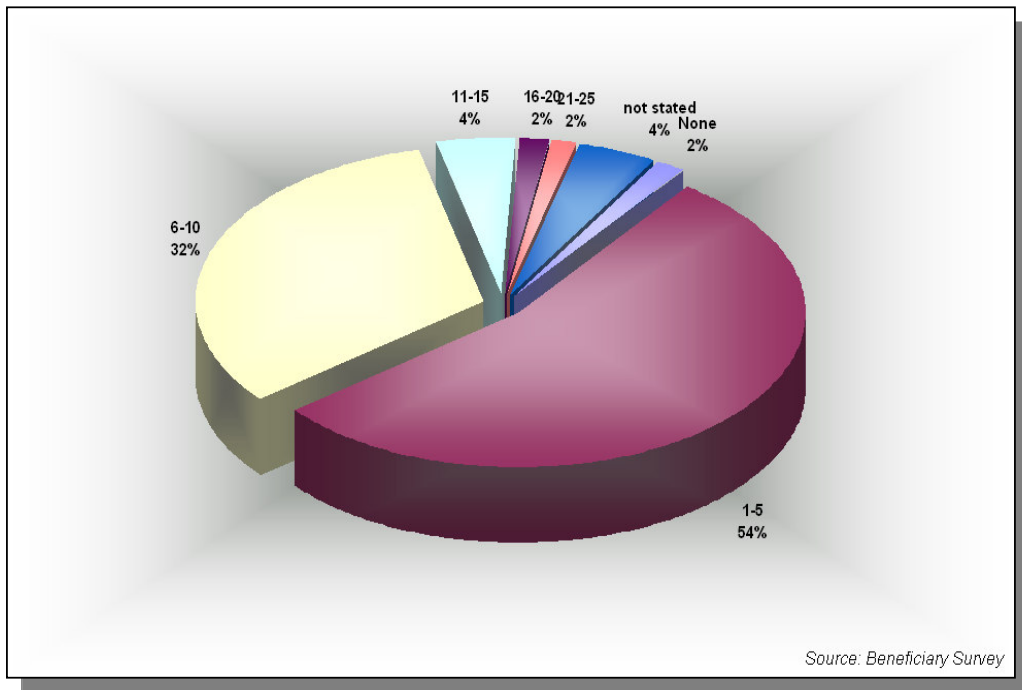
PSYBT Regional Managers are keen to encourage clients to meet their aftercare adviser at the earliest possible stage. In the majority of cases, aftercare advisers are encouraged to meet clients at the stage when the loan/grant cheque is handed over to the client. There have also been cases of aftercare advisers participating in the panel process as observers. Establishing a relationship between the client and the aftercare adviser at the earliest possible opportunity is regarded by PSYBT staff as being extremely important, particularly when supporting the most disadvantaged clients.

**Figure 4.12 Do you currently have a designated aftercare adviser?**



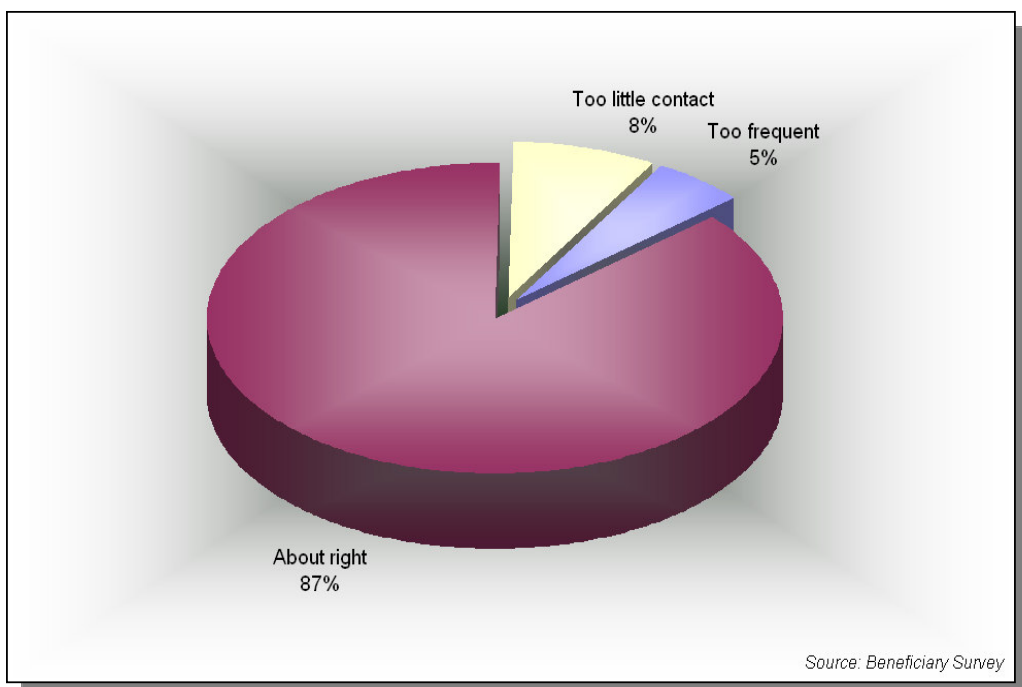
While aftercare advisers are required to meet with clients on a quarterly basis, according to PSYBT staff, the intensity of the aftercare support provided to clients is, ultimately, determined by the needs of the client. As illustrated in Figure 4.13, the majority of PSYBT clients (54%) receive 1-5 visits from their aftercare adviser. A significant proportion (32%) receive 6-10 visits, with 8% receiving more than 10 aftercare visits. Caution must be taken when interpreting these figures. Consultations have revealed that aftercare support is responsive to the needs of the client. In reality, it is the case that aftercare support is provided without the need for an official visit or meeting. Aftercare support is regularly provided by phone calls and emails between clients and their adviser. Hence, much of the aftercare support is provided on an informal and ad hoc basis. It would, therefore, be misleading to assess the intensity of aftercare support purely by the number of aftercare visits.

**Figure 4.13 Number of aftercare visits**



As illustrated in Figure 4.14, the claim that the intensity of aftercare support is determined by the needs of the client is largely justified by the fact that 87% of respondents feel that the level of aftercare support was appropriate. In cases where the level of aftercare support was regarded as being inappropriate, clients were more likely to feel that they received too little aftercare support as opposed to too much.

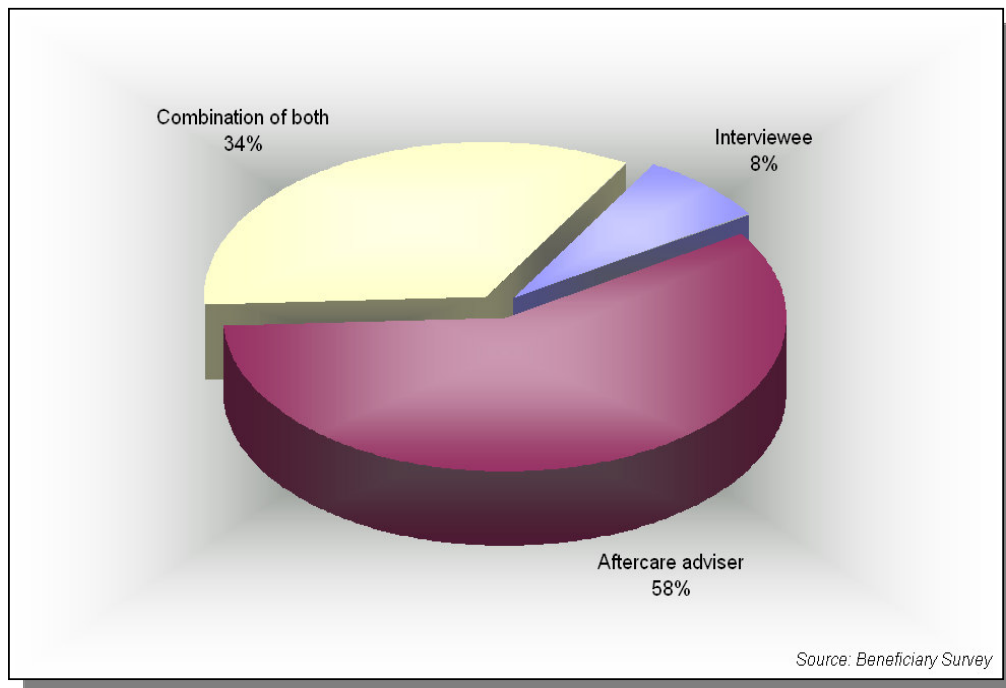
**Figure 4.14 How did you find the level of aftercare contact?**





While it is claimed that aftercare support is responsive to the needs of the client it is typical for aftercare advisers to initiate contact with the client. As illustrated in Figure 4.15, just 8% of respondents claimed that they typically initiate contact with their aftercare adviser. This suggests that, while aftercare is regarded as a reactive service, it is clearly important for aftercare advisers to be proactive in maintaining communication with clients.

**Figure 4.15 Who typically initiates/initiated the aftercare contact?**

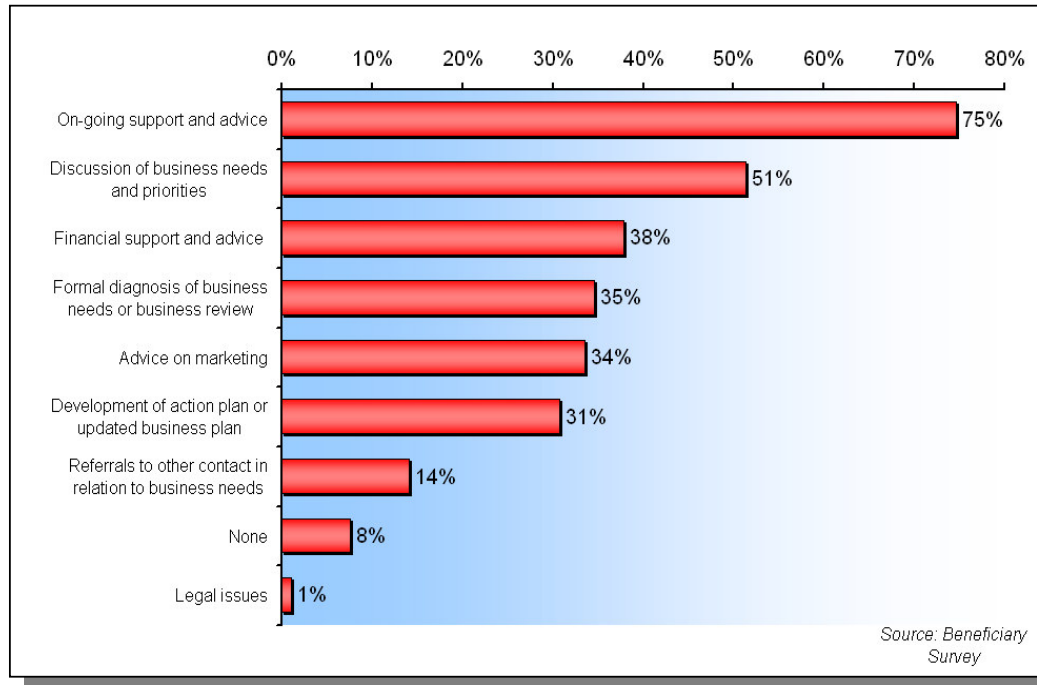


As illustrated in Figure 4.16, the majority of the support received from aftercare advisers is classified generally as “on-going support and advice” or “discussion of business needs and priorities”. However, a significant proportion of respondents claimed that they have received somewhat more specialist advice such as financial advice and advice on marketing. The majority of Regional Managers encourage aftercare advisers to communicate with each other and draw upon the specific skills of one another in order to best meet the needs of clients. Many examples of this activity were provided. For example, there were a number of cases where advisers draw upon the specific marketing skills of another adviser. There have also been cases where another adviser has been asked to provide advice on specific tax issues. It is believed that a strong network of advisers who have a good knowledge of each other’s caseloads can, therefore, maximise the effectiveness of the aftercare support.

Regional Managers try to use their knowledge of each business and client in order to assign an aftercare adviser that most closely meets the needs of each client. For example, assigning an aftercare adviser to a client who is trying to establish a business similar or related to the business experience of the adviser. In addition, some Regional Managers attempt to assign aftercare advisers to clients whom they judge to have similar/complementary personalities. While there is often a large network of advisers covering a range of business disciplines, it is not always possible to assign aftercare advisers in this way. In many cases, resources dictate which aftercare adviser is assigned

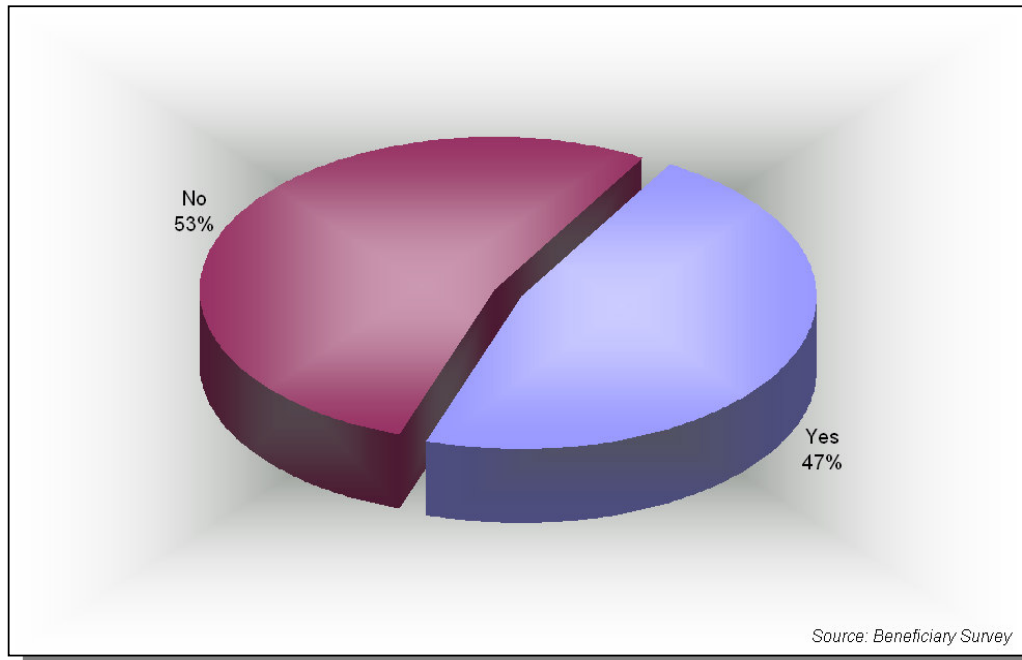
to each client. For example, many Regional Managers were generally consistent in their view that they do not think that it would be desirable to have more than 3 clients per aftercare adviser. This will, however, vary depending on the time resources and commitment of the adviser and the nature of their clients. More disadvantaged clients, for example, are more likely to require more intensive support.

