

Evaluation of Start-up Loans:
Year 1 Report

RESEARCH REPORT

A report from SQW Ltd and the Policy Research Group at Durham University, with support from BMG Research

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Executive Summary

Context

1. Start-Up Loans is a UK-wide programme that offers loans to individuals looking to start a business, or to develop a new business, alongside business support and mentoring advice. It was originally established in 2012 with a pilot in England focused on young people, and was subsequently rolled-out across the UK and extended to all adults. By the end of January 2016 the programme had lent over £185m, to over 30,000 people, at an average value of c£6,100.
2. The underlying case for the programme was that banks and other mainstream finance providers did not meet the demand for small business start-up loans owing to the lack of collateral and/or a credit history amongst applicants, the risk associated with the high failure rate of new starts and low margins associated with low value loans. In addition, there were barriers to people looking to start-up a new business accessing appropriate external advice, and an equity argument, with enterprise and self-employment seen as a way to improve individuals' economic prospects.
3. Start-Up Loans involves three main stages: initial 'pre-application support' to help individuals to develop a business plan; a personal loan to start-up/develop the business; and mentoring support to help develop and grow the business.
4. The programme is managed by the Start-Up Loans Company (SULCo), an independent company set up for the purpose of delivering the programme. The Start-Up Loans Programme is funded by the Department for Business, Innovation and Skills (BIS), with day to day programme oversight and advice to BIS on market gaps, programme design and effectiveness, and funding structures from the British Business Bank. SULCo uses a network of Delivery Partners across the UK to deliver the programme. Delivery Partners are responsible for the provision of pre-application support, loan assessment and administration, and mentoring support.
5. SQW Ltd (SQW), working with the Policy Research Group at Durham University, and BMG Research (BMG) has been commissioned by the British Business Bank to undertake a longitudinal evaluation of the programme, with inputs also provided by Aston University. The evaluation is a long-term research programme, commencing in late-2014 and is expected to deliver its final report in 2017 or 2018. Over the course of the evaluation, the study will provide a 'real-time' evidence base on the delivery and impacts of the Start-Up Loans programme.
6. The overarching purpose of the evaluation is to provide a robust assessment of the economic impact of the Start-Up Loans Programme, whether it is targeted effectively to maximise economic impact and whether the economic return can be enhanced. Alongside these 'programme effectiveness' questions, the evaluation is also tasked with testing 'programme improvement' issues, in particular the effects of different elements of the customer journey, focusing on the pre-application and mentoring support.
7. To meet these objectives the evaluation has adopted a quasi-experimental approach, comparing the performance of a group of around 1,000 individuals supported by Start-Up Loans (drawing down loans over the period from June to December 2014) to a matched

'comparison group' of individuals also looking to or recently starting a business that had not been supported by the programme (with around 500 in the comparison group in this first year of analysis).

8. This quasi-experimental approach is being used alongside a longitudinal assessment of beneficiary outcomes, drawing on 'self-reported' evidence (i.e. what individuals have reported in the survey) and an analysis that compares experiences within the beneficiary cohort only.
9. The findings from the first year of the evaluation are set out below. The purpose of the first year was to provide an initial, and early-stage, assessment of the evidence on the emerging and potential effects of the programme, and establish a 'baseline' for the performance of the beneficiary and comparison group against which progress can be judged in future years. It is too early to provide robust evidence on the effects of the programme on most of its core intended outcomes, notably business performance, survival, and the effects of mentoring.

Programme delivery and financial profile

10. Within the programme period covered by the evaluation (November 2013 to December 2014) c.11,000 loans were drawn down, with total lending volumes of nearly £70m, at a mean loan value of £6,300. However, there is significant variation in loan values across loan recipients, from hundreds of pounds to over twenty thousand pounds.
11. The nature of business proposals, range of loan values and characteristics of loan recipients are varied demonstrating the broad appeal of the programme, with beneficiaries from a range of geographies, ethnic groups, and with a range of backgrounds in terms of qualifications and prior economic status. Geographically there are some concentrations, notably in London and parts of the North West of England. 'Opportunity-based' factors, such as having a good idea for a business and wanting independence through enterprise/self-employment, were more common reasons for approaching the programme than 'necessity-based' factors, such as a lack of other employment opportunities.
12. The support model, and its three main stages (pre-application support, loan, mentoring) is consistently defined across the programme, but the evidence suggests that the experience of beneficiaries varies. This is particularly the case given the tailoring of support to the individual at pre-application stage, and the demand-led nature of mentoring. By the time of the survey around 50% of beneficiaries had taken-up mentoring, with around a further 20% expected to do so in the future. An online survey of delivery partners (to which three-quarters of the delivery partners responded) highlighted challenges in capacity to offer mentoring, some difficulties in engaging beneficiaries in the process and in some cases high costs of delivering mentoring.
13. In relation to costs, the delivery partner survey also indicated that there may be a wider shortfall in the costs provided to deliver the programme. Three-quarters of the delivery partners that responded to the online survey (29 of 38) indicated that the non-lending finance provided to their organisation by the Start-Up Loans Company did not cover in full the cost of delivering the programme, with shortfalls identified by both small and large delivery partners. The financial model of the programme was recognised by delivery partners and other stakeholders as an issue that may need to be addressed going forward.

14. Approximately a quarter of surveyed beneficiaries considered alternative sources of external finance to start their business other than Start-Up Loans. The most common reason for beneficiaries not seeking other external finance was the ability to self-fund the business alongside Start-Up Loans being viewed as the most appropriate source of finance. Indeed, whilst some beneficiaries did access other sources of external finance (including bank finance, and support from friends/family), most commonly beneficiaries 'matched' the Start-Up Loans money with their own personal investment.
15. Identifying a quantitative metric on finance additionality (i.e. the proportion of the finance that would not have been provided without the programme) is challenging. Whilst applicants are expected to prove they were not able to access other forms of funding, there is no requirement for formal evidence that other sources of finance to have been approached prior to the programme, and a modest number of beneficiaries surveyed (approximately 100 out of the survey of approaching 1,000) applied for bank/mainstream finance (of which over half were unsuccessful). Taking into account those that did apply unsuccessfully for bank/mainstream finance, and the reasons why the other beneficiaries did not apply for finance, the evaluation estimates that 74% of the finance provided by the programme was additional. This is consistent with the underpinning programme rationale.
16. Start-Up Loans are provided to individuals as a personal loan (not to businesses as a business loan), with the beneficiary responsible for re-payment, generally within three to four years. Data provided to the evaluation team indicate that, by the end of March 2015, nearly a third (32%) of the loans drawn down the evaluation period were in arrears, meaning that payments have been missed for three consecutive months or more.
17. The proportion of loans in arrears was higher for loans drawn down earlier in the evaluation period, and we would expect that the overall rate of arrears will increase over time. For those beneficiaries surveyed, arrears were higher for those individuals that had been provided with a 12-month capital re-payment holiday period, and for individuals that did not receive pre-application support (11% of the survey cohort). Whether these patterns hold true over the longer term will be tested in future years of the evaluation.
18. Note that some level of arrears (and subsequently potentially default) is both expected and desirable; zero or a low level of arrears/default would imply that costs of lending would not be prohibitive to commercial lenders and, therefore, indicate low finance additionality for the programme and too much risk aversion in providing start-up finance to individuals that are unlikely to be able to secure mainstream finance.

Early estimates of programme effectiveness and impact

19. The evidence on programme effectiveness in the first year of the evaluation is not definitive or comprehensive; with the exception of start-up effects where robust findings are evident, on important measures such as business performance and survival it is simply too early to be able to provide an assessment on the long-term effects of the programme. This is particularly the case with the findings from the **econometric analysis** (comparing the performance of beneficiaries to the comparison group). The key findings at this stage are as follows:
 - The Start-Up Loans programme has had a significant and positive effect on the start-rate, i.e. beneficiaries were more likely to start a business than the comparison group. Having a business plan before start-up also had a significant

and positive effect on the start-rate. Given that the Start-Up Loans programme requires a business plan to be developed further analysis was undertaken to consider the interaction between the Start-Up Loans and business plan variables. Specifically, analysis was undertaken on those individuals with a business plan before starting-up, with the analysis indicating that the effect of the Start-Up Loans programme on the start-up rate is in addition to having a business plan before starting-up.

- There are no significant effects of the programme on the speed of start, though this may be a 'good thing', as taking time to consider a business's market and proposition may be desirable.
- There is evidence that the Start-Up Loans programme has had a significant and positive effect on expected sales change. This finding needs to be treated with caution as it is based on future expected sales (and so one interpretation could be that the programme has affected the optimism of such businesses), and also due to the relatively large standard errors of the coefficients in the model. Given this and the early stages of the study, the finding needs to be revisited in future years of the evaluation.
- No effects were found of the programme on expected employment growth. Again, given the early stages of the study this needs to be revisited in future years.
- Start-Up Loans beneficiaries were found to have significantly higher levels of confidence in running and managing a business compared to the comparison group.

20. Complementing the econometric analysis, the '**self-reported**' findings were used to provide an indicative assessment of deadweight, that is, whether individuals believe they would have progressed with their business idea without the programme. The survey indicated that one-third of beneficiaries that had started a new business through the programme would not have been started-up the business without Start-Up Loans, compared to just over one in ten of reporting that the business would have started up at the same time, scale and quality. The largest proportion of respondents indicated that Start-Up Loans brought their business start-up forward.

21. The self-reported findings were also used to estimate the gross and net effects of the programme at this early stage, and an indicative assessment of value for money. Based on the survey data provided by beneficiaries, the evaluation estimates discounted net additional turnover generated by the firms of individuals surveyed of around £31m by 2019/20. Converting this to Gross Value Added (GVA) (using an assumption that GVA = 45% of turnover) provides a discounted net GVA contribution of £11.8m.

22. These survey-based data have been scaled-up to the evaluation population as a whole (i.e. all c.11,000 Start-Up Loans drawn down over the November 2013 to December 2014 period), providing an indicative and early stage estimate of the discounted GVA effects of the programme over this period (through turnover generated by firms supported) to be around £136m. Other estimated impacts of the programme over the evaluation period, scaled-up from the survey evidence to the evaluation population as a whole include the following:

- Around 1,775 net additional business start-ups, equivalent to approximately 0.4% of all start-ups across the UK in a typical annual period. This is not insignificant

relative to the scale of the programme, and suggests a contribution to recent positive increases in rates of enterprise across the UK.

- Supporting around 3,770 individuals from unemployment into self-employment. This has potentially positive economic as well as social effects, meaning a reduction in the costs to the public purse in the payment of unemployment benefits, with estimated potential gross annual savings to the Exchequer of between £11.4 million and £14.3 million.
- Supporting around 3,060 additional indirect employees (i.e. jobs in the firms started-up by beneficiaries) by the end of the next financial year (assuming that growth forecast by survey respondents is delivered).

23. At this stage, the value for money of the programme appears reasonable, with positive Benefit Cost Ratios (BCRs) identified, in the range of 2.9:1 to 3.7:1 in terms of the discounted GVA effects compared to both Economic and Exchequer costs (and excluding and including multiplier effects). At this stage the data suggest that the BCRs are more positive for Start-Up Loans over £8k, and for those individuals securing loans (and pre-application and mentoring support) from delivery partners that are CDFIs. These findings are early estimates of value for money and may be substantially revised in subsequent years of the evaluation. Further, the BCRs are based on the turnover of businesses supported by the programme only. They do not take into account wider benefits such as moving people out of unemployment and softer effects on skills and confidence, and the evidence suggests that these effects may be felt most by those receiving lower value loans.
24. Analysis of the types of individuals that appear (at this early stage) to be benefiting most from the programme in terms of net turnover effects identified previous experience of self-employment and/or enterprise activity as an important factor, alongside the highest loan values (over £8k) and support from a CDFI delivery partner. At this stage there do not appear to be relationships between the age group of individuals and those who benefit most, the stage of the business idea at the time of approaching the programme, or business sector. This may suggest that it is the experience and track-record of the *individual* that determines 'success', rather than the sector of the *business* or stage at which the programme is approached; this hypothesis will be tested as the evaluation progresses.

Early estimates of programme improvement

25. The self-reported effects of the **pre-application support** are encouraging. Three-quarters of surveyed beneficiaries reported that it improved their understanding of business planning, and improved their understanding of financial management. A lower proportion (albeit still a majority) of beneficiaries reported that the pre-application support led to improved understanding of competitors. Self-reported effects were more pronounced for younger beneficiaries, and those with smaller loans. The econometric analysis showed that, within the beneficiary cohort, the start-up rate for those beneficiaries that had received pre-application support was not significantly different (either higher or lower) than for those beneficiaries that did not. This is perhaps unsurprising given the variation in the cohort in relation to the amount of pre-application taken up (and potentially required) by different beneficiaries.
26. The self-reported qualitative effects of **mentoring**, where this has been taken-up, are encouraging, both in terms of business and personal development. More positive self-

reported effects from mentoring were more commonly identified where the medium was mainly face-to-face (rather than mainly by phone/online).

27. It is worth noting that at both pre-application and mentoring stages more support (in terms of hours of support) was associated with more positive self-reported effects on business and personal development. This may suggest that greater levels of support is beneficial, however it may also simply reflect that the more benefits are perceived, the more support is taken-up.
28. Positively, satisfaction with the mentor match was high: of those beneficiaries that took up mentoring over three-quarters were very satisfied or satisfied with their mentoring match. Key factors explaining satisfaction with the mentor match were knowledge of the market sector and the personality of the mentor, with the mentor's experience and skills relevant to the business also important.

Summary and key issues going forward

29. The findings of the first year of the evaluation are encouraging; the initial evidence is that Start-Up Loans is delivering benefits for its target group, and having a positive effect in terms of promoting enterprise. Whilst it remains too early to be confident on the longer-term effects of the programme on business performance and survival, the self-reported evidence suggest that more businesses have been created than would have been the case in the absence of the programme. There are also some encouraging signs related to personal development outcomes in terms of business confidence, skills and engagement in networks. At this stage value for money appears to be reasonable.
30. However, two points are made regarding the programme going forward. First, arguably some uncertainty remains over its core purpose i.e. whether it is principally about economic growth or about social benefits. It could be about both, but they require different emphases and priorities in delivery, for example, in terms of levels of risk in lending decisions, the size of loans offered, and the required value for money. Clarification of the statement(s) of intent would be helpful, and would mean that 'success' can be accurately judged going forward.
31. Second, whilst delivery partners appear to be broadly content, the cost of delivery does appear to be higher than is currently covered by core funding for many. As a result, delivery partners are having to subsidise delivery, or cross-subsidise from other programmes. The programme's financial model is not the core focus of this evaluation. However, the evidence suggests a need to look in more detail at the 'true' costs of programme delivery, making changes accordingly. This will help to minimise the risk of delivery partners deciding that the programme is not financially sustainable, and help to facilitate the on-going delivery and further development of Start-Up Loans as it moves into its fourth year of activity.

Section 1: Introduction

SQW Ltd (SQW), working with the Policy Research Group at Durham University and BMG Research (BMG), was commissioned by the British Business Bank in November 2014 to undertake a longitudinal evaluation of the Start-Up Loans programme (the programme), with inputs also provided by Aston University. This Year 1 Evaluation Report is the first main output of the longitudinal evaluation.

About Start-Up Loans

Start-Up Loans was announced in Lord Young's report on small business¹, setting out plans for a pilot in 2012/13. The programme was originally intended to target young people aged 18-24 in England, offering loans to start a business (or to develop new firms that had been trading for less than a year), alongside business support and advice. Lord Young drew on evidence of the Enterprise Programme run by The Prince's Trust, and the reports of the Trust that demand outstripped supply for enterprise support of this type.

The underlying case for Start-Up Loans was that banks and other mainstream finance providers did not meet the demand for small business start-up loans owing to the lack of collateral and/or a credit history amongst applicants, and low margins associated with low value loans. In addition, there can be barriers to accessing appropriate external advice for people looking to start-up a new business, and there was an equity argument, with enterprise and self-employment seen as a way to improve the economic prospects for young people. The programme was not intended to generate a commercial return for Government; rather it aimed to generate economic value and deliver positive social outcomes through addressing a failure in the market for access to finance.

Delivery of the pilot began in earnest in September 2012, and from January 2013 the age cap was raised to 30. In activity terms, the pilot was successful in meeting targets for loans with over 2,700 loans approved, at an average loan size of around £5,300. Subsequently, there have been additional funding commitments, and Start-Up Loans has been extended to all parts of the UK. By the end of January 2016 the programme had lent over £185m, through loans to over 30,000 people, with an average loan value of just under £6,100. This does not include loans provided by the Start-Up Loans Company to New Enterprise Allowance (NEA) recipients.

Start-Up Loans involves three stages: initial 'pre-application support' to help individuals to develop a business plan; a personal loan to start-up/develop the business²; and mentoring support to help develop and grow the business. The programme is funded by the Department for Business, Innovation and Skills (BIS), with deployment of the BIS funding and oversight of the programme managed by British Business Financial Services, a wholly-owned subsidiary of the British Business Bank.

¹Lord Young (2012) *Make business your business: a report on small business start-ups*, London, p15

²Note that the loan is a personal loan, not to the proposed business; as such the individual remains responsible for repayment of the loan irrespective of the performance of the business started-up

The programme is managed by the Start-Up Loans Company, an independent company set up to deliver the programme. The programme is delivered by a network of Delivery Partners across the UK, ranging from small local community finance institutions through to major social enterprises and charities, who are responsible for the provision of pre-application support, loan assessment and administration, and mentoring support.

The evaluation

The evaluation study is a long-term research programme, which commenced in late-2014 and is expected to deliver its final report in 2017 or 2018. Over the course of the evaluation, the study will provide a 'real-time' evidence base on the delivery and impacts of Start-Up Loans.

The overarching purpose of the evaluation is to provide a robust assessment of the economic impact of Start-Up Loans, whether the programme is targeted effectively to maximise economic impact and whether the economic return can be enhanced. Within this overarching intent, the evaluation has two core objectives:

- **To assess the performance of the programme against its stated objectives and intended outputs, outcomes and impacts**, including the Gross Value Added (GVA) contribution, businesses creation, growth and survival, the longer-term labour market prospects of individuals supported, and improvements in the skills and capacities of individuals supported.
- **To provide a robust assessment of the value for money of the programme**, including taking into account the additionality of the finance and outcomes generated, and where possible (and with appropriate caveats) assessing how value for money compares to similar programmes elsewhere in the UK and more widely.

The evaluation also has three supplementary objectives:

- **To assess the value of pre-application support and mentoring**, and the extent to which the pre-application support and mentoring affect the outcomes for individuals supported by the programme.
- **To assess whether there are particular characteristics associated with those individuals that benefit the most from the programme**, including individual characteristics (e.g. age, qualifications), business characteristics (e.g. business sector), and support characteristics (e.g. the size of the loan).
- **To assess the links between the performance of businesses supported by the programme and repayment of loans**, and whether mentoring has any effect on levels of loan repayments.³

³It is worth noting that this is not an evaluation or audit of the programme's performance in terms of loan repayment and/or management of its loan portfolio.

Drawing on the evidence, the evaluation is also required to provide practical suggestions for influencing policy delivery.

To meet these objectives the evaluation has adopted a quasi-experimental approach, comparing the performance of a group of individuals supported by Start-Up Loans (drawing down loans over the period from June to December 2014) to a matched group of individuals also looking to or recently starting a business that had not been supported by the programme. Further detail on the method is set out in Section 2.

This Year 1 Report

This Year 1 Report is the first main output of the evaluation, following the completion in March 2015 of an internal Methodology Paper that set out the final research design.

The purpose of this report is to provide an initial, and early-stage, assessment of the evidence on the potential effects of the programme, and establish a 'baseline' for the performance of the beneficiary and comparison group against which progress can be judged in future years of the evaluation. This is important: it is too early to provide robust evidence on the effects of the programme on most of its core intended outcomes, for example, business performance and survival. Further, at this stage we are reliant principally on 'self-reported' evidence from supported individuals on the effects of the programme given the early stages of the research (with many individuals from the beneficiary and comparison groups in the pre-start or start-up phase). Moreover, it is too early to provide definitive evidence on the business effects of mentoring (including how this links to re-payment performance), because mentoring support is still on-going or has not yet even started for some loan recipients.

Within this context, Table 1 below summarises the coverage of this report against the core and supplementary objectives, and the strength of the evidence in this Year 1 Report. Further details of the specific indicators covered are set out in Sections 5, 6 and 7.

Objective	Covered in Year 1?	Strength of evidence at this stage
<i>Core objectives</i>		
Performance against objectives, including GVA, business creation and performance	Yes	Mixed: reasonable for business start-up based on econometric analysis, weak on longer-term business performance metrics, with reliance principally on descriptive/self-reported evidence
Assessment of Value for Money	Yes	Weak: based on 'self-reported' evidence from beneficiaries only, and reflecting early stages of start-up companies.
<i>Supplementary objectives</i>		
Assessment of the value of mentoring and pre-application support	Yes	Mixed: reasonable for effects of pre-application support on start-up, weak for effects of mentoring given early stages. Mentoring impacts will be tested more fully in future years

Objective	Covered in Year 1?	Strength of evidence at this stage
Characteristics of those that perform 'best'	Yes	Weak: based on 'self-reported' evidence only
Links between the performance of businesses supported by the programme and repayment of loans	No	Not relevant: too early to make an assessment

As such, this report should be regarded as the first stage in an on-going programme of evaluation, that will become increasingly more robust over time as the evidence base, and time-paths to impact, allow. However, it does provide an initial indication on the 'direction of travel' in programme performance, and some early estimates of the extent to which it is delivering benefits for its beneficiary cohort, as perceived by this group. Whilst this 'self-reported' data does need to be treated with caution, it should not be discounted. Further, the wider Year 1 research including engagement with Delivery Partners provides an initial set of evidence on 'formative' evaluation issues related to delivery and processes which are important in the context of potential changes and developments in the remit, scale and strategic contribution of Start-Up Loans.

Structure

The remainder of this report is structured as follows:

- Section 2: Research methods
- Section 3: Logic model, profile and customer journey
- Section 4: Financing enterprise
- Section 5: Evidence on programme effectiveness
- Section 6: Evidence on programme improvement
- Section 7: Early estimates of impact and Value for Money
- Section 8: Conclusions and implications

Section 2: Research methods

Quasi-experimental approach

The evaluation is adopting a quasi-experimental approach, comparing, through longitudinal research and econometric analysis, the outcomes of a sample of beneficiaries of the programme to a matched comparison group of non-beneficiaries. This approach is being used alongside a longitudinal assessment of beneficiary outcomes, drawing on self-reported evidence and an analysis that compares within the programme beneficiary cohort. The comparison group includes individuals with similar entrepreneurial behaviours and intentions, but that have not been supported by Start-Up Loans, so that the effect of the programme can be isolated.

The key elements of the evaluation approach include:

- the initial identification of beneficiary and comparison groups, matched as far as practical in terms of the stage at which entrepreneurs are in the start-up process, with both groups to be tracked over the course of the evaluation
- a tracking survey, completed at annual intervals for up to four years, covering the business and personal development outcomes for the beneficiary and comparison groups
- econometric analysis to compare the outcomes of the beneficiary and comparison groups in terms of the start-up/survival/growth of their business, individual economic returns (salary, employment), and wider personal development issues (in terms of confidence, aspirations etc.); the econometric analysis will also seek to take account of differences between the two groups, e.g. in terms of individual and business characteristics; complementing this econometric analysis, analysis based on self-reported information from the survey evidence will also be undertaken, with this analysis more prominent in the first year of the evaluation (i.e. this report) given the early stages of the evidence base required for econometric analysis
- descriptive and econometric analysis to look within the programme beneficiary cohort, including analyses of the relative impact of different aspects of the programme, variation in financial performance (e.g. repayment), and the characteristics of beneficiaries that benefit the most
- Value for Money analysis, identifying benefit cost ratios (BCRs) for the programme.

Alongside the core approach, the evaluation programme also includes qualitative research involving engagement with programme Delivery Partners and stakeholders to provide broader insight into the delivery and strategic effects of Start-Up Loans. This will include six detailed case-studies (starting in Year 2), involving two waves of research, to probe in greater detail the messages emerging from the core analysis.

Constructing the beneficiary and comparison group

The beneficiary group was identified based on contacting individuals that drew down a Start-Up Loan between June and December 2014. This period was selected to provide the most appropriate 'baseline' data for the beneficiary cohort, taking into account that pre-application support will have been received in advance of the loan approval date. Moreover, this period was subsequent to when the programme became available for all UK residents, and so there are no age-related issues with respect to eligibility that may impact on the ability to compare results to the comparison group. Note that no sampling or targeting of the beneficiary cohort was undertaken, with individuals contacted through random sampling (how the survey sample compares to the beneficiary population on key characteristics, and weighting applied, is discussed below).

The construction of the comparison group, including research design and fieldwork for the screening (and subsequent fieldwork for the tracking survey), was delivered on behalf of the British Business Bank by a team led by Aston University, separate to (but working alongside) the SQW-led evaluation team. The starting point for the comparison group was data from the Global Entrepreneurship Monitor (GEM) 2014 survey. This survey of entrepreneurial activity, aspirations and attitudes identified a sub-set of individuals that represented a good match for Start-Up Loans beneficiaries, namely:

- Nascent entrepreneurs: those individuals that are starting to commit resources such as time or money to starting a business (but have not been paying wages for more than three months).
- New business owners: those whose businesses have been paying income such as salaries or drawings for more than three, but not more than 42 months.
- Intent to start: those that intend to start a business within the next three years.

More constrained definitions of new business owners and those intending to start were used to ensure a closer match to the Start-Up Loans programme, as follows:

- '*SUL comparison group new business owners*' were restricted to those that have been paying income for up to 12 months, providing an approximate alignment with the programme, which is open to businesses that have been trading for under 12 months. In certain circumstances the eligibility for the programme is extended to 24 months⁴, and the screening survey has also identified individuals that have been paying income for up to 24 months – these individuals were also included in the comparison group in order to secure participants for the comparison group.

⁴ Any business trading for over 12 months, but less than 24 months, can be considered. However, any application where the business has been trading over 18 months must be referred to SULCo for dual approval. Evidence of trading such as business bank accounts or accounts must be provided.

- '*SUL comparison intent to start*' focussed on those individuals intending to start a business within the next six months⁵.

Some 397 individuals from the GEM 2014 UK survey (3.7% of the survey population) met these criteria, and had stated in the GEM UK survey that they would be willing to participate in further research. This group formed the first sub-set of individuals contacted to establish the comparison group. Given the niche segment of the general population that would qualify for the comparison group, further primary research was necessary to obtain the required number of individuals for the study, which involved incorporating screening questions consistent with the definitions above into two omnibus surveys, and a further one-off screening undertaken by BMG in late 2014/early 2015. This screening process sought to identify individuals who met the same criteria of entrepreneurial activity as applied to GEM eligible respondents, and would be willing to participate in the research. The screening also verified that individuals had not received assistance from Start-Up Loans. This screening process identified a further 1,081 individuals. The 1,478 individuals were then re-contacted (by BMG Research) in order to compete the first wave of the tracking survey. The individuals were drawn from across the UK, although owing to the method there were some differences between the sample of individuals for the tracking survey and the population as a whole.⁶

Table 2-1: Location of eligible comparison group target sample and UK population

Region	Sample for comparison group (n=1,478)	UK 2011 Census
East Midlands	7.4%	7.2%
East England	5.6%	9.3%
London, Greater	17.0%	12.9%
North East	2.7%	4.1%
North West	6.9%	11.2%
South East	11.4%	13.7%
South West	11.4%	8.4%
West Midlands	8.1%	8.9%
Yorkshire/Humberside	6.2%	8.4%
Wales	11.7%	4.8%

⁵Start-Up Loans applicants have up to six months after their application is successful to draw down the loan (with those that take this extra time not trading at the point of drawing down the loan).

⁶Only the GEM screening covered Northern Ireland, and the GEM screening involved an oversample of three regions, Northern Ireland, Scotland and Wales. The one-off BMG screening was designed to increase the comparison group yield and did not cover three of the twelve UK regions (South East, Yorkshire/Humberside, and Northern Ireland).

Region	Sample for comparison group (n=1,478)	UK 2011 Census
Scotland	7.3%	8.4%
Northern Ireland	4.3%	2.9%

Source: Aston University and Census 2011

Evaluation coverage

The evaluation is focused on the 'full' Start-Up Loans programme, that is the programme operating across the UK and all of its regions and countries, and open to adults of all ages. The age-cap was lifted in October 2013, and from November 2013 onwards around half of beneficiaries were aged 31 or over (a trend which has broadly continued). The November 2013 to December 2014 has therefore been taken as the time-period for the evaluation; the total number and value of loans drawn down over November 2013 to December 2014 is the evaluation 'population' referred to in this report. Note that the evaluation does *not* include New Enterprise Allowance loans delivered by the Start-Up Loans Company.⁷

The evidence base in Year 1

The evidence base for this Year 1 Report is as follows:

- **Programme monitoring data** provided by the Start-Up Loans Company including from their Customer Relationship Management (CRM) system that contains information on all beneficiaries including loan value and term, delivery partner, and key characteristics (e.g. age, location, qualification, ethnicity), and from the Loan Data Warehouse (LDW) system that contains information on re-payment status (including whether beneficiaries are in arrears). The CRM data was provided in December 2014, the LDW data in March 2015, with the data correct as of that point in time.
- **Survey data from the beneficiary and comparison group.** The Year 1 report is based on evidence from a beneficiary group of 972 individuals, and a comparison group of 498 individuals (the data available by mid-March 2015).⁸ The survey evidence covered a wide range of topics related to the characteristics of respondents, the progress of their business including achieving key milestones and

⁷The NEA scheme is a programme under the Department for Work and Pensions to provide individuals on certain benefits in England, Wales and Scotland with support in preparing to start their own business. At the end of the programme, individuals will receive an NEA weekly allowance and the opportunity to apply for a DWP-supported Start-Up Loan. Since October 2013 the Start-Up Loans Company has managed the delivery of loans referred through the NEA scheme on behalf of DWP, and DWP continues to oversee the mentoring and support function.

⁸The tracking survey for the comparison group continued over the March-May 2015 period, with 576 completions achieved by 4 June 2015. The additional 78 individuals in the comparison group will be included in the research and analysis in the second year (and subsequent years) of the evaluation; they are *not* included in this Year 1 Report.

access to finance, and entrepreneurial skills and perspectives. The survey evidence for the beneficiary group also included feedback on the Start-Up Loans programme.

- **Feedback from Delivery Partners from an online survey.** A survey was distributed to all existing 50 Delivery Partners at the time of the research, with 38 responses received (a response rate of 76%). The Delivery Partner survey covered a range of topics including the nature of support provided to beneficiaries, the costs of delivery, and perspectives on the management and delivery of the programme at this point. The Year 1 survey also serves as a baseline against which views and perspectives will be tracked over time e.g. on the effects of the programme on its beneficiaries and the wider enterprise and community finance landscape.
- **Consultations with programme stakeholders.** Consultations have been completed with senior-level representatives from BIS, the British Business Bank and the Start-Up Loans Company to provide additional qualitative evidence on how the programme aligns with the enterprise/finance context, perspectives on programme delivery, and value for money and impact at this early stage.

Analytical approaches and methods

Survey samples and weighting

Beneficiary survey

As noted above, the beneficiary survey group was drawn from individuals drawing down a loan over June 2014 to December 2014. The extent to which the survey sample matched the evaluation population as a whole by key criteria is set out in the table below.

Table 2-2: Make-up of the evaluation population and survey sample

Category	Sub-category	Population (n=11,001)	Survey (n=957 ⁹)
Gender	Male	60.9%	61.2%
	Female	39.1%	38.8%
Age	18-30	46.1%	43.6%
	31 and over	53.9%	56.4%
Nature of Delivery	Large (>300 loans)	41.5%	42.6%
	Medium (100-300 loans)	44.1%	36.5%

⁹Data on characteristics was not found in the CRM for 15 survey respondents

Category	Sub-category	Population (n=11,001)	Survey (n=957 ⁹)
Partner	Small (<100 loans)	17.2%	20.9%
Region	London	23.5%	23.0%
	North of England	28.4%	21.9%
	South of England	20.1%	24.1%
	Midlands	16.8%	16.9%
	Scotland/Wales /Northern Ireland	11.2%	14.2%
Ethnicity	White British/White	72.6%	77.2%
	BME	21.9%	18.0%
	Not stated	5.5%	4.8%
Loan value	Under 3k	21.2%	20.8%
	3k to 8k	54.0%	53.8%
	Over 8k	24.8%	25.4%
Employment status at application (SUL CRM)	Unemployed	36.5%	38.5%
	Self-employed	27.2%	26.5%
	Employed (FT+PT)	31.6%	31.0%
	Other	4.6%	4.0%

It is evident that the survey cohort is largely well matched to the evaluation population. Weighting has been applied to each survey respondent based on three criteria which were agreed with the British Business Bank as likely to influence potential outcomes, meaning any under or over-representation in the survey sample needed to be addressed: age-group (18-30 and 31 and over); Loan value (under £3,000, £3,000 to £8,000 and more than £8,000); and employment status (unemployed, self-employed and employed). The weighting will be reapplied in future years of the evaluation, reflecting any changes in the survey sample relative to the population.

The beneficiary and comparison groups

Individuals self-select as to whether they would like external support from the Start-Up Loans programme, and the programme itself involves some selection, which may be partly dependent on programme reach and also the application process. Given this selection, programme beneficiaries might reasonably be expected to differ from the wider population,

even those with similar entrepreneurial ambitions and activities, with differences therefore emerging between the beneficiary and comparison groups.

Indeed, in comparing the two groups five key points are noted:

- Beneficiaries were younger than the comparison group: on average beneficiaries were aged 35 at the time of the survey, compared with 39 for the comparison group; this was a statistically significant difference.¹⁰ Although the scheme began for younger clients it was a universal service when the survey was conducted. Having said that some of the original providers continue to focus on the original target group and agencies such as Prince's Trust focus exclusively on the younger age group. The difference in age between beneficiary and comparison groups may also reflect the stronger rationales for supporting young people (e.g. less likely to have collateral).
- Levels of employment varied between the beneficiary and comparison groups, with 67% of the beneficiaries in employment at the time of the survey, compared to 82% of the comparison group; this difference was also statistically significant¹¹. One possible explanation is that the programme attracted individuals who were not in work and who viewed self-employment or business creation as route into employment, and/or that individuals with lower confidence or business experience were attracted to the programme as they valued the opportunity to access support from the programme, which was not required by individuals in the comparison group.
- There was a difference in the achieved sample in terms of the age of those businesses that had been established. The comparison group in particular included a long tail of individuals whose businesses had been established for many years (as far back as the 1980s), which reflects some issues in screening. A cut off point was agreed with the British Business Bank with individuals whose firms started trading before January 2012¹² excluded from the dataset (this resulted in excluding 63 from the comparison group and 14 from the beneficiary group). Having removed these older firms, there was still a difference between the two groups, with beneficiary firms on average (mean) 11 months old by the time of the survey, compared with 14 months for the comparison group (the median data are 10 and 12 months old respectively).
- There were also differences in the total value of investment in the businesses of respondents, combining both start-up investment and subsequent investment. The average personal investment by the time of the survey was approximately £7,700

¹⁰T-test p=.000

¹¹Chi-squared p=.000

¹²This is based on the fact that eligible companies could have been trading for up to 24 months in exceptional circumstances and that beneficiaries have time to draw down their loan. Therefore, 30 months prior to June 2014 was taken as the cut-off point.

for beneficiaries, compared with approximately £19,100 for the comparison group and this was a significant difference¹³, although these mean averages mask an underlying picture that varies, both in its distribution and whether the business had started-up. The addition of the Start-Up Loans finance and other external investment did not close the gap between the two groups, increasing total investment up to approximately £17,400 for beneficiaries and £32,200 for the comparison group. As noted above, comparison group firms were slightly older, which partly, though not wholly, may account for differences in the investment data – taking an indicative average by month, comparison group firms had invested on average approximately £2,300 (i.e. £32,200 divided by 14 months), compared to approximately £1,600 (i.e. £17,400 divided by 11) for the beneficiary group. Therefore, the total level of investment in the businesses by the time of the survey is quite different between the two groups.

- Nearly half (47%) of the comparison group were in receipt of other forms of business support, compared with 36% of the beneficiaries. It would appear that the comparison group are not 'averse to support', but there remains a large proportion (over half) that have not received any business support. Amongst both groups the most common source of support was 'informal support' from friends/family (61% of those that received support for both groups), with support from accountants or business consultants/advisors also common (around 40% respectively in both groups), and around one quarter of both groups identifying formal mentoring (in the case of beneficiaries, this was separate to the mentoring support from the programme). Other public sector programmes were identified by 17% of the comparison group that received business support (34 of 203), and 25% of the beneficiary group that received business support (87 of 348).¹⁴

It is also worth noting that essentially all (98%) of beneficiaries had a business plan (with the development of a business plan a core part of the programme's customer journey) compared to around half of the comparison group (52%). This may be reflected over the evaluation in 'better' performance amongst the beneficiary group, and may also influence estimates of future business prospects and forecasts.

