Youth Sector Revenue Models:

An analysis of revenue models explored by the youth sector in the Enterprise Development Programme

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Introduction and background

The Enterprise Development Programme (EDP) was a six year programme funded by Access – The Foundation for Social Investment from 2018 – 2024.

The programme aimed to support charities and social enterprises become more resilient through the development of enterprise and trading models.

EDP took a sector based approach to delivery and included; Youth, Homelessness, Mental Health, Equality, Environment and Black and Minoritised Community sectors.

Why and how we undertook this analysis?

There is a lot of useful information and models to support charities and social enterprises to establish enterprise models[1]. What we learnt through EDP however is that financial analysis of the different sector and the revenue models explored might provide useful insight for funders, enterprise support organisations and charities and social enterprises seeking to develop enterprise models.

Access commissioned My Cake[2] to undertake analysis of organisations across the youth sector and youth sector organisations that had been successful in their application to EDP.

The report draws out comparisons between the six sectors following individual analyses of them. There is work done to ascertain similarities and differences across the sectors in order to draw out universal baselines and sector specific business models and norms.

The data set used is pre-COVID annual reports from 2019 and 2020 in order to avoid potential skewed results from the impact of COVID. Within this data set the metrics selected for use in this report were those felt to:

- Be easy to understand for as wide an audience as possible
- Provide insight into financial resilience and sustainability
- Present data that could be read and interpreted using software in order to avoid human error

All of the 639 sets of individual organisational data comes from publicly available accounts.

Each sector has analysis from at least 100 organisations including organisations on EDP (we refer to them hereafter as grantees).

An important note about the use of "medians" in this report: Wherever the data provides analysis of categories of income, median is used rather than average. This is to avoid data being skewed by isolated extreme figures and instead to identify what might be considered to be more "typical". Furthermore any median analysis usually (unless otherwise stated) excludes any zero values, so only shows the median for that sub-set of organisations which do have at least some income in that category. "Median values" should always be read with this in mind, understanding that as a result values across categories will not add up to 100%.

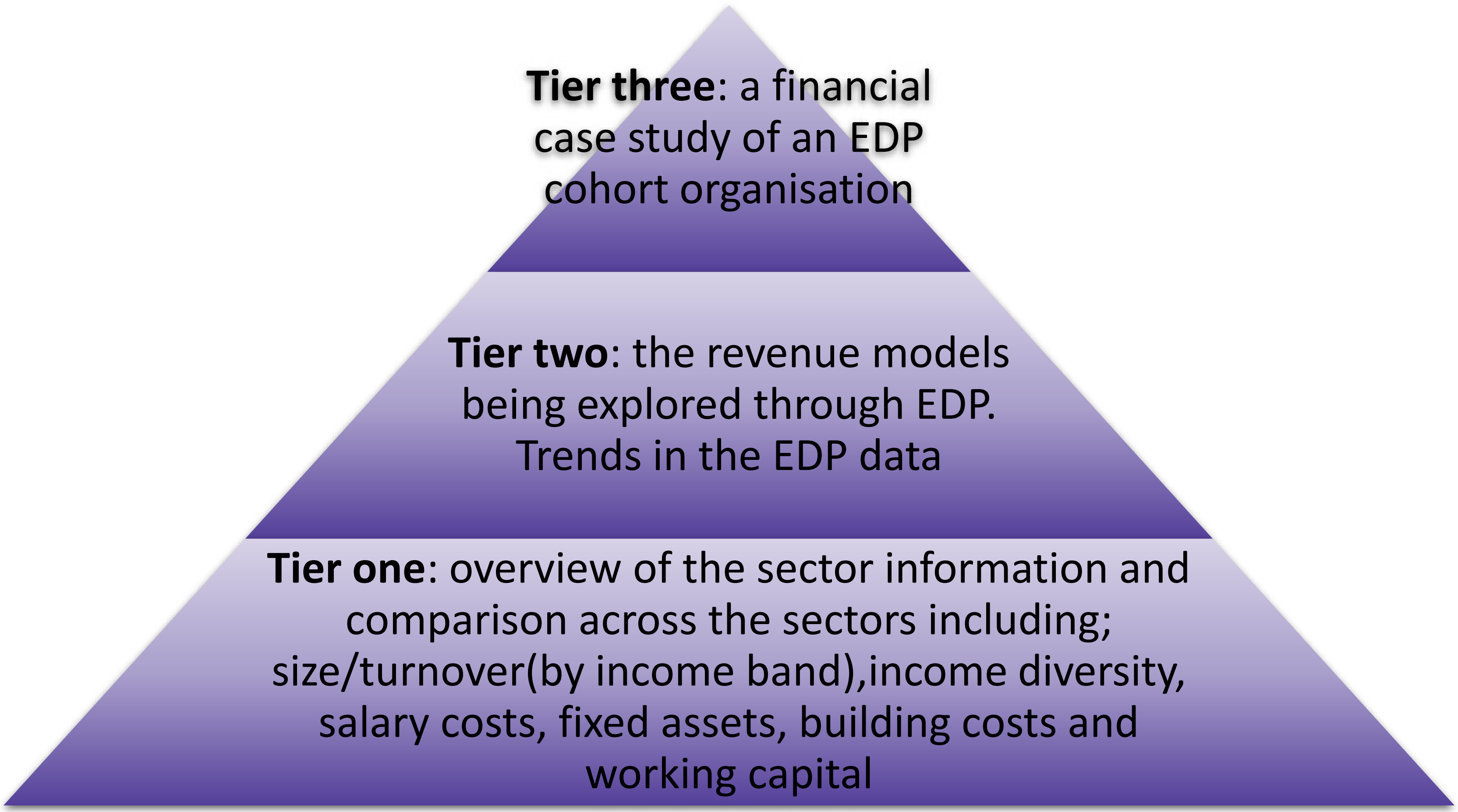
This slide deck is one of a series of six covering all of the individual sectors.

