



Draft Final Report

Re-evaluation of the Business Start-up Award for the 18-30s

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Private and Confidential

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1 Introduction

1.1 Study Background and Approach

The Business Start-up Award is a £1,000 grant targeted at businesses started by people aged between 18 and 30 years. The scheme is funded by the Scottish Executive, operated by Scottish Enterprise and is marketed and delivered through the Business Gateway. The Award was originally launched as a pilot exercise, running from October 2004 to March 2006, and then a decision was taken to continue the scheme beyond this period.

DTZ was commissioned to undertake a review to assess the impact of the scheme as it approached the end of the pilot stage, and this review was completed in March 2006.¹ The 2006 review concluded that the award scheme had been successful in encouraging business start-ups in the 18-30 category. However, it raised a number of questions relating to the value-for-money of the scheme based on the economic impact assessment. There were significant uncertainties surrounding the two key figures of deadweight and displacement. The review concluded that the achievement of the broad scheme objectives and strategic goals could be met by targeting the funding elsewhere.

However, in recognition that the review was taking place at an early stage, a decision was made to continue beyond the pilot period. This report presents the results of a “re-evaluation” of the Start-up Award involving a follow-up survey with 100 of the companies interviewed in the previous review survey in late 2005. These companies were awarded the grant between October 2004 and March 2005. The aim of the survey is to gain an insight in the performance of the businesses supported through the Start-up Award and to look at their sustainability and growth over a longer time period.

1.2 Report Structure

The remainder of our report is structured as follows:

- **Section 2** considers the background to the Start-up Award and the overall rationale for intervention, including an assessment of the evidence gathered relating to market failure;
- **Section 3** reviews the monitoring information gathered by Scottish Enterprise to assess activity levels in terms of the number of awards made, and analysis of the profile of the survey respondents;
- **Section 4** reviews the operational aspects of the Award, drawing upon evidence from the beneficiary survey;
- **Section 5** assesses the economic impact of the Award from the evidence gathered in the survey; and
- **Section 6** draws upon the preceding sections to present our conclusions and recommendations.

¹ DTZ Pidea Consulting (now DTZ Consulting & Research) *Review of the Business Start-up Award for the 18-30s – Final Report*, for Scottish Enterprise, 1 March 2006

2 Rationale for Intervention

2.1 Introduction

As explained in the introduction, the Business Start-up Award is a £1,000 grant targeted at businesses started by people aged between 18 and 30 years and is funded by the Scottish Executive, operated by Scottish Enterprise and is marketed and delivered through the Business Gateway. This section of the report explores the policy and strategic context within which the Award sits and the market failures it aims to address. The section concludes with a discussion of the evidence on market failure from the survey.

2.2 Policy and Strategic Context

The Business Start-up Award has a strong policy and strategic fit and is directly supporting of a *Smart, Successful Scotland*² and the policy and strategic context as articulated in the *SE Operating Plan 2006-2009*³, and the *Growing Business Strategy*.⁴ The key supporting strands of the Award are its focus on:

- **Supporting Scotland's business birth rate** – the main focus of the Award is to increase the number of new start businesses in the 18-30 year age group – 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 18-30 year old age group, the scheme is supporting a cohort of the population that suffers from a relatively low start-up rate compared to the population as a whole; and
- **Growing businesses and the growth pipeline** – by providing funding support of grants of £1,000, it is hoped that the Award will improve the long term survivability of businesses and maximise their chances of growing and contributing to the “growth pipeline”.

2.3 Framework for Assessment of Market Failure

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

² *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

³ *Operating Plan 2006-2009* Scottish Enterprise June 2006
<http://www.scottish-enterprise.com/publications/scottish-enterprise-operating-plan-2006-09.pdf>

⁴ *Implementing the Growing Business Strategy* Scottish Enterprise October 2005

The original rationale for the Award Scheme is set out in the Board Approval Paper.⁵ The paper presents evidence that suggests that the 18-30 age group is the most effective target group for a start-up grant including:

- Evidence of a funding constraint against this group;
- Lower coverage by the support networks for the under-30s than for other age groups;
- The business birthrate gap between Scotland and the rest of the UK was higher in this age group; and
- The number of potential recipients was appropriate for the planned scale of the intervention.

The objective of the intervention is to increase the number of businesses started by the 18-30 age group, mainly by attracting newcomers into the business start-up process, providing an incentive to encourage businesses to be started at an earlier stage in life with better prospects for subsequent business growth and job creation, and engendering a culture of entrepreneurship.

In economic terms an intervention must be based on the existence of market failure or equity considerations. In the case of the Business Start-up Award, 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 18-30 age group. Such failures in the capital markets are compounded by the inherent funding problems facing those in the 18-30 age group – they will typically have much more limited personal finances with which to launch a business and hence their reliance on external funders will be greater.
- **Information Failure** – those in the 18-30 age group may also suffer from information failure in terms of where to go for finance and how to secure it. This could also compromise their access to funding.
- **Risk Aversion** – due to imperfect information on what is involved in setting up and running a business, young people may have a disproportionately high risk aversion to launching a new business. The offer of £1,000 under the Award 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 terms of economic impact, the intervention 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 Business Start-up Award encouraging a higher number of start-up businesses from the 18-30 year old age group, than would be the case without the support; and

⁵ *Business Gateway Start-up Grants for the 18-30 Age Group*, SE Board Approval Paper, August 2004

- Improving the performance of businesses once they have started up. In effect, the financial support and advice 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 Business Gateway 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 economic impact and additionality of the intervention are discussed in detail in Section 5 of the study.

The survey of 100 beneficiaries contained a series of questions to allow us to make a judgement on the extent of market failure amongst the 18-30 client group and the evidence gathered is presented below.

2.4 Evidence of Market Failure

2.4.1 Access to Finance

Since receiving their awards 27% of respondents had tried to obtain finance from elsewhere to develop their business. Of the remainder who did not try to get finance from another source, three-quarters stated that they have had no need to access further finance. For a smaller number of respondents (18%), there appears to be an information failure as they stated that they would like to access finance, but do not know where to go to access it. In a further 6% of cases the respondents reported a perceived market failure, as they would like to access finance, but do not think they will get it.

Surprisingly, almost all of the respondents (93%) claimed that they had no problem accessing finance since obtaining their grant, whether they had tried to access it or not.

2.4.2 Sources of Finance

Of the 27% of respondents who had attempted to obtain further finance, the majority have used personal savings or a business bank loan to help them develop their business. The main sources of finance used by the respondents is shown in Figure 2.1. Interestingly, only 12% of respondents had received a Prince’s Scottish Youth Business Trust (PSYBT) loan or grant. It was initially thought that there would be a large take-up of PSYBT funding to complement the Business Start-up Award, but this does not appear to have happened.

The amount of funding that respondents had secured is shown in Figure 2.2, and it appears that several respondents (42%) have been successful in raising funds of £5,000 or more. However, in a number of cases the sums involved are small with 19% of respondents having secured less than £1,000 for developing their business.

Figure 2.1: Main Sources of Finance⁶

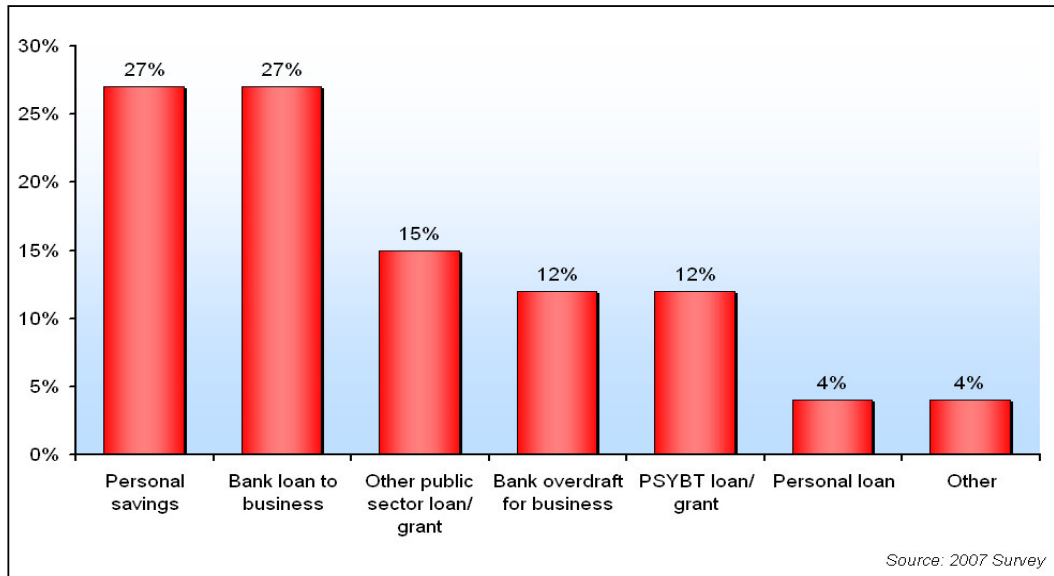
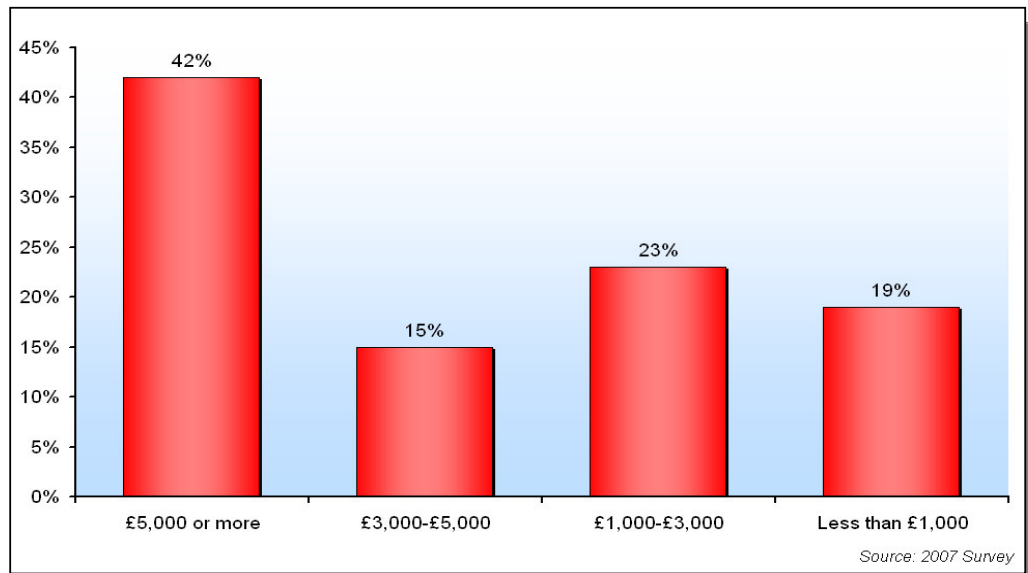


Figure 2.2: Amount of Funding Secured



The respondents who had obtained further finance were asked to consider the extent to which they felt that their involvement with the Business Gateway had helped them to access this finance. Just under half (46%) felt that it had helped, and a further 12% felt that their funding was partly awarded because of their involvement. The remainder felt that their association with the Business Gateway had not helped them to obtain further finance. It appears that for several respondents, the Start-up Award is helping to leverage further funding, as illustrated in some of the comments from respondents:

⁶ As the sample size is low, the results should be interpreted with care and treated as indicative.

