THE YOUNG FOUNDATION

Growing interest?

Mapping the market for social finance in the youth sector

Produced by the Young Foundation for the Catalyst consortium

NCVYS
NATIONAL COUNCIL FOR VOLUNTARY YOUTH SERVICES

NYA
National Youth Agency

SOCIAL ENTERPRISE COALITION

Acknowledgements

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Executive Summary

The 11,000 organisations that make up the voluntary and community youth sector (VCYS) are under unprecedented pressure. Many have been long-reliant on restrictive project-based grant funding, which has left them with little to invest in their core operations and overhead costs, to cover cashflow shortfalls, or to support business development opportunities. Against this legacy of under-capitalisation, income (estimated to be worth around £500 million in 2009) is falling. This is particularly true for public sector funds which form 40 per cent of the VCYS income. The Department for Education's (DfE's) Early Intervention Grant to local authorities, which replaces, among other areas, spend on the full range of support for young people, is an annual reduction in total funds compared to predecessor grants of 10 per cent in the year 2011-12, and seven per cent in 2012-13. Surveys suggest local authorities have reduced budgets for youth services by up to a third for 2011-12.

However, the youth sector does not just face the challenges of under-capitalisation and income reductions. Who pays for youth sector provision, how they pay and what they expect in return is also changing, bringing challenges as well as opportunities. Local flexibility over resources means work with young people competes more directly with other agendas: grants that focus on work with young people in 2010 formed a fifth of the new Early Intervention Grant. However, surveys suggest that youth services are being disproportionately cut. Grant-based funding is decreasing, while there is greater interest in outcomes of services. This trend applies not only to public sector commissioners but trusts, foundations and corporate donors too.

Social finance (capital investment in social impact as well as financial return) has a potential role in growing the capacity and entrepreneurialism of the sector in this context, and interest in it is growing, not least because of the government's plans to establish a Big Society Bank. Social finance includes not only capital for new ventures starting up, but also funding to scale-up, take risks and manage cashflow. A range of social finance products are on offer, including 'soft' loans at sub-commercial rates or very long repayment terms; as well as riskier products that mimic equity, like loans with performance-related interest. Some argue that the sector will require a full range of social finance products, and several players, including the Big Society Bank, are looking at innovations in social finance to respond to this need.

Social finance offers the VCYS the promise of the financial breathing space – and for some the financial discipline – they need to plan long-term and improve their services for young people. Social finance expects financial return and social impact, but otherwise often has fewer strings attached than project-based grant funding. Consequently, it potentially offers greater freedom for the sector to innovate in their work with young people and focus on improving outcomes. Given the establishment of a social finance 'wholesaler' (the Big Society Bank) that will provide capital to intermediaries, there is growing interest in existing and new social finance 'retailers'. That is, intermediary organisations that can take on social finance from the Big Society Bank and other sources, and provide it direct to charities and social enterprises.

This report seeks to assess the youth sector market for social investment. It has been written for Catalyst, a consortium of four organisations working with the DfE as the strategic partner for young people, as part of the department's wider transition programme for the sector. While this report will inform the development of a social finance retailer for the sector, analysis recommending and designing a plan for the retailer is being undertaken separately.

The demand for social finance will grow. About one in 10 of the youth sector organisations we surveyed identified themselves as ready for social investment at present. Nonetheless, one in five organisations expect to receive up to five per cent of their income from social finance in three years, which would be worth up to £5 million.

How ambitious this growth is for the youth sector depends upon how ready the sector is to receive it. Certainly there are challenges around organisations' capability and capacity to take on social finance. For example, even the strongest contenders for social finance could benefit from business strategy support and greater understanding of finance. The ability to demonstrate impact and value is important. In order to access social capital investment at realistic rates, the youth sector needs a clear customer that can – and will – pay for its services. In large part, the viability of social finance for the youth sector depends on the viability of individual youth sector organisations' business models.

A dedicated social finance retailer for the youth sector, linked to the Big Society Bank, is proposed, and with the support of intermediaries, this could help to overcome these challenges. If social investors are to make good investments in the youth sector, they need to help organisations access not only financial capital but the non-financial resources including expertise, skills and networks. The retailer will need to assess these on a case-by-case basis, adapting and evolving its business model where necessary.

Social finance's greatest potential is in providing the capital investment for the youth sector to develop the capacity, scale and security to adapt to an increasingly competitive market for income for its work. But accessing social finance cannot be seen as a substitute for revenue funding. Taking on social finance requires confidence not only in making a social difference for young people, but also that the investment can generate financial returns too. While for many, this may not be appropriate, voluntary and community youth services that want to take on social finance cannot avoid developing viable business models.

About this report

This report has been produced for the Catalyst consortium. Catalyst will work to deliver three key objectives over a two year period. It will strengthen the youth sector market, equip the sector to work in partnership with government, and coordinate a skills development strategy for the youth sector's workforce.

This report documents the findings of an online survey completed by 97 managers in youth sector charities and social enterprises[1], in-depth telephone interviews with four leading social investors and 14 youth sector organisations, alongside desk-based research. These interviews built on the detail captured in our research for Growing Social Ventures[2], which consulted with fifteen social investors.

The context for social finance

Assessing the **context** for social finance for the youth sector, we found:

- **A reliance on grants and project-based funding is likely to have led to widespread under-capitalisation.** Our survey suggests that the sector may have created a legacy of under-capitalisation by taking on project-based funding that left it unable to move capital flexibly, to cover cashflow, or to invest in new opportunities or its core operations.

- **The sector is facing public sector spending reductions.** Nearly three quarters of the VCYS organisations we surveyed had experienced a drop in income in the last 12 months. Grants are shrinking, and increased local flexibility means young people's services will be competing more directly for local authority funds.

[1] The number of respondents to individual questions varied as applicable; these are referenced when findings are quoted.
[2] Shanmugalingam, C et al (2011) *Growing Social Ventures*, NESTA/The Young Foundation

- **The way in which youth sector organisations receive their income is changing**. Greater local flexibility in public sector commissioning is increasing competition for funds among youth sector organisations, and with other service sectors such as early years and family support. Trusts and foundations too are becoming increasingly interested in the impact and value different services are generating.

- **Private sources of income are also falling**. In 2009, total trust donations were estimated to be worth £210 million. Nearly a quarter of individual charitable trust grants were targeted at young people. A fall of five per cent in these income sources would mean a loss of £10.5 million to the sector.

Supply: the social finance available to the youth sector

Assessing the **supply** of social finance in the youth sector, we found:

- In 2009-10, total social investment across all sectors was estimated at £192 million. We might expect a significant proportion of this to be going towards youth organisations.

- There is a wide range of types of social finance and providers currently available in the UK.

- Investors showed a clear interest in financially supporting the youth sector, provided it was a valuable investment.

- When compared to recent investment, there is potentially a large gap in public sector capital grants, particularly on facilities for young people, in part due to the unlikelihood of future ring-fenced grant- or asset-based investment in youth services from government.

Demand: the capital needs and investment readiness of the youth sector

Looking at the **capital needs** of the sector, we identified three main needs which we group as 'start-up', 'scale-up' and 'cash-flow' finance:

- 'Start-up': Finding new, cheaper and more effective ways of delivering youth services will require investment in innovation.

- 'Scale-up': Youth sector organisations are many and small, so finance is required for growth or mergers and acquisitions.

- 'Cash-flow': With a potential increase in 'payment by results' or traded income business models, organisations are likely to have to manage high variance in cash flow which will require significant working capital.

Assessing the **investment readiness** of the youth sector we found three common challenges for taking on social investment, based around capability, capacity and confidence.

- Capability: Organisations need a better understanding of social finance and its varied implications, more confidence in negotiation processes, and an ability to show clear evidence of the positive impact they make in the sector.

- Capacity: Organisations need the time and money to develop the skills necessary to adopt new business models, but with a quarter of organisations turning over less than £100,000 a

year, and a further 40 per cent operating under a £1 million, finding the required capital is very challenging.

- Confidence: Erratic revenue streams, fear of being unable to pay back loans and uncertainty about the long-term future of a service can all hold organisations back, so the confidence to network, adapt to an ever-changing environment, and be entrepreneurial will be essential.

Conclusions

In response to these challenges, VCYS organisations need as a priority to do three things:

- **Tell a strong story about value:** Increasingly, the sector will be called upon to provide strong evidence of the difference it makes with young people, and the value this creates. Inconsistent and weak evidence of added value, both in social and in real financial terms, hinders the sector.

- **Create new ways to collaborate:** Responding to increased competition (both for funds and young people) may require greater collaboration. Transitioning to new business models requires a scale and capacity that many organisations are unable to reach acting alone.

- **Rethink business models**: There are many potential business models for generating income, including being commissioned by the public sector around outcomes, being paid by results, providing tradeable services, or seeking private payment. Many require both financial and non-financial support, both to design and to transition to alternative business models.

There are good examples of VCYS organisations already in the process of adopting business models and seeking social investment, but these are rare. There is a role for independent intermediaries in providing general non-financial support to bridge the gap in investment readiness, including promoting understanding and capability in the sector. Yet, the diversity of the sector and social finance products suggests there will be no substitute for tailored assessments of each investment. With large parts of the youth sector still some way from social finance, but evolving at some pace, the proposed social finance retailer may need to be able to adapt its approach over time.

However, one thing is now clear: sound capital investments in the youth sector require (and therefore cannot substitute) maintainable income streams for youth sector organisations. As with the Big Society Bank which aims to offer social investments for the voluntary and community sector in general, 'careful consideration of what may have a genuinely sustainable future, and what is in reality a perpetual subsidy, will be important in making funding decisions.'[3]

[3] NESTA & NPC (2011) *Understanding the Demand for and supply of social finance*: Research to inform the Big Society Bank

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Introduction

This report seeks to map the youth sector market for social finance. The first challenge is that it is by no means clear what is meant by the 'youth sector' or by social finance. It also means there is a need to understand the markets for both revenue (income) and capital investment (various forms of loans and equity). This introduction sets out the definitions, scope and framework used in this report.

The scope and structure of this report

As stated, this report seeks to assess the youth sector market for social investment. While it will inform the development of a social finance retailer for the sector, analysis recommending and designing a plan for the retailer is being undertaken separately.

The first section looks at the supply of social finance, and the types and size of social financing available. The second section looks at what organisations need social finance for, and crucially how ready they are to take it on, including the various business models that organisations might have to generate income. The report concludes by summarising the challenges to the youth sector market as a whole and pointing to ways forward.

Figure one illustrates the framework used in this report to map the market for social finance. This reflects that the market for social finance (capital investment) depends upon income (revenue) streams for the sector.

Figure 1: The social finance market for voluntary and community youth services

	Capital	Revenue
Supply	- Public capital investment - Private finance - **Social finance**	- Public sector income - Private income, including from trusts and foundations and charging
Demand	-Start-up: finance for innovation - Scale-up: finance for growth, mergers & acquisitions - Cash-flow: finance for working capital	Business models: - Grant-based - Contracting – including payment by results and social impact bonds - Earned income

The voluntary and community youth sector

The UK youth sector is diverse, made up of thousands of organisations, bodies and agencies working with and for young people. Currently around 11,000 registered charities in the UK include 'young people' in their mission or activities, which is six per cent of all charities[4]. Some 6,000 of these define themselves as 'youth clubs or Scout groups'. However, the latest NCVO Almanac[5] highlighted that 80,000 – nearly half the total number of charities in the UK – claimed that children and young people were beneficiaries of their services, which is more than any other group. Consequently, defining or mapping the youth sector is not straightforward because assessments may not capture the full diversity.

We have defined the youth sector as 'all organisations working with and for young people', even if this is not the primary aim of the organisation. Youth sector organisations themselves represent a diverse range of professions and practitioners, and touch on related agendas such as housing, health, creative and cultural activities, education, training and schools, as well as 'youth work' itself (see figure two, below). Youth sector organisations will also work with varying age ranges, with some starting at age nine, 11 or 13, while some have a cut off at 19, and others 25.

Local authorities, public service agencies, and private sector organisations of different scales, as well as a number of associates and sole traders, all work with young people. This report focuses instead on those **voluntary and community sector organisations** – primarily charities and social enterprises – working with and for young people up to the age of 25. We refer to these in this report as VCYS organisations.

Types of voluntary and community organisations within the youth sector

There is a grey area between 'pure' charities and commercial enterprises. Often called social businesses or social enterprises, we can distinguish six types of voluntary and community organisational structures that might be working in the youth sector[6]:

- **Charities** are organisations legally required to reinvest profits into the organisation with an aim to have a beneficial social or environmental impact. These use a number of social venture business models though they rely mainly on grant income. Examples include London Youth, The Prince's Trust, and Brathay Hall Trust.

- **Community Enterprises** are trading organisations that sell goods and services to a community from a specific area or with a specific interest. As mission-based organisations they aim to build community cohesion and social capital. An example is Cambridge Wood Works.