Though we feel the data and analysis provides valuable insight into the different sectors and their revenue models we recognise that the sample sizes may not be fully representative of the whole sector and therefore recognise limitations of the it's sector-wide analysis.

[1] a simple google search for 'setting up a social enterprise' results in a comprehensive list of various guides and toolkits

[2] My Cake is an organisation that specialises in financial benchmarking for third sector organisations

The three tiers of analysis in this report



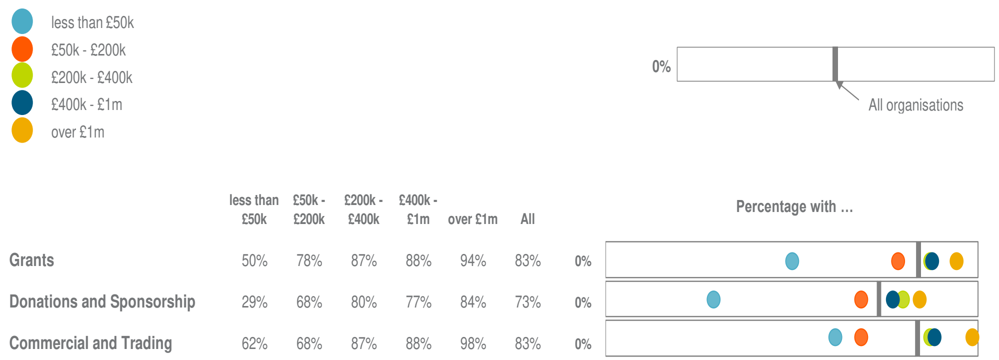
Patterns seen across all sectors

Income diversity

To understand the levels of diversity of income across all sector income bands this analysis represents the presence of a particular income type in that category. So this is less about the total amount of income generated through that category but the number of organisations that have that income type.

Organisations in the higher income bands have a higher level of diversity in their income streams. Organisations in all three of the upper income bands are above the typical value for income generated from commercial and trading income, grants, donations and sponsorship. For example, the highest number of organisations with commercial and trading income grant, donations and sponsorship are in the £1m+ income band.

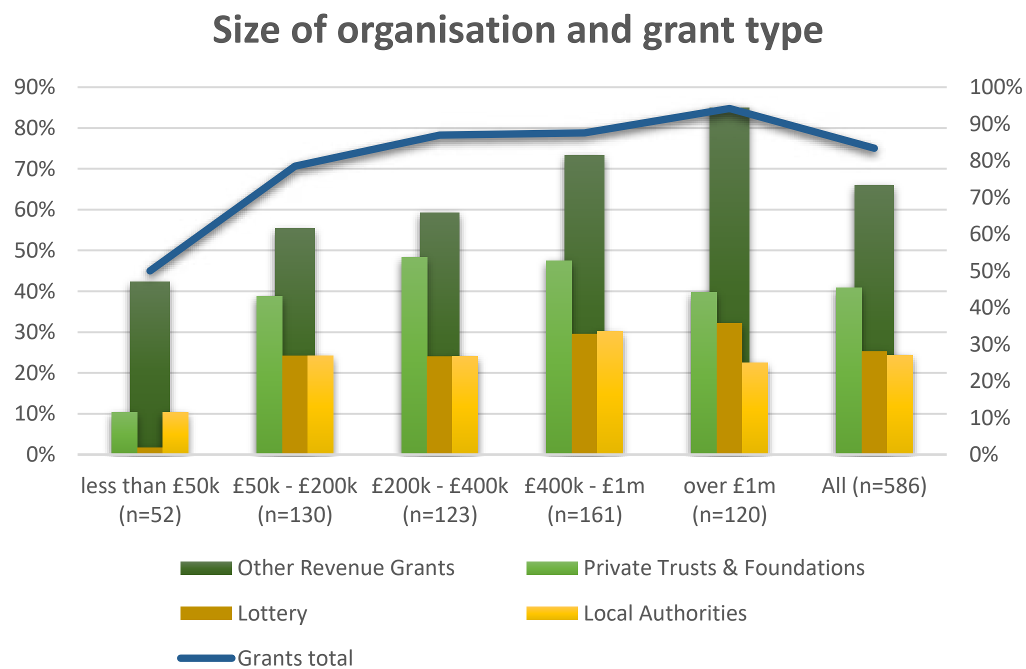
	less than £50k	£50k - £200k	£200k - £400k	£400k - £1m	over £1m	All
Grants	50%	78%	87%	88%	94%	83%
Donations and Sponsorship	29%	68%	80%	77%	84%	73%
Commercial and Trading	62%	68%	87%	88%	98%	83%