**Figure 4.16 - What are the key elements of the support you have received from your aftercare adviser?**



As illustrated in Figure 4.17, a significant proportion (47%) of respondents stated that they have a structured plan that determines the nature and timing of their aftercare support. Caution must be taken when looking at these figures. It is likely that some clients may be unaware of the information in the Volunteers Guide, which specifies that client visits should take place every 3 months, and will therefore claim to have no structured action plan for their aftercare support. Hence, while a significant percentage of clients claim to have no structure plan for their aftercare, as discussed, wider consultations suggest that aftercare is planned and in addition is conducted on a more ad hoc and informal basis to support the structured visits.

**Figure 4.17 - Do you have a structured development or action plan which determines the nature and timing of the support you receive from your aftercare adviser?**



A small proportion of clients (15%) who received aftercare stated that there are areas that they would have liked to receive aftercare support but did not. As illustrated in Figure 4.18, the majority (30%) of these respondents would have liked to receive more assistance with the financial side of their business. In addition, 22% of these respondents would have liked to receive support from an adviser who had more experience in areas directly relevant to their business (i.e. industry expertise).

**Figure 4.18 - In which areas would you liked to have received aftercare support?**

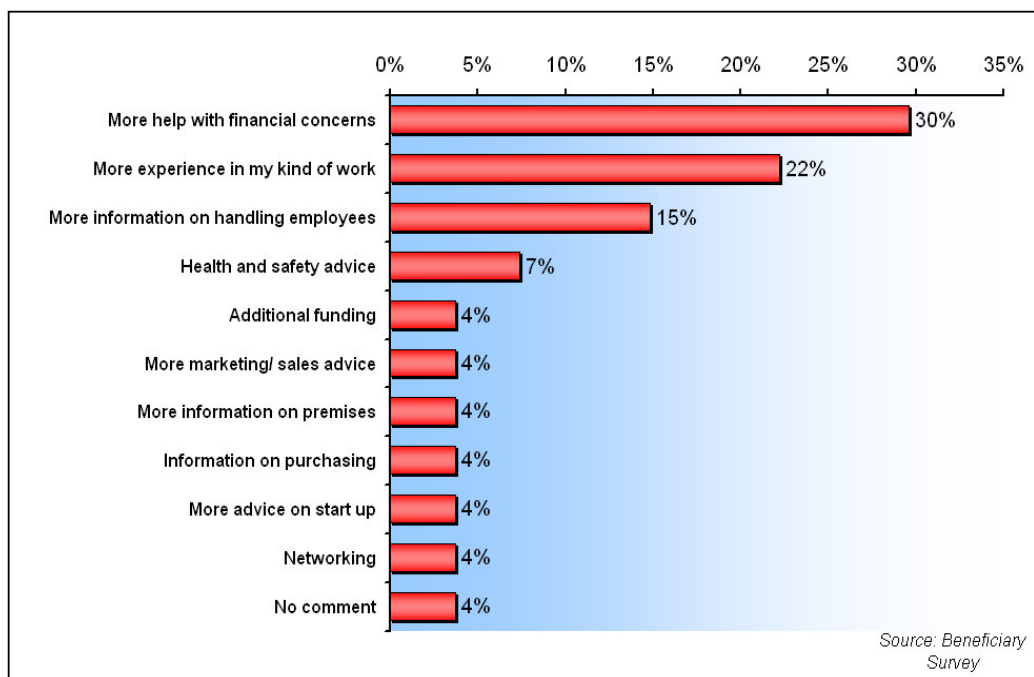


Table 4.1 shows the responses given to a series of statements read to respondents in relation to their aftercare adviser. The vast majority of respondents (86%) felt that their adviser had a good understanding of their business. This seems to be the case for most respondents in terms of general business matters, but several respondents felt that their adviser did not fully understand their particular area of operation, as discussed below. Half of the respondents felt that having an aftercare adviser had made a real difference to their business performance. Just under two-thirds (65%) would contact their adviser to discuss major business decision indicating that clients value the opinion of their adviser.

**Table 4.1 – Beneficiaries’ Rating of Aftercare Support**

	Strongly Agree/Agree	Neither Agree nor Disagree	Disagree /Strongly Disagree	Don’t know/ Does not apply
My aftercare adviser has a good understanding of my business	86%	7%	7%	1%
I am in regular contact with my aftercare adviser	71%	10%	17%	2%
I would contact my aftercare adviser to discuss major business decisions	65%	12%	23%	2%
Having an aftercare adviser has made a real difference to my relationship with PSYBT	61%	23%	14%	2%
Having an aftercare adviser has made a real difference to the performance of my business	50%	22%	27%	2%

The respondents were asked to give their views on the way in which the delivery of aftercare support is structured. The respondents were generally happy with the structure of the aftercare system and appreciated the support given as evidenced in the following comments:

*“It is good as they are there if you need them, but they don’t pressure you into doing things their way.”*

*“The aftercare is really good and they are always at the end of the phone if I needed them.”*

*“They are very good at keeping in touch with you to make sure things are ok.”*

*“The support and advice is very flexible and my adviser checks up a lot to see if I need any help.”*

*“It is very helpful and it is nice to know there is someone there to help you when you need it.”*

Several respondents were happy with their adviser, but felt that they did not always understand the specific industry in which they were operating.

*“My adviser didn’t understand the specifics of a web design business although they understood general business and management queries.”*

*“My aftercare adviser always contacted someone else if she didn’t know the answer to a query, which happened fairly often due to the nature of my business.”*

*“I am happy enough with the aftercare, but it would be better if it was more relevant to my own business.”*

*“It is a good principle, but the advisers don’t always have the different knowledge they need for certain businesses.”*

In summary, the respondents generally felt that their aftercare adviser understood the general business issues affecting their business, but not issues specific to their industry or business type, but this is to be expected as it is not practical to have or seek to recruit volunteers to cover every industry sector, rather they should be able to assist with general business issues facing the clients. There might be scope in considering the possibility of using more industry-specific advisers where required across regions. This is discussed further in Section 6.

There appear to be no significant problems in recruiting willing Aftercare Advisers. According to the majority of Regional Managers, there are a large number of people contacting them on a regular basis requesting to become an Aftercare Adviser.

Many Regional Managers highlighted the importance of having a proper and robust selection process when recruiting Aftercare Advisers. They believe it is important to ensure that Aftercare Advisers are able to devote sufficient time to their clients and have the appropriate skills and knowledge to offer valuable support. At present, Regional Managers appear to be satisfied with the quality of their Aftercare Advisers. However, a number of Regional Managers claim that they are actively seeking to recruit more female Aftercare Advisers. In addition, many Regional Managers are attempting to recruit younger Aftercare Advisers, who have, preferably, been PSYBT clients in the past. At present, the majority of Aftercare Advisers are retired. Hence, they have more time to devote to the service.

While aftercare has an official duration of two years following start-up, consultations revealed that while there is a formal exit strategy for aftercare support following the 10<sup>th</sup> visit, Advisers often build a strong relationship with their clients. As a result, it is common for Aftercare Advisors to provide support to clients well beyond the two-year period. Ultimately, it appears that the duration of the aftercare support is dependent upon the needs of the client. According to most Regional Managers, there are also many cases of clients “out-growing PSYBT” (i.e. their business performs very well and they become independent) during the two year period so no longer require aftercare support.

#### **4.2.5 Marketing of PSYBT**

Only a small minority (5%) of respondent beneficiaries claimed to have contacted PSYBT as a result of the advertising of the service. This is unsurprising given that PSYBT has no regional marketing budget. Nevertheless, many Regional Managers claim to actively promote PSYBT in a number of ways.

Business Gateway is often used as a marketing resource by PSYBT. For example, people registering with Business Gateway will be sent an introductory pack explaining the service within which information about PSYBT is often included. Some Regional Managers argue that marketing PSYBT on the back of Business Gateway can create confusion amongst potential clients when it comes to recognising the difference between PSYBT and Business Gateway services, but we would argue that as long as the clients are receiving the support

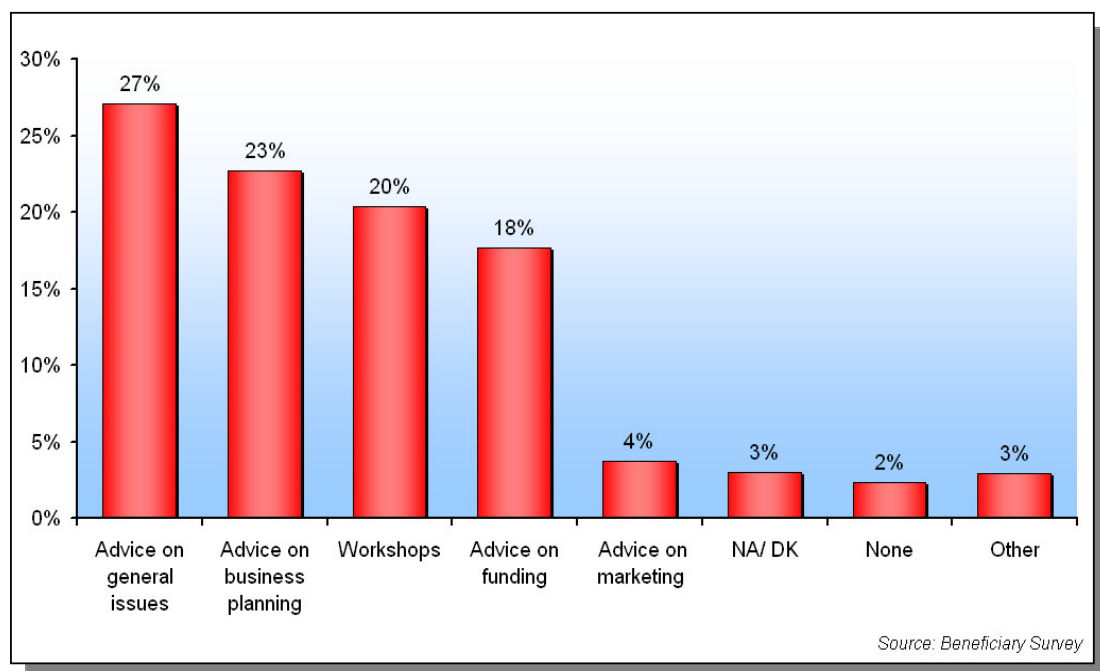
they require it is not necessary for them to be able to identify the source of each component of their support package.

The primary way in which PSYBT is marketed at the regional level appears to depend largely on the activity of the Regional Manager. The majority of Regional Managers spend a significant amount of time establishing and strengthening networks with a variety of organisations. Indeed, these networks, which include colleges, universities, prisons, enterprise agencies, and schools, are regarded as being increasingly important sources of referrals. However, it is clear that the PSYBT remains largely dependent upon referrals from Business Gateway and this process appears to be working well.

