

Evaluation of Start Up Loans

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Executive summary

Rationale and objectives of the Start Up Loans programme

Launched in 2012, the Start Up Loans programme provides personal loans to an individual for the purpose of starting up a new business or developing an existing early stage business. In addition to the finance, the programme offers pre-application support and post-loan mentoring advice.

The programme has four key objectives:

- To increase the supply of finance to start-up businesses and entrepreneurs where markets do not work well
- To identify and help reduce regional imbalances in access to finance for start-up businesses across the UK
- To develop the entrepreneurial skills of individuals starting a business
- To provide good value for money through delivering economic benefits that more than offset the economic costs.

Evaluation

The pilot of the programme, which ran from 2012 to 2013, was evaluated, and a full multi-year evaluation of the programme was undertaken between 2015 and 2019. In 2023, SQW (working in partnership with Professor Mark Hart, Qa Research and The Data City) was commissioned to refresh the evidence on the programme, focusing on loans drawn down by two cohorts, one in financial year 2018/19 and one in 2021/22. The overarching aim for the evaluation was to provide a robust assessment of the Start Up Loans programme, comprising a process, impact and economic evaluation.

The evaluation used a mixed methods approach, including: surveys of, and case studies with, beneficiaries covering the two cohorts; interviews with stakeholders and delivery partners; analysis of monitoring data; a counterfactual impact assessment using econometric analysis of secondary firm-level data; and value for money modelling.

Key findings

Headlines on impact

The programme has made good progress against its stated objectives and intended outputs, outcomes and impacts. Specifically, the evaluation found evidence of the following:

- At the time of the beneficiary survey, the proportion of self-employed individuals was nearly three times higher than at the time of applying for a loan, indicating that the programme has fulfilled its objective of encouraging entrepreneurship and self-employment for these cohorts.

- Survey evidence indicated an overall start-up rate of 96% (i.e. began trading). Taking into account the evidence on additionality from the survey (of 804 respondents from the 2018/19 and 2021/22 cohorts), for every 100 people that the programme lent to in the two cohorts covered, 21 net new enterprises were created and 36 net additional enterprises were developed further.
- Businesses established by Start Up Loans beneficiaries had higher survival rates than comparator businesses.¹ Econometric analysis of secondary data found that during the first five years, the businesses of loan recipients from the two cohorts demonstrated higher survival rates than comparison groups. By year 5 this was higher by between four and 26 percentage points vs comparison groups.
- We estimated that the enterprises of the loan recipients responding to the evaluation survey (804 recipients) had created 826 net additional employees in the last completed financial year. This means that 1.03 net additional employee jobs were created for every loan provided for the survey respondents from the two cohorts (note that this excludes the employment of the loan recipients themselves). The vast majority of enterprises created by the loan recipients were small, typically with fewer than ten staff (and around half of the survey respondents reported having no staff, excluding themselves as owners).
- The enterprises of the 804 survey respondents from the two cohorts had generated an estimated aggregate net turnover of £44.7m in their last reported financial years. This equates to £50-60k net additional turnover per loan recipient. Most of the enterprises were small, generating relatively low levels of turnover, but there was a minority of enterprises generating over £250k (these enterprises accounted for 56-78% of the aggregate turnover reported).
- Econometric analysis of secondary data indicated that loan recipients' businesses had experienced stronger growth since incorporation than comparator businesses, in terms of assets and employment. On average, beneficiaries' businesses were found to have experienced, between incorporation and the latest datapoint, a c. 34% cumulative higher growth in assets and c. 15% cumulative higher growth in employment than the comparator group.
- The majority of loan recipients assessed their personal and business confidence at the time of the survey to be higher than when they first applied for a loan. The programme was seen as an important factor in enabling these improvements for many survey respondents (63-69% indicated this in relation to business confidence, and 55-67% in relation to personal confidence). Evidence from the survey and the case study research suggested that personal development benefits are often pertinent even if the enterprise does not succeed.
- Based on self-reported evidence from the survey, we estimated that just over two-thirds of the finance provided by Start Up Loans would not have been provided by mainstream providers (i.e. a finance additionality ratio of 68%). There is some evidence of borrower discouragement, though it is challenging to assess the extent to which this was justified (i.e. whether the loan recipients may have been able to get a bank loan if they applied).

Econometric regression analysis, which controlled for a range of variables, indicated that there were some characteristics of loan recipients or the support they have received that were associated with a higher likelihood of achieving business or personal development outcomes. These varied across the different outcomes. The evidence indicated that women and Ethnic Minorities were more likely to experience personal development outcomes, but their businesses were less likely to achieve turnover growth. Larger loans were associated with higher turnover growth and higher likelihood of business

¹ Note that the econometric analysis in relation to business growth and survival is based on those loan recipients that provided a company registration number at the time of applying for the loan. These findings therefore relate to a sub-set of the beneficiaries, and this group can be expected to be relatively more mature.

survival. In addition, older entrepreneurs (aged 30+) and those also receiving support outside of the Start Up Loans programme were associated with higher likelihood of business survival.

Role of different elements of the programme

Overall levels of satisfaction with the programme among loan recipients were high, and the net promoter score was consistent with the previous evaluation (just over 50% based on the proportion of those reporting the net position between promoters (those reporting a 9 or 10 out of 10) and detractors (those reporting 0 to 6 out of 10)².

Loan finance

The loan finance itself was viewed as the most important element of the programme's support according to survey respondents (66% of the 2018/19 cohort, and 74% of the 2021/22 cohort), followed by the pre-application support (25% of the 2018/19 cohort, and 18% of the 2021/22 cohort). This may be expected given nature and focus of the programme.

Pre-loan support

The vast majority of survey respondents reported that they had received some pre-loan support at the time of applying for the loan (87-89%). For around three-quarters of survey respondents, the pre-loan support had helped with at least one of the three key areas: improving their understanding of market opportunities, financial management or business planning. Qualitative feedback from the survey as well as the case studies suggested mainly positive experiences with this support, though some indicated that they would have benefitted from further scrutiny on the business idea and the potential market. There was some evidence from delivery partner consultees that they were not able to spend as much time on pre-application support as previously due to the pressures on costs.

Mentoring

Take-up of mentoring was low, with just under half of survey respondents stating that they were offered mentoring, and only around half of those taking up the offer. Of all surveyed loan recipients, around one in four from the 2018/19 cohort and one in six from the 2021/22 cohort had received mentoring (or expected to in the future). This feedback is concerning, though it should be noted that these experiences reflect the previous delivery model that was in place up to March 2023. As well as variation in consistency in the offer of mentoring, low take-up reflected other issues such as logistical challenges in provision and the fact that some loan recipients did not want mentoring or did not appreciate the potential benefits. A new delivery model, with a single post-loan delivery partner, began from April 2023 to help address these issues.

Whilst satisfaction with mentoring was net positive overall, the evidence was mixed. In total, 67-70% were satisfied or very satisfied; and 15-17% were dissatisfied or very dissatisfied. Key aspects of good mentoring were relevant knowledge and experience of the market/sector, having relevant skills, and the personality fit. For some, there was clear evidence of benefits as a result of the mentoring support, with many indicating that it had helped with knowledge, skills and business confidence. A smaller proportion indicated that it helped with decision-making and business performance. However, this had not been the case for all.

² NPS is used as an overall measure of satisfaction. The approach for calculating the score is in line with that adopted by Start Up Loans in its own analysis. Those responding with a 9 or 10 out of a possible 10 are 'promoters'; those responding with scores of between 0 and 6 are 'detractors'. The NPS is the promoters minus detractors.

Econometric analysis indicated some loan recipient sub-groups that were associated with a higher likelihood of accepting the mentoring offer, specifically those who: were in deprived local authorities; received smaller loans (<£5k); had previously run or managed another business; and were in the earlier 2018/19 cohort.

Those who declined mentoring had a higher likelihood of business survival, though we suspect there may be a selection effect here, whereby those who already had the knowledge and capabilities (or networks) required to succeed with their venture were more likely to turn down the mentoring offer. Looking at the effect of mentoring on loan repayment, we found that those who received mentoring and were satisfied with the support had a lower chance of being in arrears than those who were not offered mentoring, which may indicate that mentoring could help in relation to arrears.

Impact and value for money

The VfM is positive, demonstrating a high return on investment for the programme. The BCRs for the 2018/19 cohort were 5.1 to 5.6 (depending on whether exchequer or economic costs are used) based on unweighted benefits, and 5.6 to 6.0 when benefits were adjusted to take account of income weights (i.e. applying weights depending on pre-intervention incomes of loan recipients). For the 2021/22 cohort, the BCRs were 4.3 to 5.5 based on unweighted benefits, and 5.2 to 6.7 when benefits were adjusted to take account of income weights.

The VfM was more positive for the 2018/19 cohort when using the unweighted benefits partly due to the higher estimate of benefits, which reflects that the businesses established in this cohort have had more time to mature and develop. The increase in the BCRs when income weights were taken into account indicates that the programme has disproportionately benefited those on incomes lower than the UK median, in line with the distributional rationale for the programme. This was the case for both cohorts, and particularly for the 2021/22 cohort.

The VfM estimates compare well to the BCRs in the previous evaluation. The unweighted 5.1 to 5.6 BCRs for the 2018/19 cohort were similar to the 5.7 to 5.8 BCRs for the 2016 cohort as reported in the 2019 evaluation.

Fit in the landscape

Feedback from stakeholders suggested that the Start Up Loans programme fits in well alongside other provision, and continues to meet a need for finance. This was perceived to be even more important following the end of European programmes. At the same time, it was considered that the demand-side had increased through the increase in interest in starting businesses during and immediately following Covid.

Within this context, it was suggested that Start Up Loans has several distinctive features that set it apart from other provision: a higher risk appetite compared to other lenders; better terms of lending (in particular the interest rate); a personalised approach for lending decisions; the package of finance and non-financial support; the government backing; the lack of sector restrictions; and the connections to local communities.

The evidence indicated that the programme caters particularly well for certain groups that may be less likely to access mainstream finance provision, such as women and those from Ethnic Minority communities. This was fed back by consultees and also clear from the monitoring data.

Although most consultees had a clear picture of where Start Up Loans sits in the landscape, the feedback suggested that more could be done to improve the links with mainstream banks, including to facilitate access to follow-on funding.

1 Introduction

The above points on alignment provide the overall synthesis of views from stakeholders. It must be noted, and as was found in the survey evidence, that there was an element of deadweight in Start Up Loans lending, i.e. some loan recipients would have obtained finance otherwise. Therefore, whilst the programme is well-positioned and complementary to other provision, there are inevitably some overlaps and duplication. These are important issues to consider in relation to any discussions on links with mainstream banks and in relation to any potential follow-on products, given the risks of competing with the market.

Implications and recommendations

Based on the evidence set out in this evaluation report, we draw four key recommendations:

- In recent years, there have been changes to the context in which Start Up Loans operates in, both on the demand and supply side. Whilst these were considered by stakeholders to strengthen the case for the programme, it will be important to consider the impact of the wider economic context. Interest rates for Start Up Loans remained at 6% through a period of volatility in market rates, meaning that they became very competitive compared to anything else available on the market. The maximum loan size also remained at £25k. We suggest that interest rates, maximum loan sizes and average loan size targets for partners are reviewed in line with the wider context to ensure that they are appropriate for the costs of starting businesses and market conditions. It will be important to consider the implications of any potential changes for take-up, repayment and default rates, and affordability.
- There may be opportunities to improve the ‘finance escalator’ in terms of improving links with banks and other providers (e.g. through signposting from and to Start Up Loans). To facilitate the transition of loan recipients into the market, links to banks and other providers should be considered. For those loan recipients that may still be unable to access finance from the market, but have credible businesses, the British Business Bank could consider a potential new product to follow after second loans. Any new product needs to be considered carefully, taking into account issues around finance additionality.
- The evaluation assessed the previous delivery model, in place up to March 2023, and found significant challenges related to the consistency of the offer and take-up of mentoring. The subsequent changes made to the delivery model were aimed to address these issues. Given the findings of the evaluation, it is important for the British Business Bank to gather evidence on experiences with the current model, including the consistency of offer and take-up, the available pool and quality of mentors, and the benefits for loan recipients.
- Evidence from the survey indicated that women and Ethnic Minorities were more likely to experience personal development outcomes as a result of the programme, but the reverse was true in relation to business performance. The analysis found that loan recipients from Ethnic Minority backgrounds and from deprived local authorities had a higher chance of experiencing issues with repayments. Considering the role of these groups of entrepreneurs in the programme’s rationale, some focusing of the promotion of mentoring to these groups could be beneficial, e.g. on arrears. We suggest that this could be complemented with further research, including potentially an experimental approach, to better understand how mentoring or other additional support may help these groups.

The Start Up Loans programme

The Start Up Loans programme was established in 2012 to provide personal loans to an individual for the purpose of starting up a new business or developing an existing early stage business. The basic model, in terms of the finance offer, pre-application support and post-loan mentoring advice, has remained fairly constant since 2012, though there have been some changes in eligibility, scope and sizes of loans. The key points in relation to loan features and eligibility are set out in Figure 1-1.

The pilot of the programme, which ran from 2012 to 2013, was evaluated, and a full multi-year evaluation of the programme was undertaken between 2015 and 2019. This new evaluation, undertaken by SQW (working with Professor Mark Hart, Qa Research and The Data City), was commissioned to refresh the evidence on the programme.

Figure 1-1: Key features of Start Up Loans

Loan recipients		<ul style="list-style-type: none"> • UK residents, 18 years or older with a right to work in the UK • Unable to secure finance from other sources (self-declaration is sufficient)
Eligible businesses		<ul style="list-style-type: none"> • New business, a business that has been trading for up to 36 months (24 months up to April 2023) or an acquired business based in the UK • Includes franchises
Loan size		<ul style="list-style-type: none"> • £500 - £25,000 • Max of £100,000 per business • Second loans available to businesses that have been trading for up to 5 years
Pricing		<ul style="list-style-type: none"> • 6% fixed interest p.a. • No application or set-up fees • No fees for paying back the loan early
Due diligence		<ul style="list-style-type: none"> • No security required • Subject to personal credit checks
Repayment		<ul style="list-style-type: none"> • Repayment over a term of 1 to 5 years • Monthly repayments • Tranched loans available
Other support		<ul style="list-style-type: none"> • Free application support • Free post-loan support and mentoring for up to 12 months • Free templates (e.g. for business plans) and guides (e.g. for starting up a business)

Source: SQW based on information from Start Up Loans

Evaluation objectives and scope

The overarching aim for the evaluation was to provide a robust assessment of the Start Up Loans programme, comprising a process, impact and economic evaluation. There were seven specific aims for the evaluation, namely to:

- assess the performance of the programme against its stated objectives and intended outputs, outcomes and impacts
- estimate the additional gross value added and value for money of the programme
- assess the value of mentoring and pre-application support
- assess whether there are particular characteristics of those that benefit the most from the programme
- assess the links between performance and the repayment of loans
- assess the impact on diversity of finance of the Start Up Loans programme and the benefits for entrepreneurs resulting from the finance
- provide lessons and recommendations for the continuing delivery of the Start Up Loans programme.

The evaluation covered loans drawn down in FY 2018/19 (an older cohort) and FY 2021/22 (a more recent cohort). These cohorts of focus were agreed with the British Business Bank to provide an evidence base on recipients of loans 5+ years ago, and so at or very close to the end of their loan terms, and a recent cohort that was the first one after the most acute effects of the Covid-19 pandemic. It is worth noting that the delivery model was modified from April 2023 (i.e. after the cohorts subject to this evaluation). This included changing the post-loan support so that it was delivered by a single delivery partner, partly in response to inconsistencies in the delivery of post-loan mentoring.

The evaluation adopted a mixed-methods approach, drawing on both primary and secondary data.

Report structure

The remainder of this report is structured as follows:

- **Section 2** provides an overview of the Start Up Loans programme, including the product, delivery model, logic model, and the characteristics of the loan portfolio between 2018/19 and 2021/22
- **Section 3** sets out the evaluation approach and methods
- **Section 4** presents the findings from the impact evaluation, including an assessment of business outcomes, personal development outcomes, and finance additionality
- **Section 5** outlines further impact analysis of loan recipients, including which beneficiaries have benefitted the most, the value of mentoring, the links between performance and repayments, and the impact of the Covid pandemic
- **Section 6** presents the findings from the process evaluation
- **Section 7** presents the findings from the economic evaluation
- **Section 8** outlines key conclusions and recommendations for the future.

There are five supporting annexes, providing further detail on: the methodology; the consultees; the loan portfolio; the survey results; and the econometric analysis.

2 The Start Up Loans programme

This section provides an overview of the Start Up Loans programme, including: loan features and eligibility; evolution of the programme since its launch in 2012; the delivery model; the logic model; and an overview of its loan portfolio in the period from 2018/19 to 2021/22.

Loan features and eligibility

Start Up Loans are personal loans provided to an individual for the purpose of starting up a new business or developing an existing early-stage business. The key points in relation to loan features and eligibility are as follows:

- The individual must use the loan to: (a) **start up a new business** (including franchises); (b) **fund an existing business** that has been trading for up to three years (or up to two years up until April 2023, which reflects the requirements for the loans in scope for this evaluation); or (c) **acquire an existing business**.
- The business may be an individual operating as a sole trader as well as businesses that are registered with Companies House. Note that this evaluation uses 'business' and 'enterprise' interchangeably to refer to the business activities associated with loan recipients.
- **No security is required**, though applicants must pass a personal credit check.
- **The loan value can range between £500 and £25,000**. All owners or partners in a business can individually apply for a loan, with up to £100,000 available per business.
- **Loan recipients can choose a loan term between one and five years** with monthly repayments. The scheme offers a competitive interest rate which is fixed at 6%. There are no fees associated with the application or the loan. A 3-12 month capital repayment holiday may be agreed at the start of first loans that individuals receive from the programme.
- **Tranched loans are available** to help with business planning in economic uncertainty, e.g. the business could draw funds only when key milestones have been met. These offer a flexible arrangement whereby a loan is agreed, but some of the funding can be drawn down at a later date (interest is due only on the amount drawn down, and so tranched loans help to minimise the amount of interest due). Tranched loans became available in September 2018.
- **Second loans** are available for follow-on funding. The second loan offering has changed over time. Up to 2018, follow-on funding was offered as a top-up loan, i.e. an extension of the first loan (with no fee payable to the delivery partner). From May 2018, second loans were rolled out subject to a fee. In 2022, eligibility for second loans was extended to cover businesses that have been trading for up to five years (instead of two years).
- **Sharia compliant finance** has been available since 2014.
- **Alongside the loan, beneficiaries have access to a range of free support** provided by the scheme partners. This includes pre-application support to help individuals develop a business plan and loan application, and bespoke one-on-one mentoring support during the first 12 months following receipt of the first loan.

Evolution of the programme (see also Figure 2-1)

The Start Up Loans programme was established in 2012 following Lord Young's report on supporting small business³. 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 reports from the Trust that demand outstripped supply for enterprise support of this type. The Start Up Loans programme was delivered by the newly-established The Start-Up Loans Company, in conjunction with a range of delivery partners (see more information below). Delivery of the pilot began in earnest in September 2012, and from January 2013 the age cap was raised from 24 to 30. In activity terms, the pilot was successful in meeting targets for loans with over 2,300 loans awarded, at an average loan size of around £5,300.

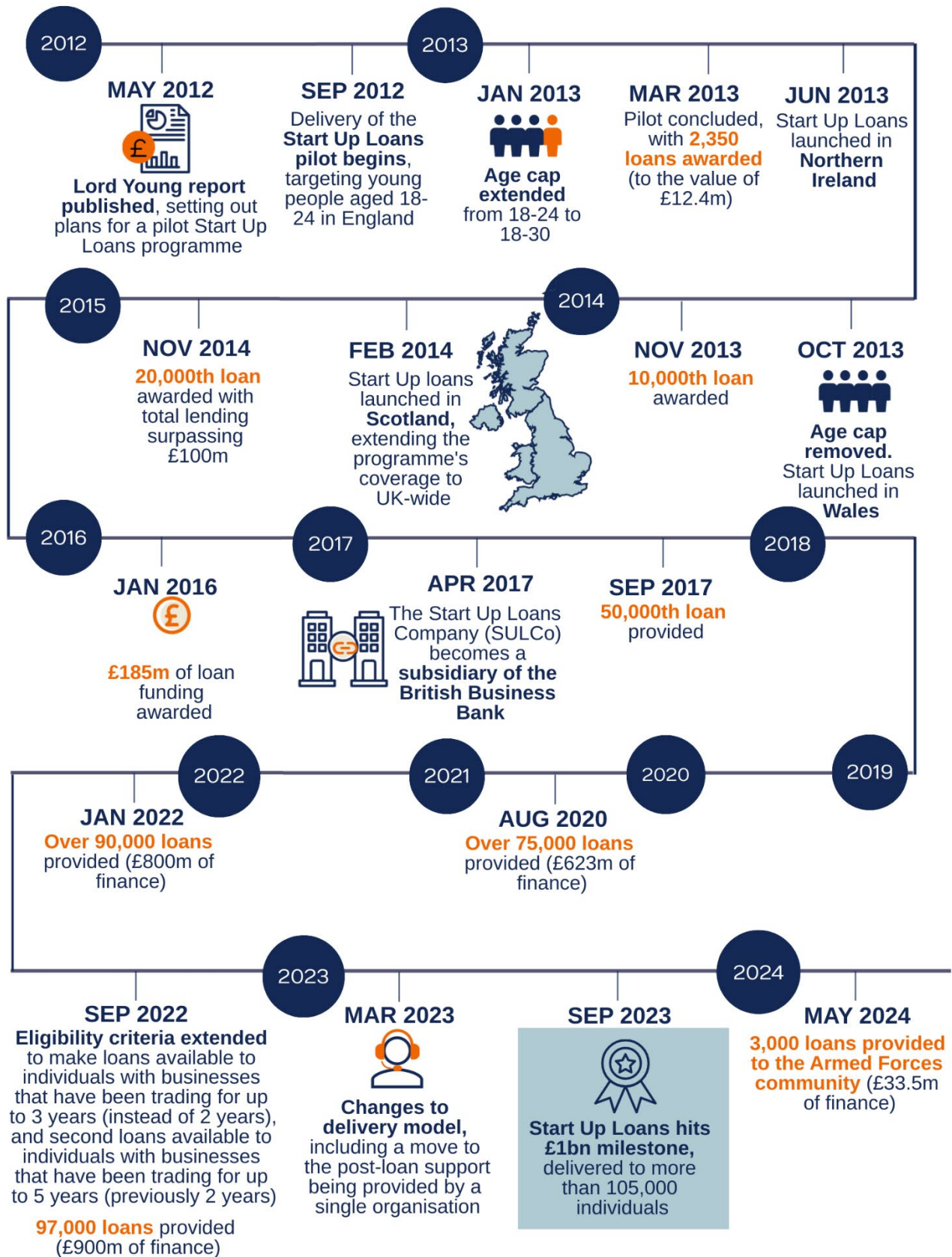
Following the pilot, there were additional funding commitments, and Start Up Loans began roll-out and expansion, with coverage extended to Northern Ireland, and then Wales and Scotland within the first full year. The age cap was also completely removed. The programme had awarded 50,000 loans by 2017, by which point The Start-Up Loans Company had been brought into the British Business Bank as a subsidiary organisation.

The basic model, of pre-application support, a loan and post-loan mentoring advice (described in more detail below), has remained constant. Eligibility has also remained fairly similar, though with the permitted age of an existing business that can be developed increasing from one to two and then three years old. Numerous delivery partners of varying types have been involved in the programme, from small local-level organisations to larger national players. This differs from the original vision of having c. 10 organisations like The Prince's Trust to help deliver the programme across the UK. **Delivery partners have changed over time, and there has been some streamlining alongside a downward push on delivery costs.** The most recent changes, taking effect from April 2023 (and so outside of the scope for this evaluation, which covered loans from April 2018 to March 2022), involved a smaller group of business support partners being appointed to support delivery, with a single organisation taking responsibility for the post-loan support which includes the mentoring offer.

³ Lord Young (2012) *Make business your business: a report on small business start-ups*, London, p15

Figure 2-1: Evolution of the Start Up Loans programme

START UP LOANS OVER THE YEARS

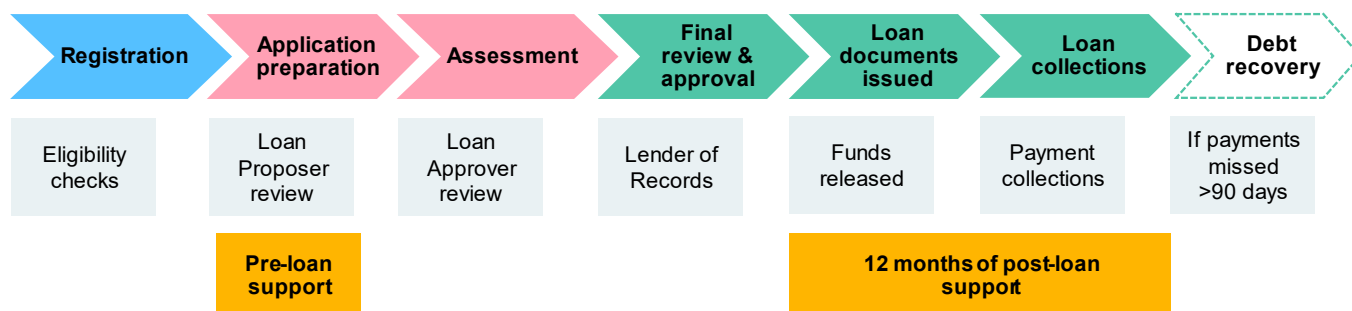


Source: SQW based on information from Start Up Loans

Delivery model

Figure 2-2 sets out the ‘customer journey’ for the programme, i.e. the process from initial registration to loan repayments. Non-financial support is provided at two points along this journey: pre-loan support at the time of applying for the loan (e.g. to help with the business plan and other parts of the application) and post-loan support after the loan has been approved (including mentoring in the period of the first 12 months following the first drawdown of the loan).

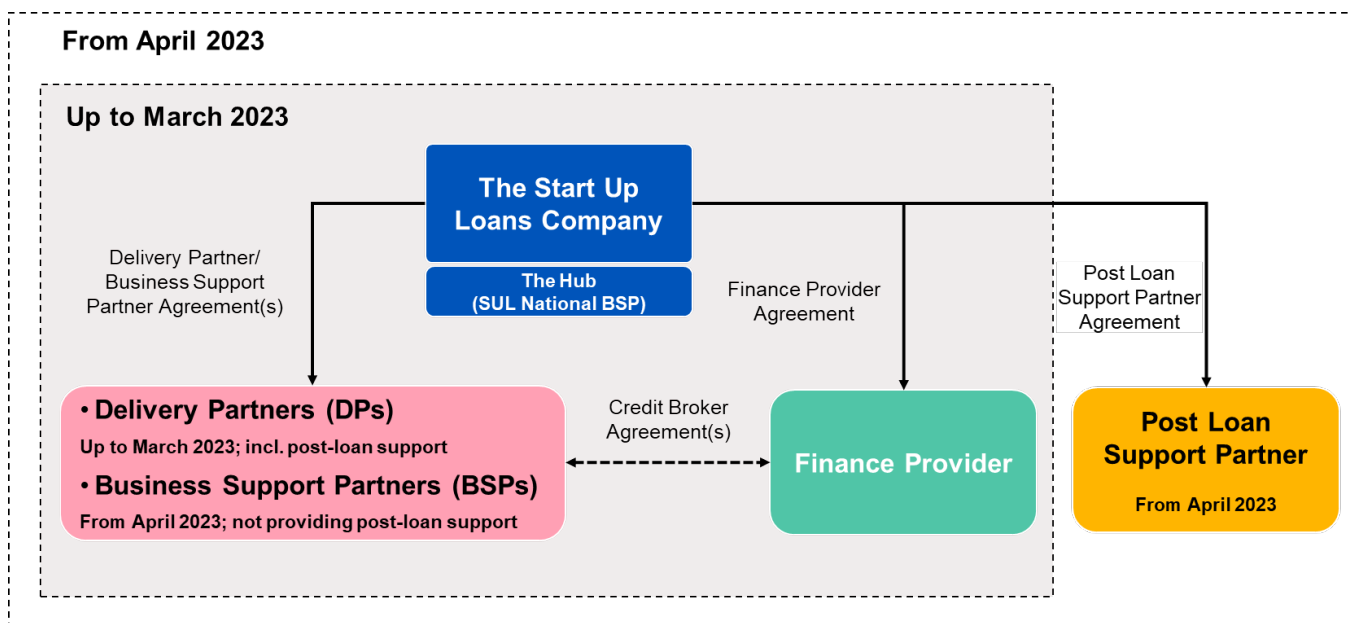
Figure 2-2: Start Up Loans customer journey



Source: SQW based on information provided by Start Up Loans

The Start Up Loans programme is delivered by The Start-Up Loans Company in partnership with a range of other organisations. These are outlined in Figure 2-3 which shows the contractual model for the programme up to March 2023 – i.e. the model that was in play for the cohorts subject to this evaluation – as well as the current model which launched in April 2023. Although this evaluation has focused on the previous model, the latest model is important for contextualising the findings (e.g. to ensure that feedback and any recommendations are cognisant of the scheme in its current form). Feedback on the new model was also sought from stakeholders and delivery partners, and has been reported on in Section 6.

Figure 2-3: Start Up Loans contractual model



Source: SQW based on information provided by Start Up Loans

The key aspects of the delivery model are as follows:

- **The Start-Up Loans Company** acts as a scheme administrator and has overall oversight of the scheme. This role has remained unchanged.
- **The Finance Provider** is the ‘lender of record’ and performs a range of functions, including: undertaking checks to ensure all regulatory requirements are met; providing final approval of loans; issuing loan documentation and loan funds; issuing annual statements; managing collections during the lifetime of the loan (both repayment and arrears). This role has remained unchanged. At the time of this report, there was one Finance Provider (GC Business Finance), but there have been others over the years.
- Up to March 2023, the **Delivery Partners (DPs)** covered various tasks, including: providing support with the application; ensuring that the required supporting documentation was in place; assessing the loan application; declining/recommending the application for approval to Finance Provider; and providing post-loan mentoring support.
- From April 2023, the role of the DPs changed and they were renamed as **Business Support Partners (BSPs)**. The functions have remained the same with the exception of post-loan mentoring support which is no longer in their remit. Under the new model, there are three types of BSPs:
 - **National partners:** Delivering on a national scale (four partners in total at the time of this report). A focus of this support is on supporting with cross-cutting themes, e.g. Ethnic Minorities and women.
 - **Regional partners:** Delivering in specific regions (nine partners covering 12 regions in total), providing localised services with a strong understanding of their regional market.
 - **Specialist partners:** Delivering bespoke services (three partners in total) to specific market segments. These cover ex-armed forces applicants, young people, and Sharia compliant lending.
- From April 2023, the responsibility for providing post-loan support was given to a **Post Loan Support Partner (PLSP)**⁴. This support covers a range of services, including: one-to-one mentoring; an online platform; workshops; helpline; guidance materials signposting to other professional bodies. At the time of this report, there was one PLSP (Newable/UMi).

Since the current model was launched, the programme has also introduced some new initiatives, including the following (note that none of these were in place for the two cohorts covered by this evaluation):

- **Learn with Start Up Loans:** Start Up Loans has partnered with The Open University to create a range of curated courses designed to help entrepreneurs succeed in business. These courses provide a rich source of vital information for anyone who is new to being their own boss, as well as would-be business owners who are considering taking the plunge. Covering topics from digital skills to bookkeeping and accounting, the courses are designed to help business owners understand more about the key aspects of running a business – from the day-to-day to growing a venture. Alongside the business essentials, there are courses focusing on climate and sustainability, mental health and wellbeing, as well as trauma and grief.
- **Language Translation:** Start Up Loans prides itself on being able to support a broad and diverse range of individuals, including a number of applicants for whom English was not their first language. To ensure that this was not a barrier to applying, the programme decided to translate some of its guides, toolkits and FAQs into other languages (in March 2023, this included 18 languages).

⁴ With the exception of specialist BSPs which also provide post-loan support to the specific market segments in their remit.

- **Accessibility support:** The programme has partnered with the Royal National Institute for the Blind (RNIB) and Sign Live to provide guidance and user testing of the website and application process to make sure that it is accessible and able to support the needs of those using assistive technologies. Through the partnership with Sign Live, British Sign Language (BSL) users are able to contact the Start Up Loans customer services team and have a sign language interpreter on the video call to provide support. The documents that were translated into other languages are also available in Large Format, Braille and English Audio.

Logic model

Figure 2-4 sets out the underlying logic model for the programme, from the rationale and objectives, through the delivery (inputs and activities) and to the intended benefits (outputs, outcomes and impacts). A summary of this logic is provided below.

The rationale for intervention identifies four underlying issues facing entrepreneurial individuals wanting to start a business and/or seeking start-up support, as follows:

- **Market gap in loans of under £25k provided to individuals** that is driven by low levels of profitability for lenders at this level, and asymmetry of information (especially for those without collateral or track record) which makes commercial lenders risk averse towards newer firms.
- **A lack of information** on the availability and benefits of advice on starting a business.
- **Equity arguments** in relation to improving the employment and economic prospects, with self-employment a potential route for addressing such issues; further, the market gap set out above can be more pronounced for marginalised groups.
- There was potentially a **gap due to the closure of the New Enterprise Allowance (NEA)** scheme in December 2021. NEA backed c. 9,000 new businesses per year, with a history of supporting those with disabilities and working mothers in particular, with the later years' funding delivered through Start Up Loans. Start Up Loans became the UK Government's only intervention providing debt finance and support to this demographic of entrepreneurs⁵, and so there was the possibility that it would need to meet the needs of a wider audience of entrepreneurs.

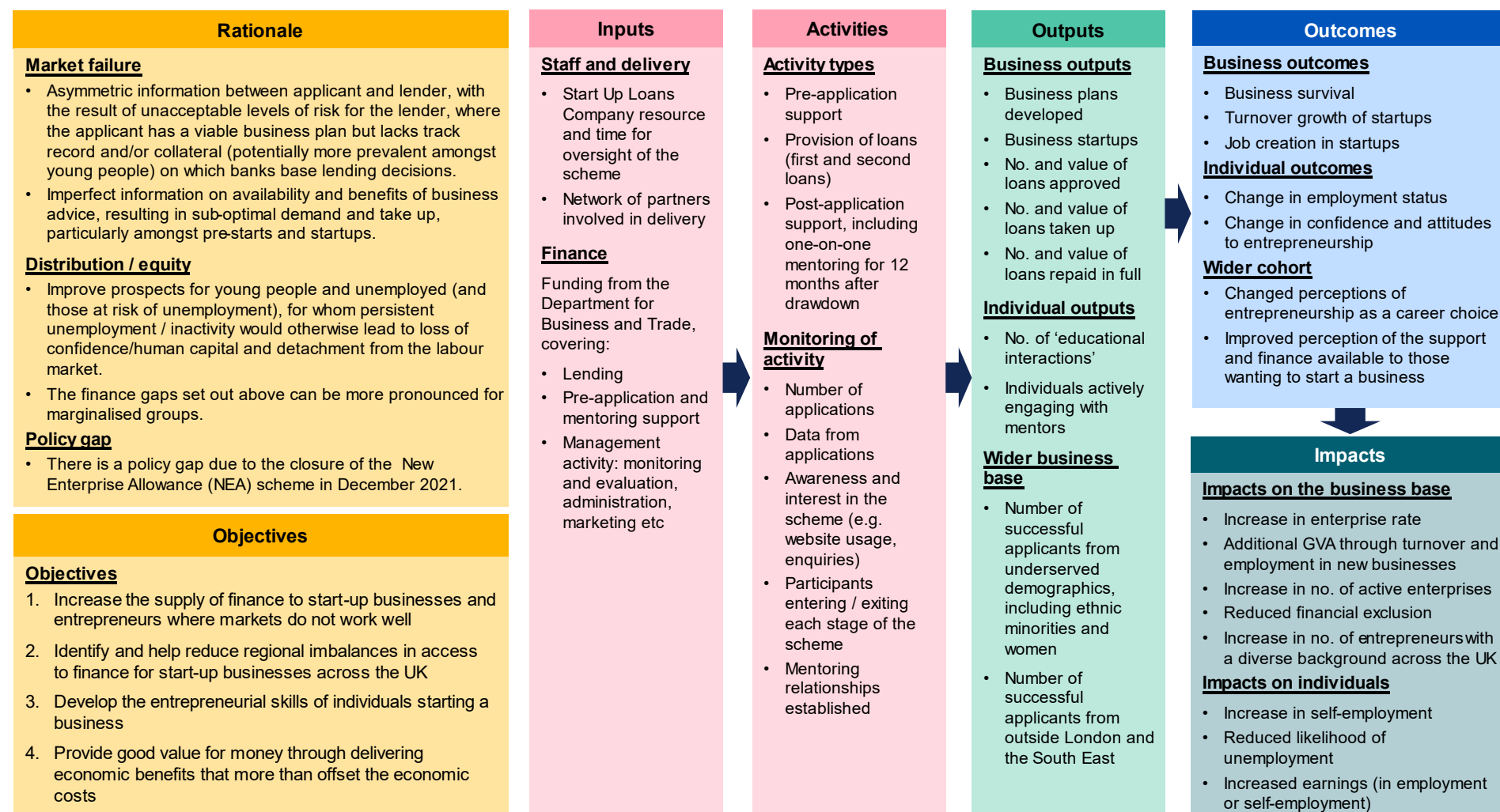
The scheme has a dual focus. It has a key **objective relating to economic growth**, underpinned by the intent to support the creation and development of new/early-stage businesses that may be sustainable and have the potential to grow. It also has a **social objective** to improve the inclusivity of 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 focused on **business outcomes** (e.g. business survival, job creation and turnover growth, leading to contributions to economic growth) and **individual outcomes** (e.g. reduced unemployment, and improvements to skills and confidence). Outcomes at the wider cohort level include changed perceptions of entrepreneurship as a career choice, and of the support and finance available to those wanting to start a business.

Longer-term impacts are expected at the level of the individual (increase in self-employment, reduced likelihood of unemployment, increase in earnings) and for the wider UK business base (e.g. increase in enterprise rate, GVA, reduced financial exclusion for different types of business).

⁵ This excludes sub-UK interventions, e.g. through devolved nations, Local Enterprise Partnerships and local authorities, that may have a similar offer of support.

Figure 2-4: Start Up Loans logic model



Source: SQW based on documentation provided by the British Business Bank

Portfolio overview

This section presents a descriptive analysis of data provided by Start Up Loans (as at September 2023), covering loan recipients and loans in the period from 2018/19 to 2021/22. The data includes four cohorts of individuals (2018/19, 2019/20, 2020/21 and 2021/22). The cohorts have been defined at the loan recipient level, based on the financial year that a loan recipient drew down their first loan (or first tranche of the first loan)⁶.

The analysis provides an overview of the loan portfolio over the period of those four financial years. Alongside this, we have also provided commentary on the cohorts of interest for this evaluation: 2018/19 and 2021/22⁷. It is noted that some of the recipients received their loans during or just after the Covid pandemic, which was associated with an increase in demand for, and take up of, Start Up Loans. We have provided key headlines in relation to the loan recipients and the loan finance below, with Annex C providing further charts and data tables.

Loan recipients

Across the four cohorts, there have been **33,093 individuals approved for loans – that is an average of 1.03 loans per person** (similar across all cohorts). This includes 6,681 loan recipients in the 2018/19 cohort and 8,892 in the 2021/22 cohort. Table 2-1 provides a breakdown of the number of loan recipients in these two cohorts by the number of loans they have received in total, showing that the vast majority were single-loan beneficiaries.

Table 2-1: Total number of loans received by individuals included in the 2018/19 and 2021/22 cohorts⁸

Number of loans	Loan recipients (number and % of cohort)			
	2018/19 cohort		2021/22 cohort	
1	6,351	95%	8,809	99%
2	330	5%	83	1%
Total loan recipients	6,681		8,892	

Source: SQW analysis of Start Up Loans monitoring data

In terms of the profile of loan recipients over the whole period between 2018/19 and 2021/22, the key headlines are as follows (with further detail provided in Annex C):

- **The programme has attracted relatively higher proportions of those aged 25-30 and 31-49 compared to the UK working age population.** Just over one-half (53%) of all loan recipients were between the ages of 31 and 49, with 34% aged 30 or under and 13% over 50. The age profile is comparable across the four cohorts. Compared to the wider UK working age population (aged 16 to 64), there are relatively more loan recipients aged between 25 and 30 (22% in SUL vs 13% in the

⁶ For example, if an individual received a first loan in FY 2018/19 and a second loan in FY 2020/21 then they are included in the 2018/19 cohort. Based on the data from the earliest of the two cohorts of interest, around 4% of loan recipients had drawn down a second loan, indicating that the vast majority are single-loan beneficiaries.

⁷ Excluding the loans that were not in scope, including: all New Enterprise Allowance loans; second loans where the first loan was drawn down before 2018/19; and tranche B loans where the corresponding tranche A loan was drawn down before 2018/19.

⁸ Four loan recipients were recorded as having two second single loans, as a result of reissuing loans with corrected terms. These loans were removed from loan totals.

UK) and between 31 and 49 (53% vs 41%); the youngest loan recipients (aged 24 or under) are broadly in line with the UK profile (14% vs 11%), and the proportion of loan recipients aged over 50 is lower than the UK profile (13% vs 32%).⁹

- **Start Up Loans has a relatively high proportion of female beneficiaries.** Across all cohorts, 59% loan recipients were male and 41% were female. The proportion of women was similar for the 2018/19 and 2021/22 cohorts (42% and 41%, respectively). For comparison, the 2022 Small Business Survey reported that 20% of businesses were majority-led by women¹⁰.
- **The programme has attracted a relatively higher proportion of loan recipients from Ethnic Minority backgrounds compared to the UK business owner population more generally.** Just under one in five (18%) loan recipients from across all cohorts were from Ethnic Minority backgrounds, including Asian/Asian British (7%), Black/Black British (7%) and Mixed/Multiple ethnic groups (3%). The proportion of those from Ethnic Minority backgrounds was higher for the 2021/22 cohort than the 2018/19 cohort – 21% and 15%, respectively – which was primarily driven by an increase in the proportion of individuals who identified as Asian/Asian British. These figures reflect a higher percentage of Ethnic Minority loan recipients among Start Up Loans beneficiaries than across the UK business owner population (with 12% of business owners of firms with employees from an Ethnic Minority in 2018-21, and 4% for firms with no employees).
- **Most loan recipients were either employed or self-employed before receiving the loan.** Around half (50%) of individuals across the four cohorts had been in employment (either full-time or part-time) and 35% were self-employed. The percentage of individuals who reported being unemployed prior to the loan fell from 13% in the 2018/19 cohort to 8% in the 2021/22 cohort. Compared to the wider working age population, the loan recipient profile has comparable levels of employment (50% of portfolio vs 46% across the UK) and higher levels of self-employment as we would expect (35% vs 9%).¹¹ The proportion recorded as unemployed across the cohorts prior to their loan was 10%. It is difficult to provide a direct comparator from the wider UK working age population given differences in definitions of ‘unemployed’¹², but the annual unemployment rate at the UK level ranged between 4% and 5% over the period of 2018 to 2022.
- **Qualification levels among loan recipients are higher compared to the UK population.** One in three (34%) loan recipients had a degree or higher qualification (Level 6 and above), while one in five (18%) had a qualification up to GCSE (up to Level 2). Cross-cohort comparison is difficult due to inconsistent recording of data across the period.¹³ To give an idea of how these figures compare more widely, the 2023 Census recorded 34% of working age people with a Level 6 or higher qualification, and 41% with a Level 2 or lower qualification.¹⁴
- **Loan recipients were based all across the UK** (see Figure 2-5), **with a relatively smaller proportion based in London and the South East compared to UK business births data.** Across the four cohorts, the regions with the highest proportion of loan recipients were London (16%) and the North West (13%). There is some fluctuation in this distribution across cohorts, but no major

⁹ Working age population defined as population aged 16-64.

2021 data; [Estimates of the population for the UK, England, Wales, Scotland and Northern Ireland](#)

¹⁰ Including only businesses with no employees as the most appropriate comparator for Start Up Loans. ‘Women led’ is defined as being led by one woman or by a management team of which a majority are women. Department for Business and Trade (2023) [Longitudinal Small Business Survey 2022](#)

¹¹ Data for England and Wales: [Economic activity status - Office for National Statistics \(ons.gov.uk\)](#)

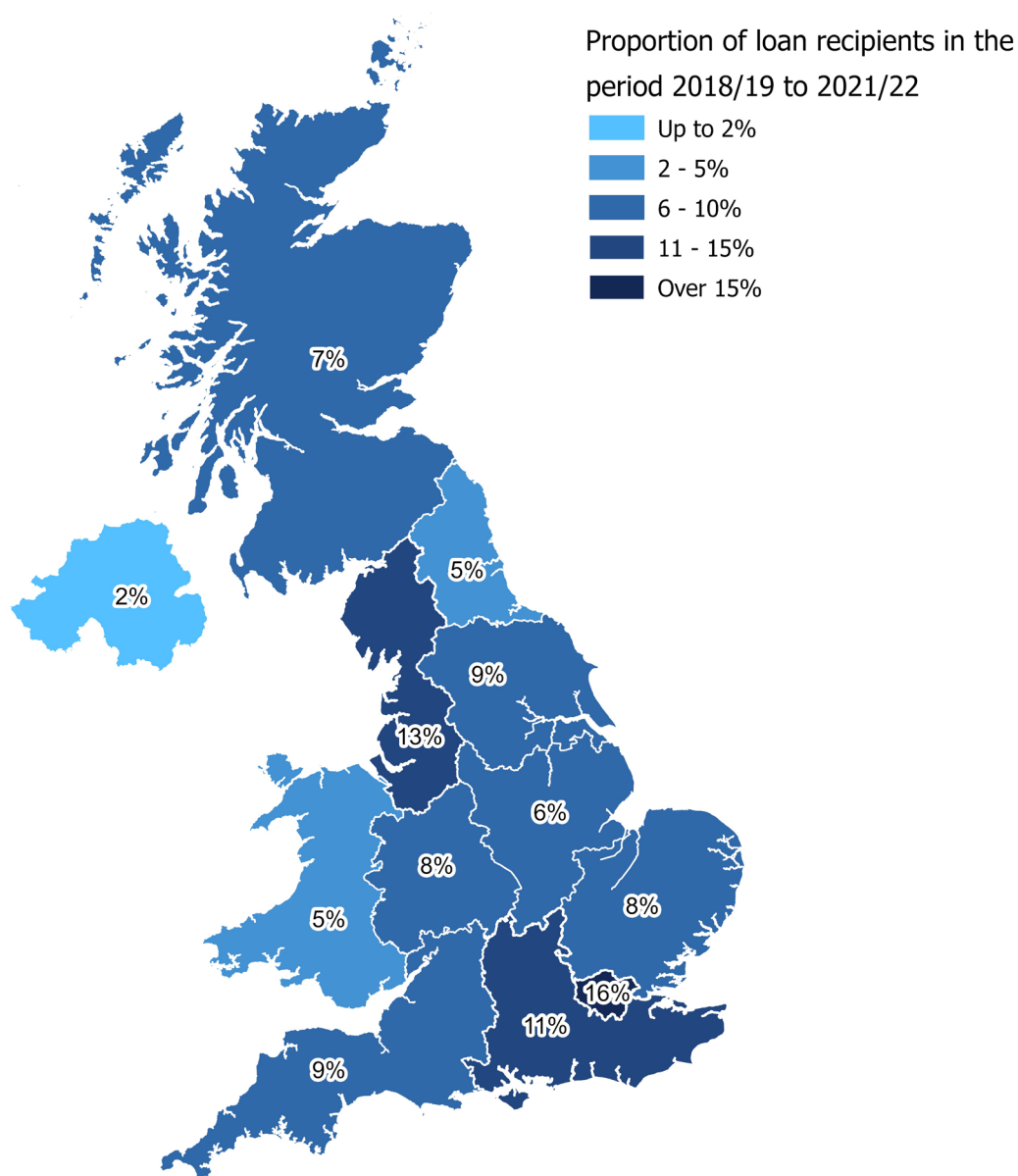
¹² For the UK, the unemployment rate is calculated as the number of people out of work that are looking for work as a proportion of the total labour force. For SUL, it is the number of loan recipients who were unemployed (regardless of whether they were looking for work at the time) as a proportion of all SUL loan recipients.

