

**ANGUS COUNCIL**

**POLICY AND RESOURCES COMMITTEE - 28 AUGUST 2018**

**ECONOMIC BRIEFING 3 – BUSINESS DEMOGRAPHY**

This is the third in a series of regular briefing notes that will accompany Economic Development's Information report. These briefing notes will focus on a topic and present some statistics and analysis around the topic. The aim is to increase understanding of the economic situation in Angus, and to provide a summary of recent economic trends.

This briefing follows on from previous briefings covering People and the labour market and wages. The topic for this paper is business demography. Business demography is an important subject for policy makers because of the impact that it can have on increasing employment and wage levels in an area. Demography is the study of statistics such as births, deaths, income, or the incidence of disease, which illustrate the changing structure of human populations. The study of business demography follows the same principles, examining statistics such as the number businesses, business birth, death and survival rates. This links it directly to the Angus Local Outcome Improvement Plan 2017-2030, specifically developing an inclusive and sustainable economy and attractive employment opportunities. It also directly relates to the following ambitions on the Economy ambition-card:

- To be in the top 5 Scottish local authorities for employment rate;
- To be in the top 5 Scottish local authorities for new business start up rates (per 10,000 adult population);
- To be in the top five Scottish local authority areas for three year new business survival (already achieved).

Business demography is also directly linked to the 'We want Angus to be a 'go to' area for businesses' priority in the Council Plan. A robust and thriving economy in turn also supports inclusion, reduced inequalities, and can help communities, and is therefore crucial in delivering the priorities set out in the Council Plan.

The potential contribution that business births can make to employment is one of the most important aspects drawing the attention of policy makers to the subject of business demography. Business births can be seen as an indicator of competitiveness, as a factor of economic growth and as an important means of creating jobs.

This paper will cover 4 main areas, namely:

1. Breakdown of active enterprises;
2. Business Birth rate;
3. Business Death rate; and
4. Enterprise survival rate.

## 1. Breakdown of active enterprises

The table below shows the number of active enterprises for all local authorities in Scotland for 2015 and 2016 and the percentage change. It can be seen that the local authority with the highest percentage increase was Glasgow. The Scottish average increase was 3.2% and the rate of increase in Angus was 1.9%. Only one Scottish local authority area saw a decline. The 1.9% increase equates to an additional 70 businesses.

	2015	2016	% change
Glasgow City	20,235	21,365	5.6
West Lothian	4,745	5,005	5.5
Fife	9,550	10,065	5.4
North Ayrshire	3,275	3,445	5.2
South Ayrshire	3,380	3,545	4.9
West Dunbartonshire	1,930	2,025	4.9
North Lanarkshire	7,905	8,255	4.4
East Lothian	3,000	3,130	4.3
Renfrewshire	4,865	5,075	4.3
Midlothian	2,365	2,460	4.0
City of Edinburgh	20,260	21,040	3.8
South Lanarkshire	9,025	9,360	3.7
East Ayrshire	2,965	3,065	3.4
East Renfrewshire	2,840	2,935	3.3
<b>SCOTLAND</b>	<b>172,890</b>	<b>178,435</b>	<b>3.2</b>
East Dunbartonshire	3,165	3,265	3.2
Dundee City	3,660	3,765	2.9
Falkirk	4,020	4,120	2.5
Moray	2,790	2,855	2.3
Orkney Islands	865	885	2.3
Shetland Islands	935	955	2.1
<b>Angus</b>	<b>3,615</b>	<b>3,685</b>	<b>1.9</b>
Inverclyde	1,840	1,875	1.9
Perth and Kinross	5,610	5,705	1.7
Highland	9,495	9,645	1.6
Stirling	3,795	3,855	1.6
Aberdeenshire	12,165	12,345	1.5
Clackmannanshire	1,230	1,245	1.2
Aberdeen City	10,230	10,280	0.5
Dumfries and Galloway	4,640	4,665	0.5
Scottish Borders	4,185	4,205	0.5
Argyll and Bute	3,335	3,350	0.4
Na h-Eileanan Siar	975	965	-1.0

Source: Office of National Statistics 2018, Business Demography 2016, table 3.1b.

The tables below show the number of enterprises in Angus and Scotland in 2010 and 2017, broken down by employee size band, and turnover (£ million). It also shows how each division is represented in Angus. This data only refers to the registered

enterprises. Sole traders and partnerships that are not registered for PAYE or VAT are not counted.