Further testing of differences between beneficiaries and the comparison group uses econometrics to control for these differences in the profile and support received as they exist in the two samples, and also in terms of their selection to the assisted beneficiary group.

Approach to the econometric analysis

The econometric analysis involved two elements:

¹³T-test p=.000

¹⁴ A wide range of programmes/organisations were identified including national schemes such as Growth Accelerator (now the Business Growth service) and UKTI, agencies in the devolved administrations including the Welsh Government, Business Gateway in Scotland and Invest NI, and a large number of local schemes.

- a set of tests on whether the programme helps assisted individuals achieve better results than the comparison group, including in terms of both business performance and personal development (programme effectiveness analysis)
- a set of tests on the contribution of different elements of the programme (focused on the pre-application support and mentoring support) to personal and business development of the beneficiary group alone (programme improvement analysis).

There is commonality in the analysis applied across both of these elements. The key conceptual issue in analysis of this data is the possibility of detecting positive (or negative) effects associated with the programme, that stem not from Start-Up Loans itself, but through selection. Because the essence of the programme is a loan (secured after an application) to start-up/develop a business, then lending may potentially be orientated more towards those individuals with 'better' business ideas and/or with a better understanding of the sources of finance available to them, and subsequently businesses that are more likely to be profitable and continue to trade, in order to provide greater assurance of repayment of the loan. Where this selection issue is relevant, it is necessary to use a Heckman sample selection model, which responds to the issue of differentiating between scheme effects and selection effects.

A preliminary stage involved estimating a Probit model, which seeks to explain the probability of an individual being supported by Start-Up Loans. This test sets the dependent variable as being selection into one of the two subsamples (the beneficiary group or the comparison group) with selection being determined by a number of variables observable at the point of application¹⁵, namely: age, economic activity, qualifications, previous business ownership, gender, access to other support, individual or joint ownership and geographical recruitment. Where a Probit finds no distinctive patterns in the beneficiary group then a standard regression is undertaken. This same process was followed for selection into pre-application and mentoring support for the programme improvement analysis to determine whether there was any selectivity in uptake within the beneficiary sample.

The outcome equation of the two step Heckman or Heckprobit explains scheme effects. These results show which variables are significant, among them results for the Start-Up Loans input, or inputs of pre-application support and mentoring, as well as other explanatory variables.

The specification of the econometric models included variables that related to owner manager characteristics, business characteristics and strategy characteristics in order to reflect a range of potential explanatory variables. The development of these models is discussed in greater detail in the technical appendix, and a summary of the characteristics included is as follows:

- The owner characteristics included: the age of owner (and age-squared), their gender, dummy variables for their geographic residence, whether they had previously owned a business, whether they were economically active prior to starting their business and whether they were degree educated.

¹⁵ Variables such as age of business and levels of investment are excluded because they relate to the nascent business in its early stages of trading. These variables are included in the subsequent outcome equation.

- Business characteristics included: the initial size of business, the age of business (and age-squared), whether the business had multiple owners, and dummy variables for sector.
- Strategy characteristics included: whether the business had a business plan, the levels of investment, and the use of other (non-Start-Up Loans) support.

Interpretation of these results involves reading the significance and the coefficient. Reading the results of the outcome equation provides an indication of the extent to which independent variables are statistically significant in explaining change in the dependent variable. In policy terms the important variable is labelled 'SUL support' in our appendices and the programme may be said to be significant in explaining the difference in outcomes where it records a score of <0.05 ; and weakly significant in explaining the difference in outcomes where it records a score of <0.1 . Furthermore, the co-efficient for SUL support may be either positive or negative, this is a dummy variable coded 1 for SUL support observations and 0 for the comparison group, such that a positive coefficient indicates that SUL is having a positive effect (e.g. increasing the likelihood of starting a business, or higher sales), whereas a negative coefficient suggests that the comparison group are faring better.

The Heckman analysis gives further insights about selection, through the selection term. In a test on sales change a negative coefficient would show that selected businesses (SUL support in the probit) had an inherently lower potential for growth, even when the scheme had indicated that it was responsible for clear transformation in performance.

In the reporting in the main body of this report the results are summarised to include those variables that are statistically significant. More detailed tables are shown in the Econometric Analysis Technical Annex (Annex B).

Approach to self-reported estimates

The second complementary approach to the analysis is based on using primary evidence provided by beneficiaries alone in the survey. Beneficiaries were asked to identify the effect of Start-Up Loans on a range of measures (including on the business and them personally), and on the performance of the business where relevant. Survey respondents were also asked to provide reflections on 'outcome additionality', that is their views on what would have happened to their business if they had not been involved in the programme.

This 'self-reported' data has been used to provide an indicative assessment of the impact and potential value for money of the programme. This has included evidence to convert the 'gross' data provided on business turnover (both achieved and expected) to an indicative 'net' data, taking into account individual beneficiary reflections on what would have happened without support from the programme, and other key factors such as the extent to which firms supported by the programme may have taken market share away from existing non-supported firms. To account for the inherent uncertainty in responses, the analysis has accounted for optimism bias. Despite the incorporation of optimism bias into the analysis (to account for the inherent risk that beneficiaries overstate the importance of the intervention and their prospects of their business) there are some weaknesses in this approach as it relies on beneficiaries being able to answer hypothetical questions in relation to a counterfactual situation (i.e. what they would have done and what their business would have achieved without the programme).

However, a conservative approach has been taken to incorporation of survey responses into the value for money assessment.

The self-reported data has also been used to provide estimates of 'finance additionality' i.e. whether they would have been able to access this finance from other sources in any case.

Data segmentation

Start-Up Loans is a large programme with three core elements, a heterogeneous target group, and a range of delivery models on the ground across the Delivery Partner network. A wide range of segments to the data could be analysed, including related to characteristics (by age, gender, qualifications), loan type (by scale, timing), business maturity (stage of business idea, presence of a business plan) etc. To focus the analysis, and to ensure the findings are accessible and as robust as possible, three key segments to the data were agreed with the British Business Bank and are presented where relevant in this report:

- **age of beneficiary**, grouped by those aged 18-30, and 31 and over
- **loan value**, grouped by loans Under £3k, £3-8k, and Over £8k
- **mentoring take-up**, grouped by beneficiaries that had taken-up mentoring support at the time of the survey, and those beneficiaries that had not.¹⁶

Further, as noted above, the programme supports both individuals seeking to start-up a new business, and those with an existing business that had been established for under a year at the point they approached the programme (and in exceptional cases, up to two years). Where relevant this distinction has been accounted for in the data analysis.

Other analytical issues

Four further points are made in setting out the approach. First, taking into account the complexity of the entrepreneurial process, and the often 'grey area' between a business idea and when this business is formally established, the evaluation has taken a consistent approach to what constitutes a 'started-up' business. The definition applied is that a business is regarded as having started-up if the survey respondent (from the beneficiary or comparison group) reported in the survey that they had incurred expenditure on the business (e.g. buying/leasing equipment, or premises, paying salaries etc.) and/or if they had received income from the sale of goods/services. If one or both of these things had happened by the point of the survey they were regarded as having 'started-up'; if neither had yet happened, they were not.

Second, for the initial estimate of impact based on the self-reported analysis, data have been included for those individuals that reported that their business had started trading and provided data on turnover. A further group of respondents (n=94) reported that their business was not yet trading but that they expected it to do so in the future, and provided estimates of

¹⁶Note that the composition of this segment of the data will change over the course of the evaluation as more beneficiaries (potentially) take-up mentoring than at the time of the survey in early 2015.

the expected turnover in the first year of trading. These data are presented for context, although they have not been included in the impact and Value for Money analysis owing to the higher degree of uncertainty in play.

Third, and related to this whilst the data provided by beneficiaries and the comparison group has been assumed to be accurate and realistic, some modest adjustments have been made as follows:

- for the self-reported analysis forecast data from the beneficiary survey has been adjusted to take into account optimism bias (with 20% optimism bias applied to forecast data for individuals with firms that were trading at the time they approached the programme and 25% optimism bias applied to forecast data for individuals with firms not trading at the time they approached the programme – the difference in levels of optimism bias reflects that the former groups are more experienced and better able to forecast future turnover)¹⁷
- data from a number of individuals that represented major outliers have been excluded from the aggregate analysis, specifically three individuals in the beneficiary group with forecast annual turnover of over £8m: whilst there can be a high degree of skew in the benefits of small business support schemes (with a high proportion of the overall benefits delivered by a small number of beneficiaries), the three outliers were excluded because the very high turnover estimates were provided for *expected*, rather than *achieved*, turnover benefits, and the data were regarded as unreliable by the evaluators (e.g. one of the individuals reported *expected* turnover for their first year of trading of £20m) – therefore, the cautious approach, given uncertainty, was to exclude these respondents from the analysis.

Fourth, a core task in the first year of the evaluation was to develop a functional/practical model of value for money. As well as to inform the evaluation, this model was to provide the British Business Bank with a tool to enable them to adjust key assumptions/inputs to test options for policy improvement (e.g. adjusting assumptions for default rates or loan numbers).

The model includes estimates of the total costs of the programme (including lending and non-lending costs) expressed in terms of both Exchequer Costs (the costs to government of the programme) and Economic Costs (including opportunity costs and accounting for finance additionality), and benefits expressed in terms of net Gross Value Added (GVA) based on turnover effects. The model does not monetise benefits such as moving people into employment, or wider effects such as improved confidence or skills. However, these wider effects are considered in the broader qualitative assessment of value for money.

The model has been provided to the British Business Bank as a formal output in the Year 1 work, populated based on data drawing on the self-reported evidence, and will be updated

¹⁷Guidance on optimism bias is available mainly in the field of regeneration rather than innovation support. Evidence from the RDAs in England with respect to outputs suggested optimism bias of around 20%; this has been used as the starting point for the existing firms, and increased for new firms to reflect the higher degree of uncertainty/experience

throughout the evaluation period. The intention is that from Year 2 the model will include data on benefits drawn from the econometric analysis.

Limitations of the research

The overall research design

The following limitations regarding the overall approach to the evaluation are identified explicitly:

- As described above, the evaluation has adopted a quasi-experimental design, rather than a Randomised Controlled Trial (RCT)¹⁸. An earlier scoping study¹⁹ found that an RCT was impractical owing to impediments to delivery and challenges in feasibility. However, with the quasi-experimental design, there are limitations with respect to the potential for self-selection bias in the beneficiary group. The evaluation design seeks to address this using econometrics to establish the extent to which outcomes are explained by Start-Up Loans programme participation rather than other factors.
- The comparison group for the Year 1 analysis (identified on behalf of the British Business Bank by a team led by Aston University, separate to but working alongside the SQW-led evaluation team) contains 498 individuals (at the time of analysis), which is smaller than was original anticipated (1,000), due to challenges in converting eligible and volunteered contacts into completed interviews. The group is sufficiently large for Year 1 analysis, and the evaluation team will consider options for the long-term robustness of analysis ahead of the second year of work.
- In identifying the comparison group, we sought to ensure as close a match as possible between the beneficiary and comparison group. The focus of the matching exercise was to screen such that the comparison group is at a similar stage of enterprise development, in line with programme targeting, rather than on other business and socio-economic characteristics. As noted previously, the comparison group included individuals with businesses that had been established for, on average, slightly longer than the beneficiary cohort. Participants in the comparison group were also, on average, slightly older, and more likely to be economically active at the time of the survey than the beneficiary group. Nonetheless, some differences between the groups were expected due to self-selection into the Start-Up Loans scheme, with necessary econometric techniques used to account for these differences, and by excluding some individuals that have more established businesses²⁰, leading to a modest reduction in the sample sizes.
- The 'baseline' survey for this Year 1 Evaluation Report was not (as would be preferred) undertaken before the intervention. The beneficiary group had received

¹⁸An RCT would involve randomly assigning eligible applicants to the programme into a treatment or non-treatment group, with the subsequent performance and outcomes of these compared over time

¹⁹*Scoping research for monitoring and evaluation of Start-Up Loans*, SQW Ltd on behalf of BIS, August 2013

²⁰63 cases were removed from the comparison group for the purposes of the econometrics, and 14 from the beneficiary group.

their pre-application support, their loan approval, and in some cases initial mentoring support in advance of the survey. For the main business outcomes of concern, this will not affect the analysis – as the key data can be collected retrospectively. This will, however, affect the assessment of personal outcomes such as confidence and skills, as the baseline data on these outcomes will be collected after some support has been received. Therefore, the assessment of the effect on these outcomes is likely to be under-estimated through the evaluation design.

- The evaluation is reliant on survey data from both the beneficiary and comparison groups, rather than using official datasets (e.g. on business performance metrics). This is unavoidable given the nature of early stage businesses (such performance metrics do not appear in official data). Whilst there is a reliance on survey data for estimation of outcomes, in particular where recipients are asked to forecast future performance, in this Year 1 Report, over the longer-term, the longitudinal nature of the evaluation will enable us to go back and verify these data. Furthermore, over the longer-term, the difference-in-difference approach will remove the need to rely on self-reported additionality, which increases the robustness of results. It is also true that using surveys for both the beneficiary and comparison groups means that we may expect any optimism bias to balance out between the two groups. There are also benefits in using surveyed data, because they enable us to cover outcomes for which there are no official datasets (such as reaching certain business milestones, and attitudes and skills in relation to enterprise), and to collect data on characteristics to inform the econometric analysis. The depth of information collected for this evaluation to allow for appropriate benchmarking between the two groups and for the nuanced analysis required to assess all the outcomes of the programme would not have been possible without the use of survey data.
- Linked to the above point, there is likely to be some 'response bias' in the beneficiary survey, that is, the potential that individuals that have had a more positive experience with the programme and/or are more able to make the repayments associated with the loan were more likely to respond to the survey. Quantifying the level of response bias is challenging – put simply, we do not know how those individuals who did not participate in the survey have performed. However, the performance of those surveyed in repayment does suggest that some response bias is in play: by March 2015 13% of the survey sample were in arrears, compared to 22% of all individuals that drew down a loan over the June-December 2014 period. This is not definitive evidence that individuals that have had a better experience are more likely to have completed the survey (and we do not yet know if re-payment performance is linked to wider performance of the business), however, it does suggest there may be some response bias. This needs to be taken into account when considering the results from the analysis, particularly that based on 'self-reported' evidence; the evidence supporting estimates may be skewed due to response bias.
- There may also be some response bias in the comparison group, with individuals that were screened more likely to respond to the first wave of the survey if they have progressed with their business idea. Again, it is hard to quantify the level of response bias, but evidence from the call outcomes indicated that some (around

20% of those refusing) of the reasons for refusals were that individuals had not progressed with their business (and so did not want to respond to the survey even though they were eligible to respond). Given that there is likely to be some response bias in both the beneficiary and comparison group, the effects on the econometric analysis comparing the performance of the two groups is likely to be modest.

This Year 1 Report

Specifically for this Year 1 Report, as noted above there is limited evidence on differences in outcomes between the beneficiary and comparison groups in terms of business performance and survival. Therefore, we are reliant on self-reported evidence (of outcomes and additionality) from the beneficiary survey to estimate the initial effect of the programme. Indicative early evidence from the econometric analysis of any differences in outcomes from Wave 1 has been used as triangulation, e.g. whether the econometric analysis is supportive of differences in initial outcomes (or not) would add weight (or not) to the judgements provided by beneficiaries themselves for business performance data. The econometric analysis is able to indicate differences in those outcomes that could reasonably be expected in the short period of time since the intervention, notably likelihood and speed of start-up, but even here this finding may be subject to change in subsequent years (e.g. even if there is evidence that the start-up rate is higher amongst the beneficiary group, those in the comparison group may still yet progress with their business idea, for which we will have further evidence in year 2).

There is a desire from policy-makers to understand as much as possible about the impact and learning from the programme as early as possible, including from this Year 1 Report. Given the limitations noted above, the findings should be treated as indicative only at this stage, particularly for 'within programme differences'. Policy makers should be aware that the findings may change as the strength of the evidence base improves over time.

Section 3: Logic model, profile and customer journey

Key findings

- Since the Start-Up Loans programme was launched in May 2012 and following the pilot period, the programme has evolved with it now being available across the UK and to all individuals aged 18 and above.
- Nevertheless, the programme retains the same underlying logic, albeit with different emphases for some parts of the target group. Economic objectives are the primary focus, although there are subsequent social benefits, which are apparent in the rationales, objectives and intended outcomes of the logic.
- Within the evaluation period (November 2013 to December 2014) there have been 11,000 loans drawn down, with total lending volumes of nearly £70m. This equates to a mean loan value of £6,300, higher than the pilot period (mean of £5,300). There is significant variation in loan values across loan recipients.
- The characteristics of loan recipients demonstrate its broad appeal, with beneficiaries from a range of geographies, ethnic groups, and with a range of backgrounds in terms of qualifications and prior economic status. Geographically there are some concentrations, notably in London and parts of the North West of England.
- Service sector businesses tend to dominate those that are started by loan recipients, in particular “Wholesale, retail and repair”.
- The support model is consistently defined across the programme, but the experience by beneficiaries is likely to vary. This is particularly the case given the tailoring of support to the individual at pre-application stage, and the demand-led nature of mentoring.
- Just under 90% of beneficiaries received pre-application support. Mentoring take-up has been lower, with just under 50% of recipients having taken up mentoring so far, and around a further 20% expect to do so in the future (10% of recipients stated that they were not offered mentoring). The survey of delivery partners highlighted challenges in capacity to offer mentoring, and also the costs that are involved.
- In relation to costs, the delivery partner survey indicated that there is a shortfall in the costs provided to deliver the programme.

Programme development and logic

The Start-Up Loans programme was launched as one of the proposed recommendations in Lord Young’s report on small business in May 2012 (Young, 2012²¹). Lord Young’s report set out, in policy terms, the main arguments underpinning the programme. He highlighted that the UK has some of the key conditions to support entrepreneurship, such as low barriers to starting a business, but that ambition for enterprise lags the United States. He quantified the

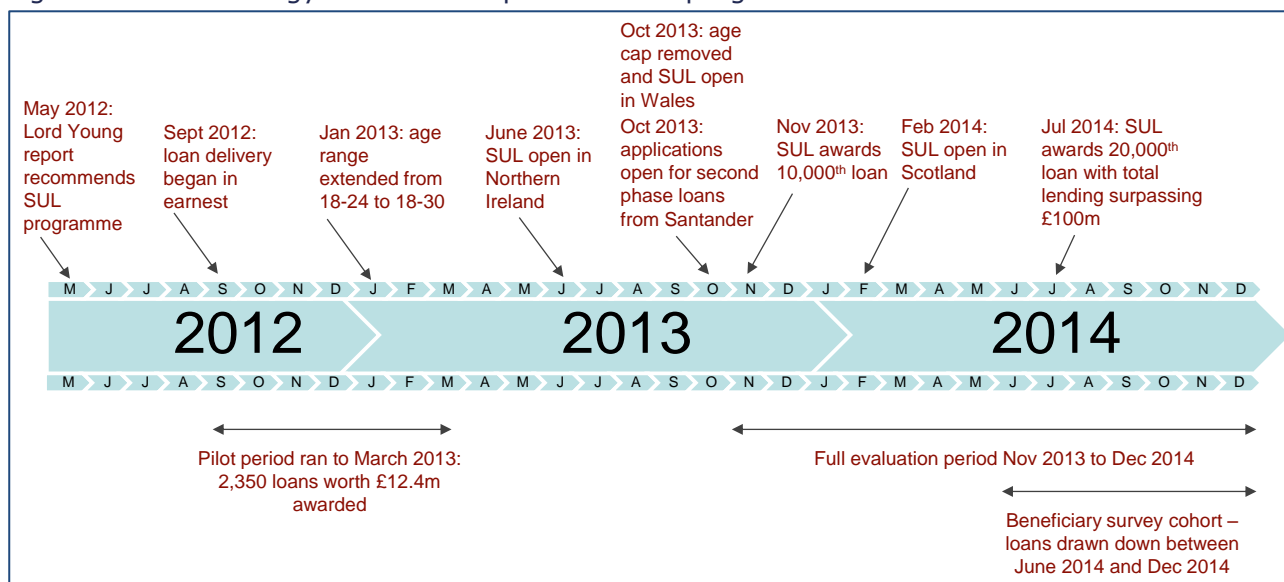
²¹Young, D. (2012) *Make business your business: supporting the start-up and development of small business*, London

gap between the UK and United States enterprise rates, indicating that if the UK had the same rate of entrepreneurship as the US, there would be approximately 900,000 additional businesses in the UK. Lord Young proposed that the Start-Up Loans programme be launched as a key way to make enterprise accessible to young people. In establishing the overarching model for the programme, he looked to the evidence on the Prince’s Trust Enterprise Programme. Drawing on this model, he proposed that the programme targeted 18-24 year olds with a loan of around £2,500 and that the programme also provide pre-application support and post-loan mentoring to help recipients start their businesses.

The set-up processes have been previously reviewed and were discussed in the evaluation of the pilot period of the programme (SQW and BMG, 2014²²) which ran until March 2013. In particular, this saw an extension in the number and type of delivery partners required to deliver the programme from that which was originally envisaged. During and since the pilot programme, a number of changes and milestones have been reached by the programme, which are important contextually for this evaluation. Key milestones are set out in Figure 3-1. Of particular note are the following two important changes to the programme:

- The changing of age eligibility from 18-24 to 18-30 half-way through the pilot period (in January 2013), and the subsequent removal of the age cap in October 2013. The removal of the age cap followed a report and recommendation from Lord Young in May 2013.
- The expansion of the programme from England to Northern Ireland (from June 2013), then Wales (from October 2013) and finally Scotland (from February 2014), making the programme available across the UK and to all people aged 18 and above.

Figure 3-1: Chronology of the development of the programme



²²SQW and BMG Research (2014) *Evaluation of the Start-Up Loans Pilot Programme*, Evaluation Series, British Business Bank: London

Against this policy backdrop, Figure 3-2 sets out the underlying logic model for the programme²³, from the underlying rationales justifying public investment and the associated objectives, through the delivery (inputs and activities), to the intended benefits (in terms of outputs, outcomes and impacts). Three key points are noteworthy in considering this logic, with the combination of economic and social rationales and objectives featuring throughout:

- The rationale for intervention identifies several underlying issues: the absence from the mainstream of commercial lending for loans at a low values and to individuals without collateral or track record; a lack of information on the availability and benefits of advice on starting a business; and equity arguments in relation to improving the employment and economic prospects, with self-employment a potential route for addressing such issues.
- There is a dual focus in terms of the objectives with an economic growth imperative, underpinned by the intent to create new businesses that may be sustainable and have the potential to grow, and a social objective to improve the inclusivity of enterprise and the long-term economic prospects of beneficiaries, aligning with the equity arguments of the rationale.
- Reflecting the balance of objectives, there is a range of outcomes and impacts contained within the logic model, including those focussed on business outcomes (e.g. business survival, job creation and turnover growth, leading to contributions to economic growth) and individual outcomes (including for example reduced unemployment and improvements to skills and confidence).

²³The logic model draws on the underlying logic developed as part of the scoping of the evaluation of the Start-Up Loans programme and the initial pilot evaluation. The logic has been updated to reflect the expansion of the scheme, in particular in terms of age and geography, since then. The underlying logic, in particular in terms of the rationales, objectives and intended benefits, have not changed substantively. Nevertheless, there are now arguably differences in emphasis under the rolled-out programme.

Figure 3-2: Logic model

RATIONALE	OBJECTIVES	INPUTS	ACTIVITIES	OUTPUTS	OUTCOMES	IMPACTS
<p><u>Market failure</u></p> <p>Asymmetric information between applicant and lender, with the result of unacceptable levels of risk for the lender, where the applicant has a viable business plan but lacks track record and/or collateral (potentially more prevalent amongst young people) on which banks base lending decisions.</p> <p>Insufficient scale and margin in loans below a certain level creates barriers for lenders to supply the market.</p> <p>Imperfect information on availability and benefits of business advice, resulting in sub-optimal demand for and take-up, particularly amongst pre-starts and start-ups.</p> <p><u>Distribution / equity</u></p> <p>Improve prospects for young people and unemployed (and those at risk of unemployment), for whom persistent unemployment / inactivity would otherwise lead to loss of confidence / human capital and detachment from the labour market.</p>	<p><u>Strategic aim</u></p> <p>Contribute to long term economic growth (measured in terms of Gross Value Added) in the UK by fostering an entrepreneurial society through the provision of finance and support to those looking to start a business outside of mainstream financial markets.</p> <p><u>Objectives</u></p> <ol style="list-style-type: none"> 1) Support the creation of sustainable and additional new businesses 2) Ensure that access to support and finance are not barriers to starting a business 3) Improve the productivity (wages) and employment prospects (probability of being in employment) of participants over the long-term, regardless of the success of their business idea 	<p><u>Staff and delivery</u></p> <p>Start Up Loans Company established</p> <p>Network of Delivery Partners established</p> <p><u>Finance</u></p> <p>£15.5m for delivery of the Pilot programme in 2012/13, followed by £102m available to 2015</p> <p>Funding covers</p> <ul style="list-style-type: none"> • Lending • Pre-application and mentoring support • Management activity: Monitoring and evaluation, Administration, Marketing etc. <p>NB: the intention is for loans to be paid back, resulting in subsequent rounds of lending. Funding issued to SULCo as a grant for the period to 2015. Subsequent funding as government loan to SULCo.</p>	<p><u>Activity types</u></p> <p>Pre-application support</p> <p>Provision of start-up loans</p> <p>Mentoring of applicants</p> <p><u>Monitoring of activity</u></p> <p>Number of applications</p> <p>Awareness and interest in the scheme (e.g. website usage, enquiries)</p> <p>Mentoring relationships established</p> <p>Participants entering/ exiting each stage of the scheme</p>	<p><u>Business outputs</u></p> <p>Business plans developed</p> <p>Business start-ups</p> <p>Loans approved</p> <p>Loans taken-up</p> <p>Loans repaid in full</p> <p><u>Individual outputs</u></p> <p>Individuals actively engaging with mentors</p>	<p><u>Business outcomes</u></p> <p>Business survival</p> <p>Turnover growth of start-ups</p> <p>Job creation of start-ups</p> <p><u>Individual outcomes</u></p> <p>Change in employment status of participants (employed/unemployed/self-employed)</p> <p>Change in confidence and attitudes to entrepreneurship amongst those taking part in the programme</p> <p><u>Wider cohort</u></p> <p>Changed perceptions in entrepreneurship as a career choice</p> <p>Improved perceptions in the guidance, support and finance available to those wanting to start a business</p>	<p><u>Impacts on the business base</u></p> <p>Increase in enterprise rate</p> <p>Additional Gross Value Added through turnover and employment in businesses created</p> <p>Increase in number of active enterprises</p> <p><u>Impacts on individuals</u></p> <p>Increase in self-employment amongst young people</p> <p>Reduced likelihood of unemployment</p> <p>Increased earnings (in employment or self-employment)</p>

Source: SQW

Programme profile

From the start of the programme to the end of 2014, 25,928 Start-Up Loans had been drawn down, which in aggregate were worth £136.2m of lending. These figures relate to the whole period from inception of the programme to the end of 2014. As noted in Section 2, this evaluation is focussing on the cohort of loan recipients that drew down their loans in the period November 2013 to December 2014, following the lifting of the age cap for the programme. This sub-section provides a profile of the evaluation cohort, drawing on monitoring data and the beneficiary survey sample (which itself was sampled from loan recipients drawing down their loans in the last seven months of 2014).

Loan volumes

Within the evaluation period (November 2013 to December 2014), 11,001 Start-Up Loans were drawn down, equating to £69.5m of loan value. The mean loan value was £6,300 (slightly higher than the mean of £5,300 in the programme’s pilot period) and the median was £5,500. As we would expect, there was variation in the loan values across the loan recipients, as shown in the inter-quartile range for loan values (see Table 3-1), and the overall range (with a maximum loan value of £25,000 and a minimum loan value of just £250).

Table 3-1: Key evaluation period programme metrics – loan volume and values

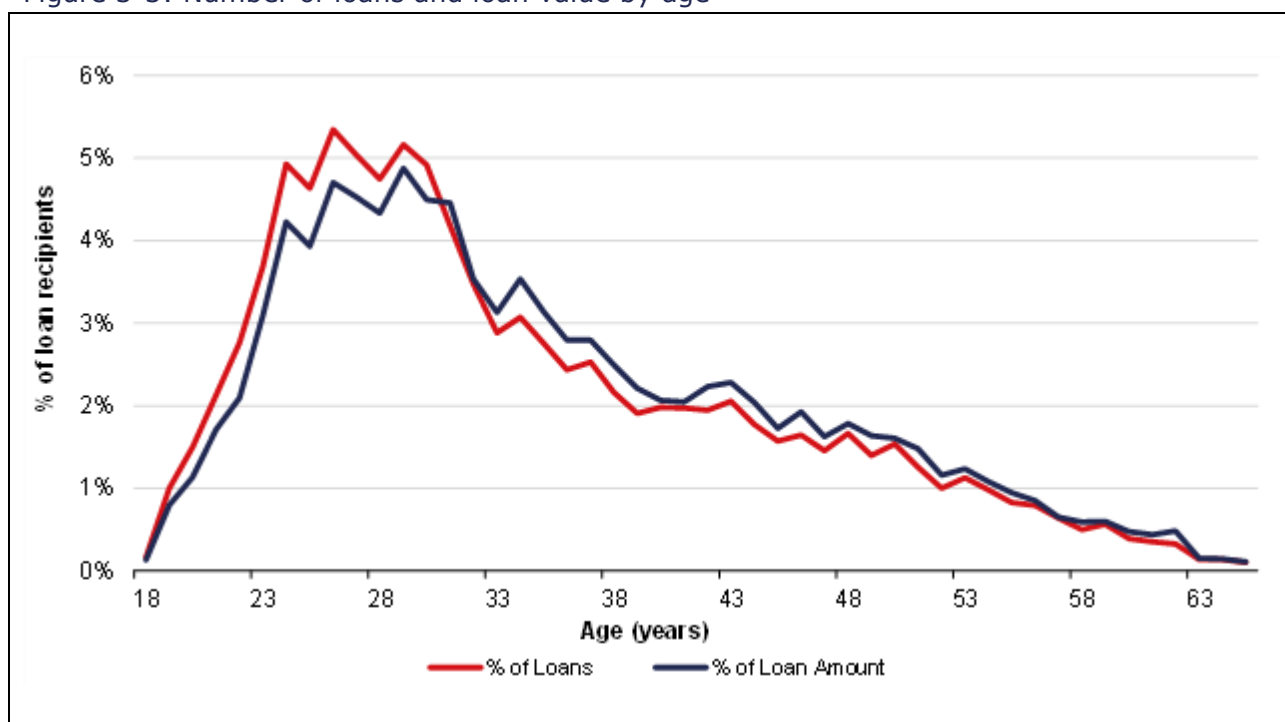
Indicator	Data
Aggregate loan value approved	£69,504,342
Number of loans approved	11,001
Mean loan value	£6,318
Median loan value	£5,500
Inter-quartile range of loan values	£4,500 (£3,500 - £8,000)

Source: SULCo monitoring data

Characteristics of loan recipients

Individuals securing Start-Up Loans support came from across the age-range, from 18 year olds through to people in their 60s, although individuals in their mid-20s to mid-30s were most common. Overall, there was a broadly even split in the proportion of loans for the 18-30 age group (46%) and 31+ age group (54%). In the evaluation period, the average loan size for those aged 31 and over was higher, at £7.7k, compared to £5.5k for those aged 18 to 30. This is reflected in 60% of lending going to the age group 31 and above. The distribution across all ages for both loans and loan amounts is shown in Figure 3-3.

Figure 3-3: Number of loans and loan value by age



Source: SULCo monitoring data

Beneficiaries are more likely to be male than female, with 61% of loans and 63% of loan value having been allocated to men in the evaluation period. Nevertheless, the take-up of Start-Up Loans by female entrepreneurs is encouraging, with this 61/39 split comparing favourably to the 68/32 male/female split amongst the self-employed population of the UK as a whole.

Beneficiaries are also ethnically diverse, with around 73% of the number of loans and the value of loans being awarded to beneficiaries of white British/other white ethnicity²⁴, and 27% from other ethnic communities.

London accounts for the largest share of loans and loan value (2,570 loans at a value of £17.4m), followed by the North West (1,648 loans at a value of £10.0m). Table 3-2 shows the spatial pattern of loans and loan values.

Table 3-2: Loan value by region

Region	Number of approvals	Aggregate loan value (£)	% aggregate loan value
East	590	3,741,791	5%
East Midlands	727	3,771,914	5%
Greater London	2,570	17,406,679	25%
North East	546	2,933,080	4%
North West	1,648	10,042,291	14%
South East	850	5,945,061	9%
South West	759	5,449,590	8%
West Midlands	1,106	6,261,000	9%
Yorkshire & Humber	909	5,955,361	9%
Northern Ireland	243	1,227,760	2%
Scotland	490	2,524,715	4%
Wales	491	3,775,200	5%
Not known	72	469,901	1%
Total	11,001	69,504,342	100%

Source: SULCo monitoring data

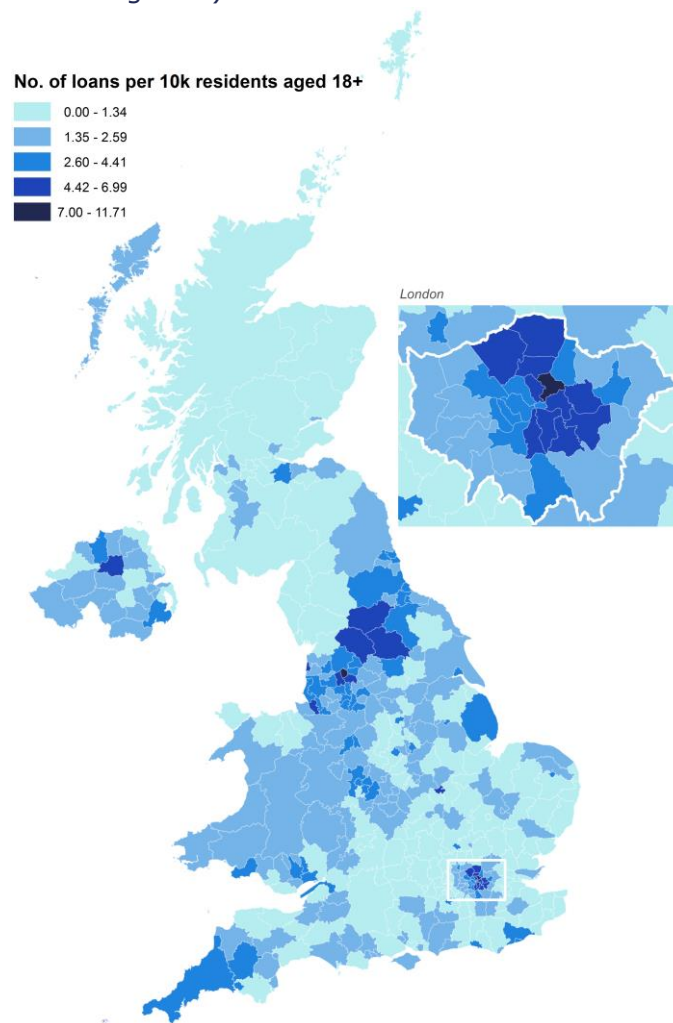
²⁴Coded as English/Welsh/Scottish/Northern Irish/British' in the programme monitoring data

Relative to the scale of the total population aged 18 and over in these areas, London and to a lesser extent the North West were over-represented in the evaluation period:

- London accounted for 25% of the total loan value, compared to 13% of the UK population aged 18 and over
- the North West accounted for 14% of the total loan value, compared to UK 11% of the population aged 18 and over.

Mapping the loans per population at local authority level (see Figure 3-4) shows that other areas have seen relatively high levels of take-up. As well as parts of London and the North West (e.g. districts in Lancashire and Liverpool City Region), there were high levels of loan recipients relative to the resident population in a mix of areas including North Yorkshire, and Northern Ireland. The geographical pattern will reflect, to some extent, the intensity of activity of delivery partners, but also shows the broad reach and coverage of the programme.

Figure 3-4: Number of loans compared to 18+ resident population by local authority area
(Source: programme monitoring data)



Source: SULCo monitoring data

The broad coverage is also reflected in the employment status of individuals at the time they approached the programme. Table 3-3 shows a fairly even split between those in employment as full-time or part-time employees (36%), self-employment (31%) and those unemployed (28%). As may be expected the mean loan value for those in employment and those self-employed (over £7k) was higher than for those unemployed (around £5k).

The survey data showed similar findings when considering the qualifications of beneficiaries. The programme has supported a mix of beneficiaries with a fairly even split between those with a first degree or higher (53%) and those without a degree (47%) – see Table A-1 in Annex A. The level of qualification is not strongly associated with the value of the loan, with the exception of those with the highest qualifications (postgraduate degree or equivalent), who were more likely to receive loans of £8k or more (see Table A-1 in Annex A).