“It helped to have them behind me as it made them realise that I was serious about my business.”

“The Business Gateway pointed me in the direction of PSYBT which had further finance.”

“My adviser gave me new leads and sponsors, which helped in networking my business and finding new contacts for financing.”

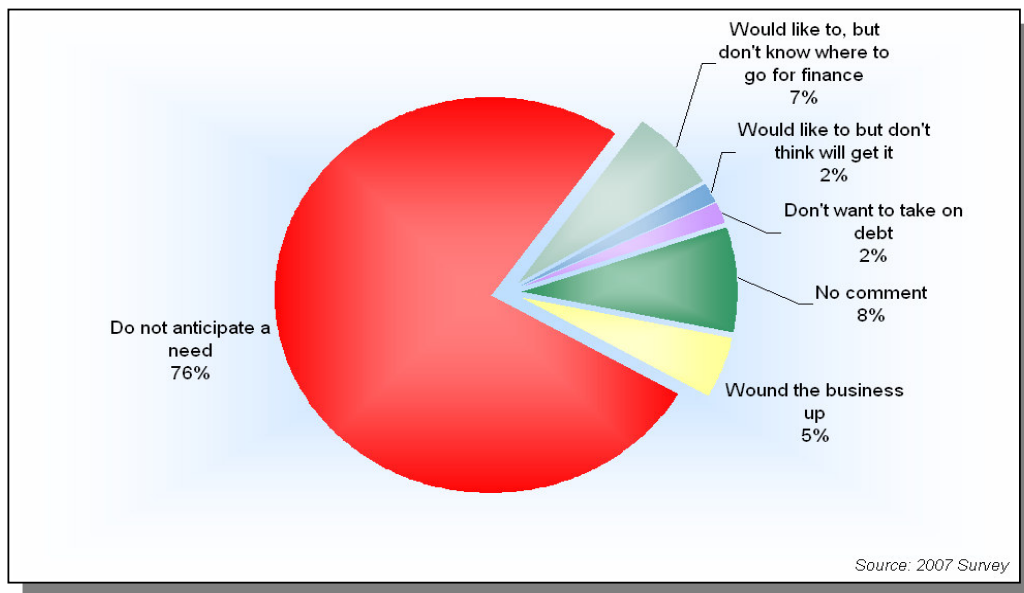
“They told about Women into Business, which was very helpful with additional funding.”

2.4.3 Future Funding Requirements

When asked if respondents planned to access finance from another source in the future a large proportion of the respondents said they did not (59%), and a further 10% were unsure. The remaining 31% plan to access additional finance in the future.

Of the respondents not planning to seek finance in the future, the reasons for this are shown in Figure 2.3. Clearly, the majority do not think that their business will require additional finance in the future, which could be taken as an indication that the respondents do not aspire to growing their business, or that the businesses are now (or are anticipated to be) sufficiently profitable to mean they do not have to rely on external capital. The issue of profitability is explored in Section Five.

Figure 2.3: Reasons for not looking for funding in the future



2.5 Summary

This section has shown that there is a good strategic ‘fit’ between the Business Start-up Award and the policy and strategic context driving the Enterprise Networks. The survey indicates that there appears to be an information failure for a number of respondents in terms of knowing where to access finance. The Start-up Award appears to be helping to leverage further funding. There does not appear to be huge demand to additional funding in the future for many businesses.

3 Start-up Award Activity Analysis

3.1 Introduction

This section presents the results of the analysis of the monitoring data on the Start-up Award activity. The analysis focuses on monitoring data collected by Scottish Enterprise from the launch of the Award in October 2004 to March 2007. There are two main elements to this analysis:

- An analysis of awards; and
- An analysis of the sample of clients contacted in the survey.

This analysis provides useful background information for the evaluation and highlights the recent trends and current situation in terms of the main aspects of activity.

3.2 Number of Awards

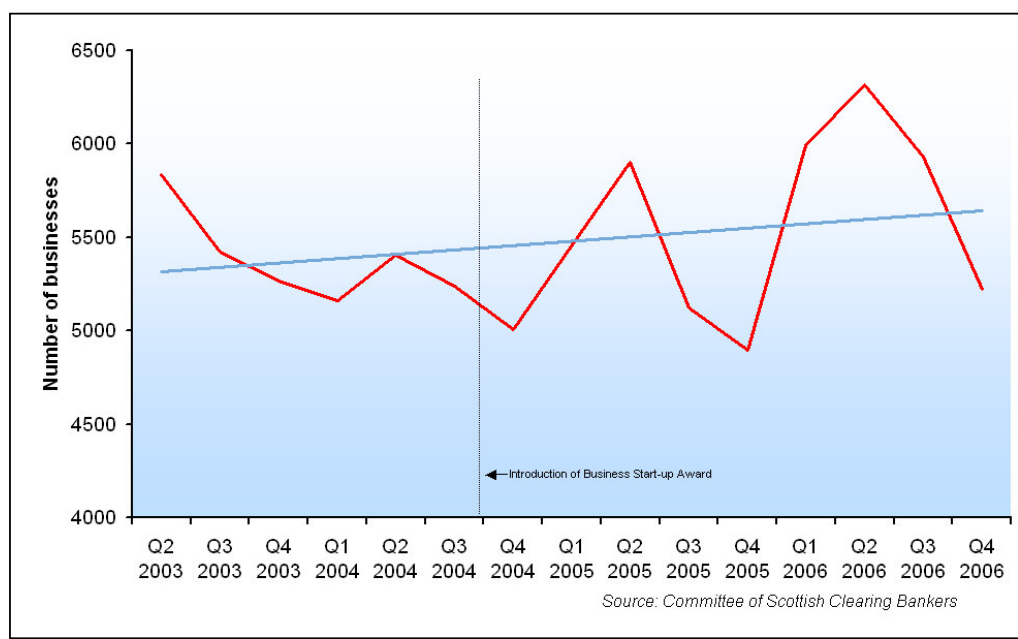
The scale of the Business Start-up Award intervention is shown in Table 3.1. Since October 2004, a total of £7.6m has been awarded in grants. The intervention was originally funded as a pilot running from October 2004 to March 2006, with £5.6m approved over this period. This was to cover 4,500 grant awards over the 18-month pilot period. The pilot was then extended to run in 2006/07.

Table 3.1: Number and Value of Awards by LEC

LEC	Total Claims (£)	Number of Awards	% Total Awards
Ayrshire	780,000	780	10%
Borders	146,000	146	2%
Dunbartonshire	421,000	421	6%
Dumfries & Galloway	180,000	180	2%
Edinburgh & Lothian	1,795,000	1795	24%
Fife	428,000	428	6%
Forth Valley	353,000	353	5%
Glasgow	1,352,000	1352	18%
Grampian	534,000	534	7%
Lanarkshire	561,000	561	7%
Renfrewshire	693,000	693	9%
Tayside	329,000	329	4%
Total	£7,572,000	7,572	100%

The previous evaluation raised the question of whether the successful attraction of start-up businesses in the 18-30 age group into the Business Gateway is a net growth, that is it has resulted in an overall growth in the number of start-ups in Scotland or whether there has been a displacement of Business Gateway activity from the 30+ age group to the 18-30s. At the time of the last report in early 2006, there had been a slight decline in the overall number of start-ups in Scotland. However, since then the number of start-ups has increased as shown in Figure 3.1.

Figure 3.1: All Scottish Banks Start-ups, April 2003 to December 2006



This could be taken as an indication that there has been a net growth in the number of start-ups over the period since the Business Start-up Award was introduced. However, it is not clear if this growth can be attributed to the Award, and as suggested above there may have been a displacement of activity within the pool of Business Gateway assisted businesses to the 10-30 age group.