The table below shows that in 2010 93.2% of enterprises in Angus have between 0 and 49 employees, which is slightly below the Scottish average. By 2017 this number had increased to 93.3%, still below the Scottish average, although this gap has increased slightly. There has been a corresponding decline in the proportion of enterprises that employ between 50 and 249 employees and over 250 employees. Perhaps the most significant change is that between 2010 and 2017 the number of companies in Angus employing more than 250 people increased by 20. This is a growth of 12.5% compared to a national growth of 10.5%.

Number of enterprises

Year	Area	Total	0 - 49 employees	% of total	50 - 249 employees	% of total	250+ employees	% of total
2010	Angus	3,810	3,550	93.2	100	2.6	160	4.2
2010	Scotland	155,045	149,130	96.2	3,655	2.4	2,260	1.5
2017	Angus	4,155	3,875	93.3	95	2.3	180	4.3
2017	Scotland	176,400	170,180	96.5	3,855	2.2	2,365	1.3

Source: Scottish Government (2017), Businesses in Scotland, Table 6

The table below shows the turnover (£ millions). It can be seen that enterprises that have between 0 and 49 employees account for 93.3% of employment in Angus, and 39% of turnover (This has decreased from 45.4% in 2010). Correspondingly companies over 250 employees account for 4.3% of employment in Angus, but are responsible for 44.6% of the turnover.

Turnover (£ millions)

Year	Area	Total	0 - 49 employees	% of total	50 - 249 employees	% of total	250+ employees	% of total
2010	Angus	3,101	1,411	45.5	472	15.2	1,218	39.3
2010	Scotland	257,697	61,085	23.7	32,289	12.5	164,322	63.8
2017	Angus	3,443	1,344	39.0	563	16.4	1,537	44.6
2017	Scotland	263,903	65,794	24.9	36,098	13.7	162,011	61.4

Source: Scottish Government (2017), Businesses in Scotland, Table 6

The table below shows the break down of registered enterprises by sector. It also shows how this compares to the national average.

Number of registered Enterprises by sector in Angus, 2017

Sector	Number	Angus %	Scottish %
A Agriculture, Forestry and Fishing	670	16.1	9.8
B Mining and Quarrying	15	0.4	0.1
C Manufacturing	240	5.8	5.3
D Electricity, gas, steam and air conditioning supply	30	0.7	0.4

E Water supply; Sewerage, waste management and remediation activities	10	0.2	0.3
F Construction	495	11.9	11.3
G Wholesale and retail trade; Repair of motor vehicles and motorcycles	620	14.9	13.8
H Transportation and storage	140	3.4	3.3
I Accommodation and food service activities	290	7.0	7.6
J Information and communication	90	2.2	5.9
K Financial and insurance activities	25	0.6	1.2
L Real estate activities	95	2.3	3.1
M Professional, scientific and technical activities	710	17.1	18.6
N Administrative and support service activities	270	6.5	7.2
P Education	45	1.1	1.1
Q Human health and social work activities	160	3.9	3.9
R Arts, entertainment and recreation	80	1.9	2.3
S Other service activities	175	4.2	4.9
Total	4,155		

Source: Scottish Government (2017), Businesses in Scotland, Table 6

Sectors that account for more than 10% of the employment in Angus are agriculture, forestry and fishing, construction, wholesale and retail trade; repair of motor vehicles and motorcycles and professional, scientific and technical activities. Economic sector can have an impact on business birth, death and survival rates.

## 2. Birth rate

The birth of new enterprises is often seen as one of the key determinants of job creation and economic growth. Business formation is determined by a number of factors, including:

- General economic conditions: a stronger economy leads to a greater demand for products and services, providing opportunities for new enterprises to supply them. A strong and stable economy also increases optimism in the future and the chance of a new business succeeding.
- Effective regulation: valuable and targeted regulation creates a more conducive business environment, making the start-up process simpler and more attractive to potential entrepreneurs.
- Access to finance: new businesses require finance and investment to set up and commence trading. The relative availability of this finance will help determine the number of new starts.
- Entrepreneurial attitude: the attitude of the Scottish population towards entrepreneurialism influences new business formation. The greater the spirit of entrepreneurialism, the more businesses will be started.<sup>1</sup>

Angus has a higher rate of self employment than the Scottish average and the decision to start a new business can have push as well as pull factors. Push factors

<sup>1</sup> Scottish Government, National Performance Framework

can include loss of employment or lack of alternative employment opportunities, therefore high business birth rates can also be indicative of less positive factors.