Table 3-3: Loan metrics by status at time of approaching the programme

	Number of loans	Aggregate loan value (£)	Loan value %	Mean loan value (£)
Employee (Full Time)	2,593	19,383,238	28%	7,475
Employee (Part Time)	876	5,659,756	8%	6,461
Self-employed	2,991	21,366,045	31%	7,143
Casual Work	161	1,041,148	1%	6,467
Unemployed	4,008	19,629,373	28%	4,898
Other Inactive	192	1,371,687	2%	7,144
Student (Institution-based)	122	736,501	1%	6,037
Other	58	316,595	0.5%	5,459
Overview				
Formal employment	6,460	46,409,039	67%	7,184
Unemployment / inactivity	4,200	21,001,059	30%	5,000
Other ²⁵	341	2,094,244	3%	6,141

Source: SULCo monitoring data

²⁵ Includes individuals in the Casual Work, Student, and Other categories

Sector of business started

The survey asked respondents to self-select the sector of their business, which was categorised using the 2007 Standard Industrial Classification. The spread of sectors is shown in Table 3-4, and this shows the most common sector being “wholesale, retail and repair of vehicles” (20% of respondents). Other service-based sectors were also commonly identified, in particular “other services activities” (10%), “accommodation and food services” (9%) and “administrative and support services” (7%). In addition though, other sectors such as “scientific and technical” (11%) and “manufacturing” (9%) were also relatively common amongst recipients. The data demonstrate the range in the types of business start-ups that the programme is supporting.

Table 3-4: Sector of business/proposed business, split by beneficiary age and loan value offered

Sector (based on 2007 SIC code)	% of total	Age		Loan value		
		18-30	31+	Up to £3k	£3k to £8k	£8k+
Wholesale, retail and repair of vehicles	20%	22%	20%	18%	22%	21%
Scientific and technical	11%	12%	11%	17%	10%	8%
Information and communication	11%	12%	10%	11%	10%	13%
Other service activities	10%	12%	8%	12%	11%	6%
Manufacturing	9%	10%	8%	10%	7%	12%
Accommodation and food services	9%	8%	10%	3%	9%	15%
Administrative and support services	7%	6%	8%	8%	8%	5%
Education	5%	5%	5%	6%	4%	4%
Construction	5%	4%	6%	5%	5%	4%
Arts, entertainment and recreation	4%	5%	4%	4%	5%	2%
Human health and social work	3%	3%	4%	5%	3%	3%
Other	5%	3%	6%	1%	5%	7%
<i>Weighted Base</i>	959	435	510	202	507	236

Source: Beneficiary survey

Other characteristics of beneficiaries

Three other characteristics of beneficiaries are worth noting:

- First, 26% of survey respondents from the beneficiary group had previous experience of starting, owning and managing a business prior to approaching Start-Up Loans. This prior experience may help with success for these recipients. As we

may expect, this was more common for older recipients (35% for those aged 31 and above) and those receiving loans over £8k (36%) (see Table A-2 in Annex A).

- Second, 7% of survey respondents from the beneficiary group were involved in other start-ups or new enterprises at the same time as approaching the Start-Up Loans programme (see Table A-3 in Annex A).
- Third, many of the businesses were well-developed at the time of approaching the programme. As shown in Table 3-5, 27% of survey respondents from the beneficiary group had trading businesses (mainly for under a year), and for a further 51% of beneficiaries the business idea was 'well-developed' (though not yet trading) at the time of the survey. It is worth noting there is no clear and consistent relationship between stage of business idea and average loan value, although those with an 'outline' idea for a business were more common for individuals securing lower value loans (Up to £3k) than larger loans (£8k+).

Table 3-5: Stage of business idea when approaching the programme, split by beneficiary age and loan value offered

	% of total	Age		Loan value		
		18-30	31+	Up to £3k	£3k to £8k	£8k+
Business trading for over 12 months	4%	3%	5%	4%	5%	4%
Business trading for under 12 months	23%	24%	22%	22%	23%	23%
Well-developed business idea, but not yet trading	51%	48%	53%	45%	51%	56%
Outline idea for a business	18%	21%	16%	25%	18%	14%
No defined business idea, but interested in enterprise	2%	2%	2%	2%	2%	2%
Other	1%	1%	2%	2%	1%	1%
Don't know/Can't recall	0.2%	0.2%	0.2%	0.0%	0.4%	0.0%
<i>Weighted base</i>	<i>959</i>	<i>435</i>	<i>510</i>	<i>202</i>	<i>507</i>	<i>236</i>

Source: Beneficiary survey

The customer journey

The programme is coordinated and managed centrally by SULCo, and in this role it delivers functions such as programme management, marketing and PR, centralised engagement with would-be applicants (e.g. through a central website for new referrals), and programme monitoring. Delivery of loans and support is contracted to a range of national and local

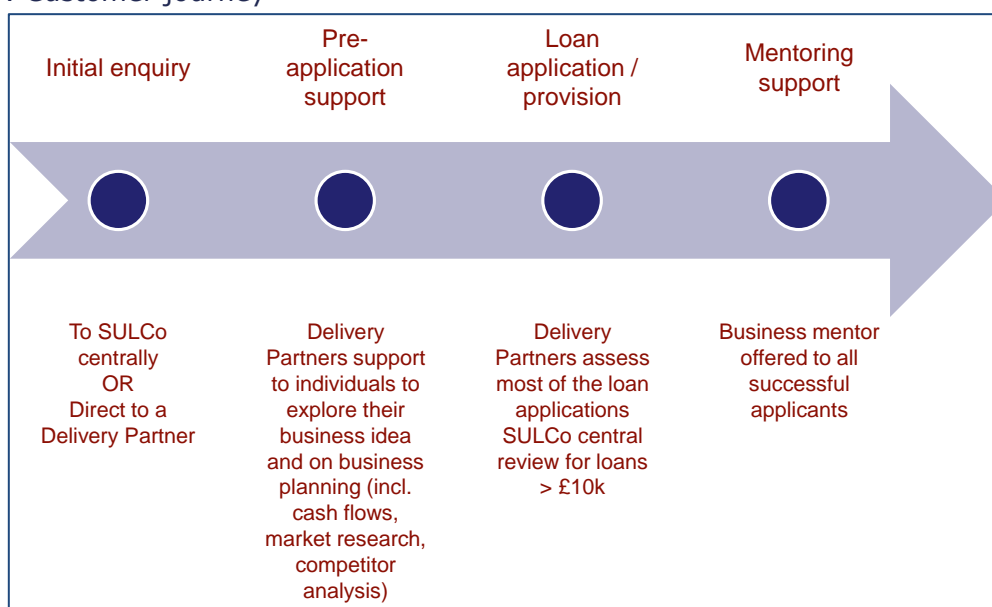
delivery partners, which provide most of the core activities of the customer journey to applicants and potential applicants.

The customer journey is illustrated in Figure 3-5, through four main stages, which are largely delivered through the network of Delivery Partners. The four stages are as follows:

- First, an initial enquiry is made by potential applicants to engage with the programme via the central website (managed by SULCo) or directly through a delivery partner.
- Second, applicants are offered pre-application support to develop their idea and business plan.
- Third, applicants submit an application, and if successful are provided with a low-interest (rate of 6%) business loan. Applications for loans are normally assessed by Delivery Partners, unless the value requested is over £10,000, in which case SULCo manages a central assessment process.
- Fourth, all successful applicants are offered mentoring support following loan drawn down (with mentoring offered to be offered by six weeks following loan draw down).

As well as having roles in the customer journey at initial enquiry stage and in assessing loan applications above £10,000, SULCo provides oversight to ensure that there is consistency, to an appropriate degree, through maintaining standards and a minimum offer to customers. This provides the 'core' customer journey, and the effectiveness of the core offer (namely pre-application support, loan and mentoring support) forms the focus of this evaluation. In addition to this, there are two further elements to note. First, SULCo has established a set of corporate partnerships that offer benefits to programme participants (in particular discounts for a range of business services from telecoms, workspace and office supplies to legal advice, HR/recruitment and peer-to-peer lending platforms). Second, SULCo has provided a series of events and training sessions for loan recipients, the programme for which is under review at the time of writing. These additional elements have not been covered explicitly as part of the evaluation.

Figure 3-5: Customer journey



Delivery partners

There is significant variation across the delivery partners, in particular in terms of loan volumes. Within the evaluation period, 75 delivery partners had generated loan approvals, although the number of approvals varied significantly between delivery partners: one provider had approved almost 1,400, whilst two providers had approved just one each. The interquartile range of the number of loan approvals by delivery partners was 153 (31 to 184), with a median of 81.

It is worth noting that more than 10% of the total loan value was accounted for by loans between £9.9k and £10k, the latter the threshold above which loans require sign-off by SULCo. Although loans at this scale are not unreasonable, the concentration of loans within this small range does suggest that some perverse incentives have been created as a result of the threshold, with loan values potentially increased, or held-down, in order to avoid requiring review and sign-off by SULCo. This said, this issue does appear to be reducing over time as the programme has matured and SULCo has put in place systems to better identify any patterns in loan values; in the pilot period approaching one-fifth of loan approvals were in the £9.9k-£10k band.

Of the providers awarding most loans, bunching between these values was particularly common for the School for Start-Ups²⁶ (43% of all their loans were in this narrow range) and Connect London (32%). Aside from this, there are no clear patterns in loan values by the size

²⁶School for Start-Ups have subsequently ceased to be a Delivery Partner

of provider (in terms of loan volumes), i.e. those delivery partners with lower volumes of loan approvals do not have lower or higher average loan values (see Table A-4 in Annex A)²⁷.

Evidence on support models

There is a considerable degree of consistency in terms of the support offer of delivery partner at the pre-application stage. Most (33 out of 38 respondents to the online delivery partner survey) reported they deliver pre-application support on business plans, cash-flow forecasts, market research and competitor analysis. A majority (24 of the 38 respondents) also provide support to individuals on developing their business idea.

However, the *experience* of pre-application is likely to vary more than suggested by these data, because the majority of delivery partners (27 of 38 survey respondents) indicated that they tailor their pre-application support according to the needs of the applicant(s). In some cases support was tailored to specific groups such as BME communities, disadvantaged people, creative and fashion start-ups and ex-forces personnel. But support was also tailored directly to an individual, with some delivery partners noting that they used one-to-one sessions to customise the support they were going to offer an applicant. Indeed, one-to-one delivery was the most common method of delivering pre-application support. A little over one-half of delivery partners surveyed deliver their one-to-one support face-to-face, and 30 of the 38 delivery partners reported delivering one-to-one support through some medium (including face-to-face, but also phone, and by e-mail).

The variation in the medium of support is illustrated in Table 3-6, which draws on the beneficiary survey data. Table 3-7 sets out the evidence on the amount of pre-application support received by beneficiaries, and this further demonstrates the variation: whilst just under one-half received under five hours of support, a not insignificant proportion (nearly 20%) reported receiving over 20 hours of pre-application support. Note that 11% of beneficiaries indicated they did not receive pre-application support (so, 89% did). Data on hours of pre-application support by age-group and loan value is set out in Annex A (Table A-5), indicating that beneficiaries under 30 and those with lower loan values were more likely to take up higher levels of pre-application support.

Table 3-6: Response to 'Which of the following types of pre-loan application support did you receive' (n=959)

Type of pre-application support received	Proportion of respondents
Face-to-face support, such as meetings, one to one sessions, workshops	71%
Telephone/video conference support	46%
Online support	41%

²⁷It is worth noting that one of the delivery partners offering large volumes of loans, the Prince's Trust, has lower average loan values, which partly reflects its target group of unemployed people, and particular those from disadvantaged groups.

Type of pre-application support received	Proportion of respondents
Attendance at events/seminars	25%
None of these	11%

Source: Beneficiary survey Note: multiple coding was possible

Table 3-7: Response to 'Approximately how many hours of pre-application support did you receive to develop and refine your business idea and plan' (n=855)

Hours of pre-application support received	Proportion of respondents
Up to 5 hours	46%
6 to 20 hours	31%
21 hours or more	19%
Can't recall	4%

Source: Beneficiary survey

The bulk of delivery of pre-application support is undertaken through the delivery partners' own staff (around nine-out of ten surveyed), although one-third use paid contractors/agents and 10% use volunteers (delivery partners use more than one source).

The majority of delivery partners (three-quarters) reported that they also used their own staff to deliver mentoring. Paid contractors and agents were reported to be used by approximately one-third of delivery partners. Delivery partners reported a significant reliance on volunteers for this element of the customer journey, with one-half of delivery partners using volunteers to deliver mentoring. This may reflect the type of skills and knowledge of staff within delivery partners, as well as their need to keep tighter control over the pre-application support stage as opposed to the mentoring element. In addition, this may also reflect the higher propensity for business mentors to volunteer their time.

Feedback from the beneficiary survey indicated that 89% of recipients were offered mentoring and 10% were not (1% could not recall). Of those offered mentoring support (n=854), 53% said that they had taken up and started mentoring and a further 25% said that they will do so in the future. Therefore, overall participation rates in mentoring are just under 50% so far (for the survey cohort as a whole), with a further 20% intending to take-up mentoring in the future. Table 3-9 indicates that mentoring take-up is currently higher for younger beneficiaries (i.e. those aged 18-30), and higher for those with loan values under £3k when compared to those with loan values over £3k (i.e. combining those with loan values between £3k and £8k and those with loan values over £8k). Annex A sets out the evidence on the number of hours of mentoring so far (see Table A-8) and the medium of mentoring (see Table A-11). For the former, it must be noted that this is early evidence as mentoring is on-going. The latter indicates that most mentoring is delivered face-to-face (around three-quarters). Next year's evaluation report will be able to provide more definitive evidence on the take-up of mentoring, and the volume of mentoring received.

Findings on satisfaction with the mentor match and early effects of mentoring are set out in Section 6.

Table 3-8: Response to 'Did you or will you take up the mentoring support?' (n=854)

	Proportion of respondents
Yes - started mentoring	53%
Yes - will start mentoring support in the future	25%
No	21%
Can't recall	1%

Source: Beneficiary survey

Table 3-9: Response to 'Did you or will you take up the mentoring support?' by age and loan value

	Aged 18-30 (n=396)	Aged 31+ (n=444)	Up to 3k (n=183)	3k to 8k (n=451)	Over 8k (n=206)
Yes - started mentoring	60%	46%	62%	48%	56%
Yes - will start mentoring support in the future	21%	28%	24%	26%	24%
No	17%	25%	13%	26%	19%
Can't recall	1%	-	1%	-	-

Source: Beneficiary survey

Over one-half of delivery partners (20 out of 38 respondents) indicated that they consider the pre-application support to be the most important element of support, compared to only 5 delivery partners viewing mentoring as the most important element. The importance accorded to pre-application support maybe reflected in the favouring of in-house delivery (relative to mentoring where more external provision is used, including using volunteers). In addition, the survey of delivery partners also raised other issues relating to mentoring, including the logistics of arranging mentoring (with beneficiaries unwilling to participate), and the costs of delivering this element of the customer journey. Examples of feedback provided are set out below:

"The number of hours required for mentoring support has been increased during the programme and this level of support for every client has a significant impact on the cost of delivery. It is also very difficult to provide the mentoring support as clients often want to 'run their business' and it is difficult to book time for the mentoring sessions."

"Mentoring uptake is not as high as we would prefer. Generally once the loan recipient receives their loan, they seem to feel they do not need to participate with mentoring or business support ... What we have seen is that once the recipient engages with mentoring, they experience the usefulness of the process and tend to be much more willing to continue with mentoring and business support going forward. What we struggled with was getting the recipient to agree to the initial meeting with their mentor."

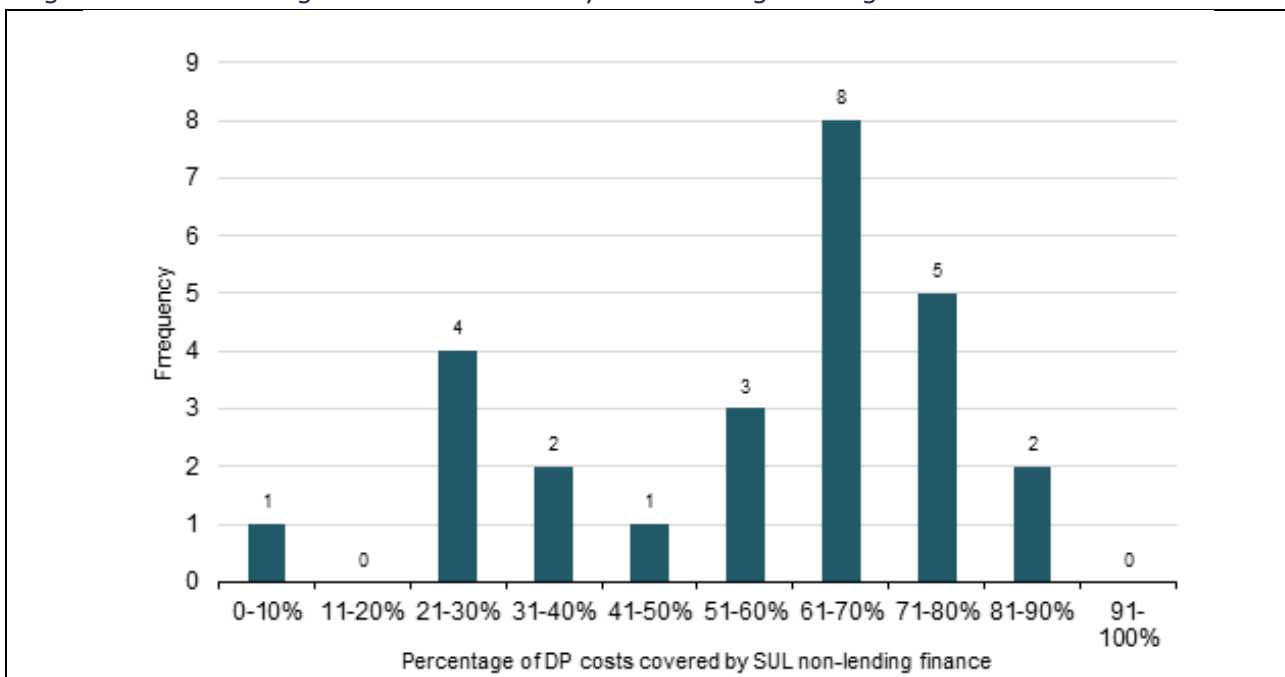
Regarding mentoring "15 hours of direct support is insufficient for some and not required for others. It needs to be addressed with proper input and debate and a solution that is equitable according to the demand and allow supply to fulfil it in a more effective way."

Costs of delivery

The delivery partner survey suggests there may be a shortfall in the funding provided to deliver the programme. When asked 'Does the non-lending finance provided to your organisation by the Start-Up Loans Company cover in full the cost of delivering the programme?', 29 of the 38 delivery partners surveyed (i.e. three-quarters) stated that it did not.

As shown in Figure 3-4, eight of these delivery partners noted that the non-lending funding only covered up to 50% of the costs they incurred in delivering the non-lending elements of the programme. Figure 3-5 indicates that where there is a shortfall for eight delivery partners this is in excess of £500 per loan. Across the delivery partners responding to this question, the average shortfall per loan was over £300.

Figure 3-7: Percentage of costs covered by non-lending funding



Source: Delivery Partner survey

Figure 3-8: Approximate shortfall of non-lending funding per loan



Source: Delivery Partner survey

The average number of loans delivered by delivery partners identifying that the costs of delivering the programme were *not* met by the non-lending finance provided, at 157, was somewhat lower than the average for those nine delivery partners that identified the costs of delivering the programme *were* met by the non-lending finance provided, at 216. However, as shown in the Table below, those identifying short-falls included a mixture of small, medium and large delivery partners (i.e. those that had delivered under 100, 100-300 or over 300 loans over the evaluation period respectively). It was not only, for example, small (or for that matter large) delivery partners identifying funding short-falls. Indeed, those delivery partners identifying short-falls in the survey accounted for around 40% of all loans drawn down over the evaluation period.

Table 3-10: Response to 'Does the non-lending finance provided to your organisation by the Start-Up Loans Company cover in full the cost of delivering the programme?'

	No	Yes
Small (under 100 loans)	12	5
Medium (100-300 loans)	12	1
Large (over 300 loans)	4	3
Total	28	9

Source: Delivery Partner survey Note: it was not possible to identify the number of loans delivered by one respondent

Although there may be no direct connection, it is worth noting that five of the 29 delivery partners identifying that the costs of delivering the programme were not met by the non-lending finance provided have subsequently exited the programme.

Three main factors were reported to be driving costs higher than the non-lending finance. These were: the nature of support offered to applicants (which was often tailored, and in the case of mentoring was increasing in cost); the administrative burdens of the programme related to financial management, monitoring and compliance (this was also reported to have increased over time, although some delivery partners recognised this was required to maintain and promote quality); and 'hidden' costs that are not accounted for in the costing of delivery (for example, the cost of applications that do not progress to a successful loan award, with payments made based on the number of loan approvals).

The delivery partner feedback indicates three key factors supporting the willingness to deliver the programme at 'below cost':

- The Start-Up Loans programme provides a significant financial contribution to delivery partners.
- It coheres with their wider social objectives.
- Some delivery partners seem to be able to draw on complementary activities to deliver some of the Start-Up Loans programme elements.

These factors aside, there are two implications to bear in mind on costs: if costs appear to be underestimated, this will need to be acknowledged in the value for money analysis (covered in section 7); and there is a question mark over the programme's sustainability, or consistency in quality, in its current form.

Areas for improvement

Overall, delivery partners reported general satisfaction with the overall programme model (33 out of 38 respondents to the delivery partner survey were 'satisfied' or 'very satisfied' overall). A similar degree of satisfaction was expressed with regard to the management of the programme by SULCo. Delivery partners were somewhat less satisfied with the requirements placed on them, with 27 satisfied, but with 10 delivery partners expressing some level of dissatisfaction (one did not respond).

Issues and recommendations for improvement crystallised around three areas:

- challenges posed by changes in the management/administration/requirements, with the suggestion to keep changes to a minimum and develop a sense of greater stability in the programme's operation
- the payment mechanism, and as discussed above issues relating to funding
- a desire amongst delivery partners for them to have a greater degree of trust and autonomy.

Reasons for approaching Start-Up Loans

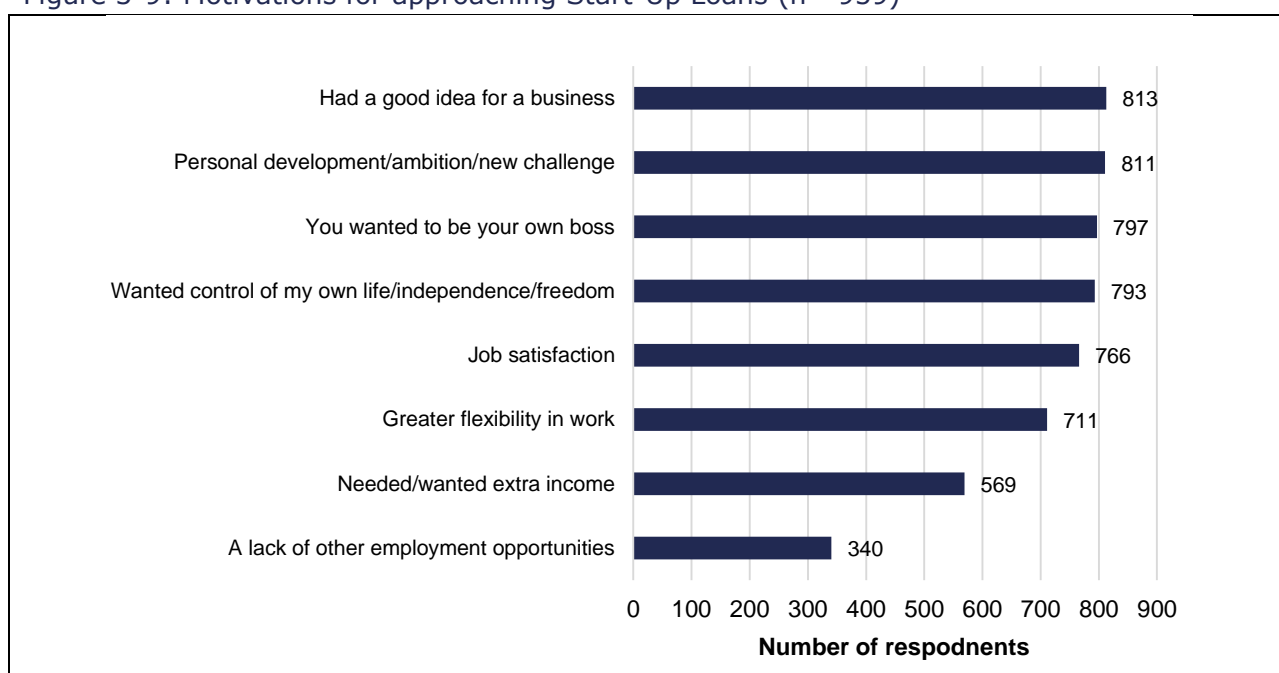
Finally for this section, and prior to turning to issues related to financing enterprise and early estimates of programme performance, it is worth reflecting on the evidence from the

beneficiary survey of why individuals approached Start-Up Loans. The tracking survey asked beneficiaries to identify their initial motivation for approaching the programme, across a range of 'necessity based' (e.g. a lack of other employment opportunities) and 'opportunity based' (e.g. you wanted to be your own boss) factors. The overall findings from across the survey cohort are set out in the figure below (note, multiple motivations were allowed, with on average six factors cited).

The data indicate that 'opportunity based' factors were most common, with a good business idea and personal development/wanting a new challenge being the most commonly cited factors, with independence through enterprise/self-employment factors also important. By contrast the key 'necessity based' factor of a lack of other employment opportunities was cited by significantly fewer respondents, around 340 from the survey sample.

This data is consistent broadly with wider evidence on motivations for enterprise. For example, the latest GEM UK Report found that 'opportunity based' enterprise was more common than 'necessity based' enterprise: 7.0% of the UK working age population adult population were opportunity-motivated early-stage entrepreneurs, with 1.4% identified as necessity-driven early-stage entrepreneurs.²⁸

Figure 3-9: Motivations for approaching Start-Up Loans (n= 959)



Source: Beneficiary survey

²⁸ Global Entrepreneurship Monitor United Kingdom 2014 Monitoring Report, Hart et al

Section 4: Financing enterprise

Key findings

- Approximately a quarter of beneficiaries considered alternative sources of external finance other than Start-Up Loans. The most common reason for beneficiaries not seeking other external finance was the ability to self-fund the business alongside Start-Up Loans being viewed as the most appropriate source of finance.
- The level of other external finance used by beneficiaries was modest; individuals supported by the programme have essentially used Start-Up Loans finance and their own funds to support business development at this stage.
- Approximately 100 beneficiary survey respondents applied for bank/mainstream finance. Where the outcome of that application is known 58% of this group were unsuccessful, suggesting finance additionality of the Start-Up Loans support.
- Identifying a quantitative metric on finance additionality is challenging, because there is no formal requirement for other sources of finance to have been approached. However, taking into account those that did apply unsuccessfully for bank/mainstream finance and the reasons why beneficiaries did not apply for finance, we estimate that 74% of the finance provided by the programme was additional i.e. three-quarters of individuals would not have secured start-up finance without the programme, aside most likely from friends and family. This is consistent with the underpinning programme rationale.
- Start-Up Loans finance is most commonly used to purchase assets, with around half of beneficiaries using their programme finance for the purchase of an asset; investment in intangibles and running costs accounted for a lower proportion of finance. By contrast, other external finance was more commonly used for running costs.
- Data provided to the evaluation team indicates that by March 2015 32% of loans drawn down over the evaluation period were in arrears, meaning that payments have been missed for three consecutive months or more. The rate of arrears was consistent by age group and loan value, although those with a loan under £3k were slightly less likely to be in arrears.
- The proportion of loans in arrears was higher for loans drawn down earlier in the evaluation period; approaching half of loans drawn down in November/December 2013 were in arrears. At this stage this is assumed to reflect the timing of support – we would expect the rate of arrears to increase over time for those supported later.
- The rate of arrears appears to be impacted by the provision/take-up of capital repayment holidays, and particularly 12month capital re-payment holiday periods. Further, the level of arrears amongst the survey cohort at this early stage was higher for those that did *not* receive pre-application support; whether this pattern holds true over the longer term will be tested in future years of the evaluation.
- It remains too early to be definitive on the potential rate of loan default over the evaluation period, with nearly all loans still 'active'. However, some level of arrears/default is reasonable; no or a low level of arrears/default would indicate low finance additionality.

Coverage

This section sets out the evidence at this stage in the evaluation on the financing of enterprise through Start-Up Loans, including the sources of finance considered and used by beneficiaries and the comparison group, estimates of finance additionality (that is, the proportion of the finance provided to beneficiaries by Start-Up Loans that would not otherwise have been accessed), and the use of the finance provided. The section also considers the financial profile of the programme in terms of re-payment at this stage, drawing on both data from the population as a whole, and the survey sample.

Sources of finance considered and used for start-up

Finance options considered ...

The survey evidence indicates that a modest proportion of beneficiaries considered alternative sources of external finance to assist in starting up or developing their business²⁹ – 24% did so, although this is slightly higher than the comparison group (20%). The proportion that did consider alternative sources differed little by age group, although older beneficiaries were slightly more likely to consider such sources than younger ones. A more significant difference exists between those that received a loan under £3k and those that received larger loans. Some 37% of those that received a loan over £8k considered other sources, compared to 12% of those that received a loan of up to £3k.

Table 4-1: Proportion of beneficiaries and non-beneficiaries that actively considered and/or applied for external finance sources other than Start-Up Loans to Start-Up/develop their business

	% of total (n= 959)	Age		Loan value			Comparison group (n= 435)
		18-30 (n= 435)	31+ (n= 510)	Up to £3k (n= 202)	£3k to £8k (n= 507)	£8k+ (n= 236)	
Considered other sources	24%	22%	27%	12%	24%	37%	20%

Source: Beneficiary and Comparison group surveys

The most common reason for not seeking finance from other external sources was that the survey respondent felt that they could have funded the business themselves or through other means – 38% of beneficiaries and 28% of the comparison group gave this reason. For beneficiaries the next most common explanations for not considering other sources of finance were not wanting to take on additional debt/risk, and the Start-Up Loans being deemed the most appropriate source of support, both cited by 17% of those that did not seek other finance. In terms of age and loan value:

²⁹ The question in the survey asked if respondents had considered/applied for any sources of external finance to start-up or develop their business aside from Start-Up Loans (for the beneficiary group).

- Beneficiaries in the younger age group were more likely to feel able to fund the business themselves or through other means and/or felt that Start-Up Loans was the most appropriate source of support compared to those in the older age group. By comparison, beneficiaries in the older age group were more likely than those in the younger age group to cite not wanting to take on additional debt/risk as a reason for not seeking external finance.
- By loan size, being able to fund the business themselves or by other means was particularly commonly cited amongst those receiving up to £3k, with not wanting to take on additional debt/risk and Start-Up Loans being the most appropriate source of support being slightly more common in the largest loan cohort.

Table 4-2: The top 5 reasons for not seeking external finance, beneficiary and non-beneficiaries - % = proportion of people in cohort that did not consider external finance

	% of total (n= 717)	Age		Loan value			Comparison group (n= 435)
		18-30 (n= 319)	31+ (n= 387)	Up to £3k (n= 174)	£3k to £8k (n= 383)	£8k+ (n= 149)	
Able to fund myself or through other means	38%	46%	31%	42%	38%	34%	28%
You didn't want to take on additional debt/risk	17%	16%	19%	18%	16%	20%	5%
Start-Up Loans the most appropriate source of support	17%	21%	14%	13%	19%	16%	0%
Low cost of starting this type of business	3%	3%	3%	3%	2%	6%	6%
Other	7%	5%	7%	7%	5%	8%	44%
No reason	6%	5%	7%	5%	6%	8%	7%

Source: Beneficiary and Comparison group surveys

For the 24% of beneficiaries (in aggregate terms around 230 beneficiaries) that did consider external sources of finance other than Start-Up Loans, the most commonly sought/actively considered finance was bank/mainstream finance (57%), followed by family/friends (38%) and public sector funds (30%). Public sector interventions identified by beneficiary group included a wide range of agencies at local, sub-national and national levels, rather than any one or two schemes/agencies being consistently referenced. For the comparison group, where external funding was sought/actively considered, the most common sources were the public sector (46%) –again a wide range of agencies were cited, including Start-Up Loans – and banks/mainstream finance (42%), with family/friends at 27%.

The proportion of individuals seeking/considering public sector sources in the comparison group appears to be higher than for the beneficiary group; however, clearly, the beneficiary group had *all* considered a form of public sector support i.e. Start-Up Loans. This said, the data do indicate that a higher proportion of beneficiaries considered/sought finance from a bank or other mainstream finance provider relative to the comparison group; this is likely to reflect the greater need for external finance amongst the beneficiary cohort (where self-funding in full was not an option), consistent with their employment status/age.

In terms of age and loan value:

- Beneficiaries in the younger age group were much more likely to seek/actively consider funding from family/friends or the public sector than those in the older age group, although the older age group were more likely to seek/actively consider banks/mainstream funding.
- Where other sources of funding were sought/actively considered, bank/mainstream finance was particularly common for those with loans of over £8k (67%, compared to 42% for those receiving loans up to £3k), with family/friends also common for this cohort. However, it is beneficiaries that received the smallest loans of up to £3k that were most likely to seek/actively consider other public sector funding – some 51% of those receiving loans up to £3k, compared to 26% of those receiving over £8k.

Table 4-3: The top 3 sources of external finance actively considered/applied for, other than Start-Up Loans – proportion of people seeking external finance that sought it/actively considered seeking it from these sources

	% of total (n= 234)	Age		Loan value			Comparison group (n=89)
		18-30 (n= 94)	31+ (n= 137)	Up to £3k (n= 24)	£3k to £8k (n= 120)	£8k+ (n= 88)	
Banks/mainstream finance	57%	53%	59%	42%	52%	67%	42%
Family/friends	38%	43%	34%	28%	37%	41%	27%
Public sector funds ³⁰	30%	36%	26%	51%	28%	26%	46%

Source: Beneficiary and Comparison group surveys

... and used

Where external funding was sought/actively considered, respondents were most successful in securing it from family/friends as would be expected (91% of beneficiaries that sought external finance from family/friends secured it at least in part, compared to 95% for the comparison group), followed by public sector funds (79% success rate for the beneficiary group, 69% for the comparison group). Beneficiaries were less successful in securing bank/mainstream finance; 41% of beneficiaries were successful, compared to 63% of the comparison group.

³⁰ This excludes Start-Up Loans; for the beneficiary cohort the survey made it clear that the question referred to 'other' forms of public support *not* including Start-Up Loans.

In terms of age and loan value:

- Beneficiaries in the older cohort were more likely to be successful in securing bank/loan finance or public sector funding than those in the younger cohort. Conversely those in the younger cohort were more often successful in securing funding from family/friends.
- By loan value there are substantial differences in success rates in securing external finance across the cohorts. Those that received a Start-Up Loan of more than £8k were much more likely to have been successful in securing bank/mainstream finance or public sector funding than those receiving smaller loans, although for funding from family/friends the success rate differs little between the cohorts.

Table 4-4: Success rate (where an application was made and the success or otherwise is known) in securing funding from the top 3 sources of external finance applied for other than Start-Up Loans

	Beneficiary group	Comparison group
Banks/mainstream finance	41% (44 of 108)	63% (19 of 30)
Family/friends	91% (69 of 76)	95% (21 of 22)
Public sector funds (other than Start-Up Loans)	79% (34 of 43)	69% (18 of 26)

Source: Beneficiary and Comparison group surveys

The beneficiaries surveyed secured in aggregate some £910k of finance from family/friends, £950k from banks/mainstream finance, and £390k from other public sector funds. Where funding was secured from one of the three main sources, the average value was highest for funding from family/friends, with an average of £23k secured, roughly in line with the comparison group, followed by banks/mainstream finance³¹. For beneficiaries, the average secured from family/friends is almost twice the average funding secured from public sector sources. However, these data – particularly for the comparison group – should be treated with some caution given the small samples sizes on which they are based (as a result of the modest proportion of both groups that did apply for external finance).

³¹Note the much higher average for the comparison group, which is skewed by one business securing £3m of bank/mainstream finance in particular. Without this one business, the average falls to £100k.

Table 4-5: Average value of funding secured from the top 3 sources of external finance applied for, other than Start-Up Loans, where finance was secured

	Beneficiary group	Comparison group
Banks/mainstream finance	15,014 (n=44)	286,344 (n=19)
Family/friends	23,436 (n=69)	24,778 (n=21)
Public sector funds	12,671 (n=34)	17,047 (n=18)

Source: Beneficiary and Comparison group surveys

Relative to external finance (other than Start-Up Loans), the use personal funds was common. A high majority (85%) of surveyed beneficiaries had invested their own money into their business/business idea alongside Start-Up Loans – note this was consistent by age-group, although those with loans Under £3k were less likely to invest their own money (81%) than those with loans Over £8k (90%).