- **Cooperatives** are organisations democratically run by a group of individuals (employers, volunteers, consumers) for their mutual benefit. For example, The Co-operative Group supermarket in the UK.

- **Mutuals** are organisations whose members do not usually invest capital into the company but derive their right to profits and votes through their consumer relationship. For example, the Royal Borough of Kensington and Chelsea plans to mutualise its youth service.

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[4] The Charity Commission, cited in Harrow and Pharoah (2011) *Rethinking Recession – needs and opportunities for sector change, Report to the Prince's Trust*, Cass Business Schools
[5] NCVO (2010) *The UK Civil Society Almanac* 2010
[6] Venturesome (2009), *Financing Civil Society*

- **Development trusts** are community-owned and led organisations that aim to economically, socially and environmentally regenerate local communities through enterprise. Examples include City Gateway Limehouse.

- **Social firms** are businesses created to employ people who are in some way disadvantaged in the labour market (such as young people not in education, employment or training). For example, Young Advisors.

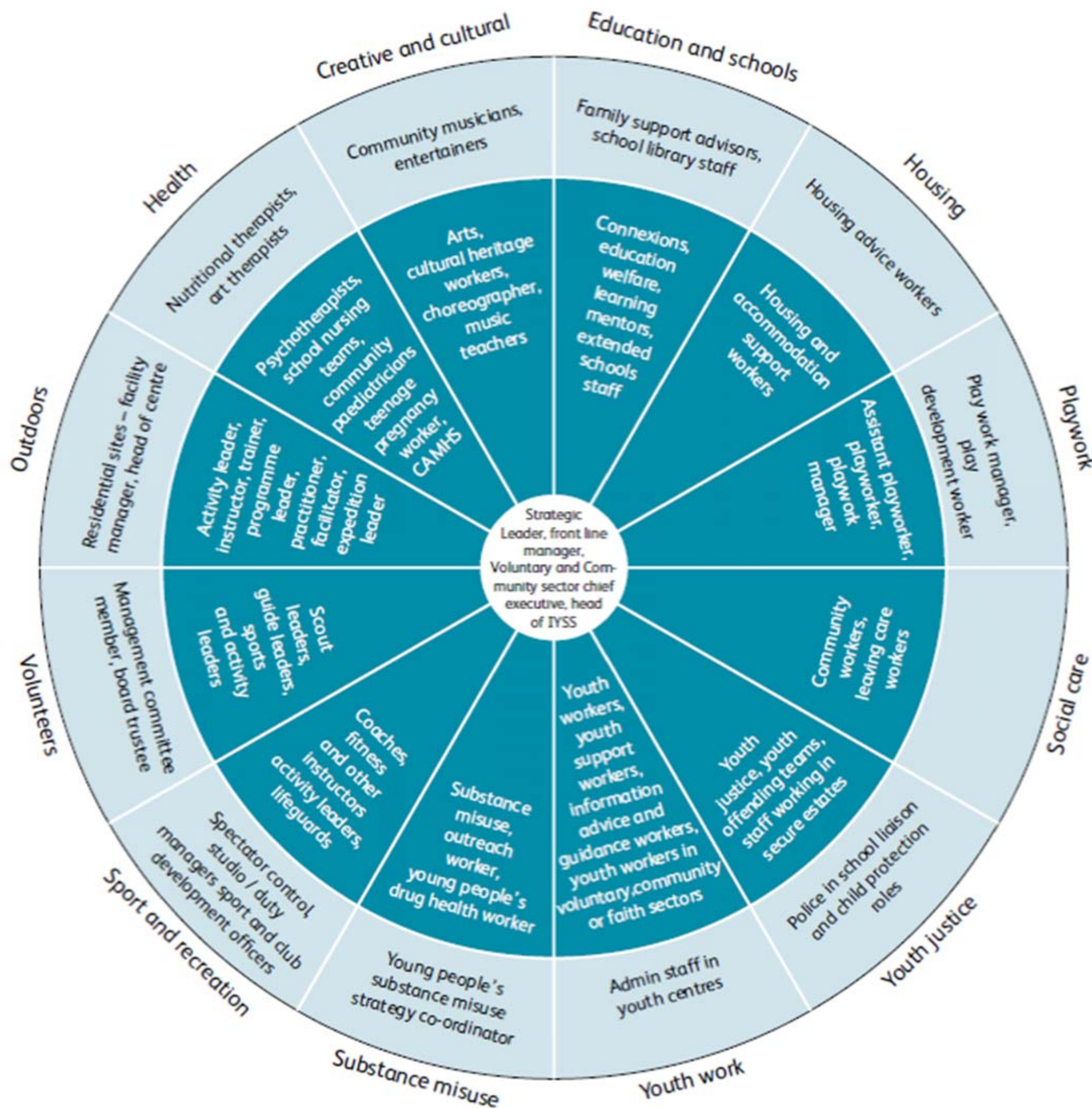
Although there are many types of organisation within the VCYS, they might be segmented into three types which are likely to face different challenges in accessing social finance:

1. **Targeted** youth organisations. These work with defined groups of young people and are focused on key outcomes, for example, in relation to youth offending or gaining employment. These organisations are well placed to measure their impact, and respond to public sector contracts. Examples include young care leavers' support groups and mentoring projects for young people leaving custody.

2. **Traditional** youth organisations. These have never been very reliant upon public funding but instead run on their reputation, volunteers and large networks. These organisations may be able to access social investment because they have secure funding streams, operate at scale and either own assets or require little. Examples include the Scouts and Guides.

3. **Community** youth organisations. These are smaller or medium sized, locally-based, more general youth groups and programmes. These organisations may find it more difficult to show evidence of their impact, and may find identifying a clear customer for their work more challenging. Examples include neighbourhood-level youth clubs.

Figure 2: An overview of the young people's workforce, demonstrating the diversity of the sector (Children's Workforce Development Council, 2010)



Social finance

In this report, social finance is used to refer to a capital payment where financial return, as well as social benefit, is expected. By capital, we mean investment that must be repaid; rather than revenue payments in return for outcomes, products or services.

We have excluded grants from this definition, despite recognising that many believe that unrestricted grants pose a valuable role for the sector in financing high-risk development and in addressing undercapitalisation. We have also restricted our definition to capital that requires both financial **and** social return. This excludes grant funders and venture philanthropists, who provide unrestricted grants for business development.

Social investment includes semi-commercial loans (where rates are lower and payback periods are longer than in purely commercial markets), more complex variants on these which mimic equity models, government-subsidised loans, and overdraft facilities.

There is currently no dedicated or specialist social finance provider for the youth sector. There are, however, many other general providers including Venturesome, UnLtd Advantage, and Bridges Ventures. Types of social finance provider include:

- **specialist banks** (mainly offering secured lending to social purpose organisations albeit at commercial rates) including Triodos Bank and Charity Bank.
- **social investment funds** (offering unsecured lending) including CAF Venturesome, Big Issue Invest and Bridges Ventures.

There are also other organisations that play a role in and around the social finance market. These include:

- **high street banks** (mainly offering overdraft facilities, but which do not take into account social benefit).
- **venture philanthropy providers and other grant makers** (offering unrestricted grants for explicit business development purposes) such as Private Equity Foundation, Impetus Trust, UnLtd and others.
- **social finance advisors and brokers** (who broker between investors and investees) such as Social Finance Ltd and UnLtd.

These organisations offer a variety of different financial products or instruments currently available in the market:

- **semi-commercial loans** - these are typically repayable with both a lower rate of interest and a longer repayment term than in the commercial market.
- **complex semi-commercial loans/quasi-equity** - these also typically have a lower rate of return and longer repayment schedule than commercial finance, and additionally have been designed to mimic characteristics of equity finance. This might include some performance element (such as a rate of interest that varies with an organisation's turnover – known as a 'revenue participation agreement') or a 'convertible loan' (where terms change if certain conditions are met).
- **government-subsided loans** - these are managed by the Social Investment Business which include the Modernisation Fund, the Social Enterprise Investment Fund (SEIF), and others. Social Investment Business funds invest from £20,000 to £10 million.
- **credit facility/overdraft -** these are pots of credit that organisations can dip into to manage cashflow (no estimate of size available).

The context for social finance in the youth sector

"We're operating in a difficult climate with a lot of uncertainty about our revenue." (director of youth sector charity)

The problem of undercapitalisation

Much has been written about the problem of developing capital investment in the voluntary and community sector. Comparing the situation in a private service illustrates the point well:

> [Imagine] you're the owner of a restaurant. Your paying guest comes to pay the bill, offers a credit card, and prepares to sign the charge slip. But before signing, the guest says, "I'm going to restrict my payment to the chef's salary. He's great, and I just want to make sure I'm paying for the one thing that makes the real difference here. I don't want any of this payment to go for light, or heat, or your accounting department, or other overhead. They're just not that important. The chef is where you should be spending your money! [7]

Project-based funding which under-funds overheads and restricts how charities can manage money creates a number of problems. It makes it much harder for charities to manage their cash flexibly, and they are less able to manage shortfalls in cashflow. This in turn makes it harder to take risks, or bid for large contracts which pay in arrears. It makes it harder to build up reserves and invest in the organisational core and its capacity – in people, buildings, and equipment – and in other vital parts of the organisation that assure its health. Perhaps most vitally of all, it can hold back an organisation's ability to invest in business development, stopping it from looking at new opportunities to move away from grant funding. Even for organisations that are not funded through restrictive, project-based funding, the profit margins in the sector are typically low or non-existent, which means many organisations face similar problems.

Quantifying the capitalisation of the youth sector is difficult as there is limited data gathering of this kind in the sector. We do know however, that 70 per cent of voluntary and community sector organisations state that funding has restricted their activities in the past year, despite the income of the sector growing over the previous five years at five per cent per annum.[8]

Uncertainty over revenue sources

Many within the VCYS look to social finance to help them manage reductions in their income. Some are looking to preventative investment or Social Impact Bonds as a way for organisations to receive up-front payments and have a third party take on the financial risk, and receive a financial return from the government.

Recent political and economic trends have driven calls for new approaches to financing and delivering services for young people. In 2008, prior to the current financial challenges, only 1.4 per cent of charitable donations, and one per cent of local authority education spending, went towards services for

[7] Miller, C (2005) *The Looking Glass World of Non Profit Money – Managing in For Profits' Shadow*
[8] Green, Hazel (2009) *State of the Sector Panel Survey: Activities and Funding*

young people.[9] Despite relatively low levels of public expenditure on the youth sector when compared to the increases in schools and education spending, there was a significant growth in investment over the last decade. On average, local authority youth services saw a 50% increase in resources between 1998-9 and 2007-8, with budgets rising from £56 to £84 per young person.[10] But the high reliance on central and local government grants – until recently growing steady – has left the sector extremely vulnerable to public sector funding reductions.

The income of the VCYS is estimated to be between £470 million and £580 million; just one per cent of the voluntary and community sector's total income[11]. The youth sector has historically been heavily dependent on central government and local authority grants and contracts. In 2009, about two-fifths of the income to VCYS organisations was earned from statutory agencies for providing services for young people. A further two-fifths was derived through voluntary donations, and some income was earned from recreation/accommodation facilities to members and others[12].

Using survey data on income is fraught because organisations may use slightly different categories, and there is often considerable variation with annual accounts[13]. Nonetheless, our small survey offers some interesting estimates of the sources of income going to the youth sector. Figure three shows the proportion of VCYS organisations we surveyed receiving different income sources, and what proportion of their income it formed. This shows that in the last financial year:

- Over two-thirds (68 per cent) of VCYS organisations received income from local authorities, and over half received income from central government. For nearly half of those that received local authority funding, this funding made up over 30 per cent of their income. Two-fifths (40 per cent) of those that received central government funding used it to make up over 30 per cent of their income.

- 81 per cent received income from voluntary grants. For nearly a third of organisations receiving voluntary grants, such grants comprised more than 30 per cent of their income.

- 68 per cent received donations, but in the majority of organisations, such donations formed only a small proportion of their income.

- Trading and user charging were sources of income for 58 per cent of voluntary sector organisations, but in the majority of cases forming less than 15 per cent of income. Small numbers used commercial loans (three organisations) and social finance (five organisations), but a similar number of respondents did not know whether these forms of income were used.

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[9] Private Equity Foundation (2008) *It all adds up: The Review*; The National Youth Agency (2008), *England's Local Authority Youth Services: NYA Audit 2007-08*. Note: figures exclude the City of London, with too small a young person population.