¹³ Qualification levels were recorded inconsistently across the cohorts; earlier cohorts made use of ‘levels’, while later cohorts did not. The following was used to standardise the list of qualifications into levels: [What qualification levels mean: England, Wales and Northern Ireland - GOV.UK \(www.gov.uk\)](#)

¹⁴ Data for England and Wales: [Highest level of qualification - Office for National Statistics \(ons.gov.uk\)](#)

differences. Compared to 2022 data on business births¹⁵, the proportion of loan recipients from London and the South East was lower than the proportion of all new businesses located there (27% of Start Up Loans recipients vs 36% of business births).

Figure 2-5: Geographical distribution of loan recipients



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Source: SQW

¹⁵ [Business demography, UK - Office for National Statistics \(ons.gov.uk\)](https://ons.gov.uk/business-demography)

Loan finance

In total, 34,134 loans have been drawn down by the four cohorts (2018/19 to 2021/22) between April 2018 and March 2022. There were 15,986 loans drawn down by the 2018/19 and 2021/22 cohorts (combined), which includes 15,581 first loans and 405 second loans Table 2-2 provides an overview of the number of loans drawn down by each cohort.

Table 2-2: Value and number of loans by cohort

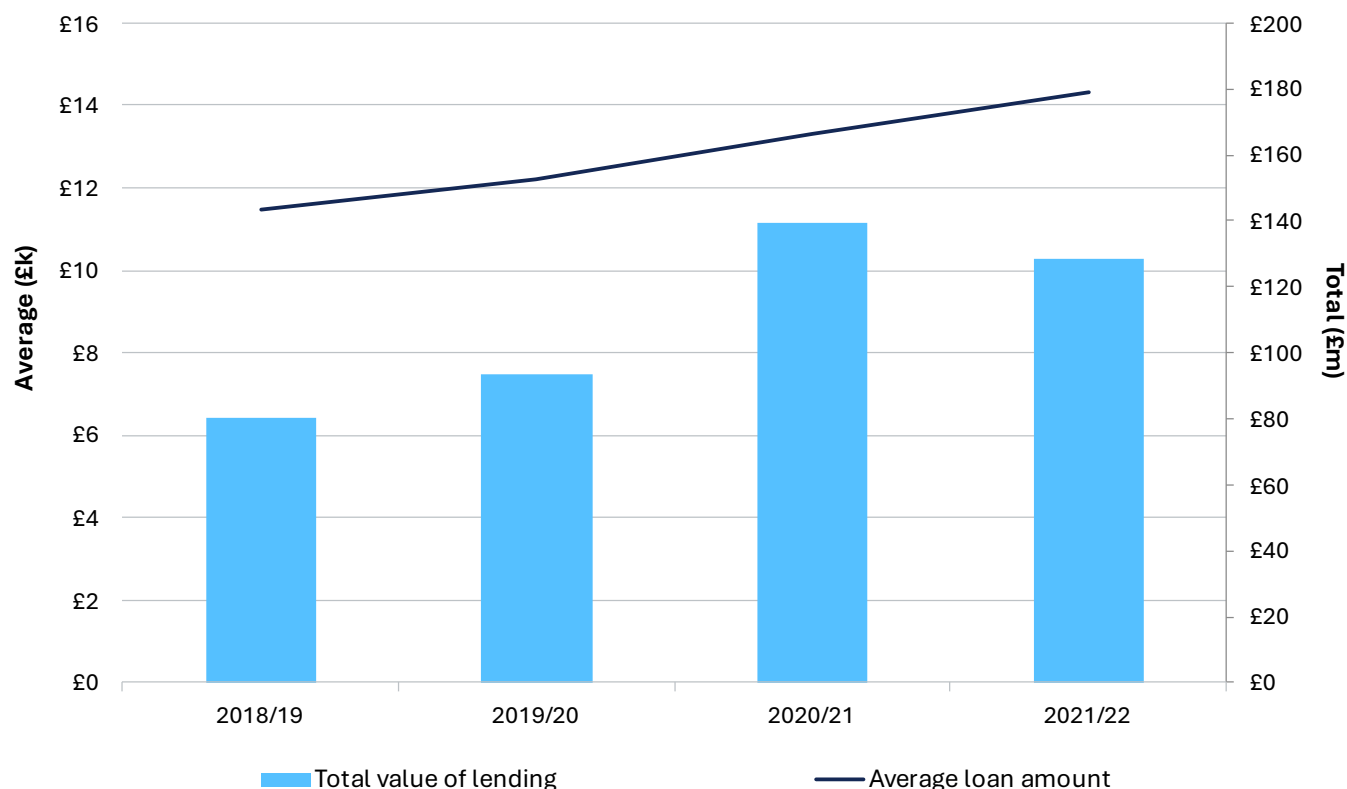
Cohort	Total number of loans	Number of first loans (% of cohort)	Number of second loans (% of cohort)
2018/19	7,011	6,689 (95%)	322 (5%)
2019/20	7,665	7,382 (96%)	283 (4%)
2020/21	10,483	10,145 (97%)	338 (3%)
2021/22	8,975	8,892 (99%)	83 (1%)
Total	34,134	33,108 (97%)	1,026 (3%)

Source: SQW analysis of Start Up Loans monitoring data

The vast majority of loans drawn down across all four cohorts (97%) were first loans. There are no notable differences in this across cohorts. First loans as a percentage of a cohort's loans rise slightly through the period, which is intuitive because the earlier cohorts have had longer to pay back their first loans and take out second loans. **The majority (93%) were non-tranched (i.e. single) loans.** There is a marked difference between the earlier and later cohorts: tranched loans represented around 1-3% of the 2018/19 and 2019/20 cohorts, but around 10% for the 2020/21 and 2021/22 cohorts.

Across the four cohorts, these loans added up to £442 million of lending (equivalent to £511 million in 2023/24 £s¹⁶). The average loan size has increased for each cohort (see Figure 2-6). The average loan amount for the 2021/22 cohort was £14,315 (£16,231 in 2023/24 £s), compared to £11,488 for the 2018/19 cohort (£13,944 in 2023/24 £s).

¹⁶ Calculated using [ONS GDP deflators at market prices \(June 2024\)](#)

Figure 2-6: Loan size by cohort, total value of lending and average loan amount (nominal terms)

Source: SQW analysis of Start Up Loans monitoring data

Across all cohorts, the average repayment period is 4.6 years.¹⁷ This is similar across all cohorts, reflecting the loan terms and conditions. As would be expected, the proportion of active loans¹⁸ is highest for the 2021/22 cohort (93%).

The 2018/19 cohort has had a total of £1.9 million written off¹⁹ and £19.4 million charged off²⁰, representing 2.4% and 24.1% of the total lending value, respectively. The 2021/22 cohort has had about £700k written off (0.6% of value) and £26.1 million charged off (20.3% of value). Both cohorts have a comparable proportion of loans that have been in arrears (34% and 32% for the 2018/19 and 2021/22 cohorts, respectively). The values and proportions may seem relatively high for the 2021/22 cohort compared to the 2018/19 cohort given that the loans are younger; this may reflect the more challenging context in which the businesses were being set up (e.g. due to Covid 19).

The loans across the four cohorts are associated with 28 different Delivery Partners (or Business Support Partners, as they are now known).

¹⁷ The repayment period is defined as the difference, in years, between the drawdown and maturity dates.

¹⁸ A loan is active if it has not been fully paid or written off.

¹⁹ When loans are 'written off', the balance is amended to zero and any debt is marked as being written off. Any pre-existing credit markers such as a default and any late payments will continue to be visible on the individuals' credit rating until the relevant six-year expiration date is reached.

²⁰ Loans are 'charged off' after six months of missed payments. This is an internal indicator used by Start Up Loans and does not affect the credit rating of the individual.

3 Evaluation approach

This section outlines the approach to the evaluation, including its scope, the approach and methods, and the challenges involved. Further detail on the methodology is included in Annex A.

Evaluation aims

The overarching aim for the evaluation was to provide a robust assessment of the Start Up Loans programme, comprising a process, impact and economic evaluation. Within this, there were seven specific aims for the evaluation. The evaluation aims are set out in Table 3-1, mapped across the three types of evaluation. There is some overlap between these three headings, for example the delivery performance and beneficiary experience of support affects the impact that it has and the value that beneficiaries give to aspects such as the mentoring; and the impact and economic evaluation are very much interlinked.

Table 3-1: Aims for the evaluation

	Evaluation aim	Process evaluation	Impact evaluation	Economic evaluation
A	Assess the performance of the programme against its stated objectives and intended outputs, outcomes and impacts		x	
B	Estimate the additional gross value added and value for money of the programme		x	x
C	Assess the value of mentoring and pre- application support	x	x	
D	Assess whether there are particular characteristics of those that benefit the most from the programme		x	
E	Assess the links between performance and the repayment of loans		x	
F	Assess the impact on diversity of finance of the Start Up Loans programme and the benefits for entrepreneurs resulting from the finance		x	
G	Provide lessons and recommendations for the continuing delivery of the Start Up Loans programme	x		

Source: SQW

Scope

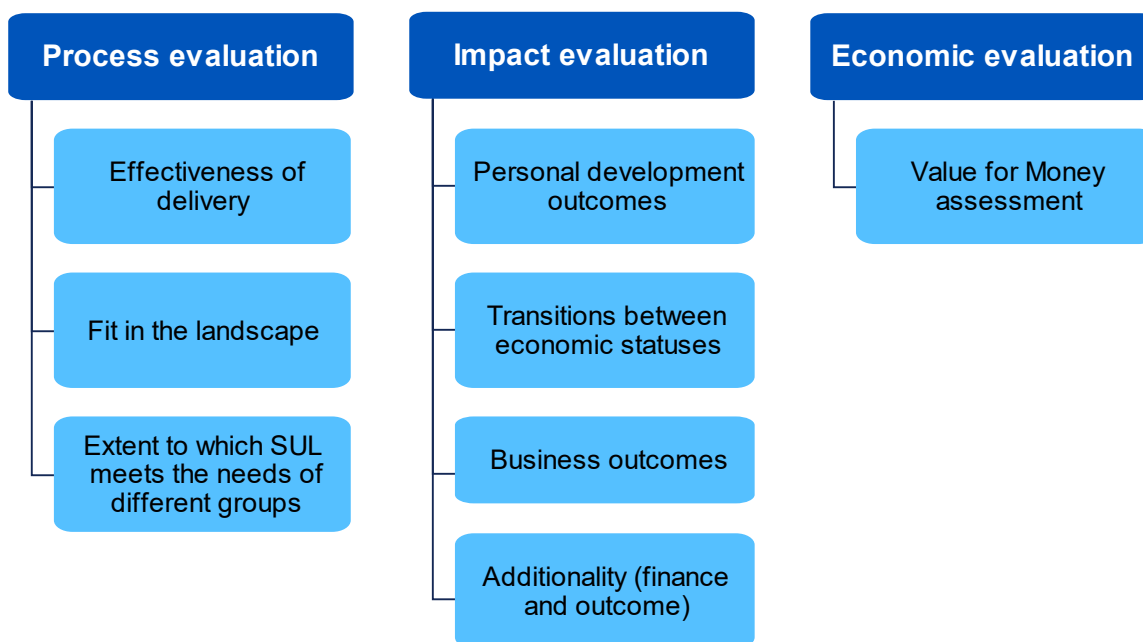
The evaluation covers loans drawn down in FY 2018/19 (an older cohort) and FY 2021/22 (a more recent cohort). These cohorts of focus were agreed with the British Business Bank to provide an evidence base on recipients of loans 5+ years ago, and so at or very close to the end of their loan terms, and a recent cohort that was the first one after the most acute effects of the Covid 19 pandemic. Aside from characterising the loan-book for the whole period 2018/19 to 2021/22 (see Section 2), the remainder of the loans were not in scope for detailed evaluation.

Approach and methods

The overall evaluation comprised three distinct but related elements: a process, impact and economic evaluation. The key questions explored under each type of evaluation are depicted in Figure 3-1, with the key points as follows:

- The purpose of the **process evaluation** was to assess: the effectiveness of the delivery of Start Up Loans; its fit in the landscape; and the extent to which the scheme meets the needs of different groups. This assessment covered the following aspects of delivery:
 - the customer journey, from finding out about the programme to application to post-loan monitoring and support (from the perspective of loan recipients)
 - the role of different partners, and the processes in place for implementation, reporting and review (from the perspective of those involved in delivery)
 - the role of Covid support (cutting across both of the above).
- The **impact evaluation** assessed the extent to which Start Up Loans had helped loan recipients to achieve a range of personal development and business outcomes. In addition to this, it covered the additionality of the finance and the subsequent effects, i.e. the extent to which these would not have happened without Start Up Loans.
- The **economic evaluation** assessed the Value for Money of the programme, expressed through benefit-cost ratios (BCRs).

Figure 3-1: Topics explored in the evaluation



Source: SQW

The evaluation adopted a **mixed-methods approach**, drawing on both primary and secondary data. The methodology included the following:

- **Quantitative research:** descriptive analysis of monitoring data on beneficiaries; and quantitative-focused CATI surveys undertaken between February and May 2024 (481 interviews with the 2018/19 cohort; 323 with the 2021/22 cohort).
- **Qualitative research:** thematic analysis of interviews with stakeholders (x20) and delivery partners (x9), and follow-up ‘case study’ interviews with a selection of loan recipients that completed the survey (x18).
- **Econometric analysis:** (i) within-programme comparisons using survey data, including descriptive and regression analysis; and (ii) quasi-experimental analysis of secondary data (provided by The Data City), including survival rate analysis and difference-in-differences analysis of business performance (employment and assets) between a subset of Start Up Loans beneficiaries and a group of comparable businesses from the wider business population.²¹
- **Economic Value for Money analysis.**

Table 3-2 maps the key methods against the three different types of evaluation. Further detail on the econometric and value for money analysis is provided in Annex A.

Table 3-2: Overview of key methods used in the evaluation

Methods	Process evaluation	Impact evaluation	Economic evaluation
Review of programme data and documentation	x	x	x
Analysis of beneficiary surveys	x	x	x
Case study research with beneficiaries	x	x	
Analysis of stakeholder interviews	x	x	
Analysis of delivery partner interviews	x	x	
Secondary data linking		x	
Quasi-experimental methods		x	
Value for Money modelling			x

Source: SQW

Representativeness of survey sample

The profile of survey respondents in each cohort is broadly in line with the corresponding profile of all loan recipients in the relevant cohort (see Table 3-3; a full breakdown by key characteristics is provided in Annex D). Samples for the surveys were drawn for both cohorts, constructed to have comparable profiles based on the following key data available in the monitoring information on demographics, socio-economic characteristics, loan characteristics and loan performance:

- Gender
- Ethnicity
- Prior employment status

²¹ Due to their small size, the businesses of SUL beneficiaries are not obliged to disclose detailed accounts and report turnover data. We chose assets as an alternative proxy for business growth. While the value of assets can be influenced by accounting practices and business models, patterns in growth trajectories could provide insights into whether beneficiaries were successfully growing because of the programme (and therefore likely to be generating additional turnover).

- Local authority deprivation status
- Whether received a loan at a value over the cohort median value
- Whether defaulted on a loan (either through a charge-off or write-off).

In theory, a random sampling approach could be expected to yield a response profile that is close to the cohort profile. Government Social Research guidance also recommends that random sampling is used in surveys as far as possible. However, there were two characteristics of interest (ethnicity and loan default status) where there was a risk that we might obtain a relatively low response, and so quotas were set for these. Despite this, there was still a relatively low response from those who had defaulted on their loans (see Table 3-3), though the extent of the difference between the survey and cohort profiles was lower than in the previous evaluation of the programme.

Table 3-3: Survey sample vs Monitoring data profile

		Survey data		Monitoring data	
		2018-2019	2021-22	2018-19	2021-22
Gender	Male	60%	67%	57%	59%
	Female	40%	33%	42%	41%
	Transgender	0%	0%	0%	0%
	Non-Binary	0%	0%	0%	0%
	Prefer not to say	0%	0%	0%	0%
Ethnicity	White	80%	79%	80%	77%
	Ethnic Minorities ²²	19%	20%	15%	21%
	Not Stated	2%	1%	5%	2%
Prior employment status	Self-employed	37%	38%	34%	35%
	Full-time employee	33%	40%	37%	42%
	Part-time employee	12%	8%	11%	9%
	Unemployed	12%	9%	13%	8%
	Other (inc. student)	6%	4%	5%	6%
Local authority deprivation status	Deprived LA	14%	15%	16%	16%
	Not deprived LA	86%	85%	84%	82%
	No LA data	0%	0%	0%	2%
Whether received a loan above the cohort median value	Yes	50%	51%	47%	50%
	No	50%	49%	53%	50%
Whether defaulted on a loan	Yes	25%	18%	34%	24%
	No	75%	82%	66%	76%

Source: Monitoring data and survey data

Challenges for the evaluation

There are several key issues and challenges for the evaluation. The methods were carefully implemented to respond to these, and this report seeks to frame the findings appropriately. There were four notable issues, as follows:

- **It is challenging to establish a counterfactual for the Start Up Loans programme** given that the target group is individuals at early stages of entrepreneurship and that nascent entrepreneurs are not identifiable in datasets. The range of outcomes, including both business and personal outcomes, exacerbate the challenge. Securing a good matched comparison group was therefore difficult. We have undertaken the counterfactual assessment on outcomes where a proportionate and robust approach is feasible. This has focused on business survival rates of businesses set up by Start Up Loans beneficiaries compared to a matched comparison group of businesses that were set up at

²² Belonging to Black, Asian, Mixed/Multiple or other ethnic groups

similar times, with additional analysis on indicators of business size and performance (employment and assets²³). It is important to note that the counterfactual analysis has, as a result, focused on a slightly more mature subset of businesses set up by beneficiaries and has excluded sole traders (note that 15% of survey respondents said that they were operating as sole traders). This is because we have relied on the use of business-level datasets that include only those beneficiaries that have registered businesses with Companies House (around three-quarters of survey respondents starting a business had registered) and for which Companies House registration numbers were available (these were more likely therefore to be beneficiaries who had registered a company before/at the time of applying to the programme).

- **The Start Up Loans programme is deliberately ‘open to all’ that have a young business or a new business idea** (within the limits of the eligibility criteria). This means that there is variation in beneficiary characteristics, from those with no prior business experience to serial entrepreneurs, and from those who may be wanting to set up as self-employed to make a living for themselves to those who may wish to set up and ultimately grow a new enterprise. The evaluation was therefore required to be sufficiently broad in capturing evidence on a range of motivations, experiences and outcomes. At the same time, it needed to delve deeply, where appropriate, into certain aspects to draw out meaningful insight. The mixed-methods approach has helped us to address this requirement.
- **There are differences in engagement and experience with the programme.** This includes differences in take-up of post-loan mentoring support. This was factored in to assessments of satisfaction and perceived value of different elements of the support offer. Specifically, the evaluation examined the role and value of mentoring (an agreed focus for the evaluation), reflecting on variations in experiences and wants from mentoring. To illustrate this challenge, take-up of mentoring is largely self-selected, and so is skewed towards those who consider that they need additional support which is likely to signal that they are less confident in running a business. This creates some challenges in seeking to assess robustly the difference made by mentoring because comparator groups of those not self-selecting for mentoring differ from those that have taken mentoring.
- **The delivery model changed in April 2023.** The cohorts in scope for this evaluation (2018/19 and 2021/22) generally had experience of the previous delivery model, though there were some exceptions to this (e.g. a very small minority of cases where individuals had received second loans from April 2023 onwards). In reporting on this feedback on the previous model, we have reflected on the relevance of evaluation findings within the new delivery context.
- **There are limitations to the availability of secondary data.** The assessment of outcomes relating to business growth and survival is based on secondary data on employment and assets. For all other outcomes, the evaluation is reliant on survey data which is self-reported and therefore may be subject to bias.
- **We recognise that the effects of the programme may persist over the longer term for individuals and businesses,** however the evaluation has been focused on individuals at or very close to the end of their loan terms, and a more recent cohort for which the longer term effects are unknown. For the latter group we have considered different scenarios on turnover growth.

²³ The original intention was to include turnover in the analysis as well. However, there were insufficient numbers of observations, with only 5.5% of data points available for beneficiaries and 5% of data points for the comparison group. This is likely to reflect the small size of businesses that Start Up Loans supports, and the fact that small companies do not need to report turnover data as part of their accounts.

4 Impact evaluation

This section provides an overview of the findings from the impact evaluation, including: the programme's effect on enabling transitions between economic statuses; business outcomes; personal development outcomes; and self-reported evidence on finance additionality.

Key messages

- Evidence from the beneficiary survey indicates that loan recipients had taken their business ideas forward in different ways, most commonly by establishing a new business (65-71%), with the remainder operating as sole traders, franchises or acquiring an existing business.
- At the time of applying for the loan, business ideas were at various stages of maturity. By the time of the survey, the vast majority had passed the milestone of receiving first income (86-88%) and around three-quarters were working full-time on the business (73-77%).
- In relation to outcomes, the evaluation found evidence of the following:
 - **Transitions between economic statuses:** At the time of the survey, the proportion of self-employed individuals was nearly three times higher than at the time of applying for a loan, indicating that the programme has fulfilled its objective of encouraging entrepreneurship and self-employment for these cohorts.
 - **Start-up rates and net new enterprises:** Survey evidence indicates an overall start-up rate of 96% (i.e. began trading). Taking into account the evidence on additionality from the survey (of 804 respondents from the 2018/19 and 2021/22 cohorts), for every 100 people that the programme lent to in the two cohorts covered, 21 net new enterprises were created and 36 net additional enterprises were developed further.
 - **Survival rates:** Econometric analysis found that over the first five years, loan recipients demonstrated higher survival rates vs comparison groups by 4 to 26 percentage points.
 - **Employment:** The vast majority of enterprises were small, typically with fewer than ten staff. Across the 804 survey respondents in the two cohorts of interest, we estimated that the programme had led to 826 net additional employees in the last financial year.
 - **Turnover:** The enterprises of the 804 survey respondents from the two cohorts had generated an estimated aggregate net turnover of £44.7m in their last reported financial year. This equates to £50-60k net additional turnover per loan recipient.
 - **Business growth:** Econometric analysis of secondary data indicates that loan recipients had experienced stronger growth since incorporation than comparator businesses, in terms of assets and employment.
 - **Personal development:** The majority of loan recipients assessed their confidence at the time of the survey to be higher than when they first applied for a loan. The programme was seen as an important factor in enabling these improvements (63-69% indicated this in relation to business confidence, and 55-67% in relation to personal confidence).
- Based on self-reported evidence from the survey, we estimated a finance additionality ratio of 68%, suggesting that just over two-thirds of the finance provided by Start Up Loans would not have been provided by mainstream providers. There was some evidence of borrower discouragement, though it is challenging to assess the extent to which this was justified (i.e. whether the loan recipients may have been able to get a bank loan if they applied).

Routes to entrepreneurship

Prior to assessing the impact of the Start Up Loans programme, it is worth reflecting on the evidence from the beneficiary survey on why individuals decided to apply for a loan, the ways in which they have taken their ideas forward, and progress that was reported at the time of the survey. This evidence helps to contextualise the findings on business and personal development outcomes that are presented in the subsequent sub-sections.

Motivations

The loan recipients who responded to the survey reported a range of reasons for pursuing their business ideas. Of the motivations that respondents were asked about, the top reason related to creating more flexibility for the loan recipient and their family (with 79% somewhat/strongly agreeing with this statement). This was followed by making a difference in the world (49% somewhat/strongly agreeing), earning a living because jobs are scarce (48%), and building great wealth or a very high income (43%). The lowest ranking reason for starting an enterprise was to continue a family tradition – this was relevant to only 12% of respondents. A breakdown of responses by cohort is provided in Table 4-1, with no notable differences across the two cohorts.

Table 4-1: Thinking back to when you first decided to acquire/start the business, to what extent do the following statements reflect the reasons behind this decision?²⁴

Motivation	Strongly agree		Somewhat agree		Neither		Somewhat disagree		Strongly disagree	
	18/19	21/22	18/19	21/22	18/19	21/22	18/19	21/22	18/19	21/22
Make a difference in the world	28%	28%	20%	23%	23%	24%	12%	12%	17%	11%
Build great wealth/ a very high income	16%	13%	28%	29%	25%	29%	17%	17%	14%	11%
Continue a family tradition	5%	4%	6%	9%	6%	5%	13%	14%	69%	66%
Earn a living because jobs are scarce	22%	22%	25%	28%	16%	16%	16%	15%	21%	19%
Create more flexibility for me and my family	50%	52%	27%	31%	11%	10%	4%	3%	8%	4%

Source: Beneficiary survey (n=481 loan recipients in 2018/19 cohort; 323 in 2021/22 cohort)

The motivations for entrepreneurship can be compared to data from the GEM survey²⁵. A comparison between the relevant cohorts²⁶ is set out in Figure 4-1, showing the proportion of respondents that agreed with each statement. From this, the following observations can be made:

- There are only minor differences between the 2018/19 loan cohort and the 2019 GEM cohort.
- Differences between the 2021/22 loan cohort and the 2022 GEM cohort are more notable. Relative to Start Up Loans beneficiaries, a higher proportion of GEM survey respondents agreed with each of

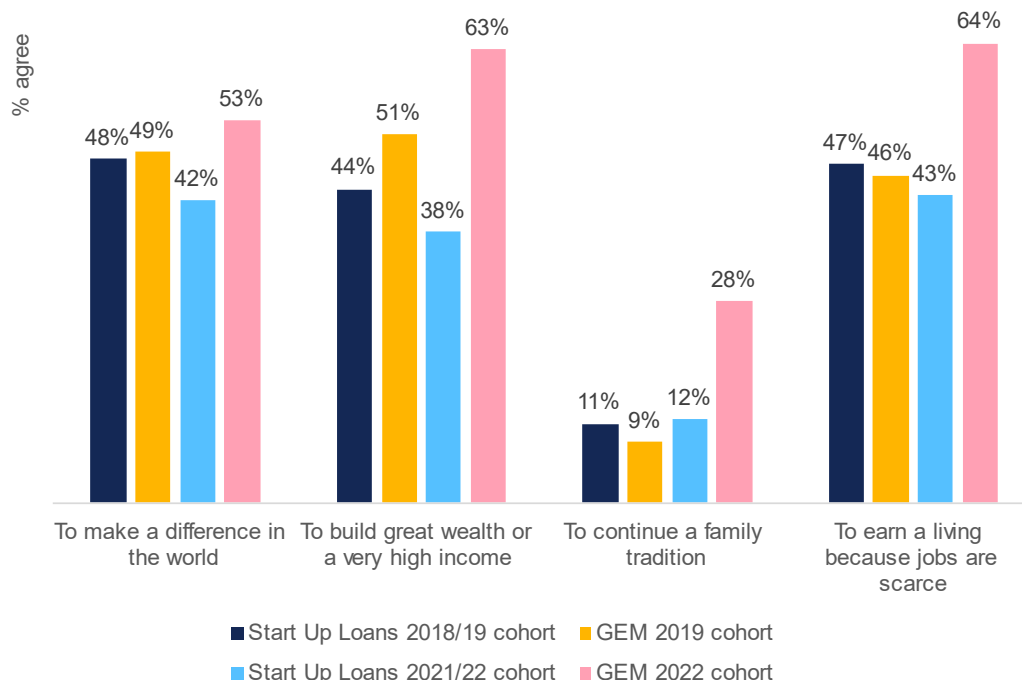
²⁴ Excluding the responses those that were not able to or refused to provide a response (a very small minority of total).

²⁵ Data from the GEM survey used in the report were provided to SQW by the GEM UK team, and are not publicly available elsewhere. Including four of the categories asked about in the evaluation survey

²⁶ The GEM survey generally collects responses between June and August each year, with the results reported in the following year's report. It is therefore appropriate to compare the 2018/19 Start Up Loans cohort with the 2019 GEM cohort (surveyed in 2018), and the 2021/22 loan cohort with the 2022 GEM cohort (surveyed in 2021).

the four statements. The biggest differences were in relation to ‘building great wealth or a very high income’ (25 percentage point difference between the relevant Start Up Loans and GEM cohorts) and ‘earning a living because jobs are scarce’ (21 percentage point difference). We note that 2022 GEM cohort had a higher tendency to agree with all of the statements, including compared to the 2019 GEM cohort, which is likely explained by changes to the way this question is asked²⁷.

Figure 4-1: Motivation for starting the business, Start Up Loans recipients vs GEM survey

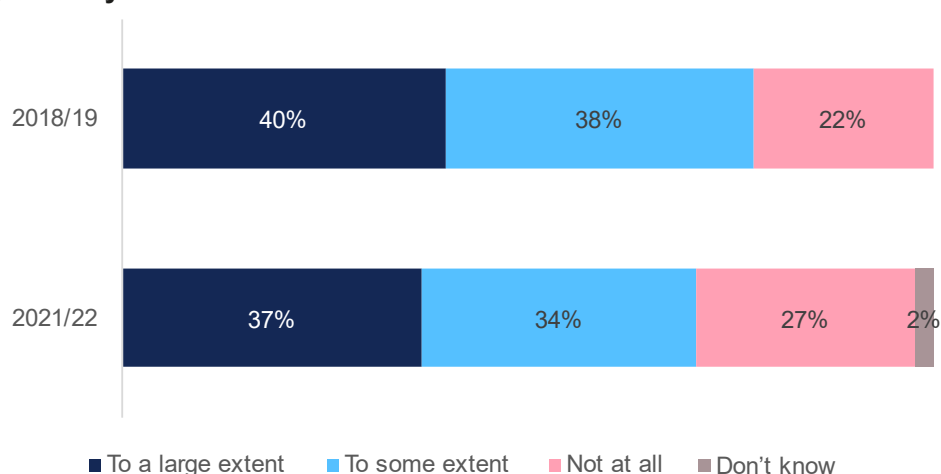


Source: Beneficiary survey (n=481 loan recipients in 2018/19; 323 in 2021/22) and the GEM survey

Of those survey respondents that had pursued entrepreneurship to make a difference in the world, three-quarters (75% overall) stated that this was related to environmental considerations, e.g. by producing environmentally friendly goods and services or developing a business that is environmentally friendly. A breakdown of responses is shown in Figure 4-2, with only very minor differences between the two cohorts.

²⁷ Respondents were previously restricted to a choice between ‘opportunity’ and ‘necessity’, i.e. they were only allowed to select one or more motivations from the ‘opportunity’ category and one or more from the ‘necessity’ category. Since the cohort surveyed in 2019 and reported on in 2020 (for the purposes of this report, this would be the ‘2020 GEM cohort’), the options are no longer considered to be mutually exclusive.

Figure 4-2: In wanting to make a difference in the world, to what extent is this related to producing environmentally friendly goods and services, or developing a business that is environmentally friendly?

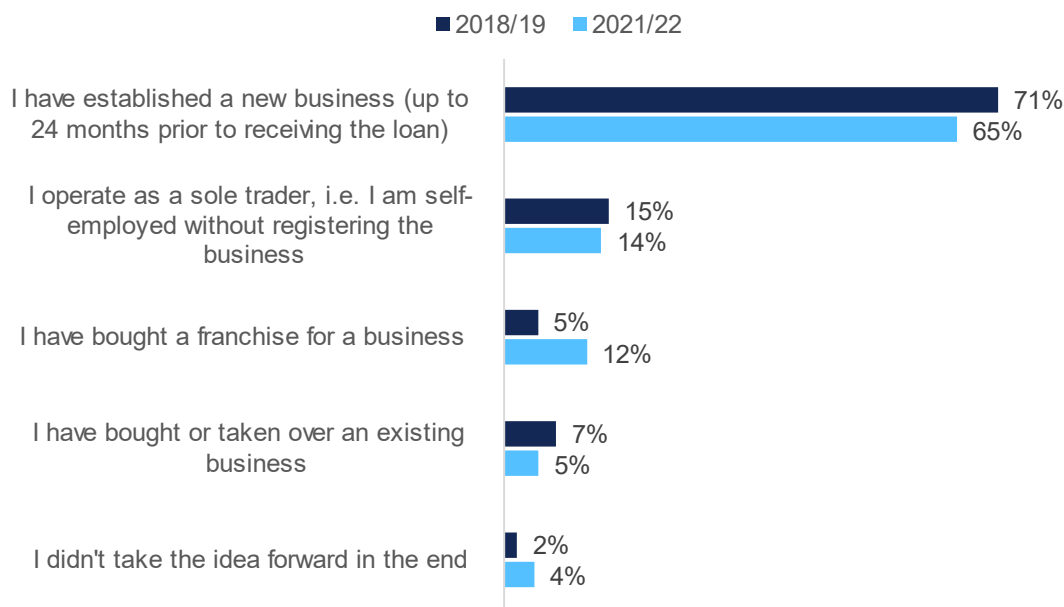


Source: Beneficiary survey (n=221 loan recipients in 2018/19 cohort; 130 in 2021/22 cohort)

Modes of entrepreneurship

The majority of loan recipients that responded to the survey had taken their idea forward by **establishing a new business** (71% of the 2018/19 cohort and 65% of the 2021/22 cohort). There was a smaller proportion of those that were operating as sole traders, had bought a franchise for a business, or had bought an existing business. The proportion of franchises was higher among the 2021/22 cohort (12%) relative to the 2018/19 cohort (5%) which is statistically significant²⁸.

Figure 4-3: Which of the following best describes how you are taking or have taken this idea forward?



Source: Beneficiary survey (n=481 loan recipients in 2018/19 cohort; 323 in 2021/22 cohort)

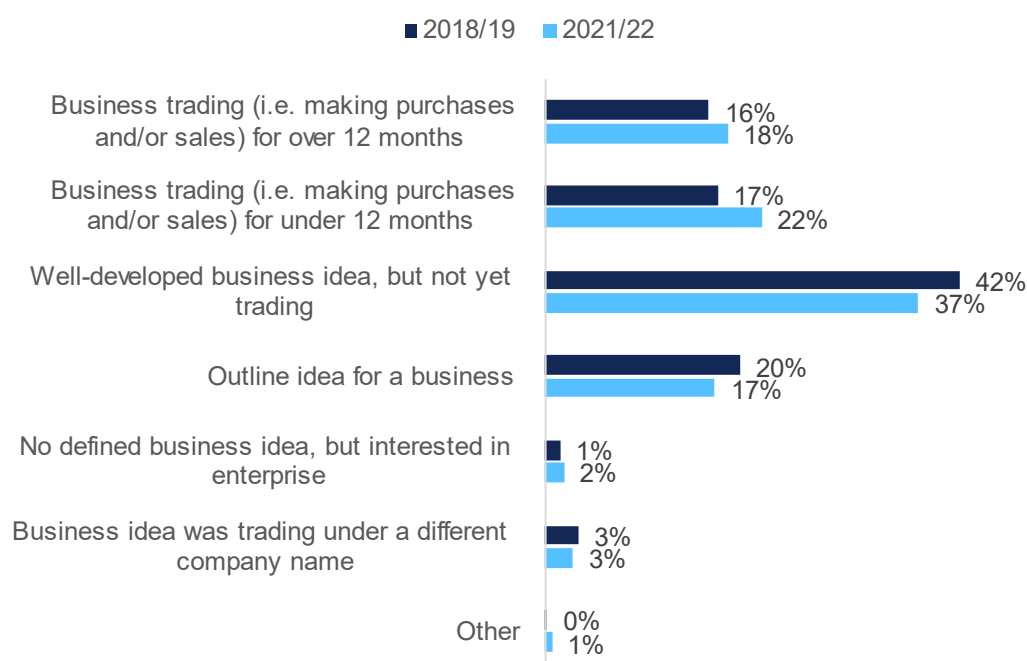
²⁸ There is no obvious reason for the difference between cohorts.

Progress with developing the business idea

For just under three-quarters of survey respondents, the idea supported by the Start Up Loan was their first experience of owning or managing an enterprise (72% of 2018/19 cohort and 70% of 2021/22). The proportion of entrepreneurs with no prior experience of owning or managing an enterprise was slightly higher for Start Up Loans beneficiaries than the wider UK entrepreneur population based on the GEM survey (69% in 2019, 64% in 2021).

At the time of applying for Start Up Loans, the business ideas were at various stages of maturity (see Figure 4-4). The most common scenario was for a well-developed business idea that was not yet trading (40% overall), closely followed by a trading business (36%). Around one-fifth (19%) had developed up to the point where they had an outline idea for a business. There were very few loan recipients that did not have a defined business idea at the time of applying.

Figure 4-4: Prior to approaching Start Up Loans, how well developed was the business / business idea?



Source: Beneficiary survey (n=481 loan recipients in 2018/19 cohort; 323 in 2021/22 cohort)

By the time of the survey, loan recipients had made considerable progress, with the vast majority having passed the milestone of receiving first income (88% of 2018/19 and 86% of 2021/22), and around three-quarters working full-time on the business (77% of 2018/19 and 73% of 2021/22). Almost all respondents reported that their business had started trading, i.e. they had incurred expenditure or received income by the time of the survey (99% of the 2018/19 cohort and 98% of the 2021/22 cohort). Of the 2021/22 cohort, 1% of respondents reported that they expected to start trading in the future. The full breakdown of milestones achieved or expected is provided in Table 4-2.

Table 4-2: Have any of the following actions taken place for the business/are these expected?²⁹

	Already achieved		Expected to achieve	
	2018/19	2021/22	2018/19	2021/22
Prepared a business plan	96%	95%	1%	2%
Business registered with Companies House ³⁰	73%	76%	4%	7%
Expenditure incurred on the business	94%	94%	1%	2%
Loan recipient/other owners began to work full-time for the business	77%	73%	6%	9%
First income received from the sale of goods/services	88%	86%	4%	5%

Source: Beneficiary survey (n=481 loan recipients in 2018/19 cohort; 323 in 2021/22 cohort)

Transitions between economic statuses

At the time of the survey, the proportion of self-employed individuals was nearly three times higher than at the time of applying for a loan³¹. This indicates the role of Start Up Loans in encouraging entrepreneurship and self-employment, in line with its central objective. Figure 4-5 shows the pre-loan employment status on the left hand side, and the status at the time of the survey on the right-hand side³². The breakdown of these figures is similar for the two cohorts.

From this, the following conclusions can be drawn:

- The number of self-employed individuals has increased threefold, from 160 to 458.
- Looking at those 458 who were self-employed at the time of the survey, half of that group (50%) had been employees prior to the loan, 16% had been unemployed, and 9% had been in casual work, in training or studying. Around a quarter (26%) had remained in self-employment.
- Of those 344 who were not self-employed at the time of the survey, just over half had ceased trading (50%) and a small proportion (4%) had not started trading yet.
- Around three-quarters (74%) of those who were economically inactive prior to the loan (i.e. unemployed and not looking for work) had moved to self-employment or employment by the time of the survey.

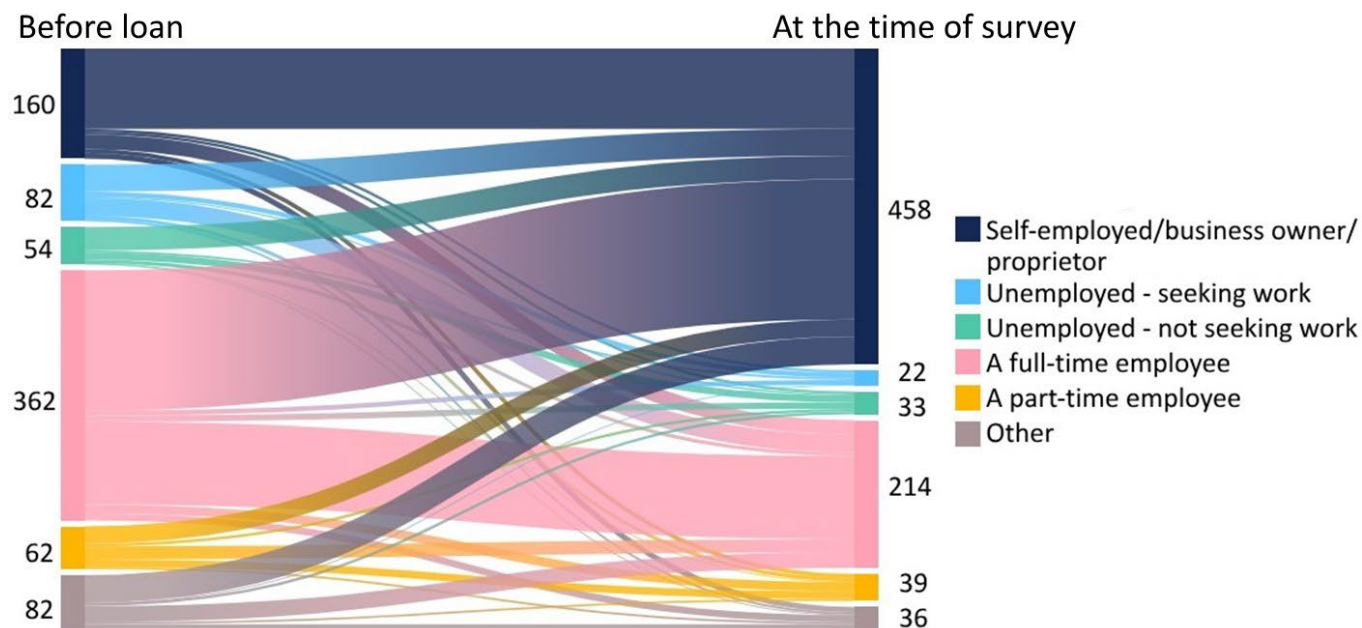
There were 119 loan recipients with an active enterprise who were part- or full-time employed at the time of the survey. Evidence from the case studies provided some examples of this where loan recipients continued in their previous role alongside the new venture which was not yet deemed to be a reliable sole source of income.

²⁹ Excluding the responses for 'not expected to happen', 'not relevant' and 'don't know' which only accounted for a small proportion of the total.

³⁰ Note that that an idea can be taken forward without establishing a business, i.e. if the loan recipient operates as a sole trader.

³¹ For the 2018/19 cohort, the survey was 5-6 years after applying for the loan; for the 2021/22 cohort, it was 2-3 years later.

³² The 'other' category includes those who were: students (institution-based); in casual work; in work-based training (e.g. apprenticeships); volunteering/undertaking an internship.

Figure 4-5: Employment status before the loan vs at the time of the survey

Source: Beneficiary survey (n=481 loan recipients in 2018/19 cohort; 323 in 2021/22 cohort). Chart created by Flourish software.

Those loan recipients who at the time of the survey were self-employed (but were not self-employed when they first considered applying) or full-time employed were asked whether they thought their current employment status would have been different if they had not received a Start Up Loan (see Table 4-3). The key findings are as follows:

- Up to half of those who had progressed to self-employment did not think this would have happened without the loan (40% of 2018/19 cohort; 48% of 2021/22). In the majority of cases, loan recipients considered that they would instead have been in full-time employment.
- The vast majority of those that were in full-time employment considered that this would still have been the case if they had not received the loan (79% of 2018/19; 87% of 2021/22). For those who thought that the Start Up Loan had helped to secure their current role, this primarily related to the experience of building and growing a business which added to their confidence skillset.

Table 4-3: Do you think you would now be in self-employment or a business owner / in full-time employment if you had not received a Start Up Loan?

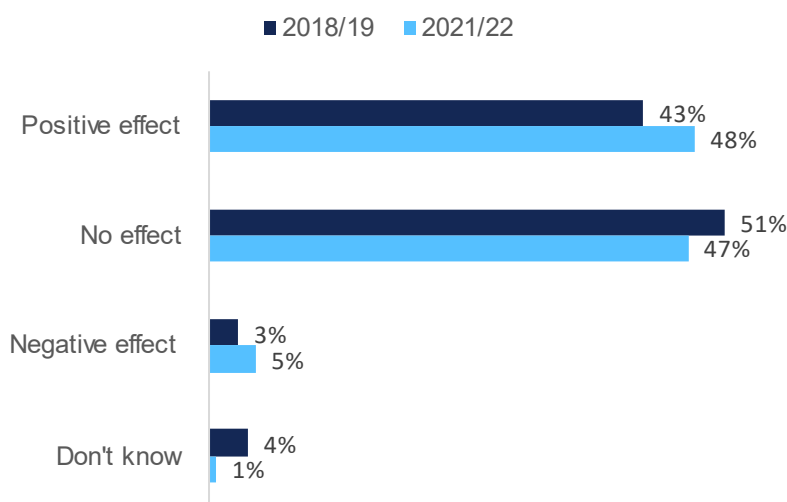
Current employment status	Question asked	Yes		No	
		18/19	20/21	18/19	20/21
Self-employed (n=208 in 2018/19; 129 in 2021/22)	Do you think you would now be in self-employment or a business owner if you had not received the loan?	56%	46%	40%	48%
Full-time employee (n=126 in 2018/19; 84 in 2021/22)	Do you think you would now be in full-time employment if you had not received the loan?	79%	87%	14%	7%

Source: Beneficiary survey (base sizes specified in the table)

Effect of Start Up Loans on long-term employment prospects

Those that were not self-employed/business owners at the time of the survey were asked about the perceived impact of the Start Up Loans on their long-term job prospects. **In just under half of the cases, the programme was assessed to have had a positive effect on long-term job prospects** (43% of 2018/19; 48% of 2021/22), with the majority of the remainder reporting no effect. Of those 22 individuals who had been economically inactive prior to the loan (and were not self-employed-business owners at the time of the survey), just under two-thirds (13 loan recipients) reported a positive effect.

Figure 4-6: In your view, has the Start Up Loans programme had an effect on your long-term job prospects, and would you say this is a positive or negative effect?



Source: Beneficiary survey (n=213 loan recipients in 2018/19 cohort; 155 in 2021/22 cohort).

Business outcomes

In this sub-section, we present the evidence on the key business outcomes that are expected to be associated with the programme (as per the logic model presented in Section 2): start-up and survival rates; employment; turnover; and business growth.

Start-up and survival rates

Survey data

A central objective of the Start Up Loans programme is to encourage entrepreneurship, and performance against this can be measured using start-up rates. However, it is reasonable to expect that not all enterprises will survive, and so it is also important to look at survival rates.