In total, the beneficiaries surveyed invested an estimated £7.0m of their own money to start-up/develop their business. The data indicate that the finance used by programme beneficiaries is predominantly the Start-Up Loans funding itself, supplemented by personal investment, with modest levels of additional external finance from a wide range of other sources. This is an important finding, and helps to demonstrate the finance additionality of the scheme (covered in more detail below).

The average amount of personal investment by beneficiaries to start/develop their business that had invested their own money (n=820, i.e. excluding those that had not) was £8.6k. The average invested by beneficiaries differed by age and loan value: £11.0k for those aged 31 and over, compared to £5.4k for those aged 18 to 30; and £2.9k for those receiving Start-Up Loans of under £3k, compared to £8.0k for those receiving between £3k and £8k from Start-Up Loans, and £13.8k for those receiving more than £8k. This latter data does suggest that beneficiaries are commonly 'matching' evenly Start-Up Loans finance with their own money.

The comparison group were somewhat less likely to have made a personal investment in their business/business idea, with 76% indicating that they had invested their own money (compared to 85% in the beneficiary group). This is consistent with the higher success rate for bank/mainstream finance amongst the comparison group as noted above, it also reflects the lower level of start-up in the comparison group (just 35% of individuals in the comparison group that had *not* started-up their business at the time of the survey invested their own resources, compared to 80% of those that *had* started-up their business). However, individuals in the comparison group that had invested their own money (n=306), invested more than beneficiaries, with an average of £22.3k (compared to £8.6k amongst beneficiaries that had invested their own resources). This is not unexpected given the age and employment status of the comparison group relative to the beneficiary cohort, and the absence of the Start-Up Loans finance.

Finance additionality

Placing a specific quantitative metric on finance additionality for Start-Up Loans is challenging, particularly because whilst applicants are expected to prove they were not able to access other forms of funding, there is no requirement for formal evidence that other sources of finance have been approached by individuals. In practice SULCo does not require Delivery Partners to request and provide evidence as to the inability of the loan recipient to access finance from other sources. Rather, Delivery Partners are requested to ask applicants whether they have tried to access finance before approaching the programme, and to consider whether applicants could access the level of funding they require from other sources. Applicants are asked to provide proof or self-declare that they are unable to access alternative financing elsewhere – however, as we have seen from the data above most survey respondents did not consider or apply for other sources of external finance. It is not possible to know with any certainty whether this group would have secured finance from elsewhere.

However, finance additionality is an important element in assessing the value for money of the programme (in terms of Economic Costs, as it enables us to quantify the levels of additional and non-additional lending), and more broadly in considering the rationale and strategic position of the programme in the wider access to finance market.

The starting point for a specific 'finance additionality' metric are the 107 beneficiary survey respondents that applied for bank/mainstream finance, where outcome of that application is known: 58% of this group (65) were unsuccessful in their application, suggesting finance additionality of the Start-Up Loans support. However, this metric is based on a small proportion of the survey sample as a whole.

Two further groups have been included in the assessment to provide a judgement on finance additionality (recognising that we cannot be categorically certain that all of those within these groups represent additional finance being secured):

- First, those survey respondents that did not apply for bank/mainstream finance but provided a reasonable explanation that suggests finance additionality for the programme. The explanations are slightly imperfect in terms of judging finance additionality, but provide a reasonable steer. They were: assumed a bank would refuse an application; unable to afford the interest/re-payment levels; lacked confidence in the business idea; did not know how to approach a bank; did not know which bank to approach; poor credit history; low cost of starting this type of business; not aware of what finance options are available; and business in early stages of development. In all, 140 individuals provided at least one of these explanations.
- Second, those survey respondents that did not apply for bank/mainstream finance and offered other explanations where the level of financial additionality is difficult to judge. These explanations were: process would have taken too long; didn't want to take on additional debt/risk; did not trust financial institutions; Start-Up Loans the most appropriate source of support; able to fund myself or through other means; currently considering other finance options; or other. In all, 582 individuals provided at least one of these explanations.

The three groups were combined to arrive at an indicative value for finance additionality, with the methodology set out in the table below. For the group in the second bullet point above, we have assumed an average level of finance additionality based on the mid-points of the findings from the other two groups.

The analysis provides an indicative finance additionality ratio of 74%. Put another way, the survey data suggest that around three-quarter of the finance provided by Start-Up Loans would not have been provided by mainstream providers. This is consistent with the underpinning programme rationale.

Table 4-6: Proportion of respondents using Start-Up Loan finance for starting up or growing/developing their business

Stage in analysis	Value
a) Number that applied for bank/mainstream finance, where outcome of the application is known	107
ai) Number that applied for bank/mainstream finance and were successful	44
a ii) Number that applied for bank/mainstream finance and were unsuccessful	64
Proportion of beneficiaries where SUL finance is additional – low ([a ii+b]/a)	59%
b) Number that did not apply for bank/mainstream finance, but had cause to believe that such an application would be unsuccessful	140
c) Sub-total (a+b)	248
Proportion of beneficiaries where SUL finance is additional – high ([a ii+b]/c)	82%
d) Number of other beneficiaries identifying reasons for not applying for external finance, not covered in (b)	582
di) Number of other beneficiaries identifying reasons for not applying for external finance, if assume financial additionality at mid-point between 59% and 82% (70%)	412
e) Sub-total (c+d)	830
Proportion of beneficiaries where SUL finance is additional – mid ([a ii+b+di]/e)	74%

Use of finance

The paragraphs above have focused on the sources of finance sought by survey respondents. These following sub-section focuses instead on the use of the finance – both the Start-Up Loan monies, and the external funding secured by beneficiaries.

Looking first at the use of the Start-Up loan finance, it is clear that the purchase of assets is the most common use of the funding. Over half of beneficiaries used at least half of their Start-Up Loan for the purchase of asset, with investment in intangibles the predominant use of the finance for 11%, and running costs just 9%.

There is little difference by age group, but some differences by loan value: those with larger loans were less likely to be using the majority of the finance for the purchase of an asset or an investment in intangibles, and rather more likely to be spending the majority of the loan on running costs (12% compared to 4% for the cohort receiving up to £3k).

Table 4-7: Proportion of respondents who used/are using at least half of their Start-Up Loan for the following reasons

	% of total (n=959)	Age		Loan value		
		18-30 (n=435)	31+ (n=510)	Up to £3k (n=202)	£3k to £8k (n=507)	£8k+ (n=236)
To purchase an asset (e.g. the purchase of equipment/property etc)	53%	53%	52%	56%	53%	49%
Investment in intangibles (e.g. marketing/product development/training)	11%	10%	13%	16%	10%	9%
Running costs (working capital/salaries etc)	9%	7%	10%	4%	9%	12%
Other	1%	1%	1%	1%	1%	1%

Source: Beneficiary and Comparison group surveys

Although 40% of beneficiaries spent the majority of the other external funding on the purchase of an asset, this is considerably lower than is the case for the Start-Up Loan finance. Instead, it is apparent that a greater proportion of the external finance is used to cover running costs than is the case for Start-Up Loan finance (20% spending the majority of external funding on this, compared to 9% of Start-Up Loan funding). Again, there is little difference by age, and on this metric little difference by loan value either. It is likely that the business sector would have a greater influence on what the Start-Up Loans and other external finance was spent on, as the balance between capital or revenue requirements differs by sector.

Table 4-8: Proportion of respondents who used/are using at least half of their external funding for the following reasons

	% of total (n=139)	Age		Loan value		
		18-30 (n=55)	31+ (n=82)	Up to £3k (n=14)	£3k to £8k (n=63)	£8k+ (n=60)
To purchase an asset (e.g. the purchase of equipment/property etc)	40%	46%	38%	44%	43%	38%
Investment in intangibles (e.g. marketing/product development/training)	14%	10%	16%	20%	10%	16%
Running costs (working capital/salaries etc)	20%	21%	20%	18%	23%	19%
Other	4%	3%	6%	0%	5%	5%

Source: Beneficiary and Comparison group surveys

Loan re-payment ...

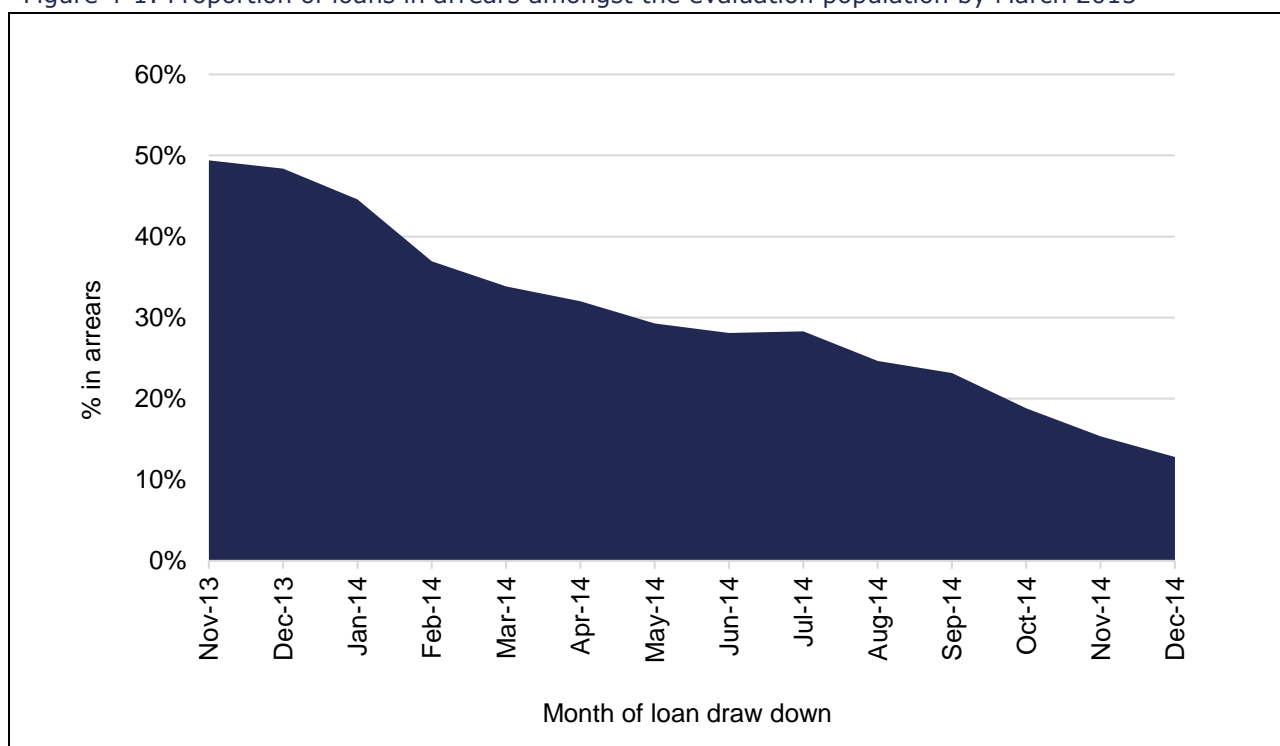
As noted in Section 1, Start-Up Loans is not expected to provide a commercial return to Government. However, as a loan rather than grant scheme, it is expected that the finance provided to beneficiaries is repaid (within a maximum five-year period), plus interest (at 6%). SULCo is responsible for overall management of the loan book, and recording levels of re-payment and arrears.

... amongst the evaluation population

Data provided to the evaluation team by SULCo indicates that, by the end of March 2015, of the c.11,000 loans drawn down over the evaluation period (November 2013 to December 2014), 32% were in arrears (meaning that payments have been missed for three months or more). The rate of arrears was consistent by age group (33% and 31% for those Aged 18-30 and Aged 31+ respectively), and broadly consistent by loan value, although those with a loan under £3k were slightly *less* likely to be in arrears, at 28%, compared to 33% for those with loans from £3k to £8k, and 31% for those with loans over £8k.

The proportion of loans in arrears was higher for loans drawn down earlier in the evaluation period, as shown in the Figure below. Approaching half of the loans drawn down in November and December 2013 were in arrears by March 2015 (49% and 48% respectively), with the rate of arrears by March 2015 declining for loans drawn down later in the evaluation period i.e. the rate of arrears increases over time. At this stage, given the consistent trend, this is assumed to reflect the timing of support, rather than that loans approved later in the evaluation period are less likely to be in arrears i.e. we would expect that the rate of arrears to increase over time for those supported later in the evaluation period.

Figure 4-1: Proportion of loans in arrears amongst the evaluation population by March 2015



Source: SULCo monitoring data

By March 2015, 42% of those individuals with loans in arrears (n=3,468) had been in arrears for six months or over, suggesting that securing re-payment is likely to be challenging for a large proportion of those in arrears by March 2015. However, all loans in arrears remained 'active' by March 2015 i.e. the value had *not* been written off by SULCo.

Table 4-9: Month in arrears (n=3468)

	Proportion of beneficiaries
1 month	16%
2 months	14%
3 months	11%
4 months	9%
5 months	8%
6+ months	43%

Source: Beneficiary survey

It is also worth noting that the rate of arrears does appear to be impacted by the provision/take-up of capital re-payment holidays, and particularly 12-month capital re-payment holiday periods. As set out in the table below, 44% of beneficiaries drawing down loans over the evaluation period with 12-month capital re-payment holiday periods were in arrears by March 2015, compared to 30% of individuals with no capital re-payment holiday. This may suggest that the provision of long-term (i.e. 12-month) capital re-payment holidays is acting as a disincentive to beneficiaries to ensure interest payments are met.

Table 4-10: Proportion of beneficiaries in arrears by length of capital re-payment holiday period

	Proportion of beneficiaries in arrears
None (n=6675)	30%
3 months (n=984)	34%
6 months/9 months (n=1995)	29%
12 months (n=1176)	44%
<i>Summary - no capital re-payment (n=6675)</i>	<i>30%</i>
<i>Summary - capital re-payment (n=4155)</i>	<i>35%</i>

Source: SULCo monitoring data

It remains too early to be definitive on the potential rate of loan default over the evaluation period, with nearly all loans still 'active' (just 2% had been either re-paid in full or closed by March 2015), and the evidence set out above on the time-lags to arrears suggesting that loans not yet in arrears may become so over the next months and years. Further, we may expect that levels of arrears will start to increase as businesses started-up following support fail (notwithstanding that the loan is to the individual not the business). A clearer indication of the likely rate of default should be available in the Year 2 evaluation, although this will still be indicative.

It is also important to recognise that some level of arrears, and subsequently default is both reasonable and desirable; no or a low level of arrears/default would indicate low finance additionality i.e. too much risk aversion in the provision of loans, meaning that the programme was not meeting its intent to provide finance for start-up to those individuals who would otherwise not have accessed this finance from other sources.

... amongst the survey cohort

As noted in Section 2, the proportion of beneficiaries from the survey sample in arrears by March 2015 was 13%. Owing to sample sizes, the monthly data has been grouped into two periods with broadly equal numbers of loans drawn down: June to September (around 480 loans) and October to December (around 420 loans). As shown below, the broad trend of a higher rate of arrears for loans drawn down earlier holds true, although it is worth noting that this does vary month by month.

Table 4-11: Proportion of surveyed individuals in arrears

	Proportion of surveyed beneficiaries
June to September (n=483)	16%
October to November (n=422)	11%
Overall	13%

Source: Beneficiary survey

At this stage there is no significant variation in the rate of arrears amongst the beneficiary cohort by age group, loan value, or mentoring take-up.

However, it is worth noting that the proportion of surveyed beneficiaries in arrears was higher for those that did *not* receive pre-application support (24%) than for those that did receive pre-application support (14%). Given the early nature of the findings (with arrears expected to increase over time) these data should be regarded as indicative only. However it may suggest that pre-application support is linked to better re-payment practice amongst beneficiaries; whether this pattern holds true over the longer term will be tested in future years of the evaluation.³²

³² It will be possible to track this data for the full Year 1 survey cohort over the future years of the evaluation (i.e. there will be no attrition) as the data on receipt of pre-application support will not need to be updated given that all surveyed beneficiaries had drawn down their loan at the time of the Year 1 survey i.e. they were past the re-application stage in the customer journey.

Section 5: Evidence on programme effectiveness

Key findings

- The evidence on programme effectiveness at this stage is neither definitive nor comprehensive. The evidence on start-up effects is more robust at this point, though still subject to revision next year. For other important measures of success, such as business performance (turnover) and survival, the evidence will be strengthened in future years of the evaluation, at which point a more robust conclusion can be made on the long-term effects of the programme.
- One-third of beneficiaries surveyed that had started a new business through the programme stated that their business would not have been started-up without Start-Up Loans, compared to just over one in ten of reporting that the business would have started up at the same time, scale and quality. The largest proportion of respondents indicated that Start-Up Loans brought their business start-up forward, most commonly by up to a year.
- The econometric analysis complemented these self-reported findings with evidence that beneficiaries were more likely to start a business than the comparison group with the programme a significant explanatory variable. The programme has not affected how long it takes to start a business, though arguably this may be desirable to ensure sufficient thought and planning, e.g. on markets, competitors etc.
- The findings on business performance need to be treated with caution given the stage of the evaluation, with the analysis based on forecast changes in sales and employment. The econometric analysis indicated that the programme has had a significant positive effect on the expected future sales change of beneficiary businesses though not on expected employment change. The former may mean that the programme has had an effect on 'optimism' of beneficiaries, and future years of the evaluation will enable us to revisit this based on actual achieved sales.
- The econometric analysis also found that the programme had had a positive effect on the confidence of beneficiaries in running and managing a business.

Coverage of the Year 1 report

This section sets out the evidence at this early stage in the evaluation on the effectiveness of the programme in terms of business and personal development outcomes, drawing both on the econometric analysis and the 'self-reported' evidence from survey beneficiaries.

Consistent with the caveats regarding this Year 1 report set out in Section 2, the evidence on programme effectiveness presented is neither definitive nor comprehensive. As set out in the table below, on a number of important measures it is simply too early to be able to provide an assessment on the effects of the programme. The indicators have been grouped into three types: business outcomes, individual economic outcomes, and personal development outcomes.

Outcome type	Outcome indicator	Covered substantively in report?	Commentary
Business outcomes	The likelihood of starting a business	✓	Robust data at this stage – albeit will need to be refined next year
	Speed of start-up	✓	Robust data at this stage – albeit will need to be refined next year
	The likelihood of survival	✗	Too early to provide detailed analysis of business survival
	Change in sales	(✓)	Based largely on estimates and self-reported evidence
	Change in employment	(✓)	Based largely on estimates and self-reported evidence
	Profitability	(✓)	Based largely on estimates and self-reported evidence
Individual economic outcomes	Employed status	✗	Too early to identify change in these individual economic outcomes
	Propensity to start a different business (following closure)	✗	
	Earnings	✗	
Personal development outcomes	Confidence in business	✓	Robust data, although still early days in identifying any effects of the Start-Up Loans relative to the comparison group
	Attitudes to business opportunities and behaviours	✓	
	Personal confidence	✓	

Business outcomes

Evidence on start-up and speed of start-up

Start-Up Loans are available for individuals with firms that have been established for up to 12 months (and in some cases 24 months), and 27% of the beneficiary survey sample were already trading when they approached the programme. The remainder of the beneficiary group generally approached the programme with a business idea, but they had not started trading. The analysis set out below focused on start-up for only those individuals that had *not* started-up at the time of approaching the programme, in order to ensure a proper and fair basis for measurement against the comparison group.

Defining a precise start-up date is subject to a number of possible definitions; as noted in Section 2, the determinants used in this study were incurring expenditure on and/or receiving income from the business based on the tracking survey. The survey also sought information on a range of other milestones in the business start-up process. Table 5-1 sets out the proportion of individuals in each group that had achieved these milestones by the time of the survey.

Table 5-1: Enterprise milestones for SUL beneficiaries and comparison group

	Comparison group	Beneficiary group
Market opportunities defined	56%	83%
Prepared a business plan	52%	98%
Expenditure incurred	57%	84%
Income received from sales	51%	63%
Partners working full-time	39%	69%
First employee	20%	24%
Revenue exceeds costs ³³	34%	36%
Registered with HMRC	27%	38%

Source: Beneficiary survey

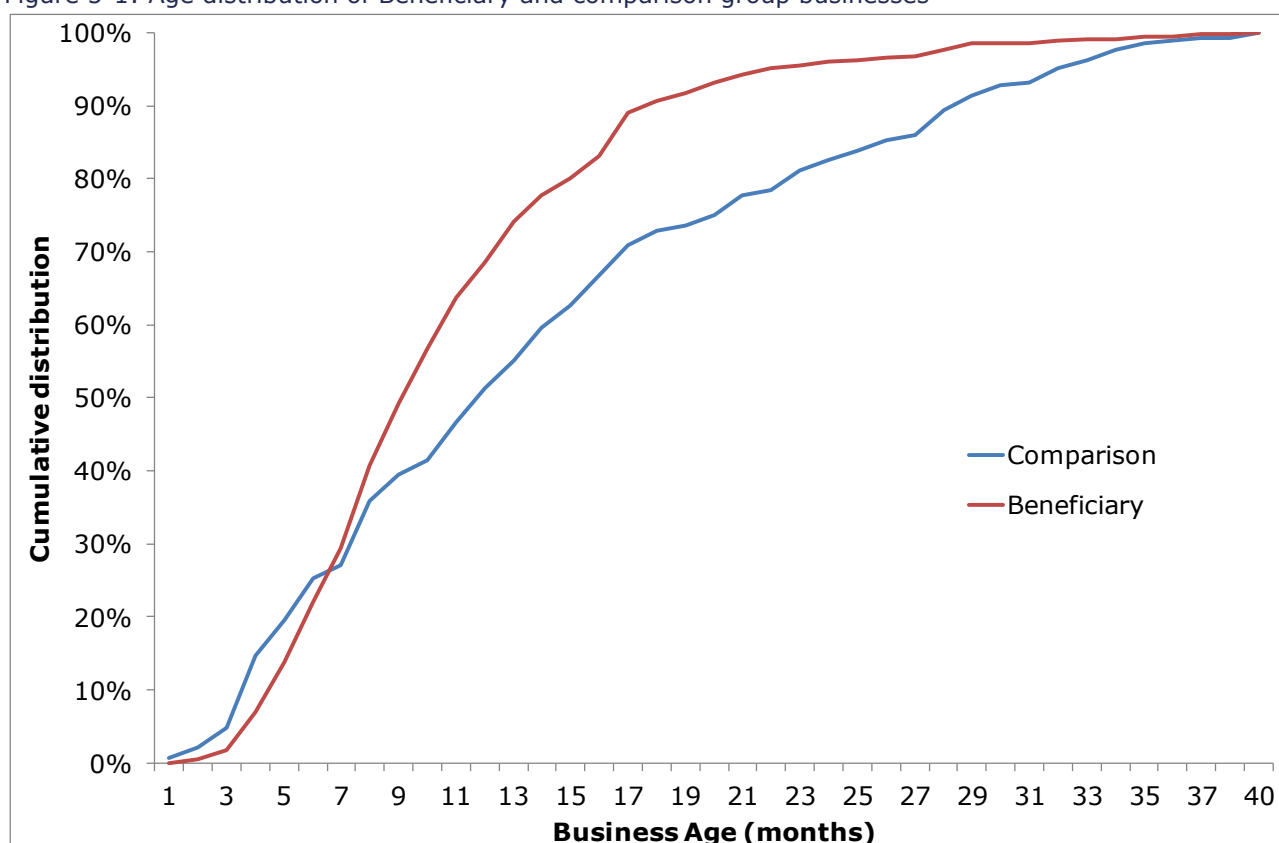
The overall trend is that a higher proportion of beneficiaries had reached each of these enterprise milestones than the comparison group. This is true in the 'preparatory' stages of defining market opportunities, and especially in terms of preparing a business plan, where the gap is 37 percentage points (pp) and 47 pp respectively (this is not unexpected given that preparing a business plan is a core element of the Start-Up Loans process). The difference is less marked in terms of the core 'start-up' milestones of earning income or incurring expenditure, with a gap of only 12 pps for income. Beneficiaries were also more likely to have devoted resources to the process, in terms of partners working full-time (+30 pps) and expenditure incurred (+27 pps). The gap narrows to near parity when considering those businesses with some degree of maturity (first employee +4 pps; revenue exceeding costs +2 pps; registration with HMRC +11 pps).

Using the measure of income earned or expenditure incurred the proportion of business starts for beneficiaries was 93%, compared with 75% for the comparison group. An initial observation at this stage might be that the comparison group has relatively similar numbers of businesses that are showing evidence of maturity, but rather fewer individuals that have undertaken the necessary preliminaries. If this is correct, survey results in subsequent years would be expected to show a higher proportion of the comparison group stalling in their efforts to start a business.

The survey also asked when interviewees had first started thinking seriously about their business and from this it is possible to determine the time taken to start their business. The comparison group appeared to be quicker in starting their businesses, with a mean of 10.1 months, compared with 12.3 months for the beneficiary group. However, both distributions have considerable variation and there is no significant difference between beneficiary and the comparison groups in terms of the time taken to start-up a business.

³³This question reports the proportion of respondents that have already recorded a profit. Later reporting on profitability uses a figure for profitability in the next financial year.

Figure 5-1: Age distribution of Beneficiary and comparison group businesses



Econometric analysis

The results of the econometric analysis on start-rate and speed of start are summarised in Table 5-2.

The results from a heckprobit test of the likelihood of individuals starting a business showed that receiving support from the Start-Up Loans programme was a significant factor in starting a business. There were also significant effects associated with higher start up rates for those that were degree educated, working in partnership with one or more other owners and having written a business plan before start-up. There was also a significant result for individuals based in London though this indicated a lower likelihood of starting a business. The results corroborated the simpler univariate analysis, which showed a higher proportion of programme beneficiaries having started a business compared to the comparison group.

One point to note is that the programme requires a business plan to be submitted as part of the loan application (and 98% of all beneficiaries surveyed indicated that they had a business plan), and the pre-application support may include advice on business planning (if required by the loan applicant). Therefore, it is necessary to consider the interaction between the programme (SUL) variable and the business plan variable. A further heckprobit model was undertaken with an interaction variable for those Start-Up Loans beneficiaries with a business plan before starting. Once this variable was included, both the programme and having a business plan before start-up remained significant. The interaction variable was weakly significant (significant at the 10% level when spatial dummies were included), though with a negative coefficient (see Table 5-2 and Table B-4 in Annex B). This means that the

econometric analysis indicates that the significant and positive effect of the Start-Up Loans programme on the start-rate is in addition to the effect of having a business plan before start-up. The results for the interaction variable suggest that for at least some beneficiaries the requirement to develop a business plan has had a negative effect on the start rate by the time of the survey, either because it has made them think some more about their business before starting or potentially put them off from starting at all. This can be tested further in next year's results. It is important to note that this effect could be welcome if it means that entrepreneurs are spending more time on preparation in order to develop stronger businesses. It is also important to note that this result does not mean that the pre-application support has not had a positive effect on beneficiaries of the programme, which is considered in chapter 6.

While there were some significant results relating to the rate at which businesses started, there were no significant results associated with the time taken to start a business. A two-step Heckman sample selection model showed no significant effects for any of the independent variables set out in Table 5-5. There was a positive yet weakly significant effect for London and Midlands-based businesses – with these businesses starting more quickly. In policy terms, this means that the econometric evidence showed that the programme overall has neither slowed down nor speeded up starting a business. It should be noted that speeding up the process of enterprise creation may not be desirable in any case, as the process should incorporate appropriate preparation and planning, such as to research markets and competitors.

Table 5-2: Summary of findings of econometric analysis on start-up outcomes [+++ = positively significant at 1% level; ++ = positively significant at 5% level; + = positively significant at 10% level; -- = negatively significant at 1% level; - = negatively significant at 5% level; <> = no significant effect]

Dependent Variable	Start rate (N=994)	Speed of start (N=805)
<i>Independent variables</i>	Result	Result
Age of owner	< >	< >
Age squared of owner	< >	< >
Previous business owner	< >	< >
Degree	+++	< >
Gender	< >	< >
SUL support	+++	< >
Other support	< >	< >
Economically active	< >	< >
BP before business started	+++	< >
Business plan because of SUL	n/a (<> in separate run)	n/a
Interaction of business plan before starting and SUL	n/a (- in separate run)	n/a
Venture	++	< >

Note that the different segments of independent variables for sector and geography have not been included in the table for ease of presentation: in many cases these were not found to be significant. The detailed data on sector and geography is included in the full tables in Annex B

Self-reported analysis

As a second perspective on the effect of the programme on business start-up, beneficiaries that started-up a business (i.e. incurred expenditure or received income) following support from Start-Up Loans were asked in the survey to provide a view on what would have happened if they had *not* been supported by the programme (note: the focus here is only on those beneficiaries that were not trading at the time they approached the programme). This is evidence on so-called 'self-reported deadweight', one of the core components of additionality. As set out in the table below, one-third of beneficiaries stated that their business would not have been started-up without the programme, reflecting full non-deadweight; by contrast 13% of beneficiaries reported full deadweight, that is, that the business would have started-up in any case and at the same time, scale and quality without the programme.

Table 5-3: Response to 'In your view, without your involvement with the Start-Up Loans programme, which of the following would have happened?'

	Proportion of respondents (n=476) ³⁴
The business would not have been started at all	33%
The business would have started, but at a later date	43%
The business would have started, but on a smaller scale	21%
The business would have started but would have been of lower quality	18%
The business would have started-up at the same time, scale and quality	13%
Don't know	1%

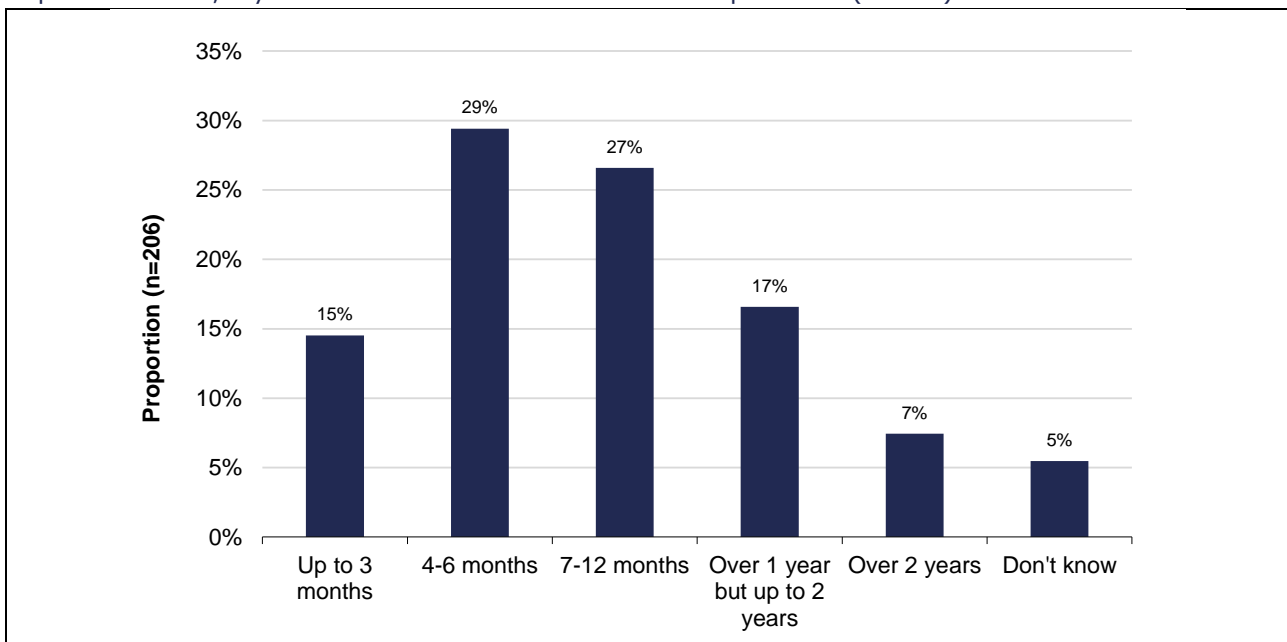
Source: Beneficiary survey Note: multiple coding was possible for timing, scale and quality categories

As is typical with public sector interventions such as Start-Up Loans (and as found in the evaluation of the pilot), a high proportion of respondents reported 'partial' deadweight, notably in terms of timing; that is, suggesting that Start-Up Loans enabled supported individuals to start-up their business faster than they would have done without support.

Looking at this in more detail, a majority of respondents that reported timing effects stated the programme brought forward the start-up of the business by no more than a year, with the largest proportion (29%) reporting that the programme brought forward start-up by between 4-6 months. However, for around a quarter of those individuals identifying time effects the role of the programme was substantial, bringing forward the business by over a year.

³⁴Data on self-reported additionality was not available for 76 beneficiaries

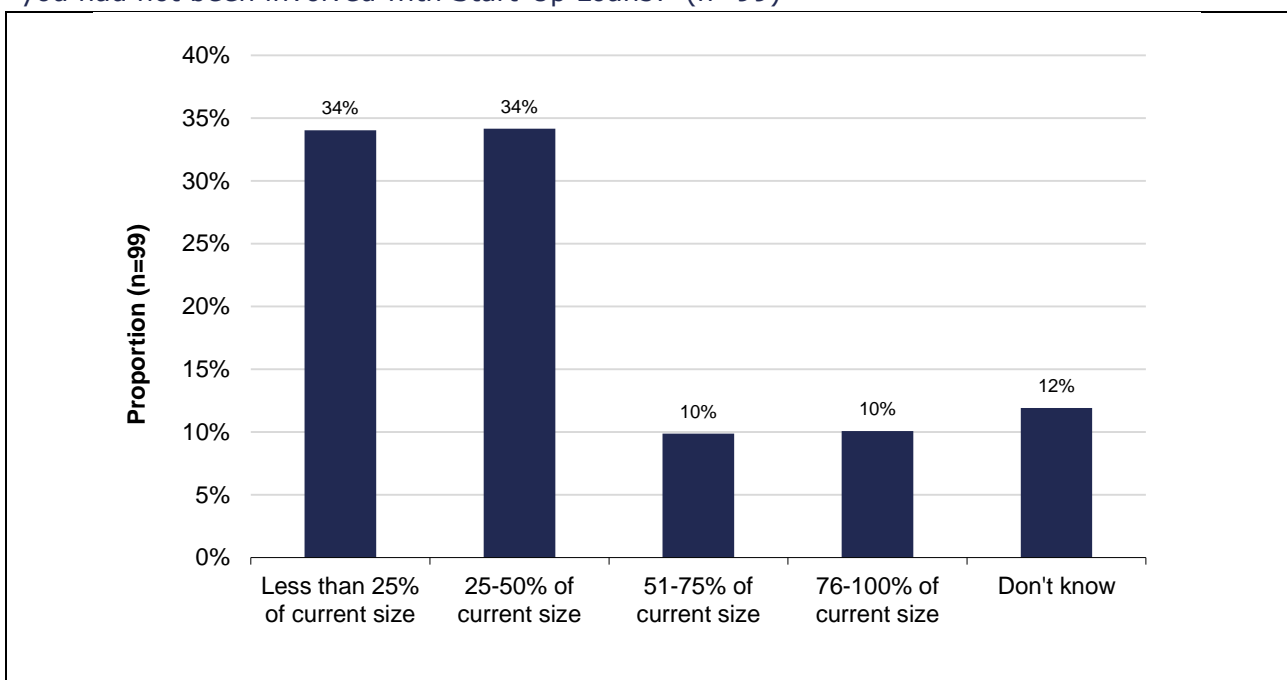
Figure 5-2: Response to: 'Approximately how much longer do you think it would have taken you to Start-Up the business, if you had not been involved with Start-Up Loans?' (n=206)



Source: Beneficiary survey

In terms of 'scale' effects, the effects of the programme appear to be significant, albeit for around a fifth of the beneficiary cohort only. Individuals identifying scale effects were asked to estimate how much smaller (in terms of turnover) the business would have been at the time of the survey if they had not been supported by the programme. As set out below, around a third of respondents stated the business would be less than 25% of its current size (i.e. at least three-quarters smaller) or 25-50% of its current size (i.e. at least half smaller).

Figure 5-3: Response to: 'Roughly how large would the business be now in terms of turnover if you had not been involved with Start-Up Loans?' (n=99)



Source: Beneficiary survey

Note that we have not sought to quantify or capture further quantitative data on the 'quality' effects of Start-Up Loans (identified by 18% of respondents); these effects are likely to vary widely and may be closely related to timing and scale effects. How Start-Up Loans may lead to 'better quality' businesses is an issue that will be covered qualitatively in the case studies to be launched in the second year of the evaluation.

Evidence on business performance

Descriptive statistics

At this stage in the evaluation, a low number of survey respondents had exited from a businesses (41 in all, 17 from the comparison group and 24 from the beneficiary group³⁵). Given the short period of time, from loan draw down for the beneficiaries (approximately three to ten months), and from screening to survey for the comparison group, this is not surprising. As such, it is too early to undertake any meaningful analysis on business survival and this will be revisited next year.

