THE FOREST FOR THE TREES

UK BANKS' INVESTMENT IN A SOCIAL PURPOSE

A Social Spider report for RBS - July 2016

By David Floyd and Dan Gregory

FOREWORD

The social investment market is heavily promoted while mainstream lending is often under-estimated. This report aims to stimulate more debate on the size and scale of mainstream lending to the social sector.

Shortly before the 2015 General Election, Lord Young published a report [1] for the Government on small business. Among the 'New Ways of Doing Business' section was a chapter on social enterprise.

Whether you can really say that social enterprise is a new way of doing business is arguable. The origins of the modern social enterprise movement date back to at least the creation of the industrial co-operative society in Rochdale in the 1840s. However, it's true that in recent years there has been strong growth in the numbers of social enterprises and an explosion in the number of new social finance providers seeking to serve this market. The most recent figures [2] put the size of the social investment market at over £1.5 billion annually.

On the face of it, these sound like big numbers. However, compared to estimated total stock of lending to Small and Medium-sized Enterprises (SMEs) of £107.5 billion last year [3] the value of the social investment market begins to look small by comparison. What's more, social enterprises are significantly more likely to say that availability of finance is a barrier to their success and growth: 39% believe its lack of availability is a barrier to their sustainability, compared with just 5% of SMEs [4]. Should the banks be doing more?

We get asked that last question a lot. In fact RBS, which includes NatWest, has been supporting businesses set up to solve social problems for many years.

[1] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/402897/Lord_Young_s_enterprise_report-web_version_final.pdf

[2] http://www.bigsocietycapital.com/sites/default/files/attachments/The%20size%20of%20and%20composition%20of%20social%20investment%20in%20the%20the%20UK_3.pdf

[3] https://www.bba.org.uk/news/statistics/sme-statistics/bank-support-for-smes-4th-quarter-2015/

[4] http://www.socialenterprise.org.uk/advice-services/publications/state-social-enterprise-report-2015

Today we are the leading provider of banking services for small businesses, charities and not for profits. We know that many social enterprises and charities receive funding from high street banks in the form of traditional loans, invoice finance, asset finance, mortgages and overdrafts. Yet this financing of social sector organisations doesn't often count towards the industry estimates of the size of the sector.

It all comes down to definitions. For example: what counts as a social sector organisation? What counts as a social finance provider?

By opening up our books for the first time and commissioning this new research we are hoping to change the context of the conversation by building a more holistic picture of the size and scale of the finance market that is serving the social sector. Our aim is to demonstrate that this is not a small niche served by a handful of specialists but is, in fact, a thriving market attracting significant levels of mainstream bank finance.

We know that this is just a start. We hope that this report will stimulate more debate on the size, scale and impact of the sector. We also hope that increased awareness of the scale of mainstream bank finance for the social sector will encourage more organisations to have the confidence to access the full range of financing options available to them.

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EXECUTIVE SUMMARY

The need for repayable finance for social organisations is widely regarded as a major issue and social investment has been seen as the solution. Our research highlights the significant level of existing investment in the sector by mainstream banks and questions whether the 'social investment market' is filling major gaps.

Since the early 2000s both the UK Government and many social sector leaders have regarded the availability of repayable finance for social sector organisations as an increasingly important issue. Hence, they have supported the creation of a specialist 'social investment market' designed to provide those organisations with the finance they need. A key justification for this approach is the widely held assumption that it is disproportionately difficult for social sector organisations to get investment from mainstream lenders.

This report draws on both existing research and new data from RBS to question the extent to which this assumption is correct. It considers the role of mainstream banks within a £4 billion+ marketplace of 'investment into social organisations' extending significantly beyond the £1.5 billion 'social investment market'.

While data provided by a single bank is not sufficient to provide a full picture of mainstream bank activity, the RBS data highlights a series of points that challenge some of our existing thinking on social investment including:

- Mainstream bank lending to the social sectors significantly exceeds lending from the 'social investment market'.

- With £100 million available from RBS alone, overdrafts from mainstream banks offer a level of sometimes unsecured, working capital that is likely to exceed that provided by the ‘social investment market’.
- Social sector organisations are 10 times as likely to save as they are to borrow.
- There is no evidence that mainstream banks perceive a greater level of risk in investing in social sector organisations compared to mainstream businesses.

While the significant extent of mainstream lending undermines the theory that banks are inherently prejudiced towards social sector organisations, the data does suggest that, aside from overdrafts, banks are unlikely to lend relatively small amounts of money to smaller organisations.

Our report provides social sector organisations, policymakers, social investment experts and banks themselves with a clearer picture of the role of banks in financing the UK’s social economy.

The research suggests that the desire to promote the idea of a ‘social investment market’ has meant that the role of the banks has often been both underappreciated and misunderstood. It may be that, so far, the ‘social investment market’ has been too focused on large investment, similar to what is available from mainstream lenders. Nevertheless, with better understanding of the wider market, social investment may have a clearer and more useful role to play.

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INTRODUCTION

Much of the drive to promote social investment in the UK has been based on the perception that mainstream banks do not meet social sector finance needs. Our report considers the extent to which this widely held view is backed by either existing evidence or new evidence from RBS.

THE RISE AND RISE OF SOCIAL INVESTMENT

Charities and social enterprises are organisations that exist to create positive social or environmental change. Many of these organisations take on repayable finance to help them deliver their missions.

Following the creation of the Social Investment Task Force in 2000, the availability of repayable finance for charities and social enterprises has been regarded by successive UK Governments and many social sector leaders as an issue that is both important and distinct from the wider issue of the availability of finance to businesses in general.

Since then, successive UK Governments have championed the creation of a 'social investment market' designed to provide organisations with finance 'that no longer presents a stark choice between financial return and outright giving' [5].

[5] https://www.gov.uk/government/publications/growing-the-social-investment-market-a-vision-and-strategy

Social investment has been supported by politicians and governments of all parties. Following initial support from the previous Labour government, in 2012 Prime Minister David Cameron launched the 'social investment wholesaler', Big Society Capital, with the claim: "Big Society Capital is going to encourage charities and social enterprises to prove their business models – and then replicate them. Once they've proved that success in one area they'll be able – just as a business can – to seek investment for expansion into the wider region and into the country. This is a self-sustaining, independent market that's going to help build the big society."

SOUNDS GREAT BUT WHAT DOES THE MARKET OFFER ALREADY?

The high levels of both rhetorical support for the idea of social investment and accompanying financial support from government to build the UK's 'social investment market' are not matched by either agreement or clarity about the gaps that this new 'market' has been created to fill.

Last year, our report for the Alternative Commission on Social Investment [6] sought to better understand the development of that 'market' and to provide some recommendations on how it could be made more relevant and useful to a wider range of charities, social enterprises and citizens working to bring about social change.

[6] http://socinvalternativecommission.org.uk/wp-content/uploads/2015/03/SS_SocialInvest_WebVersion_3.pdf

While social investment has been the subject of a high level of enthusiastic rhetoric, policy focus and government support in recent years, the Alternative Commission helped shed light on how the 'social investment market' as most commonly understood by key players and influencers, such as the UK Government and Big Society Capital, is actually a relatively small part of the wider landscape of repayable finance accessed by charities and social enterprises.

