CabinetOffice

Analysis on the impact of social investment on growth

March 2013

As part of our commitment to **open data**, we are releasing a selection of internal analysis that has informed policy development on growing the social investment market.

This internal analysis does not constitute a statement of government policy. If you have any comments or queries on the analysis, please contact us as at:

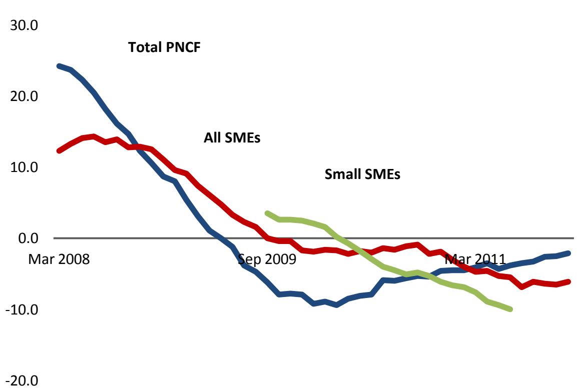
socialinvestmentandfinance@cabinet-office.gsi.gov.uk

Problems in financial markets continue to reduce access to credit

Bank lending to SMEs is still 8% from its peak

8 per cent less credit is available from peak

Yearly percentage change in the stock of lending to SMEs and corporate businesses (PNFC)



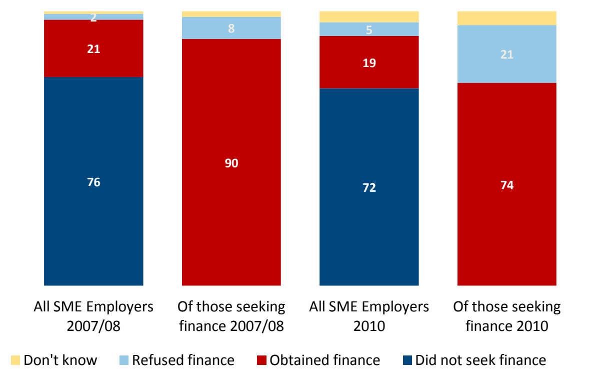
Bank of England lending data shows that:

- Credit conditions have been worsening at an increasing rate for SMEs since September 2009.
- However credit for larger corporates is showing signs of stabilisation.

Source: Bank of England Trends in Lending (January 2012)

More SMEs getting turned down for lending

Proportion of SME Employers seeking and obtaining finance (2007-2010 comparison)



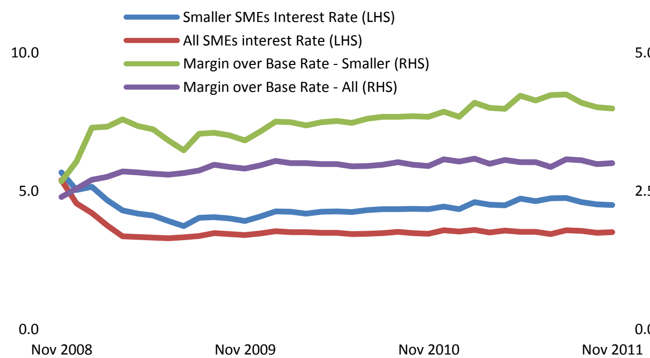
Small Business Survey data reveals that:

- While there was a 4% increase in SMEs which sought finance there was a 2% reduction in the overall number of SMEs who received finance.
- So of those who sought finance the refusal rate jumped from 9% to 21%. Between 2008 and 2010.

Source: Small Business Survey 2010

Although borrowing is not more expensive

Indicative interest rates and margins charged on SME variable rate lending



Data from the Bank reveals that:

- Initially in late 2008 SMEs, especially smaller SMEs, suffered an increase in cost of borrowing relative to the base rate.
- However as base rates have fallen interest rates for SMEs have remained low and unaltered.