A similar issue is that since most of the individuals surveyed had started-up in the last year, there are limited observations (in all 185 across both groups) on a completed year of sales. Business performance in terms of sales change has therefore been calculated for the econometric analysis using mainly estimated figures for the current financial year, and projected figures for the next financial year, (where 650 observations are available for both groups). Table 5-3 shows the differences in sales for the comparison group and beneficiary group. In the current financial year, the differences are statistically significant (with the comparison group having higher turnover), but this is partly because the beneficiary group is associated with younger businesses, and projections for the following year shows beneficiaries have caught up and surpassed the comparison group in terms of estimated turnover. The turnover data at this stage may also reflect the sectoral make-up of the businesses in the two cohorts, with the beneficiary group including a slightly higher proportion of wholesale/retail businesses (20% of the beneficiary group compared to 15% of the comparison group), and a lower proportion of scientific/technical businesses (11% of the beneficiary group compared to 15% of the comparison group). Sectors are included as part of the econometric analysis, with detailed provided in Annex B.

Because there are missing values for the current year and next year the most important figures in the table are the third row showing averages for those cases where two years of data exist. This shows that the growth for the comparison group is expected to be £40,900, compared with £93,450 for SUL beneficiaries. It is to be remembered that none of these figures represent known performance and given that only 4% of the estimates indicate a contraction in sales there may be considerable optimism bias in play here (this is factored into the initial impact analysis based on the self-reported findings set out in Section 7).

³⁵The most common single explanation for the beneficiary group was that the business was closed because it could not pay its debt; however, a wide range of business specific factors were identified by both the beneficiary and comparison group.

Table 5-4: Sales estimates for beneficiaries and comparison group

	Comparison group	Beneficiary group
Current FY estimate (mean)	£135,280	£55,140
Next FY projection (mean)	£148,263	£181,059
Sales change (Next-current) (mean) ³⁶	£40,911	£93,453

Source: Beneficiary survey

The survey held more comprehensive data on the employment level in businesses created by the beneficiary and comparison groups, with 982 observations of current employment, and 937 observations of employment next year. However, the proportion of both groups that ran businesses that were employers was quite low; 27% of beneficiaries, and 25% of the comparison group. On average, there were 0.7 employees in businesses amongst the beneficiary group in the current year, and 1.7 employees in the comparison group in the current year, but this includes the non-employing businesses. For employing businesses the averages were 2.7 employees for beneficiaries and 6.7 for the comparison group. Estimated employment for next year was 2.7 employees for beneficiaries and 2.4 employees for the comparison group, or 3.8 and 4.6 excluding non-employers.³⁷ There were many businesses not experiencing any change in employment, but the majority (58%) expected to increase their total employment in the coming year, although the comparison group were more likely to report increased employment (62%) than beneficiaries (56%).

The survey also gathered information on profitability, in a binary state of having made a profit or loss. At this early stage, not all businesses were in a position to report on their profitability and we are reliant on estimates of profitability for the next financial year. Estimates for the next financial year indicated that 67% of the comparison group expected to be profitable, compared with 58% of the beneficiary group, which was a significant difference.³⁸

Econometric analysis

The probit results from the selection into the assisted beneficiary group indicated that the beneficiary group were distinctive in that they were more likely to be degree educated and more likely to be male than the comparison group. The results indicated that selection into SUL support exhibited sufficient evidence of selectivity to apply the two-step Heckman sample selection analysis. A summary of the findings of the outcome model are shown in Table 5-5.

As shown in Table 5-5 the econometric analysis showed that receipt of Start-up Loans programme support had a significant positive effect on expected sales growth. Whilst this is potentially a positive initial finding, it is important to note that the analysis has only been able

³⁶Missing values in each year explain why these figures do not compare with the differences between years.

³⁷The reduction in the average for the comparison group is owing to an increased number of observations providing data, i.e. more expecting to become employers bringing the average down.

³⁸Chi-squared $p=.05$

to consider future expected changes in sales. Therefore, one interpretation could be that the programme has had an effect on 'optimism' of beneficiaries, and so future years of the evaluation will enable us to revisit this based on actual achieved sales. A number of other independent variables were found to have significant results in relation to expected sales, which again will be considered in future years of the evaluation. These variables were:

- Gender (males expected significantly higher sales growth)
- Previous business ownership (previous experience was significant in explaining higher expected sales growth)
- Economic activity prior to starting their businesses (those economically active expected significantly higher sales growth)
- Business planning (having a business plan was significant in explaining higher expected sales growth)
- Ownership (businesses with multiple owners expected significantly lower sales growth).

The model for employment change examined the extent of growth in estimated employment in the next year. As shown in Table 5-5, the Start-Up Loans programme was not found to be a significant variable in explaining expected employment change, though it is important to note that it is early days in the evaluation. The results showed that there were other significant explanatory variables, though some caution is needed in reading too much into these findings given the early stages of the evaluation, and these findings will need to be revisited. The significant variables were:

- Size of business in the baseline year in terms of employment (larger businesses at the outset expected significantly higher employment growth)
- Access to other support (there was a positive yet weakly significant effect for those accessing other support on expected employment growth)
- Age of business (there was a negative yet weakly significant effect for older business on expected employment growth).

The tests on profitability assess profit based on a binary variable (i.e. making a profit =1, not making a profit = 0). Table 5-5 identifies the significant variables based on the analysis at this point in the study. Given the early stages of some of the businesses in particular, it would be inappropriate to read too much into the findings at this point in the evaluation.

All of these econometric tests are subject to the caveat that analysis has been undertaken predominantly on forecast turnover. The provenance of the forecasts may differ, because beneficiaries are rather more likely to have completed a business plan and will have formally considered cash-flow forecasts (and therefore profitability) and sales forecasts. More certainty should be placed on these results in coming years, as forecast turnover is increasingly supplemented with actual results.

Table 5-5: Summary of findings of econometric analysis on business performance outcomes [+++ = positively significant at 1% level; ++ = positively significant at 5% level; + = positively significant at 10% level; --- = negatively significant at 1% level; -- = negatively significant at 5% level; - = negatively significant at 10% level; <> = no significant effect]

Dependent Variable	Change in sales (N=571)	Change in empl. (N=825)	Profitability (N=813)
Independent variables	Result	Result	Result
Age of owner	< >	< >	< >
Age squared of owner	< >	< >	< >
Previous business owner	+++	< >	< >
Degree	< >	< >	< >
Gender	++	< >	< >
Business plan	++	< >	< >
Total investment	< >	< >	< >
SUL support	+++	< >	---
Other support	< >	+	< >
Economically active	+++	< >	< >
Size of business	< >	+++	< >
BP before business started	n/a	n/a	< >
Business plan because of SUL	< >	< >	< >
Age of business	< >	-	---
Age squared of business	< >	< >	++
Venture	--	< >	< >

Note that the different segments of independent variables for sector and geography have not been included in the table for ease of presentation: in most cases these were not found to be significant. The detailed data on sector and geography is included in the full tables in Annex B

Personal development outcomes

Descriptive statistics

The tracking survey asked five questions on issues related to personal development. This included a rating of business skills and knowledge, confidence in running and managing a business, as well as personal confidence outside of business. The survey also asked attitudinal questions testing the receptivity of individuals to external support and their participation in business networks. Unlike the other results presented above, these are not forward-looking projections but report on current views, as well as establishing a baseline for future years of the evaluation.

Table 5-6 shows the proportions of individuals rating their skills and confidence, using a five point likert scale, from very poor to very good. All three measures post relatively positive scores for both the beneficiary group and the comparison group. For those measures associated with confidence in running a business and business skills and knowledge, beneficiaries post higher results. There is little difference in terms of personal confidence.

Table 5-6: Feedback on levels of confidence and skills

	Confidence running and managing a business		Personal confidence outside business		Business skills and knowledge	
	Comparison group	Beneficiary group	Comparison group	Beneficiary group	Comparison group	Beneficiary group
1 = Very Poor	1%	0%	0%	1%	2%	0%
2	3%	1%	1%	1%	5%	2%
3	18%	11%	7%	7%	28%	27%
4	39%	43%	46%	40%	46%	49%
5 = Very Good	39%	43%	46%	52%	20%	22%

Table 5-7 shows the responses relating to perceptions of external help, in the form of participation in business networks and more general external advice. SUL beneficiaries report slightly more interest in being involved in business networks. Both groups placed considerable value in external advice in managing a business (note, as reported in Section 2 around half of the comparison reported they had received external support or advice in developing their business).

Table 5-7: Feedback on involvement in business networks and valuing external advice

	Involved in business networks		Value external advice in managing business	
	Comparison group	Beneficiary group	Comparison group	Beneficiary group
Agree strongly	17%	20%	38%	45%
Agree	40%	43%	52%	47%
Neither agree nor disagree	17%	15%	6%	4%
Disagree	21%	18%	3%	3%
Disagree strongly	6%	4%	1%	1%

Econometric analysis

The five questions relating to confidence and skills and perceptions of external help (as reported in Table 5-6 and 5-7 above) yielded some significant results, but mainly found there were no significant effects related to participation in SUL support.

Participation in the Start-Up Loans programme had a significant and positive effect on confidence in running and managing a business. Interestingly, the variable for developing a business plan because of the programme was also significant and positive, which means that

those that attributed the writing of their business plan to the programme reported higher levels of confidence in running and managing a business. There were also positive results relating to previous business ownership and, more generally, possession of a business plan.

The programme was not found to be significant on any of the other four variables (i.e. confidence outside of their business, business skills and knowledge, involvement in business networks, and valuing external business advice). However, the variable for developing a business plan because of the programme was significant and positive for valuing external business advice. Annex B sets out the full results of these tests, with the following a summary of the notable significant variables:

- Previous business ownership and the possession of a business plan were significant and positive in relation to better business skills and knowledge.
- The receipt of other support and possession of a business plan were significant and positive in relation to engagement in business networks.
- Gender was significant in relation to valuing external advice, with women more likely to value this.

Section 6: Evidence on programme improvement

Key findings

- The self-reported findings regarding pre-application support are positive. Over three quarters reported that it improved their understanding of business planning, and that it improved their understanding of financial management. A lower proportion (albeit still a majority) of beneficiaries reported that the pre-application support led to improved understanding of competitors.
- Although the self-reported evidence identified positive findings on skills and understanding, the econometric analysis indicated that the rate or speed of business start-up was not significantly different between those beneficiaries that did and did not take-up pre-application support. This is perhaps unsurprising given the variation in the cohort in relation to the amount of pre-application taken up (and potentially required) by different beneficiaries.
- The self-reported effects of pre-application support were more pronounced for younger beneficiaries, those with smaller loans, and less pronounced for those individuals receiving less of it. This may reflect that individuals who perceive greater benefits from the support take-up more if it, but it may also suggest that the more support is received, the greater the benefits secured. It is too soon to know whether this improved understanding will translate into improved business performance.
- Take up of mentoring was around 50% at the time of the beneficiary survey, with a further 20% intending to take up mentoring. The self-reported qualitative effects of mentoring where taken-up are encouraging, both in terms of business and personal development.
- Again more mentoring is associated with higher self-reported qualitative outcomes, and more positive self-reported effects from mentoring were more commonly identified where the medium was mainly face-to-face compared to mainly by phone/online. Whilst it is important to maintain flexibility in the mentoring offer to meet individual needs, this may suggest that face-to-face mentoring as the norm is appropriate (and this is already the most common form offered by delivery partners). However, this finding will need to be tested through the econometrics in future years.
- A majority of beneficiaries (52%) of beneficiaries stated that the loan had been the most important element of support, with 25% identifying the pre-application support as most important, and 19% mentoring support. Beneficiaries with loans of under £3k were more likely to identify mentoring as the most important element of support, whilst those with loans over £8k were more likely to identify the loan as the most important element.

Coverage

This section turns to the consideration of 'within programme' issues, and the evidence at this stage on the absolute and relative effects of different elements of the customer journey, focusing particularly on the pre-application and mentoring support stages. Consistent with the previous section, the analysis combines econometric analysis with descriptive analysis,

although again at this Year 1 stage, the findings represent early estimates and indications of programme improvement issues.

This caveat is particularly relevant to the analysis of the effects of mentoring. Mentoring is expected to last on average two years. Our survey cohort, which drew down loans over June to December 2014, remains early in the mentoring process (and mentoring was ongoing for 78% of those who had taken it up by the time of the survey), and a good proportion of those offered mentoring support (25% of around 850) reported that they had not yet taken it up, but intended to do so in the future.

Pre-application support

Effects of pre-application support on understanding of business issues

As set out in Section 3, the majority of beneficiaries surveyed were offered and took-up pre-application support. Further to the tangible effect of this support on business start-up discussed in the previous section, the Year 1 survey also sought to provide evidence on the extent to which the pre-application support led to wider personal development outcomes though improved understanding of various elements of business development i.e. that the pre-application support both enabled business start-up and also delivered wider outcomes with long-term positive potential for the beneficiary cohort.

The headline findings on these issues are set out in the table below. Overall the findings are positive: for example, 81% of beneficiaries that took-up pre-application support reported that it improved their understanding of business planning, and 77% that it improved their understanding of financial management.

Table 6-1: Response to: 'To what extent did you agree or disagree that the pre-application support led to improvements in the following areas.' (n=855)

	Improved my understanding of market opportunities	Improved my understanding of competitors	Improved my understanding of financial management	Improved my understanding of business planning
Agree strongly	24%	17%	31%	33%
Agree	44%	44%	46%	49%
Neither agree nor disagree	16%	15%	8%	8%
Disagree	11%	19%	10%	7%
Disagree strongly	3%	5%	2%	2%
Don't know	2%	1%	1%	1%
<i>Agree – summary</i>	<i>68%</i>	<i>60%</i>	<i>77%</i>	<i>81%</i>
<i>Disagree - summary</i>	<i>15%</i>	<i>24%</i>	<i>13%</i>	<i>10%</i>

Source: Beneficiary survey Note: summary numbers may not add owing to rounding

As shown in the table, a lower proportion (albeit still a majority) of beneficiaries reported that the pre-application support led to improved understanding of competitors, with just 17% 'agreeing strongly', around half the level as for improved understanding of business planning. This may be linked to the fact that this support on competitor research is less commonly offered, as evidenced by the Delivery Partner survey (as discussed in Section 3, with the detailed findings in Annex C). However it may also suggest that this is an area where the support offer by the programme could be enhanced. This could help to improve the understanding of beneficiaries on their competitors, potentially improving the performance of businesses, and reduce levels of market displacement i.e. on the basis that the more beneficiaries understand their competitors, the better they can differentiate their offer, and avoid developing products/services that displace existing activity.

The effects of pre-application support on understanding of various elements of business development also varied across the beneficiary cohort. The findings are set out below (showing the proportion that strongly agree/agree combined) cut by age-group, loan size and for this indicator the scale of pre-application support received. The key messages are as follows:

- The effects of pre-application support on business understanding are more pronounced for younger beneficiaries, across all aspects considered. This is not unexpected, but it does highlight the importance of this stage of the customer journey for those with (generally) less business and work experience.
- The effects of pre-application support on business understanding are more pronounced for those individuals with loans under £3k, across all aspects considered. Again this perhaps is not unexpected, with those individuals with more modest loans 'earlier on' in terms of business understanding and development.
- The effects of pre-application support on business understanding are consistently less pronounced for those individuals receiving less pre-application support. This is logical (the less support received, the less effect it is likely to have), and may reflect that individuals that perceive greater benefits from the support take-up more support, but the difference is quite marked across all of the aspects of business understanding considered.

Table 6-2: Feedback on effects of pre-application support by age, loan value, support hours

	Improved my understanding of market opportunities	Improved my understanding of competitors	Improved my understanding of financial management	Improved my understanding of business planning
<i>Age group</i>				
Aged 18-30 (n=390)	72%	66%	81%	85%
Aged 31+ (n=452)	65%	57%	75%	79%
<i>Loan size</i>				
Under 3k (n=180)	77%	69%	84%	88%
3k to 8k	68%	62%	76%	81%

	Improved my understanding of market opportunities	Improved my understanding of competitors	Improved my understanding of financial management	Improved my understanding of business planning
(n=454)				
Over 8k (n=208)	62%	53%	77%	79%
<i>Hours pre-application support</i>				
Up to 5 hours (n=395)	54%	46%	67%	71%
6 to 20 hours (n=264)	79%	71%	88%	89%
Over 21 hours (n=159)	86%	77%	89%	96%
Can't recall (n=37)	64%	73%	70%	75%

Source: Beneficiary survey

At this stage it is too early to know whether these improvements in understanding of business issues translate into improved business survival and performance over the long-term. However, the data indicate that the pre-application support is perceived to have a positive effect on understanding of business issues by beneficiaries. This should have longer-term effects notwithstanding the success or failure of the specific business supported through the programme, and is important given the overall objective for Start-Up Loans to enhance the long-term employment prospects for beneficiaries if, or when, they exit their business. Those individuals who received less pre-application support secure (or believe they secure) lower benefits from it in terms of improved understanding. Of course, it may be that individuals receiving less pre-application support did not need it (and higher levels of support was more common amongst younger beneficiaries) and therefore got less out of it. However, the data do indicate that, at least for some beneficiaries, the scale of support provided at the pre-application stage is an important factor in enabling Start-Up Loans to generate personal development benefits for its beneficiaries.

Econometric analysis

A probit test for selection into the pre-application group found that the only significant difference among the independent variables was with respect to delivery partner. The only variable under scrutiny was whether the delivery partner was a CDFI or not and the results were that CDFIs were less likely to have clients that were provided with pre-application support. The amount borrowed was not significant.

The test for start-up rates (i.e. whether or not a business had been started-up at the point of the survey) among the beneficiary cohort indicated that receipt of pre-application support (or the number of hours of pre-application support) did not affect the likelihood of a beneficiary starting a business. Put another way, within the beneficiary cohort, the start-up rate for those beneficiaries that had received pre-application support was not significantly different (either higher or lower) than for those that did not. Note that this does *not* mean that the pre-application support does not have a positive effect on start-up rates for beneficiaries relative to

non-beneficiaries (indeed further analysis suggests that it does³⁹), but that for beneficiaries of the programme the start-up rate is the same for those that do and do not take-up pre-application support alongside the loan.

Pre-application support (or the number of hours of support received) also was not a significant factor within the beneficiary cohort on the timing of start-up, neither slowing nor accelerating the process. This is perhaps unsurprising given the variation in the cohort in relation to the amount of pre-application taken up (and potentially required) by different beneficiaries. A further point to note here is that advice on business planning is part of the pre-application support, though in chapter 5 it was found that the interaction of Start-Up Loans support and having a business plan before starting had a negative effect on the start-rate (for those individuals that had not yet started a business when they approached the programme). This could imply that the pre-application support in terms of the business planning component has an adverse effect on the start rate, though the evaluators note that the evidence on this is inconclusive. First, the negative effect found was only weakly significant (i.e. significant at the 10% level). Second, a logical explanation is that the requirement to develop a business plan as part of pre-application encourages beneficiaries to think in more detail about their business proposition, including its markets, competitors etc. This may have slowed the process for a small number of beneficiaries, resulting in this weakly significant and negative effect – such that by the time of the survey the business had yet to start. This could be revisited in next year's data.

Of course, these data do not mean that there is no value in pre-application support, since the econometric analysis has considered the effects on start-up itself, and the self-reported finding suggest that there are other factors that underpin its core role in the programme. In addition, it potentially plays a role in building the relationship with respective delivery partners. Furthermore, the start-up rate is high, and the sample of respondents that did not receive pre-application support is low, which together make discerning an effect on the start-rate difficult.

For programme beneficiaries the analysis indicated that receipt of other support had a significant and positive effect on the start-rate, and that working in partnership with other owners had a significant and positive effect on the speed of start-up.

Mentoring support

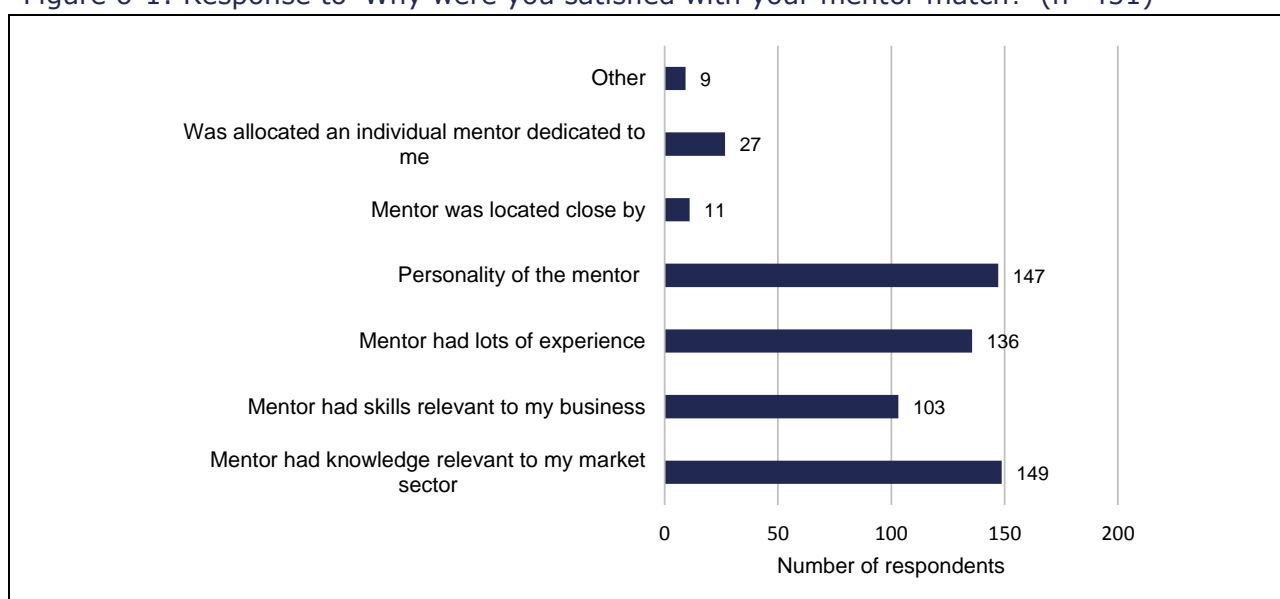
Levels of take-up of mentoring were set out in Section 3. The paragraphs below report on the feedback from the survey from those individuals that had taken-up mentoring at the time of the survey (n=451).

³⁹ When a pre-application variable is used in the scheme effectiveness econometrics (as reported in Section 5) in place of a programme engagement variable (i.e. the SUL variable) the effects of pre-application support are found to be positive and significant on the start-up rate (and indeed with similar coefficients to the SUL variable). This is because of the high-rate of the interaction between programme participation and pre-application support, with 89% of beneficiaries surveyed without an established business (and therefore the focus of the start-up analysis) receiving pre-application support.

Satisfaction with mentor match

Satisfaction with the mentor match was high: of those that took up mentoring (n=451), 56% were 'very satisfied' with the mentor match, and a further 20% were 'satisfied'. Just 8% of those that took up mentoring were dissatisfied/very dissatisfied, in aggregate terms, 34 of the over 450 individuals with a mentor. Four (related) factors explained the levels of satisfaction with the mentor match, as set out in the Figure below. The most common explanations were knowledge of the market sector and the personality of the mentor. The mentor's experience and skills relevant to the business were also important.⁴⁰

Figure 6-1: Response to 'Why were you satisfied with your mentor match?' (n=451)



Source: Beneficiary survey

Self-reported effects of mentoring support

It remains too early to assess robustly the effects of mentoring support for the beneficiary cohort. However, the Year 1 survey sought to establish a 'baseline' on perceptions of the effects of mentoring on the performance of the business, and whether mentoring has helped individuals to develop new or improved skills. The data are set out in the table below. The findings at this early stage are positive, with 80% reporting that the mentoring support has improved the performance of the business, and 73% that it has helped to develop new or improved skills (it is worth noting that a relatively high proportion of beneficiaries reported 'don't know' here, likely reflecting the early stage of mentoring).

⁴⁰Note given the small number of respondents (n=34) it has not been possible at this stage to identify robust evidence on why some beneficiaries were dissatisfied with the mentor match. This issue will be covered in the Year 2 report by which time potentially the sample size will be larger as more beneficiaries take-up mentoring.

Table 6-3: Response to: 'To what extent do you agree or disagree with the following statements about business mentoring? (n=451)

	It has had a positive effect on your business	It has helped you personally to develop new or improved business skills
Agree strongly	43%	38%
Agree	37%	35%
Neither agree nor disagree	11%	9%
Disagree	5%	4%
Disagree strongly	3%	1%
Don't know	2%	13%
<i>Agree - summary</i>	80%	73%
<i>Disagree - summary</i>	8%	5%

Source: Beneficiary survey

The evidence from beneficiaries on the effects of mentoring support has been analysed by age, loan value and the scale of support received. The findings are set out in the table below. The data suggest that the perceived effects of mentoring to date on business performance are not related to age, or the value of the loan secured, although those with the loan values Under £3k were significantly more likely to report effects to date on developing new/improved business skills than those with loans at £3k-8k or Over £8k.

Consistent with the data on pre-application support, the findings at this early stage suggest that the scale of mentoring is linked to the perceived benefits generated. Beneficiaries that had received no more than five hours of mentoring support at the time of the survey were less likely to report effects from mentoring on the performance of the business and/or personal skills than those that have received 6 to 20 hours of mentoring support (the sample size for over 20 hours of mentoring is small, and as a result no conclusion should be drawn from this data).

Table 6-4: Feedback on mentoring by age, loan value and hours of mentoring support

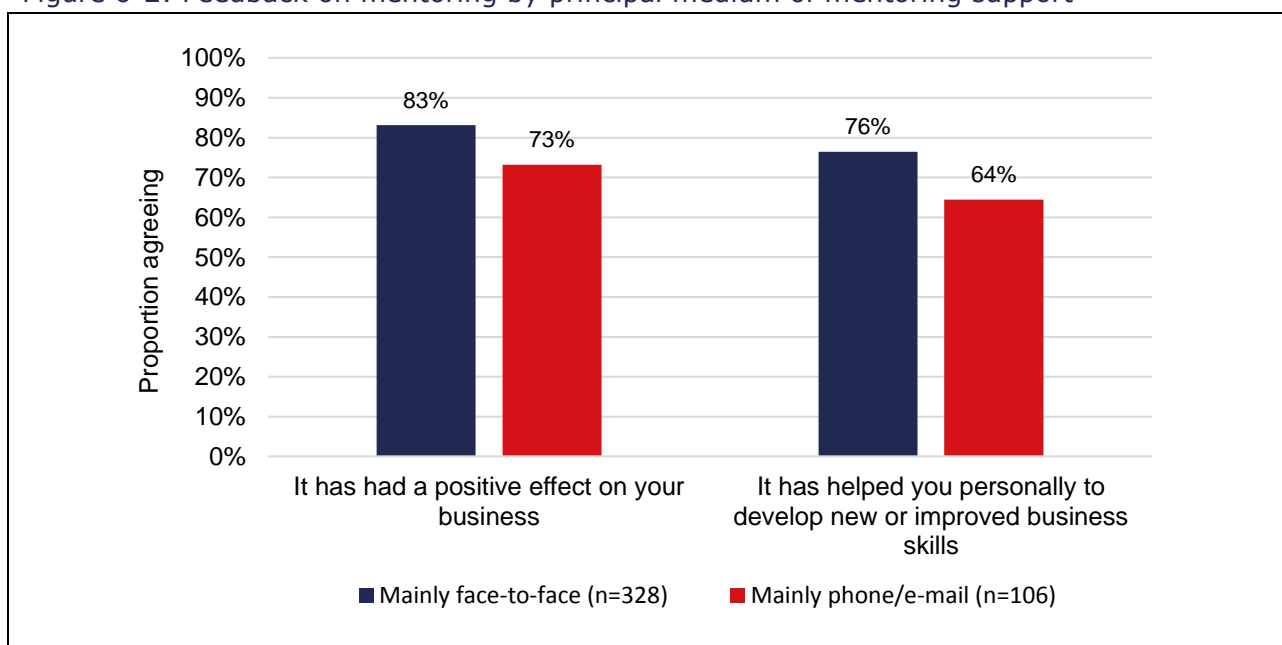
	It has had a positive effect on your business	It has helped you personally to develop new or improved business skills
Age group		
Aged 18-30 (n=239)	80%	75%
Aged 31+ (n=206)	79%	70%
Loan value		
Under 3k (n=113)	80%	81%

	It has had a positive effect on your business	It has helped you personally to develop new or improved business skills
3k to 8k (n=216)	80%	71%
Over 8k (n=116)	78%	68%
Hours of mentoring support		
Up to 5 hours (n=270)	71%	63%
6 to 20 hours (n=140)	92%	86%
Over 21 hours (n=25)	96%	100%
Can't recall (n=15)	88%	82%

Source: Beneficiary survey

It is also worth noting that the proportion of respondents that agreed that mentoring had generated positive effects at this stage was significantly higher for those individuals receiving mentoring delivered mainly face-to-face, compared to mentoring delivered mainly by phone/online, as shown in the Figure below. Whether this pattern is sustained as the number of beneficiaries taking-up mentoring increases, and as existing mentoring continues to be delivered, will be considered as the evaluation progresses in future years.

Figure 6-2: Feedback on mentoring by principal medium of mentoring support



Source: Beneficiary survey

Econometric analysis

Mentoring potentially affects the attitudes of businesses and may be expected to improve business skills and confidence in running a business. Therefore, further econometric analysis has isolated the beneficiaries from the comparison group and retested across the five domains of confidence and attitudes.

A probit test for selection into the mentoring again found a significant difference relating to CDFI delivery partners. Those beneficiaries assisted by CDFIs were less likely to have taken up mentoring. Women were more likely to have taken up mentoring.

Overall, the results were less clear-cut than for the combined population, with fewer significant explanatory variables across the five tests. The tests for confidence running and managing a business and confidence outside business, both found no significant results at the 5% level, and no evidence in support of mentoring or the amount of mentoring. Self-reported scores of business skills and knowledge found that previous business owners reported better skills, and businesses in receipt of other support were more likely to be involved in business networks, but in neither case was mentoring significant. However, the final tests for the perceived value of external advice found a significant and positive effect for those that had taken up mentoring and those attributing the creation of the business plan to participation in the programme, as well as finding that women valued external advice more.

In policy terms, knowing which groups are more susceptible to arrears is very important in potentially shaping lending decisions. The analysis examined which variables affect arrears rates at this early stage, finding that none of the easily observable borrower characteristics (age, gender, education etc.) or business characteristics pointed towards beneficiaries being in arrears. However, there were two scheme effects, namely the number of hours of mentoring (arguably somewhat surprisingly finding that more mentoring was associated with being in arrears), and that CDFI supported businesses were more likely to be in arrears. Given the early stage of re-payment as discussed above, these findings data should be treated with caution and viewed as indicative only⁴¹.

Note that in future years of the evaluation the econometrics analysis on business performance will include testing the effects of mentoring, it was too early to undertake this analysis in this first year of the evaluation.

Importance of programme elements

The final evidence in this section concerned with scheme improvement issues is to set out the feedback from the beneficiary on perceptions at this stage on which element of the programme (pre-application support, loan, or mentoring) has been the most important for the development of their business/business idea.

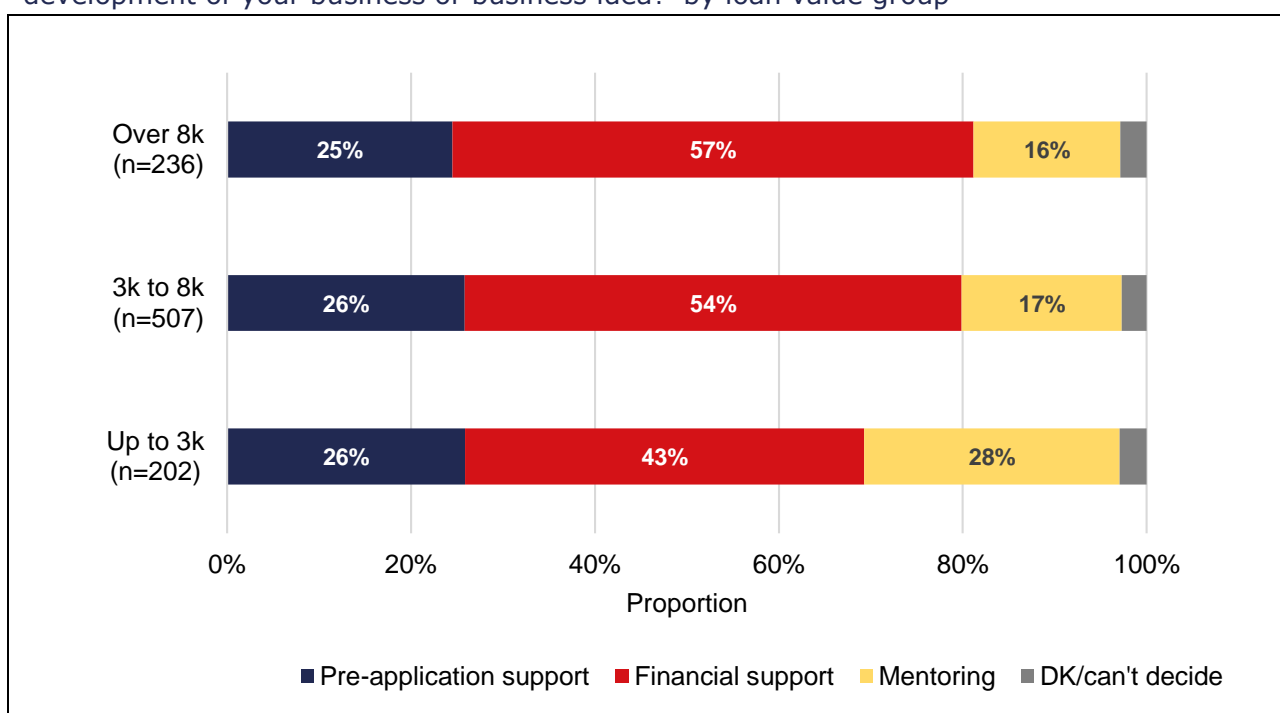
⁴¹ Moreover, the findings in chapter 7 actually suggest that those supported by CDFIs expect to generate higher impact – of course arrears and impact are two different effects, though they could be considered as being related.

Overall, a majority of the beneficiaries, 52% (502 of 959) stated that the loan had been the most important element of support, with 25% identifying the pre-application support as most important, and 19% mentoring support (of course, only around half of beneficiaries had taken-up mentoring by the time of the survey, so we would expect this to be lower for the survey sample as a whole). That the loan is the most commonly cited 'most important' element of support is not unexpected, particularly at this stage when mentoring activity is on-going for most, and upcoming for some.

Looking at these data in more detail, it appears that beneficiaries aged 18-30 were more likely to identify mentoring as the most important element of support than those aged 31 or over (23% compared to 16%). However, this is owing to the higher mentoring take-up to date amongst the younger cohort (see Table 3-5 above); considering only those that have taken-up mentoring there is no significant difference between the age groups. Beneficiaries with loans of under £3k were also more likely to identify mentoring as the most important element of support, whilst those with loans over £8k were more likely to identify the loan as the most important element, as shown in the Figure below.

In this case, the trend is not driven by levels of take-up alone. When only those that have taken-up mentoring are included in the data there remains a significant difference between the proportion of individuals identifying mentoring as the most important factor amongst those with loans Up to £3k (35%), compared to those with loans Over £8k (20%). As such, the data suggest that at this stage, mentoring is seen as relatively more important for the development of the business/business idea for those individuals with lower value loans, compared to those with larger loans. Again, whether this trend continues will be considered as the evaluation progresses in future years.

Figure 6-3: Response to: 'Thinking now about the different elements of the Start-Up Loans support, which of these three would you rank as the most important in terms of the development of your business or business idea?' by loan value group



Source: Beneficiary survey

Section 7: Early estimates of impact and Value for Money

Key findings

- The total 'gross' turnover identified by surveyed respondents that have started-up a business covering the last, current and next financial years was approximately £100m, with an average (mean) turnover effect per individual/business where evident of £165k (across all three years). Nearly two-thirds of the turnover is expected for the next financial year, emphasising the uncertainty associated with estimates of the effects of the programme at this point.
- Taking into account both deadweight based on self-reported evidence and optimism bias the net turnover effect is estimated at around £35m, with an average (mean) net turnover effect of per individual/business around £60k.
- The evidence at this early stage may suggest that the effect of the programme, in terms of turnover alone, is more pronounced for higher loan values, although given the uncertainty with the data and its basis in self-reported effects this should be regarded as illustrative only.
- Displacement – where the turnover benefits from firms started-up by individuals supported by the programme leads to disbenefits for existing non-supported businesses – is estimated to account for around half of the net turnover effects.
- Taking into account displacement, and assumptions on business survival, the net GVA effect for the beneficiary survey cohort over the last, current and next financial years, is estimated to be approximately £5.9m (assuming that GVA is 45% of turnover).
- Scaling-up the findings of the beneficiary survey to the evaluation population as a whole, and assuming three years of persistence, provides an indicative/early stage estimate of the net GVA contribution from loans drawn down in the evaluation period of £136m.
- At this stage, the value for money of the programme appears reasonable, with positive Benefit Cost Ratios (BCRs), indicating that the net benefits of the programme at this initial stage are estimated to exceed its costs. The BCRs are in the range of three to approaching four to one. These findings are early estimates of value for money and may be substantially revised in subsequent years of the evaluation.