In March 2016 the size of the 'social investment market' was estimated to be £1.5 billion [7]. Meanwhile NCVO estimated total lending to the voluntary sector at nearly £4 billion [8]. Based on this evidence, social investment as understood by the UK at that time, accounted for a small percentage of investment into charities and social enterprises.

[7] http://www.bigsocietycapital.com/sites/default/files/attachments/The%20size%20of%20and%20composition%20of%20social%20investment%20in%20the%20the%20UK_3.pdf

[8] http://data.ncvo.org.uk/a/almanac14/how-much-is-the-voluntary-sector-borrowing-2/

In 2015, despite (or perhaps, in some cases, because of) significant research and policy focus on the issue, our understanding of social investment remains:

- **Inconsistent** – there is much confusion between different definitions and interpretations of social investment.
- **Narrow** – rather than looking at total flows of capital to the social sector; or total flows applied for a social purpose, the focus tends to fall on activity only where these two flows overlap (also known as the 'social investment market').
- **Inaccurate** – data is often incomplete and based on surveys and information provided by Social Investment Finance Intermediaries (SIFIs), for example. This ignores investment by individuals and institutions beyond the known SIFI community.

HIGH STREET BANKS "JUST DON'T UNDERSTAND"

One of the key arguments for the creation of a 'social investment market' has been that traditional mainstream lenders, in particular high street banks, do not understand charities and social enterprises and because of this, the market fails to provide access to finance to the social sector.

This point is sometimes made explicitly. For example, by Charities Aid Foundation when explaining what's different about their work: "We know that obtaining loan finance isn't always a straightforward process, as many commercial lenders simply don't have the appetite for lending to charities." [9]

Sometimes it is less explicit. For example, support organisation Unltd write in some of their guidance for aspiring social entrepreneurs: "There are an increasing number of social banks who understand social enterprise and are more supportive of them than the high street banks." [10]

In evidence to the Parliamentary Commission on Banking Standards in 2013, Social Enterprise UK reported that: "Only 17% of social enterprises approach their high street banks for finance illustrating the need for alternative finance providers." SEUK also expressed the view that: "This is often caused or compounded by a lack of understanding among mainstream finance providers of what a social enterprise is." [11]

Rod Schwartz of ClearlySo has questioned the absence of UK banks from the 'social investment market', arguing that "Although many have sponsored the odd conference

[9] https://www.cafonline.org/charity-finance--fundraising/borrowing

[10] https://unltd.org.uk/portfolio/3-10-securing-start-up-funding/

[11] http://www.publications.parliament.uk/pa/jt201314/jtselect/jtpcbs/27/27viii_we_f06.htm

or initiative, no single UK-based firm has engaged in this sector in any meaningful way [...] They are missing a terrific business opportunity and reinforcing the idea that they are not interested in the societal impact of their actions."

The EU State Aid decision to allow the creation of Big Society Capital (BSC), based on evidence provided by the UK Government, agrees a rationale for BSC based on the conclusion that, when it comes to social sector organisations, "banks do not fully understand the risks of investing and so reject more applications than they should" [12]. The report goes even further than this, stating that "commercial banks are currently almost absent from the social investment segment due to perceived limited expected returns, long investment horizon, their lack of experience and the difficulties of appropriately modelling risk and return."

[12] http://www.bigsocietycapital.com/sites/default/files/EU%20State%20Aid%20Decision_BSC_website.pdf

FINDING THE GAPS

On the basis of our own experience and figures from NCVO in particular, the authors of this report and RBS were keen to further explore the above statements. For social sector organisations to have better access to appropriate finance and for government to intelligently intervene to address market failure, we believe it is critical to establish more than is currently known about what the gaps in the market really are.

Up until now, publicly available data about mainstream lending to charities and social enterprises has mostly been derived from survey data and/or information published in social sector organisations' accounts. This data has provided some broad indicative ideas about the overall situation but has major limitations.

The research, commissioned by RBS, is different. RBS has funded this research and made available a range of data with the aim of supporting a better understanding of the role of mainstream banks within that wider landscape.

RBS has provided us with a significant amount of data on the size, nature and scope of their lending to charities and social enterprises which, with some investigation and analysis, goes some way to establishing:

- Total and average amounts lent;
- Overdrafts and their use; and
- Breakdown based on size and type of social sector organisation.

The information available does not answer all the major questions about mainstream lending to charities and social enterprises but we believe it is a major – and constructive – step towards understanding the overall finance landscape for social sector organisations.

This improved understanding could be critical for effective policymaking and, ultimately, the development of a well-functioning 'social investment market'. For example, despite successive UK governments' explicit and targeted championing of social investment, it could be that through some of their mainstream market interventions - such as the Enterprise Finance Guarantee (EFG) scheme - that more social enterprises have been supported than through the provision of wholesale finance via Big Society Capital. Until now it has been impossible to know. We hope this report goes some way to shedding light on hitherto underexplored areas of the market for access to finance for social sector organisations.

INVESTORS WHO CARE ABOUT INVESTING

This research is specifically not focused on the role of RBS or other high street banks in what has come to be understood as the 'social investment market'. While many banks have made investments in explicitly socially-focused funds, there is no suggestion here that they are currently making an explicit or formal attempt to achieve 'social returns' through their everyday banking activity and the products and services they offer to all customers. This may be somewhat unfair and short-sighted - it is not hard to imagine that those working in banks, who provide finance to entrepreneurs to grow and develop their businesses feel that this activity has a positive social impact.

Social motivation of investors is certainly of interest to policymakers, citizens and the future development of the 'social investment market'. However, there is little evidence that the majority of charities and social enterprises seeking repayable finance are specifically interested in the motivation of the person or institution providing them with the money.

Most charities and social enterprises, like any other business, want finance that is as easily accessible as possible on the best possible terms. Of course, some may choose to bank with or borrow from a particular institution based on wider ethical considerations. But it is still useful for them to be aware of all the options on offer. Indeed, many argue that charities, for instance, are legally obliged to attract finance from wherever they can on the most cost effective terms and the motivation of the investee should not be a factor.

We believe that it is unfortunate that some of the language used in the promotion of the UK 'social investment market' may have given charities and social enterprises the impression that it is not possible for them to get finance from high street banks. Hopefully this report will help to challenge that perception.

KEY QUESTION

WHAT IS THE CURRENT EXTENT AND NATURE OF MAINSTREAM BANK LENDING TO CHARITIES AND SOCIAL ENTERPRISES?

This report looks at the evidence, existing published data and new data supplied by RBS, in an attempt to address this key question.

With a clearer sense of the scale of this activity, we are then able to start to respond to two further questions:

- How could mainstream banks improve (and be supported to improve) their offer to charities and social enterprises?
- What are the key gaps that mainstream banking is not filling that social investment could?

We hope that this work helps charities and social enterprises to better understand the finance available to them while inspiring both mainstream and specifically social investment institutions to provide a better and more socially useful service to the social sector.

WHAT DO WE KNOW ALREADY?

1.

Existing research on mainstream bank lending to the social sector explores the issue from a wide range of different angles, based on equally diverse definitions and samples of organisations. While the overall picture is predictably unclear, most approaches ultimately suggest that mainstream lending greatly exceeds lending by 'social investors'.