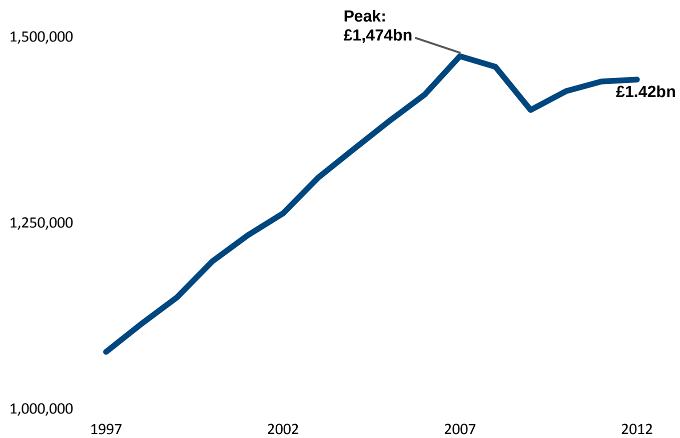
Source: Bank of England Trends in Lending (January 2012)

Problems in financial markets continue to impact the real economy

People in the most deprived areas have seen claimant counts rise 50% more than the rest of England

Output has not recovered

UK GDP (£bn)



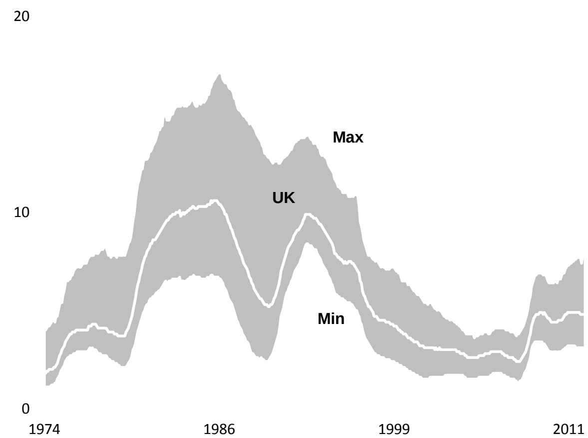
ONS survey data shows:

- Output is £32bn short of its pre-crisis peak of 2007.
- This is the slowest recovery in the UK's recorded economic history currently lasting over 60 months. In the previous 5 largest UK recessions output returned to peak within 48 months.

Source: ONS

People in certain places have fared worse

UK claimant count rate and regional spread (%)



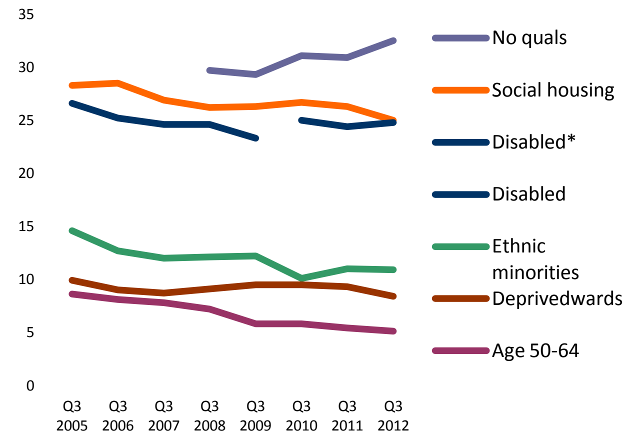
ONS and Nomis data shows:

- The claimant count has risen during the recession and the greatest increase has been in the most deprived areas.
- Prior to the recession the difference in claimant count between the most deprived decile and the rest of England was just above 4% but it has now risen to nearly 6%.

Source: ONS, NOMIS

Labour market disparities remain large for some groups

Q3 2012 employment gap aged 16-64 (% points)



DWP admin data reveals that:

- The employment rate gap remains significant for ethnic minorities, those in social housing, older workers and deprived wards, but worsened for those with no qualifications.
- Highest out-of-work benefit rates are in major cities, some former industrial areas, including the South Wales Valleys, and some isolated towns.

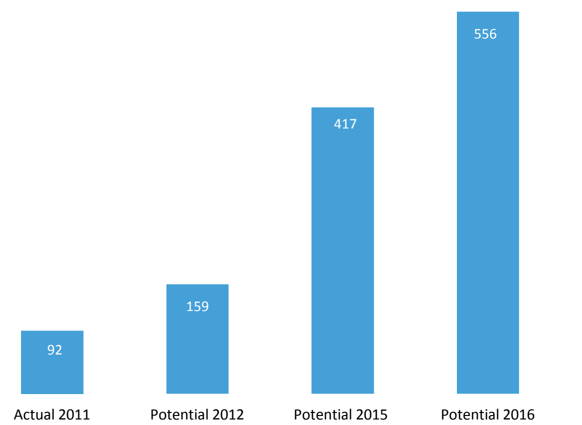
Source: DWP

Social investment can get private investment into deprived areas and to enterprises employing disadvantaged groups