The table below shows the number of business births since 2010 for Scotland, Angus, its neighboring local authorities and Tay Cities partners.

	2010	2011	2012	2013	2014	2015	2016
SCOTLAND	15,530	16,940	17,385	21,540	21,235	21,725	22,270
Aberdeenshire	880	1,175	1,205	1,395	1,220	1,140	1,200
Angus	275	310	340	405	400	385	385
Dundee City	345	335	400	515	500	480	500
Fife	840	915	920	1,210	1,170	1,260	1,410
Perth & Kinross	420	485	520	615	625	565	550

Source: Office of National Statistics 2018, Business Demography 2016, table 1.1a & b.

The graph below also shows this. It can be seen that the only area that saw a growth in business birth rates between 2014 and 2016 was Fife. Between 2014 and 2016 there were 240 business start ups in Fife. In Aberdeenshire there was a decline of 20 start ups, Angus saw a decline of 15 start ups, there was no increase in Dundee between 2014 and 2016 (although the 2016 figures represent an improvement of 20 start ups from 2015), and Perth & Kinross had a decline of 75 start ups.

Graph is inserted here showing visual representation of the data from the paragraph above.

Source: Office of National Statistics 2018, Business Demography 2016, table 1.1a & b.

The table below shows the percentage change in the number of business births between 2010-2016 and between 2015-2016. It shows that there is a large gap between the areas with the highest rates of business birth and those with the lowest. Angus had the same number of business start ups in 2015 and 2016 and therefore had a rate of 0% growth. The comparable rate for Scotland is 2.5%. Twelve local authorities saw a decline in the business birth rate.

	% change between 2010-2016	% change between 2015-2016
Orkney Islands	60.0	<b>33.3</b>
North Ayrshire	63.8	<b>23.4</b>
Midlothian	61.5	<b>12.5</b>
Fife	67.9	<b>11.9</b>
South Ayrshire	62.5	<b>11.0</b>
Renfrewshire	51.6	<b>10.8</b>
Argyll & Bute	17.0	<b>10.7</b>
West Dunbartonshire	59.5	<b>7.3</b>
Aberdeen City	12.1	<b>6.4</b>
West Lothian	53.2	<b>5.9</b>
North Lanarkshire	58.8	<b>5.8</b>
Aberdeenshire	36.4	<b>5.3</b>
Dundee City	44.9	<b>4.2</b>
East Ayrshire	58.8	<b>3.8</b>
Glasgow City	53.4	<b>3.3</b>
Scottish Borders	20.6	<b>2.7</b>
<b>SCOTLAND</b>	<b>43.4</b>	<b>2.5</b>
Falkirk	31.6	<b>1.0</b>
Angus	40.0	<b>0.0</b>
Dumfries & Galloway	23.8	<b>0.0</b>
Stirling	14.1	<b>0.0</b>
East Renfrewshire	48.0	<b>-1.3</b>
South Lanarkshire	53.1	<b>-1.6</b>
Highland	30.6	<b>-2.6</b>
Perth & Kinross	31.0	<b>-2.7</b>
East Dunbartonshire	39.3	<b>-3.7</b>
Edinburgh City of	40.8	<b>-4.6</b>
Moray	42.5	<b>-5.0</b>
East Lothian	42.0	<b>-5.3</b>
Eilean Siar	30.8	<b>-5.6</b>
Shetland Islands	70.0	<b>-5.6</b>
Inverclyde	64.3	<b>-8.0</b>
Clackmannanshire	21.7	<b>-15.2</b>

Source: Office of National Statistics 2018, Business Demography 2016, table 1.1a & b.

### 3. Business death rates

Business death rates cannot be looked at alone. The main point of starting a business is making money. In some geographical areas and business sectors there is less of a risk averse attitude to starting a business. The flip side of that can sometimes be that the business is more at risk of failure, especially if it is in an area or sector where initial loss making is more frequent.

It also must be considered that not all businesses that cease trading have failed to survive/thrive. Businesses close because owners have a planned exit strategy, have closed a business after making the necessary profit, or retired.