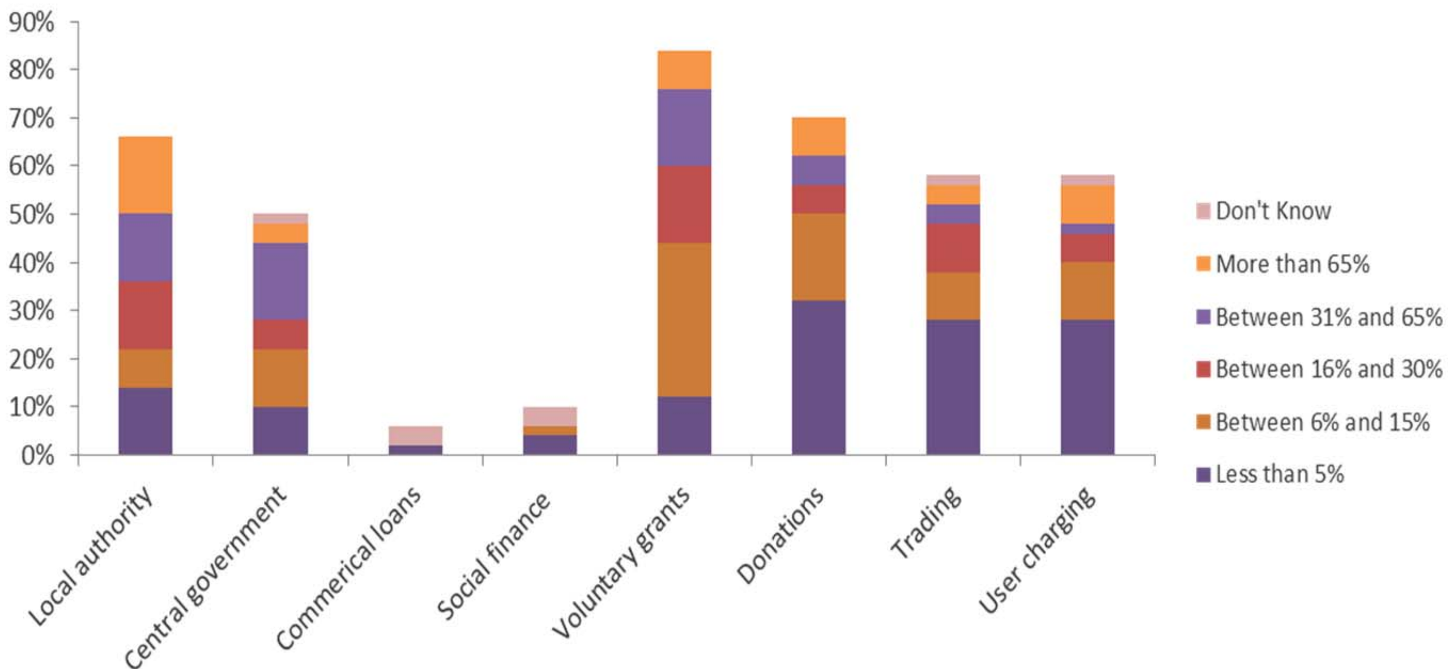
[10] National Youth Agency, 2008, *England's Local Authority Youth Services: the NYA Audit 2007-08*

[11] Harrow and Pharoah (2009) *Rethinking Recession – needs and opportunities for sector change, Report to the Prince's Trust*, Cass Business Schools

[12] ibid

[13] Wilding, K, NCVO, comparing NCVO Almanac accounts with survey data for voluntary services as a whole.

Figure 3: Percentage receiving different income sources, by proportion, 2010/11[14]



Financial pressures on the youth sector are driven by reductions in public spending, but also changes in the way the public sector commissions youth services, and pressures on private sources of income.

The sector is facing significant reductions in income at the same time as increasing uncertainty about future sources. Youth sector income fell by approximately £110 million last year; a loss of up to 23 per cent of the sector's total income. Nearly three quarters (74 per cent) of the VCYS organisations we surveyed had experienced a drop in income in the last 12 months. As figure four illustrates, a quarter of organisations experienced a drop of over 25 per cent, with eight per cent having lost over half their income in one year.[15]

VCYS organisations expect the balance of their income sources to shift over the next three years, away from public funding and towards other sources. Figure five compares the youth sector's expectations for their income sources in three years time (2013-14) with their current income shares. It shows that:

- while more organisations expect to have *some* income from the public sector in three years' time, fewer expect to receive over 30 per cent of their income in this way. Far fewer expect to receive over 65 per cent of their income from local authorities.
- 20 per cent more expect to receive some social finance in three years time than do currently, which is more than the 15 per cent who expect to receive commercial loans.
- those organisations expecting to obtain social finance anticipate it making up less than five per cent of their income[16].
- voluntary grants are expected to form roughly the same proportion of income as they do now – but with fewer expecting it to form the bulk (over 65 per cent) of their revenue in the future.

[14] Young Foundation survey of youth sector providers, May 2011. N=50
[15] Young Foundation survey of youth sector providers, May 2011. N=50
[16] Note that organisations may categorise income and capital differently; particularly with respect to social finance (in the forms of loans or working capital).

- donations and trading are also expected to make up a greater proportion of income.
- User charging is not expected to make up significantly for loss of income in other areas.

Levels of uncertainty over future income are also high. Ten per cent are not able to say even roughly what proportion of income they expect to come from the public sector in three years' time. But uncertainty in funding is not unique to public sector streams, with ten per cent uncertain over the proportion of income they can expect from voluntary grants, donations and user charging. Fifteen per cent of organisations were unable to say what proportion of income they expect to receive through social finance in three years' time.

Figure 4: Approximate drop in income April 2010 to April 2011

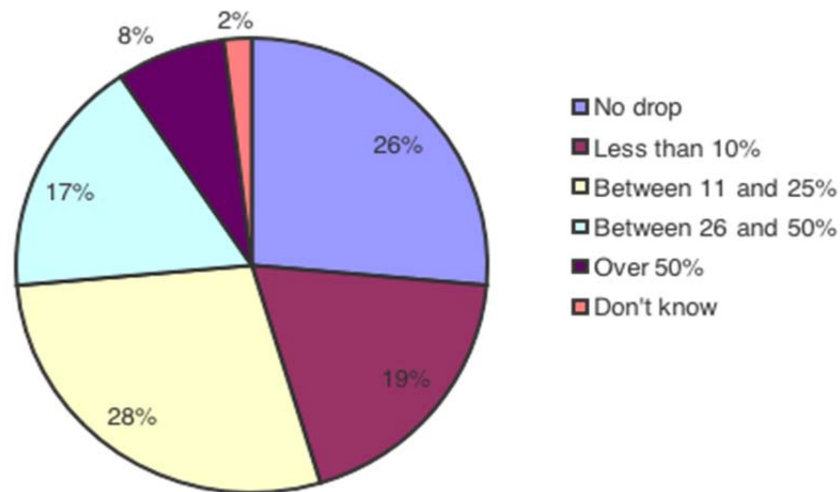
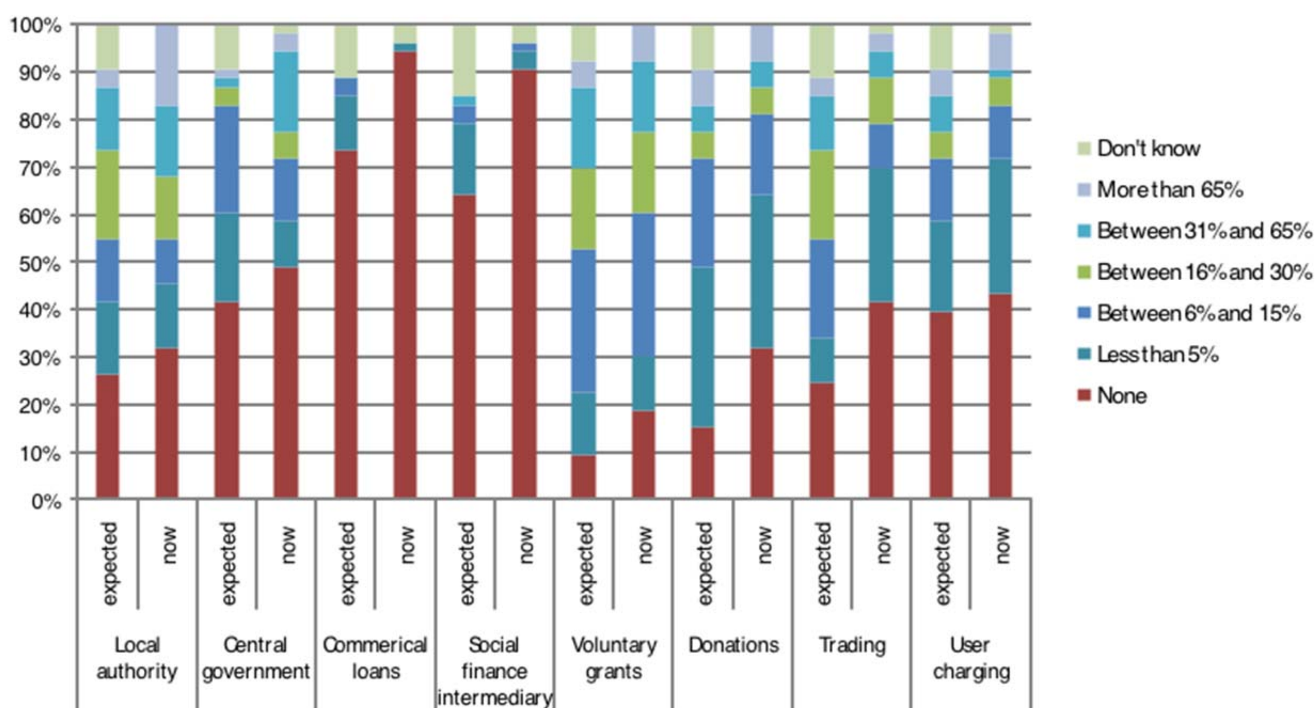


Figure 5: Expected change in income sources between 2010-11 and 2013-14[17]



Reductions to public spending on voluntary and community youth services

Our survey shows that 28 per cent of VCYS organisations take at least one third of their income from local authorities, and 23 per cent take at least a third of their income from central government. This is in line with the charitable sector in general where 36 per cent of funds – a total of £12.8 million – came from statutory sources in 2008-09[18]. Overall, 13 per cent of charities and 39 per cent of social enterprises get over half their income from government. While few will be insulated from public sector cuts, some will be hit harder than others. For example, one charity we spoke to had a planned income of £340,000 from local authorities for this academic year, but following budget cuts received just £10,000.

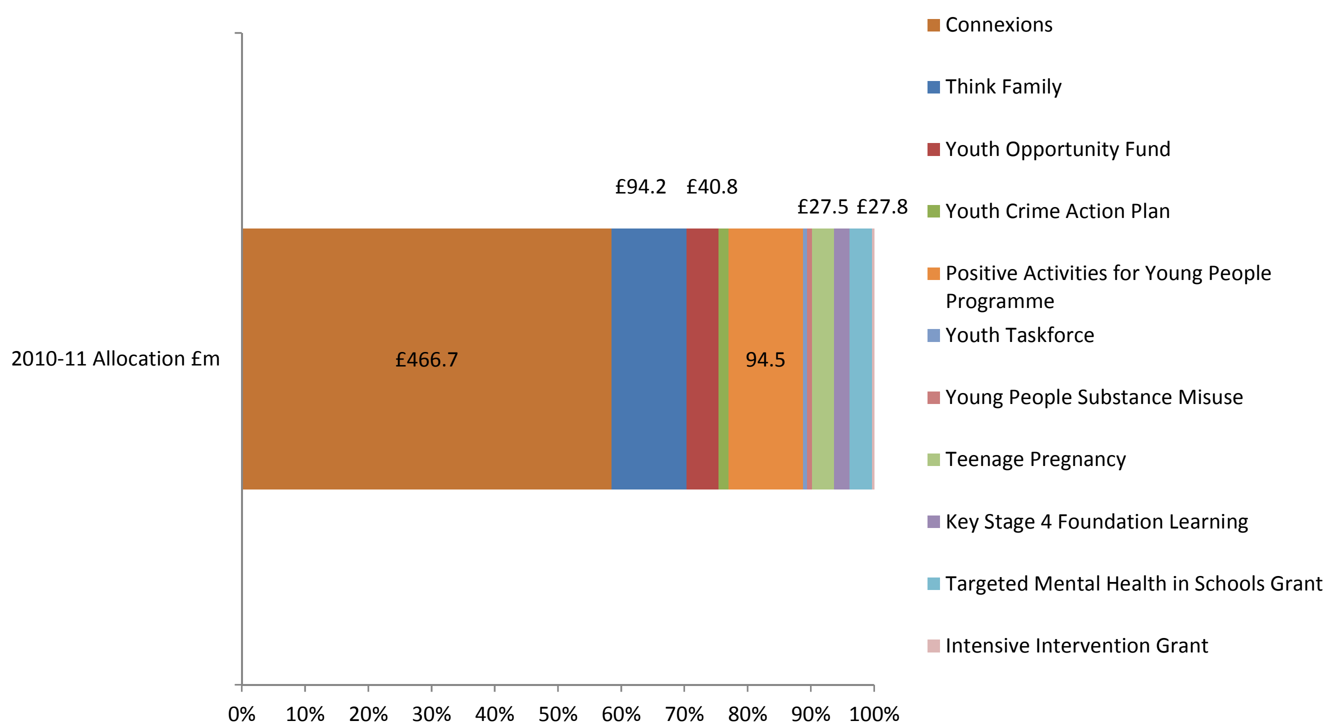
The 2010 Comprehensive Spending Review allocated £2.2 billion in 2011-12 and £2.3 billion in 2012-13 to local authorities in England as an Early Intervention Grant. This non ring-fenced fund is available to all children and families as well as young people, and can fund universal activities as well as specialist services where intensive support is needed. It replaces a plethora of grant funding streams including Connexions, Youth Opportunity Fund, Youth Crime Action Plan, Positive Activities for Young People, and funding for targeted work around substance misuse and teenage pregnancy, and represents a reduction of ten per cent in predecessor grants in 2011-12 and of seven per cent in 2012-13 when compared to the 2010-11 baseline[19].