#### 4.2.6 Overall Assessment of the PSYBT Service Delivery

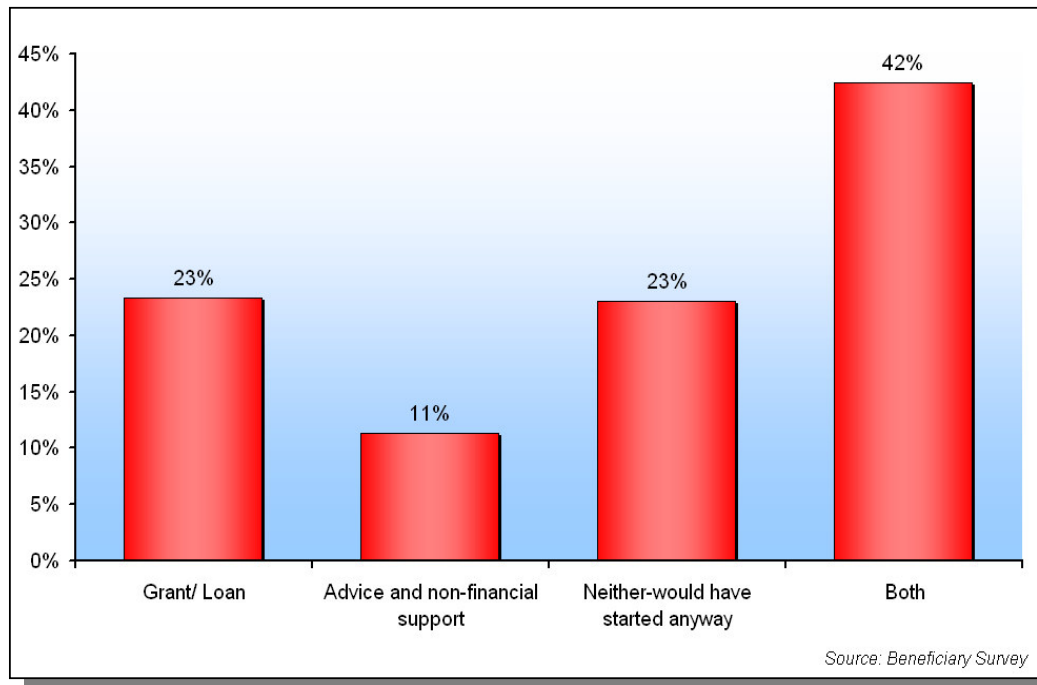
As illustrated in Figure 4.19, with the exception of funding, advice on general issues is regarded by the majority of respondent beneficiaries, as being the most useful aspect of the service. Advice on business planning and funding are also regarded as particularly useful. While the importance of one-to-one support is regularly emphasised by PSYBT staff, a significant proportion of beneficiaries value highly the workshop events.

**Figure 4.19 - What support did you find most useful?**



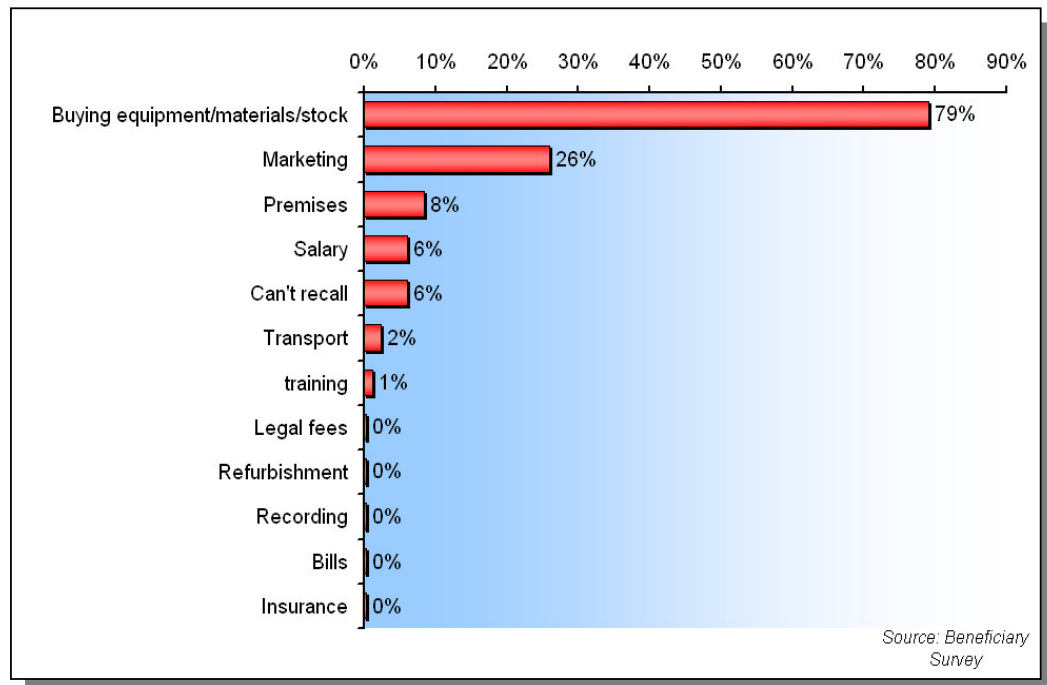
As illustrated in Figure 4.20, a large proportion of respondent beneficiaries (42%) believe that PSYBT funding and PSYBT advice (i.e. non-financial support) had an equally important impact on their decision to start up in business. However, it is more likely for beneficiaries to claim that financial support was more influential than non-financial support. The reasons for this are evident when comparing Figures 4.21 and 4.22.

**Figure 4.20 - Which of the following would you say had more impact on your decision to start up in business?**

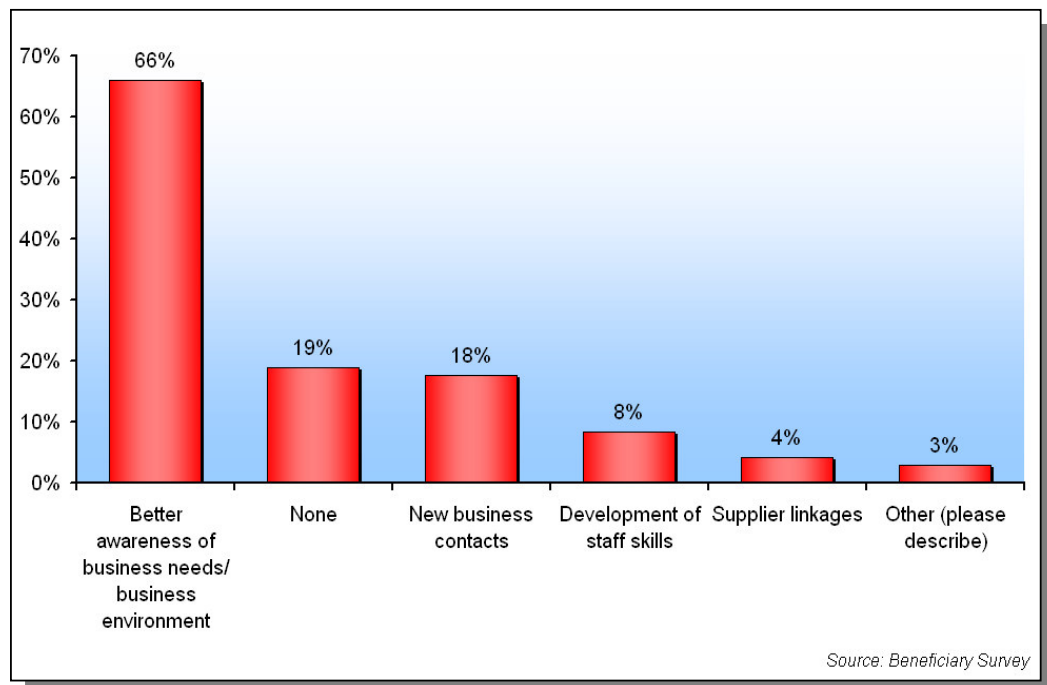


The funding received from PSYBT results in **direct** benefits for clients' businesses. The vast majority of clients (79%) use this funding to put in place the fundamental components required for the business to start trading. In contrast, the non-financial support tends to result in a number of **indirect** benefits, such as improving clients' awareness of business needs and the business environment. These indirect benefits will enhance clients' ability to run their business, whereas the financial assistance is required for the business to exist.

**Figure 4.21 - What did you use the loan and/or grant for?**



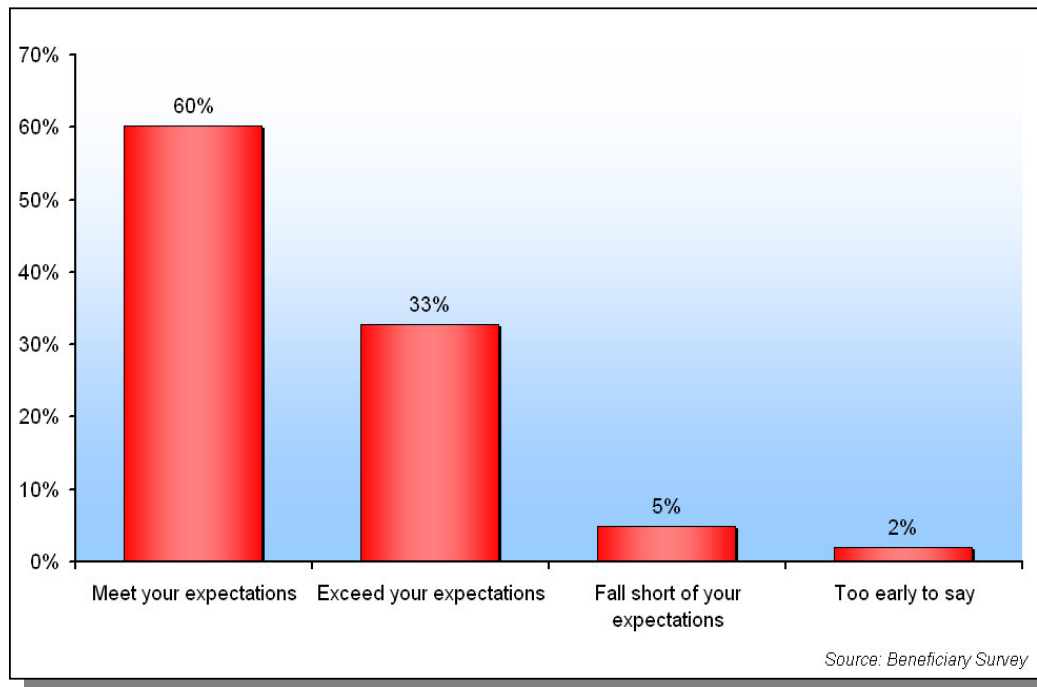
**Figure 4.22 - Has your involvement in PSYBT led to any of the following indirect benefits for the business?**





As illustrated in Figure 4.23, the majority (60%) of PSYBT beneficiaries feel that the outcomes from the assistance they received from PSYBT has met their original expectations. It is encouraging that a third of beneficiaries feel that PSYBT exceeded their expectations.

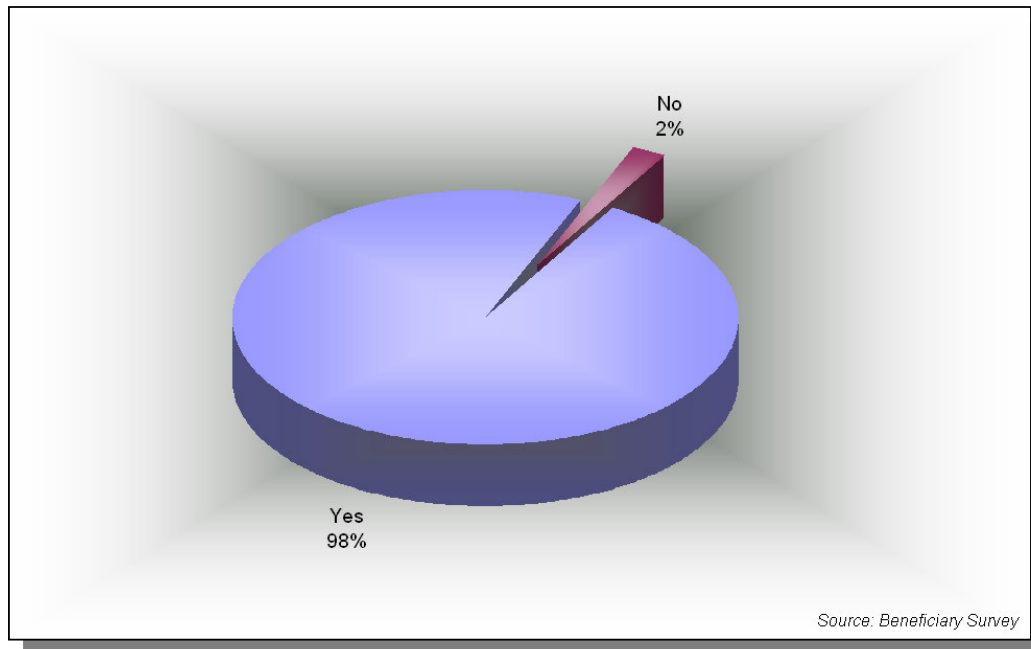
**Figure 4.23 - Assessment of outcomes from PSYBT assistance**



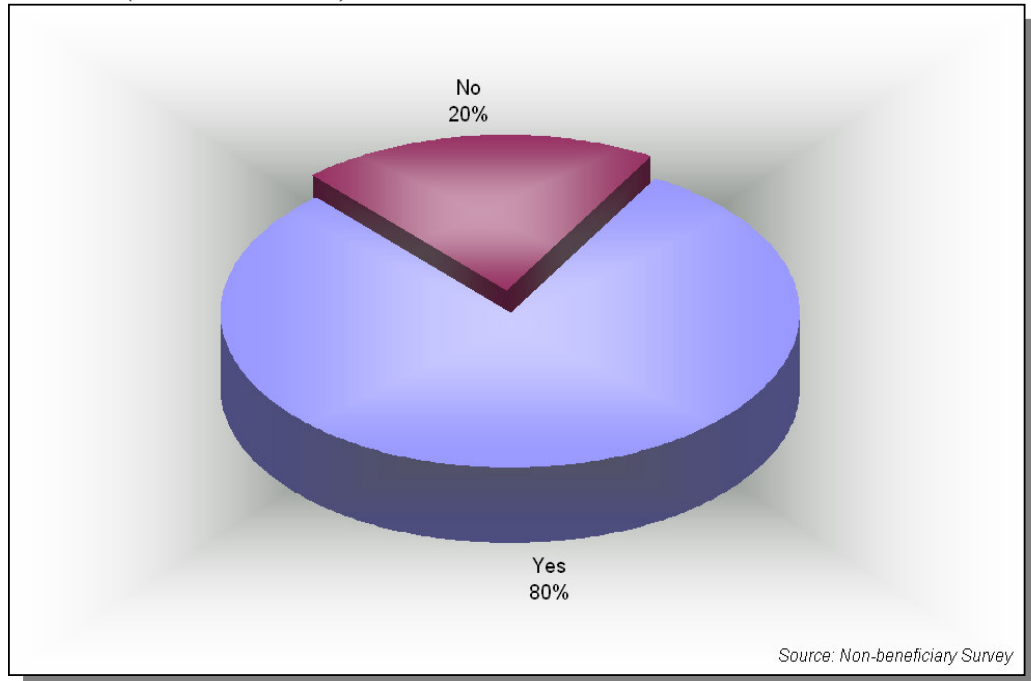
The encouraging feedback from PSYBT staff and beneficiaries with respect to the way in which PSYBT is delivered is reflected in Figure 4.24 which shows that 98% of respondent beneficiaries would recommend PSYBT to another business contact, friend or relative. Further, as illustrated in Figure 4.25, 80% of those questioned who did not go on to receive support and/or aftercare, would also recommend the service.