The role of mainstream banks in providing finance for the social sector has been considered in a range of previous research projects - including research into potential demand for social investment and wider 'state of the sector' surveys carried out by umbrella organisations.

NCVO

As both the Cabinet Office [13] and the Alternative Commission on Social Investment have previously pointed out, one of the most significant yet oft ignored statistics in the field is that of overall sector debt, as investigated and published by NCVO in their annual Almanac. NCVO have established a number of different figures in recent years [14]:

- In 2011/12, the voluntary sector owed around £4 billion in loans [15] (which includes overdrafts).
- In 2012/13, voluntary organisations had £17.1 billion of short and long-term liabilities (which include a range of debts beyond borrowing, such as outstanding bills or pension liabilities).
- In the same year, the voluntary sector owed around £3.5 billion in loans.
- In 2012/13 almost another £1 billion of voluntary sector debt was outstanding in the form of bonds. These were issued by a small number of major organisations with an income of over £10 million.

[13] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/205295/Social_Investment_Strategy_Update_2013.pdf

[14] http://data.ncvo.org.uk/a/almanac15/liabilities/

[15] http://data.ncvo.org.uk/a/almanac14/how-much-is-the-voluntary-sector-borrowing-2/

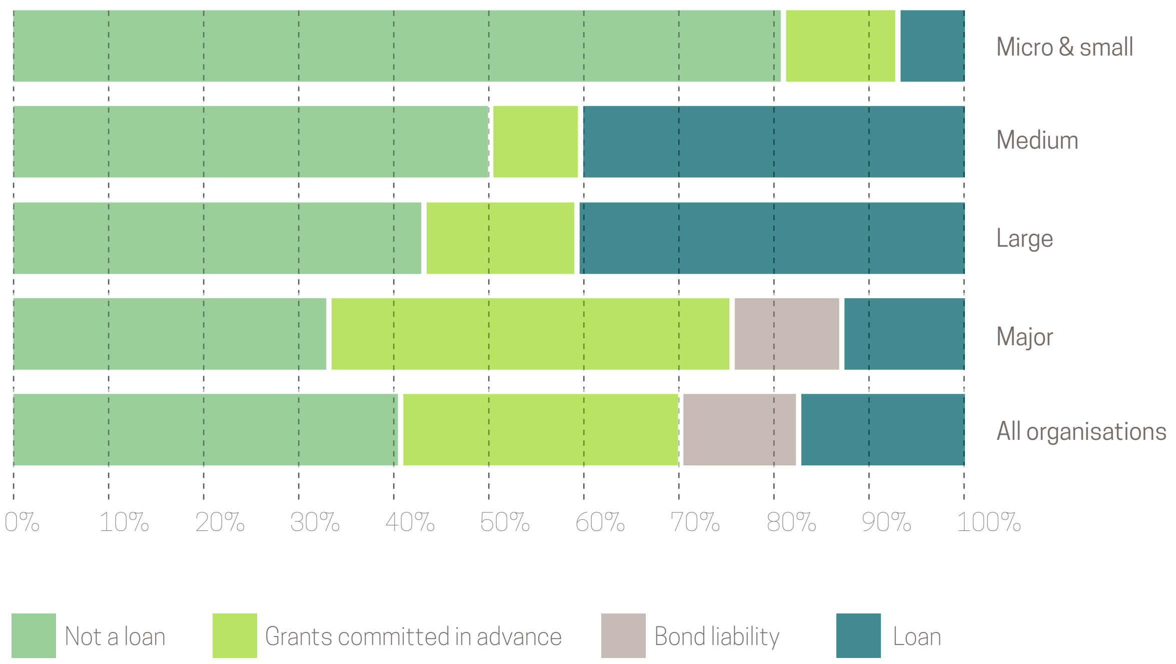
NCVO (CONTINUED)

- Large organisations had around £1.6 billion in loans and organisations with annual income over £10 million around £1.2 billion.
- £678 million of the debts were held by social services organisations who, along with religious organisations and grant-making foundations, were responsible for almost half (49%) of the sector's loans.
- 75%, or £2.6 billion, of these loans had been secured against an asset. 11% was unsecured and 14% unknown.
- The average size of loans taken out by voluntary organisations was under £50,000. The majority of loans were between £20,000 and £50,000.
- Medium and large organisations are more likely to take out secured loans [16].

[16] "Much of this" secured borrowing comes from high street banks, according to CAF's 'In Demand' survey [see 16].

TYPES OF LIABILITIES BY SIZE OF ORGANISATION 2012/13

PERCENTAGE BREAKDOWN



Source: NCVO, UK Civil Society Almanac 2015.

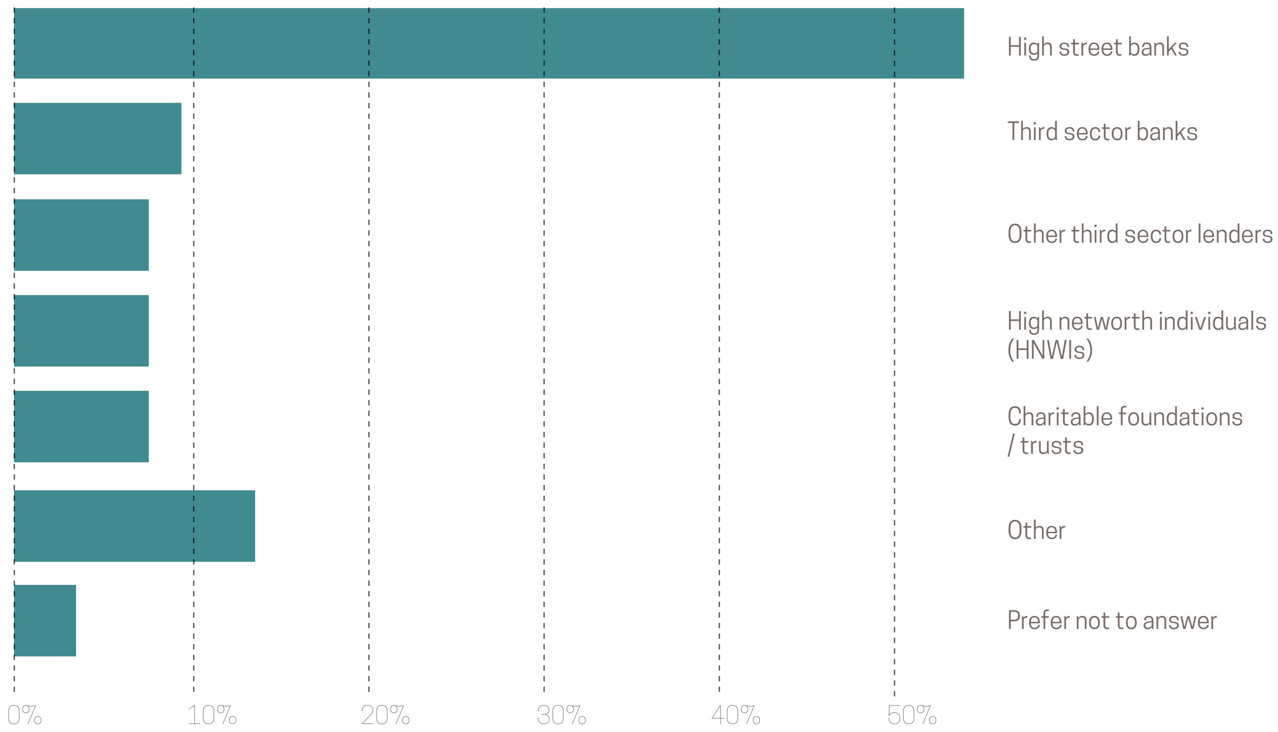
CAF

CAF's In Demand [17] provides further useful figures and estimates:

- 53% of finance from charities was from 'high street' banks and 9% from the 'social banks' (Charity Bank, Unity Trust Bank, Triodos and the Ecology Building Society)
- Repayable finance charities have successfully received in the last 12 months was estimated between £320 and £980 million, with a midpoint of £650 million.