[17] Young Foundation survey of youth sector providers, May 2011. N=53
[18] NCVO (2010) *The Big Picture*
[19] NVCYS (2010) *Comprehensive Cuts 2*

Figure 6 shows the breakdown of the £966 million of Department for Education (DfE) grants going to young people, in the main via local authorities. In total, these streams form 38 per cent of what is now combined as the Early Intervention Grant. Nearly half of these funds, £466 million, went on Connexions, just 18 per cent of what is now the whole Early Intervention Grant.

Looking more narrowly at funds from DfE going to the Youth Opportunity Fund, the Youth Taskforce and Positive Activities for Young People, income in 2010-11 was worth £140 million. Assuming that was reduced in line with other services (such as the funding for childcare for disadvantaged two year olds, Sure Start Children's Centres, short breaks for disabled children and developing the children's social care workforce), it would mean reductions of just £14 million for the sector. But that is an unlikely assumption. Survey data suggests that as a whole the sector is seeing reductions of up to 23 per cent over three years.

Figure 6: Share of the £966 million of DfE grants going towards young people in 2010-11 now forming the Early Intervention Grant[20]



The overall reduction implied by the Early Intervention Grant effectively reverses average growth in the sector's income over the last five years. Overall, the third sector's income rose on average 5.3 per cent annually in the years between 2000 and 2008.[21] A significant proportion of this came from growth in public sector funds, as well as a growing share going to voluntary and private providers.

However, the effect on youth sector organisations is likely to vary in different areas. Despite an average of £84 per young person a year in 2007-08, local authority spending per young person ranged from £41

[20]Based on data from the DfE (2011) Early Intervention Grant Technical Note available at: www.education.gov.uk/childrenandyoungpeople/earlylearningandchildcare/a0070357/early-intervention-grant-frequently-asked-questions/ . Note not all the Intensive Intervention Grant and Think Family Grants would go to supporting young people directly.
[21] NCVO (2010) *The Big Picture* 2007/8 is the most recent year for which data is available.

to £247, with young people in some areas getting six times the amount spent on others[22]. While urban areas tend to spend more per young person than rural areas, there is no clear relationship between spending and levels of needs and risks among young people. We can therefore expect the impact of spending reductions in each area to vary significantly, although some decommissioning of services will likely be necessarily everywhere.

The economic downturn on the voluntary sector in 2009 was reported to have had the biggest impact on larger and medium-sized organisations, meaning that – perhaps unexpectedly – small and micro ventures held up relatively well.[23] This bodes well for youth sector organisations, which tend on the whole to be small in scale. Research for National Council for Voluntary Youth Services (NCVYS) in 2008 reported that local VCYS organisations have an average income of just under £700,000. Regional organisations for children and young people had an average income of £2.8 million, with national organisations generating £7.3m on average.[24]

Changing public sector commissioning approaches

"In this climate, the youth sector is going to have to show they solve a problem to survive." (social investor)

Public sector commissioning is a key driver of the sector's overall income, with two-fifths of total funds estimated to come from statutory sources. It is likely that alongside the reduction in the amount the public sector commissions, we will see a shift in the way the public sector commissions services, with specific implications for young people. We might reasonably expect public sector commissioning to change in three ways: to be more targeted by need and issue, to be more integrated locally, and to be more evidence-based[25].

More targeted

Resources will be focused increasingly upon young people with the greatest needs, or the highest risk of poor outcomes, which for the public sector often means those young people who are either currently, or are likely to, pose the highest costs to services and the community. In our survey, a minority of youth sector providers ranked these outcomes in the top three their organisation is focused on: nearly a quarter (23 per cent) aim to increase employability while just under a fifth (18 per cent) try to reduce youth offending and anti-social behaviour. For other organisations, any impact on these outcomes with clear and significant savings to the public sector will be indirect. For 78 per cent of organisations, improving the social and emotional skills of young people is a core objective. However, only 37 per cent claimed to be focused on educational attainment, and fewer still were focused on employability. Only four per cent were working on parenting and with families. Showing how improvements in social and emotional skills impact upon these 'harder' outcomes with direct costs to the public sector is therefore relevant. With evidence increasingly affirming the importance of social and emotional skills to such outcomes[26], there is the potential for greater interest in funding the services that develop them.

Better integrated

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[22] National Youth Agency, *England's Local Authority Youth Services: NYA Audit 2007-08*. Excludes City of London, with too small a young person population.
[23] NCVO (2010) *The Big Picture* Q13
[24] Craig et al, (2008) *Every Organisation Matters: Mapping the children and young people's voluntary and community sector*, University of Hull
[25] See, for example, the Graham Allen 2010 Review of Early Intervention
[26] Heckman, J (2011) "Creating a More Equal and Productive Britain" presentation to the Young Foundation and Centre for Analysis of Social Exclusion. Available at: www.youngfoundation.org/events/a-lecture-professor-james-heckman

The agencies that pay for youth sector provision are not always the ones that benefit from it. Increasing local authority budget flexibility – due to the removal of most ring-fencing – has the potential for a more holistic approach to commissioning. For example, funding a youth sector organisation may save local authority social care budgets. If it reduces the number of young people becoming 'looked after', it would save around £38,000 per person a year. However, it also means youth sector providers are competing directly with other local services, including those for younger children and families. Many big agencies, such as health, prisons, police, employment and benefit services and increasingly even schools, which stand to gain from effective support for young people, are outside of the local authority commissioning budget and cannot readily pay for youth sector provision. Community budgets, such as the current pilots focused on early intervention with complex families, try to overcome this by allowing local agencies to pool costs and savings.

More evidence-based

As budgets shrink, and become more flexible, we might expect good evidence of services' effectiveness to become more important. Good evidence is certainly no guarantee of ongoing investment, and a wide range of factors influence decommissioning decisions. However, providers without good evidence of their effectiveness are in a comparatively weaker position than those that do have such evidence. There is a potential tension between an emphasis on robust evidence of impact – which would favour providers with a good track record, a large scale of operation, and resources to invest in data collection – and an emphasis on innovation. If innovation was given greater weight by commissioners and other 'customers', local, community-based services and new ventures might get a greater slice of a shrinking pie. Withe the evidence base for youth service still growing, a commitment to both innovation and robust evaluation seems a good way forward.

While many of these potential changes in approaches to commissioning have the potential to promote more cost-effective spending for young people, the youth sector in particular will find them challenging.

Pressures on private and charitable sources of income

The current economic climate means that it is not only public income streams that are under pressure.

In 2009, total trust donations to youth charities were estimated to be worth £210 million[27]. Nearly a quarter (23 per cent) of individual charitable trust grants are targeted specifically at young people[28]. Existing charitable sources of funding for positive activities alone were estimated in 2006 at around £53.4 million a year[29]. Private sector and corporate contributions are more likely to be 'revenue in kind' (for example, volunteers) than cash, unless return is expected or VCYS organisations move to a social business model. Corporate community contributions are bigger still, estimated to total around £520 million in 2006[30].

A fall of five per cent in grant-making capacity, because of continued low growth and recovery from recession losses, would mean a loss of £10.5 million. A snapshot survey of VCYS organisations in September 2010[31] suggested that £10 million of charitable funding had already been lost in 2010-11, and it is likely that this level of reduction will continue for the next two years.

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[27] Harrow and Pharoah (2009) *Rethinking Recession – needs and opportunities for sector change, Report to the Prince's Trust*, Cass Business Schools
[28] ibid
[29] PriceWaterhouseCoopers (2006) *The Market for Provision of Positive Activities for Young People*
[30] ibid
[31] NCVYS (2010) *Comprehensive Cuts: Report on funding changes in the voluntary and community youth sector*

The Big Lottery Fund has also been a substantial investor in the youth sector, with an estimated average of £667 million per year since it began going to projects either specifically for young people, or with a significant benefit to them[32]. Though individual private donations are a small part of the market, 70 per cent of the VCYS organisations we surveyed reported receiving some form of donation, so declines in this source of income are likely to generate some shortfall for many organisations.

A small majority (57 per cent) of the VCYS organisations we surveyed had some income from non-public sector earned income, but in most cases this formed less than 10 per cent of their income. The private market for positive activities for young people is large: estimates suggest it is around £1 billion[33]. However, private payments to voluntary sector providers appear to be minimal, while local authorities' funds from charges (for example, for music lessons or leisure activities) are small compared to their public funds.

[32] PriceWaterhouseCoopers (2006) *The Market for Provision of Positive Activities for Young People*
[33] ibid

Supply: what social finance is available for the youth sector?

Because of unpredictable revenue, budget cuts and an ongoing problem of undercapitalisation, it is clear why social finance represents opportunity in sustaining and growing the youth sector. But is this a realistic hope? Organisations will not be able to raise capital without dependable sources of revenue. Importantly, the market for social finance depends on the capacity of providers to respond to the interests of social investors. That requires understanding, capability and capacity to develop and take on capital investment. The challenge is greater than that, however, and lies in finding a clear customer for youth services. A loan or investment, whether private or social, is only helpful if it can be paid back or generate return. For social investments to pay off, youth services need a clear revenue stream. This means a clear customer for youth services, and a viable business model to access income.

To survive, let alone thrive, youth sector organisations will need not only to be able to respond to social investors, but better respond to the needs of different public sector commissioners, and to young people and their families.

This section maps the current size, sources and nature of income streams for the voluntary and community youth sector. It also examines how these might change in the future.

What types of social finance products are available?

Although there is strong and growing interest in social investment, last year it amounted to just £192 million[34] for all organisations across all sectors. While there is limited data on the proportion of this going to the youth sector, we know that:

- Venturesome's figures from last year show that it invested approximately 25 per cent (by value) in youth, education, employability and disability investments
- UnLtd's analysis of investments to their investees suggests that young people were the main beneficiaries of 46 per cent of their portfolio (by number of investments, not value)
- some 19 per cent of social enterprises featured in the State of Social Enterprise Survey 2009 said they worked with young people.

If we assumed, based on these data points, that perhaps 10 to 20 per cent of total social investment, including venture philanthropy, went towards the youth sector last year, this would mean a total investment of around £20 million. This figure is only an approximation however, and we recommend that social investors collect data on a more systematic basis.

As set out in the introduction to this report, we define social finance as capital rather than revenue. By capital we refer to money that is received (including working capital to bridge short-term cash-flow gaps, risk capital to grow, or fixed asset acquisition finance, to buy an asset like a property, for example).

There is currently no dedicated social finance provider for the youth sector. There are, however, many other general providers including Venturesome, UnLtd Advantage, Triodos Bank, and Bridges Ventures.

[34] Shanmugalingam, C et al (2011) *Growing Social Ventures*, NESTA/The Young Foundation

Based on our definition of different kinds of products and services set out in the introduction, we can estimate the supply of different financial products or instruments available in the market now[35]:

- **Semi-commercial loans**: Estimated to be £50 million in 2010.

Providers include Charity Bank, CAF Venturesome and others.

These are loans that are repayable typically with both a lower rate of interest and a longer repayment term than in the commercial market. Investors vary in their preferences. One investor said: "If it's for something low-risk we don't look too hard at their social impact, to be honest. We focus more on whether they can pay it back. But if it's for growth, we do a very thorough due diligence process."

- **Complex semi-commercial loans/quasi-equity**: Estimated to have a £25 million portfolio outstanding in 2010.

Providers include Venturesome, Big Issue Invest, and Bridges Ventures social enterprise funds.

These are loans that also typically have a lower rate of return and longer repayment schedule than commercial finance, and additionally have been designed to mimic characteristics of equity finance. This might include some performance element (such as a rate of interest that varies with an organisation's turnover – known as a 'revenue participation agreement') or a 'convertible loan' (a product whose terms change if certain conditions are met). Again, investors vary in their preferences, for example how far they look at financial and social returns, and how early-stage the organisation can be. Bridges Ventures, for example, invests £500,000 to £1.5 million in this way, but is open to organisations at an early stage of development.

- **Government-subsidised loans**: Estimated to have invested £60 to £70 million annually.

Provider is Social Investment Business.

These are loans managed by the Social Investment Business which include the Modernisation Fund, The Department of Health's Social Enterprise Investment Fund (SEIF), and others. Social Investment Business' funds invest from £20,000 to £10 million.