Grant types

Trust & Foundation and lottery grants are less common for those organisations with income less than £50k

Organisations within the top two brackets of income (£400k- £1m and over £1m) had a higher median percent of total grant income than the other income groups.



Salary costs

The proportion of organisations with salary cost increases with organisational size across all sectors.

Fixed Assets

The proportion of organisations with fixed assets over £20k increases with size in all sectors

Youth sector overview

The Youth Sector Lead is the Centre for Youth Impact at YMCA George Williams College and offered technical support, grant, bespoke training and peer to peer support.

For the purposes of this analysis the financial information from 104 youth sector organisations was used, 40 were VCSEs supported EDP and 64 were other organisations in the youth sector.

Analysis by size of organisation in the youth sector

<u>Income</u>

Smaller organisations tend to have a bigger grant to trading ratio

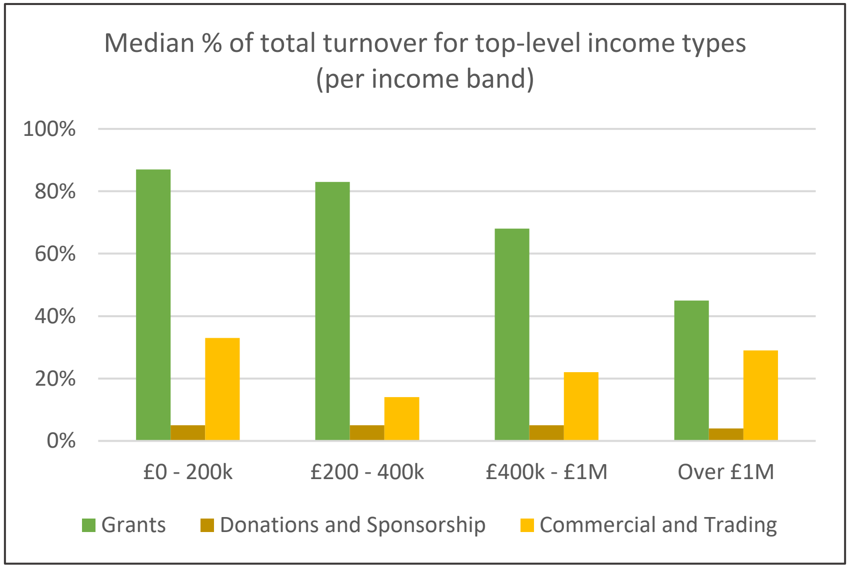
Larger organisations tend to be more likely to have commercial and trading income

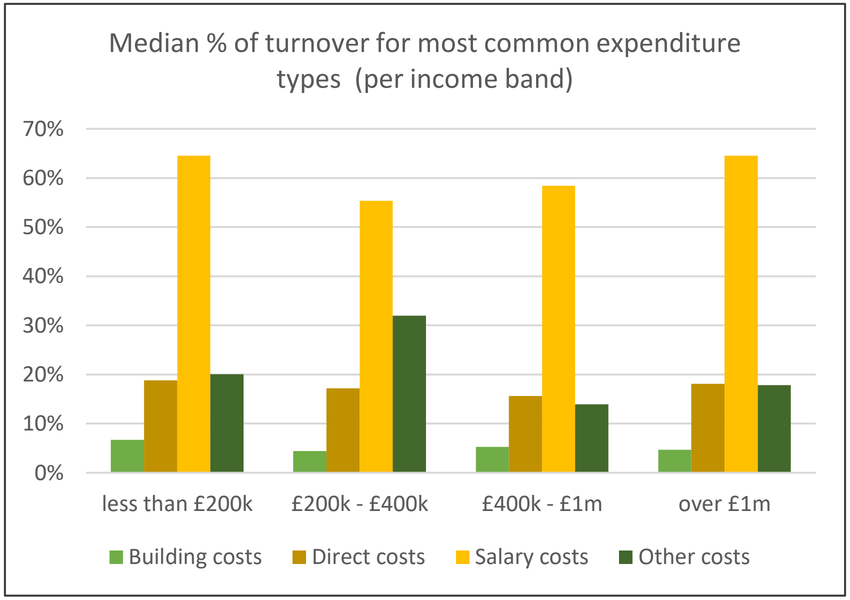
Those with incomes over £1m are less likely to have funding from local authorities