Analysis of survey data indicates the following in relation to start-up and survival rates (see Figure 4-7):

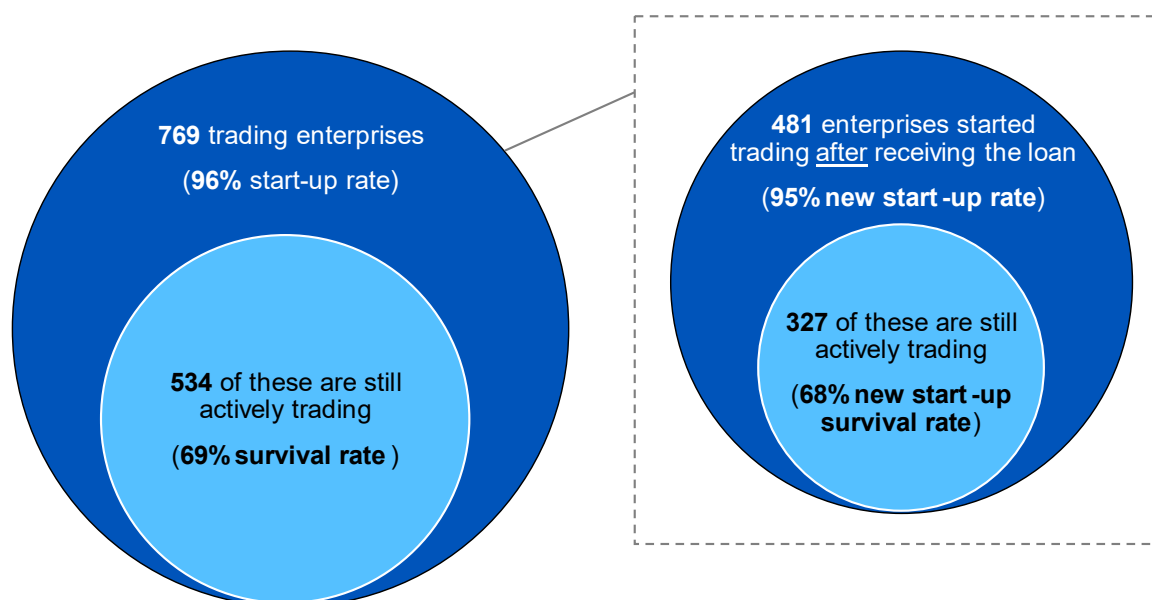
- Across the 804 survey respondents, 769 reported that they had started a trading enterprise³³. This adds up to a **96% start-up rate overall**. Of these 769 enterprises, 534 were still actively trading at the time of the survey – that is a **69% overall survival rate**. This figure indicates the proportion of those that had started a trading enterprise and were still trading by the time of the survey. Because

³³ Defined as either: (i) having established a new business; (ii) having bought or taken over an existing business; (iii) having bought a franchise for a business; (iv) operating as a sole trader; (v) incurred expenditure on a business; or (vi) received income for the sale of goods or services.

these enterprises started trading at different times, the above figure represents the survival rate *at a point in time* rather than after a specific time period.

- Of the 508 survey respondents who had not yet started trading when they applied to SUL, 481 had started trading *after* receiving the loan finance. This indicates a **95% new start-up rate**³⁴, similar to the overall start-up rate. Of those enterprises, 327 were still actively trading at the time of the survey – a **68% new start-up survival rate**³⁵ (which again is similar to the overall survival rate).

Figure 4-7: Start-up and survival rates



Source: Beneficiary survey (n=804 loan recipients). Note circles are not to scale.

Table 4-4 shows the start-up and survival rates for each of the two cohorts. As can be expected, the survival rates for the latter cohort are higher (the difference in overall survival rate is statistically significant at the 5% level). This is an intuitive finding given differences in the number of years that enterprises have been operating, and the chances of survival decreasing with each year.

Table 4-4: Start-up and survival rates by cohort

Metric	2018/19	2020/21
Trading enterprises	466	303
Overall start-up rate	97%	94%
Trading enterprises which are still actively trading	308	226
Overall survival rate	66%	75%
Enterprises that started trading <i>after</i> receiving the loan	307	174
New start-up rate	97%	91%
Enterprises that started trading <i>after</i> receiving the loan and are still actively trading	202	125
New enterprise survival rate	66%	72%

Source: Beneficiary survey (n=804 loan recipients).

³⁴ Calculated as the percentage of beneficiaries that started trading after receiving a Start Up Loan who were not trading at the time of receiving the loan.

³⁵ Calculated as the percentage of beneficiaries that started trading after receiving a loan and were still actively trading at the time of the survey.

Self-reported evidence on outcome additionality indicates that around one-quarter of enterprises would not have started or developed in the absence of the Start Up Loans programme (25% of 2018/19 and 28% of 2021/22). In the majority of cases, there is partial additionality – that is, the enterprises would not have started/developed at the same scale, within the same timescales and/or at the same quality (65% of 2018/19; 59% of 2021/22). The full breakdown of responses is included in Annex D. Across both cohorts, the average additionality ratio was 0.60 for new businesses and 0.59 for existing businesses. Applying this to the start-up rates set out above indicates that, **across the two cohorts of survey respondents, the programme has led to 289 net additional new enterprises** (set up after receiving the loan) **and 170 net additional enterprises that have developed** (set up prior to receiving the loan). In other words, for every 100 people that the programme lent to in the two cohorts covered by the evaluation, 21 net new enterprises were created and 36 net additional enterprises were developed further.

Case study examples: Outcome additionality

Example 1: Taking out a Start Up Loan helped the loan recipient's business to buy its first large batch of stock. This allowed the business to get off the ground faster (speed additionality): *"We could have bought stock with revenue from initial sales, but it would have taken longer for the business to turn over that much money."* There was also evidence of finance additionality: the loan recipient had considered a bank loan, but they were discouraged from applying: *"We tried to speak with the banks, but they were not interested because we were too young."*

Example 2: The loan recipient used the loan primarily to run marketing activities in international markets. These activities led to an increase in business turnover as a result of new export contracts secured: *"The loan helped me with my marketing. I did an exhibition in Canada which led to a big sale there. It also helped with sales into Denmark and Australia."* The loan also helped with purchasing products for the business: *"I could get the product cheaper because I got a better price when paying up front."* Overall, the loan enabled the business to grow its turnover more quickly through marketing (speed additionality) and reduce its costs to a greater extent (scale additionality). Without the programme, they would have continued to develop the business by reinvesting the business profits rather than looking for alternative forms of finance.

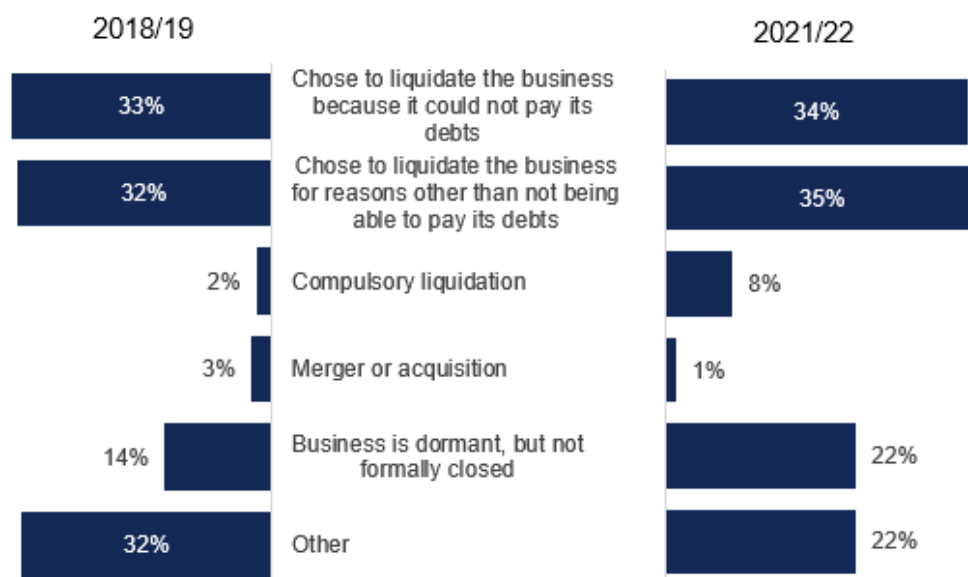
The box below includes two examples from case study research where the programme had played an important role in enabling business growth, specifically illustrating speed and scale additionality.

The majority of survey respondents were still actively involved with their enterprise (63% of the 2018/19 cohort and 72% of 2021/22). For those that were no longer actively involved, the key reason related to the business closing (cited by around half of the eligible respondents), followed by personal issues and deciding that the business idea had limited potential. Of this group of loan recipients, over three-quarters (77%; 204 individuals) were employed or self-employed at the time of the survey, including 33 loan recipients who had been unemployed prior to the loan³⁶. This indicates a largely positive outcome in terms of economic status even in cases where the recipient no longer remained involved.

Those loan recipients with enterprises that were no longer trading were asked why that was the case. The majority had chosen to liquidate their business, either because it could not pay its debts or for other reasons (see Figure 4-8). Of those who indicated 'other' reasons for closure, the majority referred to the Covid pandemic. Indeed, responses to a separate follow-up question³⁷ indicated that Covid was a key factor in the business closing for over two-thirds of those in the earlier cohort (68%), and just under half of those in the later cohort (41%). The impact of the Covid pandemic is further explored in Section 5.

³⁶ That is 24% of all survey respondents who were unemployed prior to the loan (n=136)

³⁷ 'Was Covid a key factor in the business closing?'

Figure 4-8: Why is the business no longer trading?

Source: Beneficiary survey (n=154 loan recipients in 2018/19 cohort; 79 in 2021/22 cohort)

Econometric analysis

To understand the effect of Start Up Loans on firm survival, we compared the difference in the amount of time that had passed before companies changed their status from ‘active’ to any other (such as ‘in liquidation’, ‘dormant’, ‘dissolved’) between beneficiaries and a matched group of similar firms. We found that **over the first five years, Start Up Loans beneficiaries demonstrated between four and 26 percentage points higher survival rates than comparators**. The differences in survival are statistically significant between beneficiaries and all comparison groups we considered.

To ensure robustness of findings and triangulate the likely ‘true’ effect from the programme, we used in analysis several beneficiary and comparison groups of businesses with similar observable characteristics (selected using Propensity Score Matching)³⁸. These were as follows (with further detail provided in Annex A):

- **Beneficiary groups:**
 - **Group A** comprised all 4,586 beneficiaries across both 2018/19 and 2021/22 cohorts that were identified in secondary datasets used for the analysis
 - **Group B** was a subset of Group A where we had more financial information in the year of incorporation, in particular the value of assets – 3,328 firms (73% of Group A).³⁹
- **Comparison groups:**⁴⁰
 - Comparison group 1 was matched to beneficiary Group A using the following variables: year of incorporation, region, sector classification (SIC 2007 sections), IMD (Index of Multiple

³⁸ Details of the matching process are described in Annex A.

³⁹ For 27% of Group A financial data in the year of incorporation was missing in the DataCity datasets, which are derived from the Companies House data. This could be due to those companies filing their first set of accounts the next year since the requirement is to submit the first set of accounts within 21 months after the date of registration.

⁴⁰ Comparison groups were drawn from a wider pool of businesses, identified by The DataCity to reflect the profile of incorporation dates and sectoral classification of Start Up Loans beneficiaries ([using SIC 2007 sections](#)).

Deprivation) of local authority (rank), IMD of local authority (whether in the bottom decile of IMD or not), and urban/rural location of the registered address

- Comparison group 2 was matched to beneficiary Group A, using the above variables except for the urban/rural classification. There was no overlap with Comparison group 1, i.e. companies could not appear in both Comparison group 1 and Comparison group 2.⁴¹
- Comparison group 3 was matched to beneficiary Group B using the same set of characteristics as for Comparison group 1.

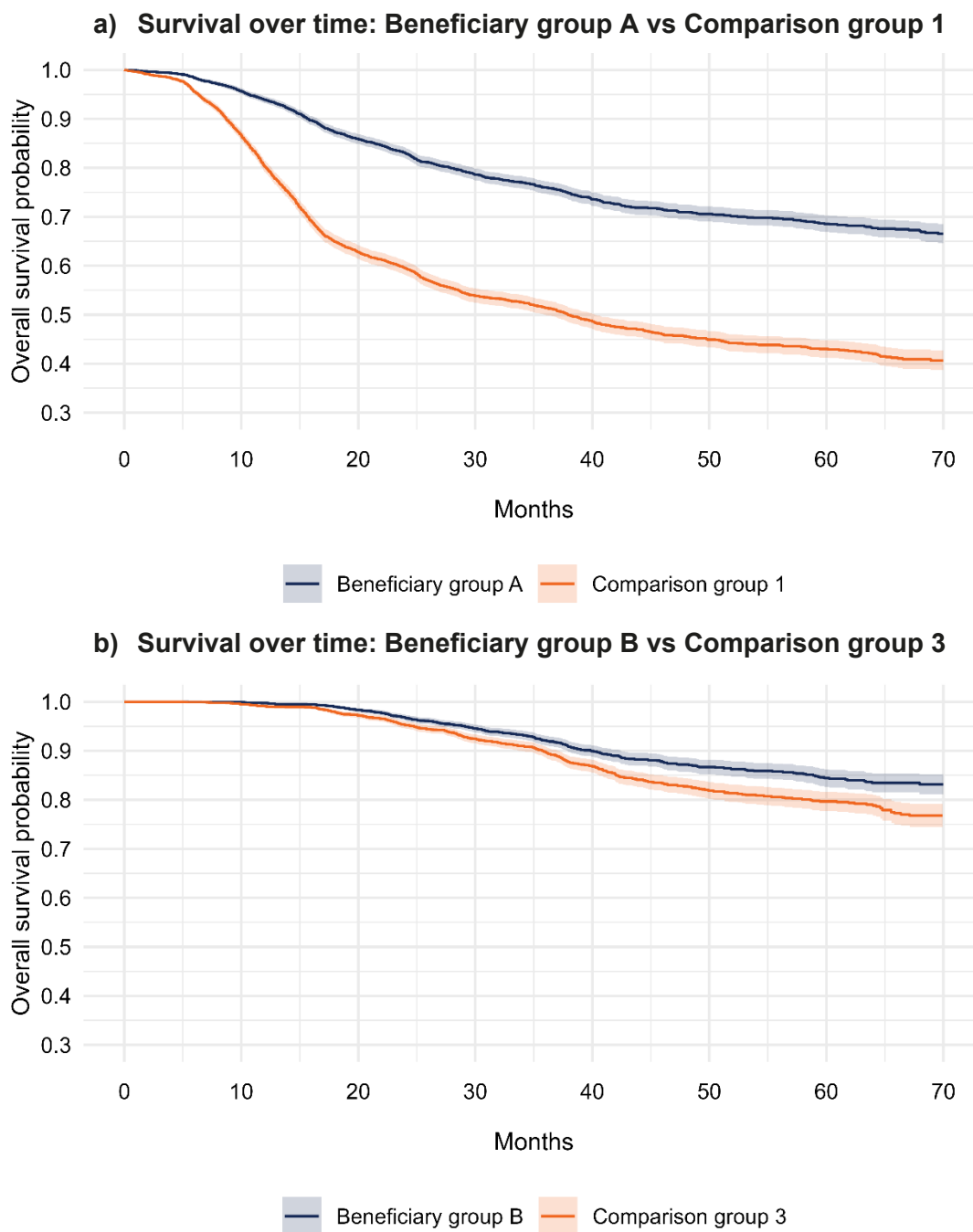
Figure 4-9 summarises our findings in relation to survival rates observed among beneficiaries and comparators. Panel a) shows that within a year after incorporation, a large gap in survival rates opens up between beneficiary Group A and Comparison group 1. This gap continues to grow, and by five years reaches 26 percentage points.⁴² Figure 4-9 b) compares survival rates over time between beneficiary group B and Comparison group 3. Survival rates for both groups are substantially higher, however beneficiary firms still achieved better survival rates than the comparators.

These results provide confidence in the findings in terms of consistency of the effect across different sub-groups of beneficiaries. The patterns described held when we split the overall sample of beneficiaries by cohorts (firms incorporated before 2019 vs later). Furthermore, the differences in survival rate were also present and statistically significant when we replicated the analysis on a truncated dataset that cut the first two years since firm incorporation, to reflect that beneficiaries could apply for the loan within the first two years (see Table E-4 in Annex E).

We note that statistical matching that was used to select the comparison groups cannot account for differences in unobservable characteristics, such as motivations, plans, propensity to seek support. The remaining differences in those characteristics may be one of the reasons behind the higher survival rates among SUL beneficiaries, especially in relation to Comparison groups 1 and 2. The contribution of SUL to success of beneficiaries, therefore, may not only be in the provision of finance and support from Start Up Loans, but in encouraging ambitious individuals to start a business.

⁴¹ The Nations of the UK use different rural/urban classifications. The variable used in matching was derived to broadly align the categories. It was excluded from the models that identified Comparison group 2 to provide another reference point for triangulation and ensure our overall findings were not affected by the recoding.

⁴² The results obtained using Comparison group 2 were identical to those with Comparison group 1. For conciseness, the graph for Group 2 is not presented in this report.

Figure 4-9: Comparing survival over time of beneficiary firms and comparison groups

Source: Start Up Loans monitoring and the Data City data, 0 refers to incorporation of a business

Table 4-5 presents the estimates for survival rates of beneficiary and comparison groups at one, two and five years (with the 95% confidence intervals in parentheses). For context, the table also shows the survival rates for all companies registered in the UK in 2017.⁴³

The survival rates observed among beneficiaries are higher than those in any of the comparison groups and in the wider population. **Both beneficiary groups had higher survival rates than the matched comparison groups from the very first year, and substantially ‘outperformed’ the wider business population over the two- and five-year periods.** The five-year survival rate in comparison group 1 is

⁴³ Table 4.1 in the ONS Business Demography 2022 [dataset](#), released Nov 2023, based on information from the Inter Departmental Business Register. Figures do not include the 95% CI since these are population level figures.

in line with what we would expect to see in a random sample of companies across the economy. The short-term survival rate in comparison group 1 observed over the first two years is lower than the UK average. This is likely due to: a) matching, and specifically accounting for geographical differences between the beneficiary and general business population (with SUL beneficiaries being more likely to be located outside London and also in deprived areas); and b) blending businesses with different years of incorporation in one group for analysis while they faced varied macroeconomic conditions and challenges, especially when compared to the ONS reference group of companies founded in 2017. Survival rates of beneficiary Group B and comparison group 3 are substantially higher than both in the wider business population and other groups of businesses we analysed. This finding is in line with our expectations of those groups containing businesses that were more likely to have clear plans for development and growth, considering they submitted their accounts in the first year of existence.

Table 4-5: Survival rates by group (95% confidence interval in parentheses)

	1 year	2 years	5 years
Beneficiaries A	94% (93%, 95%)	83% (82%, 84%)	69% (67%, 70%)
Comparison group 1	80% (79%, 81%)	60% (58%, 61%)	43% (41%, 45%)
Comparison group 2	82% (81%, 83%)	61% (60%, 63%)	45% (43%, 47%)
Beneficiaries B	100% (100%, 100%)	97% (96%, 97%)	84% (83%, 86%)
Comparison group 3	99% (99%, 99%)	95% (95%, 96%)	80% (78%, 82%)
UK Population (ONS)			
Enterprises founded in 2017	94%	73%	40%

Source: SQW analysis, drawing on information from the Data City and ONS

Finally, we undertook regression analysis of firm survival which compared beneficiary Group B and Comparison group 3. This approach allowed us to investigate whether there were any further effects of Start Up Loans on business survival for companies located in deprived areas.⁴⁴ We found no statistically significant differences in the effects for those in the most deprived areas. However, just as the analysis presented above, results suggested a substantial gap between Group B beneficiaries and Comparison group 3: on average, in any given month since incorporation, beneficiaries were only 72% as likely to stop being 'active' as non-beneficiaries (full results are presented in Table E-4 in Annex E).

Employment created in new/developed businesses

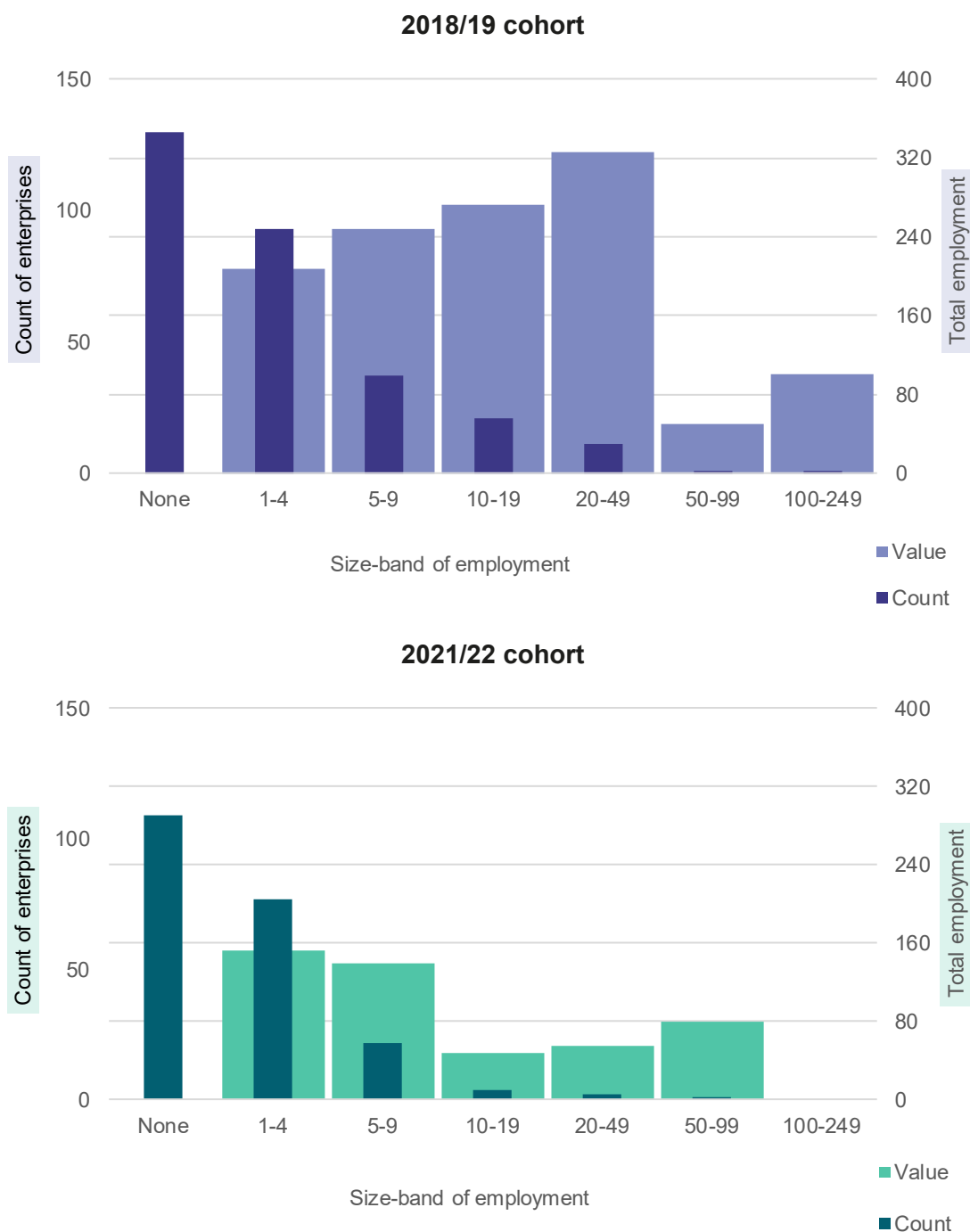
Figure 4-10 shows the distribution of employment in the last financial year⁴⁵ reported by the survey respondents, specifically in terms of: (i) the number of enterprises that fit within each employment band; and (ii) the aggregate number of employees in each band. **In gross terms, survey respondents reported a total of 1,680 employees** (1,205 in the 2018/19 cohort and 475 in 2021/22). The average number of employees per enterprise was higher for the earlier cohort than the later cohort (4.1 vs 2.2), as would be expected given that more time had elapsed for the former group since receiving the loan.

⁴⁴ Statistical matching ensured we had similar proportions of companies from deprived areas in the beneficiary and comparison groups. This was important for accurately identifying the average differences in survival between the groups. The regression analysis looked at whether the survival gap between beneficiaries and comparators was any bigger or smaller in deprived areas.

⁴⁵ This varied across loan recipients, i.e. it was based on the last completed financial year for *their* enterprise.

The vast majority of enterprises were small, typically with fewer than ten staff; this was the case for 88% of the 2018/19 cohort and 97% of the 2021/22 cohort. Around half of the survey respondents reported having no staff, excluding themselves as owners (44% of 2018/19 and 51% of 2021/22). However, enterprises with ten or more staff accounted for almost two-thirds of the total number of employees reported across the 2018/19 cohort (62%). The corresponding figure for the 2021/22 cohort was lower at 39%, which reflects that there are fewer large enterprises in that group (as above).

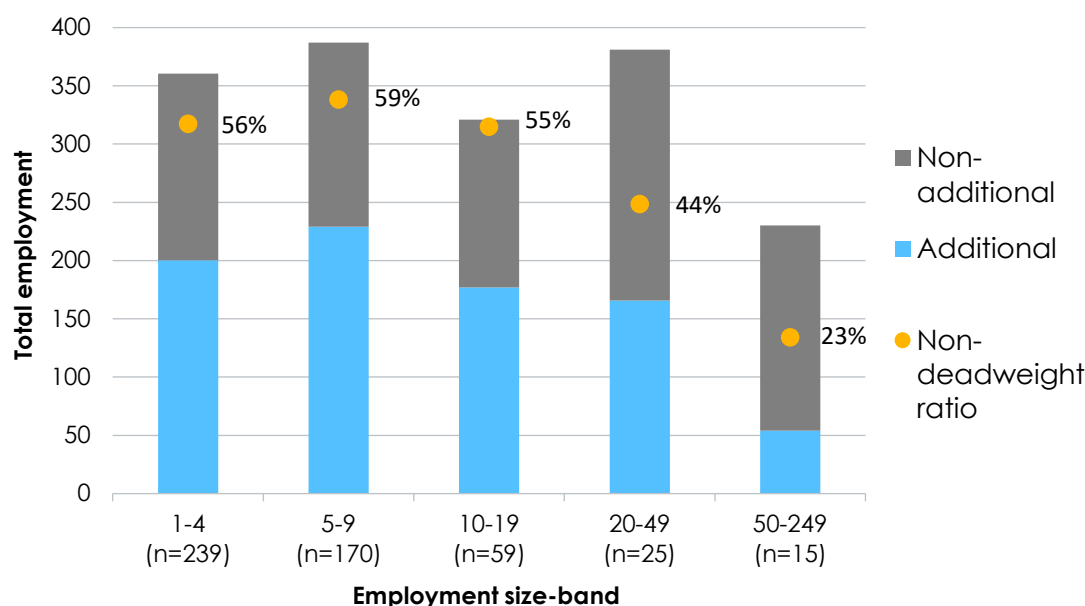
Figure 4-10: Gross employment, by count of enterprises and total employment



Source: Beneficiary survey (n=294 loan recipients in 2018/19 cohort; 215 in 2021/22)

In addition to the *gross* employment effect reported above, it is also important to consider the *net* employment, i.e. the proportion of employment reported that is unlikely to have happened without Start Up Loans⁴⁶. Figure 4-11 shows the levels of additionality across the employment bands, with non-deadweight ratios ranging from 0.06 (i.e. the *least* additional, with the highest level of deadweight) to 0.59 (i.e. the *most* additional). There is no clear pattern in the level of additionality across the different employment bands: whilst additionality seems to be lower for the largest employment band, the sample sizes are too small to be conclusive. Across survey respondents, the average non-deadweight ratio was 0.49, indicating that under half of employment effects would not have occurred without Start Up Loans (before accounting for displacement effects). This was slightly different for the two cohorts: the non-deadweight ratio was 0.51 for the 2018/19 cohort and 0.46 for the 2021/22 cohort. **In aggregate terms, this adds up to 826 net additional employees in the last financial year for the enterprises of the survey respondents (609 for the 2018/19 cohort and 217 for the 2021/22 cohort).**

Figure 4-11: Net employment by employment bands



Source: Beneficiary survey (n=294 loan recipients in 2018/19 cohort; 215 in 2021/22)

Turnover generated in new/developed businesses

Figure 4-12 shows the distribution of turnover in the last financial year⁴⁷ reported by the survey respondents, specifically in terms of: (i) the number of enterprises that fall under each annual turnover band; and (ii) the aggregate turnover of the enterprises making up each turnover band. This shows that in both cohorts, most enterprises generated less than £250k in turnover (247, or 78%, of 2018/19 cohort and 193, or 89%, of 2021/22), but the majority of turnover comes from those generating over £250k (these 71 enterprises accounted for 78% of the aggregate turnover reported by the 2018/19 cohort; 25 enterprises accounted for 56% of the 2021/22-cohort turnover).⁴⁸

In gross terms, this turnover adds up to £94.3m in the last financial year (£68.5m across the 2018/19 cohort and £25.7m for the 2021/22 cohort). The average turnover for the 2018/19 cohort was

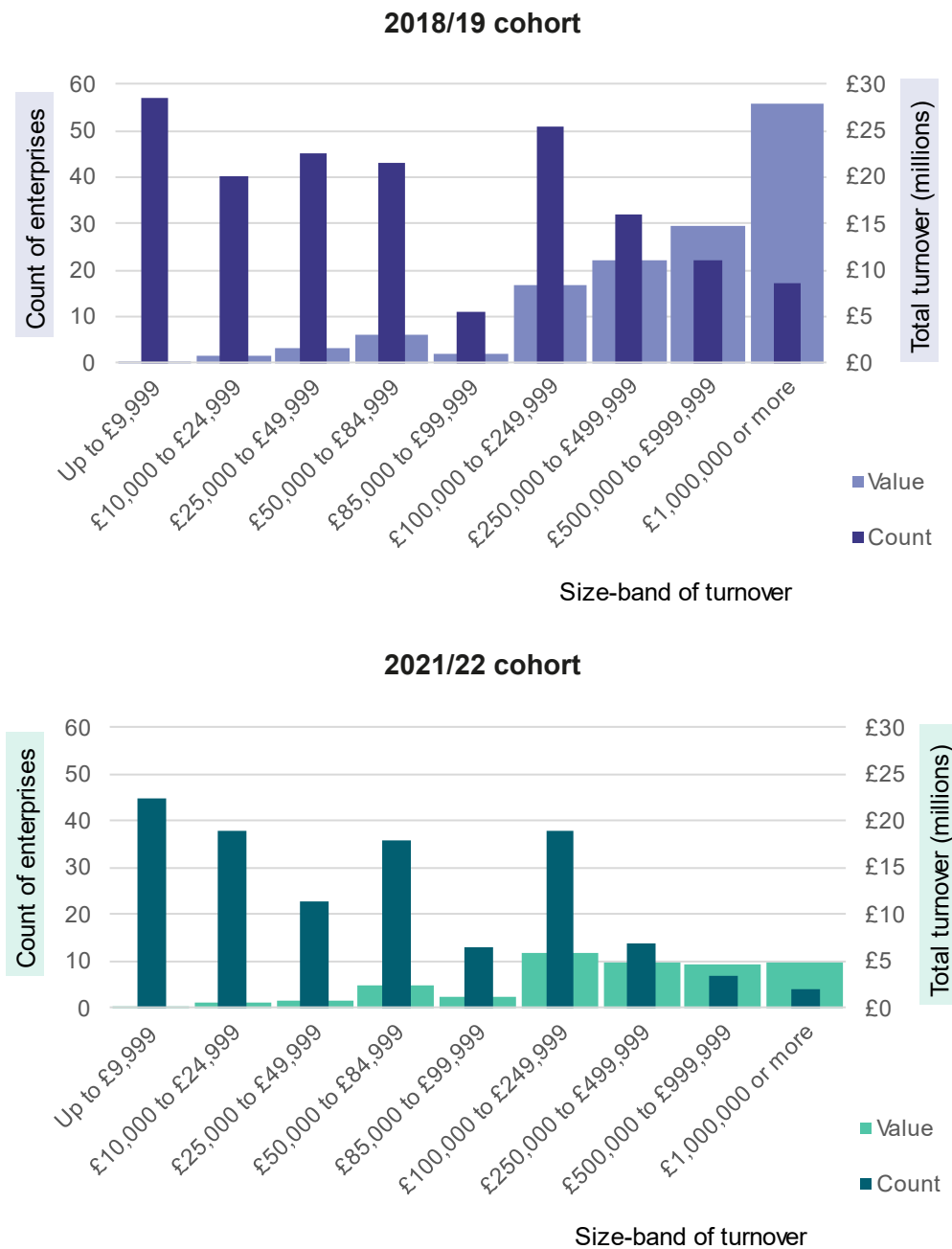
⁴⁶ The 'gross' employment reported by loan recipients was converted to 'net' employment by applying a ratio of deadweight based on the responses by each respondent to the survey questions on additionality.

⁴⁷ This varied across loan recipients, i.e. it was based on the last completed financial year for *their* enterprise.

⁴⁸ The proportion of businesses below the VAT reporting threshold (£90k) was 58-62% in the 2018/19 cohort and 65-71% in the 2021/22 cohort. We have provided ranges rather than a single figure because the turnover bandings used in the survey do not align exactly with the threshold.

£214k per loan recipient, compared to £120k for the 2021/22 cohort. This difference is intuitive as loan recipients in the earlier cohort have had longer to grow their enterprises, and so higher turnover can be expected.

Figure 4-12: Gross turnover, by count of enterprises and total turnover value



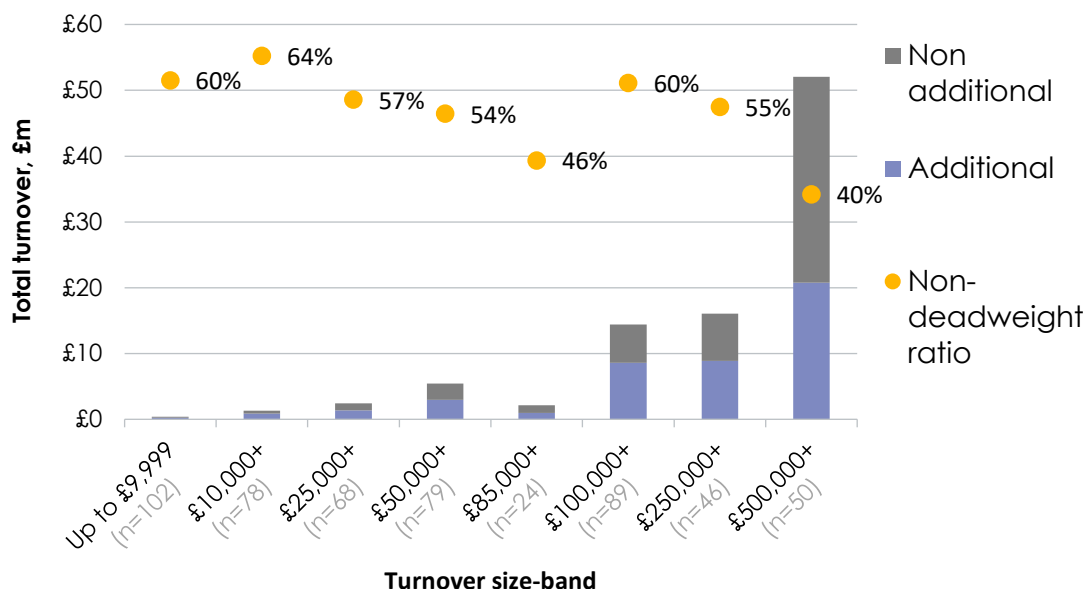
Source: Beneficiary survey (n=318 loan recipients in 2018/19 cohort; 218 in 2021/22)

Considering that the enterprises with an annual turnover of over £250k account for the majority of the aggregate turnover (in gross terms), we looked more closely at the survey responses from this group to explore if the characteristics and business journeys for individuals with larger enterprises differ from other loan recipients. Compared to smaller businesses (i.e. those with a turnover of up to £250k), the following differences were observed:

- Individuals with larger enterprises were more likely to have moved from full-time employment to self-employment (47% vs 22%; statistically significant at the 5% level).
- Larger enterprises were less likely to report full outcome additionality (16% vs 31%; statistically significant at the 5% level), indicating a comparatively higher level of deadweight. This may be expected given that for larger enterprises the relative importance of the loan may diminish.
- A slightly higher proportion of larger enterprises had started trading prior to getting the loan (41% vs 36%), though this was not a statistically significant difference.

We have also assessed the *net* turnover benefits, i.e. the proportion of turnover reported that is unlikely to have happened without Start Up Loans⁴⁹. Figure 4-13 shows the levels of additionality across the turnover bands, with non-deadweight ratios ranging from 0.30 to 0.64. Across the survey respondents, the average non-deadweight ratio was 0.47 (i.e. the average deadweight ratio was 0.53), which indicates that **around half of turnover effects would not have occurred without the programme** (before accounting for displacement effects). This was slightly different for the two cohorts: the non-deadweight ratio was 0.46 for the 2018/19 cohort and 0.51 for the 2021/22 cohort. Those reporting a gross annual turnover of £1 million or more had the lowest proportion of additional turnover (30%). **This adds up to an aggregate net turnover of £44.7m in the last financial year (£31.5m for the 2018/19 cohort and £13.1m for 2021/22).**

Figure 4-13: Net turnover by turnover bands



Source: Beneficiary survey (n=318 loan recipients in 2018/19 cohort; 218 in 2021/22)

⁴⁹ The 'gross' turnover reported by loan recipients was converted to 'net' turnover by applying a ratio of deadweight based on the responses by each respondent to the survey questions on additionality.

Assessment of business growth using econometric analysis

To understand the effect of Start Up Loans on business growth, we compared changes in beneficiaries' assets and employment to those of a comparison group using a difference-in-differences approach.⁵⁰ The analysis covered a subgroup of 3,328 beneficiaries (beneficiary Group B, as defined above in the section on the findings from econometric analysis of survival rates), which reported non-zero assets at incorporation.

The results of the analysis suggest that **Start Up Loans beneficiaries experienced stronger growth since incorporation, in terms of both assets and employment**. On average, beneficiaries were found to have a c. 34% higher growth in assets and c. 15% higher growth in employment than businesses in the comparator group.⁵¹ This is equivalent to, on average, c. £12,000 additional growth in the real value of assets and 0.5 additional employees per business since the year of incorporation.⁵²

Our estimates of the net impact of Start Up Loans on beneficiaries' assets and employment are presented in Table 4-6.⁵³

Table 4-6: Growth in assets and employment

	Average pre-loan level	Net effect of Start Up Loans
Assets (2022/23 £s)	£34,000	£12,000
Employment	3	0.5

Source: SQW analysis, drawing on information from the Data City

Personal development outcomes

The survey asked questions on issues related to personal development which asked loan recipients for a self-assessment on their strength of understanding of key business concepts, their current confidence and changes in confidence since first applying for the loan, and the contribution of the programme to any changes in confidence. Personal development outcomes were also explored in relation to mentoring; these are covered in Section 5.

Those loan recipients who received some pre-loan support were asked about the difference this had made, specifically in relation to improving their understanding of market opportunities, financial management, and business planning. Table 4-7 provides a breakdown of the responses. **Evidence on experiences with pre-loan support found that it had helped in at least one of the three areas for most respondents:** around 75% of the 2018/19 cohort and 72% of the 2021/22 cohort reported improvements in at least one area. For each of the three areas, the evidence was a bit more mixed:

- Highest improvements were reported in understanding of business planning (71% of the 2018/19 cohort and 64% of the 2021/22 cohort 'somewhat' or 'strongly' agreed), followed by financial management (55% and 56%, respectively), and market opportunities (47% and 46%).
- 'Understanding of market opportunities' received the least favourable feedback with around one in three somewhat or strongly disagreeing that the pre-loan support helped with this (33% of the

⁵⁰ Further detail on methodology is available in Annex A. While the value of assets can be influenced by accounting practices and business models, patterns in growth trajectories could provide insights into whether beneficiaries were successfully growing because of the programme (especially in the absence of data on other metrics such as turnover).

⁵¹ Over the period since incorporation to the latest available data for each business, controlling for the amount of time between the two observations.

⁵² We note that the estimates of net effects on the value of net assets should be seen as indicative, since the value of assets, to some extent, depends on accounting practices of businesses.

⁵³ Underlying econometric estimates can be found in Tables E-5 and E-6 of Annex E.

2018/19 cohort and 31% of the 2021/22 cohort). This aligned with findings from the case studies with some case study subjects suggesting that a more critical review of the market could have been offered as part of pre-loan support (see p. 83).

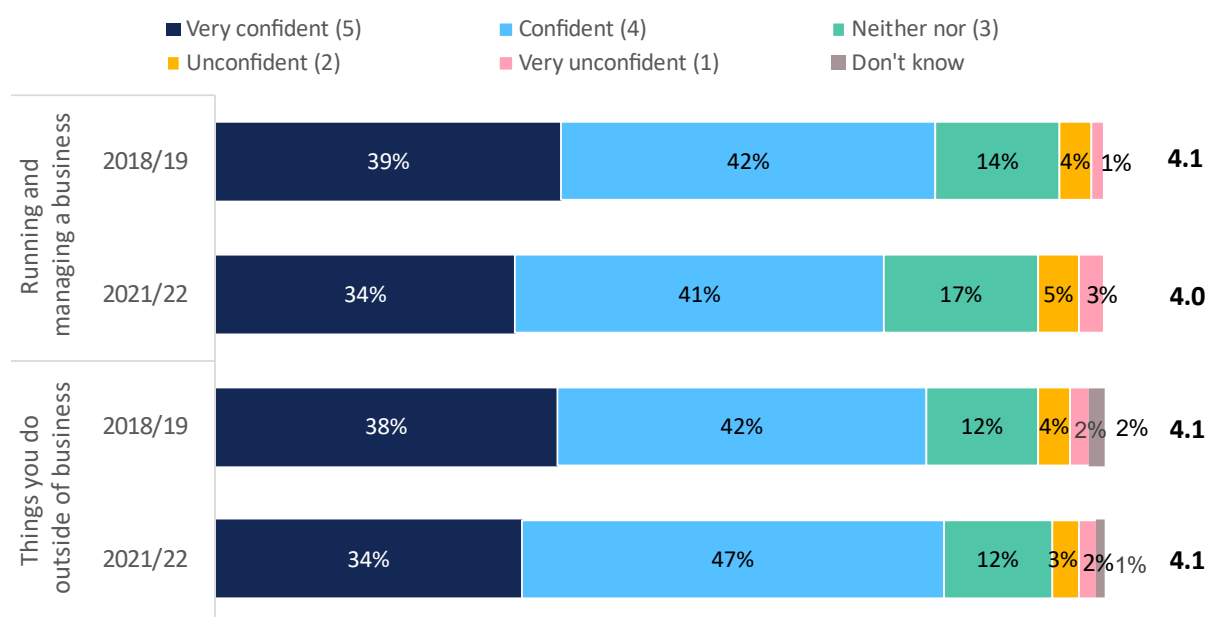
Table 4-7: Thinking about the pre-loan support from the Start Up Loans programme, to what extent do you agree or disagree that the pre-loan support led to improvements in...?

	Understanding of market opportunities		Understanding of financial management		Understanding of business planning	
	2018/19	2021/22	2018/19	2021/22	2018/19	2021/22
Total agree	47%	46%	55%	56%	71%	64%
Strongly agree	23%	22%	27%	27%	34%	32%
Somewhat agree	25%	24%	29%	30%	36%	32%
Neither agree nor disagree	18%	22%	17%	19%	10%	14%
Total disagree	33%	31%	26%	24%	17%	22%
Somewhat disagree	12%	13%	10%	10%	5%	9%
Strongly disagree	20%	18%	16%	14%	12%	13%
Don't know	2%	0%	2%	0%	2%	0%

Source: Beneficiary survey (n=396 loan recipients in 2018/19 cohort; 263 in 2021/22 cohort). Note proportion of total agree/disagree responses may differ from the sum of sub-categories due to rounding.

Figure 4-14 shows the proportion of loan recipients rating their business and personal confidence, using a five point Likert scale (where 1 is 'very unconfident' and 5 is 'very confident'). **Overall, the scores were positive for both confidence measures, with the vast majority considering themselves 'confident' or 'very confident'.** The mean ratings were high (between 4.0 and 4.1 out of 5) and these were similar across the two cohorts.

Figure 4-14: How confident would you say you are in relation to the following?



Source: Beneficiary survey (n=481 loan recipients in 2018/19 cohort; 323 in 2021/22 cohort).

The majority of loan recipients assessed their confidence at the time of the survey to be higher than when they first applied for a loan (see Table 4-8). The change in confidence was more pronounced in relation to business confidence (75% of 2018/19 and 67% of 2021/22 cohort assessed this to be higher) than personal confidence (55% and 48%, respectively). The difference between the two cohorts in the proportion of those that stated they had become more confident in running and managing a businesses was significant (at the 5% level); the difference in personal confidence was not.

Table 4-8: How does your confidence now compare to when you first applied for the loan?

	Business confidence		Personal confidence	
	2018/19	2021/22	2018/19	2021/22
I am now more confident	75%	67%	55%	48%
My confidence has not changed	17%	23%	35%	40%
I am now less confident	8%	10%	8%	10%
Don't know	-	-	1%	2%
Refused	-	-	1%	-

Source: Beneficiary survey (n=481 loan recipients in 2018/19 cohort; 323 in 2021/22 cohort)

Those that reported any change in confidence were asked about the role of Start Up Loans in contributing to this change (see Table 4-9). In terms of changes in business-related confidence, around two-thirds reported that the programme had been 'important' or 'very important' (63% of 2018/19 cohort; 69% of 2021/22). In terms of personal confidence, that was the case for just over half of the 2018/19 cohort (55%) and around two-thirds of the 2021/22 cohort (67%), with the difference between the two cohorts statistically significant at the 5% level. For the majority of those reporting a negative change in their confidence post-loan, the programme had not played any role.

Table 4-9: How has the Start Up Loans programme contributed to this change?

Start Up Loans was...	Confidence running and managing a business		Personal confidence	
	2018/19 (n=399)	2021/22 (n=248)	2018/19 (n=306)	2021/22 (n=187)
Very important	50%	49%	38%	49%
Important	13%	20%	17%	18%
Fairly important	12%	11%	13%	12%
Slightly important	8%	3%	9%	2%
Not important	16%	16%	22%	18%
Don't know	1%	-	1%	1%

Source: Beneficiary survey

There was some evidence to suggest that personal development benefits are pertinent even in those cases where the enterprise did not succeed. Indeed, it could be argued that 'learning by doing' and 'learning from failure' are both key concepts in the entrepreneurship journey. Looking at those survey respondents that had ceased trading, over half reported that their business confidence was higher than when they applied for a Start Up Loan (59%), and the vast majority of those saw the programme as an important factor in enabling that improvement (83%). In terms of personal confidence, under half of the respondents reported an increase in confidence (42%), with the majority of those considering the programme an important factor (79%). This finding is backed up by qualitative evidence from the case study research, with one such example set out in the box below.