- **Credit facility/overdraft**: (no estimate of size available)

Providers include Venturesome.

These are pots of credit that organisations can dip into to manage cashflow.

There are also a number of grant makers who play a role in supporting the growth of organisations. Although we haven't considered these as social finance in this report, these also form part of the picture, helping to finance investment readiness and to address undercapitalisation. These include venture philanthropists (such as Impetus Trust and Private Equity Foundation) who focus on helping established organisations to scale up, as well as UnLtd who offer up to £20,000 to social entrepreneurs who may be at a much earlier stage in their development.

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[35] Adapted from NESTA & NPC (2011) *Understanding the Demand for and supply of social finance: Research to inform the Big Society Bank*

Demand: can the youth sector take on social finance?

"In this climate, we have to be careful about what we provide. The needs of the sector are more around restructuring than around growth – talking about growth in a climate where people are struggling for revenue can sound out of touch with reality." (social investor)

What are the voluntary and community youth sector's needs for social finance, and are they ready to take it on?

More than most businesses, VCYS organisations need access to capital. Lumpy payments from government based on the results of delivery create a need for working capital to manage cashflow. For others, low or nonexistent profit margins mean that retaining income – to reinvest in growth, core operations or other areas – is impossible.

Research for the Big Society Bank identifies a total gap of £160 million of social finance in the voluntary and community sector as a whole, including support for intermediaries and capacity-building.[36] In our survey, 20 per cent of respondents thought they would receive up to five per cent of their income from social finance in three years time. If this applied to the sector as a whole, it would mean £5 million of social finance invested in the youth sector in the next three years.

What are the social finance needs of the sector?

Based on our interviews with organisations and investors, we have identified four critical financing needs for different types of youth sector organisation:

- **Start-up and innovation finance**

"[The youth sector] will always need grant funding for innovation – we don't get many purchasers able to invest in innovation. They're happy to take on a pilot when others have part funded it, but innovation is a big ask." (chief executive of youth sector charity)

There are two types of organisation that might require finance here. The first is the early-stage organisation seeking startup capital, often with relatively little track-record, small management teams, asking for relatively risky capital. The second may be a range of small to large organisations that are looking to innovate, to do a pilot, a new project, develop a new service, or create a spin-out. The latter types may typically have a stronger performance history and be able to negotiate due diligence processes but will still be at an early stage with a new innovation.

For both types of social finance, organisations typically are looking for anything from £20,000 to £150,000. Usually, they want this as either grants, equity or equity-like investment because innovation is high-risk.

[36] NESTA & NPC, 2011, *Understanding the Demand for and supply of social finance: Research to inform the Big Society Bank*

Providers of this kind of finance include Bridges Ventures, Big Issue Invest and Venturesome. It can be difficult to raise this kind of finance, and these social finance providers are selective in their investments – organisations need to be ready to survive robust due diligence procedures. Typically, providers ask for an element of performance-related interest, and organisations also need to have strong financial management to be able to negotiate this.

This is an area where we have found a gap. Relatively few investors know enough about the youth sector to be able to judge innovation effectively, and financing this without grants has proven elusive and difficult for many social investors.

- **Scaling up: finance for growth or mergers and acquisitions**

"You can't just ask a charity to become a social enterprise. They need support, business acumen and time to take a risk. All of that costs money." (social investor)

"If we were being controversial [...] the sector is bloated, there's lots of duplication, and not a lot of reflection. Commercialisation is no bad thing – ultimately it helps young people – but there's a significant reluctance among the sector to look critically internally; to say 'how unique is what we're doing?' rather than 'we exist because we always have'." (senior manager in youth sector charity)

In the main, youth sector charities are small or local. Only 10 of the largest 300 fundraising charities are dedicated to young people's causes.[37] In 2008, local organisations had an average income of just under £700,000. Regional organisations for children and young people had an average income of £2.8 million, with national organisations generating £7.3 million on average.[38]

Capital investment in the form of assets is also important for organisations wanting to increase their scale. Since 2008, through the myplace programme, government has provided £270 million of capital funding to 70 projects across England. The Big Lottery Fund is delivering myplace on behalf of the Department for Education (DfE); it uses public, not lottery, funds. Resources were targeted on projects requiring between £1 million and £5 million of capital investment to deliver 'an outstanding building project', with a focus on those being led by young people. The DfE confirmed in December 2010 that the remaining 57 projects will continue, but further ring-fenced public sector capital investments from the government are unlikely in the next parliament.

Financing mergers or the growth of existing organisations is also a relatively risky form of investment. The best types of social finance are equity-like investments or, depending on the risk, relatively large loans at sub-commercial rates. Because of the risks, investors are likely to want relatively heavy due diligence procedures, and organisations need to be above a certain size to take this on.

Providers of these 'scaling-up' funds include venture philanthropy providers like Impetus Trust or loan providers such as Charity Bank. Although there are providers of loans for 'scaling-up', we found no dedicated funds targeted specifically at mergers at present. Typically, sums required for scaling vary from £100,000 to several million pounds, depending on the desired expansion plans.

Although there are a number of providers operating in this space, there are relatively few focused on mergers. Particularly acute is the gap in finance for adapting to changing business models, for capital investment to set up new business models, and for funding to bring in business development support.

"We needed help with integrating two organisations. [The youth sector] needs pro bono support for this [...] it's a huge thing. This is likely to be an increasing trend. It completely makes sense but we underestimate the amount of work here." (director of youth sector charity)

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[37] Professor Cathy Pharoah, Charity Market Monitor (2008) *Volume One Top Fundraising Charities*
[38] Craig et al (2008) *Every Organisation Matters: Mapping the children and young people's voluntary and community sector*, University of Hull

- **Cash-flow: finance to provide working capital**

"To be honest, rather than scaling-up funds, we really need working capital if we are going to think about going near the Work Programme." (Director of a youth sector Community Interest Company [CIC])

With the movement to payment by results or traded income business models, organisations are likely to have to manage high variance in cash flow which will require significant working capital. Products such as overdraft facilities are important here, so that large sums of cash are not sitting in bank accounts.

Again, there are relatively few organisational overdrafts or temporary credit facilities for organisations at present, although there is growing interest in this area.

Providing working capital: CAF Venturesome

CAF Venturesome was launched in 2002 and is made up of three social investment funds which provide both risk capital and advice to charities and social enterprises. CAF Venturesome was launched by John Kingston as an initiative of the Charities Aid Foundation in order to address an identified gap in the capital market for social purpose organisations. In certain instances, such as providing working capital for charities, Kingston found that the risk-averse attitude of commercial banks and the restrictive nature of grant funding left a gap in the access to capital for social purpose organisations. In response, Venturesome offers bridging finance, working capital and development capital to build new income streams. Over 200 commitments have been made, approaching £20 million, since launch.

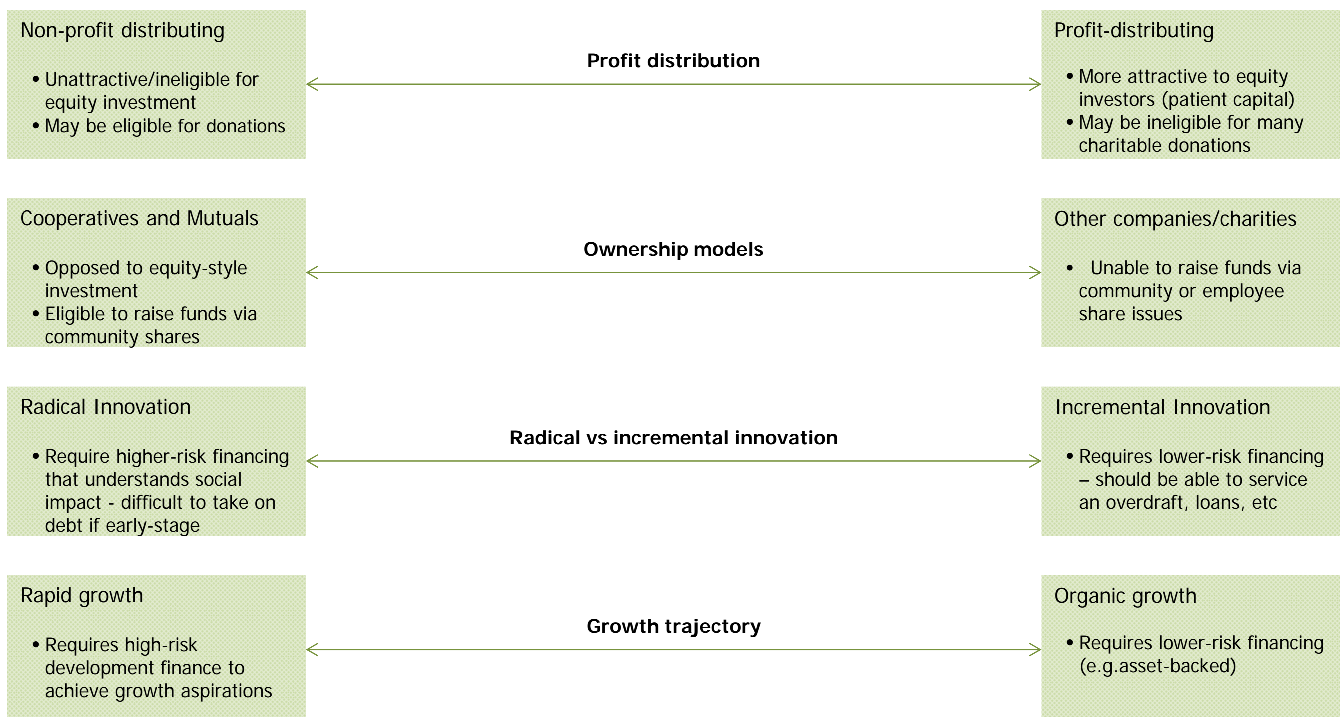
As an 'impact first' social investor, CAF Venturesome uses underwriting, debt and quasi-equity instruments to invest in ventures looking for between £20,000 and £400,000. Through its innovative approach, CAF Venturesome is able to recycle its grant-making base of capital several times through different ventures. Investees are expected to repay their investment with moderate interest, but the 'high-risk for high social return' nature of its investments inevitably results in an overall negative financial return for the fund. CAF Venturesome's recycling, however, is way above the minus 100 per cent return of traditional grant-makers and is historically around minus five per cent, adjusting to minus 10 per cent if the current portfolio's performance is included. The social impact more than compensates for this.

In addition to CAF Venturesome's provision of finance, client feedback demonstrates that its 'searching analysis' approach to due diligence yields value for investees and even those that don't receive investment.

As shown in figure seven, the specific needs for social finance will vary according to several different variables. There could be differences in growth trajectory, how innovative they aim to be, their organisational form and profit distribution, for example.

Figure 7

Finance needs change according to the values and operational form of social ventures



How 'investment-ready' is the sector?

"To any investor – including those that aren't looking for much of a financial return – you need to know the organisation is sustainable and makes an impact. Many youth work organisations don't have a model for sustainability and lack any kind of system to record their impact." (social investor)

Just because there is a need for social finance among VCYS organisations does not mean they are ready to take it on. Our research highlighted three main issues:

- Capability – skills, understanding and ability to demonstrate impact
- Capacity – scale, time and resource to pursue social finance
- Confidence – both of being able to generate returns on investment, and of having the networks and ability to negotiate with investors. Establishing viable business models is essential to this.

Capability

"For our due diligence process, you basically need to have stats and analysis of your impact. Many organisations with weak systems won't be able to do this. We do end up looking for teams that have someone who didn't spend all their career in the charity and voluntary sector [so have] a bit of business acumen." (social investor)

Many organisations are being held back from becoming an attractive investment proposition by a lack of business acumen, non-charity experience, and management skills. Evidence suggests that in the vast majority of VCYS organisations, strong management teams and good internal operations are not yet there. This is mainly because of the investment of time and resources this requires, which are in scarce supply. Increasingly, funders are less willing to support these aspects of VCYS organisations, preferring instead to support direct delivery only.

Investors we spoke to agreed that there were major challenges in terms of capability. For example:

"There is a dearth of financial skills in the charity sector in general. We focus on the management team a lot when making investments – anyone can put together a cashflow. The management teams to [take small organisations to] scale aren't developed yet and don't show much sign of being developed." (social investor)

Our research for Growing Social Ventures suggested investors view financial, business and operational skills as the most critical skills gaps across the sector. Even youth organisations who had raised significant sums of investment and developed financial models talked of a need to better understand different types of social finance.