It is clear; therefore, that the service delivered by PSYBT is held in high regard amongst PSYBT staff and those who have come into contact with the service. The next section explores further the key strengths and weaknesses of the service as reported in the survey.

**Figure 4.24 - Would you recommend PSBYT to another business contact, friend or relative? (Beneficiaries)**



**Figure 4.25 - Would you recommend PSBYT to another business contact, friend or relative? (Non-beneficiaries)**



### 4.3 Strengths and Weaknesses of PSYBT

Reflecting on the information gathered in this section from PSYBT clients, staff and stakeholders, we are able to identify the following key strengths of PSYBT:

- **One-to-one support** – The one-to-one support offered by PSYBT is a major strength of the service. From the first point of contact, clients are provided with the type and intensity of support that best suits their needs. This flexibility and the ability of Regional Managers and Aftercare Advisors to tailor the support to meet the needs of the client is regarded as being particularly important in providing support to the most disadvantaged of individuals. Many disadvantaged individuals require a level of support that it would not be possible to provide in a group environment. In addition, the one-to-one approach is important when dealing with the many disadvantaged clients who have very little confidence and self-esteem. The support provided is clearly recognised as a strength by the survey respondents and many identify the role of this support in helping improve their motivation to start-up.
- **Aftercare network** – The strength and depth of the network of Aftercare Volunteers is a clear and unique strength of the service. These networks allow clients to receive on-going support and advice as and when required. Clients can benefit from having a strong personal relationship from their allocated Aftercare Adviser as well as benefiting from a range of knowledge and skills of all of the Aftercare Advisers in their region. This significantly improves the survival rate for PSYBT clients. The importance of the aftercare support is recognised by the clients.
- **Networking/Partnership working and Communication** – The majority of Regional Managers have built up strong networks with a range of organisations that have the potential to refer many people to PSYBT. This networking activity, while often time-consuming for Regional Managers, is particularly important due to the regional marketing budget of PSYBT being non-existent. The PSYBT relationship with the Business Gateway is particularly important as a source of client referrals.
- **Availability of finance** – The respondents state the importance of the finance that was made available to them and the opportunity to access low interest loans to start-up in business. The clients also note the minimal ‘red tape’ they are faced with in accessing this funding.

The key weaknesses of the service that should be addressed are as follows:

- **IT Systems** – While a new IT system is currently being put in place, this has been a clear weakness of the service. The lack of an efficient IT system has created inefficiencies in administration. In addition, these systems, or lack thereof, have created some communication problems between Regional Managers and PSYBT Headquarters. These problems are currently being addressed. Feedback from Regional Managers in relation to the new IT system has been positive.
- **Staffing** – It is clear that the majority of Regional Managers devote significant amounts of their personal time to delivering PSYBT. This is particularly true in regions that receive a large number of applications and regions that cover a large geographical area. While Regional Managers are enthusiastic and many appear to enjoy spending personal time delivering the service, a service such as PSYBT should

not rely upon the goodwill of senior staff. There needs to be a clear distinction between voluntary staff and PSYBT employees. If there are cases where Regional Managers are unable to deliver a satisfactory level of service within their contractual working hours, there should be an active attempt to recruit appropriate support staff.

- **Matching of advisers and companies** – Some clients felt that the availability of specialist advisers would be helpful as in some cases the client felt that their adviser did not understand the business area in which they were starting out. The possibility of using Aftercare Advisers across regions could be considered. This need not be for the full aftercare service given the geographical limitations but there could be a matching of a ‘secondary’ Adviser who is industry specific. PSYBT have started a process of trying to put companies in similar areas of operation in touch with one another so they can learn from each other’s experiences.

In addition, a **possible future threat** relates to the standing of the Business Gateway, in particular the adoption of a one-to-many approach, will conflict directly with the one-to-one approach to support around which PSYBT has been built. A movement away from one-to-one support is likely to have significant negative impacts on the way in which PSYBT can provide support to the most disadvantaged individuals given the current dependency on the Business Gateway to provide pre-start support in many cases.

## 4.4 Summary

### **Referrals**

The vast majority of PSYBT clients are referred to the service from the Business Gateway. There are no formal criteria or definition of what constitutes a PSYBT client or, indeed, a definition of “disadvantaged”. It tends to be the case that all clients falling within the 18-25 year old age bracket who have not been able to get financial assistance anywhere else, will be referred to PSYBT.

### **Awareness**

The vast majority (95%) of respondent beneficiaries claim that, from the outset, they clearly understood the service being provided by PSYBT and how the support would be delivered. However, PSYBT staff believe that, due to the close working of PSYBT and Business Gateway, and the way in which the services are marketed jointly, there is often confusion amongst potential PSYBT clients with respect to the distinct roles of PSYBT and Business Gateway. We would argue that this is not a major issue as long as the clients are receiving the services they require.

### **Engagement**

Regional Managers will often work very closely with clients and, in many cases, provide support and advice on issues not directly related to the client’s proposed business. PSYBT often deal with very disadvantaged clients who may have a number of serious problems such as substance abuse or illiteracy. The vast majority (73%) of respondent beneficiaries claim that the contact that they had with the Regional Manager as “extremely helpful”. Furthermore, 46% of those who did not receive funding felt that the contact was still extremely helpful and informative and a further 36% felt it was quite helpful.

### **Business Planning**

The business planning process is regarded by PSYBT staff as being a crucial component in helping clients to start up in business. The vast majority (85%) of respondent beneficiaries received a lot or some help in preparing their business plan. In most areas the business planning process is initiated and progressed by Business Gateway Advisers. Regional Managers typically have to work closely with clients in order to develop their knowledge and understanding of their business plan prior to going to the Panel.

### **Panel Process**

Consultations with Panel members revealed that they try to ensure that each client gets the correct amount of financial assistance. While the primary goal of the Panel is the assessment of the client and their business plan, PSYBT staff believe that it is a useful process for the client. In particular, it is felt that the Panel process will help the client to clarify further their business goals and identify any weaknesses in their business plan. This is supported by the conclusion there were 41% of respondent beneficiaries who claimed that the Panel was extremely helpful and informative.

### **Aftercare Support**

Establishing a relationship between the client and the aftercare adviser at the earliest possible opportunity is regarded by PSYBT staff as being extremely important, particularly when supporting the most disadvantaged clients. The intensity and duration of the aftercare support provided to clients is, ultimately, determined by the needs of the client.

### **Marketing**

Overall, it is clear that the PSYBT is largely dependent upon referrals from Business Gateway and this process appears to be working well.

### **Overall Assessment of the PSYBT Service Delivery**

The majority of respondent beneficiaries (42%) believe that PSYBT funding and PSYBT advice (i.e. non-financial support) had an equally important impact on their decision to start up in business. The majority (60%) of PSYBT beneficiaries feel that the outcomes from the assistance they received from PSYBT has met their original expectations. It is encouraging that a third of beneficiaries feel that PSYBT exceeded their expectations.

### **Strengths and Weaknesses of PSYBT**

A number of strengths of PSYBT were identified including the flexibility to tailor the support to meet the needs of clients; the aftercare system; the relationship of the Regional Managers with local partner organisations; and the accessibility of start-up finance.

The weaknesses identified included the IT system, which is being addressed; the reliance on the Business Gateway and the implications of changes to Gateway contracts; potentially low staff levels in the regions; and the marketing regionally and of the support provided to disadvantaged groups.

## 5 Economic Impact Assessment

### 5.1 Introduction

This section details the process adopted for calculating the direct economic impact of PSYBT. In order to calculate the direct impact of PSYBT, the survey gathered turnover and employment data from the beneficiaries over the 3-year period 2004/5 to 2006/07. 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 employment) increases. It should be noted that 43% of the respondents reported sufficiently robust turnover data, while the remainder did not know what their turnover had been since the launch of their business and thus were excluded from the analysis.

### 5.2 Calculating Additionality

The gross impact of the intervention refers to the actual increases in turnover and employment achieved by the beneficiaries over the period in question. There are however two key adjustments to make when calculating the overall net impact of PSYBT – deadweight and displacement:

- **Deadweight:** the extent to which the gross turnover and employment benefits would have occurred in the absence of the support. Removal of deadweight leaves the proportion of the benefit that is additional (i.e. attributable) to the intervention, referred to as the *net impact*.
- **Displacement:** the extent to which increases in sales amongst beneficiary companies were achieved at the expense to other Scottish competitors by taking market share. Removal of displacement leaves the proportion of the benefit that will reflect overall growth at a nation-wide level, referred to as the *final net impact*.

When calculating the net impact of the intervention, the achieved turnover and employment increases amongst beneficiaries were adjusted for deadweight and displacement on a firm-by-firm basis to give the final total impact. The degree of deadweight and displacement is bespoke to each company, and was rated according to their qualitative responses to the survey as described below.

#### 5.2.1 Deadweight - Turnover and Employment Impacts

An adjustment for deadweight was made on the basis of the survey responses to the following questions:

- **Employment:** *In the absence of PSYBT support do you think the number of people you employ would be higher, lower or the same, or would you not have started the business at all?*
- **Turnover:** *In the absence of PSYBT support do you think your turnover would be higher, lower or the same, or would you not have started the business at all?*

Table 5.1 shows the deadweight assumptions that have been made on the basis of the responses to these questions.

**Table 5.1 – Assessment of Deadweight: Turnover and employment generated**

In the absence of PSYBT support, do you think the number of people you employ / your turnover would be:			
Response	Additionality Percentages	Implied deadweight	% of respondents Employment / T/O
Higher	0%	100%	1% / 2%
Lower	75%	25%	3% / 17%
The same	25%	75%	83% / 72%
Would not have started at all	100%	0%	12% / 10%
<b>Note:</b> These percentages were applied on a firm-by-firm basis to beneficiaries			

The questions ask specifically about the support from PSYBT, but it is recognised that due to the close working relationship between PSYBT and the Business Gateway, it is likely that some of this additional impact could be attributed to support received though the Business Gateway.

The employment and turnover in the businesses of respondents who stated that they would not have started their business at all i.e. that there would be no employment or turnover in the absence of PSYBT support, were assumed to be 100% additional (thus deadweight of 0%). Those respondents stating that turnover or employment would have been lower have been awarded an additionality rating of 75% (or deadweight of 25%) to recognise that PSYBT has had an influence on their business performance.

In the case of the small minority of respondents who stated that their turnover or employment would have been higher in the absence of PSYBT support, additionality is assumed to be 0% (or deadweight 100%) as this implies that the respondents are in a worse position than if they had started up their business without support. Due to inconsistencies in these beneficiaries' responses to similar questions around additionality, the impacts were not treated as negative impacts and were taken to be full deadweight.

Technically, for those respondents stating that turnover or employment would have been the same regardless of support, additionality should be 0% (thus deadweight 100%). However, a qualitative adjustment has been made to reflect the fact that many of the respondents had been denied other sources of funding, and thus may have been overly optimistic about their ability to set up in business when responding to the survey. The evidence for market failure was discussed in detail in Section 2. Furthermore, as shown in Table 5.2, 41% of respondents stated that the support from PSYBT had helped them start a business sooner, on a larger scale or higher quality than would otherwise have been the case. Therefore, we have taken additionality to be 25% (thus deadweight at 75%). The figures presented here represent "base case" assumptions, which are altered in the sensitivity analysis later in this section.

### 5.2.2 Deadweight – Number of Businesses Started

The respondents were also asked what would have been the impact on their decision to set up in business had they not received financial or non-financial support from PSYBT. Just under half of the respondents (45%) stated that they would have set up in business anyway i.e. deadweight is 100%. At the other extreme, 15% felt that they would not have started their business, so deadweight is 0%. There are also a further 41% of respondents who stated that the support from PSYBT had some influence on their decision in terms of the scale, quality or date of start-up.



Therefore, from the responses to this question the number of additional start-up businesses that PSYBT has generated can be calculated. Over the period 2004 to 2005, PSYBT has generated **155 additional start-ups in the 18-25 years category**. Furthermore, it has helped an additional **416 start-ups start sooner, on a larger scale or higher quality**.