3.3 Profile of Survey Sample

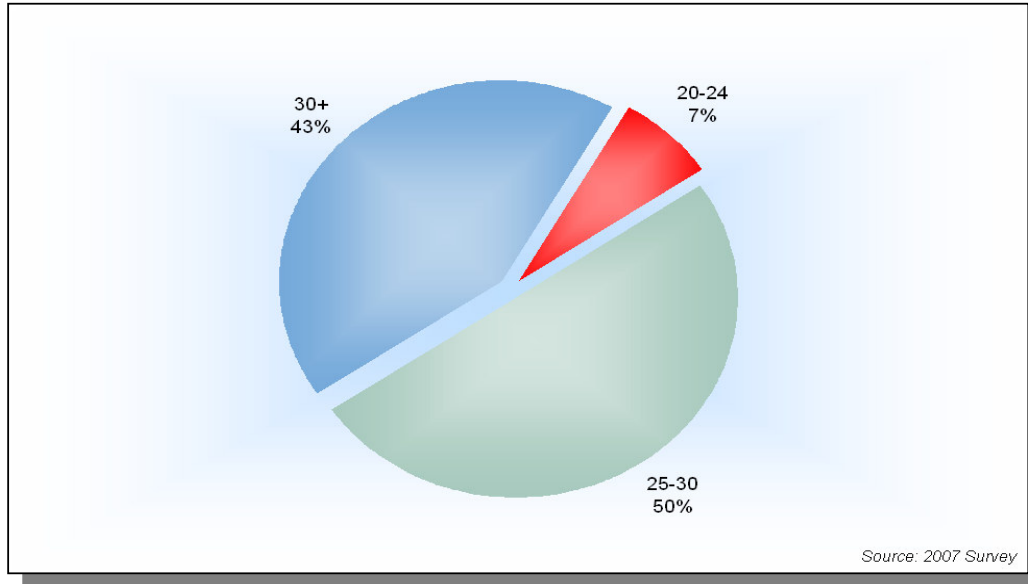
Age – The age structure of respondents is shown in Figure 3.2. The largest proportion is accounted for by those between the age of 25 and 30 who account for 50%. There are a significant proportion of respondents now aged over 30, which reflects the fact that this group of beneficiaries received the Award between October 2004 and March 2005. Indeed, the 2006 study⁷ found that more than half of the respondents (56%) were aged between 26 and 30.

Gender – Just over half of those interviewed, 54%, were male. This was a one per cent increase on the original survey in 2006. 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 Enterprise⁸ 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. The Business Start-up Award is contributing strongly to the gender equality agenda in terms of business start-ups.

⁷ DTZ Pidea Consulting (now DTZ Consulting & Research) *Review of the Business Start-up Award for the 18-30s – Final Report*, for Scottish Enterprise, 1 March 2006

⁸ *Sharpening the Focus on Women's Enterprise* Scottish Enterprise, 2005

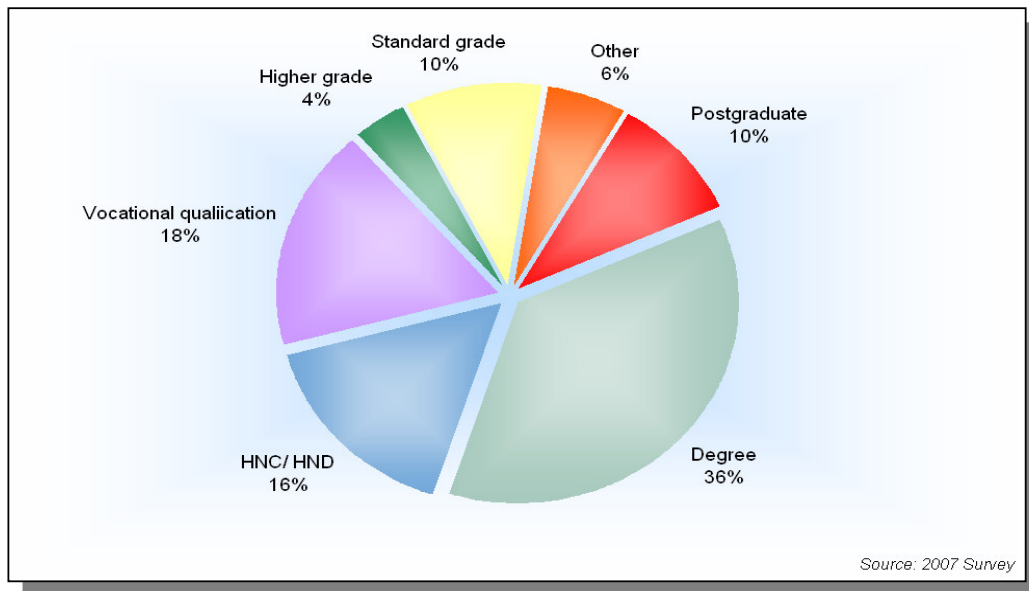
Figure 3.2: Age Profile of Respondents⁹



Ethnicity – The majority of respondents were white British or Scottish (95%).

Education – The respondents appear to be reasonably well qualified. More than a third (37%) of respondents were educated to degree level, with a further 10% holding a postgraduate qualification as shown in Figure 3.3. Just over a third (34%) have either vocational qualifications or HNC/HNDs.

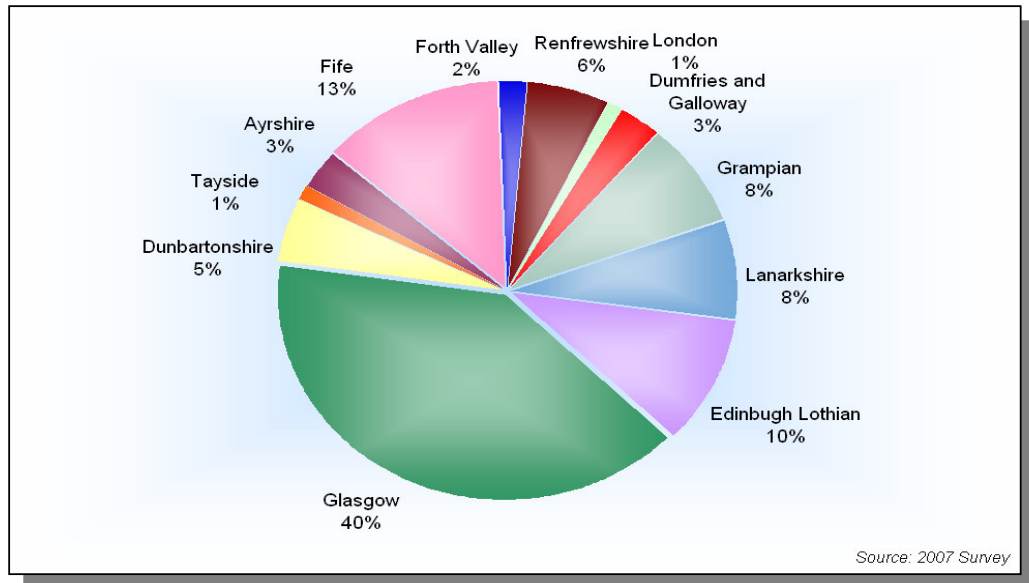
Figure 3.3: Qualifications of Respondents



⁹ The base for this question is 96, as 4 respondents declined to divulge their age.

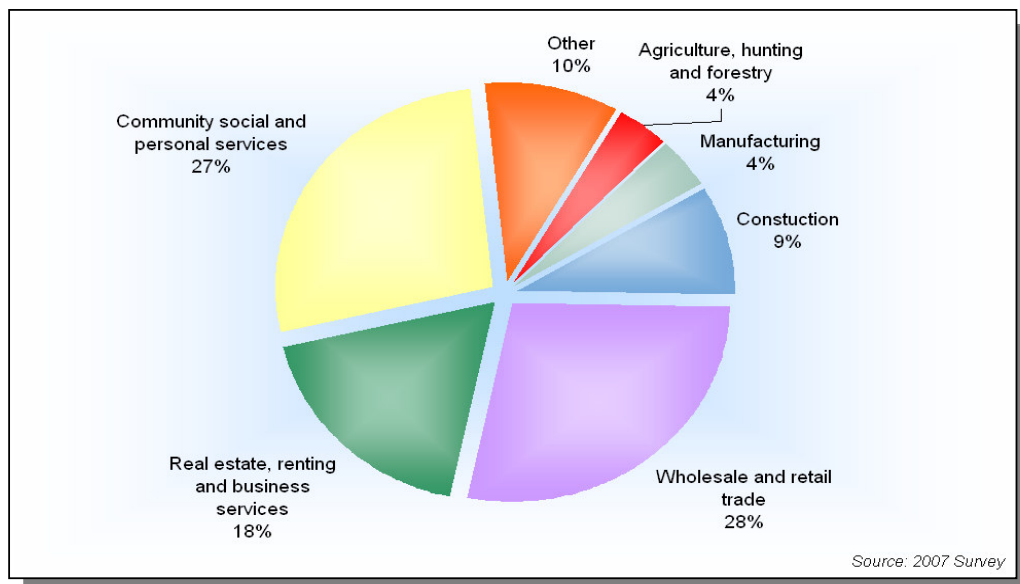
Geography – Figure 3.4 shows the sample broken down by Local Enterprise Company (LEC) area. When this is compared to Table 3.1 it is clear that in terms of the geographical profile of the population of assisted businesses, Glasgow is significantly over-represented and Edinburgh and Lothian under-represented. It is important to note that the sample is not taken to be representative of the overall population, but rather to provide a more in-depth snapshot of the businesses more than a year on from the previous evaluation.

Figure 3.4: LEC Breakdown of Respondents



Sector – The industrial sector for the businesses interviewed is shown below in Figure 3.5. The largest proportion of businesses is in the wholesale and retail trade (28%) followed by the community and personal services sector (27%), which includes arrange of lifestyle businesses.

Figure 3.5: Industrial Sector of Respondents



Premises – There has not been much physical expansion of the businesses, with only a very small proportion of businesses (3%) operating from more than one location.

Length of Trading – The original survey sample for the 2006 study was drawn from grant recipients between October 2004 and March 2005. Therefore it is not surprising that the vast majority of businesses started in these two years (98%).

3.4 Survival Rates

Of those 100 respondents interviewed 92 of the businesses were still in operation, with the remaining 8 businesses having ceased operating in either 2006 or 2007. The reasons for closure were generally related to finance whereby the respondent could not get further funding or they became insolvent.

This 92% survival rate cannot be taken to be reflective of the sample of 400 companies interviewed in late 2005 or the wider population of assisted businesses given that it is likely that those who had ceased to trade will be under-represented due to the difficulties in contacting the individuals involved as the Business Gateway does not track the beneficiaries.

Of the eight respondents who had ceased trading, four are now in employment, two are now self-employed in another business, one has returned to education and the other declined comment.