Case study example: Personal development benefits despite business closure

Although the business was no longer trading at the time of the survey, the loan recipient considered that the experience of running a business, which was made possible by the Start Up Loan, was very important for them for two key reasons. First, from a learning standpoint, the loan recipient was able to take away many lessons from their time as a business owner: *“I learned loads out of the process of actually running the business.”* Second, the experience helped them to *“move their career forward”* by enabling to move up in seniority within the company where they continued to work full-time alongside pursuing the business idea.

Self-reported finance additionality

A key concept in understanding what would have happened in the absence of the Start Up Loans programme is **finance additionality**, that is the proportion of the finance provided by programme that could not have been accessed through other routes. This self-reported evidence, which is drawn from survey feedback, complements the evidence from the counterfactual assessment that used comparison groups of non-beneficiaries. Finance additionality is linked to outcome additionality⁵⁴ (i.e. the extent to which the businesses would have started or developed in the same way without support from the programme) which has been covered in the ‘Start-up and survival rates’ sub-section above, with further detail in Annex D.

Feedback from the beneficiary survey indicates that **only around one-third of the loan recipients had considered applying for other types of finance to start up or develop their business** (34% of the 2018/19 cohort and 30% of the 2021/22 cohort). In around three-quarters of these cases, the loan recipients had considered finance from a bank or mainstream finance provider (77% of 2018/19 and 72% of 2021/22). Where that was the case, the majority of survey respondents were not successful in securing an offer (see Table 4-10), either because their application was unsuccessful or because they did not apply at all (there is a nearly equal distribution of responses across these two categories). However, a considerable proportion of respondents reported securing some funding (18% of 2018/19 and 28% of 2021/22), and in the majority of these cases this was for the full amount.

Table 4-10: Were you successful in securing an offer of financial support from a bank or mainstream finance provider?

	2018/19		2021/22	
	n	%	n	%
Yes – offered full amount applied for	28	22%	18	26%
Yes – offered part of amount applied for	3	2%	1	1%
Outcome pending	-	-	-	-
No – applied but was unsuccessful	47	38%	24	35%
No – did not apply	46	37%	25	36%
Don't know	1	1%	1	1%

Source: Beneficiary survey (n=125 loan recipients who applied for other finance in the 2018/19 cohort; 69 who applied in the 2021/22 cohort)

⁵⁴ There are direct linkages between finance and outcome additionality, for example if a loan recipient would have been unlikely to obtain similar finance elsewhere (high finance additionality) and therefore would have been unlikely to start up or develop the business (high outcome additionality).

Those survey respondents who reported *not* considering finance from a bank or other mainstream provider were asked why that had been the case (see Table 4-11). The most common reason was Start Up Loans being considered the most appropriate source of support (cited by 23 out of the 65 respondents), followed by the loan recipient assuming a bank would have refused their application (14 responses) and being unable to afford the interest/repayments (13 responses).

Table 4-11: Why did you not consider applying for finance from a bank or mainstream finance provider? (Note: more than one response permitted)

	2018/19	2021/22
Start Up Loans was the most appropriate source of support	14	9
Assumed a bank would refuse an application	7	7
Were unable to afford the interest/repayment levels	9	4
Currently considering other finance options	4	2
Not aware of what finance options are available	2	3
Business in early stages of development	2	3
Poor credit history	2	2
Able to fund myself or through other means	1	3
Did not trust financial institutions	2	1
You didn't want to take on additional debt/risk	1	2
Did not know how to approach a bank	-	1
Process would have taken too long	1	-
Other	2	-
No reason	2	1
Low cost of starting this type of business	-	-
Did not know which bank to approach	-	-
Lacked confidence in the business idea	-	-

Source: Beneficiary survey (n=38 loan recipients in the 2018/19 cohort; 27 in the 2021/22 cohort)

Finance additionality is an important element in assessing the value for money of Start Up Loans, as well as considering the programme's role in filling a gap in access to startup funding (in line with its rationale). However, providing a quantitative assessment of finance additionality is challenging. As part of the application to Start Up Loans, individuals are expected to self-declare that they have not been able to access other forms of equivalent finance. That said, there is no requirement for formal evidence that alternative sources of finance have been considered or applied for (e.g. by proving that a bank has rejected a loan application). As indicated by the survey feedback outlined above, the majority of respondents reported not considering or applying for other sources of external finance, and it is not possible to know with any certainty whether this group would have been successful in securing finance from elsewhere.

With this in mind, the assessment of finance additionality draws on three groups of survey respondents where there is indication of the Start Up Loans finance being additional. These are as follows:

- The starting point for this analysis were the 121 survey respondents who applied for finance from a bank or other mainstream providers, where the outcome of application is known. Of this group, 60% in the 2018/19 cohort and 56% in the 2021/22 cohort (71 respondents in total) were unsuccessful, suggesting finance additionality of the Start Up Loans support. Although this is a good indicator of

finance additionality, the metric is based on a small proportion of the overall survey sample, and so two further groups have been included in the assessment (as below).

- Some survey respondents who did not apply for bank/mainstream finance provided a reasonable explanation which suggests finance additionality for the programme. Though not perfectly robust, these responses provide reasonable steer in judging finance additionality by providing some evidence that there was cause to believe an application would have been unsuccessful. The reasons we are referring to were as follows: 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; cost of starting this type of business; not aware of what finance options are available; and business in early stages of development. In total, 54 individuals provided at least one of these explanations.
- Some survey respondents who did not apply for bank/mainstream finance offered other explanations that make it difficult to judge the level of financial additionality. These explanations were: process would have taken too long; did not want to take on additional debt/risk; did not trust financial institutions; Start-Up Loans was considered the most appropriate source of support; able to use own funding or obtain this through other means; currently considering other finance options; or other. A total of 34 individuals provided at least one of these explanations.

The analysis drew on these three groups to arrive at an indicative value for finance additionality. The methodology for this is set out in Table 4-12, which follows the explanations provided above. **This indicates a finance additionality ratio of 68%, which is the same for both cohorts.** In other words, this finding suggests that just over two-thirds of the finance provided by Start Up Loans would not have been provided by mainstream providers.

Table 4-12: Were you successful in securing an offer of financial support from a bank or mainstream finance provider?

Stage in analysis	2018/19 cohort	2021/22 cohort	Total
a) Number that applied for bank/mainstream finance, where outcome of the application is known	78	43	121
ai) Number that applied for bank/mainstream finance and were successful	31	19	50
a ii) Number that applied for bank/mainstream finance and were unsuccessful	47	24	71
Proportion of beneficiaries where Start Up Loans finance is additional - subset ([a ii]/a)	60%	56%	59%
b) Number that did not apply for bank/mainstream finance, but had cause to believe that such an application would be unsuccessful	20	17	37
c) Sub-total (a+b)	98	60	158
Proportion of beneficiaries where Start Up Loans finance is additional - subset ([a ii+b]/c)	68%	68%	68%
d) Number of other beneficiaries identifying reasons for not applying for external finance, not covered in (b)	16	9	25
di) Number of other beneficiaries identifying reasons for not applying for external finance, if assume financial additionality at mid-point between 56%/60% and 68%	10	6	16
e) Sub-total (c+d)	114	69	183
Proportion of beneficiaries where Start Up Loans finance is additional ([a ii+b+di]/e)	68%	68%	68%

Source: Beneficiary survey

Qualitative evidence from the case study research illustrated the mixed findings in relation to finance additionality. Most of these loan recipients referred to Start Up Loans as the best, or sometimes only, option available. However, in some of these cases it was not entirely clear what this judgement was based on. The concept of ‘discouraged borrowers’ (i.e. individuals who do not apply for finance for fear of rejection) differentiates between those who are ‘appropriately discouraged’ (i.e. unlikely to obtain the finance) and those who are ‘inappropriately discouraged’ (i.e. likely to obtain the finance if they applied).⁵⁵ It is possible that this group of loan recipients is a mixture of both cases, though there are obvious challenges involved in assessing this based on the self-reported evidence only.

Other loan recipients demonstrated a clear case of finance additionality, for example where applications for bank loans had been refused, or where such loans were provided but did not amount to a sufficient level of funding required for starting up the business (with larger loans not available).

The box that follows provides an example of a loan recipient who felt discouraged from applying for mainstream funding due to their lack of prior business experience (though they had not approached a mainstream bank), and considered exhausting their personal savings the only available option.

Case study example: Finance additionality

The loan recipient had a dream to open a store, and they had planned to do this using their personal savings: *“I’m quite naïve about money – I was prepared to spend all of my own money on it.”* When they found out about Start Up Loans, they had a sudden realisation that external funding may be available to a new business like theirs with no prior track record: *“It was such a realisation that I wouldn’t have to just use every little scrap of my own money. Having these additional funds was such a gamechanger in terms of taking the pressure off – it meant I wouldn’t need to bleed myself entirely dry.”*

⁵⁵ Enterprise Research Centre (2018) [An empirical examination of discouraged borrowers in the UK](#)

5 Further impact analysis on loan recipients

This section provides further supporting analysis in relation to impact evaluation, including: evidence on which beneficiaries have benefitted the most; the value of mentoring; links between performance and repayments; and the impact of the Covid pandemic.

Key messages

Which beneficiaries have benefitted the most

- Econometric regression analysis indicates that there are some characteristics of loan recipients or the support they have received that are associated with a higher likelihood of achieving business or personal development outcomes. These vary across the different outcomes, i.e. there are no consistent characteristics of those who benefit the most. Women and Ethnic Minorities were more likely to experience personal development outcomes, but the reverse was true for business performance outcomes.

Mentoring

- The evidence indicated that the mentoring support was inconsistent in both its offer and take-up, with just under half of survey respondents stating that they were offered mentoring, and only around half of those taking up the offer. This means that of all surveyed loan recipients, around one in four from the 2018/19 cohort and one in six from the 2021/22 had received mentoring (or expected to in the future).
- Within-programme regression analysis indicates some characteristics that were associated with a higher likelihood of accepting the mentoring offer, specifically those who: were in deprived local authorities; received smaller loans (<£5k); had previously run or managed another business; and were in the earlier 2018/19 cohort.
- Experiences with mentoring were mixed. For some, there was clear evidence of benefits as a result of the mentoring support, but this had not been the case for everyone. We used regression analysis of survey data to explore the relationship between mentoring and outcomes. Evidence on survival rates was inconclusive, likely due to sample bias. We found no evidence of mentoring status having a statistically significant effect on loan recipients' confidence, and there was no statistically significant association between satisfaction with or hours of mentoring and firm survival or business confidence.

Links between performance and repayments

- We used regression analysis to explore the relationship between the likelihood of being in arrears and characteristics of loan recipients, finding that those from Ethnic Minority backgrounds and from deprived local authorities were more likely to be in arrears.

Impact of the Covid pandemic

- For around one-third of the survey respondents, the Covid pandemic had presented new business opportunities (30%-38%). However, for a sizeable proportion of businesses the pandemic threatened their survival (31-65%). Of the businesses that had stopped trading by the time of the survey, 41-68% identified Covid as a key factor.
- We further explored the effect of the pandemic on firm survival using econometric analysis. For this, we divided the companies associated with loan recipients into two cohorts: an 'early cohort' (businesses that were incorporated between 2015 and 2019) and a 'later cohort' (incorporated in 2019 or later). Loan recipients in the early cohort had consistently higher survival rates at one, two, three and five years post-incorporation. This result is consistent with the pandemic having a negative effect on firm survival.

Which beneficiaries have benefitted the most

We used econometric regression analysis to explore whether there are any characteristics of loan recipients or the support they have received that are associated with a higher likelihood of achieving business or personal development outcomes. The results indicate some statistically significant findings, though these vary across the outcomes, i.e. there are no consistent characteristics of those who benefit the most across different types of outcome. The key findings relating to firm survival, turnover growth⁵⁶, and personal development benefits are outlined in the sub-sections that follow.

Firm survival

There were three characteristics associated with a statistically significant difference in survival rates⁵⁷:

- **Enterprises set up by older loan recipients (over 30 years)** were more likely to still be operating than those set up by younger entrepreneurs (18-30 years). The probability of survival was 70% for the former group vs 60% for the latter.
- **Enterprises that had received loans of over £10k** were more likely to still be operating than those with loans of up to £5k (71% vs 60% probability of survival).
- Loan recipients who had **received some non-financial support outside of the Start Up Loans** programme⁵⁸ were more likely to still have an active enterprise than those who had not received any other support (75% vs 64% probability of survival).

Table 5-1: Firm survival

Explanatory variables	Dependent variable Firm still active (n=792)
Male	
Ethnic Minorities	
Deprived LA	
Age 18-30	***
Unemployed prior	
Degree	
Trading before	
Non-financial support outside of Start Up Loans	***
Cohort 2021-22	
Loan value £5-10k	
Loan value £10k+	**
Notes: Results are robust to the inclusion of controls for sector of economic activity and region . *** Statistically significant at 1% level, ** significant at 5% level, * significant at 10% level.	
Positive association	
Negative association	

Source: Econometric analysis of survey data (base size specified in the table)

⁵⁶ Data on employment was patchy with only a small number of observations, and so has not been included.

⁵⁷ Underlying econometric estimates can be found in Table E-1 of Annex E.

⁵⁸ This includes a mix of public/private sector support (e.g. business courses, mentoring programmes, accelerator programmes, business advisors/accountants), informal support from individuals (e.g. friends and family, other contacts). Survey respondents particularly referenced local support, e.g. local authority or chamber of commerce.

Turnover growth

There were **three characteristics associated with a higher growth in turnover**, as follows:

- **Male** loan recipients compared to female recipients, with 82% higher turnover growth for the former
- **White** loan recipients compared to Ethnic Minorities (63% higher turnover growth for the former)
- **Those who received loans of over £5k or over £10k** compared to those with loans of up to £5k 123% and 136% higher turnover growth, respectively, for those with loan amounts between £5k and £10k and over £10k, relative to those with loans of under £5k.

Table 5-2: Growth of turnover in the last year ⁵⁹

Explanatory variables	Dependent variable Growth in turnover (n=182)
Male	***
Ethnic Minorities	**
Deprived LA	
Age 18-30	
Unemployed prior	
Degree	
Trading before	
Non-financial support outside of Start Up Loans	
Cohort 2021-22	*
Loan value £5-10k	***
Loan value £10k+	***

Notes:

Results are robust to the inclusion of controls for sector of economic activity and region. *** Statistically significant at 1% level, ** significant at 5% level, * significant at 10% level.

Positive association

Negative association

Source: Econometric analysis of survey data (base size specified in the table)

Personal development

We looked at two types of personal development outcomes: confidence in running and managing the business (i.e. business confidence); and personal confidence. Turning first to **business confidence**, we found some statistically significant differences across sub-groups of loan recipients, as follows⁶⁰:

- Loan recipients from **Ethnic Minority** backgrounds were more likely to experience an increase in business confidence relative to when they applied for a Start Up Loan, compared to White loan recipients (78% vs 70%; note significant only at 10% level). Individuals from Ethnic Minority

⁵⁹ Note that in this analysis we have included only firms with an increase in turnover of at least £1,000. This was due to two key issues with the original sample: (1) a large number of observations with zero growth in turnover, and (2) large variance in the distribution of turnover growth. The full econometric results can be found in Table E-1 of Annex E.

⁶⁰ Detailed econometric results can be found in Table E-2 of Annex E.

backgrounds were also more likely to attribute this effect to Start Up Loans (a more statistically significant finding at 1% level).

- **Younger loan recipients**, aged 18-30, were more likely to experience an increase in business confidence than those aged over 30 (83% vs 68%). Those in the younger age group were also more likely to attribute this effect to the Start Up Loans programme.
- **Female loan recipients** were more likely than males to experience an increase in business confidence (76% vs 69%). Women were also more likely than men to *strongly* attribute the increase in confidence to Start Up Loans (though this was significant at 10% level).
- Loan recipients who had **received some non-financial support outside of the Start Up Loans** programme were more likely to have higher business confidence (77% vs 70%). The former group were also more likely to attribute this increase in confidence to Start Up Loans, indicating complementarity between support from the programme and other sources.
- Loan recipients in the **2018/19 cohort** were more likely than those in the 2021/22 cohort to report an increase in business confidence (75% vs 67%).

Table 5-3: Confidence in running a business

Explanatory variables	Dependent variable		
	Increase in business confidence	Increase in business confidence attributed to Start Up Loans ⁶¹	Increase in business confidence <u>strongly</u> attributed to Start Up Loans ⁶²
	(n=792)	(n=792)	(n=792)
Male	**		*
Ethnic Minorities	*	***	***
Deprived LA			
Age 18-30	***	***	
Unemployed prior			
Degree			
Trading before			
Non-financial support outside of Start Up Loans	**	**	**
Cohort 2021-22	**		
Loan value £5-10k			
Loan value £10k+			
Notes: Results are robust to the inclusion of controls for sector of economic activity and region. *** Statistically significant at 1% level, ** significant at 5% level, * significant at 10% level.			
Positive association			
Negative association			

Source: Econometric analysis of survey data (base sizes specified in the table)

⁶¹ Based on survey response indicating that Start Up Loans were ‘fairly important’, ‘important’ or ‘very important’ in contributing to this change.

⁶² Based on survey response indicating that Start Up Loans were ‘very important’ in contributing to this change.

In terms of **personal confidence**, the regression analysis indicated the following⁶³:

- Loan recipients from **Ethnic Minority** backgrounds were more likely to experience an increase in personal confidence relative to when they applied for a Start Up Loan, compared to White loan recipients (60% vs 50%). Individuals from Ethnic Minority background were also more likely to attribute this effect to Start Up Loans. This is consistent with the finding on business confidence.
- **Younger loan recipients**, aged 18-30, were more likely to experience an increase in personal confidence than those aged over 30 (59% vs 50%). This finding was significant only at 10% level. There were no age-based differences in the likelihood of attributing this effect to the programme.
- There were **no gender-based differences** in the variables, unlike for business confidence.
- Loan recipients who had **received some non-financial support outside of the Start Up Loans** programme were more likely to have higher personal confidence (60% vs 49%). The former group were also more likely to attribute this increase in confidence to Start Up Loans, though this was a weaker association at 10% level. This is consistent with the findings on business confidence, and indicates some complementarities between support from Start Up Loans and other sources.
- Those who had been unemployed prior to receiving the Start Up Loan were more likely to strongly attribute any increase in personal confidence to the programme (33% for those who were previously unemployed vs 23% for the rest), though there were no differences in the likelihood of experiencing an increase in personal confidence between these two groups.
- Similar to the previous bullet, loan recipients who started their enterprise after receiving the loan were more likely to strongly attribute any increase in personal confidence to the programme (27% for those who started their enterprise following the loan vs 21% for those who started it prior to the loan), though this was only significant at 10% level. There were no differences in the likelihood of experiencing an increase in personal confidence between these two groups.

Table 5-4: Personal confidence

Explanatory variables	Dependent variable		
	Increase in personal confidence	Increase in personal confidence attributed to the Start Up Loans	Increase in personal confidence strongly attributed to Start Up Loans
	(n=792)	(n=792)	(n=792)
Male			
Ethnic Minorities	**	***	***
Deprived LA			
Age 18-30	*		
Unemployed prior			**
Degree			
Trading before			*

⁶³ The detailed econometric results can be found in Table E-2 of Annex E.

Non-financial support outside of Start Up Loans	***	**	*
Cohort 2021-22			
Loan value £5-10k			
Loan value £10k+			

Notes:

Results are robust to the inclusion of controls for sector of economic activity and region. *** Statistically significant at 1% level, ** significant at 5% level, * significant at 10% level.

Positive association

Negative association

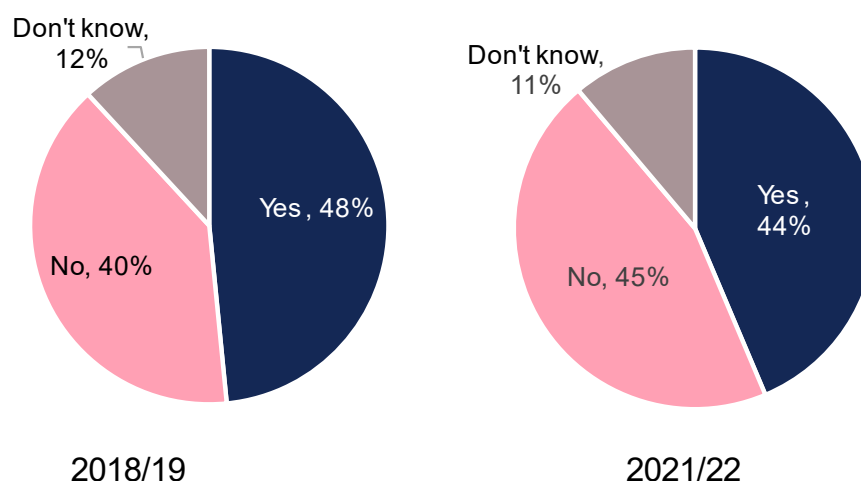
Source: Econometric analysis of survey data (base sizes specified in the table)

The value of mentoring

Take-up of mentoring

Just under half of survey respondents stated that they were offered mentoring as part of their support from the programme (48% of the 2018/19 cohort and 44% of the 2021/22 cohort – see Figure 5-1). It is worth highlighting that the experiences of both cohorts reflect the previous delivery model under which the mentoring support was offered by the same Delivery Partner that loan recipients engaged with during the application stage, rather than a separate Post Loan Support Partner (as is the case under the current model). Feedback from loan recipients on the previous delivery model is explored in Section 6 on the process evaluation, along with stakeholder and delivery partners views on the new model.

Figure 5-1: Were you offered mentoring as part of your support from Start Up Loans?

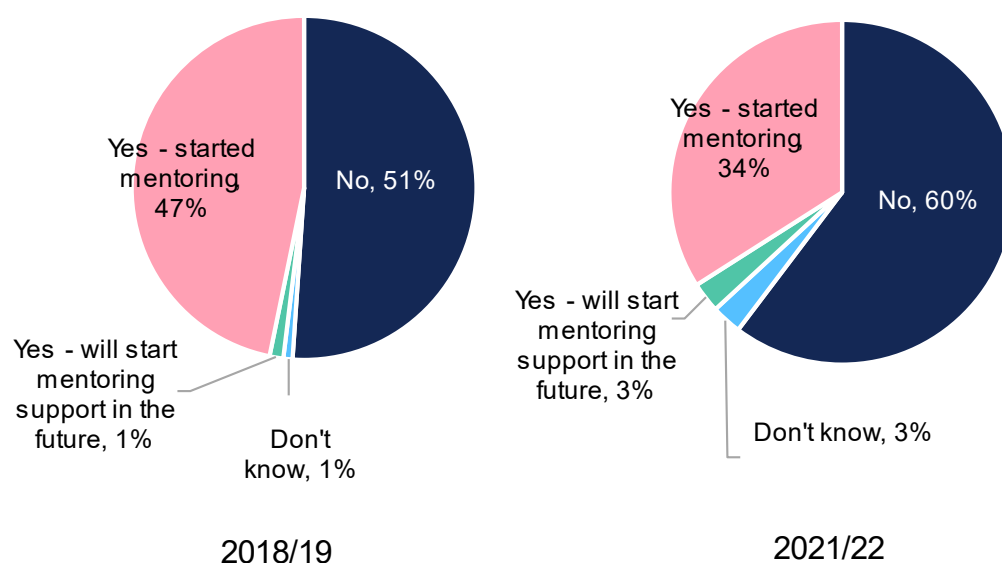


Source: Beneficiary survey (n=481 loan recipients in 2018/19 cohort; 323 in 2021/22 cohort)

Of those who were offered mentoring support, only up to half took up this offer (see Figure 5-2). This proportion was higher among the 2018/19 cohort (48%) than the 2021/22 cohort (37%) which is statistically significant at the 1% level. This means that of all surveyed loan recipients, around one in four from the 2018/19 cohort (23%) and one in six from the 2021/22 cohort (16%) reported that they had

received mentoring (or expected to⁶⁴). There is no obvious reason for the difference in the take-up of mentoring between the two cohorts.⁶⁵

Figure 5-2: Did you or will you take up the mentoring support?



Source: Beneficiary survey (n=233 loan recipients in 2018/19 cohort; 141 in 2021/22 cohort)

Within-programme regression analysis indicates some differences in likelihood of accepting the mentoring offer based on the characteristics of loan recipients. A summary of the results is shown in Table 5-5, with more detailed tables in Annex E⁶⁶. Controlling for all other characteristics, we found that:

- Those in deprived local authorities were more likely to take up mentoring (55% predicted probability of accepting mentoring for those from deprived local authorities vs 40% for those in non-deprived local authorities).
- Those receiving small loans of under £5k were nearly two times more likely to take up mentoring compared to those receiving larger loans (either between £5-10k, or over £10k) (64% probability vs 35-36%).
- Those who had previously run or managed another business were more likely to take up mentoring than those who had not (54% vs 38% probability).
- Those in the earlier cohort were more likely to take up mentoring, consistent with the survey findings (45% vs 35% probability).

⁶⁴ Seven loan recipients expected to start mentoring in the future. Note however that mentoring support is only available for the first 12 months following drawdown. At the time of the survey, this cut-off had already passed for both cohorts.

⁶⁵ Regression analysis indicates that the statistically significant difference remain even after controlling for cohort differences in relation to the characteristics that we found to be positively associated with the take-up of mentoring (see the within-programme analysis that follows).

⁶⁶ Full results are shown in Table E-3 in Annex E.

Table 5-5: Regression results on take-up of mentoring (including loan recipients who were offered mentoring)

Explanatory variables	Dependent variable Accepted mentoring offer (n=374)
Male	
Ethnic Minorities	
Deprived LA	**
Age 18-30	
Unemployed prior	
Degree	
Enterprise was trading before receiving the loan	
Had previously owned/managed a different business	***
Received non-financial support from outside Start Up Loans	
2021/22 cohort	**
Loan value £5-10k	***
Loan value £10k+	***
Results are robust to the inclusion of controls for sector of economic activity and region. *** Statistically significant at 1% level, ** significant at 5% level, * significant at 10% level.	
Positive association	
Negative association	

Source: Econometric analysis of survey data (base size specified in the table)

Benefits from mentoring

Those survey respondents who had received mentoring were asked to consider the extent to which the support from Start Up Loans as well as any support from outside the programme had resulted in benefits for the business. The results are outlined in Table 5-6, showing that at least half of the respondents had seen some change across each of the four categories.

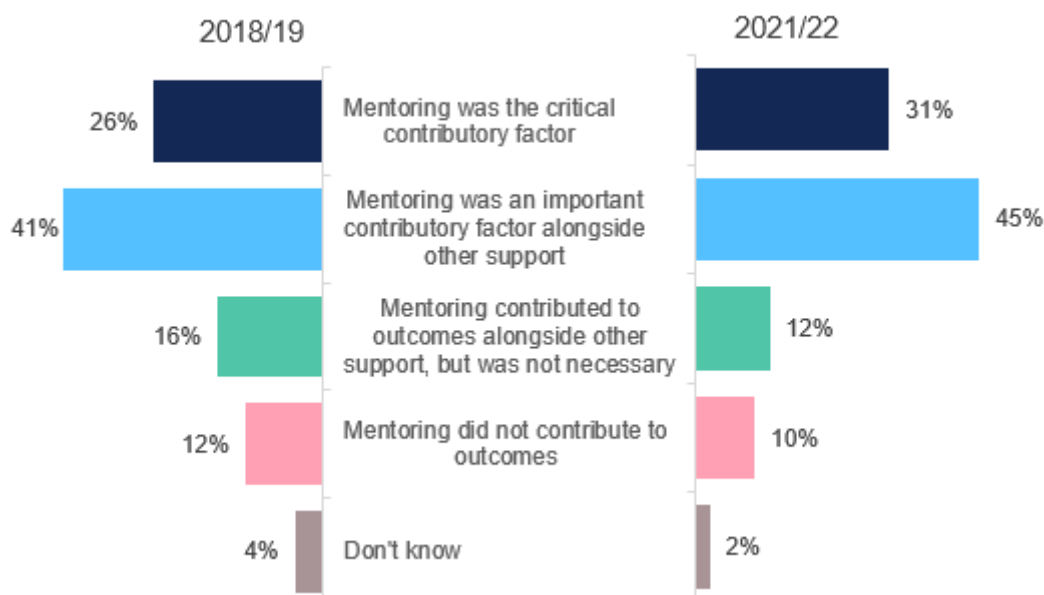
Table 5-6: Thinking about the business support you have had since receiving your Start Up Loan, including the mentoring from the Start Up Loans programme as well as any other business support from outside the programme, to what extent do you agree or disagree with the following statements?

The support has...	Somewhat / strongly agree		Neutral		Somewhat / strongly disagree	
	18/19	21/22	18/19	21/22	18/19	21/22
...helped to improve business knowledge and skills	69%	79%	19%	9%	11%	12%
...helped to improve confidence in business	70%	64%	15%	21%	15%	15%
... informed specific decisions made for the business	54%	72%	25%	13%	21%	13%
...helped to improve running the business generally	58%	68%	24%	9%	17%	21%

Source: Beneficiary survey (n=108 loan recipients in 2018/19 cohort; 47 in 2021/22 cohort). Not including the small proportion of 'don't know' responses.

In considering these improvements, survey respondents were then asked to assess how important the mentoring from Start Up Loans was compared to any other support they received outside the programme. **For the majority of loan recipients, the mentoring was a ‘critical’ or ‘important’ factor in achieving these benefits** (67% of 2018/19 cohort and 76% of 2021/22). The breakdown of responses is similar across the two cohorts (see Figure 5-3).

Figure 5-3: Thinking about the statements where you reported progress, how important was the Start Up Loans mentoring compared to any other support you received outside the Start Up Loans programme?



Source: Beneficiary survey (n=91 loan recipients in 2018/19 cohort; 42 in 2021/22 cohort)

The case studies provided qualitative evidence on the types of benefits achieved with the help of mentoring. The experience of one loan recipient is outlined in the box below, with a longer case study example included overleaf.

Case study example: Benefits from mentoring

Example 1: The loan recipient started mentoring support shortly after drawing down the loan in Spring 2019. Over the course of a year, the mentor helped the loan recipient to organise the business' finances and develop a social media presence. This had important knock on benefits: the improved social media **presence helped the business to survive through the Covid-19 pandemic**, since the loan recipient was able to continue to communicate with customers during lockdowns. Moreover, having more organised finances helped with monthly budgeting which in turn **facilitated the repayment of the loan**. The support worked well because the mentor pushed the consultee but also listened to them, and provided encouragement throughout the challenging early stages of the business.

Case study: Loan recipient A (2018/19 cohort)

Key milestones

2017

- First started to “*seriously consider*” the business idea

Early 2018

- Business established; loan recipient working on this full time
- First sales

May 2018

- Received the Start Up Loan

Summer 2018

- First employee recruited

2022

- Company dissolved
- New company established for a restaurant

The loan recipient had for a long time wanted to establish a food business, and started seriously considering this prospect in 2017. Early the following year, they applied to Start Up Loans for help with establishing a small street food business.

Being a first time business owner, the loan recipient was interested in taking up the non-financial support offered through the programme, including the pre-loan support. They were confident in their ability to deliver a quality food offering, but less knowledgeable about business planning: *“We focused on the money side of it, like cashflow. That is the kind of stuff that I wasn’t sure about and I had never really done before. This was quite helpful because obviously I knew that I could cook, but I needed to know on paper what my aims were and what I wanted to achieve.”* Overall, the loan recipient reflected that the pre-loan support had met their expectations around helping to plan the business.

The loan was drawn down in May 2018, and the business was established shortly after. At this point, the loan recipient took up the offer of mentoring support and was assigned a mentor with relevant experience. The mentoring relationship proved to be very effective, and key to its success was the strong level of communication and *“open dialogue”*. Key benefits were as follows:

- **Getting the business finances and paperwork in order.** The mentor helped the loan recipient to understand and complete important business paperwork including contracts, payment agreements and tax returns.
- **Improved confidence as a business owner.** The mentor provided reassurance in decision making and helped the loan recipient to recognise progress: *“It was good to know that I was on the right track and good for gauging milestones.”*
- **Knowledge development around how to grow the business.** The loan recipient noted that the mentor had a good understanding of the hospitality industry in their local area. They could therefore provide *“insight on what it would be like to upscale”*. They talked through the different stages of developing a food business, from a street food stall, to a residency, to securing a permanent location.
- **Networking benefits.** The mentor had a strong network of successful business owners in the same industry. The mentor was able to connect the loan recipient to some of these contacts: *“Those meetings were a nice way to speak to people about how to take those next steps.”*

By June 2024, the loan recipient had closed the original business but gone on to establish a separate company to operate a restaurant with a permanent location. Without the support from the Start Up Loans programme, the original business would have been established at a later date (up to three months later) using personal savings. Both the non-financial support and the loan itself were important factors in establishing the business, and then perhaps more importantly a key enabler to setting up the second business: *“It helped me along the journey, from doing street food to being in a permanent location.”*

We used regression analysis of survey data to explore the relationship between mentoring (whether loan recipients received any mentoring, the number of hours of mentoring, and satisfaction with mentoring) and outcomes. There are three different sub-groups of interest: loan recipients who were offered mentoring and accepted it; those who were offered mentoring but turned it down; and those who were not offered mentoring. The key findings are as follows (further detail is included in Annex E):

- The results indicate that those who declined the mentoring offer had a higher chance of business survival than those who were not offered mentoring. However, this finding is likely to be subject to selection bias, i.e. the ‘treated’ individuals differ from the ‘non-treated’ for reasons other than the treatment status per se. For example, those who are more confident and believe that they have the knowledge and capabilities required can be expected to be more likely to succeed with their venture, but this group may also be more likely to turn down the mentoring offer. Those who were never offered mentoring are likely, based on it being a random group of individuals, to include a mix of more and less confident business owners.
- We found no statistically significant difference in business survival between those who received mentoring and those who were not offered it. This does not necessarily mean that mentoring has not had an effect on business survival chances. The group that were not offered mentoring is likely to include those who would have declined it anyway, and so there could be a selection effect. Given that those who declined mentoring had an increased chance of business survival, then we may have expected a negative coefficient for the ‘received_mentoring’ variable. Based on the evidence, therefore, it is not possible to say from the econometric analysis as to whether mentoring is associated with business survival chances.
- We found no evidence of mentoring status (received or declined) having a statistically significant effect on loan recipients’ business confidence.
- Those who were satisfied with mentoring and those receiving more mentoring do not have a statistically significant association with either firm survival or increase in business confidence.
- However, we did find that those who received mentoring and were satisfied with it were more likely to report an increase in personal confidence attributed to the Start Up Loans programme, than those who were not offered it.

Links between performance and repayments

The Start Up Loans programme is not expected to provide a commercial return to Government. However, it is a loan rather than a grants programme, and so repayments of capital and interest (at 6%) are expected.

Programme monitoring data from September 2023 indicates that 34% of the 7,033 loans drawn down by the 2018/19 cohort and 32% of the 9,377 loans to the 2021/22 cohort were in arrears (meaning that payments had been missed for three months or more). Of these loans that were in arrears, the majority of loans had been either charged off or written off, with a smaller proportion of those in arrears still ‘live’ (17% of 2018/19; 28% of 2021/22). Table 5-7 includes some descriptive statistics on the two cohorts combined, showing a higher proportion of arrears among inactive businesses (an intuitive finding) and among those that were dissatisfied with mentoring. The average and median turnover were higher for those that were not in arrears, which again makes intuitive sense.

Table 5-7: Descriptive statistics on arrears, combined for 2018/19 and 2021/22 cohorts

	No arrears (n=577)	Arrears (n=215)
Business status		
Inactive (n=256)	58%	42%
Active (n=536)	80%	20%
Take-up of mentoring offer		
Declined mentoring (n=217)	77%	23%
Received mentoring (n= 157)	73%	27%
Satisfaction of those who received mentoring		
Satisfied with mentoring (n=105)	78%	22%
Dissatisfied with mentoring (n=50)	64%	36%
Hours of mentoring received		
Under 10 hours (n=103)	73%	27%
Over 10 hours (n=54)	74%	26%
Turnover (n= 276 not in arrears; n= 62 in arrears)		
Average turnover	£265,790	£237,927
Median turnover	£90,000	£77,500

Source: Start Up Loans monitoring data from September 2023. There were 792 loan recipients in the sample but due to some missing data, some of the individual categories do not add up to this number.

We used regression analysis to explore the relationship between the likelihood of being in arrears and different characteristics of loan recipients. The findings indicate the following correlations⁶⁷:

- **Loan recipients from Ethnic Minority backgrounds had substantially higher odds of being in arrears** than White business owners (37% chance of being in arrears for loan recipients from Ethnic Minority backgrounds vs 25% chance for White loan recipients).
- **Those in deprived local authorities had significantly higher odds of being in arrears** than those not in deprived areas (38% for those in deprived local authorities vs 25% for those in non-deprived areas).

Looking at the effect of mentoring, we found that those who declined mentoring were less likely to be in arrears than those who were not offered mentoring. However, this is likely to be affected by a selection effect whereby those that declined mentoring may have done so because they were more confident and capable (and therefore could be expected to be performing well). Comparing those who received mentoring to those who were not offered it, we found no significant differences in the rate of arrears. When splitting the mentoring group by satisfaction with mentoring, those who were satisfied had a lower chance of being in arrears than those who were not offered mentoring, which may indicate that mentoring could help in relation to arrears. There was no difference in the likelihood of being in arrears based on the number of mentoring hours received.

⁶⁷ Detailed econometric results can be found in Table E-3 in Annex E.

Table 5-8: Regression results on arrears status

Dependent variable	Firm is in arrears (n=792)
Explanatory variables	
Male	
Ethnic Minorities	***
Deprived LA	**
Age 18-30	
Unemployed prior	
Degree	
Trading before	
Outside nonfinancial support	
Cohort 2021-22	
Larger loans	
Received mentoring	**
Declined mentoring	**
Mentoring satisfaction	**
Mentoring hours	

Notes:

Results are robust to the inclusion of controls for sector of economic activity and region. *** Statistically significant at 1% level, ** significant at 5% level, * significant at 10% level.

Positive association

Negative association

Source: Econometric analysis of survey data (base sizes specified in the table)

Impact of the Covid pandemic

For around one-third of the survey respondents, the Covid pandemic presented new business opportunities (30% of the 2018/19 cohort; 38% of 2021/22 cohort). **However, for a sizeable proportion of businesses the pandemic threatened their survival.** This was higher for the earlier cohort of 2018/19 (65%) than the later cohort of 2021/22 (31%) – a statistically significant difference at the 5% level. The difference between cohorts is also visible when looking at the business closures where Covid was identified as a key factor: 68% of all businesses that had stopped trading in the earlier cohort, and 41% in the later cohort (again, this was statistically significant at the 5% level)⁶⁸. One possible explanation for the cohort differences is that individuals in the later cohort, who received their loans in 2021/22, were already aware of the pandemic and therefore able to take into account the challenges and uncertainties presented by this wider context when writing their business plans. For the earlier cohort, the pandemic came as a surprise, and this was soon after receiving the loan in 2018/19.

⁶⁸ Based on 97 businesses in the 2021/22 cohort and 46 in the 2018/19 cohort.

Table 5-9: Thinking about the effect of the pandemic on your business, to what extent do you agree with the following statements?

The coronavirus pandemic has...	Somewhat / strongly agree		Neutral		Somewhat / strongly disagree	
	18/19	21/22	18/19	21/22	18/19	21/22
... threatened the existence of this business	65%	31%	4%	8%	23%	38%
... provided new opportunities that you want to pursue with this business	30%	38%	7%	8%	55%	36%

Source: Beneficiary survey (n=481 loan recipients in 2018/19 cohort; 323 in 2021/22 cohort). Not including the small proportion of those who were not able to respond.

Table 5-10 compared the responses from the beneficiary survey to those UK entrepreneurs who responded to the 2022 GEM survey⁶⁹.

Table 5-10: Comparison to the GEM survey

The coronavirus pandemic has...	Start Up Loans survey		GEM survey ⁷⁰
	2018/19	2021/22	2022
... threatened the existence of this business			
Strongly agree	59%	27%	20%
Somewhat agree	12%	14%	29%
Neither agree nor disagree	4%	10%	17%
Somewhat disagree	6%	12%	16%
Strongly disagree	18%	37%	17%
... provided new opportunities that you want to pursue with this business			
Strongly agree	19%	23%	22%
Somewhat agree	13%	23%	34%
Neither agree nor disagree	7%	9%	17%
Somewhat disagree	12%	11%	15%
Strongly disagree	48%	33%	12%

Source: Beneficiary survey (n=481 loan recipients in 2018/19 cohort; 323 in 2021/22 cohort; 10,173 in GEM survey 2022. *Note that 8% of the 2018/19 Start Up Loans cohort responded "Not applicable" to this question, and 23% of the 2021/22 Start Up Loans cohort responded "Not applicable" to this question. These have been removed from the analysis here in order to provide a more like-for-like comparison with the GEM data.*

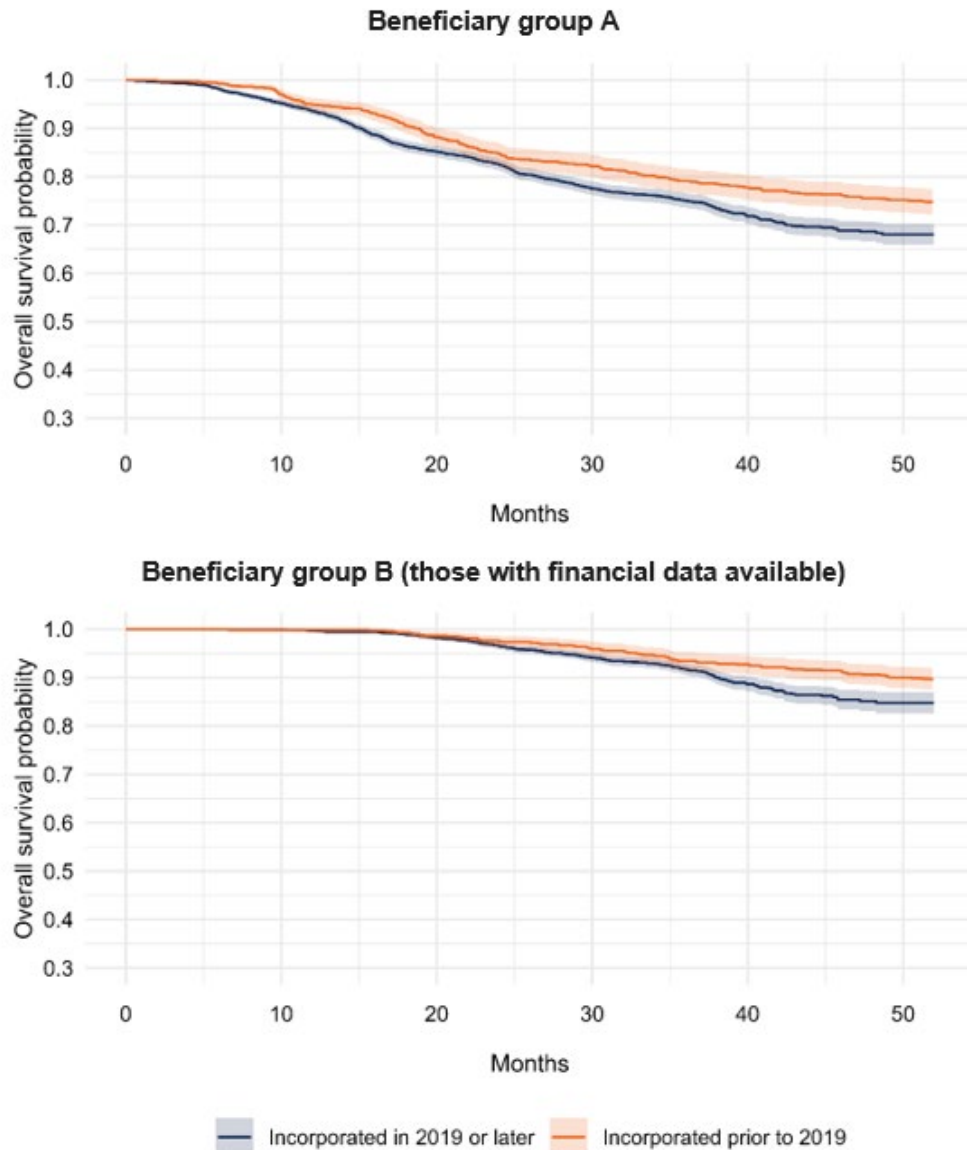
We further explored the effect of the Covid pandemic on firm survival using econometric analysis. For this, we divided the Start Up Loans companies into two cohorts: an 'early cohort' (businesses that were incorporated between 2015 and 2019) and a 'later cohort' (businesses that were incorporated in 2019 or

⁶⁹ Data from the GEM survey used in the report were provided to SQW by the GEM UK team, and are not publicly available elsewhere.

⁷⁰ These questions were not asked in the 2019 GEM survey.

later). The later cohort firms were established around the time of the Covid pandemic and therefore their survival rates, at least in the first few years, were likely impacted by the pandemic. **We found that loan recipients in the early cohort had consistently higher survival rates at one, two, three and five years post-incorporation, compared to the later cohort** (see Figure 5-4). This result is consistent with the pandemic having a negative effect on firm survival.

Figure 5-4: Comparing survival over time of beneficiary firms incorporated up to 2018 (early cohort) with those incorporated from 2019 onwards (later cohort)



Source: Start Up Loans monitoring data, 0 refers to incorporation of a business

6 Process evaluation

This section provides an overview of the findings from the process evaluation. This is informed by two key sets of evidence:

- Feedback from stakeholders, including delivery partners, relating to: the fit of the programme in the wider business support landscape; and the set-up, design and delivery of the programme
- Feedback from loan recipients on their experiences with the programme, i.e. the ‘customer journey’.

Key messages

- The rationale was viewed as strong, and was seen to have remained so since the previous evaluation. This was due to factors such as the inherently risky nature of lending to new businesses combined with the unattractive commercial proposition for mainstream lenders.
- The Start Up Loans programme was seen to help particular groups that find it hard to access finance, and/or are averse to applying in the market, e.g. females and Ethnic Minorities. We note that wider evidence indicates that start-up rates amongst Ethnic Minorities are higher than amongst people from White British backgrounds.
- The Start Up Loans programme fits in alongside other provision because of the supply side gap that it fills. This was perceived to be even more important following the end of European programmes. At the same time, it was considered that demand had grown through the increase in interest in starting businesses during and immediately following Covid. This aligns with the monitoring data reported on in Section 2.
- Overall levels of satisfaction with the programme were high, and the net promoter score was consistent with the previous evaluation (just over 50% based on the proportion of those reporting the net position between promoters, i.e. those reporting a 9 or 10 out of 10, and detractors, i.e. those reporting 0 to 6 out of 10).
- The loan finance itself was viewed by survey respondents as the most important element of the programme’s support (66% of the 2018/19 cohort, and 74% of the 2021/22 cohort), followed by the pre-application support (25% of the 2018/19 cohort, and 18% of the 2021/22 cohort). This may be expected given nature and focus of the programme.
- There was some evidence from delivery partner consultees that they are not able to spend as much time on pre-application support as previously due to the pressures on costs.
- As outlined in Section 5, there was a low take-up of mentoring across the two cohorts. The qualitative evidence indicated that of those who were offered mentoring, some did not know they would need mentoring until it was too late.
- Whilst satisfaction with mentoring was net positive overall, the evidence was mixed. In total, 67-70% were satisfied or very satisfied; and 15-17% were dissatisfied or very dissatisfied.
- Key aspects of good mentoring were relevant knowledge and experience of the market/ sector, having relevant skills, and the personality fit. Proximity to mentor was less important.
- The findings on mentoring cover the old model (to March 2023). The new mentoring model, which started in April 2023, should be assessed on an ongoing basis in relation to offer, take-up and satisfaction.