[17] https://www.cafonline.org/docs/default-source/about-us-publications/in_demand_0314.pdf

SOURCES OF REPAYABLE FINANCE FOR CHARITIES



Source: CAF, 'In Demand: the changing need for repayable finance in the charity sector', March 2015

LYON AND BALDOCK

Research by Lyon and Baldock [18] from the Third Sector Research Centre based on Social Enterprise UK's 2013 survey of social enterprises, suggests:

[18] http://www.birmingham.ac.uk/generic/tsrc/documents/tsrc/working-papers/working-paper-124.pdf

- ↘ Banks remain the main source of finance (for those seeking investment) with 64% of respondents having banks as their main source.
- ↘ Commercial banks provide unsecured lending to just under half of their customers.
- ↘ Overdrafts (6.2%) were sought less frequently than loans (9.8%) but were nevertheless significant.

RBS'S MARKET SHARE

The above data considers lending to the social sector as a whole. As part of this research, we also need to consider the market share of RBS when it comes to lending to the social sector.

RBS's market share in terms of the provision of bank accounts to all SMEs by volume of accounts in England and Wales was around 23% in 2013 [19]. Bank accounts are a good starting point for understanding market share of lending. Not least as overdrafts will be, by their nature, linked to bank accounts. However, some banks are more focused on lending than offering bank accounts and just because a social enterprise banks with a high street bank does not mean that is where they will borrow money. In 2012 RBS Group accounted for 36% of all SME lending, compared to its overall market share of 24% .

[19] http://www.parliament.uk/documents/commons-committees/treasury/Conduct_and_Competition_in_SME_lending.pdf

As part of this study, RBS undertook their own market share analysis with the support of external data from Experian through the use of customer SIC codes (see next section). Using SIC codes most likely to be associated with the social sector, RBS is estimated to have a market share of between 27% and 32% [20].

[20] http://www.rbs.com/news/2013/07/postcode-lending-data-to-be-published-to-improve-access-to-credi.html

Social Enterprise UK's survey of social enterprises in 2013 suggested that for main bank accounts the Co-operative Bank dominated the market while RBS and NatWest had the largest market share of the big high street banks at around 16%. Unity Trust Bank was the primary bank account for nearly 1 in 10 social enterprises while other high street banks around also took around 10% of the market, Triodos and Charity Bank took around 1% each. There is also significant regional disparity with the Co-operative Bank and Unity Trust Bank taking a higher percentage of the market in the North of England than across the rest of the country. RBS takes a predictably greater share of the market north of the border but NatWest's activity is quite consistent across the rest of the UK.

Another approach to establishing RBS's market share using the Company Registration Number (CRN) data is based simply on the percentage of organisations in the wider social sector data who are customers of RBS. This figure is 8% (see Appendix C for further information), but this is likely to be less than the actual RBS market share as not all social sector organisations will hold bank accounts or be financially active, for instance.

HEADLINES

WHAT DOES THE EXISTING RESEARCH TELL US?

Based on the above analysis, we are able to make the following cautious yet prudent headline estimates:

- Charities and social sector organisations have outstanding loans of over £3.5 billion.
- Around £1.75 billion may be currently lent out by banks to the social sector.
- Around £400 million may be lent by RBS to the social sector.

NEW DATA FROM RBS

2.

Data provided by RBS gives the most detailed picture ever of lending to the social sector by a mainstream bank. Analysis based on SIC codes and Company Registration Numbers (CRNs) offer differing snapshots of that activity but both suggest high levels of overall lending and indicate the importance of overdrafts as an unrecognised source of unsecured finance.

In 2014 RBS sponsored the UK's first Social Investment Awards. In the foreword to the event programme the bank made a first attempt to assess the quantity of its lending to the social sector.

It stated that, only counting those with over £1 million turnover, RBS currently provides banking services to over 3,300 UK not for profit organisations, with drawn lending of over £500 million.

Thom Kenrick, Head of Community Programmes at RBS, describes how this was an assessment of drawn lending under certain United Kingdom Standard Industrial Classification (SIC) codes [21] associated with charity and social work, museums and membership organisations. It did not include lending to healthcare charities, independent schools and education, universities and further education, housing associations and retail social enterprises such as, say, Divine Chocolate.

[21] See Appendix A: SIC Codes

CAPTURING THE SOCIAL

In this study, we have taken this approach as a starting point and sought to refine it, to give us the first bottom-up assessment of lending to the social sector by a major UK high street bank. Working with RBS data managers, we have sought to capture the scope of the bank's lending to social sector customers. First, using an updated SIC code-based model and second, and perhaps more significantly, through a new approach using CRNs [22].

[22] See Appendix B: Company Registration Numbers

SIC codes are used to classify organisations based on what they do. When a business is registered or when it provides its annual return to Companies House, it

[23] Societies are member-owned organisations run either for the benefit of their members (Co-operative Society) or the wider community (Community Benefit Society).

For more on CLGS see Appendix B: Company Registration Numbers.

[24] See Appendix B: Company Registration Numbers.

[25] See Appendix C: Research Methodology.

provides information on the nature of its business. This is therefore a classification, though not of ownership, governance or legal form, nor of motivation, approach to impact or profit distribution. For this reason, it is impossible to use SIC codes to accurately assess activity relating uniquely to the social sector (however defined). But SIC codes may still be useful to an extent.

A CRN, on the other hand, is an eight-character reference assigned to a company on incorporation. We have used a database (supplied by NCVO but which is available in the public domain) of CRNs for 197,243 social sector organisations. These are the CRNs, flaws in the data notwithstanding, for all charities, Community Interest Companies (CICs), Companies Limited by Guarantee (CLGs) and Societies in the UK [23].

In total 15,394 (8%) of these organisations are active customers of RBS and the RBS CRN data refers to the activities of those organisations.

Both approaches have a number of advantages and disadvantages but together help us provide a much improved picture of mainstream lending to social sector customers. More detail is provided in Appendix C with regard to our methodology and the flaws and limitations of both approaches.

This CRN [24] sample is, to our knowledge, the first time that researchers have had the opportunity to analyse the data held by a mainstream bank about its relationships with registered VCSE organisations.

Filtering RBS customer data using both a list of the SIC Codes [25] which can be most reliably aligned with social sector organisations and with the CRN database, RBS data managers have analysed the group's banking activity with regard to those sets of businesses. On this basis a range of data was extracted with regard to:

- Products, including SME loans, bank accounts, savings, overdrafts and LIBOR loans.
- Balances.
- Client turnover.
- Geographical distribution by region.