**Table 5.2 – Assessment of Deadweight: Number of businesses started**

If you had not received support from PSYBT (financial and non-financial) what impact would this have had on your decision to set up in business?			
Response	% of respondents	No. of businesses in survey	No. of businesses in population
None, would have set up in business anyway	45%	153	457
Would have set up, but at a later date	29%	100	299
Would have set up, but quality lower	7%	23	69
Would have set up, but smaller scale	5%	16	48
Would not have set up in business at all	15%	52	155
<b>Total</b>	<b>100%</b>	<b>344</b>	<b>1026</b>

### 5.2.3 Displacement

Adjustments for displacement were made in 2 stages:

- **Location of competitors:** 0% displacement was assumed for those companies who responded that 100% of their competitors were from either rest of UK / international. In this case, they have not stolen market share from Scottish competitors, and thus any increase achieved will be reflected in an equally large increase at Scotland level.
- **Competitiveness of the market:** In cases where there were competitors within Scotland, an adjustment was made based on the competitiveness of the market. If there is a highly competitive market, it is likely that any growth achieved by PSYBT supported companies will have been at the expense of other Scottish businesses, representing merely a re-distribution of activity, and thus no growth at national level. However, if the market is less competitive or growing, supported companies may be able to achieve growth without stealing market share. On this basis, displacement was applied as shown in Table 5.3.

**Table 5.3 – Assessment of Displacement**

Where are your key competitors based? How competitive are the markets in which you are operating? (Figures shown are for number of responses and multiple responses are possible within the geographical categories)			
Responses (number of responses)	Strong	Weak	None
Local (265)	70%	22%	9%
Regional (118)	64%	28%	9%
Rest of Scotland (57)	56%	30%	14%
Rest of UK / International (73)	67%	19%	15%
Assumptions used in assessment of displacement. (Figures show displacement applied by DTZ rather than responses to this question and displacement is assessed at the Scottish level, so Local and Regional responses are treated in the same way as the Rest of Scotland):			
Responses	Strong	Weak	None
Rest of Scotland	70%	10%	0%
Rest of UK / International	0%	0%	0%
<b>Note:</b> These percentages were applied on a firm-by-firm basis to beneficiaries			

The responses to the displacement questions shown in Table 5.3 indicate that most respondents reported that they had key competitors based locally (77%), with just over a third (34%) having regional competitors, 17% with competitors in the rest of Scotland and 21% in the rest of the UK or internationally. Of those respondents with key competitors based locally, 70% rated the competition as strong compared with 64% of those with regional competitors. Several respondents felt that the level of competition was weak.

### 5.3 Net impact

Net impacts were calculated on an individual basis for the survey respondents. The total net impact was then calculated by grossing up to the total number of companies supported during 2004 and 2005 (1,026)<sup>13</sup> using the average final turnover and employment impact across the sampled companies<sup>14</sup>. Results are presented for the 2005/06 financial year. This process yielded the following outcomes for the scheme:

**Table 5.4 – Summary of Net Impacts 2005/06**

Indicator	Total	Per company
Gross turnover	£56.9m	£55,500
Gross employment	2,236 FTEs	2.2
Net turnover (after deadweight)	£24.3m	£23,700
Net employment (after deadweight)	640 FTEs	0.6
Final turnover impact (after displacement)	£14.1m	£13,700
Final employment impact (after displacement)	302 FTEs	0.3

Results for 2005/06 are presented as this year contained the most complete and robust responses in the survey. Full results for the 3 years from 2004/05 to 2006/07 suggests that annual impact lies in the range of £12.2 – 14.1m. These are presented in Tables 5.7 to 5.9 in the sensitivity section. The key points to note for this base case are:

- Average deadweight – 57% for turnover and 71% for employment
- Average displacement – 42% for turnover and 53% for employment

### 5.4 Sensitivity analysis

The assumptions made for deadweight and displacement are subjective, given that they are based on qualitative responses where the supported companies may be prone to bias – for example, being overly optimistic about their ability to have operated without the grant. The deadweight assumptions are based on the question on the impact the grant had on the respondents' success in business (as in Table 5.1). A qualitative assessment was made to give the “**base case**” figures presented thus far.

<sup>13</sup> These 2 years were used as our survey was a random sample selected from those clients assisted from Jan 2004 to Dec 2005 and can be assumed to be representative of companies assisted over this period.

<sup>14</sup> An alternative grossing up method was also used, based on the average final turnover and employment impacts on a sector basis. This results in very similar results: turnover was 98% of the total calculated through the all-sector average method and employment was 106%.

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 – represented here by the base case. However, to indicate the full range of possible outcomes we have conducted a series of sensitivities on the results, and the assumptions for the deadweight sensitivity tests are presented in Table 5.5 below.

**Table 5.5 – Summary of Deadweight Sensitivity Assumptions**

In the absence of PSYBT support, do you think the number of people you employ / your turnover would be: (figures indicated additionality applied by DTZ)			
Response	Low case	Base case	High case
Higher	0%	0%	0%
Lower	50%	75%	80%
The same	0%	25%	30%
Would not have started at all	100%	100%	100%
<b>Note:</b> These percentages were applied on a firm-by-firm basis to beneficiaries			

Sensitivity tests have also been carried out for displacement. In the “low case”, displacement is assumed to be 100% in all those companies where there is strong competition within Scotland, suggesting that new turnover is only achieved through acquiring market share from other Scottish companies. On this basis, displacement has also been increased to 50% for weak Scottish competition. In the “high case”, displacement is reduced to 50% for strong competition, but is otherwise zero to reflect the small nature of the start-ups within the overall market.

**Table 5.6 – Summary of Displacement Sensitivity Assumptions**

How competitive are the markets in which you are operating (figures show displacement applied by DTZ rather than responses to this question):			
Responses	Low case	Base case	High case
Strong competition in Scotland	100%	70%	50%
Weak competition in Scotland	50%	10%	0%
<b>Note:</b> These percentages were applied on a firm-by-firm basis to beneficiaries			

The results for turnover and employment under each case are presented in the following 3 tables (Table 5.7 to 5.9) across the sampled years 2004/05 – 2006/07.

**Table 5.7 – Net Impacts Base Case**

	Turnover				Employment (FTEs)		
	2004/05	2005/06	2006/07		2004/05	2005/06	2006/07
Gross impact	£71,686,823	£56,918,450	£75,928,311		2196.5	2235.5	2618.1
Net impact (after deadweight)	£23,575,414	£24,315,191	£29,104,128		639.4	640.2	743.0
Final net impact (after displacement)	£12,248,140	£14,095,620	£14,073,163		288.3	302.3	318.9
Average additionality (1 – deadweight)	33%	43%	38%		29%	29%	28%
Average displacement	48%	42%	52%		55%	53%	57%

**Table 5.8 – Net Impacts Low Case**

	Turnover				Employment (FTEs)		
	2004/05	2005/06	2006/07		2004/05	2005/06	2006/07
Gross impact	£71,686,823	£56,918,450	£75,928,311		2196.5	2235.5	2618.1
Net impact (after deadweight)	£6,807,784	£11,185,221	£11,930,483		108.4	100.1	97.3
Final net impact (after displacement)	£2,455,892	£3,747,983	£2,105,111		0.0	5.7	6.0
Average additionality (1 – deadweight)	9%	20%	16%		5%	4%	4%
Average displacement	64%	66%	82%		100%	94%	94%

**Table 5.9 – Net Impacts High Case**

	Turnover				Employment (FTEs)		
	2004/05	2005/06	2006/07		2004/05	2005/06	2006/07
Gross impact	£71,686,823	£56,918,450	£75,928,311		2196.5	2235.5	2618.1
Net impact (after deadweight)	£26,928,939	£26,941,185	£32,538,857		745.7	748.2	872.1
Final net impact (after displacement)	£17,978,388	£19,345,206	£20,835,974		460.8	473.6	524.3
Average additionality (1 – deadweight)	38%	47%	43%		34%	33%	33%
Average displacement	33%	28%	36%		38%	37%	40%

The following chart (Figure 5.1) illustrates the range of estimated annual turnover impact (after exclusion of deadweight and displacement) across the population of supported companies, under the various sensitivity cases. In the base case, between 2004/05 and 2006/07, annual turnover impact ranged from £12.2 million to £14.1 million new growth for the Scottish economy. However, under the more conservative assumptions of the “low case”, this range is reduced as low as £2.1 - £3.7 million. Conversely, using more optimistic assumptions for deadweight and displacement, the annual impact in the “high case” can be as great as £20.8m.

**Figure 5.1 – Net Turnover Impact**

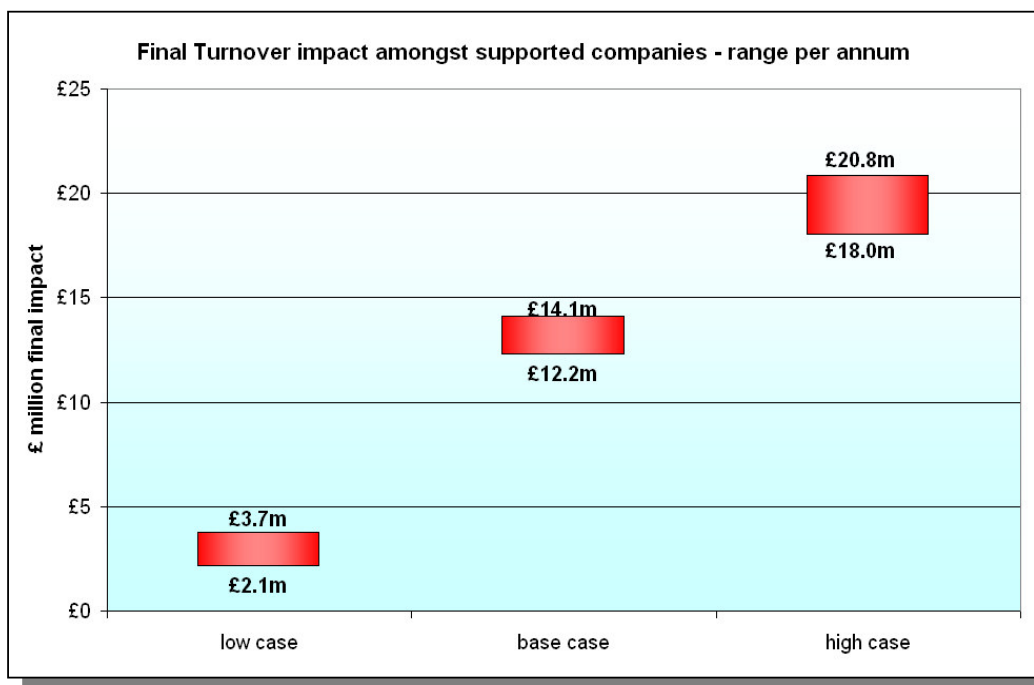
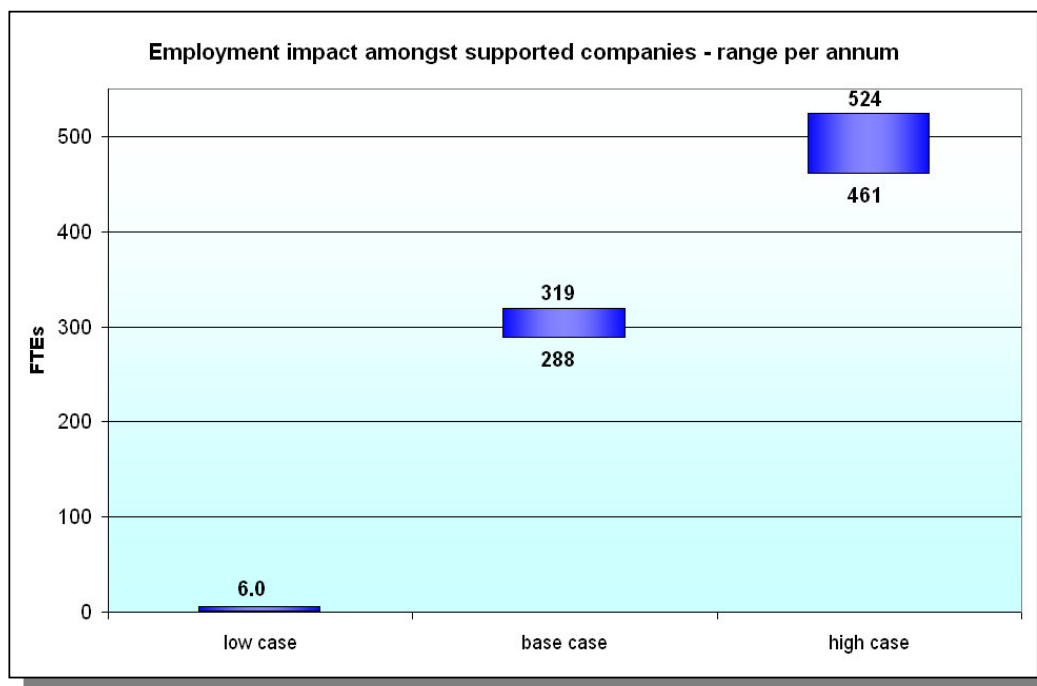


Figure 5.2 illustrates the employment impact under the same sensitivity tests. In the base case, between 2004/05 and 2006/07, annual employment impact ranged from 288 to 319 net FTEs. However, under the more conservative assumptions of the “low case”, this range is reduced to 0 to 6 due to the high proportion of deadweight. Conversely, using more optimistic assumptions for deadweight and displacement, the annual impact in the “high case” can be as great as 524.

Clearly there is a significant variance between the different scenarios presented. There are two main reasons for this:

- i. The vast majority of respondents fall into the “same” category in terms of the employment and turnover impacts - 83% of respondents for employment and 72% for turnover. Therefore, any sensitivity on the 25% additionality figure used in the base case has a huge knock-on effect to the impact numbers.
- ii. The sensitivities present the best and worst case scenarios in terms of both deadweight and displacement. In reality there could be a situation where deadweight is low, but displacement is high – or vice versa.