3.5 Summary

In summary, the Business Start-up Award has clearly been successful in attracting a large number of start-ups in the 18-30 year old category into the Business Gateway, with 7,572 awards made since October 2004. While there does appear to have been a growth in the number of start-ups in Scotland, it is still not entirely clear whether the increased numbers of 18-30 start-ups are from the non-assisted pool or whether the intervention has attracted people into starting up where they would not have otherwise, therefore resulting in an overall net growth in the number of new businesses started. While the exact survival rate of the businesses supported cannot be determined from the small sample in the survey, the indications are that the majority of the businesses are still trading.

4 Review of Support Received

4.1 Introduction

This section of the report reviews the support accessed by the beneficiaries since receiving the Business Start-up Award drawing on the evidence from the survey. The wider integration of the beneficiaries into the Business Gateway is assessed and the strengths and weaknesses of the support from the perspective of the beneficiaries are presented.

4.2 Critique of Operational Elements

4.2.1 Engagement with Business Gateway

Since receiving the grant, 63% of respondents have had some form of contact with the Business Gateway. Of the remainder, the majority (78%) said that they had no need to contact the Business Gateway while a further 5% had received advice from elsewhere. Interestingly, of those who had contact with the Business Gateway 40% had initiated the contact themselves and 27% said the business adviser had initiated contact. The remaining third said contact was typically due to effort by both parties.

The profile of further support that the respondents have received is shown in Figure 4.1. The majority of respondents (67%) had received non-financial support, with a further 11% having received both financial and non-financial support.

Figure 4.1: Type of Post Business Start up Support

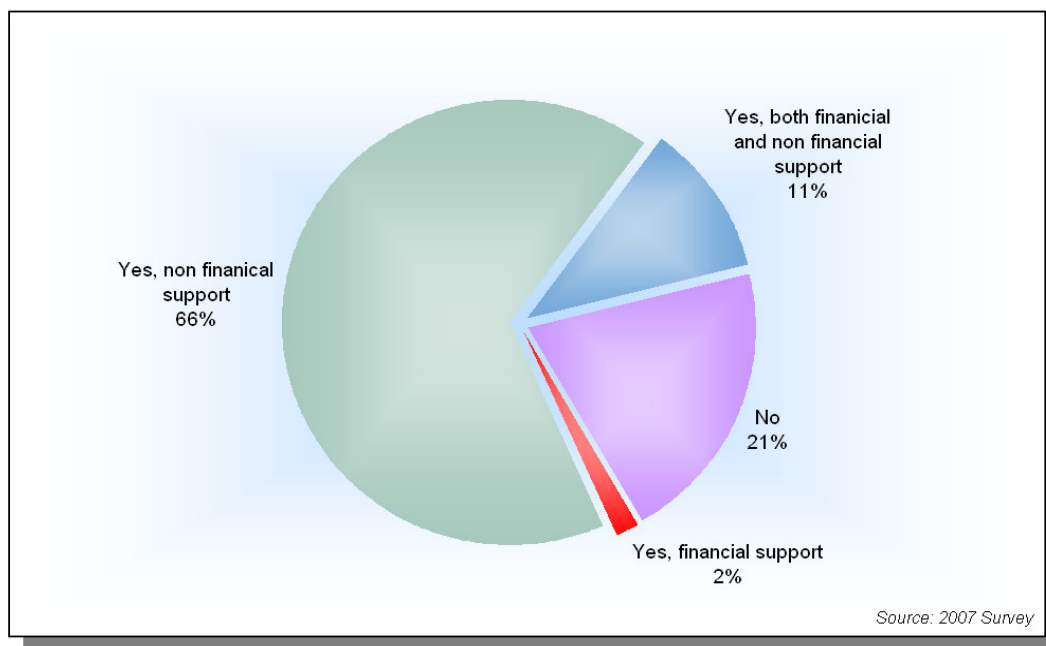
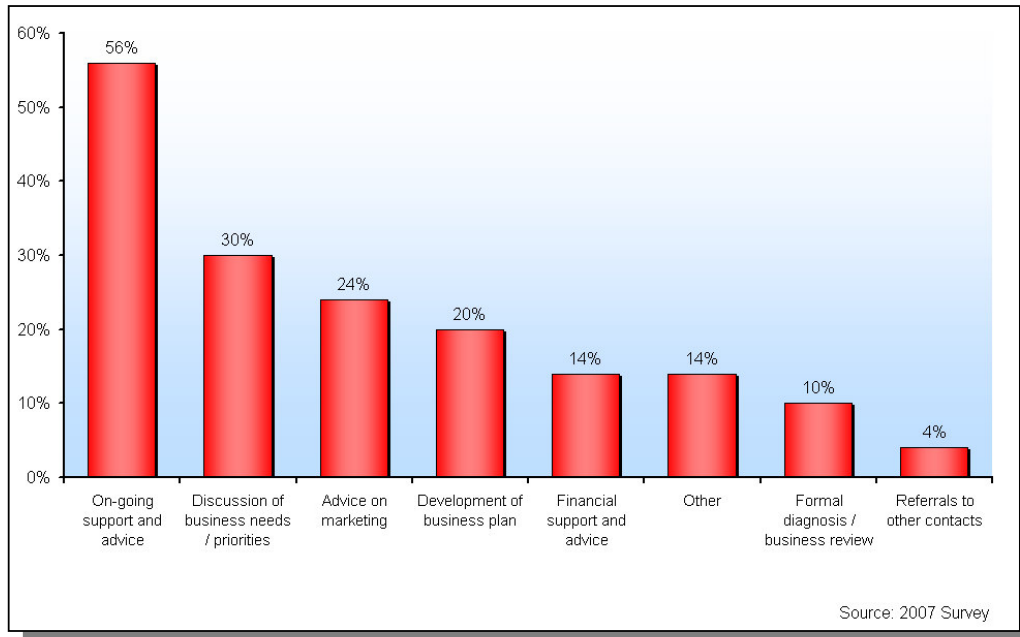


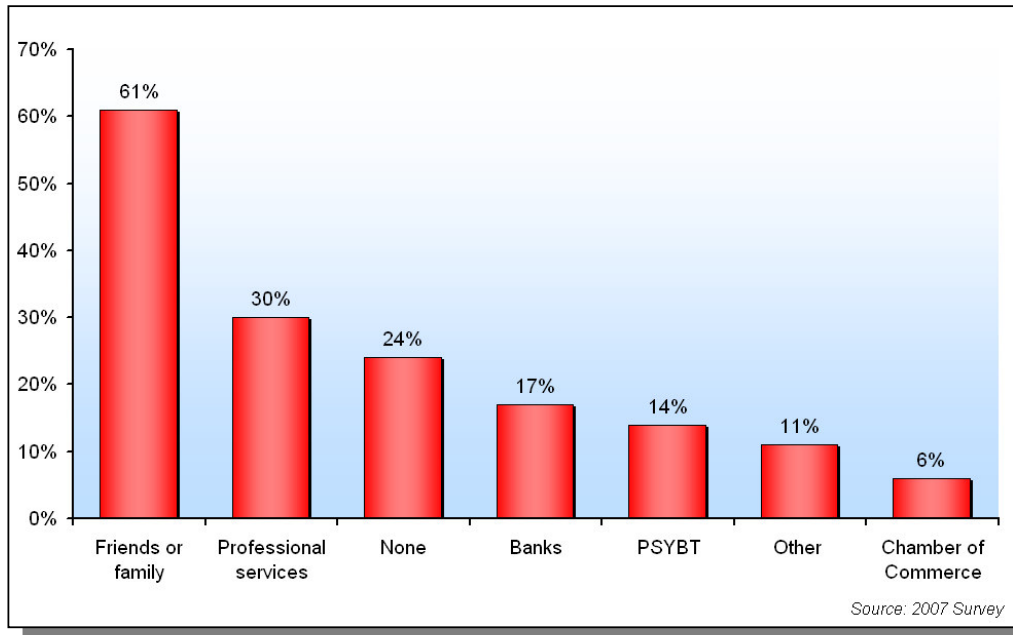
Figure 4.2 shows the key elements of support from the Business Gateway. The ongoing support and advice was viewed as key by more than half of the respondents (56%). This was followed by the discussions of business needs and priorities with 30% of respondents viewing this as an important piece of guidance.

Figure 4.2: Key Elements of Support Provided by the Business Gateway



Of those respondents who have had ongoing contact with the Business Gateway, just under half (46%) are still receiving support two to two and a half years after receiving the Start-up Award indicating that the Business Gateway has an ongoing role in supporting these start-up businesses.

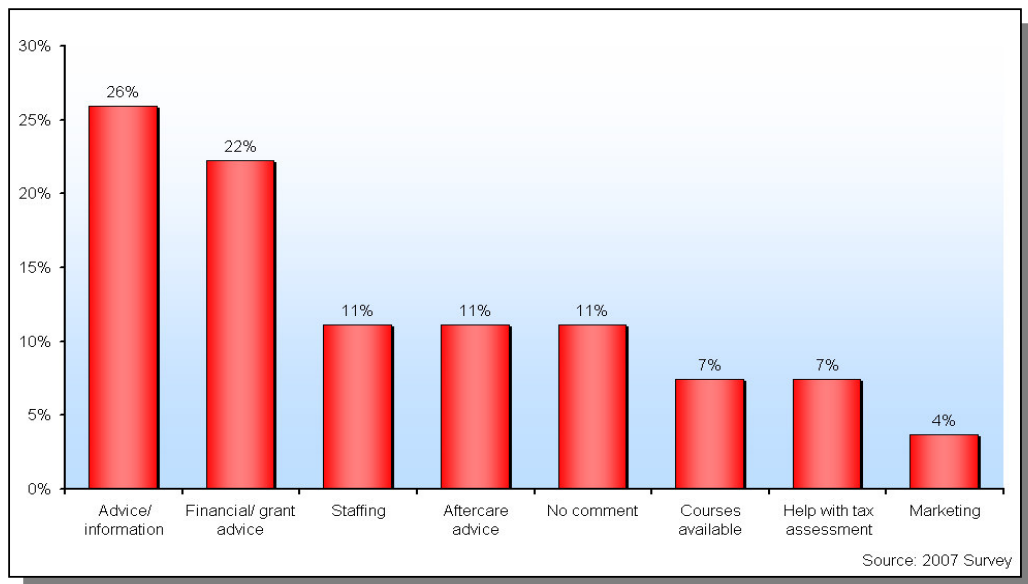
Figure 4.3: Sources of Advice Used in Developing Business



The respondents were asked if they had used any other sources of advice in developing their business. Figure 4.3 shows that the majority of respondents (61%) received advice from where their friends or family. Just under a third (30%) of respondents have accessed professional advice such as accountants or solicitors, reflecting the small size of the businesses, where it is common for the business owner to deal with these areas of the business.