Note: data was analysed at customer level rather than at product level so that if a customer held three loans, for example, these are only counted once in appropriate fields.

ANALYSIS BASED ON STANDARD INDUSTRIAL CLASSIFICATION (SIC) CODES

TOTAL LENDING BY RBS ('OUTER' CATEGORY - SEE APPENDIX C)

PRODUCT	NUMBER OF CUSTOMERS	TOTAL LOAN SIZE / SAVINGS BALANCE	AVERAGE LOAN SIZE / SAVINGS BALANCE
SME LOANS	3,725	£0.56 BILLION £561,689,693	£150,798
OVERDRAFTS	7,756	£0.21 BILLION £205,217,021	£26,459
CURRENT ACCOUNTS	143,678	£1.92 BILLION £1,921,157,131	£13,371
SAVINGS	66,371	£5.10 BILLION £5,102,274,213	£76,875

Our analysis of a broad selection of RBS customers with SIC codes likely to be most closely aligned with the social sector (see Appendix C for more on our methodology) suggests that:

- Between £600 million and £750 million in agreed loans and drawn overdrafts are currently provided to the social sector by RBS [26].
- On this basis, with a minimum RBS market share of 20% of social sector lending and our more bullish estimates of the usefulness of SIC codes, mainstream bank lending could account for more than £3 billion of social sector borrowing. With a much more cautious approach to the usefulness of SIC codes, this figure may be more like £1 billion.
- The average loan size provided by RBS to these businesses sits between £70,000 and £150,000. This may be distorted by a small number of large borrowers, possibly housing associations, and more work could be done to establish this.
- The average overdraft balance is around £25,000.
- RBS is lending to around 3,725 customers with SIC codes closely aligned to the social sector and agreeing overdrafts with 7,756 account holders in the sector.
- Meanwhile, these organisations hold almost £2 billion in current account balances and £5 billion in savings, or just under £1 billion in current accounts and £1.8 billion in savings according to our more cautious approach to the usefulness of SIC codes.

[26] This does not include agreed LIBOR loans, likely to be made to large housing associations, for example, which could be worth over £8.5 billion. LIBOR loans are loans based on LIBOR (London Inter Bank Offered Rate), typically over £500,000.

ANALYSIS BASED ON COMPANY REGISTRATION NUMBERS (CRNs) [27]

BORROWING BY SOCIAL SECTOR CUSTOMERS

PRODUCT	RBS		IF REPLICATED ACROSS OTHER BANKS	
	VOLUME	TOTAL LOAN SIZE	VOLUME	TOTAL LOAN SIZE
SME LOANS	660 CUSTOMERS	£0.23 BILLION £231,627,902	8,250 CUSTOMERS	£2.90 BILLION £,895,348,773
PAST YEAR SEPT 2014 TO AUG 2015	139 NEW LOANS	£0.05 BILLION £49,789,341	1,737 NEW LOANS	£0.62 BILLION £622,366,761
OVERDRAFTS (AVAILABLE)	659 CUSTOMERS	£0.10 BILLION £99,009,266	8,328 CUSTOMERS	£1.23 BILLION £1,237,615,825

SOCIAL SECTOR BORROWING BY ORGANISATION TYPE

ORGANISATION TYPE	NUMBER OF CUSTOMERS	TOTAL LOAN SIZE	AVERAGE LOAN SIZE
COMPANIES LIMITED BY GUARANTEE (CLGS)	504	£0.19 BILLION £191,005,813	£378,980
CHARITIES	63	£0.02 BILLION £21,902,427	£347,658
COMMUNITY INTEREST COMPANIES (CICS)	23	£0.001 BILLION £1,346,153	£58,528
SOCIETIES	66	£0.03 BILLION £25,629,656	£388,328

[27] In additional to the fields analysed based on SIC Code data, the analysis of CRN data provides details of loans in the past year - as well as total outstanding debt - and information on the turnover of organisations taking on investment.

SOCIAL SECTOR BORROWING BY ORGANISATION SIZE

ANNUAL TURNOVER [28]	NUMBER OF CUSTOMERS	TOTAL LOAN SIZE	AVERAGE LOAN SIZE
£0	13	£5,075,940	£390,457
£0 - £2,000	11	£6,152,062	£559,278
£2,000 - £5,000	7	£403,139	£57,591
£5,000 - £25,000	44	£6,355,428	£144,442
£25,000 - £100,000	86	£15,234,702	£177,148
£100,000 - £500,000	166	£36,551,828	£22,0192
£500,000 - £2.5 MILLION	159	£40,946,415	£257,525
£2.5 + MILLION	152	£126,672,061	£833,369

ORGANISATION SIZE OF ALL SOCIAL SECTOR CUSTOMERS

ANNUAL TURNOVER [28]	NUMBER OF CUSTOMERS	PERCENTAGE OF TOTAL
£0	1,094	7.5%
£0 - £2,000	1,537	10.5%
£2,000 - £5,000	1,156	7.9%
£5,000 - £25,000	2,691	18.3%
£25,000 - £100,000	2,476	16.9%
£100,000 - £500,000	2,707	18.5%
£500,000 - £2.5 MILLION	1,703	11.6%
£2.5 + MILLION	1,304	8.9%

[28] The data shows a number of relatively large loans to organisations who appear to be reporting little or no turnover. This is because RBS's primary source of turnover data is accounts filed with Companies House and these customers are likely to be new organisations yet to file accounts, or organisations - including Community Benefit Societies, CIOs and some charities - whose social structure means that they are regulated by an alternative agency and therefore do not file accounts at Companies House.

SIZE AND USE OF OVERDRAFTS

OVERDRAFTS AVAILABLE FROM RBS	£0.10 BILLION £99,009,266
TOTAL NUMBER OF CUSTOMERS	659
AVERAGE AVAILABLE BALANCE	£150,242
CUSTOMERS USING OVERDRAFTS	228
TOTAL ESTIMATED OVERDRAFT USED [29]	**£0.02 BILLION** £20,785,545

[29] Based on 219 (33.2%) customers with an average usage of 56.31% and 9 customers (1.4%) who are exceeded their overdraft limit with an average usage of 169.46%.

BORROWING VS SAVING

PRODUCT	NUMBER OF CUSTOMERS	PERCENTAGE OF TOTAL	TOTAL LOANS / SAVINGS	AVERAGE LOANS / SAVINGS
SME LOANS	660	4.3%	£0.23 BILLION £231,627,902	£350,951
OVERDRAFTS	659	4.3%	£0.10 BILLION £99,009,266	£150,242
SAVINGS	8,528	55.4%	£2.98 BILLION £2,984,982,637	£350,021

This analysis of the data for RBS customers with CRNs broadly aligned with the social sector suggests:

- RBS has over £230 million in outstanding loans to between 660 and 1319 [30] broadly social sector customers, rising to nearly £250 million when drawn overdrafts are included.
- In the year we studied – September 2014 to August 2015 – RBS made new SME loans of nearly £50 million to these broadly social sector organisations.
- If these figures for 8% of social sector organisations were reflected across the entire social sector, overall bank mainstream bank lending to organisations would be £3.1 billion (including overdrafts), with annual figures for new loans of over £620 million.