Fit in the wider landscape

This sub-section provides an overview of qualitative feedback from stakeholders and delivery partners relating to the rationale for Start Up Loans, its alignment with other business support provision, and the features of the programme in comparison to other available support.

Rationale for Start Up Loans

Consultation feedback from stakeholders and delivery partners provided perspectives on the fit of Start Up Loans in the UK's business support landscape, across public, private and community provision. This includes: programme rationale; complementarity and links with other support; and the aspects of Start Up Loans that are distinctive compared to other available support.

The rationale for Start Up Loans was seen to relate to the undersupply of finance to new businesses by the market. The programme lends to those entrepreneurs who are less likely to be able to access finance from other lenders due to factors such as: the inherently risky nature of lending to new businesses combined with the unattractive commercial proposition for mainstream lenders; the under-representation of specific groups in traditional lending (e.g. women and Ethnic Minorities); and the undersupply of finance in certain locations. In relation to the second point, it was noted that there is evidence to suggest that Ethnic Minority businesses are discouraged from approaching banks for a loan (i.e. they need finance but do not submit a formal application to a lender for fear of rejection), and more so than the SME population as a whole.⁷¹ For this group, business survival and growth rates tend to be lower⁷², though they fare better in terms of start-up rates⁷³.

The rationale was perceived to have remained relevant since the inception of the programme, and was thought to have strengthened since the previous evaluation in 2019. This strengthening was due to both supply- and demand-side factors that have exacerbated the supply-demand mismatch for early stage finance. On the supply side, consultees perceived that banks had become increasingly risk averse in recent years, and that the overall availability of debt finance had diminished due to wider market conditions. Several consultees noted that banks had become “*more stringent*” and had “*limited appetite for risk*”, and typically set funding limits for the types of sectors supported by Start Up Loans. Relatedly, interest rates have increased which makes mainstream lending less affordable to the types of individuals (and businesses) supported by the programme.

“The rationale of the programme is the same as it's always ever been – it's filling the gap because high street banks don't necessarily lend money to businesses with no track record.”
[Delivery partner]

“The availability of finance in the mainstream sector has disappeared, certainly over the last 12 to 18 months. The high street banks will just not lend [to new businesses] due to their lending criteria.” [Delivery partner]

⁷¹ Centre for Research in Ethnic Minority Entrepreneurship (2022) [Time to Change: A Blueprint for Advancing the UK's Ethnic Minority Businesses](#)

⁷² British Business Bank (2020) [Alone together: Entrepreneurship and Diversity in the UK](#); Centre for Research in Ethnic Minority Entrepreneurship (2022) [Time to Change: A Blueprint for Advancing the UK's Ethnic Minority Businesses](#)

⁷³ For example, the 2022/23 GEM Survey in the UK found that the ‘Total early-stage Entrepreneurial Activity’ (TEA) rate for UK population from Ethnic Minority backgrounds was 16% vs 10% for White population.

In addition, the business support landscape has changed considerably over the last few years, with fewer publicly-funded sources available (e.g. the closure of European-funded programmes and the cuts to funding for Local Enterprise Partnerships).

On the demand side, it was perceived that there has been a spike in interest in entrepreneurship, largely spurred on by the pandemic. This was for two key reasons: first, some people had lost their jobs over that period leading to individuals considering other career options; and, second, the lockdowns were seen as a “*national period of contemplation*”, with many individuals using the time to reconsider their career and life choices.

Alignment with other business support provision

In this context, Start Up Loans was considered to be filling a gap in the landscape, and helping to address the shortfall in supply. Indeed, the majority of consultees identified no duplication within the market, and all considered the programme to be well aligned with the wider business support landscape. Start Up Loans was viewed as a “*really important jigsaw piece*”:

- **Start Up Loans sits alongside other support for startup and very early stage businesses** (e.g. grants and non-financial support), with an important signposting role. In particular, the feedback suggests that Start Up Loans play a key role in local communities where the programme is generally a key part of the overall package of support available to local entrepreneurs.
- **Start Up Loans provides a useful “stepping stone” to other forms of finance**, suited to businesses as they become slightly more established. In this sense, Start Up Loans was regarded as part of a “*continuum of support*” available to early stage businesses.

Although most consultees had a clear picture of where Start Up Loans sits in the landscape, the feedback suggests that **more could be done to improve the links with other provision** and “*smooth the pathway for new businesses*”. Three key recommendations were made in this regard:

- **Improving links with mainstream banks.** There were some concerns regarding the level of awareness that banks have about Start Up Loans, and whether they may regard the programme as competition. This limits the level of signposting from banks to Start Up Loans, and vice versa. As one consultee noted:

“The message should be that Start Up Loans are not stepping on [the banks’] toes, but actually helping them by servicing a market segment that they wouldn’t want to support. Those businesses can then grow and go to the banks for further finance once they’ve been de-risked.” [Stakeholder]

- **Facilitating access to follow-on funding.** This is particularly important for underrepresented groups (e.g. Ethnic Minorities and women) who may face additional barriers to growing their business. Specific recommendations included: improving links with later stage funding programmes (within the British Business Bank and beyond); passing on positive repayment histories to credit bureaus to help improve loan recipients’ credit scores (and therefore their chances of securing further finance); and introducing a new product to follow after second loans (within Start Up Loans or the wider British Business Bank portfolio).

“The Start Up Loans scheme could be a good incubator if it provided bigger loans as follow on finance.” [Delivery partner]

“The British Business Bank is very well-positioned to provide a follow-on product to SUL. They’ve got a really good relationship with tens of thousands of people who would benefit from additional finance, and they have the biggest reach of any lender into the small start-up marketplace.” [Delivery partner]

- **Reducing the overall complexity of the finance landscape.** Stakeholders noted that there is a general lack of awareness of finance options available to new businesses, exacerbated by a fragmented and constantly evolving ecosystem. Actions suggested in relation to the previous two points may be helpful in this regard, however this is a much bigger challenge that extends beyond Start Up Loans and the British Business Bank.

The above points on alignment provide the overall synthesis of views from stakeholders. It must be noted, and as was found in the survey evidence, that there is an element of deadweight in Start Up Loans lending, i.e. some loan recipients would have obtained finance otherwise. Therefore, whilst the programme is well-positioned and complementary to other provision, there are inevitably some overlaps and duplication. This is important to consider in relation to any discussions on links with mainstream banks and in relation to any potential follow-on products.

What makes Start Up Loans distinctive?

Within this complex landscape, Start Up Loans was seen to have built a strong brand image and reputation due to consistency and scale of funding. Compared to other options for business support that are available for new businesses, it was suggested that Start Up Loans has several distinctive features that set it apart from other provision:

- **Higher risk appetite compared to other lenders.** The fact that Start Up Loans is willing to lend to businesses considered too risky for mainstream lending, alongside the absence of the same commercial pressures of mainstream lenders, is central to the rationale for the programme.

“What’s unique about Start Up Loans is that it provides funding where other options like grants and equity are not suitable, and where banks won’t lend due to high risk.” [Stakeholder]

- **Better terms of lending.** The fixed interest rate of 6% per annum was considered very competitive against other debt financing options, and increasingly so. The fact that it is a personal loan rather than a business loan also sets it apart from other business support available.

“There is not a lot of other finance available and none on the same terms.” [Stakeholder]

- **Personalised approach taken for lending decisions.** Start Up Loans is perceived to have a more personal (and less automated) way of working compared to other lenders.

“Where the computer would just say ‘no’ with other lenders, Start Up Loans actually takes the time to assess the person and the business plan.” [Delivery partner]

- **Package of finance and non-financial support.** Stakeholders considered the combination of both types of support to be important. This was referred to as the programme having a “*nurturing nature*”.

“Providing the money is just the beginning of the journey. What is really valuable to these businesses is the support and advice as they battle their way over the years.” [Stakeholder]

- **Backed by government.** Government support for Start Up Loans makes it stand out from other debt finance options. This encourages take up as “*people feel quite secure*”.
- **Sector agnostic.** Whilst banks may exclude businesses from certain ‘high risk’ sectors (e.g. hospitality), Start Up Loans is available to businesses across most sectors.
- **Connections to local communities:** The local delivery partner network helps to reduce regional imbalances in access to finance. This is important as an overall benefit of powering local economies, particularly because the programme’s target market tends to be businesses that are “*very rooted in community*” and “*attached to place*”.

Design of the programme

Stakeholders and delivery partners were asked for their views on the design of Start Up Loans, the delivery model, and its implementation. This sub-section includes their feedback on the model (including outreach and engagement, the support offer, and administrative processes), and the recent transition to the new model in April 2023.

Outreach and engagement

Overall, views in relation to outreach and engagement of loan recipients were positive, as demonstrated by the “*healthy demand*” for Start Up Loans. The majority of consultees considered that the marketing and outreach efforts had enabled visibility and awareness, helping to create an “*established brand*”. This includes recent campaigns targeting specific groups, such as younger entrepreneurs. The role of the British Business Bank’s UK Networks team was highlighted as part of this.

“The brand of Start Up Loans is well known through the finance industry and the business support network. People speak with positivity about the programme.” [Delivery partner]

Delivery partners reported reaching out to potential clients through various platforms and networks, including enterprise agencies, other providers of business support, accountants, banks, and trade shows. Communication with potential customers has involved a mixture of remote (mail, email and telephone) and in-person discussions. Since the Covid-19 pandemic, delivery partners had noticed an uptick in online activity, which had helped to overcome geographical barriers in reaching customers:

“We’re well practiced at working with the remote delivery model. We find it quite straightforward to engage and reach people no matter where they are in the UK.” [Delivery partner]

However, delivery partners highlighted that their ability to conduct effective outreach and engagement activities was restricted by their budget. One former delivery partner reported that they did not have the capacity or budget to *proactively* identify potential customers themselves, and only provided *reactive* support to the individuals allocated to them through the central Start Up Loans system. Another consultee suggested that there was scope to accept more referrals from third parties, but there is “*just no margin for this*” in the current budget.

“We lose money on every single start up. We have been losing money on Start Up Loans for the last ten years.” [Delivery partner]

Another consideration going forward related to opportunities for **better aligning the central promotion of Start Up Loans by the programme team to the activities carried out by the delivery partners**. A more collaborative approach to marketing was suggested.

Support offer

Loan finance

Regarding the **loan** itself, stakeholder consultees acknowledged that this was offered on good terms and with sufficient flexibility. In particular, the flexibility around repayments during Covid was seen as “*necessary*” and “*helpful*” (borrower experiences with this are covered separately later in this section – see p. 9494).

However, some questioned whether the maximum size of loan was sufficient considering the level of inflation, and the associated increase in business costs:

“Costs have gone up, so you no longer get so much bang for your buck.” [Stakeholder]

Relatedly, some delivery partners considered the average loan targets⁷⁴ to be restrictive:

“The average loan size targets are an ongoing issue. Businesses won’t get much for £12.5k. Penetrating the sub-£10k lending requirements is a challenge but we will need to bring those businesses in to maintain the £12.5k average loan size.” [Delivery partner]

Pre-loan support

In terms of the **pre-loan support**, stakeholder consultees generally considered the current approach to be effective. The process of providing support prior to and throughout the application process was seen as helpful to making sure that the application forms are “*in reasonable shape*” before they reach assessors. It was suggested that these early conversations can also be beneficial to those that do not end up going ahead with the loan (either because they decided against it or were rejected) by helping them to better understand and refine their business idea.

“I think the pre-loan support is actually the strongest support that [loan recipients] get because it helps them to shape their plan.” [Delivery partner]

“Start Up Loans works with those would-be-business-owners on their plans rather than just throwing money at them – it’s essentially about upskilling them” [Stakeholder]

However, there was a minority view among delivery partners that there was **insufficient budget to provide this support**. In some cases, delivery partners considered that this had prevented them from improving the quality of support on offer, for example by limiting options to draw in specialist expertise when required.

⁷⁴ The average loan target set by the programme aims to ensure that there is sufficient capital to achieve a volume of loans with the allocated capital, and encourage lending to both smaller as well as larger businesses. This target is currently set at £12.5k per loan, i.e. half of the maximum amount available. For example, if a BSP lends the maximum of £25k to an individual then they would need to lend to another individual seeking under £10k of funding to offset this.

“The recent pressure on fees means that as a partner we just don’t have the time and capacity in resource to be training, educating and upskilling founders in the way we once did. We used to spend on average 12 hours with every founder, but now it’s about 6 hours. It’s now much more centred on getting them ready for funding, rather than fundamentally improving their skills as a founder.” [Delivery partner]

Post-loan support

The **post-loan support** offered alongside the loan, and particularly the **mentoring**, was seen as important. Indeed, one stakeholder consulted described the mentoring as “*invaluable*” whilst another reflected on its importance in improving the entrepreneurial skills of loan recipients.

It was highlighted that there had been limited uptake of the mentoring to date (in line with the survey findings outlined in Section 5), especially under the previous delivery model. Consultees reflected on possible reasons for this, including a lack of awareness of the potential benefits of mentoring, and not having the time to engage with it whilst running the business. It was hoped that the new delivery model (see the separate sub-section on this below) would help to address these issues, though there may be scope to explore the role of current programme-level communications in increasing awareness and encouraging uptake.

“There are a lot of logistical issues with the mentoring. People don’t necessarily want it, or rather – they don’t know they need it.” [Delivery partner]

Administrative processes

Stakeholders and delivery partners had limited feedback around the administrative processes of the programme, but those who were able to comment considered this to be working well. Aspects highlighted as working particularly well included the Atlas customer relationship management (CRM) system (which underpins and enables the customer journey) and the underwriting process.

However, some criticisms of the application process were raised, with concerns that the **administrative burden** on applicants may be too high. Some delivery partners also reported that the level of information required was difficult for them to manage. The paperwork required for the anti-fraud checks were seen as particularly time consuming, though this was acknowledged as necessary.

“The amount of information required can make the process frustrating for the client. It is also sometimes perceived to be too intrusive.” [Delivery partner]

Finally, consultees raised two suggestions related to **monitoring and reporting** going forward. Some delivery partners were not aware of the performance of the programme beyond their own lending. It was suggested that the programme could improve its communication with the partner network by sharing regular performance reports at the programme level. Relatedly, it was suggested that there is an opportunity for the programme to track loan recipients and their ‘business journeys’ over time, though this would have obvious resourcing implications⁷⁵.

“Start Up Loans should be better at communicating what they’ve achieved to partners. This would help partners to raise awareness of the programme.” [Stakeholder]

⁷⁵ Currently, monitoring data relating to the business is only collected at the time of the application, and applicants are not required to report back on performance.

Reflections on the transition to the new delivery model

Most delivery partners and stakeholders reflected positively on the transition to the most recent model in 2023. A range of benefits associated with that change were mentioned, including that the new model had:

- **Improved the effectiveness of managing and collaborating with the partners.** One delivery partner viewed this as a “*paradigm shift*” which had resulted in a more “*collaborative, engaged, honest and transparent relationship*.”
- **Reduced the “*massive variation*” in quality of the post-loan support** and created a more cohesive support package for beneficiaries. This was seen as particularly important in helping with mentoring take-up and for the delivery of mentoring with “*more consistent quality*”. There was agreement among the delivery partners that the new model feels “*more joined up*”. Several consultees admitted that they had lacked the capacity to provide good quality mentoring support, and expressed a sense of relief that this role had been passed on to a single specialist provider.
- **Increased the overall flexibility of the programme.** For example, the programme can run pilots with specialist delivery partners to test the demand across specific groups.
- **Improved efficiencies by having a mixture of national and regional partners.**

However, two concerns regarding the new delivery model were raised:

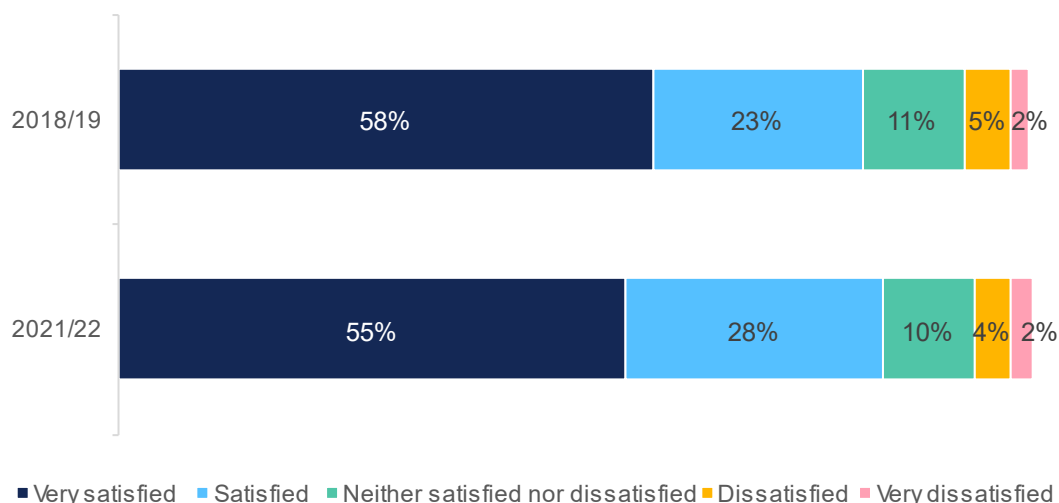
- Some stakeholders highlighted the lack of a dedicated delivery partner in Wales as an issue, with concerns over how well centralised support would work for Welsh borrowers. For instance, they questioned whether there would be provision in Welsh language, and if advisors would be well-informed regarding the wider business support landscape in Wales.
- There was a suggestion from one delivery partner that there may be some tension between the regional and national partners. One regional delivery partner was not clear on why all enquiries through the central Start Up Loans website for their region were not referred to them (with some referred to national partners instead). Communication around this may require some consideration going forward.

Customer journey

Overall satisfaction

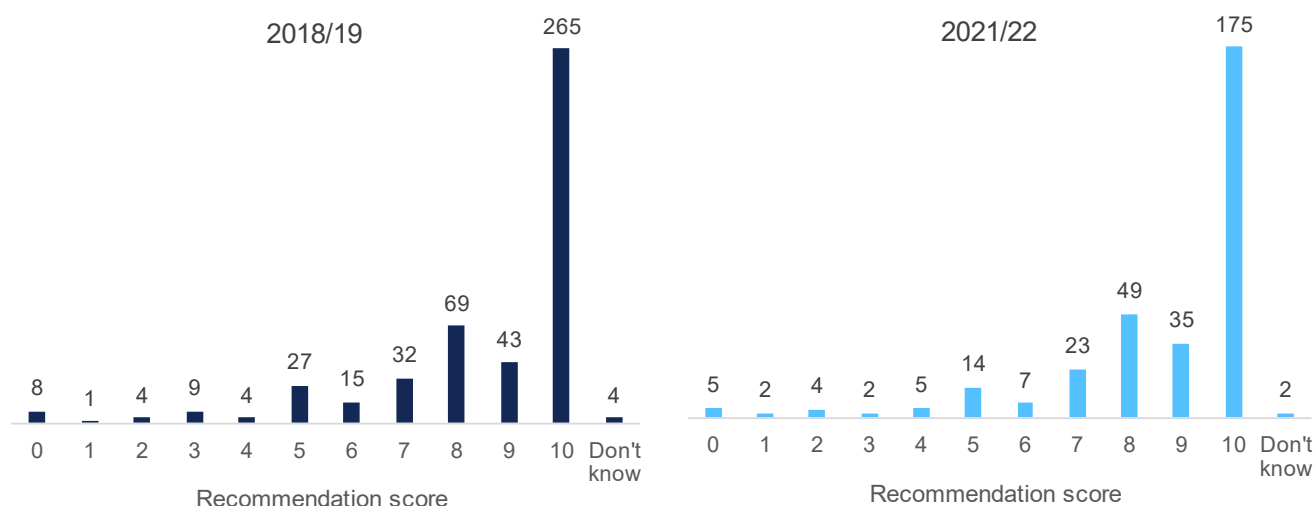
In addition to the stakeholder perspectives explored in the previous sub-sections, feedback from the survey and in-depth consultations with loan recipients provided evidence on different aspects of the programme from the *customer* perspective. This is what is referred to as the ‘customer journey’.

Overall satisfaction with Start Up Loans was high, with the vast majority of survey respondents reporting that they were ‘satisfied’ or ‘very satisfied’ with the programme (81% of 2018/19 cohort; 84% of 2021/22 cohort). Over half of the respondents were ‘very satisfied’. Only a small proportion were dissatisfied with the programme. The breakdown of responses is shown in Figure 6-1. There were no statistically significant differences between male and female loan recipients, or White loan recipients and those from Ethnic Minority backgrounds.

Figure 6-1: Overall, how satisfied are you with your experience of SUL?

Source: Beneficiary survey (n=481 loan recipients in 2018/19 cohort; 323 in 2021/22 cohort)

The survey asked respondents how likely they would be to recommend the programme to others, on a scale of 0 to 10 (where 0 means they would not recommend the programme at all, and 10 means they would recommend unreservedly). This data has been used to calculate a 'Net Promoter Score' (NPS)⁷⁶ for the programme. **The net promoter scores for the two cohorts are similar: 50% for 2018/19 and 53% for 2021/22.** This is similar to the finding from the previous evaluation in 2019 (52%). The range of scores within each cohort is set out in Figure 6-2, indicating a very similar distribution across the two.

Figure 6-2: How likely are you to recommend the Start Up Loans programme to others?

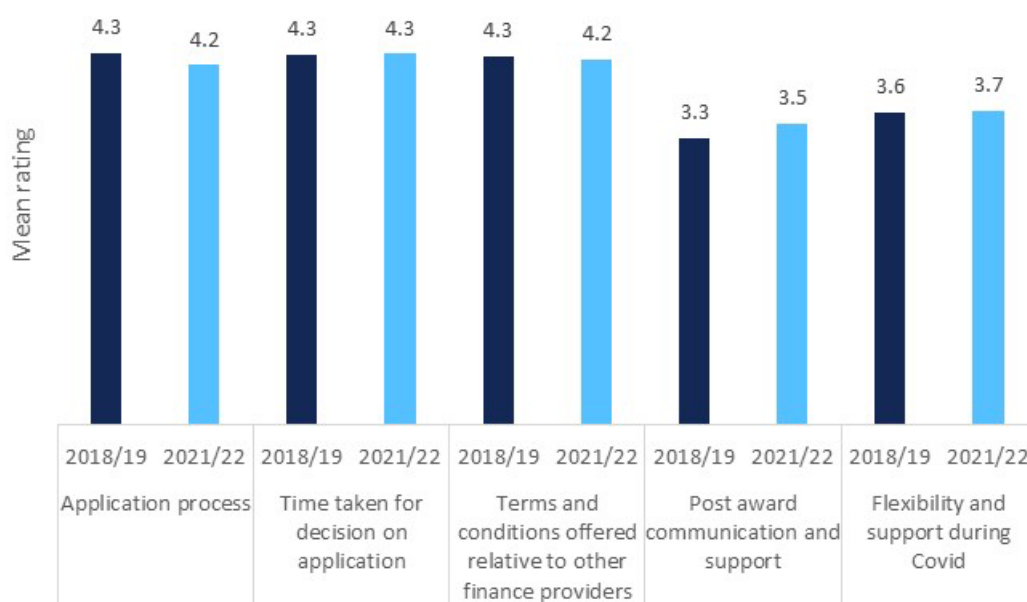
Source: Beneficiary survey (n=481 loan recipients in 2018/19 cohort; 323 in 2021/22 cohort)

⁷⁶ NPS is used as an overall measure of satisfaction. The approach for calculating the score is in line with that adopted by Start Up Loans in its own analysis. Those responding with a 9 or 10 out of a possible 10 are 'promoters'; those responding with scores of between 0 and 6 are 'detractors'. The NPS is the promoters minus detractors.

Survey respondents were asked to rate different aspects of the programme, on a scale of 1 to 5 (where with 1 means ‘very poor’ and 5 means ‘very good’). The application process, the time taken for decision on application, and the terms and conditions offered were all rated highly, at above 4 out of 5 (see Figure 6-3). Satisfaction was lowest for the flexibility and support during Covid, and the communication and support following the loan award – rated between 3.35 and 3.66 by the two cohorts.

There were no notable differences between the ratings given by the two cohorts. Comparing the ratings between male/female and White/Ethnic Minority loan recipients, there was only one statistically significant difference (at 1% level): individuals from Ethnic Minority backgrounds gave a slightly lower rating than White loan recipients for time taken for decision (mean rating of 4.18 vs 4.36, respectively).

Figure 6-3: On a scale of 1-5 (with 1 being very poor, and 5 being very good), how would you rate the following aspects of the programme?



Source: Beneficiary survey (n = 320 to 467 loan recipients in 2018/19 cohort; n = 145 to 322 in 2021/22)

Feedback from the survey indicates some areas where improvements were suggested. These include:

- The perceived **“lack of aftercare”** was the most commonly cited area for improvement, with a considerable proportion of loan recipients stating that they were either not aware of the mentoring offer, or had tried to access it unsuccessfully. These experiences are further explored in the ‘experiences with mentoring’ sub-section that follows later in this section.
- Several other recommendations for post-loan support were made. This included suggestions for **regular check-ins** from the delivery partner to review progress and whether any further support was required, and having some additional **on-demand materials**. In relation to the latter, we note that the new delivery model includes provision from the Open University ‘Learn with Start Up Loans’ initiative (pre-loan support) and the new National Post Loan Support Service (post-loan support over the first 12 months).

“It would have been good to have had a review after a certain amount of time had passed to evaluate how the business plan went and if you’re on target.” [Loan recipient, survey]

“A good improvement would be video tutorials that break down the process as it can be complex for someone coming into it blind.” [Loan recipient, survey]

- There were also recommendations which related to opportunities for **peer-to-peer networking** and learning. Our case study research with loan recipients provided examples of beneficiaries who had used networks of local business owners (e.g. on social media) which were seen as helpful. Survey feedback included suggestions that something similar could be set up within the Start Up Loans community of entrepreneurs. A network like this is currently not offered as part of the core service of the programme, though some delivery partners offer this as part of their wider business support service (i.e. outside of Start Up Loans). Additionally, under the current model, the new Post Loan Delivery Partner delivers group mentoring sessions where peer learning is possible.

“Maybe pulling groups of people together as group coaching of people within [the same industry].” [Loan recipient, survey]

“If you could set up a network for young business owners, that could also be beneficial.” [Loan recipient, survey]

“Having an online platform to connect with other loan recipients would be good.” [Loan recipient, survey]

In addition, there were a number of comments in relation to the loan finance itself, including the following:

- A key point related to the programme’s role in making sure that applicants are sufficiently informed about the **commitment required for self-employment**, and the likely challenges. Two respondents referred to bad experiences with franchising⁷⁷ which they felt did not reflect the guidance from Start Up Loans on franchises often being a safer option than starting own business.

“They could provide a little more preparation, especially for people not familiar with business. A little more advice on how hard it will be – how many hours of work and how hard you would have to work to get income.” [Loan recipient, survey]

“If the application is for a franchise, they should warn that it's a very unregulated industry and to be very careful.” [Loan recipient, survey]

- Some survey respondents were not clear that this was a **personal loan**, though this appears to be only a small minority:

“I believe I made a mistake taking the loan. I thought it was a business loan but it’s not, actually – it’s a personal loan. It’s caused me a lot of stress. I made a mistake not reading the small print.” [Loan recipient, survey]

- A small number of survey respondents were not happy with **the amount** they had received (a smaller sum than originally applied for) which they considered to have negatively affected their growth prospects, e.g. because they were not able to rent a studio or purchase a vehicle.
- Some survey respondents suggested that the **monitoring of balance and repayments** could be improved. It was stated that the programme only provided annual paper statements, and the only way

⁷⁷ In both cases, the feedback suggests that the franchise opportunity was fraudulent.

to check the outstanding balance was to call up the finance provider. We note that this recommendation has already been addressed by the programme, with loans drawn down after July 2021 able to access an online portal run by the Finance Partner where it is possible to view the remaining balance. However, loans from pre-July 2021 were not migrated onto the portal which explains the survey feedback.

- There were no major issues with the application process, and the pre-loan support was generally seen as helpful (feedback on this is further explored in the sub-section that follows). However, for a handful of businesses, the application process was “*a large effort*”. There were a small number of examples where loan recipients considered that their business activities did not neatly align with the application forms, and so they would have benefitted from further support (note however that it is unclear whether they asked for this support at the time).

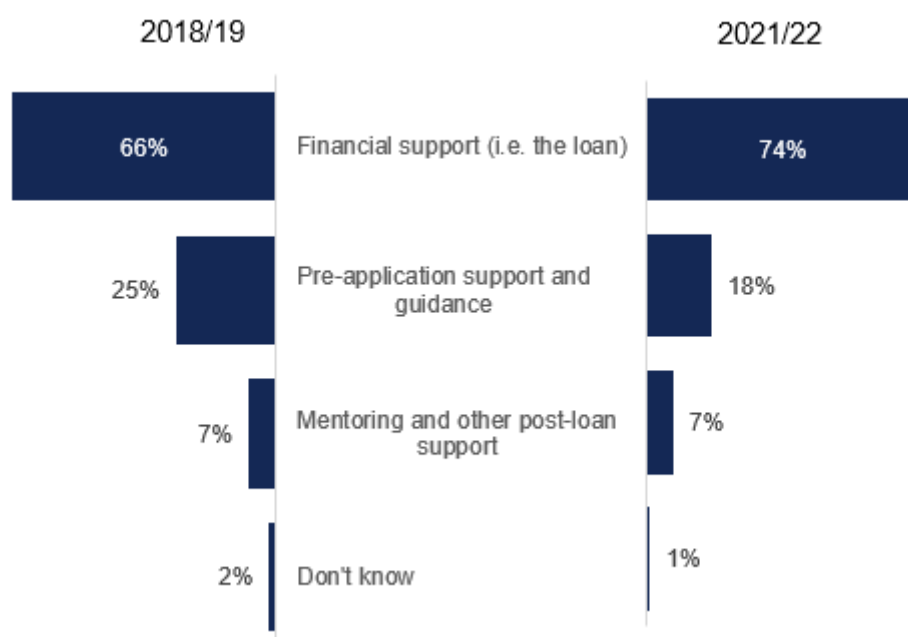
“There was a lot of paperwork that needed completing and there were occasions where I had most but not all the paperwork that they needed. It would have been better if they clarified better what was needed.” [Loan recipient, survey]

Perceived importance of different elements of support

Survey respondents were asked which aspect of the programme was the most important in terms of the development of their business (or business idea): the loan itself; the pre-loan support; or the post-loan support. The majority of loan respondents – that is two-thirds of the 2018/19 cohort (66%) and three-quarters of the 2021/22 cohort (74%) – said that the loan was the most important element of the support. Pre-application support was the most important factor for around one in four from the earlier cohort (25%) and one in five from the later cohort (18%). There were no statistically significant differences between male and female loan recipients, or White loan recipients and those from Ethnic Minority backgrounds.

The low proportion identifying mentoring is likely reflective of the low level of take-up and inconsistencies around this offer. Loan recipients consulted as part of the case study research were asked about the importance of the mentoring offer in their decision to apply for a loan. Of the ten loan recipients who were able to respond to this question, three reported that they had not been aware of the mentoring at the time of applying. The remaining seven had been aware of this offer but considered that they would have applied for the loan anyway, though the mentoring was seen as an “*added bonus*”.

Figure 6-4: Which of these three would you rank as the most important in terms of the development of your business or business idea?



Source: Beneficiary survey (n=481 loan recipients in 2018/19 cohort; 323 in 2021/22 cohort)

Qualitative evidence from case studies provided examples of the difference made by the loan funding (three of these are included in the box below). Experiences with the pre- and post-loan support are covered in the next two sub-sections.

Case study examples: Importance of the loan finance

Example 1: The loan recipient required a large sum of upfront investment for the business premises. They had closed a round of crowdfunding, and also received a small bank loan. The Start Up Loan was needed as part of this bigger funding package, and the loan recipient considered that by that time they had *“locked down all other routes”*. For example, they were declined a larger bank loan due to the lack of prior industry experience. Securing the Start Up Loan not only added to the total funds, but also helped to secure further funding from private investors by signalling credibility: *“It helped us to achieve the dream we’d had for such a long time.”* This meant that the business was able to go ahead with its plans without compromising quality, and has since grown its activities by acquiring another business.

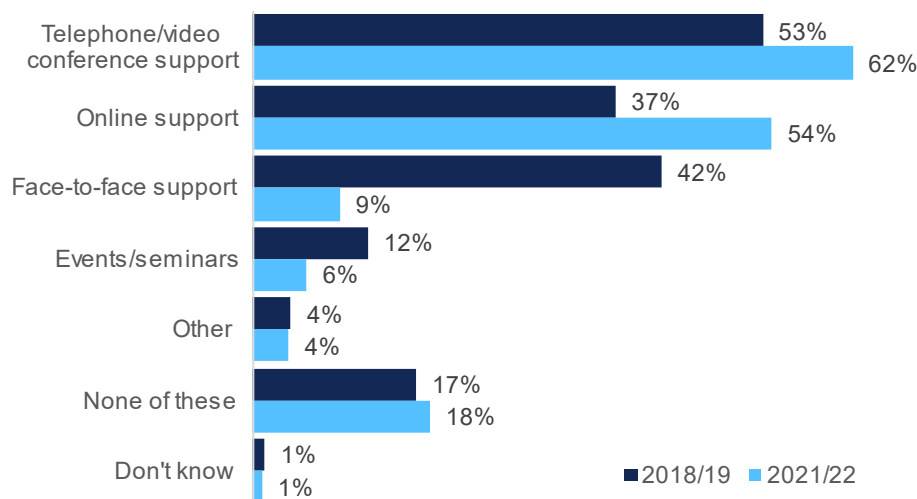
Example 2: Shortly after being awarded the Start Up Loan, the recipient was unexpectedly diagnosed with a serious health condition which slowed down progress with the business. They reflected that having the loan *“took some pressure off”* because they knew that they would not run out of money. This gave the loan recipient some security during a difficult time, and confidence to move forward with the business by the time they had recovered. In June 2024, the business was still up and running, with steady sales and a turnover of over £100k per year.

Example 3: The loan provided the recipient with the finance to spend time establishing the business and building up a customer base: *“In the first few months we were just desperate to get people through the door – knowing you have the loan there gives a little safety net and breathing space”*. This made the loan recipient more confident about their ability to grow the business. Since securing the loan in December 2021, the business has survived through challenging times for the market, including the Covid pandemic and the UK energy crisis. By June 2024, the business had secured a regular customer base and a turnover of up to £85k per year.

Experiences with pre-loan support

The vast majority of survey respondents reported that they had received some support from the programme prior to or at the time of applying for the loan (89% of 2018/19; 87% of 2021/22). This was most commonly received via telephone/video calls, online or, for the earlier cohort, face-to-face.

Figure 6-5: Which of the following types of pre-loan support did you receive?



Source: Beneficiary survey (n=481 loan recipients in 2018/19 cohort; 323 in 2021/22 cohort)

Qualitative feedback from the survey as well as the case studies indicates that pre-loan support was generally considered in a favourable light. The case studies provided some qualitative evidence on the value of pre-loan support as well as aspects that could have worked better. Linking back to the findings from Section 4, it is notable that the role of pre-loan support in relation to business planning was favourably viewed, though in hindsight two of the case study subjects suggested that greater scrutiny on the market would have been welcomed. The experiences of three loan recipients are outlined in the box that follows.

Case study examples: Experiences with pre-loan support

Example 1: The loan recipient was a first-time business owner with no prior experience in the sector. The move to self-employment was quite daunting at the time: *“I was thinking, oh my goodness what have I done in today’s economic climate?”* They received intensive support from the delivery partner at the time of applying for the loan. The assigned contact helped them to think through the business proposition in detail. They considered that this strengthened the business plan, and made them more confident about going ahead with the business: *“Preparing the business plan was a really big process – it was a very long and detailed document. They made me think more intensively about the business. I couldn’t have done it without the support.”*

Example 2: The loan recipient accessed pre-loan support to help develop the business plan, particularly around projections for growth and sources of funding. However, they reflected that there could have been more scrutiny at that stage on the potential market for their business. As it turned out, there was limited demand for the product offering and the business was not successful. With hindsight, they would have benefitted from further challenge on the scale of the potential market before applying for the loan. This would likely have resulted in the business not going ahead (and failing), or the business plan being changed to better suit the market: *“It’s better to make sure you have the market before you build the business. I should have done that first before diving into getting the loan.”*

Example 3: Having no prior experience as a business owner, the loan recipient sought out pre-loan support to get sector- and business-specific guidance, but they received only limited advice. Additionally, when their application was approved, the loan recipient felt that their business plan and cashflow forecast were not sufficiently scrutinised: *“There were some things that they must have known were missing, but just didn’t point out to us.”* The loan recipient felt that there should be stronger messaging around the risks of starting a company: *“Start Up Loans need to have conversations with people about all of the potential risks. At the time that I decided to close my business, I was one month away from declaring bankruptcy, and was stressed and burned out due to my financial situation. It’s great that the programme provides support, but they need to realise that when businesses fail, it can have a catastrophic effect on people’s lives.”*

Experiences with mentoring

As outlined in Section 5, take-up of mentoring was relatively low, with around one in four survey respondents from the 2018/19 cohort (23%) and one in six from the 2021/22 cohort (16%) reporting that they had already or expected to receive mentoring in the future. At the time of the survey, only a very small proportion were still actively receiving mentoring (6% of those who had received mentoring; same for both cohorts).

Only around half of the survey respondents indicated that they were offered mentoring. This is a key point (both from the survey and case studies), with **many stating that they were not aware that any post-loan support was available**. It was generally thought that mentoring would have been useful for them. In some cases, loan recipients pointed out that communications seemed to drop off after the loan award, with no clear lines of communication established from that point forward.

“There was no guidance on what to do with such a large amount of money for someone on their own after receiving it.” [Loan recipient, survey]

“The post-loan support would have been beneficial. I made silly decisions after getting the loan without having support. After working out the finances, I was surprised when it didn’t go the way I thought.” [Loan recipient, survey]

Some loan recipients said they had been aware of the post-support at the time of applying, but were **not able to access it despite requesting**:

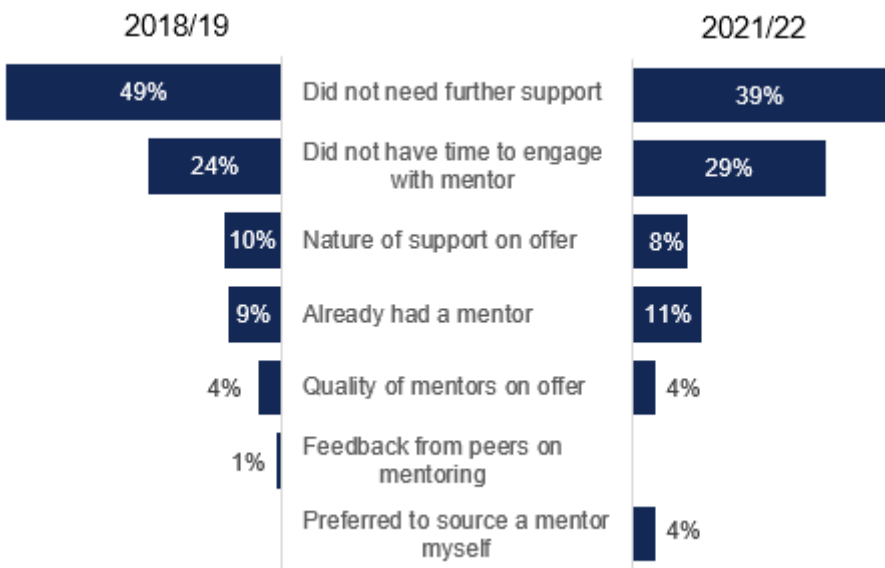
“The post-award communication was poor. I had hoped to access the other benefits that were advertised when I first looked into it. It was things like the mentoring and the learning opportunities available that made me decide to go with [Start Up Loans]. This support was hard to access and it was not well sign posted. I felt that after the loan was awarded, I was no longer a priority.” [Loan recipient, survey]

“The post-loan support never materialised for me. I had a bit of back and forth over email but whoever I was dealing with seemed to just disappear.” [Loan recipient, survey]

This feedback is clearly concerning, however it should again be noted that these experiences reflect the previous delivery model. The changes made to the delivery model from April 2023 were aimed to address these issues by introducing a single post-loan support provider tasked with providing a more unified approach to mentoring. This evaluation has not gathered any evidence on whether the new model has improved the consistency of the offer and take-up of mentoring, and this is something that the British Business Bank will want to look at going forward.

Those who were offered mentoring but turned it down were asked why that was the case. The primary reason (cited by 49% of the 2018/19 cohort and 39% of 2021/22) was that the loan recipients did not need further support, followed by not having enough time to engage with the mentoring (24% of 2018/19 and 29% of 2021/22). Around one in ten did not accept the offer due to the nature of support, or because they already had a mentor. A full breakdown of responses is provided in Figure 6-7.

Figure 6-7: Why did you not take up the mentoring offer?



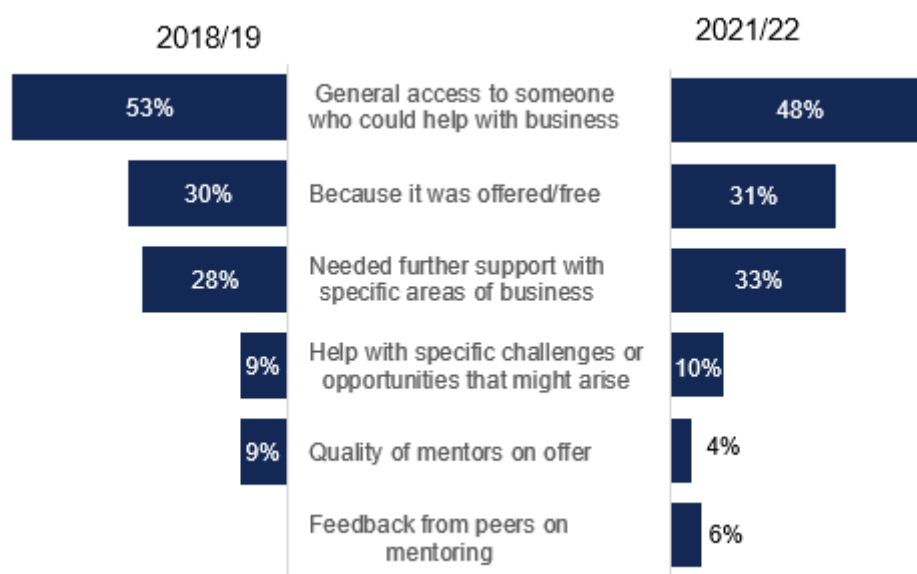
Source: Beneficiary survey (n=119 loan recipients in 2018/19 cohort; 85 in 2021/22 cohort)

For those who did decide to take up the mentoring offer, the reasons were similar across the two cohorts (Figure 6-8). The most common reason was to gain general access to someone who could help with the business (cited by around half of the survey respondents).

“I was very aware that I was on my own, so it was nice to talk to someone about what was happening.” [Loan recipient, survey]

This was followed by: the fact that it was offered/free; and to access further support with some specific areas of business. The later cohort was more likely to say they took up the offer due to positive feedback from peers on mentoring which was a statistically significant difference at the 5% level (6% for 2021/22 vs 0% for 2018/19). This could be explained by the longevity of the programme by 2021/22, meaning that there was a larger number of loan recipients offering their experiences with peers.

Figure 6-8: Why did you decide to take up the mentoring offer?



Source: Beneficiary survey (n=112 loan recipients in 2018/19 cohort; 52 in 2021/22 cohort)

Evidence from case studies provided some examples of the reasons for accepting the mentoring offer. Two of these are outlined in the example box that follows.

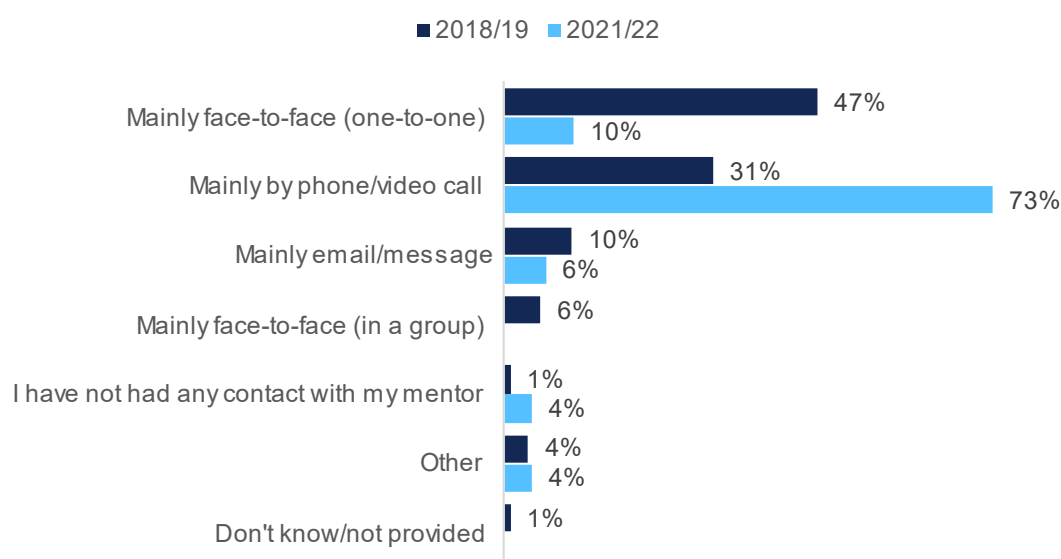
Case study examples: Reasons for taking up mentoring

Example 1: The loan recipient was apprehensive about the prospect of taking on debt finance, and the non-financial support (including mentoring) was key to improving their confidence and making them more comfortable with the risks involved. Indeed, the non-financial support offer was a key factor in their decision to apply for a Start Up Loan: *“Knowing that there was someone else involved who could offer support was really beneficial. If I hadn’t had the pre-loan support and the mentoring I wouldn’t have taken up the loan.”* Overall, the loan recipient saw the mentoring as part of the *“comprehensive package”* offered by the programme: *“If it was just the mentoring then I wouldn’t have understood the business plan, and if it was just the business plan then I wouldn’t have built the confidence. The combination of the loan, the mentoring and the hands-on teaching time helped to solidify the idea, develop the plan and implement it.”*

Example 2: Having recently moved to the UK, the loan recipient sought out mentoring for some overall guidance: *“I knew about business finance in my country, but business finance in the UK was completely new to me, so I wanted someone to guide me along the process.”* Additionally, they saw mentoring as an opportunity to get a sounding board for decision-making: *“I always appreciate a neutral second opinion.”*

The modes of delivery for the mentoring support differed between the two cohorts – this is likely explained by the impact of the Covid pandemic (see Figure 6-9; note this was a multi-choice question so categories are not exclusive). Of the earlier cohort, around half (47%) said that the support was delivered face-to-face, and just under a third (31%) said this was by phone/video calls. Of the later cohort, a much higher proportion reported receiving the mentoring over phone/video calls (73%), and only a tenth (10%) face to face. It is reasonable to conclude that this largely reflects the timing of support: the 2021/22 cohort received support during the Covid pandemic (or in the period immediately after) when in-person sessions may not have been possible due to lockdowns and social distancing requirements/preferences. It may also indicate a more permanent shift in mentoring delivery to online meetings following increases in awareness and acceptability of this mode of communication in business.