When asked if there were any areas where the respondents would have liked additional support, but were unable to obtain it 27% suggested gaps in the support available. The areas of support that these participants would have liked are shown in Figure 4.4. The most sought after was general business advice and information. Another commonly cited area for additional support was for financial/grant advice with 22% of respondents looking for further guidance in this area. It might have been expected that these responses were more likely to come from those respondents who had no post start up contact from the Business Gateway. However, this does not appear to be the case and those respondents who have maintained contact with the Business Gateway are just as likely to have identified areas in which they have been unable to receive support.

Figure 4.4: Areas where respondents would like further advice



Some of the comments made by the respondents included:

“Help with accounts or contacts for courses would be good. I would like to get on top of this now while I'm young.”

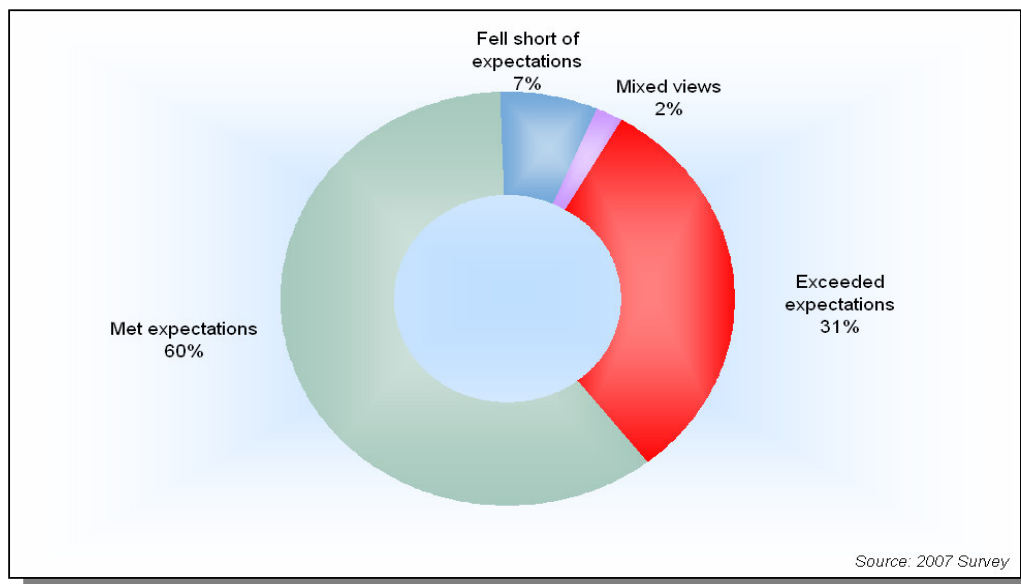
“We wanted some aftercare but found it impossible to contact the adviser.”

“I would have liked help on expanding my business.”

4.2.2 Outcomes from Assistance

Figure 4.5 shows that the majority (60%) of the respondents felt that the outcomes from the assistance they have received from the Business Gateway (including the Start-up Award and other support received) have met their original expectations. Just under a third (31%) felt that the outcomes have exceeded their expectations. These results are very similar to those in our recent evaluation of PSYBT start-up support.¹⁰

Figure 4.5: Outcomes from Business Gateway Assistance



The respondents were asked to provide more details as to the outcomes from the Business Gateway assistance. The comments received were generally around the helpfulness of the advice and information received or the grant itself. The assistance in business planning was also noted as having had an impact. A selection of comments received are given below:

Positive experiences

“Professional help always available to me if I needed help and support.”

“The business plan motivated me and I would not have done this without help.”

“They were helpful at the time when I needed advice.”

“I did not know how to start out in the beginning and they gave me direction.”

“If they weren’t there I would never have got off the ground – the grant paid for the tools for the business to get me started.”

¹⁰ DTZ Consulting & Research, *Prince’s Scottish Youth Business Trust Evaluation of Impact and Strategic Contribution*, for Scottish Enterprise, 30 March 2007

Negative experiences

“The promises that were made did not materialise which was very disappointing.”

“I didn’t feel there was enough advice on certain things such as free business banking where to get business cards done etc.”

Mixed experiences

“I had good and bad experiences – it was good at start when I received grant and advice, but not so good at later stages when I couldn’t get the support I was looking for.”

“It was good at the beginning, but after the first year they don’t keep in touch.”

4.3 Strengths and Weaknesses of Support

Overall, the respondents seem to have a positive view of the Business Gateway with almost all (96%) of the respondents claiming that they would recommend the Business Gateway to another business contact, friend or relative.

Strengths

A strong theme to emerge from the respondents on the strengths of their involvement with the Business Gateway was the helpfulness of the support and advice offered, particularly when they were just starting out in business. Almost all of the respondents (97%) identified various strengths. The respondents appear to have valued the Business Gateway as a ‘sounding board’ to help keep them on the right track. This is illustrated in comments such as:

“By helping with finance and my business plan they made it so much easier to do than I thought it would be, considering I was unemployed before I started my own business.”

“I started out having no idea about running my own business, so I probably would have started up in business at a later date, but they just made it so much easier for me especially concerning all the technical paperwork.”

“It was good to get an impartial view – someone to look at what I had done and tell me I’m on the right track.”

“It was a stepping stone to what I wanted to do - they were able to provide me with the confidence I required.”

“The support is fantastic. Business is very daunting when first starting up for young people and they gave step-by-step information all they way. The grant to buy equipment was a good help, and although I would have started up in business it would have taken me longer.”

Weaknesses

When asked to identify any weaknesses they had experienced as part of their involvement with the Business Gateway, around a third of the respondents identified issues. The comments tended to fall into one of two categories: either relating to a desire for more

ongoing support and aftercare or frustration at not being given information that was promised. The comments below illustrate these points:

“They promise you things but don't follow through, also they are never there when you need them - advisors are not always available.”

“Communication is poor – they don't follow through and have no commitment. I was dumped after filling in the forms and never heard from them again.”

“I need more ongoing support and advice rather than training courses.”

“It would be nice to have ongoing aftercare support.”

Suggested Enhancements

Finally, the respondents were asked to suggest potential enhancements to the Business Gateway service, and around one in four (42%) made suggestions including: additional grant funding, more follow-up post-start and greater advertising of the services on offer to increase awareness.

4.4 Summary

Just under two-thirds of the respondents have had ongoing contact with the Business Gateway since receiving the grant, mostly in the form of non-financial support in terms of ongoing support and advice or discussions of business needs and priorities. The majority (60%) of the respondents felt that the outcomes from the assistance they have received from the Business Gateway have met their original expectations with just under a third (31%) feeling that the outcomes have exceeded their expectations. The respondents appear to have valued the Business Gateway support to help keep them on the right track.

5 Economic Impact

5.1 Introduction

This section details the processes and outcomes of the economic impact assessment of the Business Start-Up Award. Each of the 100 respondents was asked about employment, turnover and pre-tax profit for the years 2004/05, 2005/06 and 2006/07. After accounting for deadweight and displacement we present average net impacts per company for each of the three factors (employment, turnover and pre-tax profit), which are then subjected to sensitivity tests to explore the effect of varying assumptions made regarding deadweight and displacement. Further, we also examine the indirect and induced impact on the Scottish economy on an average per company basis. Lastly we present a side-by-side comparison of per company net turnover and employment between the previous survey carried out in late 2005 and the current survey carried out in early 2007.

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 the Start-up Award – 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 the start-up grant/other Business Gateway advice 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 the start-up grant/other Business Gateway advice 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: Employment, Turnover and profit generated

In the absence of the start-up grant/other BG advice, do you think the number of people you employ / your turnover/your profit would be:			
Response	Additionality Percentages	Implied deadweight	% of respondents Employment / T/O/profit
Higher	0%	100%	0%/0%/1%
Lower	75%	25%	4%/16%/14%
The same	25%	75%	81%/69%/70%
Would not have started at all	100%	0%	15%/15%/15%
Note: These percentages were applied on a firm-by-firm basis to beneficiaries			

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

In the case of a response of ‘higher’ for any impact, an additionality of 0% is applied (100% deadweight). It is worth noting that none of the respondents stated that employment or turnover would have been higher in the absence of Business Gateway support, although one respondent stated that profit would have been higher.

Technically, for those respondents stating that employment, turnover or profit 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 not accessed other sources of funding, and thus may have been overly optimistic about their ability to set up in business when responding to the survey.

For example, it was highlighted in Section 2 that only 27% of respondents had tried to obtain finance elsewhere, and among those who had not tried to get finance from elsewhere, there appears to be an information failure as they stated that they would like to access finance, but do not know where to go to access it. In a further 6% of cases the respondents reported a perceived market failure, as they would like to access finance, but do not think they will get it.

Also, of those who had managed to obtain finance from elsewhere, 46% of those respondents attributed the success in securing finance from their involvement with the Business Gateway with a further 12% partly attributing their success to Business Gateway involvement. It appears that for several respondents, the Start-up Award has helped to leverage further funding.

Further, as shown in Table 5.2 only 27% of respondents stated they would have set up in business anyway, with 16% stating they would not have set up at all and 57% responding that they would have set up in business but at a later date and/or with but with quality compromised and/or on a smaller scale. Therefore, given these other responses, we have taken additionality in these cases to be 25% (deadweight 75%). It should also be noted that these figures represent the ‘base case’ assumptions, which we later subject to sensitivity testing.