[30] 660 customers have SME Loans and 659 customers have agreed overdrafts but we do not know to what extent they overlap.

- RBS has made nearly £100 million in overdrafts available to social sector organisations – which would equate to £1.2 billion across all mainstream banks.
- RBS social sector customers have almost £3 billion in savings accounts, over 10 times the figure for outstanding loans.

It is important to make clear that the estimated figures for all mainstream banks show the estimated figures if the other 92% social sector organisations engaged with mainstream banks in the same way that our 8% sample engage with RBS.

We are explicitly not claiming that this 8% sample enables us to accurately predict what the current figures for the other 92% actually are. It is a useful starting point but the full picture will only emerge once similar data from other banks is available and it is clearer how many organisations do not have a mainstream bank account at all. At this stage, the extrapolation is primarily useful in demonstrating the scale of RBS's activity rather than providing an overall picture.

HEADLINES

WHAT WE STILL DON'T KNOW

The data and analysis above does not answer some important questions about:

- Whether loans are secured or unsecured.
- What levels of interest are charged.
- The time period over which loans are made.

In addition, there are less immediately obvious, but potentially relevant, questions that we are not currently able to answer including:

- What percentage of loans benefit from the Enterprise Finance Guarantee and/or other forms of government-backed support.
- Performance and default rates for loans to social sector organisations when compared to mainstream businesses.

INVESTMENT IN A SOCIAL PURPOSE 3.

Our analysis has so far considered what both new and existing data shows us about the extent and nature of lending to the social sector by mainstream banks, in particular RBS.

This section summarises five key reflections on what that data tells us and the questions it raises for the future development of the UK's 'social investment market'.

REFLECTION 1

MAINSTREAM BANK LENDING TO THE SOCIAL SECTOR APPEARS TO SIGNIFICANTLY EXCEED LENDING FROM THE 'SOCIAL INVESTMENT MARKET'

RBS has around £250 million in outstanding lending to the sector, with £50 million in new lending over the past year. If replicated across the sector, this would amount to over £3 billion worth of social sector borrowing from mainstream banks with annual figures for new loans estimated at over £620 million per year.

This is in comparison to the latest available figures for annual deals in the 'social investment market' of £427 million and an estimated £1.5 billion in total outstanding social investment. Despite the recent growth of the 'social investment market', if social sector organisations are taking on repayable finance, they appear at least as likely to get the money from a mainstream bank as they are from a social investor.

REFLECTION 2

THE AVERAGE SIZE OF INVESTMENTS AVAILABLE FROM MAINSTREAM LENDERS IS SMALLER THAN THOSE AVAILABLE FROM THE 'SOCIAL INVESTMENT MARKET'

Our assessments of the average size of loans made available to the sector vary significantly depending on which approach is used. However, none of the figures produced suggest that the size of loans being provided by mainstream banks is larger than the size of investments provided by the 'social investment market'.

Organisations involved in the broader definition of social sector activity (using the SIC methodology) are taking on loans averaging between £70,000 and £150,000 – while organisations using a specifically social structure, based on their Company Registration Number, appear to have an average loan size of around £350,000, although the median figure may be much less.

Figures for the 'social investment market' show an average investment size of £602,000. Meanwhile,the average size of investment by social banks is £935,000 [31].

[31] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/210408/Social-Investment-Report1.pdf

REFLECTION 3

OVERDRAFTS FROM MAINSTREAM BANKS OFFER A LEVEL OF POTENTIALLY LARGELY UNSECURED LENDING WHICH MAY EXCEED THAT PROVIDED BY THE 'SOCIAL INVESTMENT MARKET'

Based on CRN figures, the amount of overdraft finance available to the social sector from mainstream banks could exceed £1.2 billion. Most organisations with an overdraft available are not using it. Those that are, are not using all available funds. Even so, it may be that £230 million in overdraft finance is currently being accessed by social sector organisations.

This figure is more than 5 times the £38 million in annual 'non-bank lending' (mainly unsecured loans) estimates within the 'social investment market' [32]. Just the £20.8 million of overdraft finance being provided by RBS to the social sector amounts to more than half that figure. It also exceeds the estimated £158 million of total oustanding non-bank lending in the 'social investment market'.

[32] http://www.bigsocietycapital.com/sites/default/files/attachments/The%20size%20of%20and%20composition%20of%20social%20investment%20in%20the%20the%20UK_3.pdf

REFLECTION 4

SOCIAL SECTOR ORGANISATIONS ARE 10 TIMES AS LIKELY TO SAVE AS THEY ARE TO BORROW

Based on CRN figures, our estimates suggests that up to 55% of social sector organisations have savings with mainstream banks while between 4% and 8% take on repayable finance – either loans or overdrafts.

These organisations may have as much as £37 billion in savings - compared to an estimated £3 billion in borrowing. This suggests that the idea that the sector is undercapitalised is highly questionable.

Rather, the sector is perhaps underleveraged. While distribution of capital is likely to be pretty extreme given the balance sheet strength of trusts and foundations versus tens of thousands of small and relatively asset-light charities, these figures suggest that social investment commentators may have been overstating – or oversimplifying - the degree to which the sector needs greater access to capital.

A further note of caution is that we do not know what these savings are for and it is likely that a proportion will be to cover potential liabilities including pension costs and costs of closure.

REFLECTION 5

THERE IS NOT YET ENOUGH DATA ABOUT EITHER MAINSTREAM BANK LENDING TO SOCIAL SECTORS OR THE 'SOCIAL INVESTMENT MARKET' TO BE CLEAR ABOUT WHAT EITHER MARKET OFFERS

We believe that the data made available to us by RBS has enabled a significant increase in understanding of the extent and nature of lending by RBS and, by extension, the wider mainstream banking market.

On the other hand, continuing gaps in knowledge mean that even high level figures need to be considered with caution and in tandem with qualitative data on organisations' experiences of seeking finance.

We currently lack information on: security interest levels and time periods of loans, in particular. We also lack information about performance and default rates – and the role of government-backed support such as the Enterprise Finance Guarantee in lending to social sector organisations.

We also lack data from mainstream banks beyond RBS. We do not really know whether RBS has unusually high or unusually low levels of investment into social organisations or whether lending patterns are typical.

There is also a gap in our understanding about how mainstream banks regard social organisations. To what extent do banks see social organisations as being 'just another customer'? This report was based very much on data but future research could consider the customer experience of mainstream banks for social organisations.

With social investment data experts Engaged X changing their role there is arguably an even greater onus on banks and SIFIs to take responsibility for greater openness and transparency to the benefit of market development.

While Big Society Capital's recent report [33] 'The Size and Composition of Social Investment in the UK' provides important information on the headline figures for investment within the 'social investment market', there is far more that we still do not know - particularly about size and terms of deals.

[33] http://www.bigsocietycapital.com/sites/default/files/attachments/The%20size%20of%20and%20composition%20of%20social%20investment%20in%20the%20the%20UK_3.pdf

CONCLUSIONS

Our research indicates that social investment advocates' claims about the failings of mainstream banks have been, at best, overstated. There are major knowledge gaps but the data we do have suggests that social organisations should be more confident in seeking finance from banks and social investors need to be clearer about the gaps they are seeking to fill.