Early estimates of impact

Approach

The early estimate of impact set out in this Year 1 report is based on the evidence provided by the survey of beneficiaries. The principal focus is on the turnover generated by firms started-up by individuals supported by the programme, adjusted from gross to net effects, and converted to GVA. The GVA data are presented both for an initial three-year period (last, current and next financial years) and to provide an initial estimate of the longer-term impacts

of the programme carried forward for a further three years (with account taken of expected survival rates).

The findings based on the survey cohort have also been scaled-up to the evaluation population to provide an indicative assessment of the overall impact of the programme for this cohort of beneficiaries. Note that at this stage in the evaluation, the impact analysis is focused on the 'first round' effects only i.e. the GVA associated with the loans drawn down in the evaluation period. At this point it is expected that at least half of this loan value will be recycled (plus interest) to support further loans; this recycling effect has not been captured in this report owing to the uncertainty in the levels of re-payment.

Turnover and GVA effects

Gross turnover effects

The first step in the early assessment of impact was to establish the 'gross' turnover contribution of firms started-up or developed by beneficiaries of the programme. As noted in Section 2 this headline analysis includes turnover from firms that had started-up by the time of the survey and provided turnover data only (including those that subsequently closed but had a full year of trading); expected turnover for firms not yet started-up is discussed separately below.

Firms that had started-up were asked to provide information on their turnover for three time periods: a completed financial year (where relevant), the current financial year, and the next financial year. With a small number of exceptions these data corresponded to the 2014/15 (last), 2015/16 (current), and 2016/17 (next) financial years – for the modelling, all turnover identified by firms has been allocated to these years. The total 'gross' turnover identified by surveyed respondents in these years is set out in the table below, amounting to approaching £100m. The average turnover effect per individual identifying turnover was around £165k (note this average covers all three years). The average was somewhat higher for individuals with businesses that were trading at the time of approaching the programme (£235k) than for those individuals with businesses that started-up after support from the programme (130k); this is not surprising given that businesses in the former group were more mature at the time of the survey and with a greater number able to report data on a full year of trading.

Table 7-1: Gross total turnover of the survey sample

	Value
Turnover in 2014/15 (£k)	4,949
Turnover in 2015/16 (£k)	29,356
Turnover in 2016/17 (£k)	62,919
Total turnover (£k)	97,224
Number of individuals identifying turnover	590
Average (mean) gross turnover per individual (£k)	165
Median gross turnover per individual (£k)	61

Source: Beneficiary survey and SQW analysis

It is worth noting that approaching two-thirds (64%) of the total turnover identified is expected for the next financial year, rather than generated to date. This is not surprising given the make-up of the survey sample, who drew down their loan in the second half of 2014. However, this does emphasise the uncertainty associated with estimates of the effects of the programme at this point.

There was no variation in the average gross turnover by broad age-group. However, the average gross turnover was higher for individuals with a loan Over £8k, both in terms of mean and median data as set out in the table below. However, it is important to note that these are gross data (i.e. not accounting for deadweight and displacement), or optimism bias.

Table 7-2: Average gross turnover effects (mean and median) by loan value

	Mean gross turnover (£k)	Median gross turnover (£k)
Up to 3k (n=106)	121	28
3k to 8k (n=302)	124	55
Over 8k (n=170)	267	117

Source: Beneficiary survey and SQW analysis

Net turnover effects

The 'gross' turnover identified by beneficiaries was then converted to 'net' turnover by applying a ratio for deadweight based on the responses by each relevant respondent to the survey (see Annex D for further details).

Across the survey cohort the average deadweight ratio was 0.47 (i.e. the average non-deadweight ratio was 0.53), indicating that around one half of turnover effects would have occurred anyway, or put another way half of turnover effects were additional, before accounting for displacement effects (and multiplier effects), based on self-reported evidence. This level did not vary between individuals with 'new' or 'existing' firms, by age group, or by take-up of mentoring. However, the average non-deadweight ratio was slightly (and statistically significantly) higher for individuals with a loan value of Over £8k at 0.58 than those with a loan value of Under £3k at 0.51.

Applying the respondent-level deadweight ratio to each respondent's gross data, aggregating this net data across all relevant respondents, and comparing this net data to the aggregated gross data across all relevant respondents provides a net turnover effect of £44.2m, equivalent to 46% of the gross data. This data is then adjusted for optimism bias⁴² to provide a final estimate of net turnover for the beneficiary cohort. The findings are set out in the table below. Overall, taking into account both deadweight and optimism bias (which as noted above is relevant for the majority of the turnover data at this stage), the net effects account for 36% of the gross value. The mean net turnover effect is reduced to around £60k, with a median effect of £16k.

⁴²As set out in section 2, reported turnover for the current and next financial year has been adjusted by 20% for firms that were trading when they received support from the programme and 25% for new firms

Table 7-3: Gross to net turnover effects

	Value
Gross turnover effect (£k)	97,224
Net turnover effect, adjusted for deadweight (£k)	44,241
Net turnover effect, adjusted for deadweight and optimism bias (£k)	34,676
Net turnover effect, adjusted for deadweight and optimism bias as a proportion of gross turnover effect	36%
Average (mean) net turnover per individual (£k)	59
Median net turnover per individual (£k)	16 ⁴³

The net data does not vary by age group. However, the mean and median net turnover effects by loan value are set out in the table below. The average (both mean and median) net turnover effect for individuals with loans Over £8k remains higher than those with smaller loan values.

Table 7-4: Average net turnover effects (mean and median) by loan value

	Mean net turnover (£k)	Median net turnover (£k)
Up to 3k (n=106)	33	8
3k to 8k (n=302)	45	14
Over 8k (n=170)	102	32

Source: Beneficiary survey and SQW analysis

Taken together with the higher gross effects, the evidence at this early stage may suggest that the effect of the programme, in terms of turnover alone, is more pronounced for higher loan values. However, this finding requires some caveats and should not be taken too far. Notably, given the emphasis on forecast turnover information at this stage, the higher net effects may simply reflect that individuals with larger loan values expect/anticipate more significant business growth than those with smaller loan values, potentially because more investment has been put in. Further, at this stage the data are not able to account for business survival (which may in time vary by loan value). The net turnover effect is also one of a broader range of effects of the programme on supported individuals.

Note that the mean net turnover effect at this stage for those individuals taking-up mentoring (at around £46k) was *lower* than those that had not taken-up mentoring (at around £71k), although the median effect was consistent around the £15-16k mark for both groups. That the average expected net turnover effect is higher for those not taking-up mentoring is not necessarily surprising at this stage, given that this group may reasonably be expected to be more optimistic regarding their business prospects: when individuals that had been offered

⁴³The median data includes those individuals that reported full deadweight i.e. the net turnover effect is zero. If this group is excluded the median value increases to £25k

mentoring support but did not take it up, nor intend to in the future (around 190 of the survey cohort), the most common explanation was that they 'Did not need further support', cited by 40% of those relevant respondents.⁴⁴ Further, as noted above it is too soon to know whether mentoring take-up is linked to business performance and this will be assessed in future years of the evaluation.

GVA effects, including accounting for survival and displacement

The final step in terms of impact on this core business performance measure was to convert the turnover data to GVA, using the Value for Money model developed for the evaluation. The net GVA effects were derived for these three groups, with the following adjustments made:

- Business survival has been applied based on UK-level data from ONS⁴⁵, with the expected turnover associated with the firms reduced in line with the anticipated level of business survival. As noted above, at this stage in we do not have any robust evidence on survival rates for the beneficiary cohort as a whole, or sub-sets of the data.
- Displacement has been applied at around 50% to net turnover data, based on the findings of the beneficiary survey (with a ratio used for new fully additional firms, new partially additional firms and existing firms respectively). An overview of the evidence on displacement is set out in the box below, with the survey identifying quite high levels of displacement (essentially half of net turnover) owing to the largely local/UK markets in which firms supported by the programme are currently operating. Of course, this does not mean that these businesses are not beneficial. Increased competition amongst firms can be important for driving productivity, however this is not possible to capture/model with accuracy, with displacement applied based on BIS/British Business Bank methodology. It is worth noting that levels of displacement at around 50% were consistent by age and loan value, although slightly higher on average for those that had taken-up mentoring at the point of the survey (55%) than for those that had not (48%); however, this may change over time as more individual take-up mentoring so should be regarded as indicative only at this stage.
- Converting turnover data to GVA data using a ratio of 45% i.e. GVA is assumed to be 45% of the turnover value – this ratio is based on ONS analysis.⁴⁶
- Adjusting for inflation in future costs and benefits, and discounted using the Treasury's standard 3.5% discount rate.

⁴⁴The next most common responses were: Did not have time to engage with mentor (19%), and Poor communication/lack of contact (14%)

⁴⁵Business Demography, using the annual survival rates for the UK, with 100% survival assumed in 2014/15, and the Year 1 to Year 5 survival rates used for the following financial years

⁴⁶ <http://www.ons.gov.uk/ons/rel/abs/annual-business-survey/median-value-added-per-registered-business--2013/sty-abs-median-2013.html>

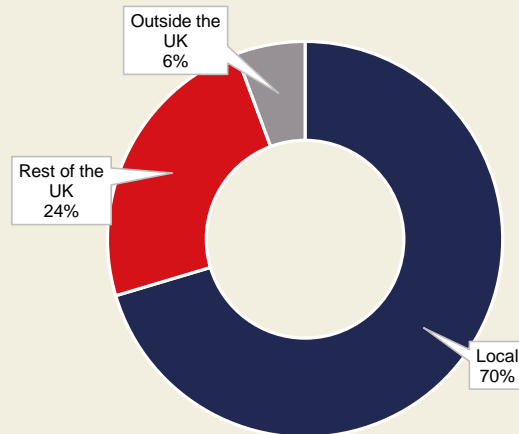
Evidence on the displacement of Start-Up Loans

For interventions such as Start-Up Loans, displacement occurs when businesses supported/created by the programme compete for resources/market share with non-assisted businesses. This needs to be quantified to assess net additional effects. Beneficiary survey respondents were asked to identify the location of their sales, levels of competition in their main markets, and whether competitors would take-up their sales if they ceased trading.

Location of markets⁴⁷

The majority of sales by firms supported by the programme were reported to be local (within 30 miles), with UK sales also common.

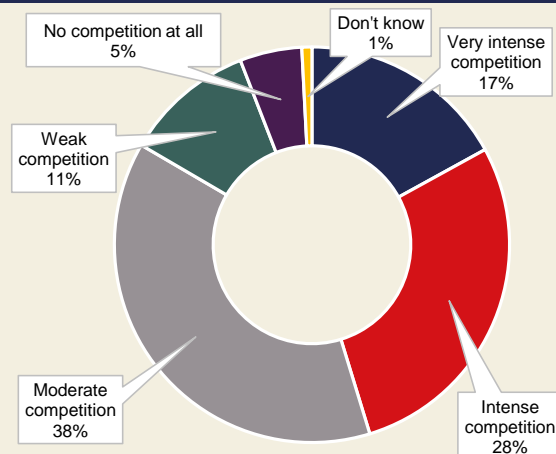
As expected given the maturity of firms at this point, non-UK sales accounted for a low proportion of sales, on average 6%. There was no variation by age group, however, individuals with loans Under £3k had a higher proportion of local sales (77%); however, levels of exports were consistent.



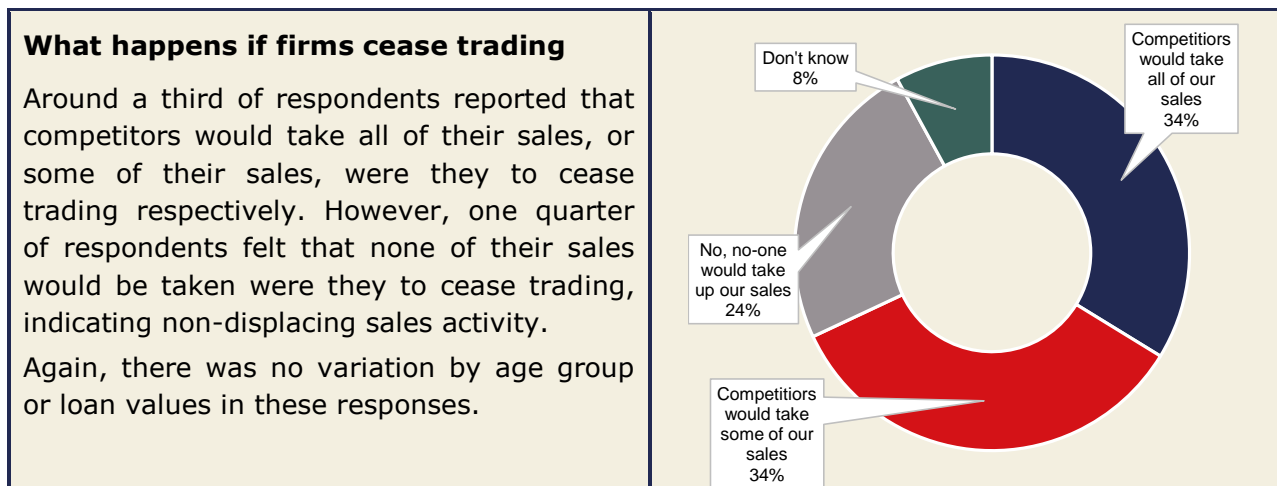
Nature of competition

Approaching one in five survey respondents with businesses trading identified there was very intense competition in their markets, with a further 28% identifying intense competition. The largest proportion of respondents (38%) identified moderate levels of competition.

There was no variation by age group or loan values in the level of reported market competition.



⁴⁷Note this data is unweighted



The net GVA data derived by this analysis for the last, current and next financial years across the survey cohort is set out below, with a net GVA effect identified of around £5.9m.

Table 7-5: Net turnover and GVA effects for the last, current, and next financial years

	Value (£k)
Net turnover effect	34,676
Net additional turnover effect (accounting for survival & displacement)	14,382
Net GVA effect (accounting for inflation & discounted)	5,930

The table below sets out the net GVA effects assuming that levels of turnover for firms remains consistent over the following three-year period (to 2019/20) i.e. accounting for persistence effects. Note that these data include an estimate of business survival based on ONS data, so they take into account that not all of these firms will survive. At this stage it is too early to predict with any certainty the level of growth associated with firms that do survive, so the data for the next financial year data (which has had optimism bias applied to it) has been used as the most appropriate data point. The data also assume that the effect of the programme persists uniformly based on these turnover estimates to 2019/20, and with these assumptions in place, the net GVA effect of the survey cohort increases to £11.8m.

Table 7-6: Net turnover and GVA effects to 2019/20

	Value (£k)
Net turnover effect	99,093
Net additional turnover effect (accounting for survival & displacement)	30,611
Net GVA effect (accounting for inflation & discounted)	11,844

Scaling-up the findings to the population

The £11.8m net GVA data set out above are based on the findings of the beneficiary cohort, and based on 955 loans drawn down over the June 2014 to December 2014 period. Not all the loans drawn down contributed to these data. For example, some individuals have yet to start-

up a business, although we would also expect this to be the case on the evaluation population as a whole. As discussed in Section 2, the survey sample was closely matched to the evaluation population in terms of its characteristics.

Scaling-up the findings of the beneficiary survey (£11.8m GVA from 955 loans, with an average GVA per loan of £12.4k) therefore provides an indicative and early stage estimate of the total net GVA from loans drawn down in the evaluation period of around £136m.

This aggregate impact figure should be treated with caution. On the one hand, as discussed throughout this report, it is based on self-reported data and largely reliant on estimates of expected turnover effects rather than realised ones. Further, the data are sensitive to a number of key variables, notably the displacement factor applied, the GVA to turnover ratio applied in the survey-based data, and persistence (which is covered in the value for money section below).

The table below sets out a range of potential impact metrics using a higher and lower GVA ratio (from 35% through to 55% to reflect the uncertainty of the relationship between GVA and turnover in new firms), and higher and lower displacement values (from 55% down to 40%⁴⁸) to identify the potential range of effects at this initial stage. The data highlight the potential range of effects, from around £93m using two 'worst case' assumption, and up to £196m using the two 'best case' assumptions. Focused on the displacement value only, the potential range of impact identified is between £106m and £166m.

Table 7-7: Range of potential impacts for the evaluation population, adjusted for displacement and GVA:turnover ratio

		Displacement		
		55%	49%	40%
Turnover to GVA ratio	35%	93,634	106,118	124,845
	45%	120,386	136,438	160,515
	55%	147,139	166,757	196,185

⁴⁸55% is based on the average level of displacement from across the survey group if the scale of the turnover effect reported is not taken into account. 40% is based on an alternative methodology for assessing displacement that looks to include in the analysis an inferred level of positive competition effects from new business =starts through assuming that even where firms report that 'all of their sales' would be taken by competitors there is some benefit to the economy (with a 75% sales taken assessment used), and also assuming that only half of UK-level sales may be taken by competitors.

Other impacts

Expected turnover from firms not yet started-up

The initial impact assessment set out above is based on turnover estimates for firms that had started-up at the time of the survey. A relatively small group of beneficiaries (n=93) reported that they had not yet started-up a business, but expected to do so in the future. This group identified some £2.9m in net turnover for the next financial year, an average of £31k per firm. Assuming three years of persistence this would equate to a further £8.5m in net turnover generated by the survey cohort.⁴⁹

Given the higher level of uncertainty associated with this group they have not been included in the overall assessment, but the data is presented below as a potential additional benefit from loans draw down; we would expect that some or most of these firms may have started-up by the time of the second wave of survey research, at which point the data will be integrated into the overall analysis.

Businesses created

The self-reported deadweight findings indicated that around 155 of the individuals surveyed had started-up a business that would not have been started without the programme (around a third of all those that started-up), and this effect is corroborated by the econometric analysis, which found a significant and positive effect on the start-rate.

Again these data can be grossed up to the evaluation population as a whole (working on the basis that the characteristics of the survey cohort are well matched to the beneficiary population as a whole). The 155 'fully additional' business start-up equates to 16% of the survey population, suggesting that around 1,775 business start-ups can be estimated from the evaluation population (n=11,001) as a whole.

The latest data (for 2013⁵⁰) indicated around 346,000 business starts in the UK annually; indicatively the estimated 1,775 start-ups as a result of the programme would equate to 0.5% of all start-ups across the UK over an annual period. The evaluation period is from November 2013 to December 2014, so covers 14 months, rather than 12; accounting for this by reducing the net start-ups by a factor of 0.85 (i.e. 12/14), indicates around 1,520 net business start-ups for a 12-month period, equivalent to 0.4% of all start-ups across the UK over an annual period. This is not an insignificant contribution relative to the scale of the programme, and recent positive increases in rates of enterprise across the UK.

⁴⁹This data has not been converted formally to GVA taking into account business survival, deadweight, displacement, inflation and discounted.

⁵⁰ ONS, Business Demography 2013, TABLE 1.1 - Count Of Births Of New Enterprises for 2009 - 2013

Note that these data on start-ups do not capture the wider effects in terms of scale and timing for the remainder of the beneficiary cohort, for both new firms, and established firm; these are however, reflected in the net turnover and GVA data.

Direct employment effects

Start-Up Loans also generates direct employment effects by supporting beneficiaries into employment that were previously unemployed.

At the time of approaching the programme, over one third of beneficiaries surveyed were unemployed (36%, in aggregate terms 342 of the survey respondents). Of this group that were unemployed at the time of approaching the programme, just 3% remained unemployed at the time of the survey (either because the business that had started-up had failed or because they had not yet started-up the business), with the vast majority (95%, 328) now running a business, and therefore in self-employment. Scaling this up to the evaluation population as a whole would suggest that around 3,770 individuals supported by the programme have moved from unemployment into self-employment.⁵¹ Note that these are gross effects; the self-reported additionality questions were focused on the business outcomes.

This is an important economic and social contribution, with fewer individuals seeking unemployment benefits as a result of the programme, meaning a reduction in the level of costs to the public purse in the payment of unemployment benefits. Given the different levels of benefit tied to individual circumstances it is not possible to be definitive on the scale of this effect. However, taking the minimum and maximum level of unemployment support⁵², and a mid-point, it is possible to provide an estimate of the potential annual Exchequer Savings generated by the programme.

Based on the 3,770 individuals moving from unemployment into self-employment, the estimated potential annual savings to the Exchequer are between £11.4 million and £14.3 million (in gross terms, i.e. not taking account of additionality), with a mid-point of £12.8 million. It is important to bear in mind that some of these individuals may well have moved into some form of employment without the programme; as such, the data are likely to over-estimate the scale of potential Exchequer Savings and should be regarded as indicative only.

Table 7-8: Estimated potential gross Exchequer savings

	Low	Medium	High
Weekly benefit (£)	57.9	65.5	73.1
Annual benefit (£)	3,011	3,406	3,801

⁵¹Based on 3,931 individuals unemployed from the 11,001 loans (i.e. 36% of the total), with 3,770 therefore moving into self-employment (i.e. 95% of the total)

⁵²£57.90 per week for those aged 18-24 and £73.10 for those aged over 25, with a mid-point of <https://www.gov.uk/jobseekers-allowance/what-youll-get>

	Low	Medium	High
Estimated annual saving (£k)	11,350	12,839	14,329

Indirect employment effects

Start-Up Loans also generated indirect employment effects through the jobs created in firms started up by beneficiaries. As reported in section 5, the econometric analysis did not find a significant effect of the programme on expected employment creation.

Looking at this data in aggregate terms, and drawing on self-reported evidence, the survey cohort reported current employment (excluding the owner themselves) at the time of the survey of 530 employees, of which approximately 260 were full-time (working at least 30 hours per week). Beneficiaries were also asked to identify their expected employment at the end of their next financial year; the equivalent data here were approximately 1,870 employees, of which approximately 1,130 were full time (note that this data includes only firms that were trading at the time of the survey). Applying estimates of optimism bias consistent with the turnover analysis, the gross employment for the next financial year have been adjusted to approximately 1,430 employees, of which approximately 860 are expected to be full time.

These data set out in the paragraph represent the 'gross' employment effects. They have been adjusted to 'net' employment effects using the same approach to deadweight and displacement used for the turnover analysis, although as noted above these questions were focused on the business (rather than levels of employment), so the findings should be regarded as indicative only.

The gross and net data for all employees, current and expected for the next financial year, are set out in the Table below. The data suggest that the beneficiary cohort has generated around 90 net jobs to date, with around 270 net jobs expected for the next financial year. Data by age, loan value and mentoring take-up are set out in Annex A (Table A-10).

Table 7-9: Gross and net indirect employment effects (excluding owners)

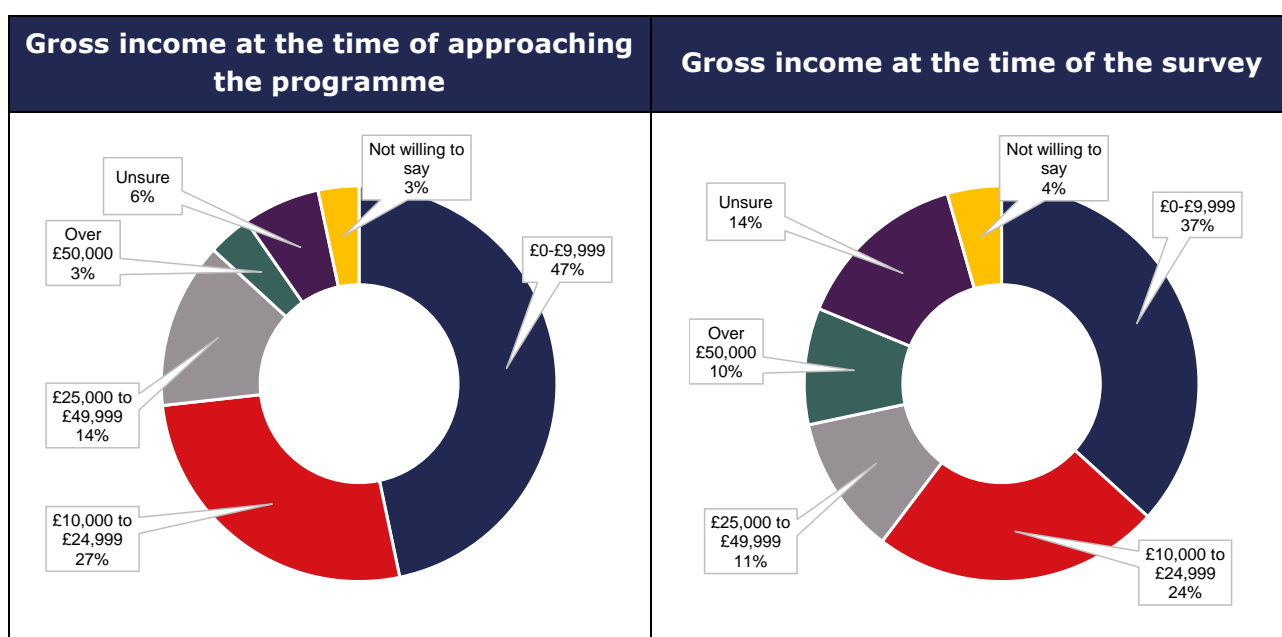
	Current employment	Employment at end next financial year
Gross	530	1427
Net	91	266
Additionality level ⁵³	17%	19%

⁵³ This includes accounting for non-deadweight (with the non-deadweight ratio applied to the reported indirect employment data meaning the base for the analysis is different to the turnover-based analysis and therefore generating different results), displacement, and optimism bias. Note that the employment data have not been adjusted or business survival as they focus on one further year only. Indicatively, applying a 0.92 survival rate would suggest a net effect of around 2,800 net indirect employees from all loans in the evaluation period.

Again these data from the survey can be scaled up to the evaluation population as a whole (working on the basis that the characteristics of the survey cohort are well matched to the beneficiary population as a whole). The 266 net employment for the next financial year from the survey cohort (n=955) as a whole equates to a net employment effect for next year of 0.3 employees per loan drawn down. Applying this ratio to all loans in the evaluation period (n=11,001) provides an indicative net effect for the next financial year of approximately 3,060 indirect employees.

Income effects

Finally in terms of impacts, one of the potential long-term objectives of the programme (as set out in the logic model in Section 3) is to increase the wages of participants. It is too soon to provide any definitive or quantitative data on this. However, to provide an initial indication of the potential effects of the programme at this stage, responses by survey respondents on their annual gross income at the time they approached the programme, and at the time of the survey following the pre-application support and drawn down of a loan are set out below. The data suggest a potential shift to higher incomes on average, with 37% of respondents reporting income under £10k at the time of the survey compared to 47% prior to approaching the programme, and 10% reporting income over £50k at the time of the survey, compared to 3% prior to approaching the programme (both significant changes).



It is also worth noting that a higher proportion of respondents were unsure of their current income (14%) compared to their income at the time of approaching the programme; this may reflect the higher level of uncertainty over annual income associated with individuals in the early stages of running a business - this should decline over time.

Early estimates of Value for Money

Approach

As noted in Section 2, a value for money model has been developed for the evaluation. The model includes estimates of the total costs of the programme (including lending and non-lending costs) expressed in terms of both Exchequer Costs (the costs to government of the programme) and Economic Costs (including opportunity costs and accounting for finance additionality) for the beneficiary survey cohort. Covering the period 2014/15 to 2019/20, with all costs adjusted for inflation and discounted, the costs include:

- lending costs (that is the value of the loans provided to individuals), with the total costs assuming a re-payment rate of 50% (i.e. of the £6.46m lent to the survey beneficiary cohort, £3.23 is estimated to be re-paid) by 2019/20, and interest repayments assumed at 6% of the annual outstanding balance at the start of each year for Exchequer Costs⁵⁴
- non-lending costs (that is the costs associated with the delivery of the programme) with a cost of £1,612 (to cover the costs of pre-application support, mentoring and administration) applied to each loan based on data provided by SULCo
- for Economic Costs only, a public sector opportunity cost assumed at 3.5% of the balance outstanding at the end of each year (based on guidance from the British Business Bank); the Economic Costs also take into account finance additionality (estimated at 74%).

The model also includes benefits expressed in terms of net Gross Added Value (GVA) based on turnover effects. These data are then compared through Benefit Cost Ratios (BCR) – a BCR of more than 1.0 indicates that the benefits of the programme are greater than the costs. Summary Net Present Values are also presented. At this stage in the evaluation the model has been populated with data based on the self-reported effects only. The key findings from the model are set out below.

Findings

BCRs for Exchequer Costs and Economic Costs for the programme as a whole are set out below. The data have been presented excluding and including multiplier effects.

Multipliers quantify the further economic activity stimulated by the direct benefits of an intervention. They take two principal forms: an income (“induced”) multiplier which is associated with additional income to those associate with the intervention and a supply (“indirect”) multiplier, associated with local supplier purchases. These factors can be combined

⁵⁴Note that the Exchequer Costs are marginally higher than the Economic Costs because the full loan value (c. £6.5m for the evaluation cohort) is included in the Exchequer Costs as a cost in the first year of the evaluation (as this loan value has been ‘spent’ by the public sector – even though it is expected to be re-paid).

into a composite multiplier. The metrics used for the multipliers of firms started-up by Start-Up Loans beneficiaries would ideally be based on detailed primary evidence on the location of purchases of supported firms, and the location and nature of expenditure of staff in supported firms. However, it was not feasible to include this level of detail in the tracking survey. The analysis has therefore used a composite multiple of 1.25 based on the mean value for sub-regional multipliers for business development and competitiveness interventions set out in the BIS research on additionality.⁵⁵ The sub-regional metric has been used to reflect the largely local markets within which firms started-up/developed by individuals supported by the programme are currently operating.

Note that for this initial value for money analysis we have used consistent levels of displacement and default across the cuts of the data; at this stage displacement was around half for all categories (age group, loan value, mentoring take-up, and CDFI/non-CDFI) with ranges from 45-55%, and default levels do not vary at this stage. As the evaluation progresses, and displacement effects change (for example as firms start to operate in more diverse markets) and default rates change (as re-payment levels evolve) these factors may be varied to reflect the emerging evidence. The BCRs are positive, indicating that the net benefits of the programme at this initial stage are estimated to exceed the costs. The BCRs are in the range of three or four to one, suggesting positive value for money.

Table 7-10: Benefit cost ratios

	Exchequer Costs	Economic Costs
Total costs (£k)	4,005	3,987
Benefits - excluding multiplier (£k)		11,779
Benefits - including multiplier (£k)		14,724
BCR - excluding multiplier	2.9	3.0
BCR - including multiplier	3.7	3.7
NPV – excluding multiplier (£k)	7,744	7,792
NPV – including multiplier (£k)	10,719	10,737

BCRs by age group, loan size, mentoring take-up and CDFI/non-CDFI delivery partner are set out below, based on Economic Costs. The BCRs are largely consistent at around the three or four to one level, although at this initial stage the data do suggest the value for money (based solely in terms of GVA based on self-reported turnover) may be higher for loans over £8k, and for those individuals securing loans (and pre-application and mentoring support) from delivery partners that are CDFIs. It is important to stress that these are early findings, fundamentally based on the forecasts of individual beneficiaries, and so should be treated with caution.

⁵⁵BIS, Research to improve the assessment of additionality, 2009

However, recognising this, the approach to assessing VfM has been conservative, by adjusting for optimism bias and excluding turnover from businesses yet to start. In addition, and as mentioned earlier in this section, effects relating to moving people out of unemployment and softer effects on skills and confidence are not incorporated into the value for money calculations. The evidence suggests that these effects may be felt most by those receiving loans under £3k.

Table 7-11: Benefit cost ratios by groups (Economic Costs)

	BCR – excluding multiplier	BCR – including multiplier
Aged 18-30	3.5	4.3
Aged 31+	2.6	3.3
Value - <£3k	2.4	2.9
Value - £3k-8k	2.4	3.0
Value - >£8k	3.8	4.8
Mentoring taken-up	2.4	2.9
Mentoring not taken-up	3.5	4.3
CFDI	3.7	4.6
Non-CFDI	2.5	3.2

As discussed above, the main case GVA data also assume three years of persistence in turnover effects for business, or put another way that following the next financial year, for those businesses that are estimated to survive in each year their turnover is counted for a further three years. The table below set outs Economic Costs BCRs taking into account zero through to three years of persistence in turnover effects. These data do highlight the reliance in the overall data on expected future turnover benefits, with BCRs under two to one if data for the last, current, and next financial years only is taken into account.

Table 7-12: Benefit cost ratios by persistence

	BCR – excluding multiplier	BCR – including multiplier
To 2016/17 (i.e. zero persistence) ⁵⁶	1.5	1.9
To 2017/18 (i.e. 1 year of persistence)	2.1	2.6
To 2018/19 (i.e. 2 years of persistence)	2.6	3.2
To 2019/20 (i.e. 3 years of persistence)	3.0	3.7

Implications

The findings on value for money are positive. At this stage, they are based on self-reported data and rely on expected rather than realised data, albeit with adjustments for optimism bias applied. The forthcoming years of the evaluation will enable us to build on the data by, (a) increasingly using actual data (to replace forecasts) and (b) analysing differences between the comparison and beneficiary groups (to supplement self-reported data). The level of default, which is an important factor in the value for money assessment, may also vary by sub-groups as loan re-payments continue. Further, at this stage the longer-term business effects of pre-application support and mentoring are yet to be fully tested, and may lead to different levels of business performance, when compared with the external comparison group.

As such, the results on value for money, both at an aggregate programme level, and for the sub-groups set out above, should be regarded as an initial pointer to what the overall 'direction of travel' may be in terms of value for money. In the view of the evaluators, these data should not be used to inform directly policy decisions regarding the overall remit and focus of the programme at this stage, nor in informing lending decisions or priorities.

One final point is important. As set out in Section 3, the evidence from the survey of delivery partners indicates that the actual cost of the delivery of the programme is higher than the formal costs may suggest. The value for model used a cost per loan for delivery (covering pre-application support, mentoring, and administration) of around £1,600 based on information provided by the British Business Bank. However, as we saw in Section 3, for those delivery partners responding to the online survey that reported a shortfall in non-lending funding, the average shortfall per loan was estimated at over £300, and in some cases above £500.

It is not possible to provide a robust quantitative assessment of the 'true' costs of delivery (notably, not all delivery partners responded to the survey, including some major delivery partners). However, qualitatively this should be taken into account when considering value for

⁵⁶ This means that the three-years of turnover identified in the survey are included in the analysis, but no estimated turnover in later years following this period.

money; the costs of delivery are likely to be somewhat higher than estimated, which in turn would bring down the level of positive BCR.

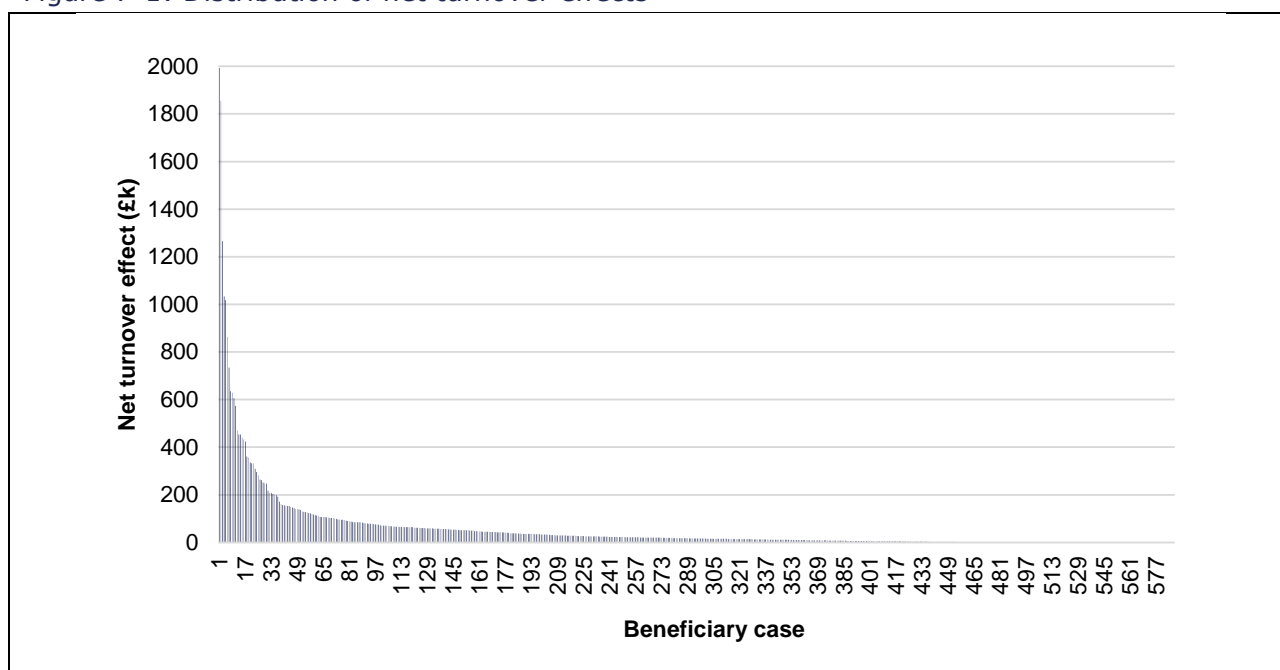
Distribution of benefits and characteristics

Distribution of net turnover effects

The analysis above has focused on the programme as a whole. However, the distribution of effects across the beneficiary cohort varied substantially; this is consistent with evidence from elsewhere that a high proportion of the benefits of economic development programmes can be focused on a small proportion of beneficiaries.⁵⁷

The distribution of net turnover effects (the gross turnover adjusted for deadweight and optimism bias) are set out graphically in the chart below (note this includes data from individuals with a started-up business only, not those that had yet to start-up at the time of the survey). The data indicate that the 20% of beneficiaries with the highest net turnover benefits (i.e. the 588 individuals out of the survey sample where it was possible to estimate a net turnover figure with the highest values) accounted for 79% of the total net turnover benefits. The programme therefore appears to align very closely to the 80/20 Pareto principle.⁵⁸

Figure 7-1: Distribution of net turnover effects



⁵⁷The Pareto Principle: the importance of the vital few in business support programmes Cook, J., Macdonald, B. and Pates, R., 2013 (see www.sqw.co.uk/insights-and-publications/the-pareto-principle)

⁵⁸Note that this data continues to exclude the three major outliers.