**Figure 5.2 – Net Employment Impact**



## 5.5 Results by sector of activity

By sector, final impact per company was highest amongst businesses supported in the retail, agricultural, recreation and entertainment industries. By contrast, average final impact was lowest in the manufacturing, construction and personal services sectors. This suggests that, in order to maximise the final impact of PSYBT, support should be targeted towards these high impact sectors. This pattern is illustrated in Figure 5.3.

Analysing this further, it can be seen from Table 5.8 that the highest absolute turnover impact in 2005/06 has been achieved in the retail, entertainment and catering sectors, despite a relatively low proportion of companies in the population. These 3 sectors alone account for 63% of the scheme's gross impact, but only a quarter (26%) of the total population of supported companies.

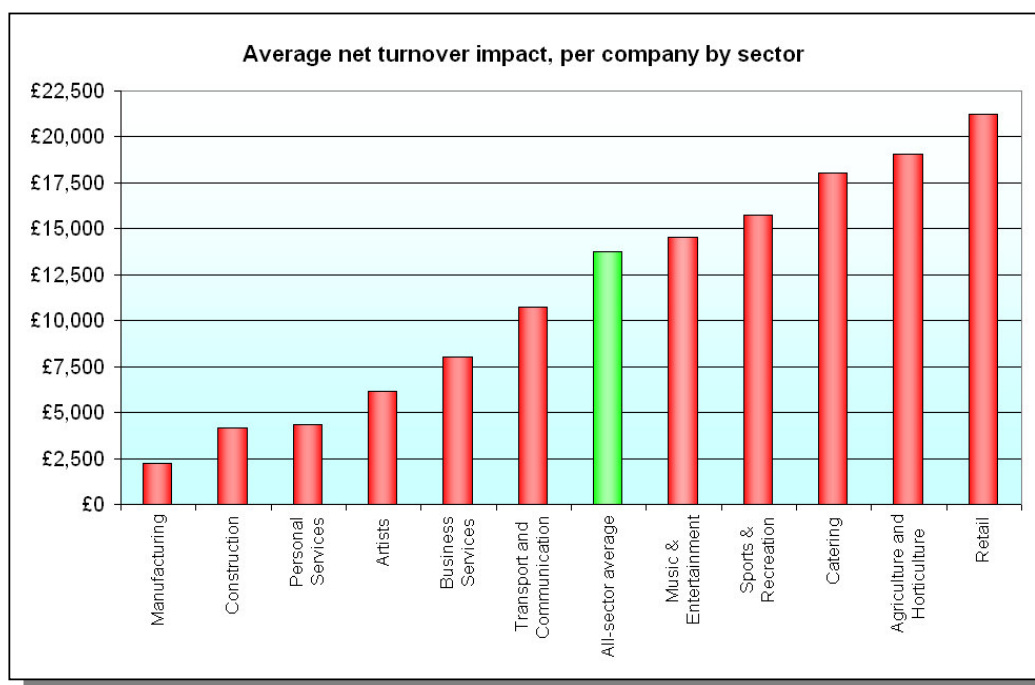
On the other hand, the majority of companies supported (54%) have been in the personal services, business services and construction industries, but combined these sectors only account for a fifth (21%) of the total turnover impact. The same pattern is observable with employment.

**Table 5.8 – Summary of Turnover Results by Sector**

	<b>Additionality</b>	<b>Displacement</b>	<b>Net T/O per company</b>	<b>Companies in population</b>	<b>Gross final impact</b>
Catering	71%	30%	£107,277	43	£4,612,923
Retail	34%	39%	£21,257	132	£2,805,908
Music & Entertainment	46%	27%	£14,520	94	£1,364,853
Business Services	43%	52%	£4,323	275	£1,188,850
Personal Services	41%	56%	£8,050	141	£1,135,056
Agriculture & Horticulture	34%	37%	£19,052	46	£876,406
Sports & Recreation	40%	49%	£15,750	42	£661,500
Construction	27%	66%	£4,156	141	£585,994
Transport & Communication	50%	43%	£10,756	32	£344,200
Artists	66%	66%	£6,151	31	£190,694
Manufacturing	39%	57%	£2,218	49	£108,675
<b>Total – all sectors</b>	<b>43%</b>	<b>42%</b>	<b>£13,738</b>	<b>1026</b>	<b>£13,875,059</b>

Note: numbers may not sum due to rounding

**Figure 5.3 – Average Net Turnover per Company by Sector**



It should be noted that the catering average was adjusted to exclude an extreme outlier – average before adjustment = £107,000. This was kept in for the purposes of grossing up as it is assumed that over the population the sample is representative and there will always be outliers, but it was felt that to include it in the sector average would be misleading. Indeed, Appendix 2 shows that there are some extremely successful PSYBT companies that demonstrated turnover and employment levels well above the average.

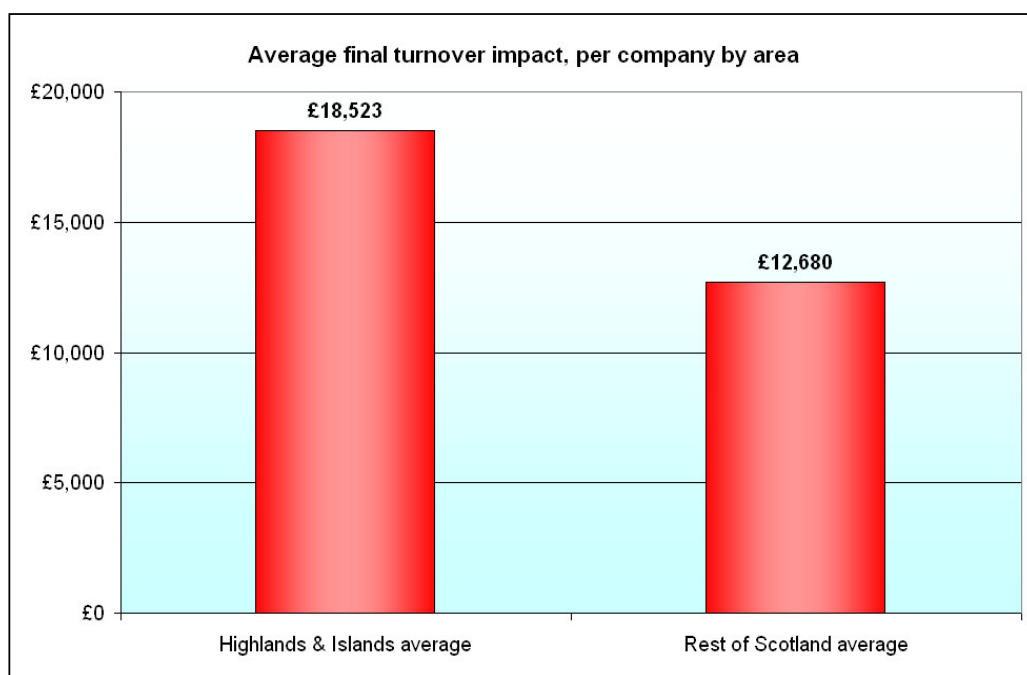
## 5.6 Results by PSYBT area

Five of the 18 PSYBT areas are in the Highlands & Islands: Argyll, Grampian, Highland, Orkney and Western Isles. Around 1 in every 5 of the sampled businesses are located in this HIE area (18%). Average turnover impact per company is presented in the following figure for the HIE area versus the rest of Scotland.

The final turnover impact amongst businesses in the HIE area is 46% greater than the average for the rest of Scotland. At 62%, deadweight was marginally higher in the Highlands (55% for rest of Scotland), and displacement was marginally lower at 40% (43% rest of Scotland) reflecting the less competitive nature of Highland markets.

By sector, the profile of supported businesses in the HIE area was proportionally directed towards agriculture, business services, music & recreation and retail. These are all high impact sectors – what is not clear is the extent to which the PSYBT operations in the HIE area have consciously targeted business start-ups in these sectors.

**Figure 5.4 – Average Net Turnover per Company in HIE and SE**



## 5.7 Indirect and induced impacts

Indirect impact occurs when the supported 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 2003 Input Output tables – the latest available.

Results for the 2005/06 direct impacts, together with the associated knock-on effects are presented in Table 5.11 for turnover and 5.12 for employment.



**Table 5.11 – Total Net Impact on Scottish Output - Turnover**

<b>Sector of PSYBT intervention</b>	<b>Direct Impact</b>	<b>Indirect Impact</b>	<b>Induced Impact</b>	<b>Total Net Impact</b>
Agriculture and Horticulture	£876,406	£514,358	£145,007	£1,535,770
Artists	£190,694	£83,046	£54,357	£328,098
Business Services	£1,135,056	£374,235	£409,986	£1,919,277
Catering	£4,612,923	£728,395	£1,550,759	£6,892,077
Construction	£585,994	£309,698	£168,502	£1,064,195
Manufacturing	£108,675	£36,355	£26,733	£171,764
Music & Entertainment	£1,364,853	£594,384	£389,051	£2,348,288
Personal Services	£1,188,850	£179,776	£520,589	£1,889,215
Retail	£2,805,908	£1,116,660	£861,995	£4,784,562
Sports & Recreation	£661,500	£288,079	£188,561	£1,138,139
Transport and Communication	£344,200	£102,069	£93,436	£539,705
<b>Total impact – all sectors</b>	<b>£13,875,059</b>	<b>£4,327,055</b>	<b>£4,408,977</b>	<b>£22,611,090</b>
Note: all figures rounded to the nearest 100 – rows and columns may not sum due to rounding				

**Table 5.12 – Total Net Impact on Scottish Output – Employment (FTEs)**

<b>Industrial sector</b>	<b>Direct Impact</b>	<b>Indirect Impact</b>	<b>Induced Impact</b>	<b>Total Net Impact</b>
Agriculture and Horticulture	8.6	5.9	2.0	16.6
Artists	4.9	2.6	1.6	9.1
Business Services	38.0	5.9	6.0	49.9
Catering	12.9	0.7	1.8	15.4
Construction	64.6	33.9	22.4	120.9
Manufacturing	10.2	4.8	4.0	19.0
Music & Entertainment	18.1	9.7	5.9	33.7
Personal Services	57.3	5.1	13.5	75.9
Retail	91.3	15.1	15.0	121.4
Sports & Recreation	9.2	4.9	3.0	17.1
Transport and Communication	5.0	2.3	3.0	10.2
<b>Total impact – all sectors</b>	<b>320</b>	<b>91</b>	<b>78</b>	<b>489</b>

In summary, Scottish turnover is anticipated to increase by some **£22.6m per annum** and **employment by 489 FTEs** as a result of the support provided to start-ups through PSYBT.

## 5.8 Value for Money Assessment

Over the period 2004/05 to 2006/07, SE has Board approval for funding of £780k per annum. Our survey sample and subsequent grossing up of impacts is based on the calendar years 2004 and 2005. For the purposes of the calculation of value-for-money, the expenditure over these two years is assumed to be the equivalent of two financial years, or £1.56m

The number of businesses assisted in 2004 and 2005 was 1,026. This differs from the number of awards made as awards are granted to individuals rather than businesses so it is possible for more than one individual to receive an award to start up the same business. Therefore, the **cost per start-up is £1,520**.

The *Strategic Review*<sup>15</sup> of the Business Gateway found that the average cost of a business start-up was £831, with a range from £366 to £1,490. Therefore, at £1,520 PSYBT is nearly double the cost of the average Gateway start-up. However, given the barriers and difficulties facing the 18-25 years client group with whom PSYBT works, and the greater intensity of support required we would expect the cost to be at the top of the range. **Therefore, we would argue that this represents good value-for-money.**

However, in recognition of the fact that many of the companies supported by PSYBT also receive pre-start support from the Business Gateway, the true cost per start-up would have to take this into account. As we have no way of quantifying the exact input of the Business Gateway, we have assumed that in order to more accurately calculate the Scottish Enterprise expenditure on these businesses, the average cost of a Business Gateway start-up has to be taken into account. Therefore, adding the two costs together (£1,520 plus £831) gives a **cost per start-up of £2,351.**

This is over-stating the case given that not all PSYBT businesses will have received this level of support from the Business Gateway, but it more accurately reflects the value-for-money. Nevertheless, we would argue that given the nature of the client base, this still represents good value-for-money.

Of the 1,026 businesses started over this period, it was shown above that PSYBT has generated 155 additional start-ups and has helped an additional 416 start-ups start sooner, on a larger scale or higher quality. Therefore, the **cost per additional start-up is £10,065** and the **cost per fully and/or partially additional start-up is £2,732.**

In terms of the employment and turnover impacts, a net employment of 302 jobs in 2005/06 (the year with the most responses) gives a **cost per net job of £5,165.** The net cost of creating a net new job through the Business Gateway in a new business is calculated in the *Strategic Review* as £5,432. Therefore, once again we would argue that PSYBT represents good value-for-money.

In the case of turnover, the net impact of the businesses supported over the period 2004 to 2005 is calculated as **£40.4m from 2004/05 to 2006/07, therefore for every £1 of SE expenditure on PSYBT £26 of net additional sales are generated.** This compares to a figure in the *Strategic Review* of every £1 of Business Gateway expenditure creating sales of £2.50. This, once again, indicates that PSYBT represents extremely good value for money. The variance appears large although it could be argued that the net additional sales would be higher in the case of PSYBT clients given their greater reliance on funding and aftercare support than mainstream Business Gateway start-ups.