The table below shows the business death numbers since 2010 for Scotland, Angus, its neighboring local authorities and its Tay Cities partners. It can be seen that in Angus the number of deaths reached a peak in 2016, the highest figure since 2010. In terms of percentage increase since 2010, the increase in Angus was 35.6%, below the Scottish average of 38.2%. Across all of the areas there was an increase in business death rates between 2010 and 2016. The steepest increase was in Aberdeenshire, most likely due to the proximity to Aberdeen and the impact of the downturn in the oil and gas industry. The rate for Aberdeen was 109.3%. It is likely given the proximity of Angus to Aberdeen and Aberdeenshire, and the size of the oil and gas sector, that there was a knock on impact in Angus.

	2010	2011	2012	2013	2014	2015	2016	% change
Scotland	15,185	13,970	16,545	14,850	15,620	18,335	20,980	38.2
Aberdeenshire	680	740	985	805	890	1,045	1,265	86.0
Angus	295	270	310	285	280	325	400	35.6
Dundee City	370	300	370	345	385	450	485	31.1
Fife	895	755	905	800	860	990	1,060	18.4
Perth & Kinross	430	425	485	465	485	515	535	24.4

Source: Office of National Statistics 2018, Business Demography 2016, table 2.1a & b.

The graph below also shows this information. Business death rates in Aberdeenshire show an increase from 2010 to 2012, a decline to 2013 and then an increase to 2016. In Angus there is a decrease between 2010 and 2011, and rise to 2012, decreases in 2013 and 2014 and increases in 2015 and 2016. In Dundee City there is a decrease between 2010 and 2011, with the figure for 2012 equalling 2010. The rate decreased to 2013 and then increased until 2016. In Fife the rate also decreased between 2010 and 2011, increase to 2012, decreased to 2013 and then increased to 2016. In Perth and Kinross the rate dropped between 2010 and 2011, increased to 2012, decreased until 2013 and then increased year on year until 2016.

Graph is inserted here showing visual representation of the data from the paragraph above. Source: Office of National Statistics 2018, Business Demography 2016, table 2.1a & b.

An increase in the number of business deaths does not necessarily decrease the business stock, this only happens if the birth rate does not increase to compensate. The table below shows business births and deaths in Angus between 2010 and 2016.

	2010	2011	2012	2013	2014	2015	2016
Births	275	310	340	405	400	385	385
Deaths	295	270	310	285	280	325	400
Births minus Deaths	-20	40	30	120	120	60	-15

Source: Scottish Government (2017), Businesses in Scotland

#### 4. Business survival rate

The business survival rate is a measure of the number of business started and whether they are still trading after a certain number of years. It is important because with every year a company stays in business the more likely it is to survive and succeed. It becomes more embedded in a local economy, possibly employing local people and providing a local service (depending on the nature of the business). The table below shows the 1, 3 and 5 year survival rates for Scotland and all of the local authorities. It also shows them in ranked order. It can be seen that for 1 year survival Angus ranked 11/32, improving to rank 9/32 for 3 year survival and 6/32 for 5 year survival rate. It can be seen that Angus is consistently above the Scottish average.

	1-year %		3-year %		5-year %
Shetland Islands	100.0	Aberdeenshire	72.3	Aberdeenshire	55.7
East Lothian	98.2	Orkney Islands	71.4	East Lothian	54.5
Moray	97.6	Aberdeen City	69.5	Shetland Islands	53.8
Inverclyde	97.4	Shetland Islands	69.2	Aberdeen City	53.5
Stirling	97.1	Dumfries & Galloway	68.8	Dumfries & Galloway	51.9
North Ayrshire	96.8	East Lothian	67.3	Angus	50.0
E. Dunbartonshire	96.6	Scottish Borders	66.7	Moray	50.0
East Ayrshire	96.5	Stirling	66.2	Stirling	50.0
Aberdeenshire	95.7	Angus	66.1	Scottish Borders	49.2
Dundee City	95.5	Highland	65.4	Inverclyde	48.7
Angus	95.2	Midlothian	65.0	Highland	47.7
Scottish Borders	95.2	West Lothian	65.0	West Lothian	47.6
Midlothian	95.0	North Ayrshire	64.5	Argyll & Bute	46.2
Highland	94.8	E. Dunbartonshire	64.4	Scotland	45.6
W. Dunbartonshire	94.6	Moray	64.3	Fife	45.4
North Lanarkshire	94.5	Inverclyde	64.1	South Lanarkshire	45.3
Aberdeen City	94.2	Argyll & Bute	63.5	North Ayrshire	45.2
Argyll & Bute	94.2	Fife	63.4	Midlothian	45.0
West Lothian	94.2	Scotland	62.8	Edinburgh	44.2
South Ayrshire	94.1	Eilean Siar	62.5	E. Dunbartonshire	44.1
Falkirk	94.0	South Lanarkshire	61.9	East Renfrewshire	44.1
Fife	94.0	Renfrewshire	61.1	Eilean Siar	43.8
Scotland	93.9	East Renfrewshire	61.0	North Lanarkshire	42.9
South Lanarkshire	93.9	Falkirk	60.7	Orkney Islands	42.9
Eilean Siar	93.8	North Lanarkshire	60.7	South Ayrshire	42.6
Dumfries & Galloway	93.5	South Ayrshire	60.3	Perth & Kinross	42.3
East Renfrewshire	93.2	Edinburgh	60.0	East Ayrshire	42.1
Orkney Islands	92.9	Perth & Kinross	59.8	Renfrewshire	42.1
Glasgow City	92.6	East Ayrshire	59.6	Falkirk	41.7
Perth & Kinross	91.8	Dundee City	58.2	Glasgow City	38.3
Edinburgh	91.2	W. Dunbartonshire	56.8	W. Dunbartonshire	37.8
Renfrewshire	90.5	Clackmannanshire	55.6	Dundee City	37.3
Clackmannanshire	88.9	Glasgow City	55.4	Clackmannanshire	37.0