Who is benefiting most?

The table below sets out the characteristics of the 'Top 20%' and 'Other 80%' of beneficiaries where data on net turnover is available, in terms of age group, loan value, mentoring take-up and delivery partner CDFI status. As expected given the data findings presented above, individuals in the 'Top 20%' are associated with the highest loan values, and CDFI delivery partners. There is no relationship between the age group of individuals and those who benefit most.

Table 7-13: Comparison of the 'Top 20%' of beneficiaries and the 'Other 80%'

	Top 20%	Other 80%
Aged 18-30	42%	43%
Aged 31+	58%	57%
Value - <£3k	5%	21%
Value - £3k-8k	43%	55%
Value - >£8k	52%	24%
Mentoring taken-up	43%	50%
Mentoring not taken-up	57%	50%
CDFI	52%	36%
Non-CDFI	48%	64%

Four further points are worth noting:

- there was no significant difference in the make-up of the two groups in terms of the stage of the business idea when individuals approached the programme i.e. individuals with firms already trading at the time they approached the programme were not over (or under) represented in the 'Top 20%'
- similarly, the sectoral make-up of the two groups was consistent, as shown in Table 7-13 below (none of the variations between sector groups are significant)
- the 'Top 20%' group had a significantly higher proportion of individuals that were self-employed at the time they approached the programme (37%) than the 'Other 80%', and in turn the 'Top 20%' group had a significantly lower proportion of individuals that were unemployed when they approached the programme (24%) than the 'Other 36%'
- linked to the employment status (and levels of self-employment), 42% of the 'Top 20%' group had previous experience of starting-up a business, compared to 27% in the 'Other 80%' group.

Table 7-14: Comparison of the 'Top 20%' of beneficiaries and the 'Other 80%' by sector groups

	Top 20%	Other 80%
A : Agriculture, forestry and fishing	2%	0%
BCDEF : Mining and quarrying; Manufacturing; Electricity, gas, steam and air conditioning supply; Water supply, sewerage, waste management and remediation activities; Construction	20%	15%
GHI : Wholesale and retail trade, repair of motor vehicles and motorcycles; Transportation and storage; Accommodation and food service activities	34%	32%
JKLMN : Information and communication; Financial and insurance activities; Real estate activities; Professional, scientific and technical activities; Administrative and support service activities	26%	33%
PQRS : Education; Human health and social work activities; Arts, entertainment and recreation; Other service activities	18%	20%

Again, these data should not be taken too far given the early-stage, and there are no simple policy responses. However, at this stage the data do suggest that those who 'benefit most' (in terms of net turnover effects in their business) are more likely to have previous experience of self-employment and/or enterprise activity. This is not unexpected, however, given that the stage of the business idea or sector is not linked to the distribution of benefits between the Top 20% and Other 80%, an initial hypothesis might be that it is the experience and track-record of the individual that determines 'success', rather than the nature of the business itself. This hypothesis will be tested as the evaluation continues, and more comprehensive data on actual business performance becomes available.

Section 8: Conclusions and implications

This final section sets out the early-stage conclusions and potential implications of this first year evaluation report. In doing so, we set out a reminder of the headline findings. We then set out the emerging implications that the British Business Bank may wish to consider as it continues its oversight of the Start-Up Loans programme, recognising that these are early on in the evaluation process. The conclusions and implications cover three broad areas: programme effectiveness, programme improvement, and programme design and delivery.

Programme effectiveness

The initial evidence is that the Start-Up Loans programme is delivering benefits for its target group, and having a positive effect in terms of promoting enterprise and business creation. Whilst it remains too early to be confident in terms of the effects of the programme on business performance, the self-reported evidence suggests that more businesses amongst the beneficiary cohort have been created than would have been the case in the absence of the intervention. The self-reported evidence suggests that around a third of respondents that have started-up a business would not have done so at all without support from Start-Up Loans. Further, there are timing and scale effects associated with involvement in the programme, based on the self-reported evidence. Furthermore, the econometric evidence indicated that the programme has had a positive and significant effect on the start-up rate, and that this is in addition to the effect of having a business plan prior to starting.

There are also some encouraging signs in terms of the programme supporting positive personal development outcomes in terms of business confidence, skills and engagement in networks. The econometric analysis also found a positive and significant effect of the programme on confidence in running and managing a business, though not on other personal development variables. The variable for developing a business plan because of the programme was significant and positive for confidence in running and managing a business and in valuing external business advice. This may suggest the importance of this business planning element in achieving personal development outcomes. The evaluators note that with mentoring still on-going for most, and yet to start for some, the intention is that these first year results provide a baseline against which progress can be assessed in the future.

Assessments of the impact and value for money of the programme at this stage are illustrative only. As noted above, it is too soon for robust econometric analysis on achieved trading performance, and issues of business survival. That said, the self-reported analysis supports a view that the programme is generating positive economic effects, with an estimated net GVA contribution of the evaluation cohort in the range of £106-£166m, with a mid-point of £136m (assuming three years of persistence in turnover outcomes to 2019/20) for the evaluation cohort. The Benefit Cost Ratios are positive, suggesting reasonable value for money at this early stage in the evaluation.

There is some deadweight associated with the programme, supporting individuals that would have started-up in any case, and the evaluation estimates that around one-quarter of the finance provided by the programme would have been provided by other sources. Notably, around three-quarters of beneficiaries did not consider or apply for other sources of external finance, and relied largely on Start-Up Loans support and their own money, with no formal

requirement in place that individuals provide evidence of seeking other finance in advance of Start-Up Loans. This may suggest that a more consistent approach to testing the ability of individuals to secure other finance may be helpful.

At this stage the self-reported analysis suggests that the effects of the programme are most pronounced for those individuals securing loans of over £8,000, relative to smaller loan values, and for those individuals supported by CDFIs. The implications of this are potentially important for the programme. However, at this stage it is too early to know whether this finding is robust. Further, the data suggest that the scale of benefit (in terms of business performance) is linked more to the experience and enterprise track record of the individual than the nature of the business. Again this has potential implications for the targeting of loans and value for money, and also the extent to which the programme is responding to its underlying intent. This issue will need to be considered as the evaluation continues.

One interesting finding here is that the data suggest that those individuals that had previous experience in starting-up a business were more likely to be amongst the group with the largest net turnover benefits. There are a number of possible explanations here: it may be that this group simply reported higher additionality or more optimistic turnover data, or because these individuals have learned from the experience of their previous business, further we do know what happened to their previous businesses, for example related to its financing and performance. There are again potential policy implications here, however, this issue needs to be tested further in future years.

Two final points are important regarding programme effectiveness.

- First, at this stage the level of arrears is around a third, but is expected to increase over time. There is some evidence that those with long-term capital re-payment holidays are more likely to be in arrears. It is too soon to be definitive on overall arrears/defaults and those with capital re-payment holidays, but this should be watched closely by the British Business Bank and SULCo given the implications for value for money.
- Second, the quantitative assessments of impact and value for money at this stage are sensitive to key variables and assumptions, notably levels of default, business survival, the ratio from turnover to GVA and the extent of optimism bias in the reported data. The findings set out here should be regarded as an initial pointer on the overall 'direction of travel' of impact and value for money. When considering policy implications regarding the remit and focus of the programme they should be used with caution and with this caveat clearly in mind.

Programme improvement

All beneficiaries engaged in the evaluation remain involved in the Start-Up Loans customer journey: having received pre-application support and a loan they are now in the process of repaying the loan, and in most cases receiving mentoring support.

The evidence from beneficiaries on the pre-application support is positive. Beneficiaries reported that pre-application support has led to improved understanding across a range of business issues. These effects were more pronounced for younger beneficiaries and those with

smaller loans (under £3k). Further, the effects of pre-application support were less pronounced for those individuals receiving less of it – this may simply reflect that individuals who perceive greater benefits from the support take-up more of it, but it may also suggest that the more support is received, the greater the benefits secured. It is too soon to know whether this improved understanding will translate into improved business performance.

Take up of mentoring was around 50% at the time of the beneficiary survey, with a further 20% intending to take up mentoring. Again the findings here are largely positive in terms of the qualitative effects reported by beneficiaries, both in terms of business and personal development. Again the data indicate that more mentoring is associated with higher self-reported outcomes. It is also notable that positive effects from mentoring were more commonly identified where the medium was mainly face-to-face compared to mainly by phone/online. Whilst it is important to maintain flexibility in the mentoring offer to meet individual needs, this may suggest that face-to-face mentoring as the norm is appropriate (and this is already the most common form offered by delivery partners). However, set against this, the econometric analysis did not suggest a significant effect of whether mentoring had been taken up or the volume of mentoring on most of the confidence, skills and attitudinal outcomes (the exception being the significant positive effect on valuing external advice). This can be revisited in future years of the study.

It is also notable that mentoring is seen as relatively more important (compared to other elements of the programme) for the development of the business for those individuals with lower loan values, compared to those with larger loans. Whether this trend continues will need to be considered as the evaluation progresses.

Programme design and delivery

Three final points are made based on the first year evaluation concerning the overall design and delivery of the programme.

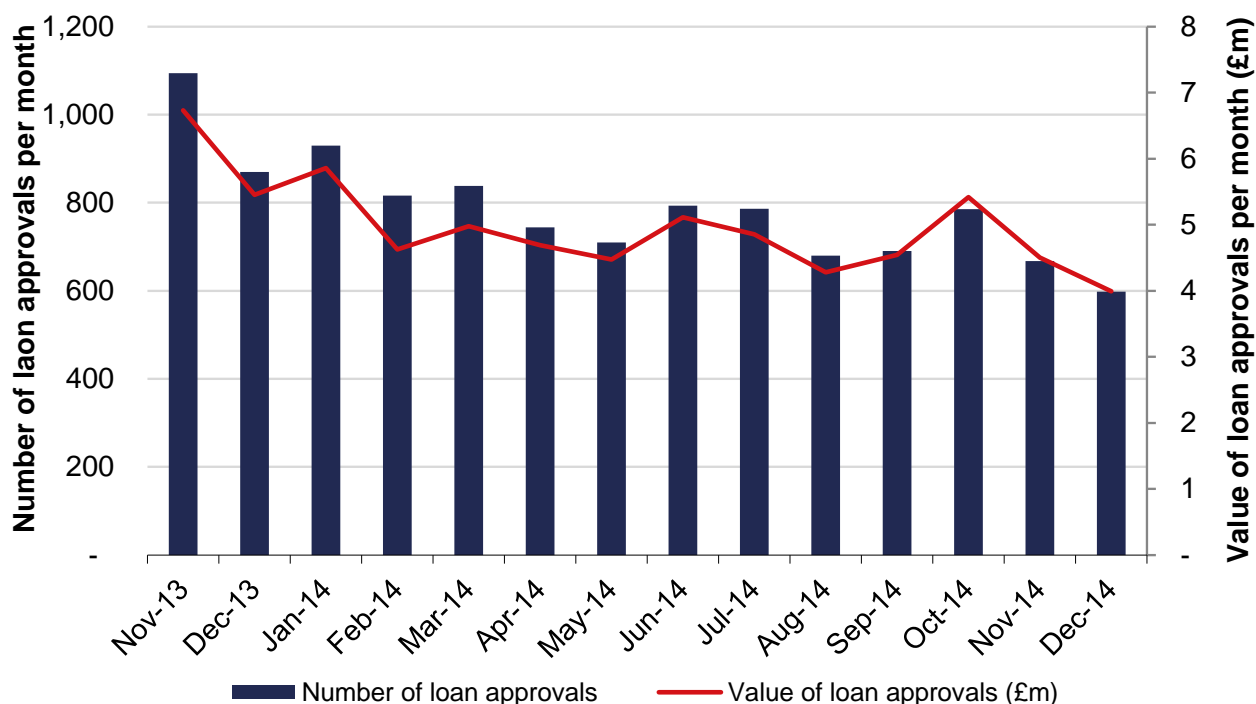
- First, the feedback from consultations with senior-level internal stakeholders, and the evidence from the primary research with delivery partners suggests that the programme has achieved a significant amount to date, established a platform and infrastructure that is now fit for purpose in terms of managing a national-level lending programme, and has achieved a good balance between the quality and quantity of loans offered.
- Second, however, the evaluation has indicated some uncertainty remains over the core purpose of Start-Up Loans, and the extent to which it is a programme fundamentally about promoting economic growth or social benefits. It could be about both, but they do require quite different emphases and priorities in delivery, for example, in terms of levels of risk in lending decisions, the size of loans offered, and the required value for money. Clarification of the statement(s) of intent would be helpful, and would mean that 'success' can be accurately judged going forward.
- Third, the evaluation suggests that delivery partners are broadly content with the programme, and it is playing a key role in enabling the community finance sector to achieve its objectives. However, the cost of delivery does appear to be higher than is currently covered by core funding, meaning that delivery partners are having to

subsidise delivery themselves, or cross-subsidise from other programmes. The financial model of the programme is not the focus of this evaluation. However, the evidence does suggest that it would be worth SULCo looking in more detail at the 'true' costs of programme delivery on the ground, and recommending efficiencies and/or changes accordingly to the British Business Bank to ensure that the risk of delivery partners deciding that the programme is not financially sustainable is mitigated.

Annex A: Additional data tables on beneficiary cohort

This Annex contains further data tables showing more detailed findings from the survey of individuals.

Figure A-1: Number and value of loan approvals per month (n=11,001)



Source: Programme monitoring data

Table A-1: Highest Level of qualification of loan recipients, split by beneficiary age and loan value offered

Highest level of qualification	% of total (n=959)	Age		Loan value		
		18-30 (n=435)	31+ (n=510)	Up to £3k (n=202)	£3k to £8k (n=507)	£8k+ (n=236)
A postgraduate degree or doctorate, NVQ / SVQ Level 5 or equivalent	16%	10%	21%	11%	15%	22%
A degree or higher degree, HND, HNC, NVQ / SVQ Level 4 or equivalent	37%	43%	32%	41%	36%	35%
A levels, SCE higher, NVQ / SVQ Level 3 or equivalent	22%	27%	18%	23%	22%	21%
GCSE, O Levels, SCE standard, NVQ / SVQ Level 2 or	14%	13%	15%	14%	16%	11%

equivalent						
No formal qualifications	4%	2%	6%	3%	5%	4%
Other	5%	3%	7%	7%	5%	5%
Can't recall/Refused	1%	1%	1%	0.5%	1%	2%

Source: Beneficiary survey

Table A-2: Previous experience of entrepreneurship amongst loan recipients, split by beneficiary age and loan value offered

	% of total (n=959)	Age		Loan value		
		18-30 (n=435)	31+ (n=510)	Up to £3k (n=202)	£3k to £8k (n=507)	£8k+ (N=236)
Previously started, owned and managed a business prior to approaching Start-Up Loans	26%	15%	35%	16%	25%	36%

Source: Beneficiary survey

Table A-3: Contemporary experience of entrepreneurship amongst loan recipients, split by beneficiary age and loan value offered (Source: beneficiary survey)

	% of total (n=959)	Age		Loan value		
		18-30 (n=435)	31+ (n=510)	Up to £3k (n=202)	£3k to £8k (n=507)	£8k+ (N=236)
Involved in starting up or running other new businesses at the time of approaching Start-Up Loans	7%	6%	7%	3%	7%	10%

Source: Beneficiary survey

Table A-4: Loan approvals and value, split by delivery partner depending on the number of loan approvals they made during the evaluation period

Number of loan approvals	Number of delivery partners	% of delivery partners	Number of loan approvals	% of loan approvals	Value of loan approvals (£)	% of value of loan approvals	Average value of loan approvals (£)
Up to 100	40	53%	1,485	14%	10,883,878	16%	7,329
100 to 200	18	24%	2,564	24%	16,863,281	25%	6,577

200 to 300	8	11%	1,949	18%	14,132,110	21%	7,251
300 +	9	12%	4,870	45%	26,914,180	39%	5,527

Source: Programme monitoring data

Table A-5: Response to 'Approximately how many hours of pre-application support did you receive to develop and refine your business idea and plan' by age and loan value

Hours of pre-application support received	Aged 18-30 (n=390)	Aged 31+ (n=452)	Up to 3k (n=180)	3k to 8k (n=454)	Over 8k (n=208)
Up to 5 hours	40%	52%	36%	48%	50%
6 to 20 hours	32%	30%	32%	31%	29%
Over 21 hours	24%	14%	28%	17%	14%
Can't recall	4%	4%	4%	3%	7%

Source: Beneficiary survey

Table A-6: Response to 'Approximately how many hours of mentoring have you received to date' (n=451)

Hours of mentoring support received	Proportion of respondents
Up to 5 hours	60%
6 to 20 hours	31%
Over 21 hours	6%
Can't recall	3%

Source: Beneficiary survey

Table A-7: Response to 'Approximately how many hours of mentoring have you received to date' by age and loan value

Hours of mentoring support received	Aged 18-30 (n=239)	Aged 31+ (n=206)	Up to 3k (n=113)	3k to 8k (n=216)	Over 8k (n=116)
Up to 5 hours	53%	68%	44%	63%	71%
6 to 20 hours	37%	24%	47%	27%	22%
Over 21 hours	8%	3%	6%	7%	2%
Can't recall	3%	4%	2%	4%	4%

Source: Beneficiary survey

Table A-8: Medium of mentoring (n=451)

Hours of mentoring support received	Proportion of respondents
Mainly face-to-face, and one-to-one	69%
Mainly face-to-face, and in a group	4%
Mainly by phone	16%
Mainly online	7%
Other	3%
Can't recall	1%
<i>Summary – face-to-face</i>	73%
<i>Summary – phone/online</i>	23%

Source: Beneficiary survey

Table A-9: Medium of mentoring by age and loan value

	Aged 18-30 (n=239)	Aged 31+ (n=206)	Up to 3k (n=113)	3k to 8k (n=216)	Over 8k (n=116)
Summary – face-to-face	78%	66%	86%	71%	62%
Summary – phone/online	19%	29%	12%	26%	32%

Source: Beneficiary survey

Table A-10: Gross and net indirect employment by age, loan value, and mentoring take-up

	Gross	Net	Additionality level
<i>Age</i>			
18-30	547	118	22%
31+	863	146	17%
<i>Loan value</i>			
Up to 3k	231	23	10%
3k to 8k	644	114	18%
Over 8k	535	127	24%
<i>Mentoring</i>			
Yes	608	122	20%
No	819	144	18%

Source: Beneficiary survey

Annex B: Econometrics technical annex

Specifying the models

The specification of the econometric models was based on variables that relate to owner manager characteristics, business characteristics and strategy variables. Based on the survey data, the variables available for the models were:

- **Owner characteristics:** included the age of owner (and age-squared), gender, dummy variables for regional location, previous experience of owning a business, economic activity status, and level of education.
- **Business characteristics:** baseline size of business (measured in terms of turnover or employment), whether the business had a single or multiple owners, dummy variables for sector, and the age of business (and age-squared).
- **Strategy variables:** the presence of a business plan, the levels of investment, and the use of other (non-SUL) support.

Variable selection sought to identify a balance across owner, business and strategy characteristics. Within this, the variables were based on theory (i.e. what variables would we expect, potentially, to impact on business start-up and performance such as the presence of a business plan and, for performance outcomes, the age of the business), practical considerations (related to the numbers of valid observations for variables across both the beneficiary and comparison groups), and in some cases were determined by the nature of programme/policy design which identified specific policy questions (for example, the nature of the provider may be relevant for programme improvement analyses, so this was included in our investigation of scheme effects by using an additional variable denoting CDFIs).

The development of a business plan was a core element of the programme, and so there is the potential for programme and business plan variables to interact, i.e. where the business plan or SUL support is found to be a significant variable, but where the other variable may also be causal on the outcome. To address this for the effect on the start rate, which is of principal concern to this first year's analysis, an interaction variable was developed, i.e. a dummy variable for Start-Up Loans beneficiaries with a business plan before start-up, and further runs of the Heckprobit model for the start rate were run with this interaction variable (see results in Table B-4, with result from estimate 2 reported in the main body of the report).

Various runs of models were undertaken for the programme effectiveness analysis, with a set of core variables and some additional variables inserted to test how this affected results – including the numbers of observations and significant variables. The final runs of the models are presented in Table B-5. The table below (B-1) sets out the core and additional variables tested. The table also identifies for each independent variable whether it was used in the outcome equation (O), the selection equation (S), or both the outcome and selection equations (O/S). The subsequent Table B-2 provides more detail on the full list of variables incorporated into the analysis.

Table B 1: Core and additional variables for analysis

Independent variables ⁵⁹	Dependent variables					
	Start rate	Speed of start	Change in sales	Change in empl.	Profit-ability	Confidence, skills, networks etc.
Core						
Age of owner (O/S)	X	X	X	X	X	X
Age squared of owner (O)	X	X	X	X	X	X
Previous business owner (O/S)	X	X	X	X	X	X
Degree (O/S)	X	X	X	X	X	X
Gender (O/S)	X	X	X	X	X	X
Geography (O/S)	X	X	X	X	X	X
Business plan (O) (for start rate and speed of start 'business plan before start' was used)	X	X	X	X	X	X
Total investment (O)			X	X	X	X
SUL support (O)	X	X	X	X	X	X
Other support (O)	X	X	X	X	X	X
Sector (O)	X	X	X	X	X	X
Economically active (O/S)	X	X	X	X	X	X
Size of business (baseline) (O)			X	X	X	X

⁵⁹ The unique selection variable for these tests was QA10A (Wanted to be your own boss). For the Heckman sample selection test one selection variable must be used that is not also in the outcome equation.

Additional						
Age of business (O) – became part of final model where denoted by X			X	X	X	X
Age-squared of business (O) - – became part of final model where denoted by X			X	X	X	X
Venture/single owner (O/S) - became part of final model where denoted by X		X	X	X	X	X
Business plan because SUL (O) – became part of final model for sales, employment, profitability and confidence etc.	X	X	X	X	X	X

Table B 2: Variable descriptive table

	Description	Code
Age of owner (ageowner)	Age of the owner at survey in 2015 <i>(continuous)</i>	
Age of owner-squared (ownage2)	The square of the age of the owner <i>(continuous)</i>	
Economically active (economic)	Self-reported economic status before starting business <i>(dummy)</i>	Economically active=1
Previous business owner (previousbus)	Self-reported experience of owning a previous business <i>(dummy)</i>	Previous ownership=1
Degree qualified (K15degree)	Highest qualification held. First degree or higher recorded as degree qualified <i>(dummy)</i>	Degree qualified=1
Venture (B8venture)	Respondent indicated that the business had more than one owner <i>(dummy)</i>	Multiple owners=1
Gender	Gender of respondent	Male=1

	(dummy)	
London	London-based respondents (dummy)	London=1
North	Respondents from North East, North West and Yorkshire and Humber (dummy)	North=1
South	Respondents from South East, South West and East (dummy)	South=1
Midlands	Respondents from East Midlands and West Midlands (dummy)	Midlands=1
Scotland, Wales, N Ireland	Respondents from Scotland, Wales and Northern Ireland – reference case for geography (dummy)	S, W & NI=1
SUL support (SUL)	Respondent was in the beneficiary group or control group (dummy)	SUL support=1
Business Plan (business)	Self-reported business plan already written (dummy)	Business Plan=1
Business Plan before starting (BPprebus)	Business plan had already been written prior to starting the business	BP prior to start=1
Business plan because SUL (BPcossul)	Beneficiaries attributed their business plan to the intervention of SUL	BP attributed to SUL=1
Total investment	Self-reported figure for the sum of all investments, including the SUL Loan for beneficiaries (continuous)	
Other support	A variable combining all other types of support other than SUL (dummy)	Other support=1
Age of business (busage)	Age of the business in months (continuous)	

Age of business-squared (busage2)	Square of the age of the business in months <i>(continuous)</i>	
Business start rate	Business had some income or expenditure at the point of survey <i>(dummy)</i>	Business started=1
Speed of start	Age of the business in months <i>(continuous)</i>	
Log sales change	Logarithm of the change in sales (sales next year-sales this year) <i>(continuous)</i>	
Employment change	Employment change (employment next year – employment this year) <i>(continuous)</i>	
Profitability	Business reported earning a profit <i>(dummy)</i>	Business profitable=1
Baseline employment (c11)	Employment this year <i>(continuous)</i>	
Log of baseline sales (newlogba)	Logarithm of the sales this year <i>(continuous)</i>	
Confidence in running and managing a business	Self-reported confidence in running and managing a business <i>(dummy)</i>	Positive confidence=1
Personal confidence outside of business	Self-reported personal confidence outside of business <i>(dummy)</i>	Positive confidence=1
Rating of business skills and knowledge	Self-reported rating of business skills and knowledge <i>(dummy)</i>	Good skills=1
Involved in business networks	Involvement in business networks <i>(dummy)</i>	Involved in networks=1
Value external advice in running and managing a business	Perceived value external advice in running and managing a business <i>(dummy)</i>	Value external advice=1
Pre-application support (preappdummy)	Beneficiary businesses in receipt of pre-application support <i>(dummy)</i>	SUL pre-application support=1

SUL Pre-application support (preapphours)	Hours of pre-application support taken up at the point of survey in 2015 <i>(continuous)</i>	
CDFI	SUL delivery partner coded as CDFI or non-CDFI (dummy)	CDFI=1
Mentoring (newmentor)	Beneficiary businesses in receipt of mentoring through SUL <i>(dummy)</i>	SUL mentored=1
SUL Mentoring (Hours) (menthours)	Hours of mentoring support taken up at the point of survey in 2015 <i>(continuous)</i>	
Arrears	Beneficiary business in arrears with SUL loan <i>(dummy)</i>	In arrears =1
Drawdown time (drawdown)	Elapsed time since loan was drawn down in months <i>(continuous)</i>	
Own Boss (A10A)	Do you want to be your own boss – used as a unique selection variable in the selection equation of the Heckman tests <i>(dummy)</i>	Own boss=1
Sector of business (atof, ghi, jklmn)	Business sector based on SIC codes: A-F (broadly primary, production and construction) ⁶⁰ ; G-I (broadly wholesale, retail, transport and accommodation) ⁶¹ ; and J-N (broadly business, finance, professional, scientific and administrative services) ⁶² ; O-U used as reference case	Relevant sector = 1

The models were selected that provided the most robust set of findings (balancing theory and practice). The number of observations for the programme effectiveness analysis for the

⁶⁰ A-F: agriculture forestry and fishing; mining and quarrying; manufacturing; electricity, gas, steam and air conditioning supply; water supply, sewerage, waste management and remediation activities; construction

⁶¹ G-I: wholesale and retail trade, and repair of motor vehicles and motorcycles; transportation and storage; accommodation and food service activities

⁶² J-N: information and communication; financial and insurance activities; real estate activities; professional, scientific and technical activities; administrative and support service activities

beneficiary and comparison groups in the selected models are set out below. The detailed findings follow covering the analysis on programme effectiveness (start-up, business performance, and personal development measures), and programme improvement (effects of elements of support).

Table B 3: Numbers of observations for different tests

Table reference and test	SUL	Comparison	Total
B-4 Selection into SUL support (start-ups)	661	404	1065
B-4 Start-up rate	638	356	994
B-4 Speed of start	561	244	805
B-5 Selection into SUL support	920	404	1324
B-5 Sales Growth	432	139	571
B-5 Employment change	435	190	825
B-5 Profitability	617	196	813
B-6 Confidence in running and managing a business	665	203	868
B-6 Personal confidence outside business	662	202	864
B-6 Business skills and knowledge	664	203	867
B-6 Involvement in business networks	655	199	854
B-6 Value of external advice	664	203	867

Table B-4 Scheme effectiveness analysis: start rate and speed of start

VARIABLES	Selection into SUL for start- ups (Probit)	Start rate (Heckprobit)	Start rate with interaction 1 (Heckprobit)	Start rate with interaction 2 (Heckprobit)	Speed of start (Heckman selection model – two step)
ageowner	-0.015*** (0.004)	-0.022 (0.029)	-0.0310 (0.0298)	-0.0111 (0.0325)	0.097 (0.347)
ownage2		0.0003 (0.0004)	0.0003 (0.0004)	0.0002 (0.0004)	-0.0005 (0.004)
previousbusdummy	-0.087 (0.092)	-0.101 (0.119)	-0.154 (0.124)	-0.056 (0.147)	-0.082 (1.612)
k15degreedummy	0.133 (0.082)	0.314*** (0.114)	0.371*** (0.119)	0.258* (0.156)	-0.519 (2.170)
genderdummy	-0.071 (0.084)	0.015 (0.113)	-0.0133 (0.116)	0.0479 (0.128)	0.510 (1.469)
londondummy	0.435*** (0.132)	-0.459** (0.186)		-0.661 (0.405)	6.162* (3.649)
northdummy	0.475*** (0.133)	-0.183 (0.188)		-0.375 (0.408)	0.776 (2.503)
southdummy	0.255** (0.126)	-0.136 (0.178)		-0.228 (0.271)	1.960 (2.557)
midlandsdummy	0.475*** (0.142)	-0.134 (0.205)		-0.364 (0.408)	4.252* (2.435)
suldummy		0.751*** (0.131)	0.878*** (0.150)	0.879*** (0.151)	0.294 (6.784)
othersupportdummy		0.030 (0.108)	-0.126 (0.134)	0.128 (0.225)	-0.789 (1.319)
atofdummy		0.052 (0.175)	0.0306 (0.177)	0.0531 (0.179)	-0.892 (2.251)
ghidummy		0.136 (0.149)	0.128 (0.151)	0.137 (0.152)	-1.569 (1.801)
jklmndummy		0.091 (0.144)	0.0822 (0.146)	0.100 (0.147)	-1.956 (1.799)
economic	-0.662*** (0.096)	0.013 (0.140)	-0.303 (0.210)	0.259 (0.476)	1.769 (1.513)
b8venturedummy		0.254** (0.114)	0.280** (0.113)	0.271** (0.114)	1.602 (1.422)
bpprebus		0.343*** (0.115)	0.588*** (0.167)	0.562*** (0.167)	0.216 (1.311)
SULBPprebusdummy (interaction variable)			-0.451** (0.226)	-0.409* (0.228)	
A10A	0.117 (0.103)				
Constant	0.929*** (0.203)	0.651 (0.630)	0.516 (0.581)	0.735 (0.641)	8.358 (13.864)
inv mills1		-2.022 (2.747)	0.872 (0.535)	-0.759 (1.374)	-9.066 (18.535)
Observations	1,065	994	994	994	805

Standard errors in parentheses; *** p<0.01, ** p<0.05, * p<0.1

Table B-5 Scheme effectiveness analysis: effect on business performance

VARIABLES	Selection into SUL (Probit)	Sales growth (Heckman selection model – two step)	Employment change (Heckman selection model – two step)	Profitability (heckprobit)
Ageowner	-0.015*** (0.003)	-0.011 (0.038)	0.043 (0.106)	-0.036 (0.026)
ownage2		0.00009 (0.0005)	-0.001 (0.001)	0.0004 (0.0003)
previousbusdummy	-0.129 (0.085)	0.648*** (0.233)	0.675 (0.458)	-0.073 (0.103)
k15degreedummy	0.135* (0.077)	0.265 (0.299)	0.458 (1.544)	-0.136 (0.117)
Genderdummy	-0.008 (0.079)	0.715** (0.295)	0.658 (0.569)	-0.019 (0.131)
Londondummy	0.385*** (0.121)	0.135 (0.290)	1.783 (1.836)	0.055 (0.199)
Northdummy	0.393*** (0.124)	-0.103 (0.274)	0.076 (1.168)	-0.104 (0.178)
Southdummy	0.210* (0.116)	0.044 (0.264)	0.177 (0.695)	-0.153 (0.168)
Midlandsdummy	0.371*** (0.132)	-0.137 (0.312)	0.079 (0.913)	0.017 (0.166)
businessplandummy		0.628** (0.246)	0.211 (0.703)	-0.017 (0.168)
Totalinvestment		0.0000006 (0.0000004)	-0.000002 (0.000002)	-0.0000005 (0.0000004)
SULdummy		1.498*** (0.485)	-0.175 (4.326)	-0.686*** (0.193)
othersupportdummy		0.012 (0.136)	0.650* (0.379)	-0.056 (0.090)
Atofdummy		-0.0003 (0.230)	0.511 (0.641)	0.381** (0.183)
Ghidummy		0.141 (0.196)	0.191 (0.520)	0.081 (0.128)
jklmndummy		0.076 (0.190)	0.063 (0.515)	0.301** (0.147)
economic	-0.51 (0.090)	0.556*** (0.207)	-0.527 (0.445)	-0.154 (0.102)
newlogba (base sales)		0.011 (0.079)		
c11 (base empl.)			0.386*** (0.062)	0.037 (0.025)
busage		-0.038 (0.032)	-0.168* (0.092)	-0.087*** (0.032)
busage2		0.001 (0.001)	0.003 (0.003)	0.002** (0.001)
bpcossil		-0.214 (0.159)	-0.15 (0.432)	0.079 (0.105)
b8venture	0.257*** (0.081)	-0.405** (0.188)	0.076 (0.806)	0.111 (0.104)
Constant	0.866*** (0.204)	-0.234 (2.402)	2.686 (11.103)	2.509*** (0.558)
A10A	0.154 (0.096)			
invmills1		2.020 (1.754)	-3.603 (11.867)	n/a n/a
Observations	1,313	571	825	813

Standard errors in parentheses; *** p<0.01, ** p<0.05, * p<0.1

Table B-6 Scheme effectiveness analysis: effect on skills, confidence etc.