There is a need for independent, expert, jargon-free advice for VCYS organisations, helping them to understand social finance, different types of products, and what it might mean to take on social finance. The successes and challenges several organisations raised in our research point to the need for non-financial as well as financial support. In large part, this was about bridging the culture and language gap between investors and organisations. "To some extent, investors and organisations just speak different languages" (social investor)

In accessing potential social finance investments, having a strong story to tell about the impact and value youth services create will be increasingly important. Public sector commissioners, trusts and foundations who might provide the revenue for youth sectors are increasingly demanding in terms of understanding the impact and value of services. Three-quarters of organisations we surveyed felt at least fairly confident they could demonstrate the impact they have with young people compared to those not receiving their services. However, this is thought to be because they under-estimate the level of rigour required for evidence. The Audit Commission[39], for example, found that fewer than a third of youth sector providers had evidence of impact, and only 17 per cent of services for young people collected data that would allow for an assessment of value for money. A recent review found that only a handful of evaluations of services for young people met a level of robustness that commissioners might expect.

Many of the youth sector organisations we interviewed did recognise measuring impact as a key problem. One openly admitted that they were "nowhere" in terms of measuring impact. They added: "Individual organisations don't do anything, don't embed impact assessment in ongoing governance [...] We have purchased this externally where it has happened." (chief executive of youth sector charity).

The social and intrinsic value of work with young people may continue to drive service leaders, practitioners, and inspire and draw voluntary funding. Qualitative evidence can be highly effective for

[39] Audit Commission (2009) *Tired of Hanging Around*

'marketing' youth services, including to commissioners. Increasingly, however, generating income streams and social finance means being able to demonstrate extrinsic impact on outcomes for communities and other public services. For Social Impact Bond models – and increasingly public sector commissioners – showing a positive impact in work with young people will not be enough, whether paying by results or otherwise. To create a financial return on investment, or make the 'business case' for reduced public funds, VCYS organisations need to be able to demonstrate the *financial* value that improved outcomes for young people generates. In our survey, 30 per cent were confident they knew what extrinsic value their services create for the public sector in terms of reduced costs to other services. For example, the savings could be generated by getting young people into work and apprenticeships, or out of the criminal justice system.

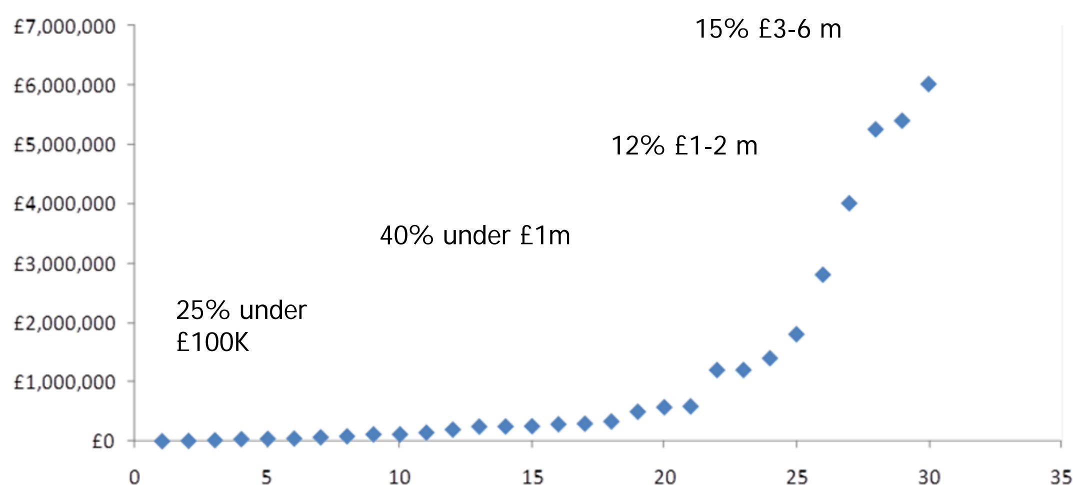
Capacity of the organisation

"The lead-in time for developing a Social Impact Bond in a new area could be anything up to a year. It probably isn't suitable for organisations whose cash flow can't sustain that. And we look at everything – the management team, other revenue streams – it's a significant process." (social investor)

For many organisations, taking on social finance could in itself be so cumbersome and time-consuming that it might cripple the functioning of the organisation. Several investors, including Private Equity Foundation and Venturesome, used criteria to screen out organisations that wouldn't have the capacity to comply with their often lengthy due diligence procedures.

Our survey data confirms that much of the youth sector is small in scale. The distribution of the 33 organisations able to give their turnover is shown in figure eight. This shows nearly two- thirds (65 per cent) of VCYS organisations we surveyed had an income of under £1 million. The remaining third will be of a scale that makes it easier to negotiate new business model structures and investment. Of those organisations that had turnovers above £1 million, most did not exceed £6 million. The exceptions were two organisations that had a turnover literally off the chart in figure eight: £50 million and £120 million.

Figure 8: Annual Turnover 2010/11 for youth sector organisations surveyed[40]



Transitioning to new business models and telling a strong story about value requires a scale and capacity that many organisations acting alone will be unable to reach. Responding to increased competition (for public and private sources of income) may therefore require greater collaboration between youth sector organisations. One response to increased competition would be for parts of the youth sector to actually collaborate more closely. Pooling expertise as consortia or working at a sector-wide level, if not undergoing mergers, could help VCYS organisations access social finance and income. As a chief executive of a CIC said: "Even if you don't have the skills, it's knowing what you train up in yourself, or what you need to bring in from outside."

Confidence

As discussed in detail in the revenue section earlier in this report, many organisations do not yet have sustainable revenue streams. Investors we spoke to talked of this being a significant gap. One put it simply: "Those organisations that can win contracts are growing and those that are not are shrinking".

For many organisations, being able to develop workable business models is critical. Financial security provided by assets, particularly large buildings and facilities, can be critical too, as they can be borrowed against.

A significant proportion of youth organisations we surveyed showed concerns about the changing nature of revenue income going to sector. As figure nine illustrates, a fifth (20 per cent) of VCYS organisations felt confident they could maintain their service without public sector funds. Similarly, a fifth (20 per cent) of organisations working with young people felt they could manage a move to payment by results system, where half of their income was paid when improvements in outcomes were made.

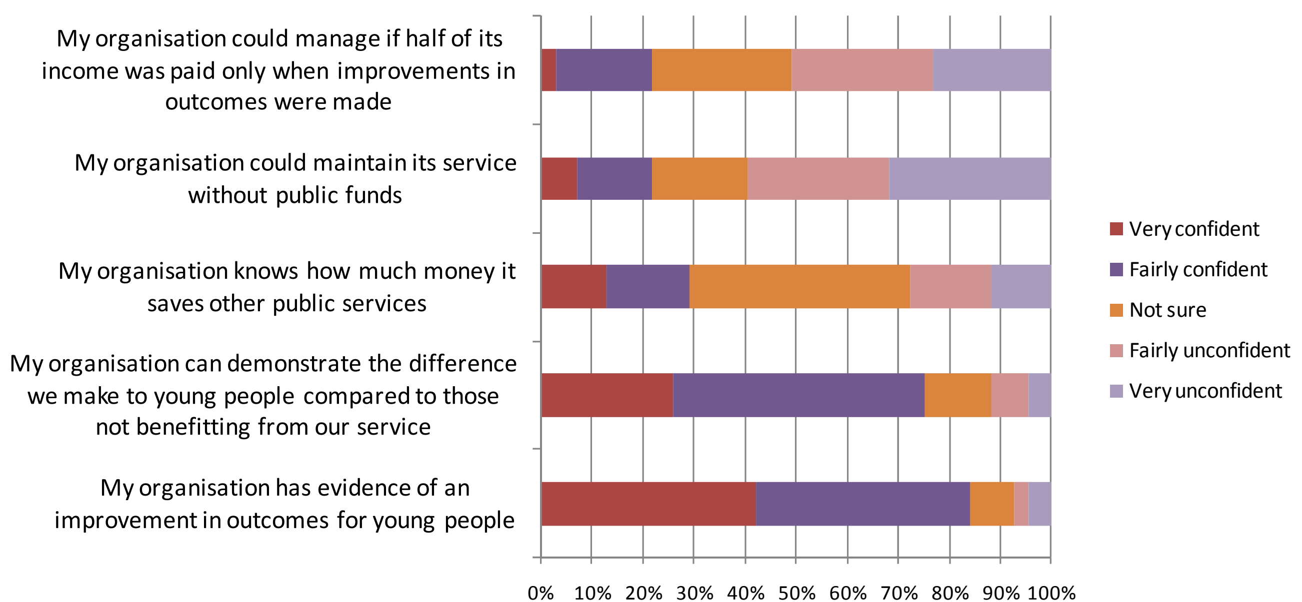
Our survey also showed that fewer than one in 10 VCYS organisations were confident about accessing social finance. Only nine per cent were 'very or fairly confident' that they could access a loan to cover a significant portion of their turnover at a rate of 7.5 per cent or below, and only seven per cent felt very or fairly confident that they could pay off such a loan. Only 11 per cent were very or fairly confident of having trusted investors whom they could approach in the first place.

[40] Young Foundation Survey May 2011, N=33

The challenge for the youth sector in responding to the changing market and accessing social finance is best summarised by a senior manager in a youth sector charity:

> "[The challenge] is in two parts - mindset and skill set. To generalise, youth charities are used to relying on donations [...] This is fundamentally different: thinking about operating as a business to develop profit to pay for their work. [...] We have to be profit-hungry and business-like. That's the mindset that has to shift. It's probably one of the only reasons that we're here today, that we've been able to survive. It's a skills set too. Being entrepreneurial, business-like – in some cases ruthless - marketing, PR, sales [...] all become key and might not be skills that reside within charities."

Figure 9: VCYS organisations' confidence in responding the changing nature of funding supply[41]



Establishing viable business models for the youth sector

"The key challenge for the youth sector is 'what is the youth service'? 'What is its product?'" (chief executive of a CIC working for young people)

To raise social finance, organisations need to demonstrate a viable business model. Investors that are looking for a blend of financial and social returns for their investment need to know that the organisations they invest in will have a sustainable source of revenue into the future. In this section, we look at a range of possible ways of generating revenue, and the challenges and benefits this confers on the organisation.

By business models we mean ways of accessing income; it does not mean becoming a business or even social enterprise. It is also important to distinguish the customer (who will pay for the service) from the beneficiary (ultimately, young people themselves). Related to this is the importance of measuring value to the payer. While social or intrinsic value may be generated at the same time, it may not always be the case that the social value or mission of the organisation is the same as its financial or extrinsic value in the business model.

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[41] Young Foundation Survey May 2011, N=33

> "We're really refocusing the organisation on proof of success. I have to keep reminding myself that my purpose must be to garner results that help us improve the quality of delivery of our work. The secondary purpose is to better market our work to funders and investors. It must not be the other way round, otherwise you stray from being a charity and get mission drift." (chief executive of youth sector charity)

Social finance differs from traditional charitable trust and foundations' funding in that it does not come in the form of grants; it expects financial as well as social return. This means that to attract investment, charities or social enterprises working with young people need clear ways of generating income.

Young people are of course the ultimate beneficiaries of youth services, but are unlikely to pay for services themselves. Thinking about the customer for youth services and the 'extrinsic' value created is therefore critical to creating an efficient market. While many organisations combine different models, we can categorise six different types (set out in Annex A). Each has different implications, but there are few easy options. Most VCYS organisations use a blend of different revenue streams; some from government, some from charitable sources, perhaps some from traded income. Many will need to change their business models to create new revenue streams in the times ahead, moving from being grant-funded to gaining income from more demanding public sector commissioners as well as to diversify away from government to other sources of income. This is likely to present significant challenges for VCYS organisations.

Becoming 'investment-ready': five case studies

Jamie's Farm works with young people at risk of educational exclusion through a range of therapeutic interventions. Unusually for a youth charity, Jamie's Farm raised over £1 million of social finance, mainly as debt to finance the purchase of a new farm property and expand their operation. Much of the finance they raised is on relatively commercial rates of interest. Around £400,000 came from Triodos Bank, and a further £900,000 came from local lenders.

"From the start, we had good impact measurement systems in place which helped with approaching investors and getting pro bono help early on. We also had some credible people and a strong team, including someone who had worked in finance, who could be credible in front of investors and anticipate their questions. UnLtd helped us to build financial projections, helping us to discuss sensible assumptions. One investor was skeptical about my inexperience, but we raised the money through a blend of investors which is good - it makes the legal arrangements complicated but it's a safer bet. We have all been on a learning curve - I didn't know much about all this when I started, and I would want to know more about any kind of new social finance before we invested a lot of time trying to raise it". (The charity's founder, reflecting on developing investment readiness)

London Youth is a network of 400 community organisations serving 75,000 young people and their families in neighbourhoods across the capital and at two outdoor centres in rural Buckinghamshire and Sussex.

Activenture is a specialist disability programme based at London Youth's two outdoor centres, providing week-long residential adventures for young people with disabilities. In so doing, it also creates respite care for both parents and siblings.

It costs £1,600 to take one disabled young person on Activenture for a week, well beyond the affordability of families with a disabled child. Historically the gap between affordability and cost has been met by fundraising. Yet in the past 12 months, following a change in legislation placing on local authorities a duty of care to provide respite for families with disabled children, Activenture has entered

into contracts with six social service departments to deliver for 116 disabled young people to a value of £206,747.