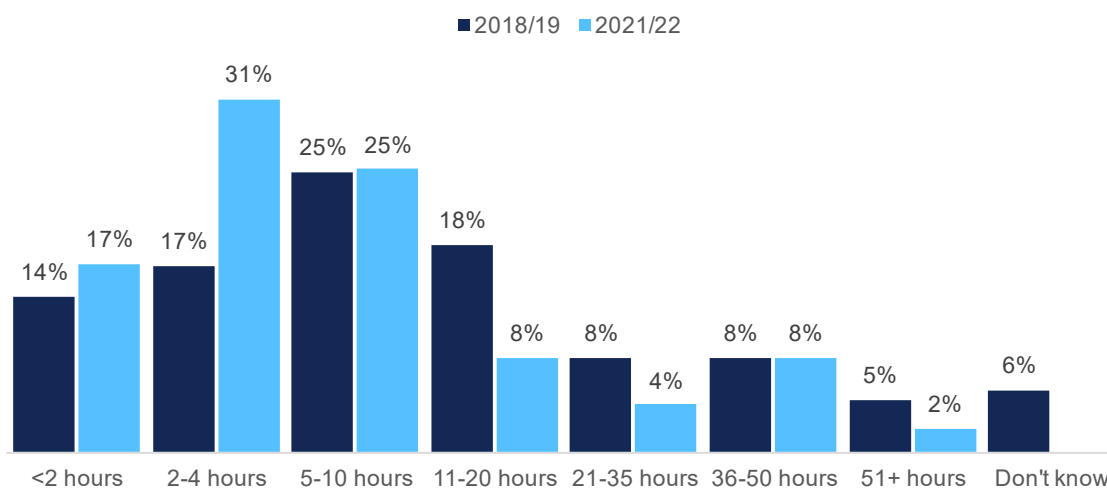
Figure 6-9: How has this mentoring support been conducted?



Source: Beneficiary survey (n=109 loan recipients in 2018/19 cohort; 48 in 2021/22 cohort)

On average, the 2021/22 cohort received fewer hours of mentoring than the 2018/19 cohort (see Figure 6-10). Of the later cohort, around three-quarters (73%) received up to ten hours of mentoring and 22% received more than 10 hours; whereas for the earlier cohort 55% received up to ten hours and 39% received over 10 hours.

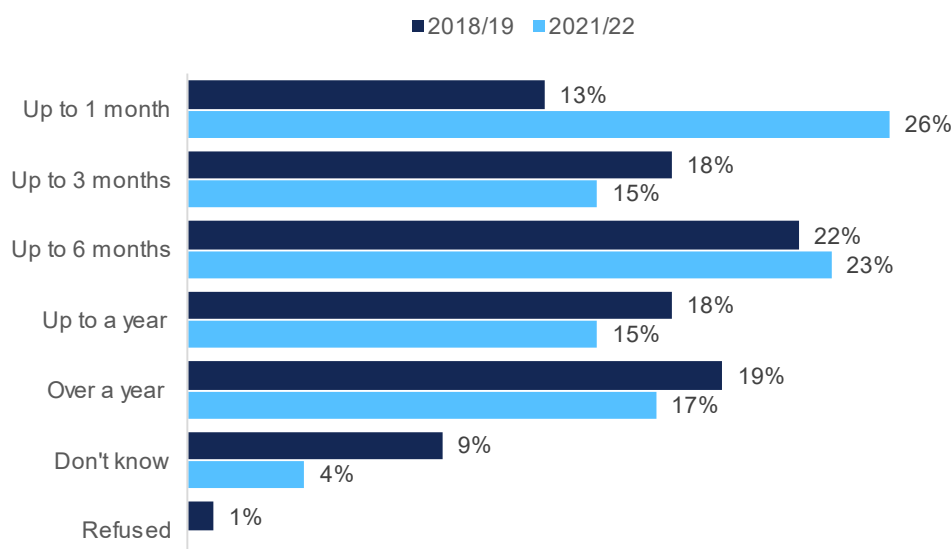
Figure 6-10: Approximately how many hours of mentoring have you received to date?



Source: Beneficiary survey (n=109 loan recipients in 2018/19 cohort; 48 in 2021/22 cohort)

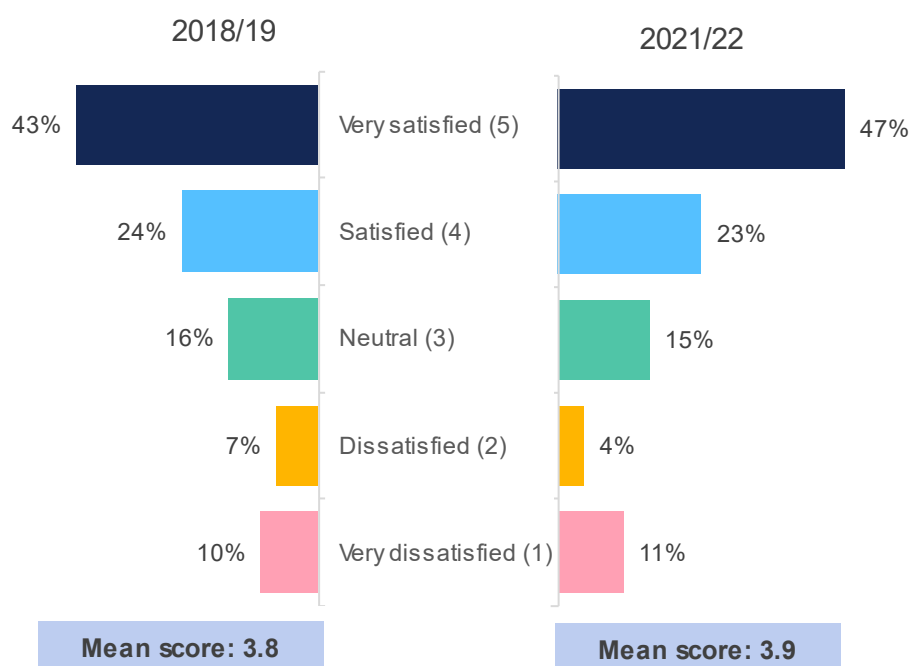
The length of time that the mentoring relationships were active varied across the survey respondents, from up to one month to over a year. Figure 6-11 shows the breakdown of responses. Notably, the proportion of respondents receiving mentoring only for up to a month was higher among the 2021/22 cohort (26%) than the 2018/19 cohort (13%) – a statistically significant difference at the 5% level. Around one in five (19% of 2018/19 and 17% of 2021/22) reported having received mentoring for over than a year – i.e. for a longer period than is offered by the programme. We are not able to provide a conclusive explanation for this finding based on survey feedback, but evidence from the case studies suggests that some loan recipients have kept in touch with their mentor after the Start Up Loans support concluded. Further, the British Business Bank is aware of some partners that chose to continue to offer support outside of the 12 months requirement given their own mission to support small businesses.

Figure 6-11: For how many months did you receive, or have been receiving, mentoring support?



Source: Beneficiary survey (n=108 loan recipients in 2018/19 cohort; 47 in 2021/22 cohort)

Satisfaction with the mentor assigned to beneficiaries was mixed, with over two thirds saying they were 'satisfied' or 'very satisfied' with the match (67% of 2018/19 and 70% of 2021/22). On a scale of 1 (least satisfied) to 5 (most satisfied), the average rating was 3.8 for the earlier cohort and 3.9 for the later cohort.

Figure 6-12: How satisfied were you that the mentor assigned to you matched your needs?

Source: Beneficiary survey (n=108 loan recipients in 2018/19 cohort; 47 in 2021/22 cohort)

Reasons for satisfaction and dissatisfaction with the mentor are outlined in Table 6-1 (due to low base sizes, these are shown as number of responses rather than percentages of the total). The key factors in satisfaction/dissatisfaction related to the knowledge, experience, skills and personality of the mentor. Qualitative feedback from the survey and the case studies suggests that industry-specific knowledge is important to loan recipients. Proximity of the mentor appeared to be less important, which is likely due to opportunities for remote mentoring.

“They were helpful and informative. Nothing was ever too much trouble for them. They were very efficient in getting information I needed when I needed it.” [Loan recipient, survey]

“He always replied to our emails and has gone above and beyond, no matter what we have asked. His support was fundamental in getting our business up and running. He has helped us to expand our business as well.” [Loan recipient, survey]

Table 6-1: Why were you satisfied / not satisfied with your mentor match?

	Reasons for <u>satisfaction</u> with mentor		Reasons for <u>dissatisfaction</u>	
	2018/19 (n=72)	2021/22 (n=33)	2018/19 (n=19)	2021/22 (n=7)
Knowledge of market	30	14	9	2
Experience	31	8	4	-
Skills relevant to the business	27	10	8	1
Personality	23	12	3	1
Dedicated mentor (not) allocated to loan recipient	3	1	4	1
Proximity of mentor	2	-	-	-
Other ⁷⁸	22	7	4	3
No reason	1	1	-	-
Don't know	-	-	0	1

Source: Beneficiary survey (base sizes included in table headings)

Several survey respondents reflected that mentoring was critical to the development of the enterprise. Notably, this was based on their experiences of both taking up *or* rejecting mentoring. Some suggested that the mentoring element could be made mandatory, or at least be strongly advised, because new entrepreneurs who would benefit from it may not see the value in it initially.

“From the outset, they should make people understand post loan support is as important as the loan itself, if not more important.” [Loan recipient, survey]

“I should have taken it when it was offered. I didn't think I would need it, but in the end the business failed. I could have done with the support.” [Loan recipient, survey]

“It should be mandatory to have mentoring. I was naive and didn't realise how much I didn't know. I was given the loan without any advice on how to spend it.” [Loan recipient, survey]

The case study research provided some examples of loan recipients where the mentoring, alongside the pre-loan support, had been well-received and genuinely helpful. Three of these are outlined in the case study summaries on the next three pages.

⁷⁸ Reasons for satisfaction included a mix of reasons, including: availability of mentor; personal connection; and the mentor making a positive impact. Reasons for dissatisfaction primarily related to a lack of contact.

Case study write up – Loan recipient B (2018/19 cohort)

Key milestones

Summer 2018

- Started working on the business idea

December 2018

- Received the Start Up Loan
- Business established; loan recipient started working on this full time

January 2019

- First contract secured by the business

The loan recipient decided to start their own professional services business following a legal dispute with their previous employer. In order to establish the business, the loan recipient required a new qualification, and so they approached Start Up Loans to access the finance needed to pay for the course. Alongside the finance, the loan recipient was keen to access the non-financial support offer to develop their business plan, build their confidence, and learn about different aspects of business management.

Prior to drawing down the funds, the loan recipient was supported with developing the business plan. This pre-loan support was considered to have worked well, and was flexible around the loan recipient's other commitments. In particular, it helped with building confidence to proceed with the business: *"Telling me 'you've got this, I believe in you' made a massive difference"*.

The loan recipient proceeded to set up the business and drew down the loan in late 2018. Following this, they were matched with a mentor and hoped to **use this support to further build their confidence as a business owner**. The relationship lasted for around a year after the business was established, which was considered to have been *"absolutely the right time"* for this support. The mentor helped to keep the loan recipient *"motivated and focused"* after drawing down the loan, and also provided help with developing specific aspects of the business, such as setting up the website. Throughout the mentoring relationship, the loan recipient felt that they could *"pick up the phone"* at any time to contact the mentor. This level of communication and responsiveness was seen as important to achieving benefits from the mentoring, as was the flexibility of the mentor around the loan recipient's business and family commitments.

Without the support from Start Up Loans, the business would not have started at all. The loan was used to pay for the course which was essential to establishing the business: *"Everything I did after that, I have gained because I had the qualification. At that point in my life I wouldn't have had the money to spend on a course."* Alongside the loan, the non-financial support provided an important confidence boost: *"Having someone who believes in you and gives you the chance and opportunity means everything."*

In June 2024, the business was still trading and had for several years been successfully delivering on a large contract. They had built up a good client base and strong track record, whilst providing an alternative source of work and income that suited the loan recipient and their family.

Case study: Loan recipient C (2018/19 cohort)

Key milestones

2015

- Started working on the business idea

October 2018

- Company registered

December 2018

- Received the Start Up Loan

May 2019

- Business launched, with the loan recipient working on this full time
- First sales
- First staff recruited

The loan recipient approached Start Up Loans to get support with their plan of opening a café. This was their first business, and they had very limited prior experience in the hospitality sector. There was no one with business experience in the loan recipient's personal network, so they felt that they would need to seek external support.

At the time of applying for the loan, they received some support with the business plan. This was considered to have been very helpful: *"They made me think about things I would not have considered otherwise."* However, it was not until they got awarded the loan that they realised the scale of the task at hand. The loan recipient reflected that the shift from full-time employment to self-employment had been overwhelming, and there were points early on in the journey when they doubted whether they would be able to make it work.

A few months after the café opening, the delivery partner checked in to see how things were going, and the loan recipient was allocated a mentor soon after. They took up the mentoring offer to gain **general access to someone who could help with all aspects of the business**. It was important to them that the mentor was *"someone neutral"* with relevant business knowledge: *"It was about having someone who I knew I could just phone up or drop an email to."* The mentoring relationship worked well. Importantly, it did not feel one-sided, with the mentor regularly checking in. The mentor helped with various aspects of running the business, including management and administration, and signposted to local networking events: *"It was all so new to me, so the mentor was definitely of help. Everything was so overwhelming and I did really struggle for a long time after I opened the business – it was just the pressure of it. It was just completely different from my previous employment."*

Without support from the Start Up Loans programme, the business would not have been established at all. The loan was needed for the initial investment to *"get it off the ground"*, and there were no alternatives available. The loan recipient had considered using personal savings, but this would not have added up to a sufficient amount. A bank loan did not seem like a viable option to a new business without a track record. The loan recipient reflected that they could not have started up the business without the finance, but the non-financial support was important in helping them to keep going and succeed. There were very few other factors that contributed alongside the support from Start Up Loans, and the programme was considered to have been critical in helping to start and grow the business.

In June 2024, just over five years since the launch, the loan recipient reported feeling comfortable as a business owner – largely a result of *"learning on the job"* which had been made possible due to the support they received along the way. The business was still active, with six part-time staff and an annual turnover of over £100,000.

Case study: Loan recipient D (2018/19 cohort)

Key milestones

2017

- Started working on the idea

2018

- Started working full-time on the idea as a sole trader

Early 2019

- Company registered
- First business premises

March 2019

- Received the Start Up Loan

September 2019

- First staff recruited

2022

- Business closed

After working in a salon for a year, the loan recipient got the idea of starting their own beauty business. They began operating as a sole trader in 2018 and rented space in another salon, before deciding that they wanted to expand the business by securing their own premises and hiring staff.

The loan recipient contacted Start Up Loans in late 2018, and began to receive support from a programme delivery partner with the business plan and cashflow forecast. This was delivered remotely, via Zoom calls. The advisor went through the application documentation with the loan recipient *“in great detail”*. This was helpful as a sense check, and in making sure that all possibilities were taken into consideration: *“It made you think about the minutiae.”* Additionally, they felt that the process was a genuine *“collaborative and learning experience”* which helped to formalise their approach to running the business.

Following the loan drawdown, the advisor who had provided the pre-loan support was assigned as the loan recipient’s mentor. The mentoring relationship was described to have worked very well, for a number of key reasons:

- The mentor had **relevant experience** in the beauty industry: *“The fact that my mentor had experience in the beauty industry meant that she could give me actual specific pointers.”*
- The mentor was very **flexible and responsive** whenever the loan recipient needed support with challenges that the business came up against.
- The loan recipient and mentor developed a **strong working relationship**: *“We developed a really good rapport... It’s just nice to have someone in your corner.”*

Overall, this helped to build the loan recipient’s confidence in the early stages of running their own business. Despite having some prior experience, skills and qualifications that helped them to start up the business in the first place, the loan recipient considered that the finance provided by Start Up Loans was a *“springboard”* that helped them to accomplish the growth goals. Without this support, the loan recipient thought that the business would have been established at a later date, as securing alternative sources of finance would have been difficult and required more time.

Unfortunately, due to the Covid pandemic and personal reasons, the loan recipient had to wind down the business operations in 2022. Nevertheless, they described the opportunity to manage and run a business as very helpful, making them a more confident employee in their new job: *“The overall learning from it all was very beneficial. I’ve developed and built my resilience as well.”*

For some, however, the experience with mentoring could have been improved. Feedback from the survey and the case studies indicates that for some the relationship did not work well. Reasons for this largely aligned with the key factors for dissatisfaction with the mentor match set out above. For some, the mentoring was not available at the right time:

“The time that you receive the mentoring support could be lengthened. It would be better to be able to dip in and out of this support.” [Loan recipient, survey]

Some examples from the case studies are outlined in the box that follows.

Case study examples: Suggested improvements to mentoring

Example 1: The loan recipient sought mentoring support primarily to have a *“sounding board and to talk things over”*. In particular, they hoped to get the mentor’s advice on pricing, sales and marketing for their new technology business. However, after the initial introduction through Start Up Loans, the relationship with the mentor *“didn’t get off the ground”*. The loan recipient therefore made several suggestions as to how the format and set up of the mentoring could be improved to increase the likelihood of developing an effective partnership. First, providing a degree of choice around who they are matched with would mean that loan recipients could connect with mentors who appear to have the most relevant and useful experience. Second, ensuring there is a plan in place at the start of the relationship around how (both frequency and format) the pair will communicate is important. This does not need to be a set format but could be unique to fit the needs of each partnership. Finally, providing the mentoring support prior to the drawdown of the loan would help with developing the business plan and building up the mentor’s understanding of the business.

Example 2: The mentoring offer was a key factor in the loan recipient’s decision to apply for a Start Up Loan. They and their business partner were first-time business owners, looking to receive some advice, particularly from someone who had experience running a business and could give them tips on what to consider. Although the loan recipient was initially assigned a mentor, they were not able to get their schedules to match up for an in-person meeting and a video call was not offered: *“getting hold of support was very difficult”*. A few months later, the loan recipient was contacted by another mentor, however, *“it was too late at that point – we were deep into it, and the important mistakes had already been made.”*

Example 3: The loan recipient took up mentoring to get some general advice on running their business. Although the mentoring was seen to be helpful, it was not sufficiently personalised: *“it seemed like they were frightened of advising something that turned out to be wrong. It was all much too generic to be truly helpful.”* The loan recipient felt that the main benefit of the mentoring relationship was that it made them aware of different topics to look into. For example, although the mentor did not speak in depth about SEO optimisation, the fact that it was mentioned at all did inspire the loan recipient to seek out further advice on the subject.

Role of Covid support

As covered in Section 5, the Covid pandemic presented a major challenge for businesses, particularly for those in the earlier cohort. To help mitigate against the negative effects of the pandemic, loan recipients were offered the opportunity to delay (or further delay) repayments. This offer was available from April 2020 to July 2021. **Take-up of this support was mixed: 39% of the 2018/19 cohort and 7% of the 2021/22 cohort delayed their repayments.** The difference between the two cohorts reflects the timing of this support, with the later cohort only having a maximum of three months in which to defer payments.

The vast majority of those who took up this offer considered that this had helped their business during a time of difficulty (see Table 6-2). However, qualitative feedback from the survey indicates that not all loan recipients were aware of the option to delay their repayments, particularly in cases where there was an overall lack of communication from the delivery partner following the loan award:

“[My industry] was hit very hard by covid and they didn’t provide any support. I wish they would have been more forthcoming with support at the time.” (Survey)

“During the pandemic we didn't need to communicate regarding delaying payments but this was not given as an option. It was not suggested that help was there.” (Survey)

A small number of respondents considered that the support of the timing was not right, either because was offered too late or not for long enough:

“The Covid support was offered for three months. The pandemic went on much longer. We didn't get it in the beginning. I phoned up to ask for a fourth month, and they played hard ball.” (Survey)

Table 6-2: How helpful was this option in assisting you and your business during a time of difficulty?

	2018/19		2021/22	
	n	%	n	
Very helpful	152	81%	12	
Somewhat helpful	20	11%	4	
Neutral	10	5%	1	
Somewhat unhelpful	3	2%	1	
Not helpful at all	3	2%	2	
Don't know	-	-	1	

Beneficiary survey (n=188 loan recipients in 2018/19 cohort; 21 in 2021/22 cohort)

7 Economic evaluation

This section sets out the economic assessment of the Start Up Loans programme. This assessment used value for money modelling that followed the same underpinning logic as the one used in the previous evaluation in 2019. This section sets out an overview of the modelling approach (accompanied by more detail in Annex A), the key findings on the assessment of benefits (estimated in terms of GVA), costs (covering both exchequer and economic costs) and benefit-cost ratios (BCRs), and a discussion on the sensitivity of the BCRs to changes in assumptions used.

Key messages

- The VfM is positive, demonstrating a high return on investment for the programme. The BCRs for the 2018/19 cohort were 5.1 to 5.6 (depending on whether exchequer or economic costs were used) based on unweighted benefits, and 5.6 to 6.0 when benefits were adjusted to take account of income weights (i.e. applying weights depending on pre-intervention incomes of loan recipients). For the 2021/22 cohort, the BCRs were 4.3 to 5.5 based on unweighted benefits, and 5.2 to 6.7 when benefits were adjusted to take account of income weights.
- The VfM was more positive for the 2018/19 cohort when using the unweighted benefits partly due to the higher estimate of benefits, which reflects that the businesses established in this cohort have had more time to mature and develop.
- The weighted BCRs were higher than the unweighted ones because the programme benefits more of those that were in lower income brackets than higher income brackets. This was particularly the case for the 2021/22 cohort, in which there were beneficiaries in the lowest income bracket that set up some of the businesses that had the greatest turnover benefits.
- The VfM estimates compared well to the BCRs in the previous evaluation. The unweighted 5.1 to 5.6 BCRs for the 2018/19 cohort were in a similar range to the 5.7 to 5.8 BCRs for the 2016 cohort as reported in the 2019 evaluation. Note that there were some differences in the cost basis used for this evaluation – with more of the internal Start Up Loans running costs included in the VfM analysis in this evaluation. This was likely offset by lower default costs.
- We have undertaken various sensitivity tests on the model. In almost all cases, the BCRs remained over 3:1. This indicates that the key finding that the value for money of the programme is good is robust. Reducing the length of time over which benefits were counted (from six to three years) did reduce the BCR for the 2021/22 cohort to 1.6:1. However, it must be noted that this would restrict the period over which benefits were counted to the earliest years in the business start-up/development process, and so is not a fair representation of the benefits that the programme supports.

Overview of the value for money model

The value for money model was based largely on the approach taken to the previous evaluation, which last reported in 2019. The approach sought to estimate the benefits resulting from the businesses that had been started and developed as a result of the programme⁷⁹, and the costs of delivering the programme (including taking account of repayments of loans). It drew its data from four sources. The

⁷⁹ It is acknowledged that this is a partial representation of benefits, as there may be other benefits such as through skills and employability.

main source was the beneficiary survey that gathered in-depth information on the financial situation of the businesses set up by loan recipients, and their trajectory in light of the loan – these data were used to calculate the net turnover generated by the intervention. Each respondent to the survey was linked to the corresponding record in the monitoring data which was used to provide details of their loan journey, including size and timing of the loan. The British Business Bank/Start Up Loans were the source of several key assumptions at the programme level (e.g. non-lending costs and the loss/default rate by cohort). Finally, several parameters in the model were sourced from other secondary datasets or assumptions, e.g. ONS data on the ratio of GVA to turnover for micro-enterprises was used to convert turnover benefits into GVA. The calculations and assumptions are explained fully in Annex A.

A brief summary of the approach, to provide context for this section, is as follows:

- **GVA benefits:** Each survey respondent was asked about the turnover in their previous, current and next financial years (giving up to three periods). For businesses that were still trading at the time of the survey, these three years were supplemented by up to a further three years to fill a timeframe six years from the start of the loan. This means that the first cohort were given their loans in 2018-19 and were modelled up until 2023-24 with approximations for their historic turnover, and the second cohort, 2021-22, were modelled up to 2026-27 with approximations for any historic turnover and for future turnover. Modelling for six years of benefits follows the approach agreed with the BBB in the previous evaluation. The turnover benefits were adjusted for additionality using survey data, and converted to GVA using an assumption based on ONS data⁸⁰.
- **Income-adjusted benefits:** In line with HMT Green Book guidance, the benefits can be adjusted to account for the distributional impact. This calculation reflects the fact that not all loan recipients are in the same position, i.e. loans given to wealthier recipients may achieve less social good than loans given to poorer recipients. The weightings are based on the loan recipient's income relative to the national average. Weights were applied to net turnover for each survey respondent in order to estimate income-adjusted benefits.
- **Costs:** These were modelled from two perspectives providing different estimates for costs:
 - **Exchequer costs:** These capture the flow of costs to the exchequer based on the overall value of the loans disbursed minus repayments and interest over the loan terms, plus the non-lending costs of disbursing the loans themselves and running the programme. The non-lending costs were sourced from Start Up Loans and represented the overall expenditure of the Start Up Loans programme (excluding lending), and so included all internal Start Up Loans costs as well as fees provided to delivery partners⁸¹.
 - **Economic costs:** This perspective captures the public sector opportunity costs of the lending based on the balance of public sector lending outstanding (i.e. the returns the public purse would expect to receive if it could otherwise invest the finance tied up in the yet-to-be-repaid loans), plus the flow of defaulted or lost loans that will not be paid back, plus the non-lending costs (derived as per above).
- **Benefit Cost Ratios (BCRs):** The GVA benefits are divided by each of the two cost estimates to give two Value for Money estimates. These estimates relate specifically to the survey samples, though given that the samples were broadly representative of the cohort populations, the BCRs can be viewed as being applicable to the overall populations. Other estimates are presented that are

⁸⁰ This used an assumption that 41% of turnover is represented by GVA, based on the IDBR data available for micro enterprises with between 1-9 employees (this was viewed as the most relevant benchmark for companies established by Start Up Loans beneficiaries).

⁸¹ Note that a small adjustment was made to Start Up Loans cost data to remove the fees associated with the New Enterprise Allowance, which was excluded from scope, and the costs associated with write-offs (as these were accounted for separately in the modelling).

based on different modelling assumptions – these form a sensitivity analysis to ensure the results are robust.

The net turnover data has been used as the basis for the value for money assessment. This involves converting the net turnover impacts to GVA (with some additional adjustments made, as described below).

GVA benefits

The survey was completed by 804 loan recipients, of whom, 536 had had a financial year and were still trading at the time of survey. As per the survey, across these 536 loan recipients, the average turnover for their previous financial year was £174k, and their expected turnover for their current financial year was £209k. Note, the 2018-19 cohort had higher turnover averages than the 2021-22 cohort (£218k versus £114k for the previous year). This is likely because, by the time of survey, those businesses had more time for the beneficial impacts of the loan to mature.

For their next year's turnover, 60% expected it to increase, 27% expected it to stay the same, and 5% expected it to go down – with the remainder of the 536 not able to say. Based upon the data for the previous and current financial years, we calculated the median, year-to-year change in turnover (relative to turnover band) and used this to forecast their turnover next year. For example, businesses with a turnover between £10k and £25k that increased their turnover did so by an average of +60%; businesses with a turnover between £500k and £1m that decreased their turnover did so by an average of -10%. Given that the majority of businesses expected to increase their turnover, we saw a higher (mean) average for the expected turnover in the next financial year: £255k.

Being taken directly from the survey, the turnover estimates were gross figures. These were adjusted to net values using an additionality calculation. The inputs to this were questions on whether the absence of the loan would have meant the business would be smaller, lower quality, have developed later, or not at all. Across all responses, the average deadweight additionality rate was 59.6%. For full details see Annex A.

The net turnover effects were mapped onto the model timeframe (six years – reflecting that the loans are five year terms with a further year option for a repayment holidays⁸²) – see Figure 7-1. For the 2018-19 cohort, the survey responses relate to the final three years of the model period, so, for each loan recipient, the first three years are estimated by extrapolating back in time, shrinking the turnover linearly back from the earliest available financial year. For the 2021-22 cohort, the survey covered their initial three years of activity, so the final three years are extrapolated by forecasting their future turnover. We apply survival rates to all future years and the current, incomplete, year.⁸³ To capture the uncertainty in forecasting, we model three scenarios.

In the pessimistic scenario, we assume each respondent's future turnover remains the same as well as being subject to an optimism bias of 20%. In the core scenario, we retain the optimism bias, but also apply growth estimates based on historic data (these balance the number of loan recipients saying that they expected their turnover to increase/decrease in the following year). In the optimistic scenario we continue using the same growth estimates, and so not make adjustments for optimism bias.

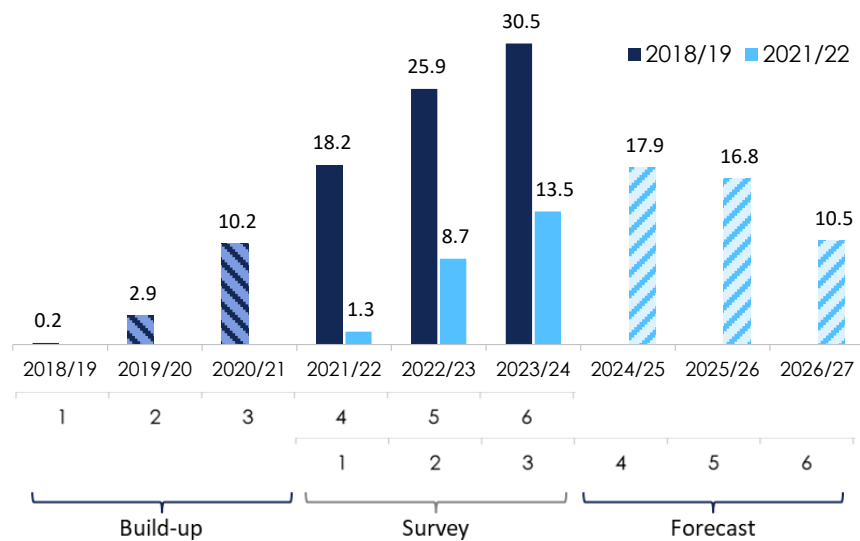
The chart below represents the turnover impacts. Note, the decline in net turnover impacts for the 2021/22 cohort, in particular in 2026/27, is driven by the fact that the application of assumptions for

⁸² Note that the econometric analysis on survival rates also supports a 'persistence' effect of at least six years (see Section 4).

⁸³ The survival rates used in this model are 94% survival after the first year, and then 83%, 75%, 70% and 66% after years 2-5. These rates are informed by econometric analysis and survey data. The ONS's survival rates are lower (e.g. 40% by the fifth year), though these are based on generic, unsupported businesses relative to the year in which the business was incorporated.

optimism bias and survival rates (i.e. that we expect some companies to cease trading) offsets expected growth in turnover. Overall, the net additional turnover estimate for the 2021/22 is probably on the conservative side, especially compared to the 2018/19 cohort trend.

Figure 7-1: Net additional turnover across the model timeframe for both cohorts



Source: Beneficiary survey (n=309 loan recipients in 2018/19 cohort; 227 in 2021/22 cohort)

There are three final steps in calculating the GVA benefit. The first is to apply an adjustment to account for displacement in relation to the fact that the SUL-supported businesses are occupying some of their market shares that would otherwise be filled by competitors. We have then converted the values using a GVA:turnover ratio of 41% (which is drawn from the ONS Annual Business Survey for micro enterprises⁸⁴). Finally, we have rebased the GVA effects to the appropriate financial year (2018/19 or 2021/22) using deflators, and to account for social time preference using a discount rate of 3.5%.

Table 7-1: Final GVA benefits (£m) without income-weighted adjustment

	2018/19	2021/22
Net additional turnover (incorporating optimism bias and survival)...	87.8	68.7
...less displacement	34.6	25.3
...converted to GVA	14.2	10.4
...rebased and discounted to year of loan.	11.0	6.9

Beneficiary survey (n=309 loan recipients in 2018/19 cohort; 227 in 2021/22 cohort)

To measure the income-weighted benefits, the welfare weights were applied at the level of each survey respondent. The weights themselves were calculated as follows:

- The loan recipient's income was drawn from the survey (specifically, their income when they first started thinking of starting the business). These were collected in gross income bands, e.g. £15k-20k.
- The midpoint of the income bands were aligned with the contemporary regime for income tax and national insurance to generate a figure for post-tax, disposable income. Continuing the example,

⁸⁴ The ABS indicates a GVA: turnover ratio of 41% for businesses in the size-band 1-9 employees. This is considered to be an appropriate proxy for the businesses that are supported by SUL.

£17.5k in income would be subject to £2,219 tax and national insurance payments in 2018/19 or £1,938 in 2021/22.

- The remaining income was considered disposable and compared to the national average, given by the ONS's Gross Disposable National Income per head indicator (£20.4k in 2018/19 and £21.7k in 2021/22). Continuing the examples again, these ratios were 1.34 and 1.39 respectively.
- Finally, the ratios were raised to a power to reflect the fact that money has a higher value relative to a person who has less of it. The power used in this calculation is the marginal utility of income, which is 1.3 according to HMT Green Book guidance.⁸⁵ This accentuates the weights, giving 1.46 and 1.54 in the examples.

The full list of welfare weights is given in the Annex A. Applying them across the survey has the following effect on the GVA benefits.

Table 7-2: Comparison of turnover and GVA benefits (£m) with and without income-weighted adjustment

	Variable	2018/19	2021/22
Unweighted	Net additional turnover extrapolated to six years	87.8	68.7
	Final net GVA benefits rebased to year of loan	11.0	6.9
Weighted	Net additional turnover extrapolated to six years	95.2	82.6
	Final net GVA benefits rebased to year of loan	11.9	8.3

Beneficiary survey (n=309 loan recipients in 2018/19 cohort; 227 in 2021/22 cohort)

Whilst the average weighting was marginally higher in the 2018/19 cohort (1.46 versus 1.43), the change to the turnover effects was higher in the 2021/22 cohort. This is due to individuals with higher weightings tending to present with higher turnover impacts more often in the 2021/22 cohort. i.e. the weights are lower in the second cohort, but when applied they emphasise the impacts more acutely.

Costs

Both perspectives on costs include the non-loan lending costs. Based on the data provided by British Business Bank/Start Up Loans, those costs were £2,571 per loan in 2018/19 and £2,049 per loan in 2021/22. In alignment with the survey, for the sample targeted for this VfM assessment, there were 481 loans in the 2018/19 cohort, with £1.2m of non-lending costs and £5.9m of lending, and 323 to the in the 2021/22 cohort, with £0.7m of non-lending costs and £4.8m of lending.

To an extent, both perspectives also capture the value of defaulted loan repayments. For the exchequer, these monies are written off the balance book, so are tallied as costs of the programme. For the economic costs, this is lost value as it can no longer be traded (based on finance additional write-offs). Again, using British Business Bank/Start Up Loans data, the loss/ default rate for loans in 2018/19 is estimated to be 21.7% and for 2021/22 loans it is estimated that it will be 30.1%. We calculate the quantity of defaulted repayments as follows:

- The monitoring data for each loan recipient records the pound value, and the start and end dates of their loan.

⁸⁵ The Green Book cite work done by Layard et al. (2008) "The marginal utility of income" Journal of Public Economics, Vol. 92, pp. 1846-1857

- For each recipient, expected repayment (i.e. the total loan value) is projected across the time period between the start and end dates.
- For each cohort, the repayments are aggregated by year.
- For each year, the expected repayment is multiplied by the default rate.

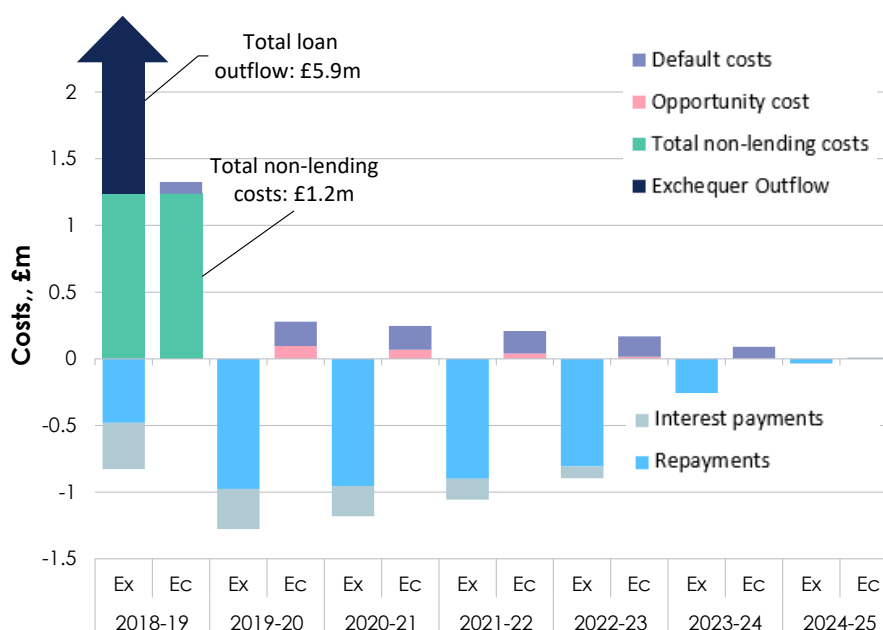
For the first cohort, the total value of written-off loans was an estimated £1.3m, for the second cohort it was £1.5m.

For the exchequer costs, in the initial year of the model the total loan value enters the balance sheet as a positive cost, and every year the repayments appear as negative costs (i.e. reducing the costs). For the economic costs, the defaulted payments represent the loan-related costs. Both forms are equivalent in sum, but their impact is felt differently over time, so they differ with the application of deflators and discounting.

There is a further difference between the exchequer and economic costs. In each year the costs to the exchequer are lessened by interest payments (6% of any outstanding balance for that year that is not written off). For the economic costs, the public sector opportunity cost (that is the benefit of what is foregone by using the extra public funds) of the outstanding balance should in theory applied to the balance at year end, i.e. after repayments and defaults. In the chart below, the opportunity cost is modelled at 3.5% for illustrative purposes, though in practice this adjustment is not normally made in value for money assessments. For the core model this was set to 0% (which assumes that at the margin, the tax system is optimal⁸⁶), and the assumption was revisited in sensitivity analysis.

The chart below shows the flow of cost for both the exchequer (Ex) and the economic (Ec) costs for the first cohort (2018/19).

Figure 7-3: Time series of exchequer and economic costs for 2018/19 cohort



Source: SQW analysis of Start Up Loans monitoring data

The exchequer costs begin with a very high outflow due to the loans, but this is ameliorated over time as the loans flow back with a small amount of added interest. The economic costs are more consistent, though still shrink over time, as the default rate is applied to an ever smaller loan balance. Both

⁸⁶ For details, see: Jacobs, B. (2018). The marginal cost of public funds is one at the optimal tax system. *Int Tax Public Finance* 25, 883–912.

perspectives apply the non-lending costs in the same way in the first year. The final costs for both cohorts are as follows (note, the public sector opportunity cost is set to zero for these results). The economic costs are relatively lower for the 2021/22 cohort because the more consistent flow of costs pushes more into the future, which are then discounted due to social time preferences.

Table 7-3: Final costs (£m)

Cost item		2018-19	2021-22
Exchequer	Exchequer Outflow	5.91	4.83
	Repayments	-4.63	-3.37
	Interest payments	-1.15	-0.88
	Total non-lending costs	1.24	0.66
Total (deflated and discounted)		2.15	1.98
Economic	Default costs	0.87	0.98
	Opportunity cost	0.00	0.00
	Total non-lending costs	1.24	0.66
	Total (deflated and discounted)	1.98	1.25

BCRs

Combining the benefits and the costs above gives the following VfM estimates both without and with the income-weighted adjustments. The headlines are:

- BCRs of over 5:1 for the 2018/19 cohort without income weighted adjustments, and between 4 and 5.5:1 for the 2021/22 cohort. The lower BCRs for 2021/22, especially based on exchequer costs, partly reflect the smaller amount of time since the loan to allow businesses to mature (combined with conservative assumptions on future benefits). These BCRs compare similarly with the equivalent BCR of 5.6 to 5.7:1 for the 2016 cohort (as reported in the last evaluation) – though note that the cost basis used for this current evaluation includes more of the Start Up Loans internal running costs.
- BCRs go up to 6:1 for the 2018/19 cohort once benefits are adjusted using income weights, and almost 7:1 for the 2021/22 cohort.

Table 7-4: Value for Money estimates using benefits without income-weighted adjustment

Estimate		2018-19	2021-22
Benefit		£11.0m	£6.9m
Exchequer	Cost	£2.1m	£1.6m
	BCR	5.1	4.3
Economy	Cost	£2.0m	£1.2m
	BCR	5.6	5.5

Table 7-5: Value for Money estimates using benefits with income-weighted adjustment

Estimate		2018-19	2021-22
Benefit		£11.9m	£8.3m
Exchequer	Cost	£2.1m	£1.6m
BCR		5.6	5.2
Economy	Cost	£2.0m	£1.2m
BCR		6.0	6.7

These BCRs point to a high return on investment for Start Up Loans. For a full assessment of the robustness of these results, see Annex A. Here, we highlight some of the key variables that influence the BCRs.

In terms of the GVA benefits, the main input is the self-reported turnover taken from the survey. For the historic turnover, we can have a high degree of confidence that the data are fairly accurate as there is no reason to expect over- or under-reporting, and for future turnover, the inclusion of optimism bias gives some reassuring caution on the estimates. For the 2021-22 cohort, we looked at alternative scenarios for future turnover, with a more optimistic scenario with no optimism bias, and a more conservative scenario that assumed no future growth of turnover as well as an application of optimism bias. As per Table 7-6, we can see that even in the pessimistic scenario, the BCRs remain favourable.

Table 7-6: Scenario modelling for the future turnover impacts of the 2021/22 cohort (not welfare weighted)

	Pessimistic: no growth and optimism bias	Core: growth and optimism bias	Optimistic: growth and no optimism bias
Exchequer	3.7	4.3	5.0
Economy	4.7	5.5	6.4

Conversely, the 2018-19 cohort was more affected by the assumptions around turnover build-up prior to the survey. The assumptions in the model as presented are that turnover builds as 25%, then 50%, then 75% of the previous year's turnover. If the estimated turnover in these years were to be halved (12.5%, 25%, and 37.5%) then the 2018-19 impacts would fall by 24% and the 2021-22 impacts by just 1.7%.

The main assumption driving the GVA benefits is in the design of the model so that it extrapolates the survey results through both the build-up and the forecasting for six years' worth of benefits (five year loan term plus one year optional repayment holiday). Removing this element from the model entirely, and so focusing on the three years of benefits provided in the survey, would cut the overall benefits by 37%. This would bring the BCRs (without adjustment for income weighting) down to 4.6 (for the 2018/19 cohort) and 1.6 (for the 2021/22 cohort). The BCR for the 2021/22 is low under this scenario, at under 2, and this reflects that the survey data covers the early years in the business start-up/development process. The BCR for the 2018/19 cohort, which reflects better the programme's impact on business progress, still represents good value for money. Therefore, we can conclude that there is strong return on investment from three years of business effects when businesses supported by loans are beyond the earliest stages of the start-up process.

In terms of the costs of the programme, the main inputs are the loan values themselves, which should be accurately recorded. However, whilst the overall loan value should be perfectly accurate, there are a set of assumptions built into the design of the model that determine the year in which the costs are felt.

These have an impact because years further in the future are subject to more deflation and discounting. That said, costs recorded in the wrong year would only be affected by a discount rate of 3.5% and a deflator of around 2.7%. Thus, those modelling decisions have very limited impact.

The more significant driver behind the costs is the assumption on the loss/default rate. The defaulted loans make up significant fraction of the costs, both to the exchequer and the economic costs. In the value for money assessment in the last evaluation, the default rate was set to 40% – in this analysis, the data-driven values of 21.7% and 30.1%, which ought to be reliable estimates, were implemented for the two cohorts. Reverting to the 40% default rate is not overly damaging to the positive conclusion: it would have the most effect on the exchequer BCR, reducing this from 5.1 to 3.5 for the 2018/19 cohort and from 4.5 to 3.5 for the 2021/22 cohort (based on benefits without adjustment for income weighting). Indeed, there is no value for the default rate that would cause the BCRs to fall below 1. It is worth noting that the 40% default rate was based on early analysis undertaken for The Start-Up Loans Company when the programme was in its infancy. Since that time, the better delivery partners have been identified and had agreements renewed, and improved processes and controls have significantly reduced loan losses. The operating model has also changed from the delivery partners making loan advances and collecting the repayments to the position now where there is a single regulated finance partner as the designated lender.

In Annex A we demonstrate what happens to the BCR based on economic costs if the public sector opportunity cost is varied. This shows that even with an assumption between 10% and 20%, the BCR is still in the range of 3 to 4:1

Finally, it is worth noting that GVA:turnover ratio of 0.41, as per the ONS Annual Business Survey, is a key assumption. The benefits are directly proportional to this ratio, i.e. reducing it by 25% would also reduce the benefits and BCRs by 25%. Further, in a theoretical sense this is a key parameter as it represents the extent to which goods and services traded by the businesses are actual value-added to the economy.

8 Conclusions

Performance of the programme in achieving outcomes and impacts

We conclude that the programme has made good progress against its stated objectives and intended outputs, outcomes and impacts. This assessment was underpinned by the analysis of primary and secondary data, which found evidence of the following:

- **At the time of the survey, the proportion of self-employed individuals was nearly three times higher than at the time of applying for a loan**, indicating that the programme has fulfilled its objective of encouraging entrepreneurship and self-employment for these cohorts.
- **Survey evidence indicated an overall start-up rate of 96%** (i.e. began trading). Taking into account the evidence on additionality from the survey (of 804 respondents from the 2018/19 and 2021/22 cohorts), for every 100 people that the programme lent to in the two cohorts covered, 21 net new enterprises were created and 36 net additional enterprises were developed further.
- **Businesses established by Start Up Loans beneficiaries had higher survival rates than comparator businesses.**⁸⁷ Econometric analysis of secondary data found that over the first five years, the businesses of loan recipients demonstrated higher survival rates vs comparison groups by between four and 26 percentage points by year 5.
- We estimated that businesses of loan recipients had generated **826 net additional employees in the last financial year** (across the businesses established by the 804 survey respondents across the two cohorts of interest). This means that **1.03 net additional employee jobs were created for every loan provided for the survey respondents** from the two cohorts (note that this excludes the employment of the loan recipients themselves).
- The enterprises of loan recipients responding to the survey from the two cohorts had generated an estimated **aggregate net turnover of £44.7m in the last financial year**. This equates to £50-60k net additional turnover per loan recipient. Most of the enterprises were small, generating relatively low levels of turnover, but there was a minority of enterprises generating over £250k (these enterprises accounted for 56-78% of the aggregate turnover reported).
- Econometric analysis of secondary data indicated that the businesses of **loan recipients had experienced stronger growth since incorporation than comparator businesses**, in terms of assets and employment. On average, between incorporation and the latest datapoint, businesses of loan recipients were found to have a c. 34% cumulative higher growth in assets and c. 15% cumulative higher growth in employment than the comparator group.
- **The majority of loan recipients assessed their personal and business confidence at the time of the survey to be higher than when they first applied for a loan.** The programme was seen as an important factor in enabling these improvements (63-69% indicated this in relation to business confidence, and 55-67% in relation to personal confidence). Evidence from the survey and the case study research suggested that personal development benefits were often pertinent even if the enterprise did not succeed.
- **Based on self-reported evidence from the survey, we estimated that just over two-thirds of the finance provided by Start Up Loans would not have been provided by mainstream providers** (i.e. a finance additionality ratio of 68%). There was some evidence of borrower

⁸⁷ Note that the econometric analysis in relation to business growth and survival is based on those loan recipients that provided a company registration number at the time of applying for the loan. These findings therefore relate to a sub-set of the beneficiaries, and this group can be expected to be relatively more mature.

discouragement, though it was challenging to assess the extent to which this was justified (i.e. whether the loan recipients may have been able to get a bank loan if they applied).