VARIABLES	Selection into SUL (probit)	Confidence in running and managing a business (probit)	Personal confidence outside of business (heckprobit)	Business skills and knowledge (probit)	Involvement in business networks (heckprobit)	Value of external advice (probit)
ageowner	-0.015*** (0.003)	-0.06* (0.036)	-0.060 (0.042)	0.002 (0.028)	-0.036 (0.026)	0.016 (0.038)
ownage2		0.001 (0.0004)	0.001 (0.001)	0.00002 (0.0003)	0.0004 (0.0003)	-0.0003 (0.0005)
previousbusdummy	-0.129 (0.085)	0.317** (0.139)	-0.126 (0.152)	0.453*** (0.112)	-0.020 (0.104)	0.002 (0.158)
k15degreedummy	0.135* (0.077)	-0.151 (0.123)	0.101 (0.134)	-0.243** (0.099)	0.081 (0.095)	0.090 (0.148)
genderdummy	-0.008 (0.079)	0.042 (0.122)	0.267** (0.136)	-0.107 (0.100)	-0.129 (0.097)	-0.305** (0.151)
londondummy	0.385*** (0.121)	-0.025 (0.185)	0.165 (0.226)	0.043 (0.158)	0.167 (0.156)	0.219 (0.237)
northdummy	0.393*** (0.124)	0.362* (0.200)	0.271 (0.213)	-0.059 (0.156)	-0.165 (0.150)	0.117 (0.227)
southdummy	0.210* (0.116)	-0.029 (0.176)	-0.016 (0.194)	-0.112 (0.149)	-0.028 (0.145)	0.199 (0.218)
Midlandsdummy	0.371*** (0.132)	0.035 (0.196)	0.113 (0.221)	-0.142 (0.162)	-0.225 (0.158)	0.009 (0.229)
businessplandummy		0.412** (0.195)	0.070 (0.251)	0.498*** (0.175)	0.341** (0.173)	0.066 (0.237)
Totalinvestment		0.000005 (0.000003)	0.000001 (0.000002)	0.000006 (0.000004)	0.000002 (0.000001)	0.000005 (0.000003)
SULdummy		0.468** (0.185)	-0.273 (0.215)	-0.010 (0.151)	0.031 (0.149)	-0.109 (0.206)
othersupportdummy		0.108 (0.119)	0.262* (0.136)	-0.018 (0.097)	0.312*** (0.094)	0.203 (0.147)
Atofdummy		-0.109 (0.209)	0.138 (0.216)	-0.180 (0.159)	-0.062 (0.154)	0.275 (0.254)
Ghidummy		-0.070 (0.170)	0.116 (0.173)	0.202 (0.133)	-0.210* (0.126)	-0.172 (0.191)
Jklmndummy		-0.310* (0.159)	0.151 (0.177)	-0.016 (0.129)	0.158 (0.128)	0.070 (0.195)
Economic	-0.51 (0.090)	0.035 (0.130)	0.170 (0.139)	-0.077 (0.107)	-0.049 (0.103)	-0.178 (0.164)
c11 (base empl.)		-0.026 (0.018)	-0.022 (0.018)	0.022 (0.019)	0.038 (0.024)	0.066 (0.056)
Busage		-0.032 (0.029)	-0.002 (0.031)	-0.001 (0.023)	-0.003 (0.023)	-0.016 (0.034)
busage2		0.001 (0.001)	-0.0001 (0.001)	0.00009 (0.0007)	-0.00006 (0.0007)	0.00003 (0.001)
Bpcossil		-0.343** (0.147)	0.106 (0.143)	-0.072 (0.109)	-0.090 0.105	0.507*** (0.164)
b8venture	0.257*** (0.081)	-0.156 (0.138)	0.101 (0.147)	-0.024 (0.109)	-0.045 (0.106)	0.077 (0.157)
Constant	0.866*** (0.204)	2.171*** (0.769)	1.874** (0.842)	0.221 (0.594)	0.879 (0.571)	1.259 (0.841)
A10A	0.154 (0.096)					
Observations	1,313	868	864	867	854	867

Standard errors in parentheses; *** p<0.01, ** p<0.05, * p<0.1

Table B-7 Scheme improvement analysis: effect of pre-application support

VARIABLES	Selection into pre-app (probit)	Start rate 1 (pre-app binary) (heckprobit)	Start rate 2 (pre-app hours) (heckprobit)	Speed of start 1 (pre-app binary) (Heckman selection model – two step)	Speed of start 2 (pre-app hours) (Heckman selection model – two step)
ageowner	-0.005 (0.005)	0.011 (0.029)	-0.036 (0.039)	0.244 (0.381)	0.025 (0.415)
ownage2		-0.0002 (0.0003)	0.0004 (0.0005)	-0.002 (0.005)	0.0003 (0.005)
previousbusdummy	-0.028 (0.136)	0.106 (0.157)	0.123 (0.170)	0.532 (1.643)	1.142 (1.770)
k15degreedummy	-0.022 (0.118)	0.224* (0.134)	0.242* (0.143)	0.295 (1.968)	2.198 (1.973)
genderdummy	0.023 (0.117)	0.207 (0.136)	0.17 (0.145)	1.977 (1.781)	3.358* (1.815)
londondummy	-0.252 (0.201)	-0.47** (0.235)	-0.407* (0.247)	6.982* (3.933)	3.777 (3.961)
northdummy	-0.115 (0.206)	-0.266 (0.240)	-0.312 (0.255)	3.186 (2.872)	1.307 (3.507)
southdummy	0.089 (0.212)	-0.183 (0.241)	-0.153 (0.250)	3.825 (2.626)	1.797 (2.922)
midlandsdummy	-0.358* (0.210)	-0.125 (0.255)	-0.104 (0.270)	3.033 (2.542)	1.044 (2.724)
othersupportdummy		0.243** (0.115)	0.225 (0.140)	0.074 (1.348)	-0.607 (1.461)
atofdummy		-0.022 (0.184)	0.044 (0.206)	-1.837 (2.239)	-1.317 (2.413)
ghidummy		0.146 (0.147)	0.209 (0.179)	-0.816 (1.815)	-0.484 (1.949)
jklmndummy		0.051 (0.158)	0.024 (0.175)	-0.541 (1.866)	0.526 (2.028)
economic	0.090 (0.122)	0.016 (0.121)	-0.037 (0.146)	0.21 (1.439)	-0.526 (1.577)
bprepbus		0.067 (0.117)	0.053 (0.131)	-1.596 (1.328)	-1.859 (1.438)
b8venture	0.011 (0.130)	0.147 (0.143)	0.154 (0.151)	3.172** (1.597)	3.054 (1.666)
preappdummy		0.027 (0.186)		-1.622 (2.663)	
preapphours			-0.0003 (0.003)		-0.02 (0.035)
CDFI	-0.365*** (0.122)	-0.059 (0.138)	-0.036 (0.150)	-1.733 (1.497)	-1.153 (1.729)
Constant	1.581*** (0.319)	1.07* (0.612)	1.909** (0.775)	4.283 (10.656)	3.809 (9.607)
A10A	0.101 (0.150)				
Observations	915	889	760	796	682

Standard errors in parentheses; *** p<0.01, ** p<0.05, * p<0.1

Table B-8 Scheme improvement analysis: effect of mentoring

VARIABLES	Selection into mentoring (probit)	Confidence in running and managing a business (probit)	Personal confidence outside of business (probit)	Business skills and knowledge (probit)	Involvement in business networks (heckprobit)	Value of external advice (probit)	Arrears (probit)
ageowner	-0.007 (0.004)	-0.075 (0.049)	-0.089 (0.054)	-0.021 (0.037)	-0.043 (0.034)	0.025 (0.053)	-0.033 (0.048)
ownage2		0.0007 (0.0006)	0.001* (0.0007)	0.0002 (0.0005)	0.0005 (0.0004)	-0.0004 (0.0007)	0.0003 (0.0006)
previousbusdummy	-0.192* (0.111)	0.376* (0.195)	-0.171 (0.184)	0.596*** (0.148)	0.0526 (0.135)	0.256 (0.235)	-0.011 (0.192)
k15degreedummy	0.122 (0.0941)	-0.142 (0.164)	0.260 (0.167)	-0.233* (0.126)	0.0948 (0.118)	-0.0904 (0.205)	-0.236 (0.168)
genderdummy	-0.207** (0.0942)	0.121 (0.165)	0.253 (0.167)	-0.180 (0.128)	-0.0580 (0.121)	-0.474** (0.214)	0.0299 (0.171)
londondummy	0.260* (0.156)	-0.208 (0.269)	0.169 (0.271)	-0.151 (0.212)	0.200 (0.201)	-0.0111 (0.358)	0.169 (0.287)
northdummy	-0.128 (0.159)	0.193 (0.289)	0.324 (0.282)	-0.108 (0.212)	-0.0859 (0.197)	0.166 (0.358)	-0.134 (0.288)
southdummy	0.281* (0.155)	-0.153 (0.261)	-0.0404 (0.254)	-0.0762 (0.206)	-0.133 (0.190)	0.0528 (0.337)	0.0528 (0.271)
midlandsdummy	-0.0846 (0.162)	-0.00337 (0.291)	0.206 (0.294)	-0.307 (0.216)	-0.120 (0.206)	-0.265 (0.349)	0.0340 (0.307)
businessplandummy		-0.199 (0.570)	-0.326 (0.592)	-0.0699 (0.437)	0.140 (0.430)	-0.159 (0.606)	-0.003 (0.580)
totalinvestment		0.000007 (0.000005)	0.0000005 (0.000004)	0.000006* (0.000003)	-0.000001 (0.000002)	0.000005 (0.000005)	-0.000001 (0.000004)
newmentordummy		0.046 (0.180)	-0.040 (0.182)	-0.079 (0.139)	0.141 (0.132)	0.658*** (0.235)	-0.263 (0.189)
menthours		-0.004 (0.013)	0.008 (0.014)	0.005 (0.011)	0.003 (0.010)	-0.021 (0.016)	0.034*** (0.011)
preapp		-0.522 (0.357)	-0.526 (0.344)	0.162 (0.206)	0.198 (0.194)	0.319 (0.281)	-0.083 (0.276)
othersupportdummy		0.218 (0.163)	0.073 (0.167)	-0.011 (0.125)	0.289** (0.116)	-0.079 (0.204)	0.046 (0.168)
atofdummy		-0.0193 (0.287)	0.300 (0.278)	-0.424** (0.203)	-0.127 (0.190)	0.201 (0.336)	0.256 (0.277)
ghidummy		-0.0452 (0.225)	0.122 (0.211)	-0.0659 (0.167)	-0.107 (0.152)	-0.128 (0.253)	0.158 (0.234)
ijklmndummy		-0.433** (0.219)	0.226 (0.225)	-0.164 (0.170)	0.138 (0.158)	0.290 (0.275)	0.223 (0.236)
economic	-0.195** (0.099)	-0.078 (0.169)	0.177 (0.170)	-0.252* (0.134)	-0.034 (0.124)	-0.277 (0.226)	0.025 (0.173)
c11 (base empl.)		-0.048 (0.042)	0.115 (0.073)	0.030 (0.039)	0.045 (0.030)	0.062 (0.074)	0.039 (0.040)
busage		-0.036 (0.041)	0.006 (0.040)	-0.010 (0.032)	0.006 (0.030)	-0.002 (0.051)	0.024 (0.048)
busage2		0.0007 (0.001)	-0.0006 (0.001)	0.0003 (0.001)	0.00008 (0.0009)	-0.0002 (0.002)	-0.0005 (0.001)
bpcossil		-0.237 (0.168)	0.178 (0.161)	-0.023 (0.124)	-0.060 (0.116)	0.605*** (0.194)	-0.238 (0.169)
b8venture	0.113 (0.104)	-0.060 (0.182)	0.108 (0.190)	0.107 (0.139)	-0.100 (0.134)	0.291 (0.209)	0.108 (0.193)
cdfi	-0.295*** (0.099)	-0.085 (0.165)	-0.201 (0.167)	0.103 (0.128)	0.239* (0.123)	-0.230 (0.203)	0.446** (0.173)
drawdown							0.002 (0.044)

VARIABLES	Selection into mentoring (probit)	Confidence in running and managing a business (probit)	Personal confidence outside of business (probit)	Business skills and knowledge (probit)	Involvement in business networks (heckprobit)	Value of external advice (probit)	Arrears (probit)
A10A	-0.310** (0.128)						
Constant	0.777*** (0.259)	4.17*** (1.21)	2.83** (1.25)	1.33 (0.892)	0.628 (0.839)	0.893 (1.27)	-1.12 (1.21)
Observations	805	571	568	570	565	571	536

Standard errors in parentheses; *** p<0.01, ** p<0.05, * p<0.1

Annex C: Detailed findings of the Delivery Partner Survey

This annex contains detailed findings from the Delivery Partner Survey. The survey was sent online to 50 Delivery partners. 38 completed the survey, comprising 20 CDFIs and 18 non-CDFIs. The key questions and responses are shown below.

Table C-1: Which of the following areas does your organisation provide pre-application support/advice to applicants on?

Answer	Number of respondents	Percentage of respondents
Business idea	24	63%
Business plan	37	97%
Cash flow forecasts	37	97%
Market research	33	87%
Competitor analysis	33	87%
Other	12	32%
Total answering	38	100%

Of those answering "other" (12), eight offered some kind of financial pre-application support/advice; four CDFIs specified that they offer other kinds of financial support.

Table C-2: Which of the following is your main method of delivering pre-application support to applicants?

Answer	Number of respondents	Percentage of respondents
One-to-one: email	3	8%
One-to-one: face-to-face	22	58%
One-to-one: phone	5	13%
Group workshop/seminar	2	5%
Other	6	16%
Total answering	38	100%

The main method of delivering support is face-to-face (57%) as the table above shows. However, 86% are delivering some kind of one-to-one support, whatever the medium (includes some of the 'other' responses).

Table C-3: Who delivers support to applicants at the pre-application stage?

Answer	Number of respondents	Percentage of respondents
Own staff	34	89%
Paid contractors/agents	13	34%
Volunteers	4	11%
Other	2	5%
Total answering	38	100%

CDFIs are slightly more likely to use other delivery vehicles apart from their own staff: eight CDFIs reported using paid contractors, three reported using volunteers and two described other ways support was delivered.

Table C-4: Do you tailor your pre-application support offer based on the needs of particular groups or types of individual? If yes, please explain how you tailor the support and to which particular groups or types of individual.

Answer	Number of respondents	Percentage of respondents
Yes	27	71%
No	11	29%
Total answering	38	100%

More than two thirds said they tailor support based on needs (see table above) but most of these were not explicit about how they do so or for whom. There were individual DPs stating they tailored support specifically for BME communities, disadvantaged groups, creative and fashion start-ups and ex-forces personnel. Seven DPs mentioned they use one-to-one sessions to tailor support. CDFIs were less likely to tailor support: 11 confirmed they did tailor support whereas nine said they did not. CDFIs were more likely than other organisations to provide mentoring support by phone.

Table C-5: Which of the following is your main method of delivering mentoring support?

Answer	Number of respondents	Percentage of respondents
Face-to-face and one-to-one	24	63%
Face-to-face and in a group	1	3%
By phone	7	18%
Online	1	3%
Other	5	13%
Total answering	38	100%

Table C-6: Who delivers mentoring support to those that have secured a loan?

Answer	Number of respondents	Percentage of respondents
Own staff	29	76%
Paid contractors/agents	13	34%
Volunteers	19	50%
Other	1	3%
Total answering	38	100%

In terms of other activity the DP is engaged in, 21 deliver some kind of other business support and 10 deliver some kind of other access to finance support (8 DPs deliver both). 10 DPs deliver some activity relating to ERDF or RGF. 10 specifically mentioned that they provide loans or grants not related to SULs. Three DPs delivered activity with social aims such as youth and community services.

Table C-7: Does your organisation deliver the Start-Up Loans programme only, or do you deliver other activity?

Answer	Number of respondents	Percentage of respondents
Deliver Start-Up Loans only	3	8%
Deliver other activity	35	92%
Total answering	38	100%

Table C-8: Broadly what proportion of the time spent on delivering activities is accounted for by Start-Up Loans?

Answer	Number of respondents	Percentage of respondents
0-25%	13	37%
26-50%	13	37%
51-75%	5	14%
76-100%	4	11%
Total answering	35	100%

Three quarters of (29) DPs stated that SULs complements their other activities compared to three (8%) that said it duplicates activity. One DP said it complemented and duplicated activity (counted in both the 29 and 3): *"Start-Up Loans sometimes complements, but also competes with the work we do. It would be in direct competition with us, if we did not deliver this programme, as we provide loans for Start-Ups"*. One of the DPs who said it duplicates activity cited it as being in competition with the RGF1 programme. Of those who said it complemented their activity, 11 said it was because it provided access to finance for start-ups/small businesses and 4 said it was because it was aimed at earlier stage businesses.

There is little difference between CDFIs and other organisations in terms of how important SULs is to their financial sustainability. However, of the 25 respondents that said SULs is important to achieving their organisation's social/community objectives, 15 were CDFIs.

Table C9: How important is the Start-Up Loans programme to your organisation in terms of financial sustainability?

Answer	Number of respondents	Percentage of respondents
Essential	6	16%
Very Important	12	32%
Somewhat Important	12	32%
Slightly Important	4	11%
Not Important	4	11%
Total answering	38	100%

Table C10: How important is the Start-Up Loans programme to your organisation in terms of achieving its social/community objectives?

Answer	Number of respondents	Percentage of respondents
Essential	7	18%
Very Important	18	47%
Somewhat Important	8	21%
Slightly Important	3	8%
Not Important	2	5%
Total answering	38	100%

DPs consider SULs to have a significant outcome in terms of the creation of new businesses that would not have started otherwise (84% said SUL has led to this to a large or moderate extent). It has also had a big effect in terms of improvements in confidence and attitudes to entrepreneurship of those supported (81% said SUL has led to this to a large or moderate extent). 79% also thought that SULs had contributed to a large or moderate extent to improved chances of survival of businesses. There was an interesting divide in terms of those thinking SULs had contributed to a large or moderate extent to growth of businesses, in terms of employment and/or turnover (72%) and those who thought it had only contributed to a small extent or not at all (25%).

Table C11: To what extent has the programme led to the following outcomes?

Answer	To a large extent		To a moderate extent		To a small extent		Not at all		Don't know		Total number of answers
	No.	%	No.	%	No.	%	No.	%	No.	%	
Creation of new businesses that would not have started otherwise	26	68	6	16	3	8	2	5	1	3	38
Improved chances of survival of businesses	14	37	16	42	5	13	2	5	1	3	38
Growth of businesses, in terms of employment and/or turnover	12	33	14	39	8	22	1	3	1	3	36
Development of new skills relating to business by individuals	13	36	12	33	5	14	3	8	3	8	36
Improvements in confidence and attitudes to entrepreneurship of those supported	16	43	14	38	2	5	3	8	2	5	37
Improvements in the employment prospects of those supported	15	40.5	12	32	3	8	3	8	4	11	37

When asked 'Thinking about those that you have supported, have any groups or types of individual particularly benefited from the programme to date, and why is this?' 31 DPs answered: 10 DPs noted that it was those not able to access bank credit that particularly benefited; six of these noted that access to bank credit was difficult for unemployed people. In total eight DPs noted that the unemployed were particularly benefited by the programme. Other groups supported by a small number of DPs included ethnic minority communities, women, younger people, creative start-ups, and ex-forces personnel.

One DP commented:

"We have a large range of age, ethnicity and gender coming through the Start-Up Loans Programme - majority of our prior lending has been to 40+ white males so we have broadened our range of diversity with regards to having this contract - we are particularly seeing an increase in younger applicants and more ethnicity."

In relation to the types of individual benefitting, one DP observed that:

"as the emphasis then swung to quality rather than quantity it's a difficult question to answer. The loan funds are for those who would have difficulty in getting traditional funding therefore a high percentage of those will be high risk - but this no longer fits the profile expected by the QA team."

The pre-application support stage was regarded by a plurality of DPs as the most important aspect of the programme in delivering these outcomes, with the financial support also commonly cited mentoring was less prominent in this first wave of the evaluation, this may simply reflect that mentoring is ongoing.

Table C12: How would you rank the elements of the support in terms of their importance in generating these outcomes overall, i.e. which element of the programme is most important?

Answer	1 = Most important		2 = Second most important		3 = Third most important		Total number of answers
	No.	%	No.	%	No.	%	
Pre-application support	20	53	14	37	4	11	38
Financial support	14	37	17	45	7	18	38
Mentoring support	5	13	7	18	26	68	38

DPs were generally positive regarding the extent to which the programme has led to changing perceptions of enterprise and entrepreneurs. Mostly this was cited as being a consequence of the marketing of the programme. Other explanations included the 'word of mouth' effect i.e. participants recommending the programme, that disadvantaged people now see entrepreneurship as an opportunity now open to them, and the 'national offer' of the programme. Further, One DP remarked:

"With the poor jobs climate up until recently, people looked for other opportunities to earn a living and as such considered self-employment as one of these opportunities. Having attended a number of job fairs, people have approached us with a view to starting their own business rather than seeking employment."

Table C13: Do you think that the Start-Up Loans programme has led to changing perceptions of enterprise and entrepreneurship amongst the wider population in the UK?

Answer	Number of respondents	Percentage of respondents
Yes, to a great extent	8	21%
Yes, to some extent	22	58%
No, not at this point	8	21%
Total answering	38	100%

A majority of DPs thought SULs has helped change perceptions of financing start-ups among the mainstream finance sector. Five noted that banks are more aware of the option and/or were starting to make referrals, four noted that it had benefitted the Community Finance sector, and five recognised that it had filled a gap in terms of offering access to finance.

Table C14: Do you think that the Start-Up Loans programme has led to changing perceptions of financing start-ups amongst the mainstream or community finance sector in the UK?

Answer	Number of respondents	Percentage of respondents
Yes, to a great extent	9	24%
Yes, to some extent	22	58%
No, not at this point	7	18%
Total answering	38	100%

There were a handful of negative comments relating to mainstream providers' continued resistance to this kind of financing. In some cases there were criticisms of the programme e.g. that aspects such as maximum loan size are not disclosed, and this damages the programme. One DP expressed the view that:

"The Start-Up Loans programme does seem to be gaining momentum and awareness within the finance sector / sharing economy. The programme seems to be more regularly mentioned as an alternative or substitute to bank loans."

However, another commented:

"Community finance organisations are now using government money, rather than their own or sponsors funding, which leads them to consider far more applications and reach far more people than before. Mainstream lenders have not changed their perception and have, in fact,

been somewhat negative. In one instance a bank refused an overdraft to one of our businesses because he had a SUL."

One DP suggested:

"We have worked hard at establishing relationships with the banks - firstly to educate them about the programme and secondly for them to act as a referral to the programme - this has been a battle so it's a bit difficult to judge this at this point in time - but we are seeing a slight increase in referrals and recognition from the mainstream lenders about alternative finance for the customers that they can't help. There is still a lot more work to be done here and it needs to ideally come directly from the SULCO."

When asked 'Have there been any other outcomes of the programme, either positive or negative, not captured above?' there were not many new positive outcomes identified. Several DPs repeated the improved access to finance. One also mentioned getting unemployed people to become economically active and another noted the increasing acceptance of loans over grants although two contradicted this with the view that people see SULs as a 'soft' lender and another noted that the programme attracts people not really serious about starting a business. Five DPs referred to irresponsible lending that had had a negative impact on some individuals, although this was usually mentioned as relating to the early days of SULs. One noted there had been some bad programme management and another thought there was still not a good understanding of the barriers many faced in accessing finance. Two DPs made interesting observations about the value of better understanding among those who do not make a successful application.

Table C15: Does the non-lending finance provided to your organisation by the Start-Up Loans Company cover in full the cost of delivering the programme?

Answer	Number of respondents	Percentage of respondents
Yes	9	24%
No	29	76%
Total answering	38	100%

It is notable that three-quarters of DPs stated that the non-lending finance did not cover in full the cost of delivering SULs. There did not seem to be a consistent proportion of costs covered by the non-lending finance (see chart below) although 16 DPs said it covered somewhere between 50% and 80% of costs. CDFIs were less likely to report the non-lending finance covered the cost of delivering the programme in full: of 9 organisations reported costs were fully covered and only 3 of these were CDFIs.

Figure C-1: Percentage of DP costs covered by SUL non-lending finance

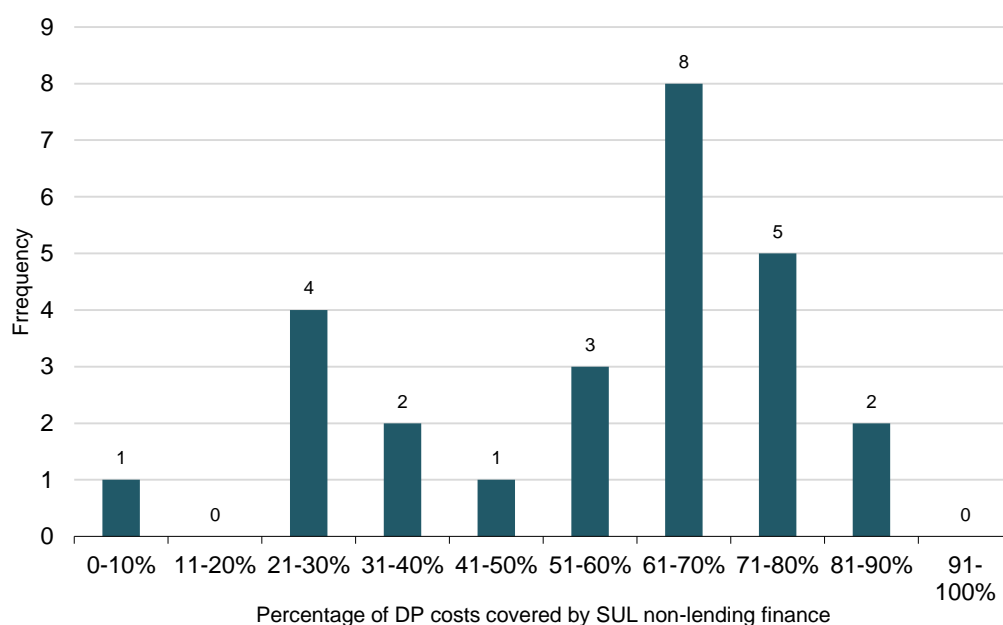
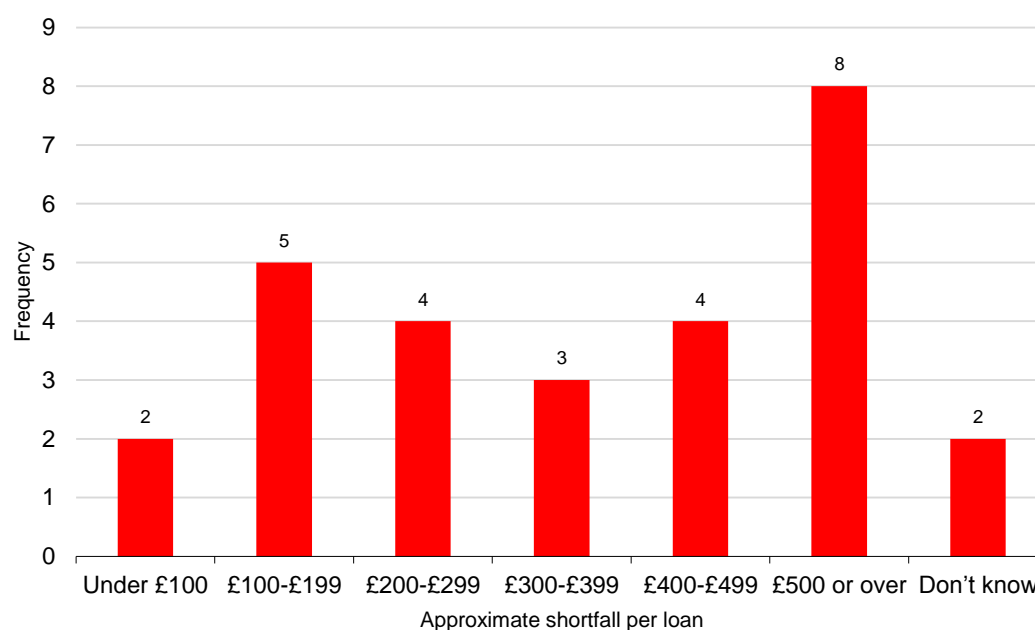


Table C16: What is the approximate shortfall 'per loan' to deliver the programme?

Answer	Number of respondents	Percentage of respondents
Under £100	2	7%
£100-£199	5	18%
£200-£299	4	14%
£300-£399	3	11%
£400-£499	4	14 %
£500 or over	8	29%
Don't know	2	7%
Total answering	28	100%

Figure C2: Approximate shortfall per loan



CDFIs were more likely to report that the approximate shortfall per loan was £500 or over: five CDFIs said this was the case compared to three other organisations. Overall 29% of organisations reported they were short by £500 or more, on average, per loan.

19 DPs cover the extra costs through their own funds, which includes revenue generated through other activity (e.g. commercially priced loans), donations (for charities) and reserves. 9 DPs cross-subsidise SULs using funds from other programmes. One mentioned they make up the shortfall from draw-down and post-loan fees.

When asked 'Why does the programme cost more to deliver than is covered by the non-lending provided to your organisation by the Start-Up Loans Company?' about half (18) remarked that the cost to deliver exceeds the non-finance lending because of the intensive nature of support required by clients. seven observed that the programme was administratively burdensome, and becoming more so, and four specifically mentioned compliance as increasing costs, and the poor conversion rate i.e. they invest time in lots of enquiries and applications that do not progress to a successful loan application, respectively.

One DP's comments represented the views of many others:

"The fees paid for this programme are substantially less than any other project. The application process is thorough and generally requires more time investing in the entrepreneurs and application as it is often their first business idea. The assessment also requires careful scrutiny. The number of hours required for mentoring support has been increased during the programme and this level of support for every client has a significant impact on the cost of delivery."

Another DP summarised it as:

"Because no real allowance [is] made for the entire customer journey especially pre application support and [the] collections process."

There was considerable diversity in the responses on **what has gone well in delivery of the programme**. The two answers garnering the most replies were on the value of pre-application support (8 DPs) and support from SULCo, whether directly from staff or in the form of guidance (7 DPs). Three DPs also mentioned the quality of their staff as being an important factor. A couple of other respondents remarked on the value of sharing best practice between delivery partners.

One view was:

"It has been good to have a national programme with attempts at consistency. The product is good and the minimum standards are now developing correctly although at times are a bit too restrictive and require more consultation with smarter and better partners."

There was even more variety in terms of **what has worked less well**. The one clear message is that DPs found frequent policy changes challenging (mentioned by nine DPs). A similar number (eight) had issues with mentoring, although these varied from getting applicants to engage, specifically getting them to engage with post-loan mentoring, problems with volunteer mentors, inflexible requirements for mentoring and increasing hours required for mentoring provision without corresponding increases in funding. Over ten DPs reported issues with the 'conversion rate' from initial contact through to loan approvals, changes that have affected the rate (increasing scrutiny and rigour of applicants) and the way the payment mechanism works in relation to it. Key messages are: several DPs think their experience and knowledge of applicants is not fully taken into account for loan decisions; increasing rigour on decisions seems at odds with the aim of the programme; and payment on successful applications does not take account of a lot of other activity e.g. screening out poor quality referrals from SULCo, worthwhile engagement with applicants who don't go on to make an (successful) application. There was one direct criticism of SULCo's responsiveness which the DP believed resulted in deficiencies in customer care. The prescriptiveness of the programme was also criticised. One DP was critical of the way poor performance by some DPs has damaged the programme and negatively affected other DPs.

One DP remarked:

"The number of hours required for mentoring support has been increased during the programme and this level of support for every client has a significant impact on the cost of delivery. It is also very difficult to provide the mentoring support as clients often want to 'run their business' and it is difficult to book time for the mentoring sessions."

Another DP similarly commented:

"Post loan support at all levels (mentoring, training and peer to peer support) is very difficult to implement and keep the client (especially those in arrears) engaged. They are busy trying to run their business and so their time is scarce (as it should be when a business is in its infancy) and there is also a perception issue about what advice and support mentors are able to give to clients."

There was also an important observation from one DP:

"In terms of SULCo's management it can sometimes feel as though different areas of the organisation are championing different messages - e.g. there are targets set around achieving draw downs, but the lending and credit team can appear to be looking for reasons to decline people and not trust what the applicant is saying. To this end there can often be a disconnect on dual reviewed applications where the lending team overrule a Delivery Partner who has spent considerable time working directly with an applicant."

A further comment included three issues with the Programme:

"Constant changes to the credit policy, lack of trust in DPs, lack of fixed payment structure for advance planning."

Satisfaction with the programme is generally high, notably with the overall delivery model and management of the programme by the SULCo. The feedback was more mixed regarding the requirements placed on DPs.

Table C17: How satisfied are you with the following aspects of the programme?

Answer	Very satisfied		Satisfied		Dissatisfied		Very dissatisfied		Total number of answers
	No.	%	No.	%	No.	%	No.	%	
The overall delivery model	7	18	26	68	4	11	1	3	38
The requirements placed on Delivery Partners (support types, monitoring information etc.)	3	8	24	65	8	22	2	5	37
The management of the programme by the Start-Up Loans Company, including the information/support/guidance provided to Delivery Partners	11	29	21	55	4	11	2	5	38

In terms of **improving the programme**, the most common messages related to the need for DPs to feel more valued and trusted by the SULCo for their experience and skills (identified unprompted by eight DPs). The other aspect that raised the most comments was funding: six DPs said fees/funding should be increased and five said the payment system needed to be changed either because it did not reflect the work done or created the wrong incentives. Other comments included requesting fewer programme management and policy changes.

Some specific comments regarding improvements to the programme are set out below:

"We would like to see more flexibility in discretionary powers provided to delivery partners. As an long-standing loan fund provider with a low level of arrears, we feel we would be well placed to be allowed more flexibility in this regard."

"The payment of the revenue needs to be brought in line with other projects to ensure our delivery costs are met."

"There should be more consistency to approvals, and more willingness to listen to the Delivery Partners as experts in their field and their experience as business owners."

"A clear strategic position from the outset would have helped. The constant reshuffling last year of the eligibility criteria, data processing and compliance demanded a need for increased admin staff to resource the programme. Much time is spent on zero return functions which is onerous for a small company and team to carry."

"Get the lending team out to meet applicants and delivery partners. They are too focused on business plans and cashflow forecasts and not enough on the people behind the plans. The risks are more associated with people in this environment than with the plans and numbers they produce."

Annex D: Method to identify self-reported deadweight

Overview

The initial estimate of self-reported deadweight involved developing a non-deadweight ratio at the level of individual respondents to the beneficiary survey. This respondent-level approach was undertaken to ensure that the additionality and subsequent impact analysis accounted for the following:

- The range of programme support in terms of scale and nature taken up, enabling a segmented treatment of deadweight by these key factors. This ensured that the impact assessment accounted for the scale of benefits associated with different beneficiaries.
- Multiple elements of partial additionality for some of the beneficiaries (that is where, for example, the effects of the programme were on both the scale of the business developed and also the timing of when the business was developed).

The individual-level ratios were applied to the data on gross firm-level benefits (e.g. turnover generated and employment created) to provide net outputs/outcomes (before taking into account displacement that was considered separately in the value for money model drawing on the survey findings). Note that the findings on finance additionality (that is closely linked to outcome additionality) were *not* used in the analysis on deadweight, however, financial additionality is accounted for in the value for money model when considering economic costs in line with standard practice and guidance from the British Business Bank.

Detailed method

The respondent-level non-deadweight ratio was based on respondents' answers to a survey question on whether or not the business would have started/developed at the same time, scale and quality without Start-Up Loans. Respondents that identified full non-deadweight (i.e. the business would not have started/up developed at all without the programme) were given a non-deadweight value of 1, and respondents that identified full deadweight (i.e. the business would have started/developed at the same time, scale and quality without the programme) were given a non-deadweight value of 0.

If the respondent stated that the business would have started/developed, but at a different **scale**, non-deadweight was considered based on the responses to a follow-up question on the estimated scale of the business, at the point of the survey, if no support had been received from the programme. The options presented and ranges used in the analysis are set out below. For example, where a respondent stated that without the programme the business would have been 'Less than 25% of current size', non-deadweight was assumed to be 0.875 (i.e. 87.5% of the turnover was additional to the programme).

Table D1: Scale effects assumptions

Roughly how large would the business be now in terms of turnover?	Non-deadweight value
Less than 25% of current size	0.875
25-50% of current size	0.62
51-75% of current size	0.37
76-100% of current size	0.12

If the respondent stated that the business would have started/developed at the same scale, but at a different **time**, the acceleration brought about by Start-Up Loans was considered based on a follow-up question on how much longer it would have taken for the business to start-up or develop. The options presented and ranges used in the analysis are set out below. For example, where a respondent stated that without the programme the business would have started-up over 2 years later, non-deadweight was assumed to be 0.75 (i.e. 75% of the turnover was additional to the programme). It is worth noting that identifying the impacts of timing effects are challenging and there may be long-term effects over a long period of time (e.g. in two or three years' time a business that was brought forward by say 1-3 months may still be 1-3 months behind where it would have been without the intervention, meaning there is an on-going benefit). The approach adopted accounts for this uncertainty and reflects that this is an initial estimate of deadweight that will be added-to as the evaluation progresses with more robust data on the benefits of the programme.

Table D2: Timing effects assumptions

Approximately how much longer do you think it would have taken you to start up/develop the business, if you had not been involved with Start-Up Loans?	Non-deadweight value
Less than a month	0.00
1 to 3 months	0.15
4-6 months	0.30
7-12 months	0.45
Over 1 year but up to 2 years	0.6
Over 2 years	0.75

In some cases respondents stated that the business would have started/developed at a different time, and at a different scale. In these cases the scale and timing non-deadweight

ratios were aggregated, and if the combined value equalled over 1, a non-deadweight ratio of 1.0 was applied.

This analysis provided each respondent with a non-deadweight ratio. This non-deadweight ratio was then applied to the gross data to estimate a net value (before accounting for displacement). For example, if Respondent X reported gross turnover of £50k, and had a non-deadweight ratio of 1, the net turnover for that respondent would be £50k. If Respondent Y reported gross turnover of £50k, and had a non-deadweight ratio of 0.62 owing to scale effects, net turnover would be £31k. The gross and net data across all relevant survey respondents were then aggregated to generate an overall deadweight ratio for the survey cohort.

Note that data on self-reported deadweight was not available for 97 respondents to the survey owing to a routing error in the Year 1 survey. For this group the average deadweight ratio was applied, for 'new' and 'existing' firms as appropriate.

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