5.2.2 Deadweight – Number of Businesses Started

The respondents were asked what the impact would have been on their decision to set up in business had they not received financial or non-financial support from the Business Gateway. 27% of respondents replied that not receiving support would have had no impact on their decision to set up business and they would have set up business anyway – i.e. additionality is 0% and deadweight is 100%. At the other extreme, 16% of respondents stated that they would not have set up business at all and in those cases additionality is 100% and deadweight 0%. In between these results are those who would have set up business but either at a later date (42), with quality compromised (10) and/or on a smaller scale (8)¹¹. Together 57% of businesses would have set up, but either at a later date and/or with quality suffering, and/or on a smaller scale.

Therefore, from the responses to this question the number of additional start-up businesses that the start-up award has generated can be calculated. Of the 100 respondents who received grant funding between October 2004 and March 2005, the support has generated **16 additional start-ups**. Furthermore, it has helped an additional **57 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 the Business Gateway (financial and non-financial) what impact would this have had on your decision to set up in business?			
Response	% of respondents	No. of responses	No. of businesses in survey
None, would have set up in business anyway	27	27	27
Would have set up, but at a later date	42	42	57
Would have set up, but quality lower	10	10	
Would have set up, but smaller scale	8	8	
Would not have set up in business at all	16	16	16
Total			100

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 Business Gateway 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.

¹¹ Note that the totals sum to more than 100 here as respondents could respond positively to more than one option

Table 5.3 – Assessment of Displacement

How competitive are the markets in which you are operating (figures show displacement applied by DTZ rather than responses to this question):			
Responses	Strong	Weak	None
Local/regional	70%	10%	0%
Rest of Scotland	70%	10%	0%
Rest of UK / International	0%	0%	0%
Note: These percentages were applied on a firm-by-firm basis to beneficiaries			

5.3 Net impact

Net impacts were calculated on an individual basis for the survey respondents. This was used to calculate a per company figure based on the average across each respondent. Table 5.4 details the average employment, turnover and pre-tax profit results for 2005/06 financial year.

The sample of 100 companies is not representative of the population, therefore we have not grossed up the impact findings as this would be misleading. The aim of the survey is to gain an insight in the performance of the businesses supported through the Start-up Award and to look at their sustainability and growth over a longer time period.

Table 5.4 – Summary of Net Impacts

Indicator	Per company
Gross turnover	£65,249
Gross employment	1.63
Gross pre-tax profit	£18,600
Net (after deadweight)	
Net turnover (after deadweight)	£32,696
Net employment (after deadweight)	0.69
Net pre-tax profit (after deadweight)	£11,144
Final (after displacement)	
Final turnover impact (after displacement)	£18,832
Final employment impact (after displacement)	0.34
Final pre-tax impact (after displacement)	£9,194

Results are presented for 2005/06 as this year contained the most responses to each relevant element of the survey and are the most robust. The results of sensitivity tests carried out on each impact are discussed in the next section, however it is worth noting that for this base case presented above the key results are:

- Average deadweight – 50% for turnover, 57% for employment, and 40% for pre-tax profit
- Average displacement – 42% for turnover, 51% for employment, and 17% for pre-tax profit¹²

¹² The displacement figure for profit is low due to one company with a large profit having 0% displacement as the average displacement is calculated by dividing the total net profit (after displacement) by the total profit (after deadweight).

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 relating to the impact the grant had on the respondents’ success in business (see Table 5.1). A qualitative assessment was made to give the ‘**base case**’ figures presented thus far.

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, in order to calculate the full range of possible outcomes we have conducted a series of sensitivities on the results, with the assumptions for the deadweight sensitivity tests are presented in Table 5.5 below.

Table 5.5 – Summary of Additionality Sensitivity Assumptions

In the absence of the start-up grant/other Business Gateway advice do you think the number of people you employ/your turnover/your profit would be:			
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%
Note: 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% for all those companies where there is strong competition within the local or Scottish markets, 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 competition in local or Scottish markets. 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. The displacement assumptions under different sensitivity tests are detailed in Table 5.6 below.

Table 5.6 – Summary of Displacement Sensitivity Assumptions

How competitive are the markets in which you are operating?			
Responses	Low case	Base case	High case
Strong local/regional competition	100%	70%	50%
Weak local/regional competition	50%	10%	0%
Strong competition in rest of Scotland	100%	70%	50%
Weak competition in rest of Scotland	50%	10%	0%
Note: These percentages were applied on a firm-by-firm basis to beneficiaries			

The results for employment, turnover and profit under each case are presented in the following three tables (Table 5.7 – 5.9) across the years 2004/05 to 2006/07. The “additional impact” is the impact after deadweight and the “final net impact” is the impact after both deadweight and displacement.

Table 5.7 – Impacts Base Case

	Employment				Turnover				Pre-tax profit		
	2004/05	2005/06	2006/07		2004/05	2005/06	2006/07		2004/05	2005/06	2006/07
Gross impact	1.35	1.63	2.00		£34,575	£65,249	£86,673		£6,602	£18,600	£19,333
Additional impact	0.48	0.69	0.83		£13,670	£32,696	£38,644		£3,395	£11,144	£8,896
Final net impact	0.27	0.34	0.39		£6,162	£18,832	£17,684		£2,063	£9,194	£6,710
Average additionality	36%	43%	42%		40%	50%	45%		51%	60%	46%
Average displacement	45%	51%	52%		55%	42%	54%		39%	17%	25%

Table 5.8 – Impacts Low Case

	Employment				Turnover				Pre-tax profit		
	2004/05	2005/06	2006/07		2004/05	2005/06	2006/07		2004/05	2005/06	2006/07
Gross impact	1.35	1.63	2.00		£34,575	£65,249	£86,673		£6,602	£18,600	£19,333
Additional impact	0.17	0.35	0.38		£5,470	£18,968	£18,014		£2,134	£8,397	£5,167
Final net impact	0.06	0.08	0.07		£1,354	£9,786	£4,137		£1,172	£7,122	£4,073
Average additionality	13%	21%	19%		16%	29%	21%		32%	45%	27%
Average displacement	67%	77%	80%		75%	48%	77%		45%	15%	21%

Table 5.9 Impacts – High case

	Employment				Turnover				Pre-tax profit		
	2004/05	2005/06	2006/07		2004/05	2005/06	2006/07		2004/05	2005/06	2006/07
Gross impact	1.35	1.63	2.00		£34,575	£65,249	£86,673		£6,602	£18,600	£19,333
Additional impact	0.54	0.76	0.92		£15,310	£35,442	£42,770		£3,647	£11,693	£9,641
Final net impact	0.37	0.49	0.58		£9,411	£24,650	£26,476		£2,633	£10,184	£7,929
Average additionality	40%	47%	46%		44%	54%	49%		55%	63%	50%
Average displacement	31%	36%	37%		39%	30%	38%		28%	13%	18%

Regarding the sensitivity tests, the range of impacts that are implied are depicted below. The following chart (Figure 5.1) illustrates the range of estimated annual employment impact (after deadweight and displacement) on average per company across the survey respondents under the various sensitivity analyses. In the base case, between 2004/05 and 2006/07, net employment ranged from 0.27 employees per company to 0.39 on average. However, under the more conservative low case the range is from 0.06 to 0.08 FTE employees per company on average. Alternatively, using more optimistic assumptions for deadweight and displacement, the annual impact is as great as 0.37 to 0.58 FTE employees per company.

Figure 5.1 – Net Employment Impact Sensitivities

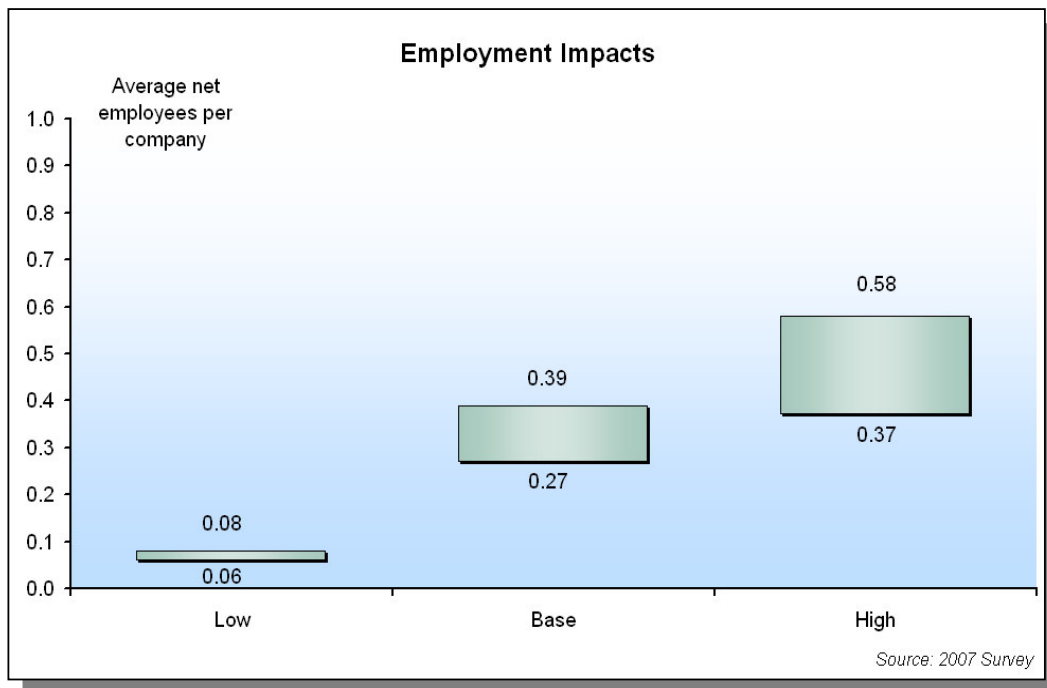
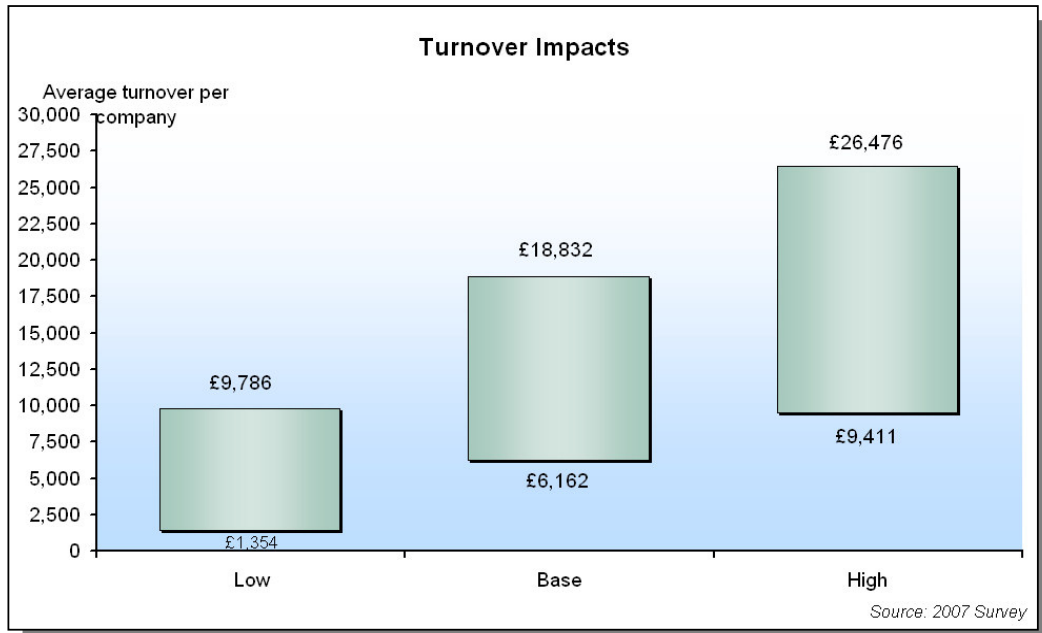