If the social investment market reached £1 billion it would generate:

c. £556 million of additional growth

Growth in GVA (£m) from expected investment

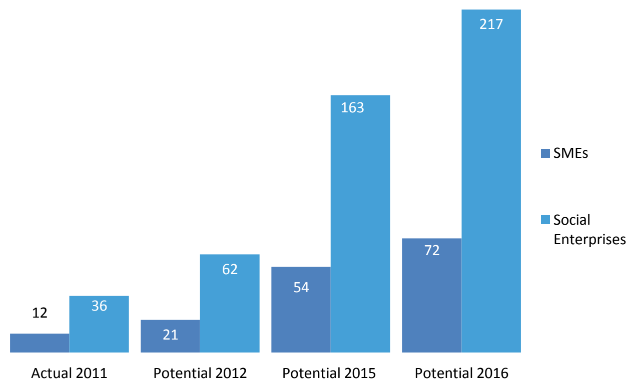


- The social investment market is a new growth sector. A recent Ipsos Mori poll revealed that 67% of wealthy individuals would invest in a financial product that benefits society as well as giving a return.
- The market itself is estimated to grow to £1bn by 2016 (a 38% year on year growth), potentially driving the growth of 6,000 businesses, 35,000 jobs and adding £555 million a year to GVA.

Source: BCG, Lighting the Touch Paper; GHK, Evaluation of CDFIs

c. £200 million of additional growth in deprived areas

GVA (£m) generated in deprived areas

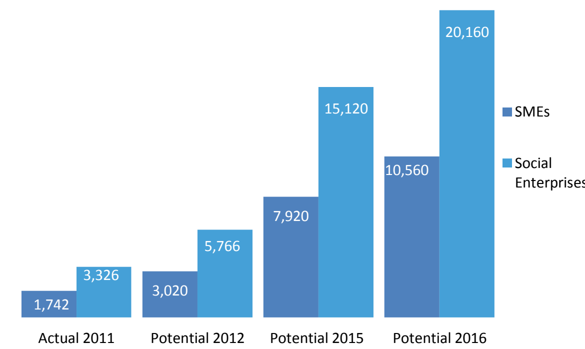


- £1bn invested in social enterprises creates £145m more GVA in deprived areas than £1 billion invested into SMEs.
- Social enterprises have their greatest concentration in the areas of the greatest deprivation, with 39% of social enterprises working in the 20% most deprived communities in the UK. This compares to 13% of SMEs.

Source: Social Enterprise UK, Fightback Britain

c. 20,000 additional jobs amongst disadvantaged groups

Jobs generated among disadvantaged groups



- £1bn invested in social enterprise creates 10,000 more jobs amongst disadvantaged groups than £1billion invested in SMEs.
- 56% of social enterprises actively employ people that are disadvantaged in the labour market (people with disabilities, the long term unemployed, offenders and others). This compares to 29% of SMEs who employ amongst these groups.

Source: Social Enterprise UK, Fightback Britain; CIPD, CO calcs

Getting the hardest hit into work provides fiscal and social benefits beyond the generation of jobs and growth

Fiscal Benefits reach £10k

Costs and Benefits of getting a "typical" JSA claimant into work for one year in 2012/13

Benefits	
Total Additional Housing Benefit	£1,547
Total Additional Council Tax Benefit	£329
Total Additional Income Tax and Employee NIC	£2,435
Total Additional Employer's NIC	£1,077
Total Additional Indirect Tax	£1,386
Total Additional JSA	£3,266
Total Benefits	**£10,040**
Costs	
Total Operational Costs	£0
Total Additional Tax Credits	£723
Total Costs	**£723**
Net Fiscal Benefits	**£9,316**

Two thirds of the fiscal benefit of getting a JSA claimant into work results from reductions in benefits with the final third coming from increased tax take.

Source: DWP

Social Benefits are larger

Benefits	
Total Reduction in Social Cost of Crime	£1,572
Total Savings in Health Care	£554
Total Additional Output	£14,128
Redistributive Benefits	£22,096
Total Benefits	**£38,530**
Costs	
Total Operational Costs	£0
Total Additional In-Work Costs (Travel & Childcare)	£695
Social Cost of Exchequer Finance (SOCEF)	£0
Redistributive Costs	£14,486
Total Costs	**£15,181**
Net Social Benefits	**£23,350**

Social benefits are even more substantial particularly through additional output.

Source: DWP