THE ROLE OF BANKS IN FINANCING SOCIAL SECTOR ORGANISATIONS

We believe that this research has given those interested in access to finance for the social sector significant further insight into the scale of investment into social sector organisations being undertaken by an individual mainstream bank, and thus banks more widely.

Having looked at the available evidence on the role of mainstream banks, particularly RBS, in investing in the social sector, this section considers the implications. What does this data mean for social sector organisations, mainstream banks and the 'social investment market' – and for those that support and regulate them?

Above all, this research indicates us that if a charity or larger social enterprise has a mortgage or large loan, that investment is most likely to come from a mainstream bank. Banks are also playing a significant and previously under-reported role at the opposite end of the market – by providing small amounts of unsecured lending as overdrafts.

FINANCE ON OFFER TO SOCIAL SECTOR ORGANISATIONS

Successive UK Governments have attempted to help grow a 'social investment market' in the UK, at least partly on the basis that 'many commercial lenders simply don't have the appetite for lending to charities' [34] or because of 'a lack of understanding among mainstream finance providers of what a social enterprise is ' [35].

The evidence in this report challenges that justification and serves to reiterate some of the big unanswered questions about the UK's 'social investment market':

- What gaps is social investment trying to fill?
- To what extent do these gaps need be filled by socially motivated investors?
- Why does this require the existence of a social investment market?

[34] https://www.cafonline.org/charity-finance--fundraising/borrowing

[35] http://www.publications.parliament.uk/pa/jt201314/jtselect/jtpcbs/27/27viii_we_f06.htm

HEADLINES

OVERDRAFTS

It appears that the role of the overdraft in supporting the financial needs of social sector organisations has been previously underexplored. Overdrafts have a number of distinct characteristics which bring both advantages and disadvantages. These may include flexibility, speed in arranging and no early repayment fees on one hand, and banks being able to reduce overdraft limits at short notice, potentially less clarity and higher interest rates or fees depending on patterns of use, on the other.

Fergus Lyon suggests that only 6.2% of social enterprises in the Social Enterprise UK survey had sought an overdraft, whereas research from 2010 suggests over a third of social enterprise employers had an overdraft facility [36]. This research also concluded that their findings seemed "to indicate that banks treat social enterprises the same with regards to overdrafts as they do their other SME customers".

In the context of the levels of policy noise and activity around social investment it is remarkable that more has not been done to explore and understand how social sector organisations access and use overdrafts.

It may be that the significant difference in average loan size between previous NCVO figures and the RBS data is at least partly due to the fact that overdrafts are included within the NCVO figures and the relatively small amounts involved serve to average out the overall figure.

[36] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/32253/10-1076-social-enterprise-barometer-feb-2010.pdf

WE THINK BANKS HATE US BUT THEY DON'T

There is little, if any, clear evidence that banks discriminate against charities or social enterprises on the basis of their organisational type – or that banks are less likely to meet the needs of social organisations than those of mainstream businesses.

In that context there is a danger that the rhetoric around the emergence of the 'social investment market' may be having the unintended consequence of making it harder for social organisations to access repayable finance as they may be more likely to dismiss the possibility of approaching mainstream providers who may lend to them.

While social investment is conceptualised based on the social motivations of investors, the more relevant question for most social organisations is where to get the finance they need.

Our research, combined with other evidence, suggests that:

- Some forms of finance are available in significant quantities from mainstream banks and primarily provided by those banks, in particular, short-term unsecured lending via overdrafts;

- Other types of finance are available both from social investors and (in greater volume) mainstream banks, such as secured lending of £200,000 or more.

While it seems that those who have suggested that mainstream banks are not meeting the needs of social organisations may have been overstating their case, the evidence does not contradict the assertion that there are some types of finance that social organisations are highly unlikely to get from a mainstream bank.

BEYOND SOCIAL INVESTMENT

This report offers a snapshot of an important part of the diverse landscape of finance options for social organisations beyond what is currently described as 'social investment'.

There are many other parts of that landscape we have not explored. For example, the role of alternative forms of 'non-social' finance in supporting the social sectors. Recent evidence suggests that this is an increasingly important factor in the overall small business lending market – with peer-to-peer platform Funding Circle now the third biggest lender in the market [37].

With £70 million of annual loans to social organisations every year (including overdrafts) [38] from RBS alone, mainstream banks may be viewed as the UK's most significant investors in social impact. The role of banks appears to have been severely underappreciated and merits significant reconsideration. Our research calls for a fundamental reassessment of the significant contribution of mainstream banks, supported by the government, to investing in social purpose across the UK.

[37] http://www.cityam.com/230174/crowdfunding-platform-funding-circle-is-the-third-biggest-lender-for-small-businesses-in-the-uk-behind-only-rbs-and-lloyds

[38] £50 million in new lending plus £20 million in drawn down overdrafts.

HEADLINES

SUPPLY VS DEMAND

Beyond the scope of this report, a range of other evidence suggests that:

- Some financial needs – particularly for smaller riskier investments – are being met primarily via non-institutional investors: either via crowdfunding or investments from directors, friends and family.
- There are other financial demands that appear not to be being met very well at all: for example, unsecured lending between £50,000 and £200,000, although banks appear to be doing more of this than has been hitherto appreciated.

However, while social investment wholesaler Big Society Capital has now made significant investments primarily in funds making £250,000+ investment, it is not obvious that funding for social organisations operating at this level is significantly lacking – or that the 'social investment market' in its present form is a cost effective way of tackling gaps in investment that may exist at that level.

RECOMMENDATIONS

The report concludes with a set of nine recommendations targeted at three sets of participants in the market(s) for social sector finance focused on increasing knowledge, promoting mutual understanding and avoiding unhelpful replication.

We hope that this research provides a useful starting point for a better understanding the role of high street banks in investing in social purpose. However, we are still some way off having a clear picture of some of the most basic information about the relationship between mainstream banks and social sector organisations.

Below we set out a number of recommendations:

SOCIAL SECTOR ORGANISATIONS

1. Social sector organisations seeking investment should understand that there are a range of routes to finance – some of which may be labelled 'social investment', some of which may not.

2. Social sector organisations should not underestimate banks and what they may be able to offer – mainstream lending where available may often be the cheapest and easiest option.

3. Social sector organisations should consider the possibilities for informal, peer-to-peer lending, crowdfunding, intra-sector lending and other channels, as well as banks and the 'social investment market'.

BANKS

4 Other banks should follow RBS's lead in publishing data and analysis of their lending to the social sector organisations.

5 Banks and social sector organisations should build on their existing efforts to engage with social sector organisations about the relevance of 'normal' financial products and services.

6 RBS and other banks should continue to explore new ways to make affordable finance available to social sector organisations including: direct lending, investment in SIFIs, and/or community lenders (including credit unions), referrals and facilitating individual investment.

POLICYMAKERS AND SOCIAL INVESTMENT EXPERTS

7 Social investment policymakers and experts more clearly understand and articulate how their services and products are meeting unmet needs of social sector organisations.

8 Policymakers, social investment experts and SIFIs could better explain repayable finance in terms of what is on offer from the perspective of the user or customer – the social sector investee.