Source: Office of National Statistics 2018, Business Demography 2016, table 5.1a.



The graph below shows the survival rates for Angus, its neighbouring local authorities and Tay Cities partners, and Scotland. For all areas business survival rates decline year on year, which is to be expected. For all areas the rates decline in a similar pattern. By 5 years, Aberdeenshire has the highest rate of business survival (from the table above it has the highest rate in Scotland), followed by Angus, Scotland, Fife, Perth & Kinross and Dundee City.

Graph is inserted here showing visual representation of the data from the paragraph above. Source: Office of National Statistics 2018, Business Demography 2016, table 5.1a.

Sector as well as area can have an impact on business survival rates. The table below shows the business survival rates by sector for companies that started in 2011. It can be seen that companies in the finance & insurance, construction, motor trades, retail, transport & storage, business administration & support services, wholesale and accommodation & food services sectors are below the average level of business survival. Many of these sectors are well represented in Angus, as was discussed in the first section of this paper. For Angus to have this sectoral structure and the 6th highest rate of business survival in Scotland may mean that other factors apart from sector are important. This may be a well skilled workforce, geographical location or the productivity level of workers.

	1-year %	2-year %	3-year %	4-year %	5-year %
Health	94.2	81.1	69.2	60.4	54.1
Property	89.6	71.3	61.7	55.8	51.1
Information & communication	95.7	80.1	65.2	55.8	49.4
Professional, scientific & technical	94.7	79.9	65.3	55.7	48.5
Education	93.4	77.9	65.5	55.9	48.5
Arts, entertainment, recreation & other	92.8	74.8	61.0	51.6	45.0
Production	92.0	73.9	59.2	50.6	44.7
<b>Average</b>	<b>93.1</b>	<b>75.6</b>	<b>60.5</b>	<b>51.0</b>	<b>44.1</b>
Finance & insurance	86.1	72.7	57.7	50.1	43.7
Construction	92.1	72.9	57.6	48.5	42.2
Motor trades	93.4	74.1	57.9	47.9	42.1
Retail	94.3	75.1	58.6	48.6	41.9
Transport & storage (inc. postal)	93.0	71.6	55.3	46.1	39.6
Business administration & support services	89.1	71.6	56.6	47.0	38.5
Wholesale	93.6	71.1	52.9	43.8	37.7
Accommodation & food services	93.7	72.6	55.3	42.9	34.6

Source: Office of National Statistics 2018, Business Demography 2016, table 4.2.

## Conclusions

- Employment in Angus is dependent mainly on SMEs, companies with less than 49 employees, although this is lessening.
- There are an increasing number of enterprises in Angus.
- There is over representation in some sectors.
- These are often the sectors that have lower than average business survival rates.
- Despite this, business survival rates in Angus are good and improving to be the 6<sup>th</sup> highest in Scotland in 2016.
- The business birth rate was static between 2015 and 2016.
- 2016 was the first time since 2010 that business deaths were higher than business births.