This transition from grants to contracts is making Activenture financially sustainable. Yet, following enquiries from local authorities across the UK, the team believes there is potential for doing much more, franchising Activenture through other outdoor centres (with whom they already have strong links). However, the charity is not in a position to fund such expansion from reserves, nor will current cash flows allow for the costs of necessary development work. Social investment, (perhaps in the form of debt convertible to grant, or equity) could share risk between the charity and investor, scaling a proven initiative nationally.

Envision is a medium-sized charity, working with 6,000 young people annually in four English cities. Envision views social investment as being 'on the horizon' for the charity, and has identified potential investors, but it will be a long journey.

"We recognised three to four years ago that trust funding would never sustain the organisation so we moved to a mixed funding model. We're developing products that we could sell to corporates and to the education market. We've had some initial grant funding to enable that to happen. Most importantly, we've had pro bono consultancy from two venture capitalists and management consultants. They helped us understand our strengths and our offer, create a marketing plan and segment the market. We'll test this out ourselves next year and have put staff in place to enable this. Then we'll need more grant funding to get it to the next level. At the end of next financial year or the one after that we'll be ready to seek investment". (senior manager)

A homelessness charity (which asked to remain anonymous) works with 1,300 young people annually. Last year, the charity began planning for a 'bond', a loan to allow for investment in services for young homeless people, to be repaid with revenue from payment by results contracts. However, the charity has found that responding to the tightening financial climate and changing revenue streams must take priority over planning for social investment. The charity is now planning to return to the development of the bond towards the end of the financial year, and in the meantime is focusing on internal systems and processes, including impact assessment and tracking. The charity is very aware of the time and resources needed to plan for social investment, particularly when it represents a significant shift away from existing revenue sources.

"Things have moved on so much that we've had to put [the bond] on one side in order to deal with the impact of funding cuts. We need to be looking at both of these in tandem [with planning for social finance] but we have to go for the 'here and now' to sustain our business". (charity director)

A national charity, working with over 46,000 young people per year, also asked to remain anonymous. It is interested in social finance, but like so many other charities in the youth sector, is anxious to understand the opportunities and implications. The charity is also aware that it is likely to have access to more support than others, due to its size and profile, but it still feels there is a considerable gap in the provision of information and expertise.

"The stage we're at is trying to develop particular models that might work for us. It's quite a complex mechanism [...] We need clear information. The one thing we are clear on is, to get funding you're going to have to show outcomes. But who will invest start-up money here?" (charity director)

The Foyer Federation develops and encourages new approaches to supporting young people at risk as they make their transition to adulthood. It works mainly through a network of over 100 accredited sites that provide accommodation linked with education, training, health and other services to around 10,000 young people a year. The charity is in the process of exploring the potential of social investment, and is focusing particularly on capturing and demonstrating the outcomes of its work, in order to prepare for future investment. The Foyer Federation is well aware of the challenges in defining

outcomes in work with young people, particularly those with complex needs. It is exploring a 'youth-driven' approach to outcomes measurement, where young people define the outcomes that matter to them in making a successful transition to adulthood, and what made the difference. The charity is talking to a number of investors who are "enthused and engaged" by its approach, and is hoping to set up a Knowledge Transfer Partnership to take the work forward.

"We're nervous about the [social return on investment] route. Firstly, [there is the] technical worry that part of the SRoI process involves defining outcomes and then developing proxies for the cost benefit calculation. Our reflection is that something always gets lost on the journey - either you miss the point or over/under claim. The other concern is ethical. No-one would say that their greatest achievement is saving the public purse money. We support young people to achieve what *they* want to achieve." (senior manager)

Conclusion

"[Social finance] is the way things are going. It's got a positive feel about it: 'let's focus on investing money in the real issues and trying to resolve them.'" (director of youth sector charity)

This report finds that social finance could be an important means for the youth sector to grow, innovate and improve outcomes for young people. There is potential for social finance to reach more voluntary and community youth sector organisations than it does at present. However, this will still be a minority of organisations, and these too require further support to be 'investment ready'. With the scale of pressures on public sector finances, finding a 'customer' for voluntary and community work with young people will be a particularly important issue.

Our analysis suggests that the key challenges identified by New Philanthropy Capital in its recent research to inform the Big Society Bank – that the market needs to be built, and that social finance needs to be at lower and longer-term rates than commercial products, but still disciplined – are if anything more acute in the youth sector.

Six key conclusions can be drawn from the research in this report:

1. **There is a strong interest and openness to social finance within the youth sector**. Youth sector leaders consulted gave a generally positive response to social finance; they are keen to explore and better understand it. One in five of the voluntary and community youth sector (VCYS) organisations we surveyed expected to receive some of their income through social investment in the next three years. The youth sector does not appear to be resisting new approaches to finance and investment, and indeed many embraced the associated opportunities of new ways of working. One organisation we spoke to was explicit on this point: "I welcome the interest among a new breed of philanthropists in helping charities stand on their own two feet." (chief executive of youth sector charity)

2. **Some social finance is already available to the sector, but existing providers only cater to a limited proportion of the youth sector market.** The organisations we interviewed who had received finance, or were on the point of seeking investment, shared common characteristics that distinguish them from the sector more broadly. They had sustainable business revenue models, strong internal capacity, and confidence in seeking finance. Furthermore, where social investors supply finance on commercial terms, these will only cater to a minority of VCYS organisations that employ social enterprise business models, or those that are working in areas with relatively well-developed public sector outcome-based commissioning models such as employment. Focusing on market-rate financial return could exclude organisations that might deliver a high social impact but relatively low savings to the public sector.

3. **Social finance cannot be a 'cure-all' for the sector's financial challenges, and the design and communications around a social finance retailer need to carefully manage expectations**. Importantly, capital investment cannot be a substitute for revenue. There is growing interest in products in which social finance offers working capital in return for later payment. But such products are unlikely to make up for historical undercapitalisation and significant reductions in large part driven by reduced local authority spending settlements. In general, VCYS sector organisations intending to seek investment view themselves as being at least one year away from doing this, and in some cases, two to three. Even these organisations are the minority; many are ill-equipped to even assess the potential it offers, while for some it might never be appropriate. Our research did not suggest that the sector was naïve to this; many chief executives and directors were well aware that social finance may not hold the answer for their organisations. As one put it: "There is a risk that [social finance] is seen as a 'make good' to the falling off of revenue funding." (chief executive of youth sector charity)

4. **To attract capital, VCYS organisations need effective support to establish viable business models and demonstrate their impact**. Many charities find themselves in a catch-22 situation. They must explore social finance as a potential means of sustaining their business into the future, but cannot afford the time to do this as they must also focus on the immediate survival issues. And many organisations need to go further to demonstrate to either investors or public sector commissioners that they solve a problem. The sector needs effective business support to enable it to become more 'investment-ready', and there may be a role for financial support here.

5. **As competition for finance increases, there is a need to support organisations to work better together.** One potential response to the increasingly competitive market for income and capital is to support youth sector organisations to find new ways to collaborate. This might mean forming consortia to effectively deliver on contracted outcomes, or exploring shared services and mergers. Working together to develop more sustainable business models, to develop the story on their impact and value, share capacity and build capability would help some organisations survive. It could also improve the outcomes for young people.

6. **The challenge is less about the amount of social finance for the sector, than the types of finance it offers.** Several social investors interviewed for this report agreed that finance provision needs to evolve to fit the changing needs of the sector. For example, there are a number of social finance providers offering finance for growth. But in a tough revenue climate, many organisations are not confident about sustaining a larger scale, and with the potential increasing for payment by results approaches, working capital might be a bigger priority. Social finance needs to be long-term.

In light of these findings, we recommend that the proposed social finance retailer for the youth sector does three things:

1. **Adopt an iterative and tailored approach to meeting the sector's finance needs**. This research has highlighted the need for further work to quantify the market and develop the specific scale and ways it might operate. The diversity of the sector also suggests that there can be no substitute for case-by-case assessments of investment opportunities. Certainly, the activities of the retailer will be limited by the amount of capital it is able to raise. However, even if it is unable to raise capital immediately, we recommend it takes a proactive approach to building capacity and capability in the sector, and acts as a broker for organisations to structure the report.

2. **Offer distinctively social, not commercial, financial products**. There are already existing investors that offer commercial rates of returns, and there is a vital need to put the interests of young people first. A retailer should work proactively to seek out and support innovative organisations – those with potentially strong social impact but higher degrees of risk or longer-term impact – to take on commercial rates of return. If social investment is to develop in the youth sector, there will likely remain a role for government in absorbing some financial risk.

3. **Work with existing intermediaries to provide a range of non-financial support to providers.** The design of a new retailer itself, and where relevant, independent intermediaries, should work to bridge gaps in the 'investment readiness' of the voluntary and community sector. This should include supporting organisations to so they can:

   a. understand different types of social finance and make informed choices. The sector will need accessible, and potentially impartial, information to enable it to make an informed decision about social finance, and its alternatives.

   b. address their internal capacity and capability issues. Organisations may need help strengthening business acumen, non-charity experience, and management skills, whether through offering independent negotiation support and mentoring, or by helping existing providers to collaborate better.

c. tell a strong story about impact and value. This includes building capability in data measurement and evaluation to measure the difference and the potential financial return the work of voluntary and community youth organisations make.

d. diversify their revenue streams. There is a role for the retailer to help organisations adapt to new business models and changing funding streams, to encourage financial sustainability within the organisations it invests in. This might involve working closely with local public sector commissioners.

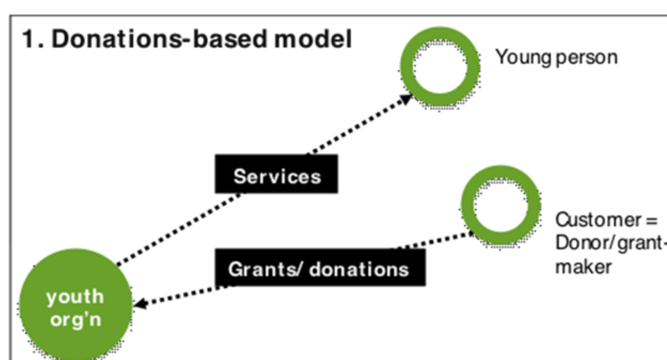
To have a lasting social impact on young people, a dedicated social finance retailer to the youth sector must be a disciplined investor. As with the Big Society Bank, which aims to offer social investments for the voluntary and community sector in general, 'careful consideration of what may have a genuinely sustainable future, and what is in reality a perpetual subsidy, will be important in making funding decisions.'[42]

[42] NESTA & NPC, 2011, *Understanding the Demand for and supply of social finance: Research to inform the Big Society Bank*

Annex A: Business models for youth services

We found at least six major types of business model used by youth services, and looked at each to assess its viability for social finance. These are set out below as a guide to both potential investors as well as VCYS organisations considering their choices.

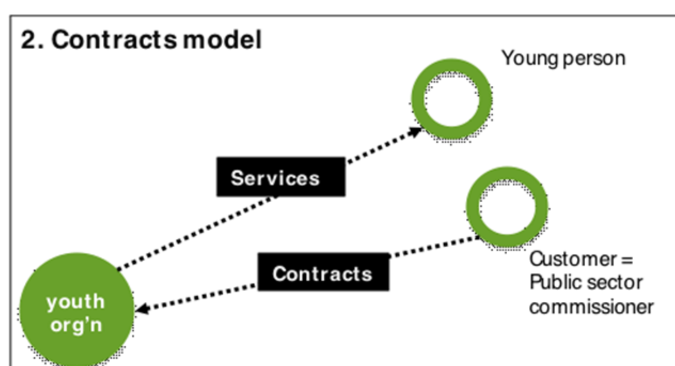
1. **Grants-based model: donation-based income stream**



In this model, donors (including individuals, trusts and foundations, businesses and public sector sources) donate to organisations that then deliver services to young people. Many organisations operate this model successfully; they have a strong donor base and a good track-record on fundraising with a strategy to continue fundraising as a valid model. However, many more are seeing reductions in their donor base and are keen to move away from being grant funded. They want to be able to invest in overhead and operations, as well as move away from the demands of philanthropic donors.

> "We do have an opportunity to cease reliance on grants - we can be much more in control of our future if we go out and get it, and create a revenue based model. We will need to work much more to evidence the preventative nature of the work that we do, and how that has an impact on outcomes for young people and the avoidance of high cost interventions. If we can do this, we're more likely to be better resourced." (chief executive in youth sector charity)

2. **Government contracts-based model: Winning public sector contracts**



In this model, organisations may either bid for existing contracts (such as with Foundation Learning) or sell direct to public sector clients (such as schools). Broadly, approaches to commissioning are changing,

with shorter contracts, less in-house provision, and encouragement for more public services to spin-out. There is a clear opportunity here. The public sector as clients are likely to be reliable customers, and winning contracts can be a strong business model for private sector providers as well others. However, there are also challenges. Many organisations need to be of a certain minimum size to win contracts, or need to have been operating for a number of years. Given the compliance burdens of winning public sector tenders, small organisations can struggle with this. Understanding the public sector landscape can be challenging, and varies considerably by sector. For example, schools purchase services largely independently, and selling to them requires a large number of relationships, whereas others are offered out to tender by a central government agency, like the Work Programme.