9 When considering the provision of finance for the social sector, the Cabinet Office and Department for Business (BIS) should consider and measure the degree to which government-backed SME lending schemes - such as those administered by British Business Bank - are taken up by social sector organisations and the barriers to further uptake.

APPENDIX A: STANDARD INDUSTRIAL CLASSIFACTION (CRN) CODES

The United Kingdom Standard Industrial Classification of Economic Activities (SIC) is used to classify businesses by the type of economic activity in which they are engaged.

The latest version of these codes (SIC 2007) was adopted by the UK from 1st January 2008 [39]. With the agreement of the Office of National Statistics (ONS), Companies House uses a condensed version of these codes which are used by companies both when they are formed and in the Annual Returns they are obliged to file each year.

[39] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/455263/SIC_codes_V2.pdf

It is important to emphasise that SIC codes are used to classify organisations by their business activity not their ownership, governance or legal form nor their motivation, approach to impact or profit distribution. For this reason, it is impossible to use SIC codes to accurately assess activity relating uniquely to the social sector (however defined).

SOCIALLY-FOCUSED SECTORS

However, this does not mean that an approach using SIC codes cannot be informative at all. It is clear that some SIC codes, such as 94110 - Activities of Business and Employers Membership Organisations – are likely to be disproportionately representative of the social sector than others, for instance 28240 - Manufacture of Power-Driven Hand Tools. It is unlikely that there are many, if any social sector manufacturers of power-driven hand tools. If there were, the authors and others would perhaps be aware of them. Many other SIC codes, of course, are much less black and white.

LIMITATIONS AND FLAWS WITH A SIC CODE APPROACH

- Some businesses do not provide SIC codes.
- Data is not always accurate or updated as business models evolve.
- Businesses can choose up to four codes per organisation, increasing the complexity of classification.
- Some SIC codes raise questions, and would provoke strong opinions, about the scope of the social sector, for example with regard to newly formed academy schools, private fee-paying schools with charitable status and housing associations. Nevertheless, many private schools and housing associations are legally recognised as having charitable status.
- Some codes may include a broad mix of both public and social sector organisations. Nevertheless, they could still be of relevance to this study and instructive as in many instances, public bodies may not borrow from banks, leaving those that do as relatively safe bets to be social sector organisations.

APPENDIX B: COMPANY REGISTRATION NUMBERS (CRNs)

A Company Registration Number (CRN) is an eight-character reference assigned to a company on incorporation.

We used a database (supplied by NCVO) of CRNs for 197,243 social sector organisations to identify 15,394 (8%) as active customers of RBS. The organisations included in the database are: charities, Community Interest Companies (CICs), Companies Limited by Guarantee (CLGs) and Community Benefit Societies.

PROBLEMS WITH PREVIOUS DATA

Previous data on investments into social sector organisations by mainstream banks has been generated via either:

i. Survey responses from organisations; or

ii. Analysis of published company accounts and Charity Commission data.

A major advantage of using CRNs as a method of identifying social sector organisations is that – unlike with SIC codes - it is easier to identify organisations which fall under established definitions of the 'social sector'. For example, explicitly identifying charities and avoiding private businesses distributing profits to shareholders but performing a social activity [40].

[40] With the exception of Societies and CICs Limited-by-Shares that may distribute some profit on a socially regulated basis.

LIMITATIONS AND FLAWS WITH A CRN-BASED APPROACH

- The biggest group represented in the data – CLGs (87%) – is the hardest to pin down. CLGs are organisations that do not distribute profits to shareholders but they do not necessarily have a specifically social mission, or one regulated by the Charity Commission or Companies House. We believe that this research may be significantly skewed by these CLGs and suggest that further research is required to understand how this group of organisations may or may not have distorted our findings.
- Social enterprises that do not use specifically social structures – for example, trading arms of charities or other Companies Limited by Shares using a 'golden share' model – are not included within this data.
- There are two or three types of Societies (previously known as Industrial and Provident Societies). Community benefit societies, which may be also charitable, are widely recognised as social sector organisations, as are 'cooperatives' which trade for the mutual benefit of their members but may not have a wider social purpose.

APPENDIX C: RESEARCH METHODOLOGY

Despite flaws and limitations with a SIC code approach it is nevertheless possible to use the codes to analyse the scale and nature of RBS's banking activity with a range of organisations which are more likely to be social sector organisations than others.

To do this, an 'inner' group of SIC codes were first identified. These are codes under which there is a significant likelihood that a large proportion can be understood as social sector organisations. Then a second 'outer' category of codes was identified, with which there is a looser, less compelling relationship with the social sector.

DIFFERENT APPROACHES TO SIC CODES

This approach is further complicated by the fact that RBS does not itself keep records against current standard SIC codes (as these are periodically changed and updated by HMG) but through their own classification which are then matched against the official SIC codes of the day. This also brings some advantages, however. Some current official SIC codes, such as 88910 - Child day-care activities – do not differentiate between for-profit and not-for-profit providers, whereas RBS's own codes, based on previous SIC code frameworks, are more detailed and often do make a distinction between charitable and non-charitable activity. For instance, the 2003 SIC codes distinguish between 85.31/1 - *Charitable* social work activities with accommodation - and 85.31/2 - *Non-charitabl*e social work activities with accommodation [41].

[41] http://www.360environmental.co.uk/documents/UK_SIC_Vol1(2003).pdf

Therefore, a number of SIC codes were identified for the purposes of this research in both 'inner' and 'outer' categories, relating to, among others, membership organisations, social work activities, activities of religious organisations, activities of business and employers organisations, library and archives activities, operation of arts facilities and more.

OTHER MEMBERSHIP ORGANISATIONS NOT ELSEWHERE CLASSIFIED

Businesses with one SIC code featured particularly frequently in our sample. RBS Group data suggests that the bank has 120,000 customers which do business under the 2007 SIC code 94990 - Other membership organisations not elsewhere classified. This makes up almost three quarters of the businesses we analysed using this approach from those most closely aligned with the social sector.

To get a sense of whether this code may have distorted the analysis, we were grateful to NCVO's David Kane for his support in providing us with a sample of 50 of these organisations. These include a broad range of what appear to be genuinely social sector organisations, charities, social enterprises and associations. They do not appear to be distorted by a significant number of one type of organisation - of PTAs or tenant management organisations, for instance. Our sample of 50 includes a rugby club, a Citizens Advice Bureau, a model railway club, a development trust, a community forum, a youth organisation, a residents' association, a few Community Interest Companies, a Business Improvement District, an ex-service men's association, a Bangladeshi welfare association and a conservation trust.

ADDITIONAL NOTES ON METHODOLOGY

Our estimates for market share differ significantly for SIC code data and CRN data. This difference occurs for the following reasons:

- The differing routes to establishing what is a 'social organisation' is - sector of activity (e.g. social care) versus organisation type (e.g. Community Interest Company) - encompass significantly different samples of organisations.
- The CRN data is generated by analysing the data from those organisations within an overall database of organisations who are customers of RBS. This gives us a specific 'market-share' figure: RBS provides services to 8% of the organisations in that database.
- The SIC code is generated by assessing those RBS customers working in sectors of activity identified as social. In this instance, we do not have an overall database of organisations working in these sectors to provide an in-built market share figure, so 'market-share' is calculated based on estimates of RBS's share of relevant markets reported in previous research.

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