Once again, it is important to note that these figure do not include the expenditure in the form of the support from the Business Gateway. If, as a proxy, we assume that for each of the 1,026 start-ups supported by PSYBT there is an additional £831 invested by the Business Gateway, this would mean the value-for-money indicators should be adjusted as follows:

- £15,565 per additional start-up
- £4,225 per fully and/or partially additional start-up
- £7,989 per net job
- £1 of SE expenditure generates £17 of net additional sales

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<sup>15</sup> *Business Gateway Strategic Review – A report to Scottish Enterprise National GEN Consulting*, March 2006

## 5.9 Summary

- Across the 1,026 supported companies, gross annual turnover ranges from £57 – 76 million over the period 2004/05 to 2006/07. Total employment ranged from 2,200 to 2,600 FTEs.
- In 2005/06, deadweight was 57% for turnover and 71% for employment
- In 2005/06, average displacement was 42% for turnover and 53% for employment
- After removing deadweight and displacement effects, final direct turnover impact ranged from £12.2 – 14.1 million per annum, and employment from 288 to 319 FTEs.
- Allowing for knock-on indirect and induced effects, total annual impact of PSYBT is estimated at £22.6 million in 2005/06 and 489 FTEs. This is recognised as absolute growth at the Scottish level.
- Average final impact per company is 46% greater in the HIE area than across the rest of Scotland.
- The highest impact sectors were retail, agriculture, entertainment and catering.
- The lowest impact sectors were manufacturing, construction, business / personal services.
- Over the period 2004 to 2005, PSYBT has generated 155 additional start-ups in the 18-25 years category. Furthermore, it has helped an additional 416 start-ups start sooner, on a larger scale or higher quality.
- The cost per PSYBT start-up is £1,520. The cost per additional start-up is £10,065 and the cost per fully and/or partially additional start-up is £2,732. The cost per net job is £5,165, and for every £1 of SE expenditure on PSYBT £26 of net additional sales are generated.
- The equivalent figures taking Business Gateway expenditure into account are £2,351 per start-up, £15,565 per additional start-up, £4,225 per fully and/or partially additional start-up, £7,989 per net job, and £1 of SE expenditure generates £17 of net additional sales.
- Overall, PSYBT represents extremely good value-for money.

## 6 Conclusions and Recommendations

### 6.1 Introduction

This section concludes the evaluation of PSYBT by reviewing the case for a continuation of the core funding provided by SE to PSYBT. The key findings of the evaluation are presented and the strategic contribution and economic impact of PSYBT assessed. The section concludes with a series of recommendations for the future of PSYBT, relevant to SE, HIE and PSYBT itself.

### 6.2 Summary of Key Findings

This sub-section draws out some of the key findings from the preceding sections of the report under the following thematic headings:

- **Screening of Clients** - Operationally, it seems that PSYBT has clear processes in place to ensure respondents receive the support they require. There are a large number of clients who register with PSYBT and who do not go on to receive an award and in order to investigate the reasons for this a survey of 50 “non-beneficiaries” was undertaken. In terms of the respondents who had not received a PSYBT award, the most common reason given for not pursuing support was that the respondents decided not to set up in business (42%). We believe this is a positive finding in terms of the PSYBT process being robust enough to help to screen out those potential clients for whom starting a business may not be the right option. Furthermore, of the remainder, a significant number secured finance elsewhere (18%) which also can be taken to be a positive finding as PSYBT is a “funder of last resort” and those potential clients who are likely to be able to seek funding from alternative sources may have been signposted by PSYBT or the Business Gateway.
- **Flexibility of Support** - PSYBT has the flexibility to tailor support to the requirements of particular individuals in terms of financial assistance and non-financial support. Some clients are capable of independently preparing high-quality business plans whereas the majority of clients need assistance from PSYBT and the Business Gateway. In general, PSYBT staff believe that the quality and intensity of the business planning advice is tailored correctly for each client.
- **Nature of Intervention** – Furthermore, the nature of the intervention with a combination of pre-start advice and support, grant and/or loan funding, post-start aftercare and expansion and growth funding appears to work well with this client group. The survey provides evidence that the funding received from PSYBT results in direct benefits for clients’ businesses whereas the non-financial support often results in indirect benefits, which are likely to enhance clients’ ability to run their business once the financial support has enabled the business to exist.
- **Panel Process** - While the primary goal of the Panel is the assessment of the client and their business plan, PSYBT staff believe that it is a useful process for the client. In particular, it is felt that the Panel process helps the client to clarify further their business goals and identify any weaknesses in their business plan. As illustrated previously in Figure 4.11, this belief is justified as 41% of respondent beneficiaries claimed that the Panel was extremely helpful and informative, with a further 53% stating it was quite helpful.

- **Aftercare Process** - The majority of Regional Managers encourage aftercare advisers to communicate with each other and draw upon the specific skills of one another in order to best meet the needs of clients. It is believed that a strong network of advisers who have a good knowledge of each other's caseloads can, therefore, maximise the effectiveness of the aftercare support. Half of the respondents felt that having an aftercare adviser had made a real difference to their business performance. Furthermore, just under two-thirds (65%) would contact their adviser to discuss major business decision indicating that clients value the opinion of their adviser.
- **Survival Rates** – The survival rates of PSYBT assisted businesses are higher than all SE assisted businesses at 82%, 70% and 67% for Years 1, 2 and 3 respectively compared to 70%, 65% and 60%. This seems to suggest that the delivery model is not only successful in generating start-ups in its client group, but that those start-ups are sustainable. Therefore, PSYBT is contributing to the growth pipeline.

**Overall Conclusion – PSYBT generally operates well and has suitably robust processes and systems in place to screen clients and to assess their requirements and tailor support to their needs. The aftercare system is particularly highly regarded.**

### 6.3 Strategic Contribution of PSYBT

It is clear that PSYBT has a strong fit with the Scottish Executive and SE and HIE policy and strategy to support Scotland's business birth rate, contribute to the growth pipeline and to encourage a culture of entrepreneurship. Furthermore, the targeting of the 18-25 year age group contributes to policy goals for young people. The rationale for PSYBT was originally based on encouraging start-ups from unemployed young people, but has evolved over time to address clear market failures relating to information failure and risk aversion in the younger age group.

While it is not possible to accurately determine the true extent of the market failure, in the case of most of the respondents in the beneficiary survey it is likely that there is a perceived market failure, given that it is possible that many respondents did not approach any other sources as they felt that would be unlikely to obtain finance from that source. The majority of respondents reported that they had less than £1,000 available to start up in business excluding the PSYBT grant and/or loan. It is clear that for the vast majority of respondents, personal savings or family money are the most common sources of start-up capital. Whilst it cannot be assumed that there is direct evidence of market failure the survey findings suggest that the clients faced difficulty in securing finance from traditional sources such as banks or building societies. This implies that the client group targeted by PSYBT would have found it difficult to start up in business without their support.

PSYBT is also clearly a contributor to the gender equality agenda in terms of business start-ups. The proportion of female PSYBT clients is 39%, a figure that has increased by 22% since 2003. This is a very positive finding as it is commonly accepted that the UK has one of the lowest proportions of entrepreneurial women in the developed world. Wider evidence suggests that women-owned businesses represent around 10% of high growth businesses and around a third of total new starts. PSYBT is playing a strong role in meeting this policy objective of encouraging more women into business.

**Overall Conclusion – PSYBT continues to be a key delivery vehicle for the Enterprise Networks in the delivery of start-up support to the 18-25s, and is particularly helpful in addressing the gender imbalance in the start-up arena.**

## 6.4 Fit with other Start-up Support

It is generally accepted by all parties consulted as part of the evaluation that PSYBT is extremely well integrated into the start-up support arena and works well in tandem with the Business Gateway. One point that was raised as a matter of concern was the apparent lack of linkage between PSYBT and the 18-30 Start-up Award. The Scottish Executive awarded PSYBT additional funding of £1m in anticipation of the launch of the Award leading to increased throughput for PSYBT. However, in practice the expected increase in numbers did not occur.

One of the reasons for this might lie in the misconception that it is PSYBT that undertakes much of the pre-start work with clients when in most cases it is the Business Gateway that is working with clients and signposting them to PSYBT. Indeed, the number of registrations with PSYBT has not increased significantly in the period since the Start-up Award was introduced. Anecdotal evidence suggests that many of these clients choose not to pursue PSYBT support and to take the Start-up Grant on its own. There is some anecdotal evidence to suggest that some of the 18-30 Award clients are now coming back to PSYBT for support although the true extent of this is not clear.

**Overall Conclusion – It is not entirely clear why the introduction of the 18-30 Start-up Award did not lead to increased demands on PSYBT as expected although it seems likely that it is down to a lack of customer demand rather than any failings by PSYBT or the Business Gateway.**

## 6.5 Economic Impact of PSYBT

The number of businesses assisted in 2004 and 2005 was 1,026. This differs from the number of awards made as awards are granted to individuals rather than businesses so it is possible for more than one individual to receive an award to start up the same business. Therefore, the **cost per start-up is £1,520.**

The *Strategic Review*<sup>16</sup> of the Business Gateway found that the average cost of a business start-up was £831, with a range from £366 to £1,490. Therefore, at £1,520 PSYBT is nearly double the cost of the average Gateway start-up. However, given the barriers and difficulties facing the 18-25 years client group with whom PSYBT works, and the greater intensity of support required we would expect the cost to be at the top of the range. **Therefore, we would argue that this represents good value-for-money.**

Of the 1,026 businesses started over this period, it was shown above that PSYBT has generated 155 additional start-ups and has helped an additional 416 start-ups start sooner, on a larger scale or higher quality. Therefore, the **cost per additional start-up is £10,065** and the **cost per fully and/or partially additional start-up is £2,732.**

In terms of the employment and turnover impacts, a net employment of 302 jobs in 2005/06 (the year with the most responses) gives a **cost per net job of £5,165.** The net cost of creating a net new job through the Business Gateway in a new business is calculated in the *Strategic Review* as £5,432. Therefore, once again we would argue that PSYBT represents good value-for-money.

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<sup>16</sup> *Business Gateway Strategic Review – A report to Scottish Enterprise National GEN Consulting, March 2006*

In the case of turnover, the net impact of the businesses supported over the period 2004 to 2005 is calculated as **£40.4m from 2004/05 to 2006/07, therefore for every £1 of SE expenditure on PSYBT £26 of net additional sales are generated.** This compares to a figure in the *Strategic Review* of every £1 of Business Gateway expenditure creating sales of £2.50. This, once again, indicates that PSYBT represents extremely good value for money. The variance appears large although it could be argued that the net additional sales would be higher in the case of PSYBT clients given their greater reliance on funding and support than mainstream Business Gateway start-ups.

As highlighted in Section 5 of the report, it is important to note that these figure do not include the expenditure in the form of the support from the Business Gateway. If, as a proxy, to recognise the strong contribution of the Business Gateway to many of the PSYBT businesses we assume that for each of the 1,026 start-ups supported by PSYBT there is an additional £831 invested by the Business Gateway, this would mean the value-for-money indicators should be adjusted as follows:

- £2,351 per start-up
- £15,565 per additional start-up
- £4,225 per fully and/or partially additional start-up
- £7,989 per net job
- £1 of SE expenditure generates £17 of net additional sales

When the indirect and induced<sup>17</sup> impacts are taken into account, an additional £8.7m and 169 FTEs are generated, based on the 2005/06 direct net impacts. Therefore, when all direct, indirect and induced impacts are taken into account **Scottish turnover is anticipated to increase by some £22.6m per annum and employment by 489 FTEs** as a result of the support provided to start-ups through PSYBT.

**Overall Conclusion – PSYBT represents extremely good value-for-money in the generation of start-ups and economic impact.**

## 6.6 Recommendations

### 6.6.1 Future Funding Relationship

It is important to state up front that we have no reservations in recommending that SE and HIE continue to support PSYBT moving forward. However, it is also important to note that the funding provided by Scottish Enterprise to PSYBT is unusual in that core funding is not common and typically any sizeable funding contribution would be attached to specific expected outputs. While we are not suggesting that SE introduces a target-based approach to funding PSYBT, there may be scope to link funding to specific goals, such as a greater focus on disadvantaged groups.

Given the value-for-money conclusions presented above, SE (and HIE) may also wish to consider the expansion of PSYBT activity to support their strategic goals. Clearly there are resource implications attached to any such decision in terms of the current constraints faced by PSYBT Regional Managers and the reliance on the Business Gateway. PSYBT is also highly dependent on the input of its volunteer base. Furthermore, it is not clear the extent to which there is market demand for a greater level of activity in the 18-25 client group. In

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<sup>17</sup> Indirect impact occurs when the supported 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.

conclusion, any decision to expand the activity level would require additional research into the resource implications, both human and financial and the level of market demand.

**Recommendation – SE (and HIE) should give consideration to whether the recommended actions to more closely align PSYBT to the strategic objectives of SE and HIE set out below could be tied to future funding to the organisation.**

**Recommendation – SE (and HIE) should review with PSYBT the potential for scaling up the activity of the organisation in the future and the implications of this in terms of resourcing.**

#### 6.6.2 Changes to Operational Model

While we have explained above that generally the PSYBT operational model is working well, there are a few areas we believe could be given further consideration in moving forward:

- **Marketing** – At present, the marketing of PSYBT is reliant upon the networking of Regional Managers and the marketing through the Business Gateway. This appears to be working well under current arrangements with Gateway providers. However, while the use of PR nationally is very effective, the national marketing of PSYBT could place more emphasis on the support provided to those most in need, particularly in terms of its marketing to potential sponsors or donors.