Trust and foundation grant income decreases (as a % of total income) as organisation increases.

<u>Expenditure</u>

Smaller youth organisations are less likely to have salary costs, but where they do these costs represent a similar proportion of overall costs.





Youth sector overview – subgroups

The youth sector is wide and varied, but organisations can be separated by the type and focus of the services and products they offer for young people.

- Open access youth work organisations;
- Coaching & mentoring organisations;
- Arts organisations;
- Sports and Infrastructure organisations.

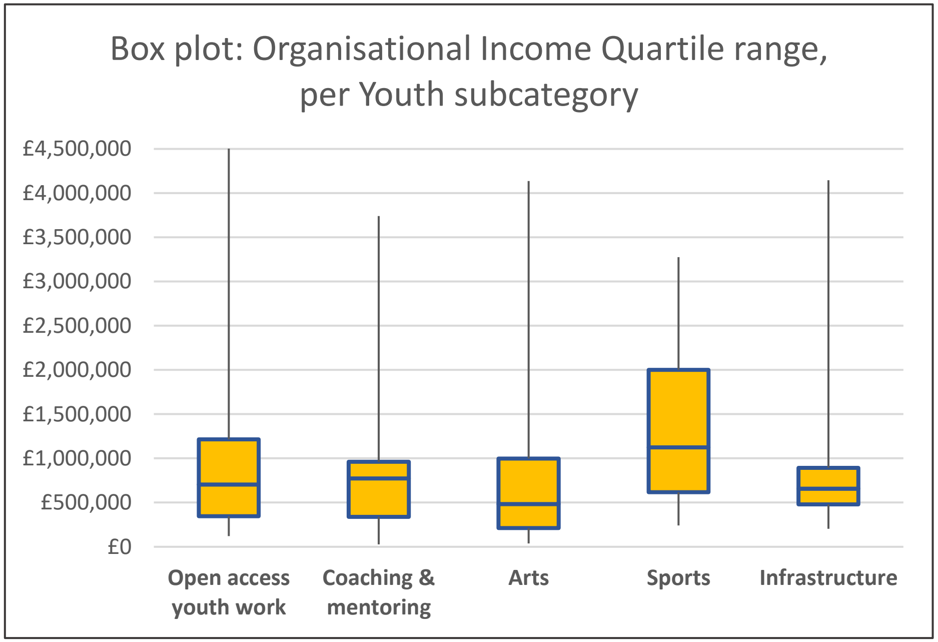
There are large income organisations in all subgroups though sports and coaching and mentoring have higher median incomes.

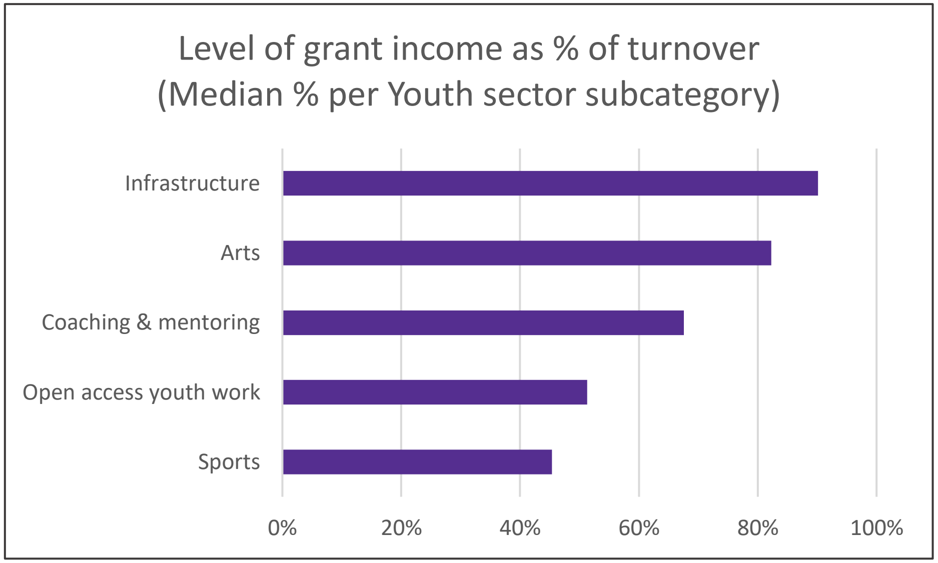
Sports organisations have a higher surplus as percentage of turnover and coaching and mentoring organisations were least likely to make a surplus.