Who benefits the most?

Econometric regression analysis indicated that there were some characteristics of loan recipients or the support they have received that were associated with a higher likelihood of achieving business or personal development outcomes. These vary across the different outcomes.

Key findings in relation to the groups that were most likely to have experienced **business performance outcomes** included the following:

- Older loan recipients (over 30 years) were more likely to still be operating than those who were younger (18-30 years)⁸⁸
- Male loan recipients had higher turnover growth than female recipients
- White loan recipients had higher turnover growth than those from Ethnic Minorities
- Those who had received some non-financial support outside of the Start Up Loans programme⁸⁹ were more likely to still have an active enterprise than those who had not received any other support.

In relation to **personal development outcomes**, key differences across sub-groups were somewhat different, as follows:

- Loan recipients from Ethnic Minority backgrounds were more likely to experience an increase in both business and personal confidence relative to when they applied for a Start Up Loan, compared to White loan recipients.
- Younger loan recipients, aged 18-30, were more likely to experience an increase in business and personal confidence than those aged over 30.
- Female loan recipients were more likely than males to experience an increase in business confidence, though no significant effect was observed in relation to personal confidence.
- Loan recipients who had received some non-financial support outside of the Start Up Loans programme were more likely to have increased their business and personal confidence, and they were also more likely to attribute this increase in confidence to Start Up Loans. This suggests that there could be some complementarity between support from the programme and other sources, though the evaluation was not able to test this.

The above indicates that the underserved groups central to the rationale of the programme (women and Ethnic Minorities) are more likely to experience personal development outcomes, but the reverse is true for business performance outcomes. No statistically significant differences were found in relation to loan recipients from deprived local authorities.

⁸⁸ Of those aged 18-30 that were no longer operating at the time of the survey (n=72), exactly half reported that their employment status had remained the same as when they applied for the loan (n=36). One in four (n=18) had moved to full-time employment by the time of the survey.

⁸⁹ This includes a mix of public and private sector support (e.g. business courses, mentoring programmes, accelerator programmes, business advisors/accountants) as well as more informal support from individuals (e.g. from friends and family, from contacts in business, or through peer networking groups). In many cases, survey respondents referred to local support, e.g. from their local authority or chamber of commerce.

Links between performance and repayment

The evaluation used regression analysis to explore the relationship between the likelihood of being in arrears and different characteristics of loan recipients (controlling for other factors). The findings indicated the following:

- **Loan recipients from Ethnic Minority backgrounds had substantially higher odds of being in arrears** than White business owners (38% chance of being in arrears for loan recipients from Ethnic Minority backgrounds vs 25% chance for White loan recipients).
- **Those in deprived local authorities had significantly higher odds of being in arrears** than those not in deprived areas (37% for those in deprived local authorities vs 26% for those in non-deprived areas).

Role of different elements of the programme

Overall levels of satisfaction with the programme among loan recipients were high, and the net promoter score was consistent with the previous evaluation (just over 50% based on the proportion of those reporting the net position between promoters (those reporting a 9 or 10 out of 10) and detractors (those reporting 0 to 6 out of 10)).

Loan finance

The loan finance itself was viewed as the most important element of the programme's support according to survey respondents (66% of the 2018/19 cohort, and 74% of the 2021/22 cohort), followed by the pre-application support (25% of the 2018/19 cohort, and 18% of the 2021/22 cohort). This may be expected given nature and focus of the programme.

Pre-loan support

The vast majority of survey respondents reported that they had received some pre-loan support at the time of applying for the loan (87-89%). Qualitative feedback from the survey as well as the case studies suggested that generally positive experiences with this support, though some indicated that they would have benefitted from further scrutiny on the business idea and the potential market. There was some evidence from delivery partner consultees that they are not able to spend as much time on pre-application support as previously due to the pressures on costs.

Mentoring

Take-up of mentoring was low, with just under half of survey respondents stating that they were offered mentoring, and only around half of those taking up the offer. Of all surveyed loan recipients, around one in four from the 2018/19 cohort and one in six from the 2021/22 had received mentoring (or expected to in the future). This feedback raises concerns in relation to the operational side of the programme, though it should be noted that these experiences reflect the previous delivery model that was in place up to April 2023.

Whilst satisfaction with mentoring was net positive overall, the evidence was mixed. In total, 67-70% were satisfied or very satisfied; and 15-17% were dissatisfied or very dissatisfied. Key aspects of good mentoring were relevant knowledge and experience of the market/sector, having relevant skills, and the personality fit. For some, there was clear evidence of benefits as a result of the mentoring support, with many indicated that it had helped with knowledge, skills and business confidence. A smaller proportion indicated that it helped with decision-making and business performance. However, this had not been the case for all.

Regression analysis indicated the following findings in relation to mentoring:

- There were some characteristics which were associated with a higher likelihood of accepting the mentoring offer, specifically those who: were in deprived local authorities; received smaller loans (<£5k); had previously run or managed another business; and were in the earlier 2018/19 cohort.
- Those who declined the mentoring offer had a higher chance of business survival than those who were not offered mentoring, but this finding is likely to be subject to selection bias which makes it difficult to disentangle effects (and it was not possible to control for this self-selection with a relevant variable). We found no evidence of mentoring status having a statistically significant effect on loan recipients' confidence, and there was no statistically significant association between satisfaction with or hours of mentoring and firm survival or business confidence.
- We found no statistically significant difference in business survival between those who received mentoring and those who were not offered it. This means that there is no evidence of either a positive or negative relationship between mentoring and survival.
- Looking at the effect of mentoring on loan repayment, we found that those who were satisfied had a lower chance of being in arrears than those who were not offered mentoring, which may indicate that mentoring could help in relation to arrears. However, comparing those who received mentoring to those who were not offered it, we found no significant differences in the rate of arrears. There were also no statistically significant findings in the likelihood of being in arrears based on the number of mentoring hours received. Therefore a positive experience with mentoring appears to be key to any relationship with intended outcomes.

Impact and value for money

The VfM was positive, demonstrating a high return on investment for the programme. The BCRs for the 2018/19 cohort were 5.1 to 5.6 (depending on whether exchequer or economic costs were used) based on unweighted benefits, and 5.6 to 6.0 when benefits were adjusted to take account of income weights (i.e. applying weights depending on pre-intervention incomes of loan recipients). For the 2021/22 cohort, the BCRs were 4.3 to 5.5 based on unweighted benefits, and 5.2 to 6.7 when benefits were adjusted to take account of income weights.

The VfM was more positive for the 2018/19 cohort when using the unweighted benefits partly due to the higher estimate of benefits, which reflects that the businesses established in this cohort have had more time to mature and develop.

The increase in the BCRs when income weights were taken into account indicates that the programme has disproportionately benefited those on incomes lower than the UK median, which is in line with the distributional rationale for the programme. This was particularly the case for the 2021/22 cohort, in which there were beneficiaries in the lowest income bracket that set up some of the businesses that had the greatest turnover benefits.

The VfM estimates compared well to the BCRs in the previous evaluation. The unweighted 5.1 to 5.6 BCRs for the 2018/19 cohort were similar to the 5.7 to 5.8 BCRs for the 2016 cohort as reported in the 2019 evaluation. There were some particular differences in the cost basis used for this current evaluation – with more of the internal Start Up Loans running costs included in the VfM analysis. This was likely offset to some extent by lower default costs for the 2018/19 and 2021/22 cohorts than was applied to the earlier 2016 cohort.

Fit in the landscape

Feedback from stakeholders suggested that the Start Up Loans programme fits in well alongside other provision, primarily because of the supply side gap that it fills. This was perceived to be even more important following the end of European programmes. At the same time, it was considered that the demand-side had increased through the increase in interest in starting businesses during and immediately following Covid.

Within this context, it was suggested that Start Up Loans has several distinctive features that set it apart from other provision: a higher risk appetite compared to other lenders; better terms of lending (in particular the interest rate); a personalised approach for lending decisions; the package of finance and non-financial support; the government backing; the lack of sector restrictions; and the connections to local communities.

The evidence indicated that the programme caters particularly well for certain groups that may be less likely to access mainstream finance provision, such as women and those from minority ethnic communities. This was fed back by consultees and also clear from the monitoring data.

Although most consultees had a clear picture of where Start Up Loans sits in the landscape, the feedback suggests that more could be done to improve the links with mainstream banks, including to facilitate access to follow-on funding.

The above points on alignment provide the overall synthesis of views from stakeholders. It must be noted, and as was found in the survey evidence, that there is an element of deadweight in Start Up Loans lending, i.e. some loan recipients would have obtained finance otherwise. Therefore, whilst the programme is well-positioned and complementary to other provision, there are inevitably some overlaps and duplication. These are important issues to consider in relation to any discussions on links with mainstream banks and in relation to any potential follow-on products, given the risks of competing with the market.

Lessons and recommendations

Based on the evidence set out in this evaluation report, we draw four key recommendations:

- In recent years, there have been changes to the context in which Start Up Loans operates in, both on the demand and supply side. Whilst these were considered by stakeholders to strengthen the case for the programme, it will be important to consider the impact of the wider economic context. Interest rates for Start Up Loans remained at 6% through a period of volatility in market rates, meaning that they became very competitive compared to anything else available on the market. The maximum loan size also remained at £25k. We suggest that interest rates, maximum loan sizes and average loan size targets for partners are reviewed in line with the wider context to ensure that they are appropriate for the costs of starting businesses and market conditions. It will be important to consider the implications of any potential changes for take-up, repayment and default rates, and affordability.
- There may be opportunities to improve the ‘finance escalator’, in terms of improving links with banks and other providers (e.g. through signposting from and to Start Up Loans). To facilitate the transition of loan recipients into the market, links to banks and other providers should be considered. For those loan recipients that may still be unable to access finance from the market, but have credible businesses, the British Business Bank could consider a potential new product to follow after second loans. Any new product needs to be considered carefully, taking into account issues around finance additionality.
- The evaluation assessed the previous delivery model, in place up to March 2023, and found significant challenges related to the consistency of the offer and take-up of mentoring. The subsequent changes made to the delivery model were aimed to address these issues. Given the findings of the evaluation, it is important for the British Business Bank to gather evidence on experiences with the current model, including the consistency of offer and take-up, the available pool and quality of mentors, and the benefits for loan recipients.
- Evidence from the survey indicated that women and Ethnic Minorities were more likely to experience personal development outcomes as a result of the programme, but the reverse was true in relation to business performance. The analysis found that loan recipients from Ethnic Minority backgrounds and

from deprived local authorities had a higher chance of experiencing issues with repayments.

Considering the role of these groups of entrepreneurs in the programme's rationale, some focusing of the promotion of mentoring to these groups could be beneficial, e.g. with arrears. We suggest that this could be complemented with further research, including potentially an experimental approach, to better understand how mentoring or other additional support may help these groups.

A final point relates to the collection of monitoring data to aid future evaluations. We note that, currently, company names and registration numbers are only collected at the point of application. We know that many loan recipients have not yet established a company at the time of the application, and so there are significant gaps in the company data that are collected. The existing data include those who had bought an existing company or established one prior to receiving the loan (meaning there is a skew towards more 'mature' business ideas), alongside the expected names for businesses which may not have gone ahead. This poses challenges for evaluation activity. We suggest considering the feasibility of collecting these data at a later point (e.g. six months/one year post-drawdown) to improve data coverage. One option would be for this to be led by the finance partner, but the responsibilities and practicalities should be worked out by the Bank and the Start Up Loans team taking into account the available resource.

Annex A: Further detail on methodology

Econometric analysis of secondary data

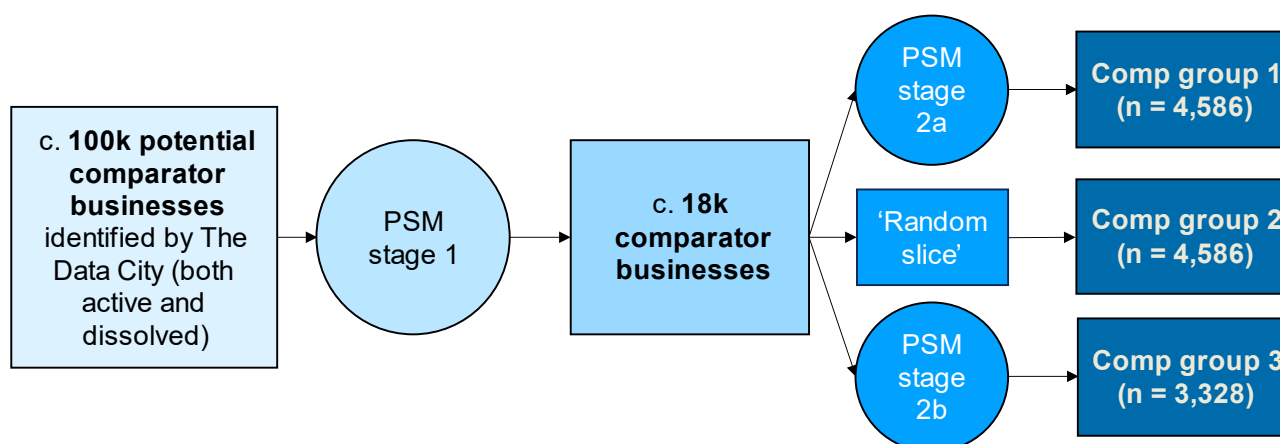
We undertook econometric analysis of data provided by The Data City (TDC) to investigate the effects of Start Up Loans on survival rates and growth of beneficiaries.

The analysis was performed for a group of 4,586 beneficiaries for which company registration numbers (CRNs) were available in the programme monitoring data, and for which one of the director names in TDC data matched the name of the loan recipient in the monitoring data.

Constructing comparison groups

As shown in Figure A-1, we followed a multi-step process to identify comparison groups of businesses with similar observable characteristics to Start Up Loans beneficiaries.

Figure A-1: Identifying comparison groups



Source: SQW

First, we received c.100,000 potential comparator businesses from TDC. These companies were selected to reflect the profile of incorporation dates and sectoral classification (in terms of SIC 2007 sections) of Start Up Loans beneficiaries. Ensuring the similarity of these profiles was necessary since business outcomes (including survival) depend on macroeconomic conditions and specifics of each sector in the economy.

In order to narrow down this group, we performed two rounds of **propensity score matching (PSM)**: a technique which relies on a statistical model that estimates the probability of a unit to be treated based on a range of observable characteristics. The variables used in each of the PSM stages are listed in Table A-1.

Table A-1: PSM matching variables

Variable	PSM Stage 1	PSM Stage 2a	PSM Stage 2b
Year of incorporation	x	x	x
Region	x	x	x
Sector classification (SIC 2007 section)	x	x	x
IMD of local authority (rank)	x	x	x
IMD of local authority (1 st decile/not)	x	x	x
Urban/rural location (registered address)		x	x
TDC Innovation score			x
Whether classified under an RTIC ⁹⁰			x
Value of assets in the year of incorporation			x

Source: SQW

Even though SUL does not target innovative companies, being involved in innovation activities can be expected to be correlated with business outcomes and the shape of the growth trajectory (e.g. the ‘J curve’ – investment and lack of profits during the R&D period with growth following that). For this reason, we incorporated available innovation metrics into the matching model which would help to construct a more ‘like-for-like’ comparison group.

The first stage of PSM used data on business characteristics, provided by TDC. We used non-replacement matching⁹¹ and specified a ratio of four comparator businesses to each beneficiary, allowing us to arrive at a group of c.18,000 comparator businesses.

TDC then provided additional data on business size and financials for these comparators and all Start Up Loans beneficiaries. Initial scoping revealed that approximately 73% of beneficiaries (and 60% of businesses overall) reported financial data in the year of incorporation. As a result, we decided to conduct the analysis using two beneficiary groups:

- **A:** including all beneficiaries in scope for econometric analysis (n = 4,586); and
- **B:** which was a subsample of A that reported the value of their assets in the year of incorporation (n = 3,328).⁹²

To create comparison groups for beneficiary groups A and B, we undertook a second round of PSM (PSM Stage 2a and 2b), specifying non-replacement and a 1:1 match. The resulting matched comparators made up Comparison groups 1 and 2. Additionally, to create another comparison group for beneficiary Group A (for triangulation purposes and to establish robustness of findings), we took a random ‘slice’ of businesses that were not matched in PSM Stage 2a (i.e. not in Comparison group 1), and this became Comparison group 2.

The final beneficiary and comparison groups are summarised in Table A-2.

⁹⁰ RTIC stands for Real-Time Industrial Classification – an industry classification developed by the Data City using AI and Machine learning algorithms

⁹¹ Non-replacement matching ensures that each comparison company is matched only to one beneficiary.

⁹² 172 companies reported 0 value of assets and were also excluded, since from the econometric analysis since the calculations were carried out in natural logarithms.

Table A-2: Beneficiary and comparison groups

Beneficiary groups	Comparison groups
A: All beneficiaries with a CRN in Start Up Loans monitoring data, and with a director match in TDC's dataset	1: Best match for beneficiary Group A (PSM 2a) 2: Random slice of 18k comparator businesses, exclusive of Comparison group 1
B: A subsample of Beneficiary Group A that started with non-zero assets	3: Best match for beneficiary Group B (PSM 2b)

Source: SQW

Figures A-2 to A-4 demonstrate the improvement in the balance after PSM. The graph on the left of each figure shows the difference in averages by characteristics before and after matching, and the density plots on the right show the distributions of propensity scores before and after matching.

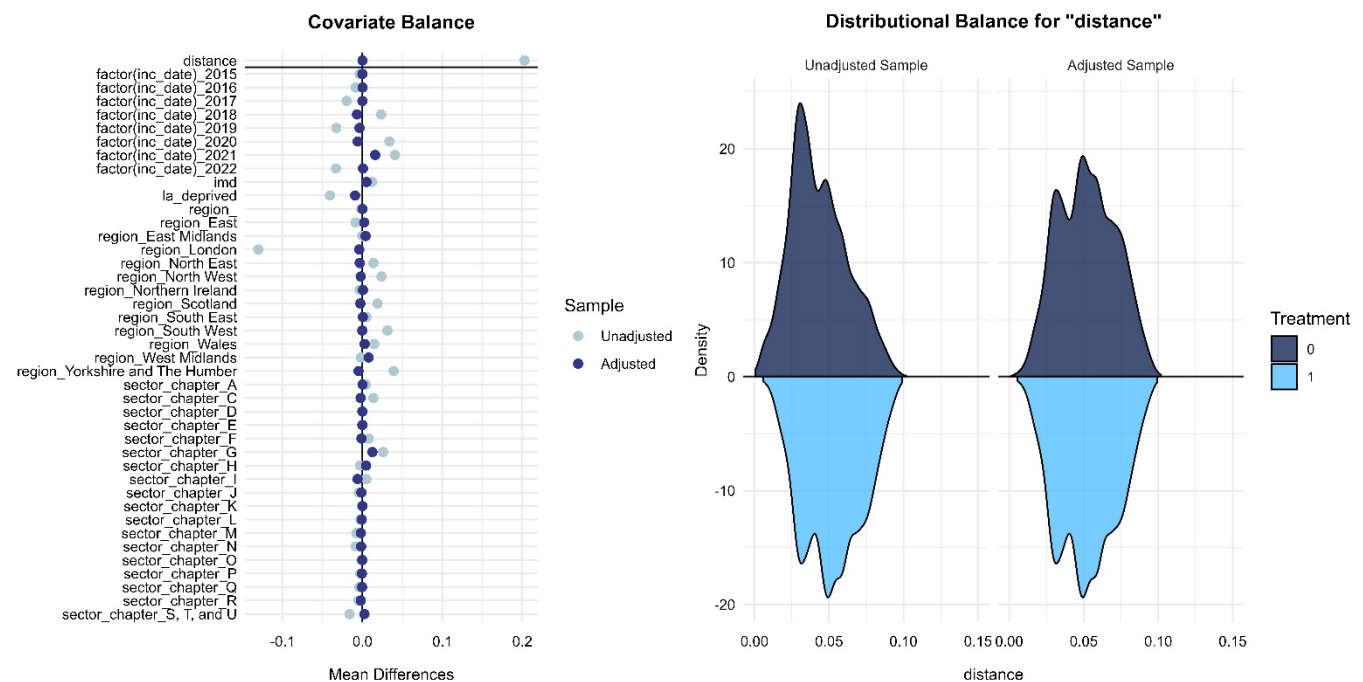
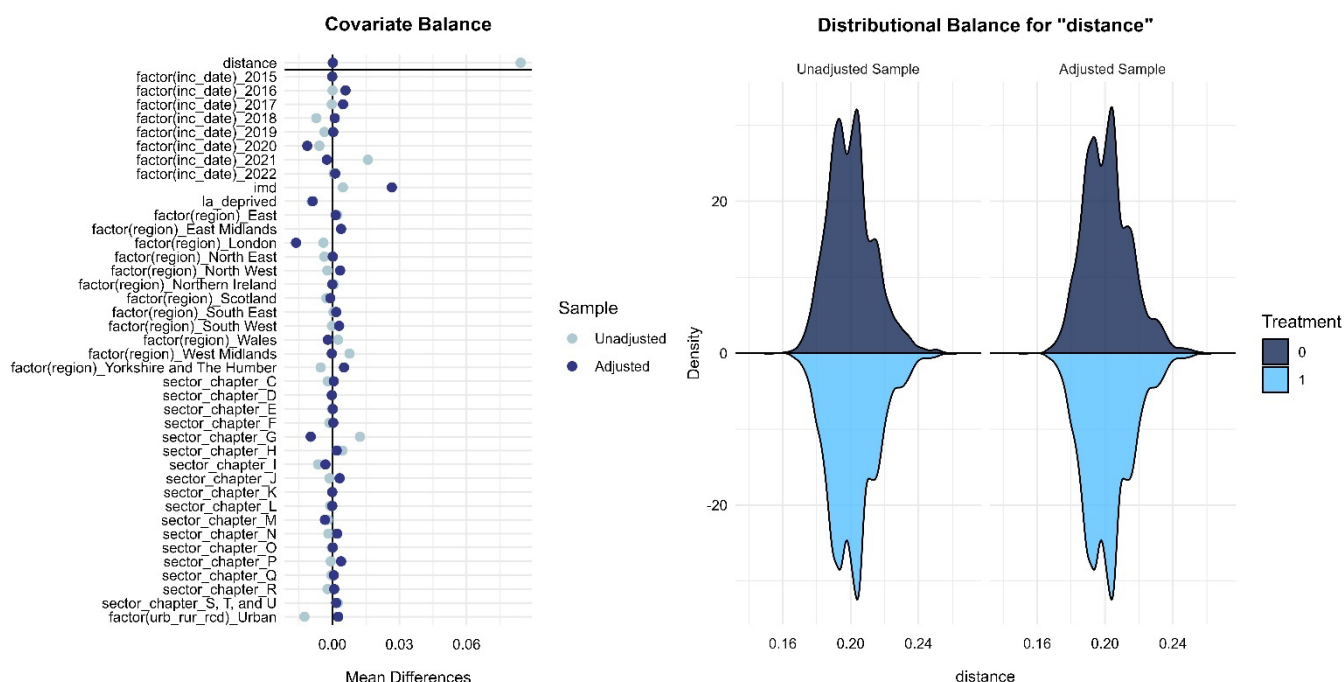
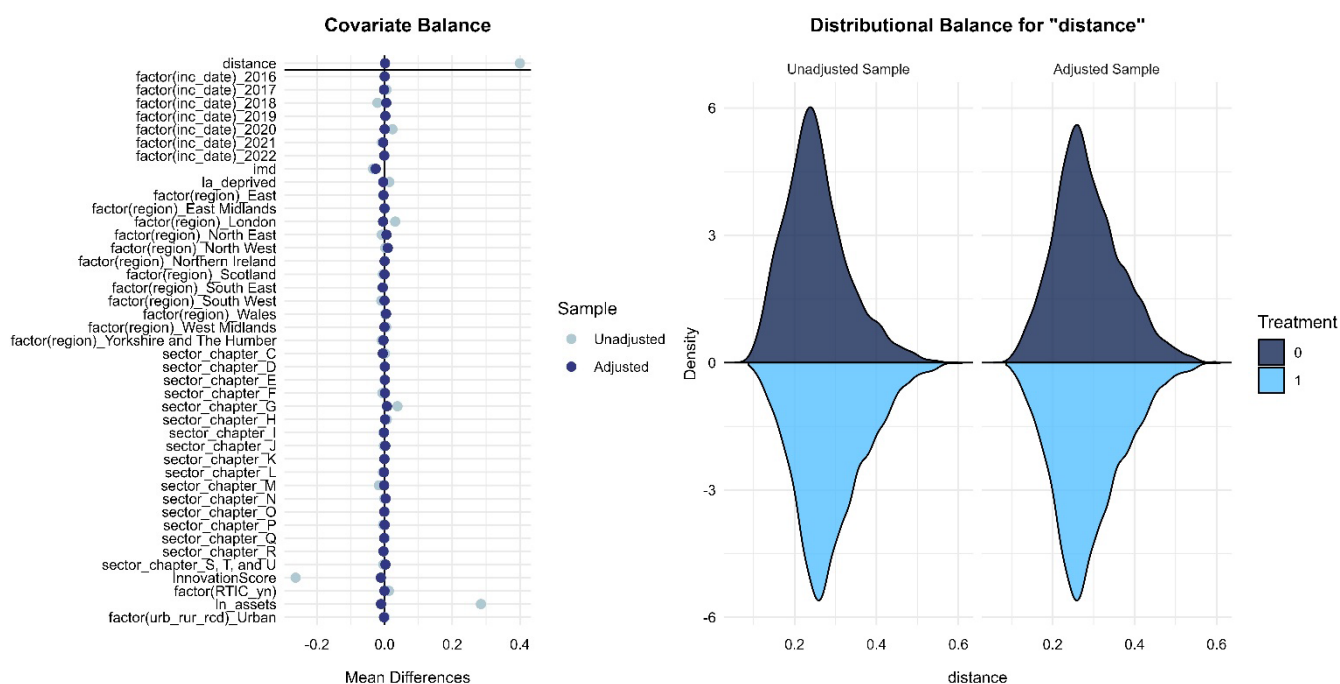
Figure A-2: Balance checks for PSM stage 1

Figure A-3: Balance checks for PSM stage 2a**Figure A-4: Balance checks for PSM stage 2b**

Survival analysis

The survival analysis involved calculating and representing graphically (as well as in tables) the average survival probabilities for beneficiary and comparison groups over time (since incorporation), and checking whether there were any differences between the groups. For these calculations, we employed the Kaplan–Meier method of estimating the survival function from ‘lifetime’ data. This method utilises two

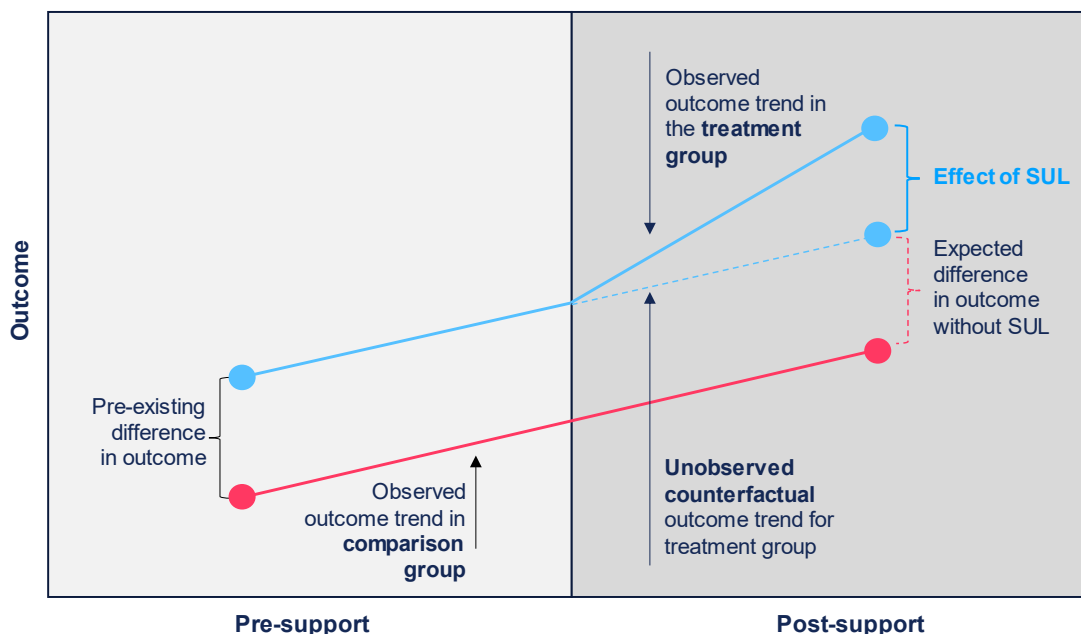
key pieces of information for each firm: a) the most recent status of the firm (active or not), and b) the number of months from firm incorporation until the firm's status on Companies House records was changed from 'active' to anything else (e.g. in liquidation, dormant, etc) or until the latest update on firm status. An important advantage of the Kaplan–Meier estimator is that it appropriately accounts for right-tail censoring: where the subject (here a firm) either has not experienced an 'event' at the last follow-up (firm is still active) or is no longer tracked for any reason. Effectively, when a company is in that position, we do not actually know its latest status, and without appropriate corrections the survival probabilities may be estimated incorrectly. Having said this, the nature of our data (Companies House records) minimise the risk of such distortions (compared to e.g. survey data). In our approach we are pooling firms incorporated in different years into one sample to calculate an average survival rate over time.

DiD analysis of business performance

To estimate the effect of Start Up Loans on business performance, we followed a difference-in-differences (DiD) approach. This method compares the changes in outcomes over time between Start Up Loans beneficiaries (the treatment group) and a group of unsupported businesses (the comparison group). It estimates the net effect of Start Up Loans support, i.e. only the growth that is observed in the treatment group beyond what is demonstrated by the comparison group is attributed to support.

The analysis compared beneficiary Group B – the sub-sample of all beneficiaries who reported employment and assets at incorporation – to comparison group 3. We used a 2x2 DiD design, illustrated in Figure A-5. The data was annual, the pre-support observation (the 'before') was the first data point that was available for a business and the post-support observation (the 'after') was the last data point available for that business. This approach was dictated by the nature and availability of data and provided us with a consistent metric across companies – growth since disclosing their first accounts – irrespective of their decision to file the accounts before the 21 month since incorporation deadline and whether it has been influenced by their application for SUL. Therefore, analysis was performed relative to a business's incorporation, rather than the time that they secured the loan.

Figure A-5: Difference-in-differences (DiD) approach



Source: SQW

DiD analysis focused on assets and employment; all estimations were performed in natural logarithms to improve statistical properties of the models and aid interpretation of obtained coefficients.

We specified two models for the analysis: (i) a base model, which controlled for pre-existing average differences in the ‘before’ observation between the groups as well as for the amount of time between ‘before’ and ‘after’ observations for each firm; and (ii) a model investigating the impact in the most deprived areas, with all variables included in the base model and an additional ‘interaction term’ highlighting any further impact from Start Up Loans on beneficiaries registered in a deprived local authority (bottom decile on the index of multiple deprivation).⁹³

As a robustness check, we also estimated both of these models on a trimmed dataset, which excluded the top 1% of companies by size at incorporation (over 26 employees and £1.4m in assets) – the results were consistent with the main findings (no statistically significant differences between the effect estimates).

Value for Money assessment

This annex section expands upon the description of the VfM assessment given in chapter 7. The structure of the description here covers: itemisation of the input variables of the model; a description of how these were processed; and finally reflections on the modelling.

Inputs

The VfM model drew its data from four areas. The main source was the beneficiary survey that gathered in-depth information on the financial situation of the businesses, and their trajectory in light of the loan – these data were used to calculate the net turnover generated by the intervention. Each respondent in the survey was linked to a corresponding record in the monitoring data which provided the details of their loan. The BBB/Start Up Loans team were the source of several key assumptions at the programme level – together with the monitoring data, these captured the costs of the intervention. Finally, there were four parameters in the model which were sourced externally.

Survey data

The elements drawn from the survey (posed to loan recipients) were related to four areas, with the following data fields:

- **Business owner / loan recipient:** ID, cohort, activity type (used loan to start or develop their business), income when they first gave thought to the business
- **Turnover:** For the last and current financial year, turnover and/or approximate turnover band, as well as the end date of those financial years. Expectation for change in turnover next year. Expectation for first financial year if not yet had a full year.
- **Deadweight additionality:** In qualitative terms, the effect of the loan in changing the speed, quality and scale of outcomes (i.e. turnover).
- **Displacement:** Estimates of how the business’s sales are distributed locally, nationally or internationally. Assessment of the competition in the market, and expectation for competitors to absorb sales if the business were to cease trading.

⁹³ Growing a business can be expected to be more challenging in a deprived area. Considering the results of survival analysis suggested that there were no further significant effects from SUL funding on survival probability in deprived LAs, we were interested in whether the SUL effect on the scale of business growth was different in those areas.

Monitoring data

From the monitoring data, we pulled data on ID, cohort, loan amount, loan start and end date. For the purposes of this analysis, only those with an ID that could be matched to the beneficiary survey were considered.

BBB data

The BBB provided data on the following areas: the default rate of loan recipients, the non-lending cost per loan, loan interest, and the public-sector opportunity cost (i.e. the return on investment that could have been generated from the loan monies if it were invested elsewhere in the public sector).

Reference data

Other sources for the remaining model parameters were as follows:

- **business survival rate:** SQW's analysis of survival rates (as set out in section 4 of this report)
- **GVA-to-turnover ratio:** BBB's analysis of the ONS's Annual Business and Purchases survey
- **Gross Disposable Household Income (GDHI):** the ONS
- **marginal utility of income:** Layard et al. (2008) as cited in HM Treasury's Green Book
- **rates for universal credit and housing benefit:** DWP
- **tax rates:** HMRC
- **GDP deflators:** HM Treasury
- **economic multiplier:** HM Treasury
- **discount rate:** HM Treasury.

Calculated values

This section provides a breakdown of how the input values are combined to generate the core model components.

Deadweight additionality

Coded as 0 or 1 if respondent said the outcomes would have been the same, or would not have happened at all, in the absence of the loan (zero or full additionality).

As per the routing of the survey, a respondent must have reported zero/full additionality, or some kind of partial additionality that included any of scale, time and/or quality.

Where the respondent said there was scale and/or time additionality, we converted their qualitative response(s) into a decimal from 0-1. E.g. if turnover would have been "roughly 51-75% of what it currently is, had they not been involved with Start Up Loans," then scale additionality is 0.37. i.e. we assume the midpoint, 63%, is deadweight and the residual, 37%, is additional. If business activity would have taken "7-12 months longer to occur," then time additionality is 0.45 (see profile for different time additionality below).

Where both scale and time additionality were reported, then we calculated the additionality factor as:

$$\text{combined factor} = 1 - (1 - \text{scale}) * (1 - \text{time})$$

Effectively, this calculation finds the region where the areas of deadweight overlap, thus increasing overall additionality when there are two aspects in combination. So, continuing the example above:

$$\text{combined factor} = 1 - (1 - 0.37) * (1 - 0.45) = 1 - 0.63 * 0.55 = 1 - 0.35 = 0.65$$

The remaining component of partial additionality was "quality," which is implicitly difficult to quantify. For that aspect, we took the following procedure. If the respondent reported quality additionality as well as

scale or time, then we ignored their response on quality and gave their overall additionality factor as above. However, if they reported partial additionality only in terms of quality, then we coded their additionality factor as 0.25.

If the respondent was unable to answer the main question on the type of additionality (i.e. “don’t know”), then we gave them a factor equal to the average of all other responses. Given that there were two routings for the additionality questions, for businesses started or developed, the model had two separate averages. In practice, there was little difference between these averages, 0.60 and 0.59.

If the respondent was unable to answer either of the categorical sub-questions on the extent of scale or time additionality, then give them the average of what others said for that sub-question.

In summary, the additionality factors were as follows:

Table A-2: Main question on additionality and corresponding factors

The business would have started / been developed...	Interpretation	Additionality factor
... at the same time, scale and quality	Zero additionality (full deadweight)	0.0
... would not have started at all	Full additionality	1.0
... at a later date	Partial (time) additionality	See table below
... on a smaller scale	Partial (scale) additionality	See table below
... but of lower quality	Partial (quality) additionality	0.25 (defer to time or scale additionality)
Don't know	Partial additionality	0.60

Source: SQW

Where respondents indicated time additionality, the following sub-question was posed. Responses to this were combined with the scale additionality, if applicable.

Table A-3: Sub-question on time additionality and corresponding factors

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?	Additionality (time) factor
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	0.60
Over 2 years	0.75
Don't know	0.43

Source: SQW

Where respondents indicated scale additionality, the following sub-question was posed.

Table A-4: Sub-question on scale additionality and corresponding factors

Roughly how large would the business be now in terms of turnover if you had not been involved with Start Up Loans?	Additionality (scale) factor
Less than 25% of current size	0.88
25-50% of current size	0.62
51-75% of current size	0.37
76-100% of current size	0.12

Source: SQW

The calculated value for this process was an additionality factor for each survey respondent, averaging to 59.6%. For the purposes of the following calculation, the survey sample was divided along the lines of their displacement additionality:

- Group 1: newly started business, full additionality
- Group 2: newly started business, partial additionality
- Group 3: pre-existing business (regardless of additionality)

Displacement

Displacement was calculated at the level of each respondent, and then aggregated into a single ratio for the VfM model.

The premise for displacement was to estimate how the market forces would react to the absence of business activity, i.e. would the impacts supported by Start Up Loans have been achieved by another firm in the market.

There were two components of input for this calculation: the proportion of sales made locally, made to the wider UK, and exports; and the self-assessed nature of competition in the area. Both of these were given by survey data.

Exports were considered entirely additional, and it was only the sales within the UK that were affected. The first step of this calculation was to calculate how many sales were made locally or elsewhere in the UK (this is given in terms of turnover).

In the second step the self-assessed, qualitative competition of the market was converted into a ratio.

Table A-5: Coding of displacement input variables

How would you describe the nature of the competition in your main markets?	Factor	If your business were to cease trading tomorrow, do you think any competitors would take up its current sales over the next year?	Factor
Very intense competition	1.00	Yes, all of our sales	1.00
Intense competition	0.75	Yes, some of them	0.50
Moderate competition	0.50	No, no-one would take up our sales	0.00
Weak competition	0.25	Don't know	0.50
No competition at all	0.00	Refused	0.50

Source: SQW

The amount of domestic sales that were non-additional (i.e. displaced) was the proportion that would be absorbed by the market if the business ceased trading. We assumed that that proportion was equal to the average of the above two factors. E.g. for a turnover of £1,000 and a 60% rate of exports then there would be £400 of domestic sales; if competition was “intense” and “some” competitors would take over, then the proportion of sales displaced would be $0.625 = (0.75 + 0.5) / 2$, and so the total value of displaced sales would be £250 = £400 * 0.625. Thus, the total additional (non-displaced) sales would be £750, or equivalently, £600 from export sales and £150 from domestic.

Using this method we calculated a displacement ratio for each survey respondent. Those respondents who had not yet started trading were filtered out. The remaining results were aggregated by taking the average, split along two factors: the cohort of loan recipient (2018/19 and 2021/22), and the three groupings from the displacement additionality (as given above). This gave a total of six displacement ratios.

Finance additionality

As with displacement, finance additionality was calculated based on survey responses, but applied in the VfM model at a sample level. The survey asked if loan recipients had considered bank/mainstream sources of finance, if they were successful in this application, and if not – why? In terms of finance, non-additionality is the proportion of loans that could have been served without the intervention, i.e. where the benefits would have been realised through normal activity in the market.

In this calculation, the first component was the low estimate. This was the proportion of people who were unsuccessful in applying for bank/mainstream sources of finance, relative to only those who were known to have applied.

The second component, the high estimate, captured some of those who chose not to apply for bank/mainstream finance because they did not expect to be successful. For a viable claim on not expecting to be successful, survey respondents had to give at least one of the following reasons:

- assumed a bank would refuse an application
- were 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
- business in early stages of development.

For the high estimate, we increased the proportion calculated in the low estimate by enlarging the pool to include those with a viable claim for not applying. Thus, the high estimate captured the proportion of people who did not receive bank/mainstream finance, relative to those who applied or did not apply for valid reasons.

The first two components were then combined to give a balanced estimate for finance additionality. Here, the pool of those considered was extended to include those who did not give a valid reason from the list above (i.e. they did not apply, but the reason given would not have precluded success). Of this extended pool, only a fraction were assumed to be finance additional. That fraction was equal to the average of the low and high estimates.

The description above is summarised in the table.

Table A-6: Calculation of finance additionality

Stage in analysis	Result
a) Number that applied for bank/mainstream finance, where outcome of the application is known	121
ai) Number that applied for bank/mainstream finance and were successful	50
a ii) Number that applied for bank/mainstream finance and were unsuccessful	71
Proportion of beneficiaries where Start Up Loans finance is additional – low ($[ai]/a$)	59%
b) Number that did not apply for bank/mainstream finance, but had cause to believe that such an application would be unsuccessful	37
c) Sub-total (a+b)	158
Proportion of beneficiaries where Start Up Loans finance is additional – high ($[a ii+b]/c$)	68%

d) Number of other beneficiaries identifying reasons for not applying for external finance, not covered in (b)	25
di) Number of other beneficiaries identifying reasons for not applying for external finance, if assume financial additionality at mid-point between 59% and 68% (64%)	16
e) Sub-total (c+d)	183
Proportion of beneficiaries where Start Up Loans finance is additional – mid $([aii+b+di]/e)$	68%

Source: SQW analysis of beneficiary survey

Turnover

The beneficiary survey asked respondents about the finances of their business. If they were operating a trading business (i.e. incurred costs or received income from sale of goods or services), then the survey routed them to questions on their last financial year. The survey also asked about their current financial year. Those who could answer these questions generated up to two data points for turnover, and two associated dates for the financial years that covered that turnover. Respondents also provided an estimate of the direction of travel for their turnover in the following financial year.

The above turnover values were given in gross terms. For each respondent, these turnovers were converted to net values by combining them with the additionality factors as described above. Across all 804 responses, and both years, the average gross turnover for was £175k and the average net turnover was £62k.

We assumed that all turnover would be distributed equally throughout the year, then we apportioned the 'last year' and 'current year' estimates given by respondents into the standard April-March financial years. Respondents gave two dates for financial years which could imply irregularity (i.e. years that were non-sequential or did not last 12 months). In these cases, the model aimed to distribute 'current' turnover smoothly between the two time points.

To calculate the 'next year' for turnover, we calculated the change in turnover between the previous and current financial years, respective to turnover band. E.g. there were 28 respondents who, in their last financial year, had a turnover between £0.5m and £1m. Of these, five experienced a decrease in turnover; three had the same turnover; and for the remaining 20, turnover increased. Of the five, the median decrease in turnover was 10%, and for the 20 the median increased in turnover was 28%. Where the survey asked if the respondent expected their turnover to increase, decrease, or stay the same, these median changes were applied to their current financial year to obtain an estimate for the next year.

Table A-7: Calculated values for reasonable turnover changes based on current turnover band

Turnover band	Median decrease	Median increase
Up to £9,999	-24%	85%
£10,000 to £24,999	-13%	63%
£25,000 to £49,999	-47%	28%
£50,000 to £84,999	-31%	27%
£85,000 to £99,999	-1%	27%
£100,000 to £249,999	-28%	30%
£250,000 to £499,999	-15%	20%
£500,000 to £999,999	-10%	28%
£1,000,000 or more	-13%	31%

Source: SQW analysis of beneficiary survey

Finally, to complete the modelling of the 'current' financial year, an optimism bias of 20% was applied to the proportion of the year not yet realised. E.g. if they answered the survey three quarters of the way

through their current financial year, then an optimism bias of $0.75 \times 20\% = 15\%$ was applied to their estimate. Further, an estimate for survival rates was also applied to account for the fact that some businesses would fold before the year completed. As per the econometric analysis of the survey data, the 1-year survival rate was assumed to be 94%.

To complete the modelling of the 'next' financial year, we applied the full optimism bias and the 2-year survival rate, 83%.

There is a weakness in the method for calculating the next year of turnover in that the particular trajectory of a given business is not factored into the estimate for the future. As such, for those businesses experiencing a trend of very high growth, the estimate for their next financial year will only have the more modest growth of the group median for their turnover band. Furthermore, there are other characteristics that could be factored into the growth estimates, such as controlling for sector or for the number of employees. However, it is unlikely that compensating for these weaknesses would alter the estimate for a significant quantity of businesses, or to a significant extent. The median is a fairly robust average to take as it avoids incorporating outlier data.

The method above produced estimates for up to three years' turnover data for each survey respondent. To capture a more complete picture of the loan's impact, the model timeframe was set to six years from the when the loan was given. i.e. the 2018/19 cohort was modelled up until 2023/24, and the 2021/22 cohort was modelled up until 2026/27.

For each survey respondent, the 'actual' turnover (i.e. from the previous, current and next year as described above) was supplemented by 'build-up' or 'forecast' years of turnover. The build-up/forecast years were extrapolated from the actual years of turnover data, with the appropriate number of either build-up or forecast years selected to fit into the six-year model.

To give an example, consider a survey respondent who received their loan in 2018/19 and answered the survey such that their previous financial year ended in June 2022. The 36 months of actual turnover data they provided was modelled over the four financial years 2021/22 to 2024/25. The first and last of those years are only partial because the respondent's financial years did not align with April-March financial years. To model the build-up, the three preceding financial years, i.e. 36 months spilling across 2018/19 to 2021/22, were given turnover relative to the 'previous' financial year, building linearly, i.e. 25%, then 50%, then 75%. To model the forecast turnover, the 'next' financial year was held constant, maintaining the optimism bias of 80% and using the survival rate for the 3rd, 4th and 5th years (75%, 70%, and 66%). In this example, the forecast years covered 36 months spilling over 2024/25 to 2027/28. The six-year model timeframe for this case starts in 2018/19 with the delivery of the loan and ends in 2023/24, thus, the three build-up years are selected but none of the forecast years is included.