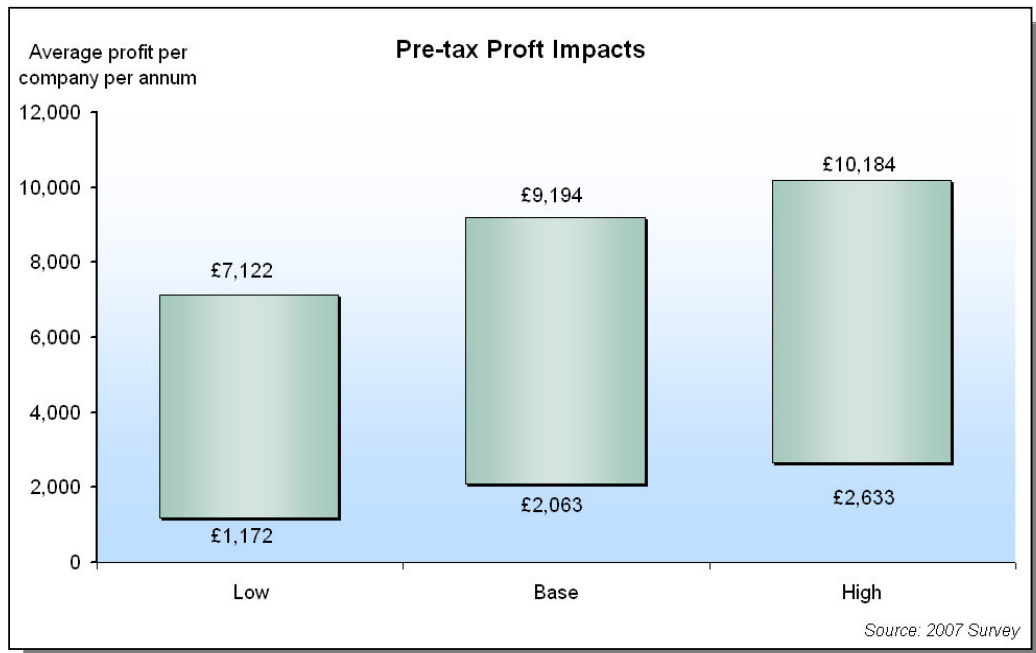
Figure 5.2 illustrates the turnover impact under the same sensitivity tests. Turnover ranged from £6,162 to £18,832 per company over the three year period surveyed in the base case scenario but the range was as low as £1,1354 - £9,786 in the low case and as high as £9,411 - £26,476 per company on average under high case assumptions.

Figure 5.2 – Net Turnover Impact Sensitivities



Lastly, the profit impact is illustrated in Figure 5.3. Here the average pre-tax profit per company ranged over the three years from £2,063 to £9,194 in the base case. However, under low case assumptions pre-tax profit ranges from £1,172 - £7,122 per company and under the more optimistic high case assumptions per company pre-tax profit ranges from £2,633 - £10,184 per annum.

Figure 5.3 Net pre-tax profit impacts



Clearly there is a significant variance between the different scenarios presented. The important points to note from this analysis are that:

- The vast majority of respondents fall into the “same” category in terms of the employment and turnover impacts - 81% for employment, 69% for turnover and 70% for profit – therefore any sensitivity on the 25% additionality figure used in the base case has a huge knock-on effect to the impact numbers.
- The sensitivity testing presents 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.
- The impacts are calculated on a per company basis for each year and can therefore be influenced strongly by the performance of a small number of companies in any given year.

5.5 Indirect and induced impacts

Indirect impact occurs when the supported businesses spend money with their suppliers, who in turn need to recruit new employees. Induced impact arises from the expenditure in the economy of those people employed either directly or indirectly. Indirect and induced impacts were calculated using 2005/06 survey results (as these are the most complete and robust) and multipliers from the Input-Output Tables and Multipliers for Scotland 2003 (published in 2006 and the most recently available). Survey respondents were asked in which sector their business operated and these sectors were then matched to the most appropriate output and employment multipliers available. For turnover 87 respondents provided enough detail in order to calculate impacts, and for employment 98 respondents provided employment data for 2005/06.

The following tables present the results on an average per company basis, showing the net impact per company after deadweight and displacement (the direct impact), the indirect impact, induced impact and total net impact per company on average for each sector. Table 5.10 details the turnover impacts, whilst Table 5.11 details the employment impacts.

Table 5.10 Average Net Impact on Scottish Output per company – Turnover

Sector of intervention	Direct Impact	Indirect Impact	Induced Impact	Total net impact
Agriculture, hunting & forestry	£5,269	£3,092	£872	£9,233
Community, social and personal services	£6,426	£1,144	£2,450	£10,020
Construction	£5,375	£2,841	£1,546	£9,761
Education	£2,550	£431	£1,245	£4,226
Health and social work	£900	£390	£370	£1,661
Hotels and restaurants	£4,500	£711	£1,513	£6,723
Manufacturing	£29,850	£9,986	£7,343	£47,179
Mining and quarrying	£1,750	£735	£523	£3,008
Other	£1,012	£243	£404	£1,659
Real estate, renting and business services	£52,407	£24,229	£14,418	£91,053
Repair of motor vehicles	£5,625	£1,095	£1,647	£8,366
Wholesale and retail trade	£17,078	£6,747	£5,052	£28,877
Average across all companies	£18,832	£6,613	£5,961	£31,405
Note: Rows may not add due to rounding				

Table 5.11 Average Net Impact on Scottish Output – Employment (FTEs)

Sector of intervention	Direct Impact	Indirect Impact	Induced Impact	Total net impact
Agriculture, hunting & forestry	0.60	0.41	0.14	1.15
Community, social and personal services	8.09	1.36	1.79	11.24
Construction	2.59	1.36	0.90	4.84
Education	3.08	0.29	0.80	4.16
Health and social work	0.30	0.10	0.06	0.46
Hotels and restaurants	0.08	0.004	0.01	0.09
Manufacturing	1.55	0.72	0.61	2.88
Mining and quarrying	0.25	0.14	0.13	0.52
Other	0.40	0.05	0.08	0.53
Real estate, renting and business services	4.97	3.90	1.95	10.82
Repair of motor vehicles	0.23	0.03	0.04	0.29
Wholesale and retail trade	11.31	2.67	2.49	16.47
Average across all companies	0.34	0.07	0.08	0.50
Note: Rows may not add due to rounding				

5.6 Value for Money Assessment

In order to come to an assessment of the value-for-money of the Start-up award, it is helpful to benchmark the results against the previous survey and any other available information, such as evaluations of similar interventions. Based on the information collected from the 2005 survey and the 2007 survey we can produce a comparison of the results for each company. Table 5.12 provides a summary of net impacts for the same 100 companies as surveyed in 2005 and 2007 and presents the results for the year 2005/06. It should be noted that only turnover and employment are detailed here, as pre-tax profit was not assessed in the original 2005 survey.

The respondents to the survey conducted at the end of 2005 were given the Start-up Award between October 2004 and March 2005, which meant at the time of the survey they would have been trading for anywhere between eight to thirteen months. The survey asked respondents to give their turnover since the launch of the business and an average monthly turnover was calculated and then grossed up to a full year equivalent. The benefit of the 2007 survey is that we can get actual turnover figures from the respondents for a full year.

The results for the 100 companies interviewed in 2007 were re-examined from the 2005 survey. As shown in Table 5.12, the gross turnover of the companies was clearly underestimated in the earlier survey. This is not surprising, as some companies will not have been trading for a full year when they were interviewed and may have underestimated their actual annual turnover.

The net impacts were recalculated for the 2005 survey for the 100 companies by using their response to the 2005 question, *If you had not received the grant, what impact would it have had on your decision to set up in business?* As the previous survey did not ask about competition in the same way, displacement was assumed to have been the same as in the 2007 survey and worked out on a per company basis.