Of all the organisation types arts and infrastructure organisations had the highest proportion of grant in their income mix.

Infrastructure and open access organisations were more likely to have, and had a higher percentage of their overall income from, lottery grants.

From the data analysed sports, open access and coaching organisations were the most likely to have commercial income.





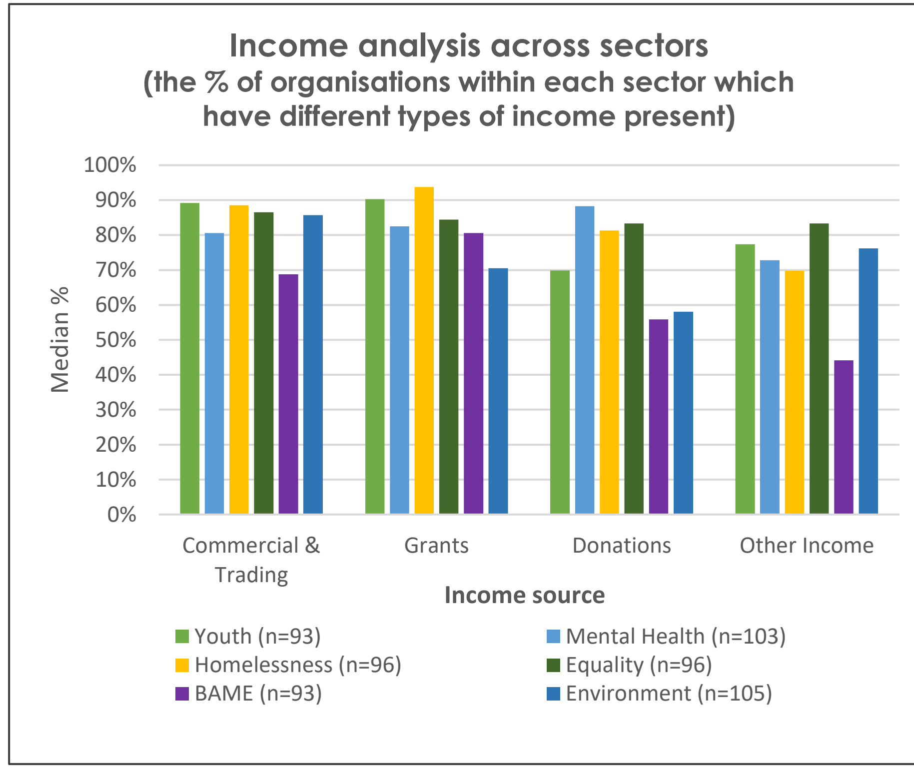
Tier one analysis: the youth sector compared to the other EDP sectors

In many areas measured the youth sector followed the homelessness sector. For instance, the median total organisation turnover for the youth sector was £689,829 which was the second highest median, with only the homelessness sector (£768,288) having a higher median.

The proportion of organisations in the Youth sector already generating income from commercial and trading activities was highest across all sectors at 89%. However, where present, the typical value of commercial and trading in the youth sector was lower than the environment, Black and minoritized, homelessness and mental health sectors at 24%.

The percentage of organisations in the youth sector receiving grants was the second highest across the sectors at 90%.

The number of organisations receiving income from Local Authorities is similar to that of the other sectors whereas the number of organisations generating income from delivery contracts is the second highest of the sectors (the highest being the homelessness sector).