"We've gone from having 150 conversations with local authorities to having 22,000 conversations with schools." (chief executive in youth sector charity)

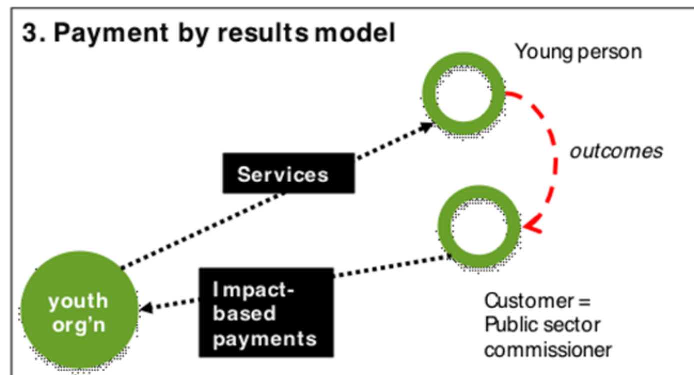
Case study: A commissioned services model

A charity providing supported accommodation for young refugees and asylum seekers was set up after the founders identified a gap in provision locally that was leaving young people vulnerable and lacking appropriate support. The charity, which asked to remain anonymous for this report, supports young people between 16 and 18, and prepares them for the reality of the asylum system. The charity runs four houses in its area of operation, with around 17 young people resident at any one time. Each house has a live-in worker. The charity commits to provide on-call support 24 hours a day, seven days a week, after tracking the numbers of young refugees and asylum seekers who effectively disappeared during the weekends and on Bank Holidays, when services were not available to them. Young people are referred to the charity through social services.

This charity takes the majority of its income from local authority contracts, who commission the charity to meet their statutory duties in respect of young refugees and asylum seekers. The charity does not struggle to convince local authorities of the benefits and value of their work, but does experience challenges in accessing the right people to make decisions within the local authority structure. The charity has noticed a recent shift towards wider ranging tenders, which group together young refugees and asylum seekers with indigenous young people, making it more challenging for it to provide a specialist service based on its specialist and extensive experience. The charity is also experiencing an increase in tenders from groups of local authorities seeking to reduce costs by pooling budgets, but is finding that such consortia often falter at the last hurdle due to breakdowns in communication between the authority partners, and fail to reach a consensus on approach.

The charity is finding that an increasing amount of staff time is being taken up responding to generalist tender specifications, which lack understanding of the benefits and cost saving implications of provision. The pressure on budgets means that the charity, like many others, is having to focus on demonstrating competitiveness rather than supporting commissioners to develop good practice.

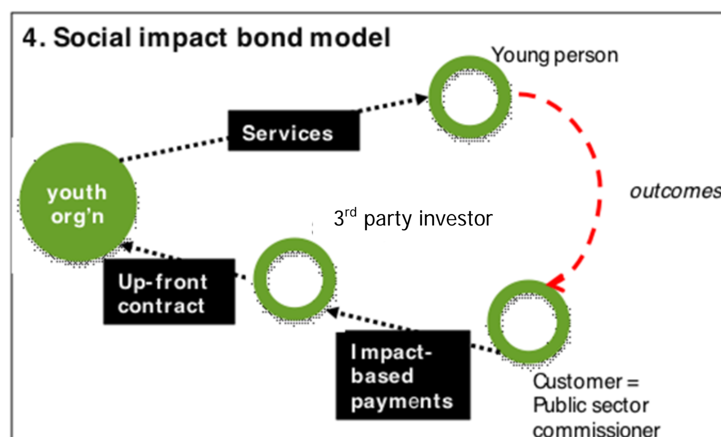
3. **Payment by results model: Outcome-based payments in arrears**



In this model, organisations bid for public sector contracts, and receive payment on the basis of their results – typically in arrears. In a similar way to the contracts-based model, this approach offers organisations a secure customer, rewards the 'best' providers and helps a focus on outcomes. As the risk is partially transferred to the provider, it might help maintain levels of public sector income into the sector. This model poses additional challenges compared to those with the contracts-based model. With delays before payments are received, many organisations will either need to borrow to shore up their working capital requirement while they are waiting for payment, or need to have built up substantial reserves.

In our survey, a fifth (20 per cent) of organisations working with young people felt they could manage a move to payment by results system where half of their income was paid when improvements in outcomes were made. However, there is a spectrum within this model: the proportion of income paid by results could potentially be little more than a bonus top-up payment. The viability of this model depends upon the detail of the specific contract. Without careful pricing structures, organisations may be incentivised to select 'easier-to-reach' young people to assure them of impact. Clarity on what 'the results' are and how they will be measured is important too. While this is relatively simple for some outcomes (like getting and sustaining a job), more subjective or ambiguous outcomes (such as an improvement in behaviour) are harder to price.

4. **Social Impact Bond model: payment by results with working capital**

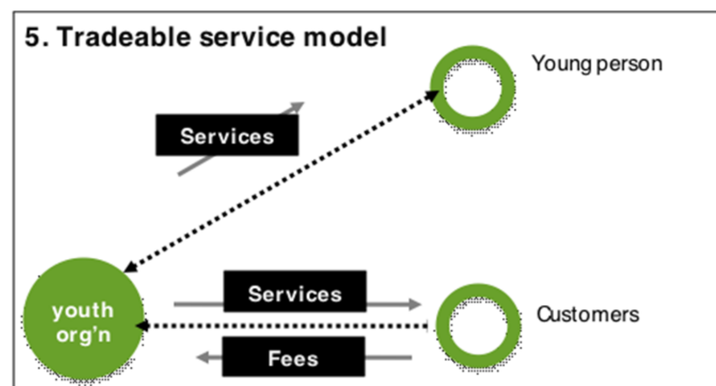


In this model, organisations must secure a third party investor for a programme of interventions that prevent later public sector costs such as unemployment or offending. After receiving this investment, this provider (in this case, VCYS organisations) will receive payments from public sector commissioners on the basis of their results, in arrears. Typically, this payment will be based on a calculation of the saving the intervention has created for the public sector.

An increasing proportion of public funds are likely to be commissioned in this way. If just two per cent of the Early Intervention Grant was commissioned on the basis of outcomes, the market size would be £47 million (although the grant is not specifically focused on work with young people). In a similar way to the payment by results model, the organisation will be monitored according to its outcomes. However this model offers some further benefits: the organisation can receive a single upfront payment for several years of work, and need not manage complex cash flows or carry the risk if they do not deliver outcomes.

This model does pose its own challenges however. Agreeing the programme of interventions – and negotiating with third party investors as well as the government – is time-consuming and many organisations may be too small to accommodate the extra work. Furthermore, organisations will need to have strong evidence of long-term impact in order to raise money, and for many organisations that do not have systems in place, this is a challenge.

5. **Earned income: Tradeable services model**



In this model, organisations do two things. In addition to delivering services to young people, they may have an unrelated service they provide to a range of paying customers. Examples include offering consultancy services or outsourcing back office functions. A variation on this is a 'social jobs' service model, whereby the service sold to paying customers is co-produced with young people. An example of this would be a restaurant in which young people serve as apprentices; learning skills while providing services.

This approach combines two models – one focused on business and one on the delivery of youth services – and this can often create different or opposing cultures within an organisation. They can also require different skills; marketing and sales will not be roles currently performed within many VCYS organisations. This model may also require that the organisation operates at a viable size to be able to sell at sufficient scale to make profit.

"No youth sector organisation will ever move totally to [an earned income] model, but we'll have to do a bit of this to diversify our income streams to prop up shortfalls due to competition." (director of youth sector charity)

Case study: Young Advisors: A social jobs, tradeable services model

The Young Advisors charity trains young people, typically aged between 15 and 21, to show community leaders and decision-makers how to engage young people in community life, local decision-making and improving services. Young Advisors are trained 'agents of social action' who guide local authorities, housing associations and other local partners about what it is like for a young person to live, work, learn and play in their neighbourhood.

Young Advisors operates a social franchise movement of 40 autonomous local projects across England, employing over 700 trained and accredited young people. Teams are typically between six and 20 young people. Young people who have extensive experience of public services (such as looked after young people) are often head-hunted to join the team for their insights on how services could be improved.

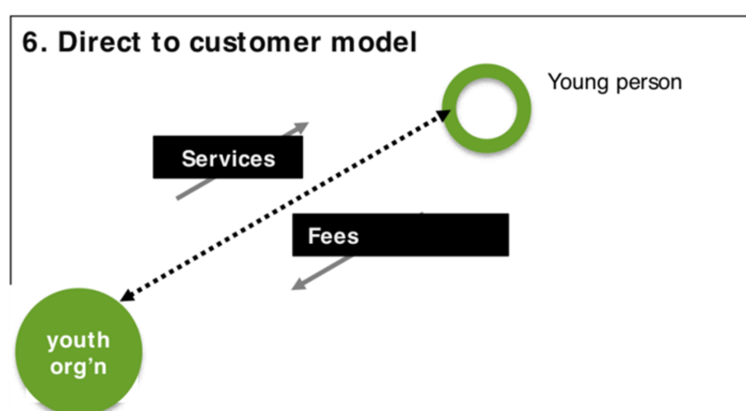
Gold Young Advisors charge at least £10 per hour of which they receive £8 and £2 is invested into back their project, that they can then use it to help the project grow or for their own social action projects. Silver Young Advisors charge for their work but are not personally remunerated, instead using the money to invest in local projects prioritised by the team. Finally, Bronze teams work on a pro-bono basis, building their client base that will enable them to eventually move to an enterprise model. Around 95 per cent of Young Advisors are currently part of Gold teams.

Young Advisor projects are typically sponsored and supported by local voluntary or public sector bodies who fund the initial training and offer supervision to maintain safe and high quality working practices.

With a staff team of five, the Young Advisors charity provides all of the training for new Young Advisors, a continuous professional development programme, national and regional practice sharing events and also negotiates commissions at a national level. In the last two years, the charity has secured £64,510 of commissions for Young Advisor teams equivalent to 8,064 hours of paid work. A Young Advisor typically works around four hours a week and this four hours will often act as a catalyst for further volunteering or social action.

Young Advisors has recently received funding from the Department for Communities and Local Government to develop a trading arm allowing it to develop more commercial commissions such as market research for private sector organisations. Young Advisors is working towards a fully sustainable model with 60 per cent of its income from trading activity and 40 per cent from grants.

6. Earned income: Direct-to-customer model



In this model, organisations provide services to young people, in return for fees or payment. In some cases, payment will come from young people themselves, but it many cases this will be from the parents and carers. Examples include the Scouts and Guides, and some outdoor education provision.

The financial climate is making it increasingly difficult for families to pay for provision, and making it unlikely that such revenue will form a significant proportion of youth sector organisations' income. Those families willing and able to pay for youth services are not likely to be those most in need of them. Maintaining a social (as opposed to pure business) agenda will require subsidising the costs passed on to young people and their families, and therefore adopting a mixed business model.

Case study: 360 Trust – a direct-to-customer model

Not yet incorporated as a legal entity, the 360 Trust is still fairly new in its development, and is about to take its first group of young people from disadvantaged and disengaged backgrounds to work alongside local young people on an overseas mission.

Selling youth services to disadvantaged young people might seem difficult, but the Trust has developed a model that works for the young people they engage with. It is a voluntary-based group with very low costs, partnering with locality-based youth organisations who raise the funds for the trips. Young people themselves are expected to contribute about 30 to 40 per cent of the costs for the trip. The Trust also supports the young people to undertake a programme of fundraising to meet their fundraising target, which derives from a share of travel and expenses, covering the administrative costs of sending them abroad.

For the Trust, asking young people to fundraise themselves creates two main benefits. Firstly, buy-in is significantly increased. The founder said: "When [young people] have worked for it themselves, rather than being given it for free, it means so much more when they're out there – they need to really want it."

Secondly, the Trust believes fundraising itself enhances the skills and the experience the young people receive. The founder added: "Raising the money isn't simple. They might write letters, speak in public, approach people they haven't spoken to before – all of these things are development opportunities that add to the overall experience. The encouragement they receive might be a new experience for them."

For other organisations moving interested in this approach, selling the experience to the young people themselves is a critical part of making it a success. "Young people, just like most other people, don't buy into a project if its primary aim is to 'develop [them] as a person'. That isn't why they want to participate. They want to help others, travel, experience new things; all tangible reasons for participating. They might gain confidence and skills out of it, and may retrospectively see how they have developed, but that isn't why they'd participate. So the key is about how to sell it in a positive way that they will buy into."