The average deadweight and displacement in each survey is shown below:

- Average deadweight 2005– 61% for turnover and 50% for employment,
- Average deadweight 2007 – 50% for turnover and 57% for employment
- Average displacement 2005– 47% for turnover and 44% for employment
- Average displacement 2007– 42% for turnover and 51% for employment

Table 5.12 Comparison of results for 2005 and 2007 surveys

Indicator	Per company 2005 survey	Per company 2007 survey
Gross turnover	£29,874	£65,249
Gross employment	1.63	1.63
Net turnover (after deadweight)	£11,636	£32,696
Net employment (after deadweight)	0.82	0.69
Final turnover impact (after displacement)	£6,214	£18,832
Final employment impact (after displacement)	0.45	0.34

Deadweight was considerably higher for turnover in the 2005 survey, reflecting the changing views of the respondents over time with regard to the influence of the support received on decisions to set up in business. Table 5.13 shows that in 2005, a far greater proportion of respondents felt that the support had little influence on their decision and they would have set up in business anyway. In 2007, the respondents are far more likely to acknowledge that the support has helped them to set up in business earlier, on a greater scale or with a better quality business.

Table 5.13 Comparison of additionality for 2005 and 2007 surveys

If you had not received support from the Business Gateway (financial and non-financial)/the grant what impact would this have had on your decision to set up in business?		
Response	% of respondents 2007	% of respondents 2005
None, would have set up in business anyway	27%	46%
Would have set up, but at a later date/quality/scale	57%	41%
Would not have set up in business at all	16%	13%
Total	100%	100%

Another helpful comparison is the results from DTZ's evaluation of PSYBT¹³. The survey covered respondents who had been given an award between January 2004 and December 2005. Table 5.14 compares the impact results across the two interventions. The final employment impact is very similar, but the final net turnover impact is around £5k higher for the Start-up Award companies than the PSYBT companies. The comparison is illustrative only and it is recognised that the sample in the current survey is not representative of the population of companies receiving the Start-up Award. Nevertheless, it provides a helpful benchmark of the impact of a similar intervention.

¹³ DTZ Consulting & Research, *Prince's Scottish Youth Business Trust Evaluation of Impact and Strategic Contribution*, for Scottish Enterprise, 30 March 2007

Table 5.14 Comparison of results for 2007 and PSYBT surveys

Indicator	Per company PSYBT survey	Per company 2007 survey
Gross turnover	£55,500	£65,249
Gross employment	2.2	1.63
Net turnover (after deadweight)	£23,700	£32,696
Net employment (after deadweight)	0.6	0.69
Final turnover impact (after displacement)	£13,700	£18,832
Final employment impact (after displacement)	0.3	0.34

In terms of a value-for-money assessment, the impact results for 2007 seem reasonable. It is not possible to calculate cost-per-job figures as we have not grossed up the results to the full population so cannot take into account those businesses that failed or that did not provide information.

The DTZ report of 2003¹⁴ on survival rates reported the following turnover figures for business start-ups:

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

The actual figure for average turnover in Year 1 from the 2005 survey was £30,500 for all companies and £30,000 for the 100 companies re-surveyed in 2007. In the 2007 survey, the gross turnover for the first 3 years of operation is on average:

- Year 1 £34,575
- Year 2 £65,249
- Year 3 £86,673

This is slightly below the turnover figures for all start-ups. However, given the market failures that are assumed to be present to a greater degree in the younger age group this might be expected. In recognition of this the target set out in the original Board Paper for the Business Start-up Award was £72,000 by the end of Year 3. The companies in the sample for the 2007 survey appear to have exceeded this target by nearly £15,000.

While these figures are impressive, it is important to note that for many of the companies in the 2007 survey, the gross turnover is generally lower than the average, but a small number of companies have a disproportionately higher turnover that brings up the average. This is illustrated in the figures below:

¹⁴ DTZ Pidea Consulting (now DTZ consulting & Research), *Monitoring Business Survival Rates*, for Scottish Enterprise, February 2003

Table 5.15 Distribution of Gross Turnover by Year

Turnover band	Number of companies in band		
	2004/05 (n=62)	2005/06 (n=87)	2006/07 (n=78)
Under £10k	47%	32%	26%
£10k to £24,999	24%	30%	22%
£25k to £49,999	11%	16%	22%
£50k to £99,999	10%	9%	13%
£100k to £499,999	6%	9%	15%
£500k to £999,999	2%	2%	0%
£1m and over	0%	1%	3%
Total	100%	100%	100%

5.7 Summary

This section has presented the economic impact of the Business Start-up Award for the 100 companies in the survey sample. The key findings are as follows:

- The support has generated 16 additional start-ups and has helped an additional 57 start-ups start sooner, on a larger scale or higher quality.
- The overall net turnover impact for the 2005/06 financial year falls between £9,786 and £24,650 per company.
- The net employment impact for 2005/06 is between 0.08 and 0.49 FTEs per company and the net pre-tax profit is between £7,122 and £10,184 per company.
- Taking into account the direct, indirect and induced impacts (for the base case only), the net impact per company rises to 0.5 FTEs and £31,405.
- There is a strong indication that the companies are growing and appear to be profitable.
- The companies appear to have exceeded the target for Year 3 turnover with an average turnover of £86,673.
- A relatively small number of companies have a disproportionately higher turnover that brings up the average.

6 Conclusions and Recommendations

6.1 Introduction

This section concludes the re-evaluation of the Business Start-up Award for the 18-30s by reviewing the evidence for the continued relevance of the project in terms of the strategic context and rationale for intervention. The economic impact is considered in terms of an assessment of business performance for the 100 companies included in the survey, before our recommendations for the future of the intervention are presented.

6.2 Strategic Context and Rationale

The Business Start-up Award has a strong fit with policy and strategy goals to support Scotland's business birth rate, contribute to the growth pipeline and to encourage a culture of entrepreneurship. In addition, the targeting of the 18-30 year age group contributes to policy goals for young people. The rationale for the Award was originally based on addressing market failures relating to information failure and risk aversion in the younger age group.

The survey attempted to explore issues relating to the grant recipients access to other finance post-start. While it is not possible to accurately determine the true extent of the market failure, for a number of respondents (18%), there appears to be an information failure as they stated that they would like to access finance, but do not know where to go to access it. In a further 6% of cases the respondents reported a perceived market failure, as they would like to access finance, but do not think they will get it.

The majority of respondents in the 2005 survey reported that they had less than £3,000 available to start up in business. In the 2007 survey, of the 27% of respondents who had attempted to obtain further finance, the majority have used personal savings or a business bank loan to help them develop their business. The amount of funding that respondents had secured was shown in Figure 2.2. Several respondents (42%) had been successful in raising funds of £5,000 or more, but in a number of cases the sums involved are small with 19% of respondents having secured less than £1,000 for developing their business.

The respondents who had obtained further finance were asked to consider the extent to which they felt that their involvement with the Business Gateway had helped them to access this finance. It appears that for several respondents, the Start-up Award is helping to leverage further funding and just under half (46%) felt that their involvement with the Business Gateway had helped them access further finance, and a further 12% felt that their funding was partly awarded because of their involvement. This implies that the client group targeted by the Business Start-up Award would have found it difficult to start up in business and develop their business without the Business Gateway support.

The Business Gateway is playing a strong role in meeting this policy objective of encouraging more women into business. The proportion of female clients in our sample is 46%. 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.

Overall Conclusion – The Business Start-up Award has a strong policy and strategic fit with the Enterprise Network's goals for the delivery of start-up support to the 18-30s, and appears to be contributing to addressing the gender imbalance in the start-up arena.

6.3 Economic Impact

Of the 100 respondents in the survey (who received grant funding between October 2004 and March 2005), the support has generated **16 additional start-ups**. Furthermore, it has helped an additional **57 start-ups start sooner, on a larger scale or higher quality**.

Taking into account deadweight and displacement, the over all net turnover impact for the 2005/06 financial year falls between **£9,786 and £24,650 per company** depending on the assumptions made. The net employment impact for 2005/06 is between **0.08 and 0.49 FTEs per company** and the net pre-tax profit is between **£7,122 and £10,184 per company**. Taking into account the direct, indirect and induced impacts (for the base case only), the net impact per company rises to **0.5 FTEs and £31,405**.

In comparison to the impact results of the evaluation of PSYBT, the final employment impact is very similar, but the final net turnover impact is **around £5k higher** for the Start-up Award companies than the PSYBT companies.

In terms of a value-for-money assessment, the impact results for 2007 seem reasonable. Furthermore, there is a strong indication that the **companies are growing and appear to be profitable**. While the gross turnover per company is lower than previous estimates of average turnover figures for start-ups in years one to three, given the market failures that are assumed to be present to a greater degree in the younger age group this could be expected.

The target set out in the original Board Paper for the Business Start-up Award was £72,000 by the end of Year 3. The companies in the sample for the 2007 survey appear to have exceeded this target with an average Year 3 turnover of **£86,673**. The average turnover has grown steadily from £34,575 in Year 1.

However, it is important to note that for many of the companies in the 2007 survey, the gross turnover is generally lower than the average, but a small number of companies have a disproportionately higher turnover that brings up the average. In 2005/06, where the average turnover per company was £65k, **63%** of the companies in the sample had a turnover of **less than £25k**. This implies that there are a few companies with larger turnovers that pull up the average per company figure.

6.4 Recommendations

The previous evaluation of the Award completed in March 2006 posed the question of whether the Business Gateway funding should be used in this way where support is in effect **high volume but low impact**, or whether it should be targeted more effectively to be **low volume but high impact**? The evaluation concluded that the achievement of the broad Scheme objectives and the strategic goals could be met by targeting the funding elsewhere.

The aim of this re-evaluation was to gain an insight into the performance of the businesses supported through the Start-up Award and to look at their sustainability and growth over a longer time period. There is evidence that many of the 100 companies in the sample have indeed proven to be sustainable and have grown over the first two to three years of operation.

However, given the evidence that suggests that the growth is concentrated in a small proportion of companies we would recommend that the Business Start-up Award is not continued as a volume intervention, but that it is targeted more effectively at those

businesses most likely to survive and grow thus contributing to the Scottish economy. This could be done by imposing more rigorous eligibility criteria to ensure that business plans are to a required standard.