**Recommendation – Consideration should be given to the potential to place greater emphasis on the work of the organisation with disadvantaged groups in order to market to potential funding sources.**

- **Staffing** – While it is outwith the scope of this review to fully assess the staffing of the organisation, it is clear that the majority of Regional Managers devote significant amounts of their personal time to delivering PSYBT. This is particularly true in regions that receive a large number of applications and regions that cover a large geographical area. The re-contracting of the Business Gateway has placed some uncertainties on the future demands on Regional Managers, for example in some cases they might be required to spend more time on business planning with clients. If there are cases where Regional Managers are unable to deliver a satisfactory level of service within their contractual working hours, there should be an active attempt to recruit appropriate support staff.

**Recommendation – Once arrangements for the Business Gateway become clearer in each region, staffing levels should be reviewed to ensure that Regional Managers are able to maintain service quality.**

- **Matching of advisers and companies** – Some clients felt that the availability of specialist sectoral advisers would be helpful as in some cases the client felt that their adviser did not understand the business area in which they were starting out. The possibility of using Aftercare Advisers across regions could be considered. This need not be for the full aftercare service given the geographical limitations but there could be a matching of a 'secondary' Adviser who is industry specific. PSYBT have started a process of trying to put companies in similar areas of operation in touch with one another so they can learn from each other's experiences.



**Recommendation – The use of “floating” industry specific Aftercare Advisers should be considered.**

### **6.6.3 Improving Strategic Contribution**

We have set out above our conclusion that PSYBT provides a strong contribution to the strategic goals of SE and HIE. However, there are three ways in which we believe the strategic contribution of PSYBT to SE and HIE’s goals could be improved:

- **Targeting of sectors** - By sector, final impact per company was highest amongst businesses supported in the retail, agricultural, recreation and entertainment industries. By contrast, average final impact was lowest in the manufacturing, construction and personal services sectors. This suggests that, in order to maximise the final impact of PSYBT, support should be targeted towards these high impact sectors. The highest absolute turnover impact in 2005/06 has been achieved in the retail, entertainment and catering sectors, despite a relatively low proportion of companies in the population. These three sectors alone account for 63% of the scheme’s gross impact, but only a quarter (26%) of the total population of supported companies. On the other hand, the majority of companies supported (54%) have been in the personal services, business services and construction industries, but combined these sectors only account for a fifth (20%) of the total turnover impact. The same pattern is observable with employment.

**Recommendation – SE and HIE should consider whether it is desirable to give some guidance on the targeting of resources to start-up businesses from those sectors likely to result in a greater impact on the economy and should consider the implications of this in light of the strategic focus on the six national priority industries<sup>18</sup>.**

- **Relative impact in SE and HIE** - The final turnover impact amongst businesses in the HIE area is 46% greater than the average for the rest of Scotland. At 62%, deadweight was marginally higher in the Highlands (55% for rest of Scotland), and displacement was marginally lower at 40% (43% rest of Scotland) reflecting the less competitive nature of Highland markets. By sector, the profile of supported businesses in the HIE area was proportionally directed towards agriculture, business services, music & recreation and retail. These are all high impact sectors – what is not clear is the extent to which the PSYBT operations in the HIE area have consciously targeted business start-ups in these sectors.

**Recommendation – There should be further investigation into the relative contribution of HIE vs. SE assisted businesses. It is important to understand why the impact in HIE is so significantly greater.**

- **Greater focus on disadvantaged groups** – Through our consultation process it was not always clear what was the definition of “disadvantaged” in terms of classifying PSYBT clients and targeting support. Appendix A presents guidance from PSYBT on what constitutes “disadvantaged”, with the recognition that this is illustrative. While we appreciate that one of the strengths of PSYBT is its flexibility, we believe there could be clearer guidelines on this area to avoid confusion and to enable PSYBT to demonstrate the impact it is having in working with the harder to reach groups in society.

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<sup>18</sup> Life Sciences, Energy, Electronic Markets, Financial Services, Tourism and Food and Drink

**Recommendation – PSYBT should give consideration of stronger guidelines on what constitutes “disadvantaged” among their client group.**

**Recommendation – SE and HIE should consider whether it is desirable to give some guidance on the targeting of resources to start-up businesses from those clients classed as “disadvantaged”.**

#### **6.6.4 Improving Integration with Business Gateway Support**

PSYBT appears to be very well integrated into the Business Gateway and the start-up support provided to businesses. Consultations with PSYBT staff revealed that the vast majority of PSYBT clients are referred to the service from the Business Gateway. This is also supported by the findings of the beneficiary survey, which found that more than two-thirds of respondents had been referred to PSYBT from the Business Gateway.

The one-to-one support offered by PSYBT is a major strength of the service. From the first point of contact, clients are provided with the type and intensity of support that best suits their needs. This flexibility and the ability of Regional Managers and Aftercare Advisors to tailor the support to meet the needs of the client is regarded as being particularly important in providing support to the most disadvantaged of individuals. Many disadvantaged individuals require a level of support that it would not be possible to provide in a group environment. In addition, the one-to-one approach is important when dealing with the many disadvantaged clients who have very little confidence and low self-esteem. The support provided is clearly recognised as a strength by the survey respondents and many identify the role of this support in helping improve their motivation to start-up.

There is some concern that the focus of the Business Gateway in moving away from intensive one-to-one support to more volume one-to-many routes will have implications for the PSYBT support model. Currently PSYBT and the Business Gateway rely upon each other to support the 18-25 client group and if the Business Gateway Advisers find that they can no longer spend the time with PSYBT clients to develop their business plans, this means that the Regional Managers would face increased work pressures.

**Recommendation – The relationship with PSYBT Regional operations with the Business Gateway should be reviewed once the implications of the tendering process become clearer.**

#### **6.7 Summary**

In summary, we believe that PSYBT is making a strong contribution to the Enterprise Networks’ goals for the 18-25 years client group and is addressing an apparent market failure in providing access to finance for starting up in business. There is evidence from our survey of beneficiaries that PSYBT is having a strong impact on the Scottish economy and is contributing to the business birth rate and the growth pipeline. The survival rates of PSYBT assisted start-ups compare favourably with benchmark data and the value-for-money indicators of the cost per start-up and cost-per-job suggest that PSYBT represents good value in terms of the provision of start-up support to the 18-25 years clients group.

## Appendix 1 – PSYBT Definitions

### Grant and Loan Award Definitions

<i>Type of Award</i>	<i>Definition of Award</i>
Loan – Start-up	Loans of up to £5k per business can be awarded. The maximum term for repayment is five years, but the average is three years. Interest is based on a flat rate of 4% per annum.
Grant – Start-up	Grants of up to £1k per person (or up to a maximum of £3k per business) can be awarded. Grants are intended to assist those young people who are disadvantaged to a greater extent than being unemployed. Therefore, a grant applicant has to meet both the conditions of being unemployed and disadvantaged.
Loan – Expansion of PSYBT or non-PSYBT Start-up	An additional loan can be awarded to support the expansion of a business. Where a PSYBT start-up loan was awarded, this, plus any expansion loans must not exceed £5k in total. An expansion loan may be given where: <ul style="list-style-type: none"> <li>- The applicant started their business with PSYBT funding and the business has the potential to expand, but either some or all of the finance cannot be obtained from other sources;</li> <li>- The applicant began trading and found that they were undercapitalised within the first 12 months; or</li> <li>- A business started trading without PSYBT assistance and now wishes to expand, but either some or all of the finance required cannot be obtained from other sources.</li> </ul>
Loan – Growth Fund Accelerator Loan	The PSYBT Growth Fund is available to businesses that have previously received PSYBT support. All applicant businesses must be able to demonstrate a clear potential for growth, and the inability to raise either some or all of the finance to fund this growth from elsewhere. Accelerator Loans are available between £10k and £25k and are repayable over a maximum of five years at an interest rate of 4% per annum.
Loan – Growth Fund Development Loan	Development Loans are available up to £5k and are repayable over a maximum of three years at an interest rate of 4% per annum.
<i>Source: PSYBT Funding Panel Volunteers Guide</i>	

### **Definition of Disadvantage**

Applicants for grants must be unemployed and of limited means. The following groups can also be considered for grants:

- Those in employment where employment is about to terminate through no fault of the applicant;
- Those in full-time education;
- Women returners;
- Those on Government schemes;

An applicant cannot be considered for a grant if he or she is in full-time employment which will continue unless he/she voluntarily leaves.

To come from a “disadvantaged” background, any of the following apply:

- Parents unemployed/divorced/in receipt of benefits/low income;
- Cannot raise money from family or other sources;
- Single parent family;
- No family support;
- Geographical isolation;
- Limited educational qualifications;
- Ex-offenders;
- People with disabilities;
- Bad housing conditions;
- Leaving care.

This list is taken from the PSYBT Funding Panel Volunteers Guide. The guide notes that the list is illustrative rather than definitive. In all cases, it must be proven that all other possible sources of funding have been pursued.

## Appendix 2 – PSYBT Top 40 Companies

REGION	REGISTRATION NO.	AWARD DATE	BUSINESS CLASS DESCRIPTION	PSYBT LOAN FUNDING	PSYBT GRANT FUNDING	JOBS CREATED	TURNOVER £'000	COMMENT
Dunbartonshire	61	May-90	Financial Intermediation	5,000		170	8,000	
Grampian	747	Jun-97	Business Services	5,000		21	5,000	
Tayside	161	Sep-92	Other Manufacturing	5,000	1,000	45	2,650	Planning to increase employees to 60 within the next 12 months. Focus on training young people. Currently has 7 apprentices.
Glasgow	3262	Nov-02	Business Services	5,000		28	2,600	
Dunbartonshire	778	Mar-97	Business Services	5,000		30	2,400	
Grampian	1587	Sep-01	Retail	30,000		6	1,700	
Grampian	1684	Apr-02	Business Services	5,000		42	1,400	Projected increase in turnover up to £2 million next year.
Fife	159	Nov-93	Construction	2,000	1,000	12	1,400	
Fife	1346	Dec-01	Personal Services	30,000		11	1,300	
Glasgow	2103	Jan-99	Business Services	5,000		19	1,200	
West Lothian	902	May-98	Other Manufacturing	4,000		27	1,200	
Tayside	150	Mar-92	Business Services	5,000		10	1,000	
Lanarkshire	1957	Sep-02	Retail	29,000		23	1,000	
Borders	99032	Apr-89	Clothing and Textile Manufacturing	3,000	2,000	18	1,000	Employs 18 people in the small Borders village of Greenlaw. Has recently opened 2 retail outlets.

REGION	REGISTRATION NO.	AWARD DATE	BUSINESS CLASS DESCRIPTION	PSYBT LOAN FUNDING	PSYBT GRANT FUNDING	JOBS CREATED	TURNOVER £'000	COMMENT
Paisley	791	Mar-97	Business Services	25,700	700	7	800	
Glasgow	2701	Nov-01	Retail	30,000		14	800	
Ayrshire	1173	Nov-00	Business Services	30,000		5	800	
West Lothian	1022	Oct-99	Personal Services	20,000		28	750	Projected turnover in excess of £1 million next year. New shop recently opened in Edinburgh.
Glasgow	1434	Feb-97	Clothing and Textile Manufacturing	5,000		4	730	
Tayside	9	Jan-89	Construction	2,000	750	12	700	Looking to increase staff over the next 12 months. Has its own in house training facility, SEPA / CITB accredited.
West Lothian	26	Oct-89	Business Services	3,000		13	700	Anticipated turnover next year £1 million.
Highlands	929	Oct-01	Sports & Recreation	10,000	1,000	11	700	
Glasgow	2514	May-00	Construction	5,000		8	650	
Edinburgh	1168	Mar-99	Other Manufacturing	5,000		5	600	
Highlands	518	May-94	Other Manufacturing	6,000	1,000	4	600	
Paisley	618	Mar-96	Business Services	3,500	1,000	6	500	
West Lothian	52	Jun-91	Business Services	5,000	1,000	2	500	Projected turnover increase 100% over next year. Currently setting up offices in the US, Australia and Hong Kong.
Dunbartonshire	125	Mar-92	Retail	5,000		12	500	Recently opened a 6th store
Western Isles	657	Nov-99	Construction	30,000		9	500	
West Lothian	1353	May-03	Personal	2,750	650	17	450	Projected turnover next year

REGION	REGISTRATION NO.	AWARD DATE	BUSINESS CLASS DESCRIPTION	PSYBT LOAN FUNDING	PSYBT GRANT FUNDING	JOBS CREATED	TURNOVER £'000	COMMENT
			Services					£600,000.
Paisley	1251	Apr-02	Business Services	30,000		6	400	
Paisley	1434	Jul-03	Business Services	10,000		9	400	
Highlands	1098	Sep-04	Retail	10,000		11	400	
Glasgow	90	Jan-90	Printing & Publishing	5,000	1,000	6	370	
Highlands	182	Dec-92	Business Services	10,000		22	350	
Highlands	1085	Aug-04	Fishing		1,000	7	350	
West Lothian	1266	May-02	Other Manufacturing	20,000		12	220	Projected turnover of £300,000 in the next year. Projected increase in staff 2.
Glasgow	249	Nov-92	Business Services	5,000				
Glasgow	1579	Apr-97	Other Manufacturing	5,000				
<b>TOTALS</b>				<b>420,950</b>	<b>12,100</b>	<b>692</b>	<b>44,620</b>	