This application of survival rates could be considered heavy-handed: not all of the businesses are newly born (some being developed from existing businesses), and many of the businesses are receiving support (e.g. in the form of mentoring) – these businesses may be considered less likely to fail. Further, the most successful businesses with high turnover are subjected to the same survival rate as the businesses with less turnover. Whilst it is true that a business with high turnover can fail, removing these businesses from the results at the same rate as the lower turnover businesses is likely disproportionate. However, we choose not to adjust the model to account for these biases: this is a sacrifice of accuracy to retain a simpler method with fewer assumptions and more conservative results that, arguably, if slightly, underestimate the true impacts.

The above procedure produced a net turnover profile for each survey respondent. By summing up the survey respondents according to their characteristics, we produced aggregations of benefits with the following splits:

- for the 2018/19 and the 2021/22 cohorts

- for new businesses that were either fully or partially deadweight additional, and for existing businesses that were developed through the loan.

The two cohorts were modelled separately so the benefits were divided at this stage. The split along lines of deadweight additionality was to allow three different values for displacement additionality to be applied.

In the modelling of benefits, a filter was included to remove those respondents who had ceased trading. Their turnover effects were not included as estimates may have been unreliable.

For sensitivity analysis, the turnover impacts are presented without the extrapolated impacts. Another alternative for the impacts was to adjust by income weighting.

Welfare-weighted benefits

As part of Green Book guidance, the government recommends presenting VfM analyses through that capture the distributional impacts, i.e. with an emphasis on delivering greater benefit to people in society who are in greater need of support. The following calculation generates a welfare weighting for each respondent in the model. This weighting increases or decreases the impact felt by that individual along the lines of equitability.

Following the approach recommended in the Green Book, we found the ratio of the net income of the UK general population to that of each turnover band in the survey, then raised that to the power of 1.3 (the marginal utility of income). Raising it to that power had the effect to increase income ratios above 1 (where respondents are poorer than average) and decrease it for those below 1, thus capturing the marginal returns of higher incomes.

For the net income of the population we used data on GDHI, given in the ONS's regional accounts. To calculate the net income of each respondent, we began with their gross income, as given in the survey at the time when they "first gave serious thought to starting up or acquiring this business." This question produced answers in income bandings. The midpoint of these bandings was taken and put through the relevant taxation scheme to net off the income tax and national insurance contributions. For the lowest band of income, £0-£9,999, instead of taking the midpoint, the upper end of the bracket was put through the tax system and averaged with a more realistic minimum income equal to the standard rate of universal credit plus housing benefit for over-21s.

To give an example, consider the middle income band, £30,000-£39,999. The midpoint of this band is £35k. In 2018/19, someone earning £35k would have been subject to £4,730 in income tax, and £3,189 in national insurance, leaving them with £27,081 of disposable income. The GDHI for that year was only £20,445, or 75% of someone earning £35k. Raising 75% to the power 1.3 (the marginal elasticity of income) gives 0.69.

For respondents who refused or were unable to answer the question on their income banding, we gave them a welfare weighting equal to the average of all other weightings across the survey.

Table A-8: Welfare weighting for the different income bands

Income band	Count of respondents (2018/19 cohort)	Count of respondents (2021/22 cohort)	Weighting (2018/19 cohort)	Weighting (2021/22 cohort)
£0-£9,999	92	60	3.43	3.35
£10,000-£14,999	37	24	2.03	2.12
£15,000-£19,999	36	23	1.46	1.54
£20,000-£24,999	55	38	1.12	1.19
£25,000-£29,999	57	33	0.90	0.96

£30,000-£39,999	64	38	0.69	0.74
£40,000-£49,999	41	30	0.56	0.58
£50,000-£99,999	47	43	0.32	0.34
£100,000-£149,999	10	7	0.17	0.19
£150,000-£199,000	1	2	0.12	0.13
£200,000 +	0	0	0.10	0.11
Don't know / refused	41	25	1.46	1.43

Source: SQW analysis of beneficiary survey

Across both cohorts 431 respondents were given a weighting above 1, against 373 given a weighting below 1. In effect, a slightly higher proportion of the survey respondents were in categories of lower net income than the average for the UK.

These income weightings were applied directly to the benefits calculated for each survey respondent. The respondent-level benefits were aggregated in parallel to the other 'with' and 'without persistence benefits' results.

Loan repayments

The monitoring data contained the information needed to calculate loan repayment.

The 18-digit contact ID linked loan recipients in the survey and the monitoring data. There are 804 survey respondents, which were all present in the monitoring data. The first step was to filter to just those rows, and extract the fields for the loan amount, start and end dates. The cohort was already known from the survey data.

For simplicity, the loan repayment was distributed evenly across the entire period from start to end, i.e. the loan amount divided by the length of the period in days. This daily repayment rate was then applied to the corresponding financial years. E.g. a £20k loan taken out in 01/06/2018 and paid by 31/05/2020 would compute as a repayment of around £27.40 per day for two years, and those repayments would fall across three financial years: £8,301 in 2018-19; £10,027 in 2019-20; and £1,671 in 2020-21.

The total loan repayments were aggregated into financial years, and split by cohort. The total loan value, and the number of loans were also aggregated over the whole programme, and split by cohort.

BCR

The core VfM model brought together the intermediary results of the benefits, costs, displacement factor and the finance additionality ratio.

The benefits (turnover effects) were first converted into net figures by applying the displacement factor across each of the three subgroups (1, new businesses that were fully deadweight additional; 2, new businesses that were partially deadweight additional; and 3, businesses existing before the Start Up Loans intervention).

The net turnover was then translated into GVA terms. A single GVA/turnover ratio was derived from ONS data on small businesses, i.e. matching the profile of the type of business that Start Up Loans supports.

We applied deflators to adjust GVA into 2018/19 money, then applied a discount rate of 3.5% for every year of benefits accrued in the future, i.e. the GVA in 2019/20 was multiplied by 0.966, the GVA in 2020/21 was multiplied by 0.934 and so on.

The cost component of the VfM was calculated from two perspectives: the exchequer (based on the total value of the loans and the lending costs, minus repayments and interest) and the economy (the opportunity cost of the balance tied up in the loan, plus the value of the defaulted loan repayments, in net terms).

From either perspective, the process of the loan repayment was the same. Initially, the balance was equal to the sum of all loans. In each year a tranche of repayment was modelled, as per the previous subsection. However, we assumed a proportion of the recipients defaulted on their loans, resulting in non-repayment. This was modelled at the aggregate level of the repayments for that year, and that proportion was written off. Thus, the balance for the year was broken down into the amount that was expected to be repaid, the amount that ought to have been repaid but was instead written off, and the remaining balance that was carried forward to next year. This process repeated across the whole timeline of loan repayments when the balance finally reached zero.

Exchequer costs

In each year of the cycle above, any balance which was not written off was subject to an interest payment. Along with the amount that was expected to be repaid, this was equal to the total value recovered from the loans each year. Those loan repayment and interest payments entered the model as negative costs, as they were recovery of the costs felt at the outset of the programme.

The actual costs incurred entered the model in the first year. These were the total value of the loans and the total value of the non-lending loan costs. The former is drawn directly from the monitoring data analysis, and the latter is the number of loans multiplied by a benchmark for non-lending costs per loan (£2,571 in 2018/19 and £2,049 in 2021/22 as per the BBB).

As with the benefits, each year of costs was adjusted for inflation and discounting. This had the effect to diminish the amount repaid – however, this is a principle in accounting, and does not reflect further, actual non-repayment of loans.

Economic costs

In this alternative perspective we considered the costs in terms of the impact on aggregate demand. The costs stemmed from the lost value within the written-off loan repayments or from the additional economic activity could have been generated if investment were made elsewhere.

In each year of the cycle above, the year-end balance was multiplied by a benchmark for the public sector opportunity costs (3.5% as provided by the BBB). This was then combined with the default costs for each year, and both were multiplied by the overall finance additionality of the programme. This additionality factor reflects the fact that a proportion of activities would have happened in the absence of SUL, and that those same loans would have had an opportunity cost and defaulted repayments.

As with other costs, we apply deflators and discounting to normalise values to a base year and account for social time preference.

VfM

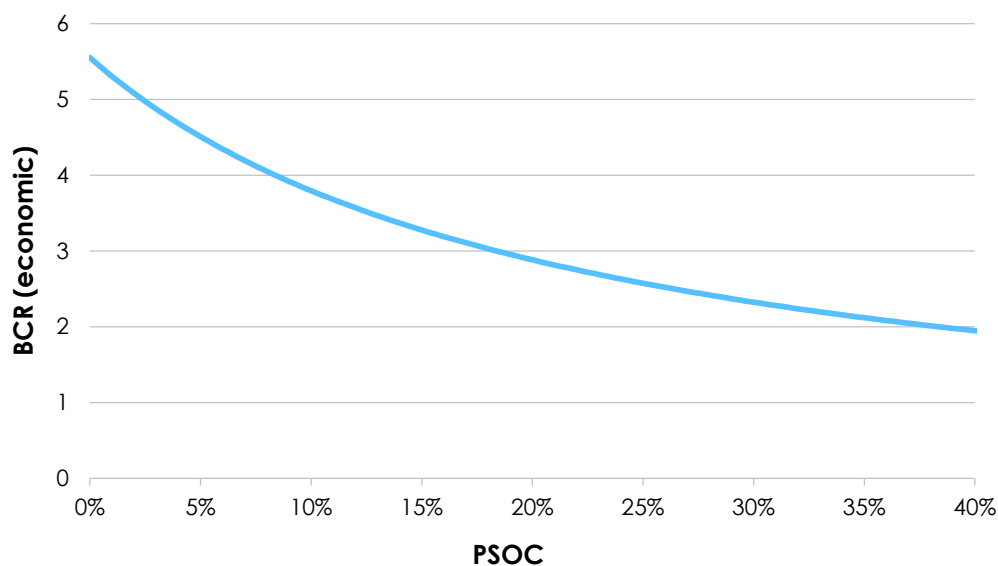
The final stage of the model was to combine the GVA benefits and the costs in a Benefit-Cost Ratio (BCR) and a Net Present Value (NPV). For the main set of results we compared benefits, without welfare weightings, against two forms of cost (exchequer and economic).

In terms of sensitivity testing, in the main body of the report alternative benefits streams were considered that used welfare weightings to adjust the GVA benefits, that also stripped out the build-up and forecast elements, and that forecast turnover benefits under three scenarios. The model results were robust against these tests.

A final sensitivity test is to consider the impact of different values for the Public Sector Opportunity Cost (PSOC). Recall, this parameter only affects the economic costs as it relates to the utility of the money tied up in the loans. Based on a review of the literature, the PSOC is set to 0% in the core model, representing the marginal cost of public spending in a fiscal system that is optimal at the margin. The following chart models the BCR for the economic costs with a PSOC ranging from 0-40%. As can be

seen from the chart, the BCR is strongly influenced by the PSOC, but with a diminishing effect. Again, it can be confirmed that the model outputs are robust to changes in this parameter (the PSOC would need to be set to over 100% for the BCR to fall below 1).

Figure A-6: Sensitivity analysis on the Public Sector Opportunity Cost



Annex B: Consultee details

Scoping consultations

Scoping discussions were undertaken with eight representatives from the British Business Bank and Start Up Loans.

Stakeholder consultations

Table B-1: Stakeholder consultee organisations

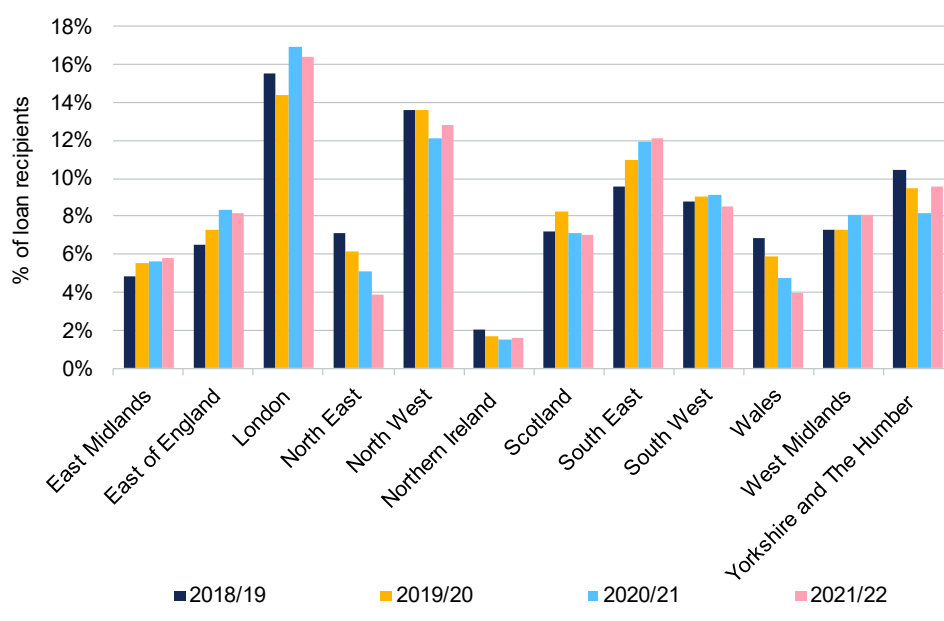
Organisation	Number of consultees
British Business Bank, UK Network team	4
Business Gateway (Scotland)	1
Centre for Research in Ethnic Minority Entrepreneurship	1
Department for Business and Trade (DBT)	1
Development Bank of Wales	1
FSB	1
Funding Xchange	1
Invest NI	1
Responsible Finance	1
Scale Up Institute	1
Sheffield Chamber of Commerce	1
Start Up Loans	3
UK Finance	1
Umi – Business Support Desk	1
Welsh Government	1
Total	20

Source: SQW

Annex C: Further detail on the loan portfolio

Figure C-1 provides a breakdown of loan recipients by region in each of the four cohorts.

Figure C-1: Loan recipients by region



Source: SQW analysis of Start Up Loans monitoring data

Table C-1 compares the regional distribution of loan recipients with the percentage of new enterprise births, as reported in the UK Business Demography 2022 dataset.⁹⁴

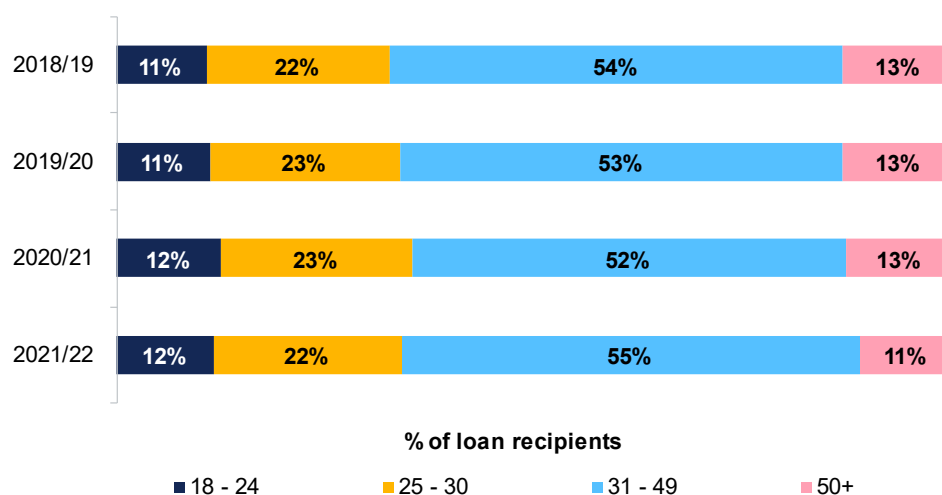
⁹⁴ [Business demography, UK - Office for National Statistics \(ons.gov.uk\)](https://ons.gov.uk/business-demography)

Table C-1: Loan recipients by region and percentage of business births in 2022

Region	Loan recipients	% business births 2022	Difference
North East	5%	3%	2%
North West	13%	11%	2%
Yorkshire and The Humber	9%	8%	1%
East Midlands	6%	7%	-1%
West Midlands	8%	9%	-1%
East of England	8%	9%	-1%
London	16%	23%	-7%
South East	11%	13%	-2%
South West	9%	7%	2%
Wales	5%	4%	1%
Scotland	7%	6%	1%
Northern Ireland	2%	2%	0%

Source: SQW analysis of Start Up Loans monitoring data and Business Demography data

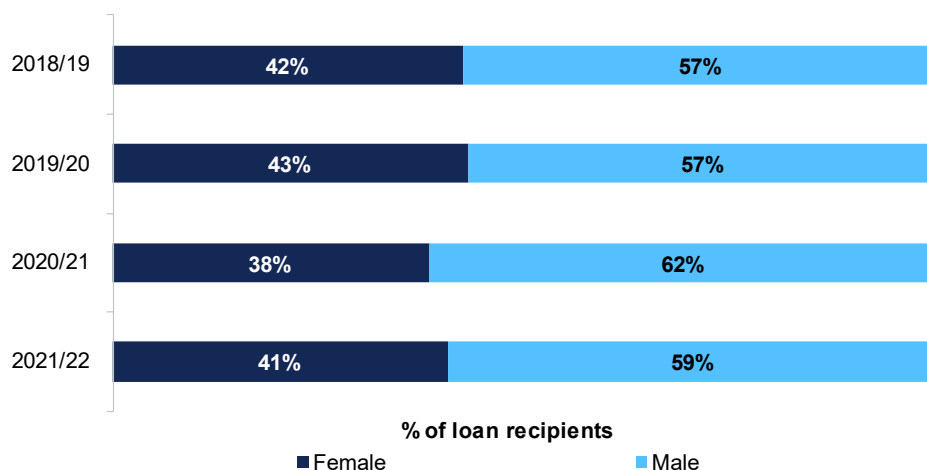
Figure C-2 shows the age profile of each cohort.

Figure C-2: Loan recipients by age group

Source: SQW analysis of Start Up Loans monitoring data

Figure C-3 shows the gender profile of loan recipients in each cohort.

Figure C-3: Loan recipients by gender

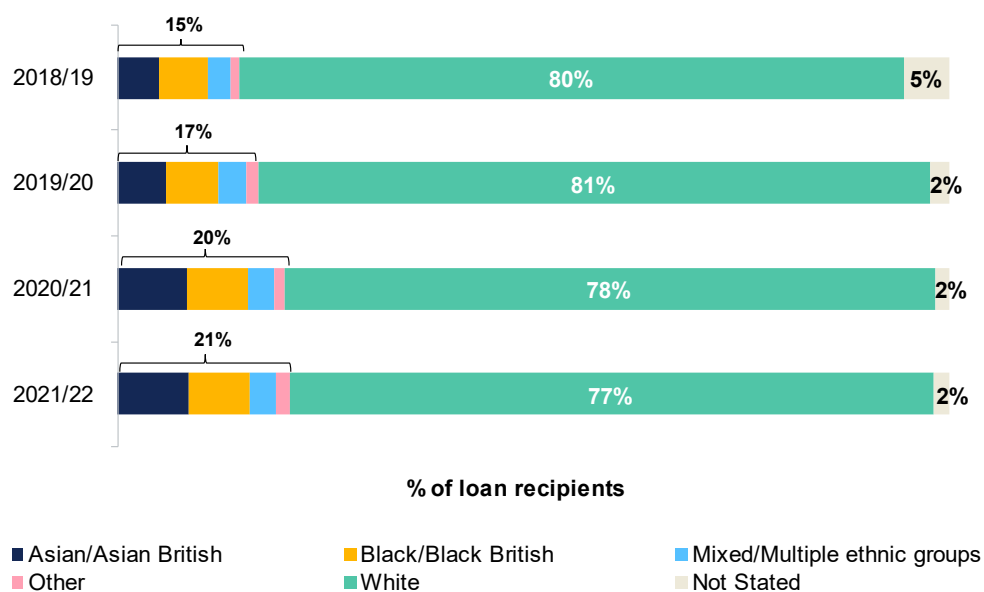


Source: SQW analysis of Start Up Loans monitoring data

Note: Percentages for non-binary and transgender loan recipients round down to 0%

Figure C-4 provides the breakdown of loan recipients by ethnicity.

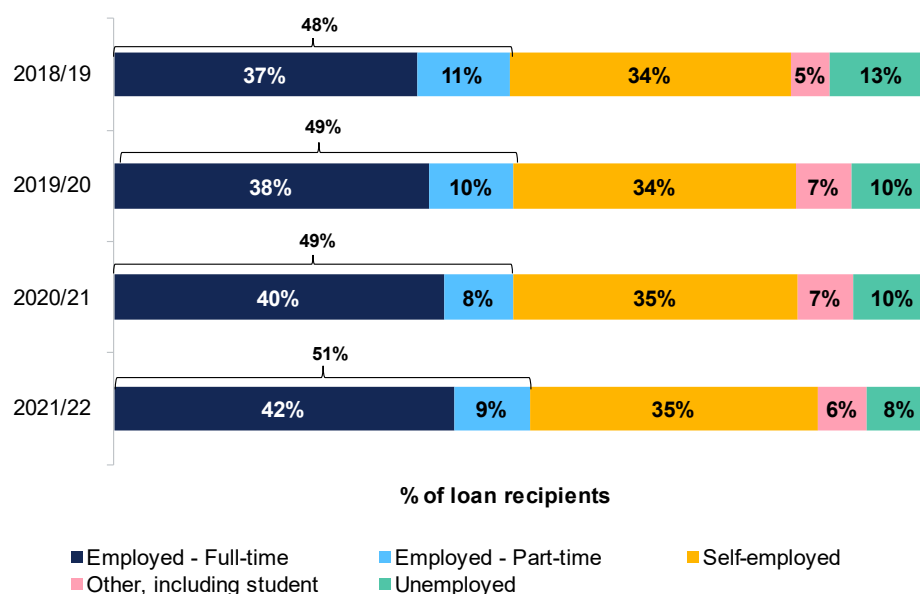
Figure C-4: Loan recipients by ethnicity group



Source: SQW analysis of Start Up Loans monitoring data

Figure C-5 shows the breakdown of loan recipients in each cohort by employment status.

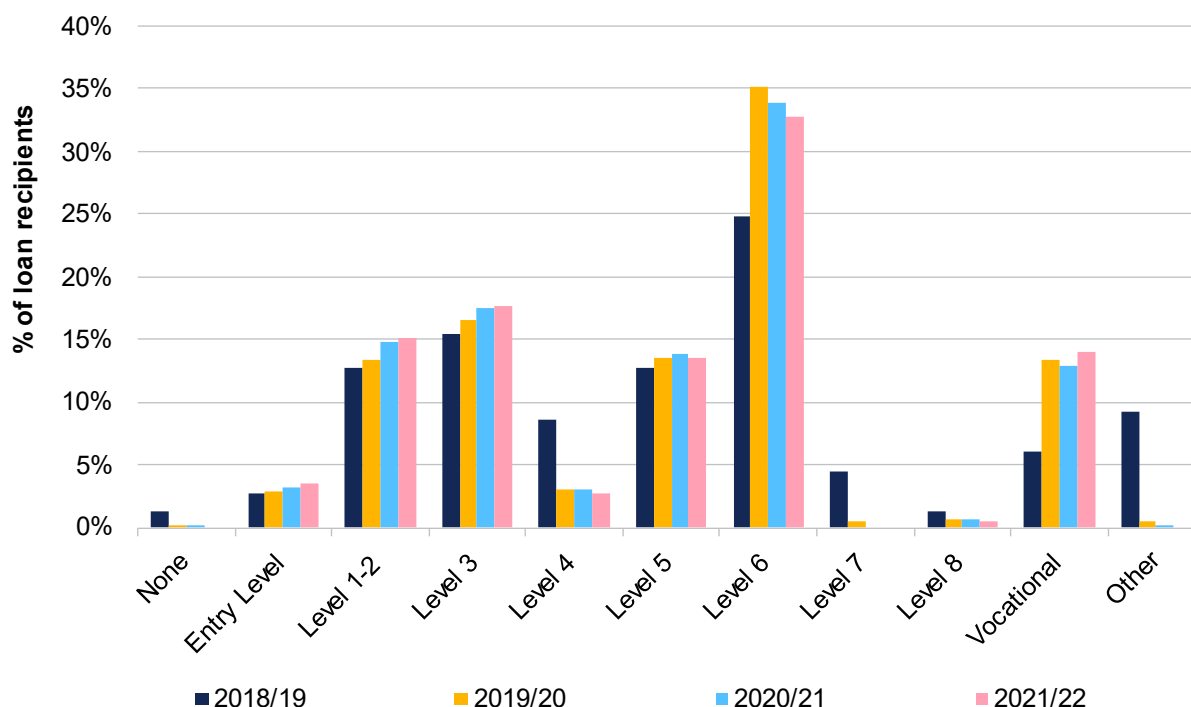
Figure C-5: Loan recipients by prior employment status



Source: SQW analysis of Start Up Loans monitoring data

Figure C-6 shows the distribution of qualifications among loan recipients.

Figure C-6: Loan recipients by highest qualification



Source: SQW analysis of Start Up Loans monitoring data

Annex D: Survey results

Sample profile

The tables that follow provide a breakdown of monitoring data and survey response by key characteristics.

Table D-1: Gender of loan recipients

Gender	Monitoring data		Survey data	
	2018/19	2021/22	2018/19	2021/22
Male	57%	59%	60%	67%
Female	42%	41%	40%	33%
Transgender	0%	0%	0%	0%
Non-binary	0%	0%	0%	0%
Prefer not to disclose	0%	0%	0%	0%

Source: Start Up Loans monitoring data; beneficiary survey

Table D-2: Age of loan recipients

Age	Monitoring data		Survey data	
	2018/19	2021/22	2018/19	2021/22
18-24	11%	12%	7%	8%
25-30	22%	22%	15%	18%
31-49	54%	55%	56%	53%
50+	13%	11%	22%	21%

Source: Start Up Loans monitoring data; beneficiary survey

Table D-3: Ethnicity of loan recipients

Ethnicity	Monitoring data		Survey data	
	2018/19	2021/22	2018/19	2021/22
White	80%	77%	80%	79%
Ethnic Minorities	15%	21%	19%	20%
Not stated	5%	2%	2%	1%

Source: Start Up Loans monitoring data; beneficiary survey

Table D-4: Employment status of loan recipients prior to the loan

Prior employment status	Monitoring data		Survey data	
	2018/19	2021/22	2018/19	2021/22
Self-employed	34%	35%	37%	38%
Employee (full time)	37%	42%	33%	40%
Employee (part time)	11%	9%	12%	8%
Unemployed	13%	8%	12%	9%
Other (inc. student)	5%	6%	6%	4%

Source: Start Up Loans monitoring data; beneficiary survey

Table D-5: Location of loan recipients

Location	Monitoring data		Survey data	
	2018/19	2021/22	2018/19	2021/22
East Midlands	5%	6%	7%	6%
East of England	6%	8%	6%	8%
Isle of Man	0%	0%	0%	0%
London	15%	16%	12%	17%
North East	7%	4%	8%	4%
North West	14%	13%	15%	8%
Northern Ireland	2%	2%	2%	1%
Scotland	7%	7%	4%	7%
South East	10%	12%	11%	15%
South West	9%	9%	8%	9%
Wales	7%	4%	6%	3%
West Midlands	7%	8%	8%	9%
Yorkshire and The Humber	10%	10%	12%	13%
No data	0%	2%	0%	0%

Source: Start Up Loans monitoring data; beneficiary survey

Table D-6: Deprivation status of the local authority of loan recipients

Deprivation status	Monitoring data		Survey data	
	2018/19	2021/22	2018/19	2021/22
Deprived Local Authority	16%	16%	14%	15%
Not deprived Local Authority	84%	82%	86%	85%
No data	0%	2%	0%	0%

Source: Start Up Loans monitoring data; beneficiary survey

Table D-7: Average loan amount

Average loan amount	Monitoring data		Survey data	
	2018/19	2021/22	2018/19	2021/22
	£11,374	£13,641	£12,109	£14,107

Source: Start Up Loans monitoring data; beneficiary survey

Table D-8: Loan amount in relation to the median

Loan amount in relation to the median	Monitoring data		Survey data	
	2018/19	2021/22	2018/19	2021/22
Received loan above cohort median	47%	50%	50%	51%
Did not receive loan above cohort median	53%	50%	50%	49%

Source: Start Up Loans monitoring data; beneficiary survey

Table D-9: Loan default status

Loan default status	Monitoring data		Survey data	
	2018/19	2021/22	2018/19	2021/22
Defaulted	34%	24%	25%	18%
Did not default	66%	76%	75%	82%

Source: Start Up Loans monitoring data; beneficiary survey

Table D-10: Loan default status

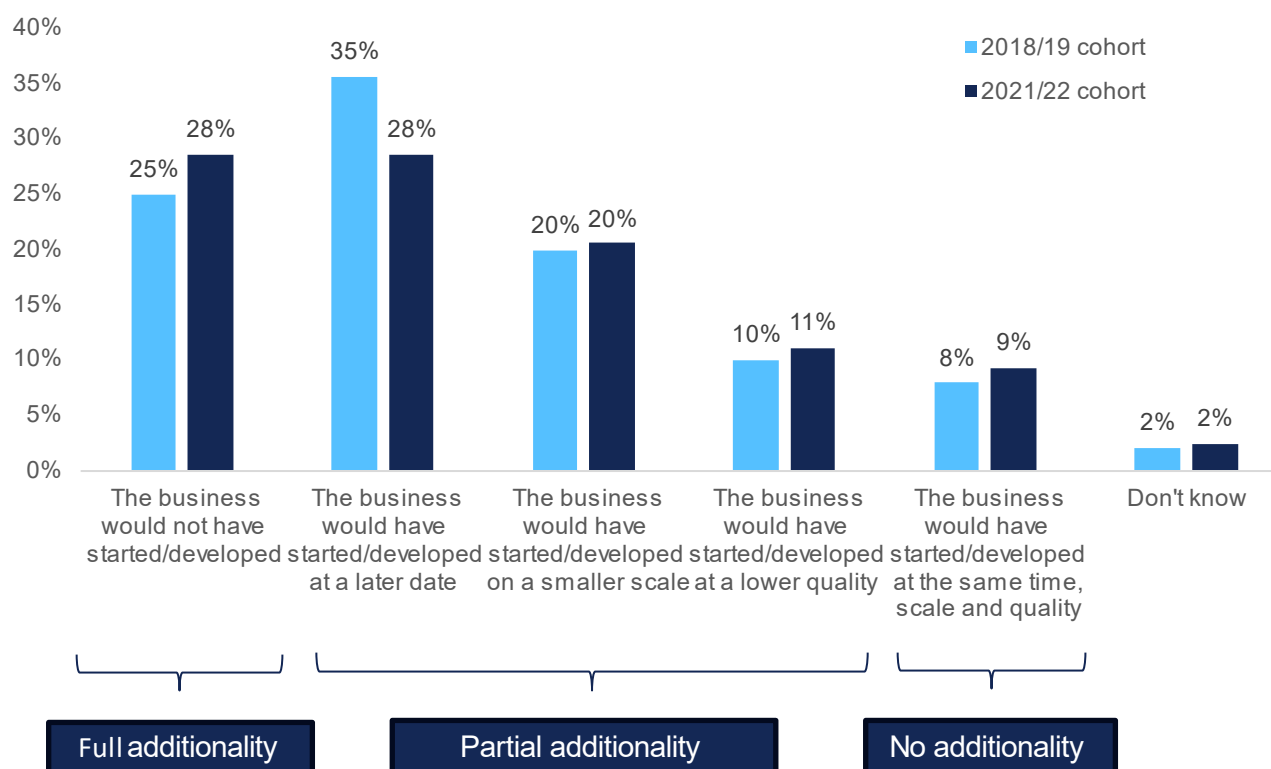
Employment status	2018/19		2021/22	
	When thinking about starting business	At the time of survey	When thinking about starting business	At the time of survey
Self-employed/business owner/proprietor (incl. legal company directors)	19.5%	20.4%	57.6%	56.0%
Unemployed - seeking work	9.4%	11.5%	2.5%	3.4%
Unemployed - not seeking work	6.9%	6.5%	4.0%	4.3%
A full-time employee	45.3%	44.6%	26.6%	26.6%
A part time employee	7.5%	8.0%	5.4%	4.3%
In casual work	1.2%	1.2%	0.4%	0.9%
In Work-based Training (e.g. Apprenticeships)	0.4%	0.0%	0.0%	0.0%
A student (Institution-based)	2.7%	2.5%	0.2%	0.9%
Volunteering/undertaking an Internship	0.2%	0.0%	0.0%	0.3%

Other	6.4%	5.3%	3.3%	3.1%
Refused	0.4%	0.0%	0.0%	0.0%

Source: Start Up Loans monitoring data; beneficiary survey

Outcome additionality

Figure D-1: In your view, without your involvement with the Start Up Loans programme, which of the following would have happened?



Source: Beneficiary survey (n=293 loan recipients in 2018/19 cohort and 173 in 2021/22 cohort who started a new business; 162 loan recipients in 2018/19 cohort and 127 in 2021/22 cohort who developed an existing business)

Annex E: Further detail on econometric analysis

This annex contains regression outputs from within-programme examination of survey data and investigation of secondary data, including firm survival analysis and DiD analysis of business performance.

Within-programme analysis of survey data

The following results are broadly consistent when additionally controlling for sector of economic activity and region.

Table E-1: Regression analysis of turnover growth and firm survival

Explanatory variables	Dependent variable	
	ln (turnover_this_year – turnover_last_year)	Firm still active
Intercept	8.94 *** (0.37)	0.19 (0.25)
Male	0.82 *** (0.23)	0.15 (0.16)
Ethnic Minorities	-0.63 ** (0.30)	-0.33 (0.21)
Deprived LA	0.07 (0.33)	0.01 (0.22)
Age 18-30	-0.42 (0.30)	-0.47 *** (0.18)
Unemployed prior to SUL	0.23 (0.43)	-0.24 (0.25)
Degree	0.29 (0.25)	0.09 (0.19)
Trading before SUL	-0.12 (0.23)	0.13 (0.17)
Non-financial support outside of Start Up Loans	0.32 (0.23)	0.55 *** (0.18)
Cohort 2021-22	-0.39 (0.24)	0.28 (0.17)
Loan value £10k+	1.36 *** (0.29)	0.51 ** (0.22)
Loan value £5-10k	1.23 *** (0.37)	0.18 (0.24)
Observations	182	792

R-squared

0.18

0.07

Note: *** p < 0.01; ** p < 0.05; * p < 0.1. Presented numbers for turnover are coefficients from linear regression; for being active the figures are estimates from logistic regressions (odds ratios can be obtained by exponentiating the coefficients).

Source: Econometric analysis of survey data

Table E-2: Regression analysis of changes in business and personal confidence

Explanatory variables	Dependent variable					
	(1)	(2)	(3)	(4)	(5)	(6)
Intercept	1.13 *** (0.28)	0.56 ** (0.25)	-0.53 ** (0.25)	0.18 (0.24)	-0.35 (0.24)	-1.42 *** (0.29)
Male	-0.39 ** (0.18)	-0.11 (0.16)	-0.28 * (0.16)	-0.15 (0.15)	0.06 (0.15)	0.03 (0.18)
Ethnic Minorities	0.44 * (0.23)	0.66 *** (0.22)	0.60 *** (0.19)	0.44 ** (0.20)	0.58 *** (0.19)	0.80 *** (0.20)
Deprived LA	0.35 (0.25)	0.26 (0.23)	0.00 (0.22)	0.23 (0.21)	0.18 (0.21)	0.25 (0.24)
Age 18-30	0.81 *** (0.22)	0.60 *** (0.19)	0.24 (0.18)	0.34 * (0.18)	0.20 (0.17)	-0.26 (0.21)
Unemployed prior to SUL	-0.41 (0.26)	-0.37 (0.24)	-0.03 (0.24)	0.02 (0.23)	0.11 (0.23)	0.51 ** (0.25)
Degree	0.07 (0.20)	-0.07 (0.18)	-0.12 (0.18)	-0.18 (0.18)	-0.26 (0.18)	-0.06 (0.20)
Trading before SUL	-0.11 (0.17)	-0.05 (0.16)	-0.16 (0.16)	-0.11 (0.15)	-0.03 (0.15)	-0.35 * (0.19)
Non-financial support outside of Start Up Loans	0.41 ** (0.18)	0.39 ** (0.17)	0.38 ** (0.16)	0.47 *** (0.16)	0.36 ** (0.16)	0.30 (0.18)
Cohort 2021-22	-0.43 ** (0.17)	-0.23 (0.16)	-0.17 (0.16)	-0.23 (0.15)	-0.09 (0.16)	0.18 (0.18)
Loan value £10k+	-0.17 (0.24)	-0.25 (0.22)	0.20 (0.22)	-0.22 (0.21)	-0.13 (0.21)	0.04 (0.25)
Loan value £5-10k	0.01 (0.27)	-0.10 (0.25)	-0.04 (0.24)	-0.09 (0.23)	-0.10 (0.23)	-0.07 (0.28)
Observations	804	804	804	804	804	804
Pseudo R-squared	0.08	0.06	0.04	0.04	0.03	0.06

Dependent variable:

- (1) Increase in business confidence
- (2) Increase in business confidence and Start Up Loans reported as important
- (3) Increase in business confidence and Start Up Loans reported as very important
- (4) Increase in personal confidence
- (5) Increase in personal confidence and Start Up Loans reported as important
- (6) Increase in personal confidence and Start Up Loans reported as very important

Note: *** $p < 0.01$; ** $p < 0.05$; * $p < 0.1$. Presented numbers are estimates from logistic regressions. Odds ratios can be obtained by exponentiating the coefficients.

Source: Econometric analysis of survey data

Table E-3: Regression analysis of mentoring take-up (including loan recipients who were offered mentoring) and arrears status

Explanatory variables	Dependent variable	
	Accepted mentoring offer	Firm is in arrears
Intercept	0.59 (0.38)	-0.96 *** (0.29)
Male	-0.07 (0.24)	-0.26 (0.17)
Ethnic Minorities	0.03 (0.29)	0.59 *** (0.21)
Deprived LA	0.68 ** (0.32)	0.60 *** (0.22)
Age 18-30	0.10 (0.26)	-0.17 (0.20)
Unemployed prior	-0.06 (0.37)	-0.07 (0.27)
Degree	0.04 (0.28)	-0.19 (0.20)
Trading before receiving the loan	-0.11 (0.24)	0.01 (0.17)
Non-financial support outside of Start Up Loans	-0.54 ** (0.26)	-0.04 (0.18)
Cohort 2021-22	-0.01 (0.24)	0.33 * (0.18)
Loan value £10k+	-1.19 *** (0.31)	0.16 (0.24)
Loan value £5-10k	-1.26 *** (0.35)	-0.18 (0.24)
Had previously owned/managed a different business	0.72 *** (0.27)	(0.28)
Satisfied with mentoring		-0.48 * (0.28)
Dissatisfied with mentoring		0.26 (0.32)
Declined mentoring		-0.35 * (0.20)
Observations	374	802

Pseudo R-squared	0.11	0.06
Notes:		
“Not offered mentoring” is an omitted category in the second regression model. “Loan size under 5k” is an omitted category in both regressions.		
*** p < 0.01; ** p < 0.05; * p < 0.1. Presented numbers are estimates from logistic regressions. Odds ratios can be obtained by exponentiating the coefficients.		
Source: Econometric analysis of survey data		

Secondary data analysis

Survival analysis

Table E-4 presents results of regression analysis of firm survival (Cox regression). We run this analysis only for Beneficiaries B and Comparison Group 3 firms, as for this sample the proportional hazard assumption that underpins this type of regression is satisfied and thus regression results are valid (i.e. the difference in hazard rates between the groups is constant overtime). The dependent variable is firm survival (firm still active or not). The base model contains beneficiary status as the only explanatory variable, and thus compares risk of becoming non-active among beneficiaries B relative to comparison group 3. We found that the risk of becoming inactive is lower for beneficiaries than comparator companies and that this difference is statistically significant at the 1% level. The estimated odds ratio is 0.72, implying that at any point in time beneficiaries were only 72% as likely as non-beneficiaries to stop being active (become dormant, go into liquidation, etc).

The extended model also includes an indicator variable for the 10% most deprived local authority and an interaction term between the beneficiary status and the deprivation indicator. We find that there is no statistically significant difference in effects for beneficiaries located in the areas from the bottom decile on IMD.

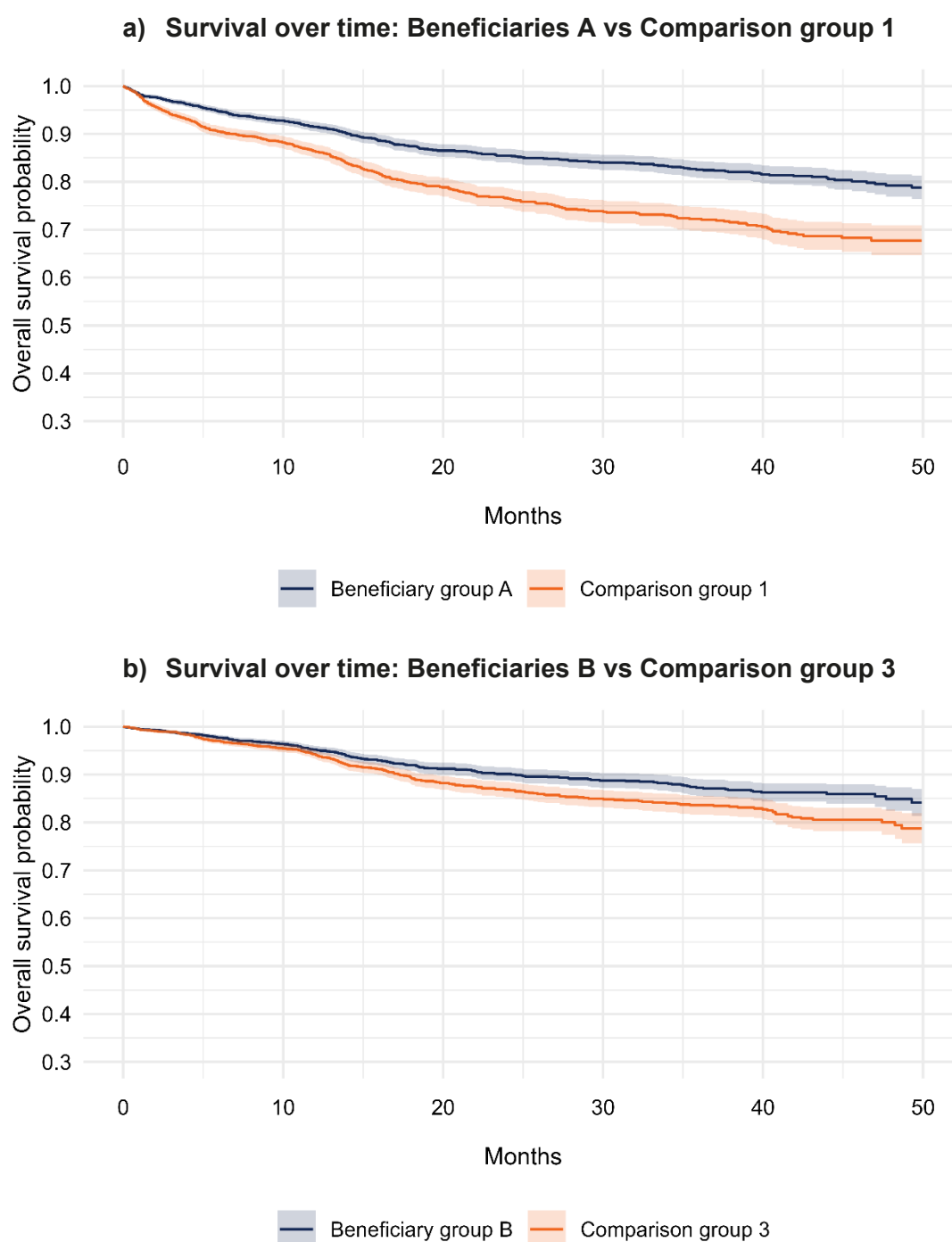
Table E-4: Regression analysis of firm survival (Cox regression), only Beneficiaries B and Comparison Group 3 firms.

Variable	Base model	Impact in the most deprived areas
Risk of becoming inactive among Beneficiaries B relative to Comparison group 3	-0.32 *** (0.07)	-0.34 *** (0.08)
Effect on the risk of becoming inactive associated with setting up business in one of the 10% most deprived areas		0.11 (0.12)
Further effect of Start Up Loans on the risk of becoming inactive for Beneficiaries B in the 10% most deprived areas		0.09 (0.18)
Observations	6,696	6,696

Source: Start Up Loans monitoring data

Note: *** p < 0.01; ** p < 0.05; * p < 0.1. Coefficients are in units of log odds ratio. Odds ratios are obtained by taking exponential of the coefficients.

Figure E-1: Truncated analysis: starting from year 2 since incorporation. Comparing survival over time of beneficiary firms and constructed comparison groups



Source: Start Up Loans monitoring and the Data City data, 0 refers to two years after incorporation of a business

DiD analysis of business performance

All regression results for the assets analysis are presented in Table E-5.

Table E-5: Growth in assets vs comparator companies

Variable	All data		Trimmed data	
	Base model for assets	Impact in the most deprived areas	Base model for assets	Impact in the most deprived areas
Beneficiary Group B vs Comparison group 3 'before'	0.05 (0.09)	0.05 (0.09)	* 0.21 (0.09)	* 0.21 (0.09)
Growth in Comparison group 3	0.10 (0.12)	0.10 (0.12)	0.12 (0.12)	0.11 (0.12)
Time between observations	*** 0.35 (0.05)	*** 0.35 (0.05)	*** 0.33 (0.05)	*** 0.33 (0.05)
Growth among Beneficiary Group B beyond Comparison group 3	** 0.29 (0.11)	** 0.034 (0.11)	** 0.29 (0.11)	** 0.34 (0.11)
Further impact on growth of Beneficiaries B in the 10% most deprived areas		-0.24 (0.16)		-0.27 (0.16)
R ²	0.02	0.02	0.02	0.02

Source: SQW analysis of the Data City data

Significance levels: * p < 0.05; ** p < 0.01; *** p < 0.001

Note: all standard errors are cluster robust (clustered by business)

All regression results for the employment analysis are presented in Table E-6.

Table E-6: Growth in employment vs comparator companies

Variable	All data		Trimmed data	
	Base model for employment	Impact in the most deprived areas	Base model for employment	Impact in the most deprived areas
Beneficiary Group B vs Comparison group 3 'before'	-0.02 (0.03)	-0.02 (0.03)	0.03 (0.02)	0.03 (0.02)
Growth in Comparison group 3	-0.07 (0.04)	-0.07 (0.04)	-0.05 (0.04)	-0.05 (0.04)
Time between observations	*** 0.10 (0.02)	*** 0.10 (0.02)	*** 0.10 (0.02)	*** 0.10 (0.02)
Growth among beneficiary Group B beyond Comparison group 3	*** 0.14 (0.03)	*** 0.15 (0.03)	*** 0.13 (0.03)	*** 0.14 (0.03)
Further impact on growth of Beneficiaries B in the 10% most deprived areas		-0.01 (0.07)		-0.06 (0.06)
R ²	0.02	0.02	0.02	0.02

Source: SQW analysis of The Data City data

Significance levels: * p < 0.05; ** p < 0.01; *** p < 0.001

Note: all standard errors are cluster robust (clustered by business)

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