Tier one analysis of the youth sector

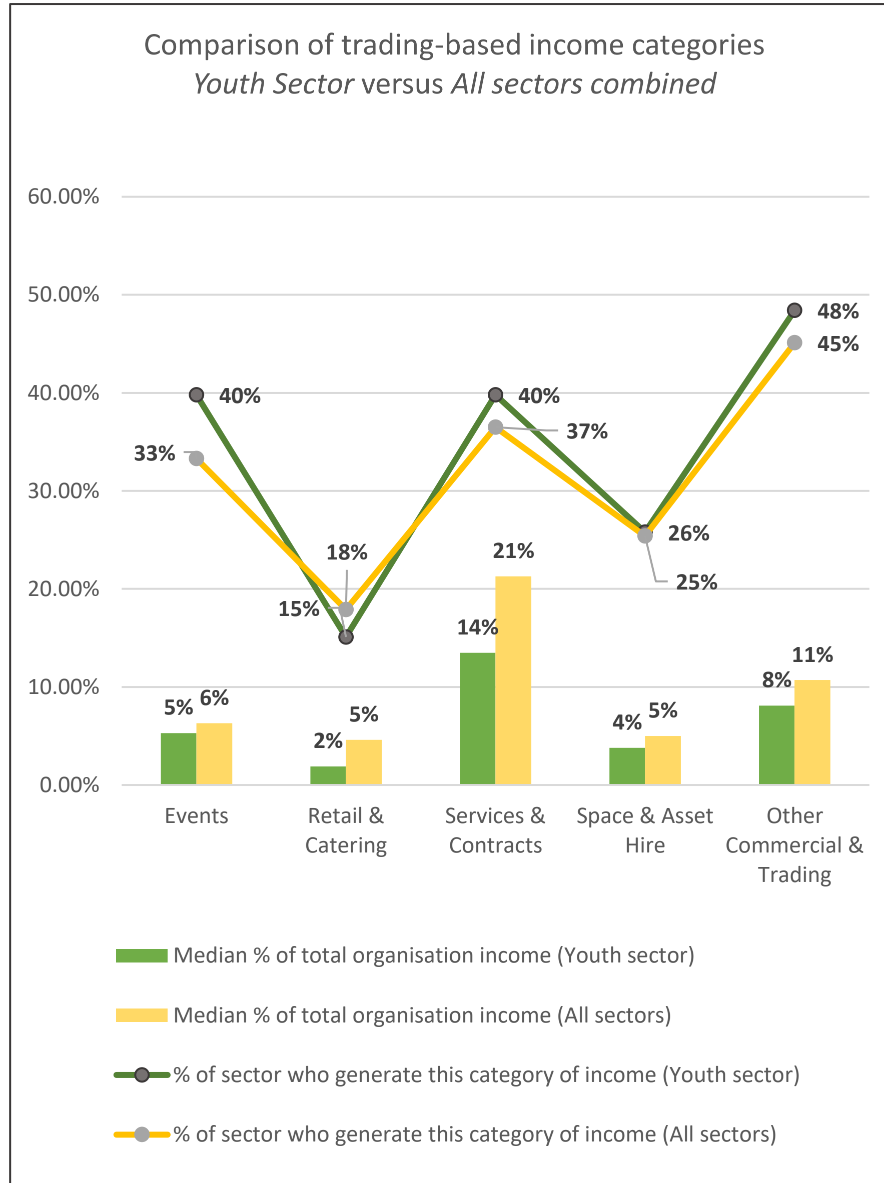
Trading-based income analysis

The chart here analyses both (i) presence of different trading income subcategories (see lines in chart), and (ii) typical %s of income generated if present (as a % of total turnover) (see columns in chart).

Firstly, we can see that none of the trading income subcategories generate income in more than 50% of the Youth VCSEs. The most common form is 'Other trading & commercial income' is most common, with 48% of Youth VCSEs generating this type of income. However, when present, this is only typically worth 8% of an organisation's total income.

Although the Youth sector has the highest prevalence of trading income in general, the chart would suggest that generally speaking, all the trading activities types are limited in terms of their contribution to total income generated. The chart shows that for three of the five subcategories, it is more prevalent in the Youth sector compared with the cross-sector average, however, when that income is present, it is typically has a lower contribution to total income compared with the cross-sector average. For example, 40% of Youth organisations generate Events income (verus a cross-sector average of 33%), but the median % of total income is 5% (versus 6% for the cross-sector average)

Services & Contracts income is the highest contributing subcategory for the Youth sector, with a median % of total income of 14%, however, this is lower than the cross-sector average of 21%.

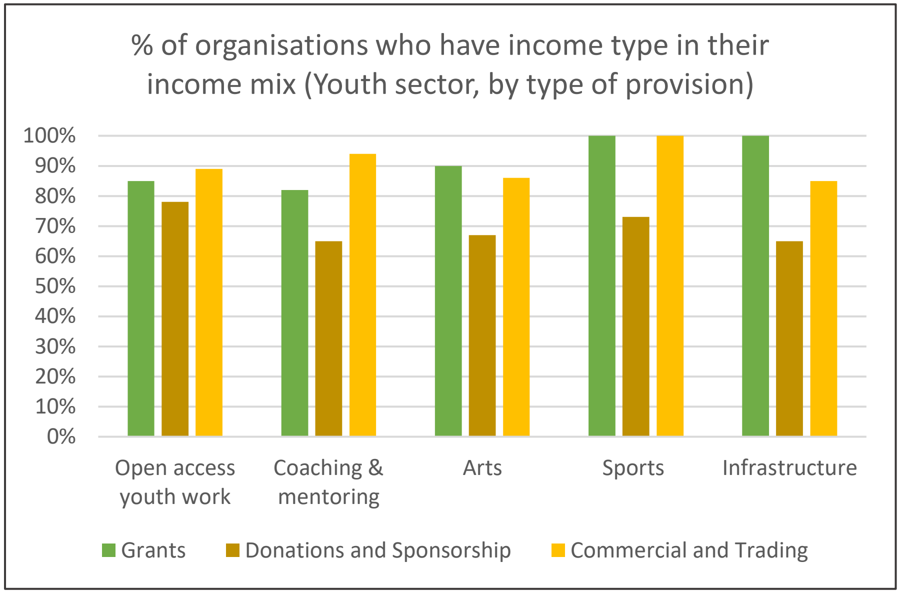


Youth sector overview

Income analysis by subgroup

The top chart here analyses the presence of different income types by sector subgroups. It highlights that all types of income are present within each subgroup. Further, it can be seen that Commercial and Trading income is the most commonly present income type for three of the subgroups; Open Access Youth work, Coaching and Mentoring and Sports based organisations (although for the latter the proportion of organisations with trading income and grant income is equal).

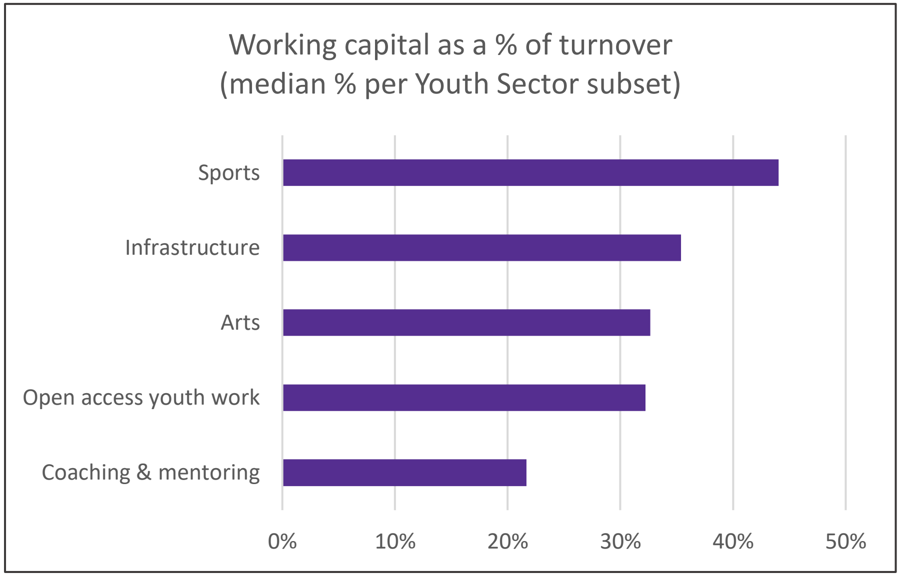
For Arts and Infrastructure organisations grant income is the most commonly present type of income.



Subgroup analysis – resilience

The analysis allows us to compare the availability of working capital (as a percentage of turnover) across the Youth sector subgroups.

The bottom chart here shows that all subgroups have a median working capital greater than 20% of turnover. However, it can also be seen that this figure varies across the subgroups, with Sports organisations having the highest typical level of working capital (44% of turnover), and coaching and mentoring organisations have the lowest typical working capital (22% of turnover).



Youth sector overview

Expenditure

The top chart here analyses expenditure in the Youth sector compared with other sectors, with focus given to three types; building, direct and salary costs. Overall, expenditure in the Youth sector is not dissimilar to other sectors, with lots of similarities between Youth sector %s and equivalent cross-sector averages.

The most notable difference is the presence of salary costs, whereby 93% of the Youth sector recorded a salary costs, this is the second highest % across all sectors. However, the typical proportion of salary costs in terms of total expenditure is very similar to the cross-sector average (58% versus 59%).

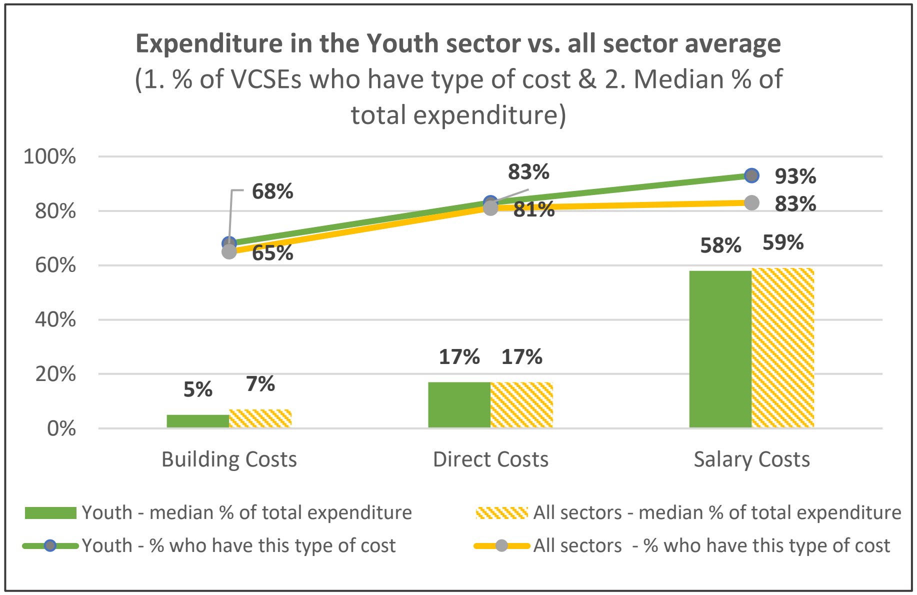
Building costs, like other sectors were less common and a much smaller proportion of total expenditure. Although the deeper level analysis (not shown here) indicated that building costs were higher in arts and open access organisations.

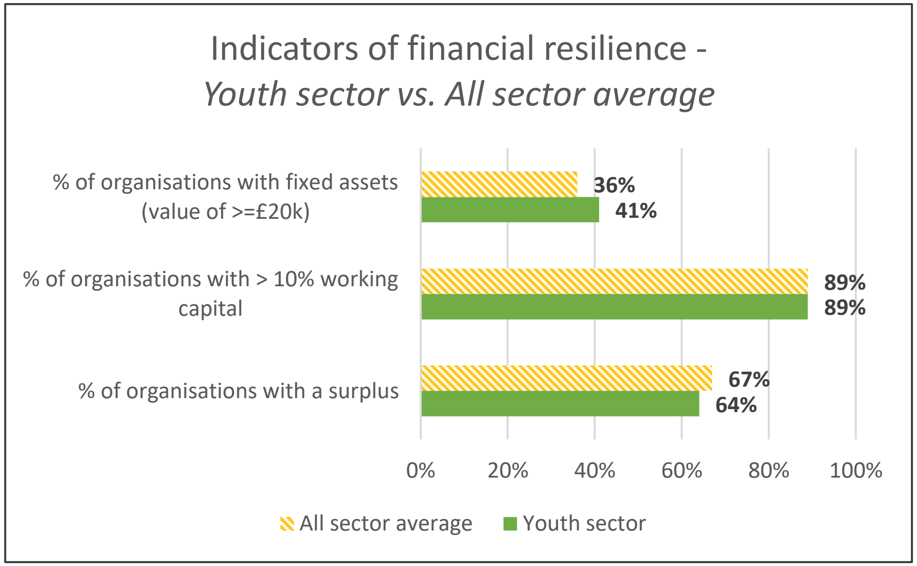
Financial resilience

The bottom cart analyses three indicators of financial resilience in the Youth sector versus the equivalent cross sector averages. The analysis suggest the Youth sector overall isn't dissimilar to other sectors.

The proportion of organisations with 10% (or more) working capital is 89%, which matches the cross-sector average. There is a greater proportion of Youth sector organisations with fixed assets of £20K or more, compared with the cross-sector average. Only Homelessness and Environment sectors have higher than 41% of their respective sectors.

The % of organisations generating a surplus is very similar to 4 of the other 5 sectors, with Homelessness being the outlier with 80% of their organisations generating a surplus.



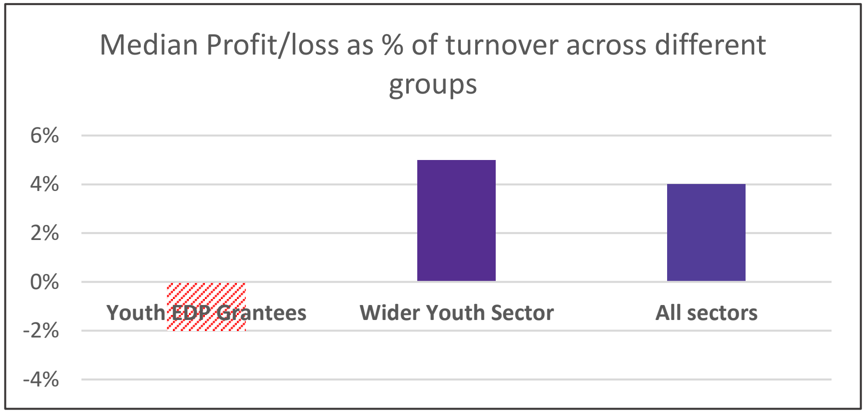


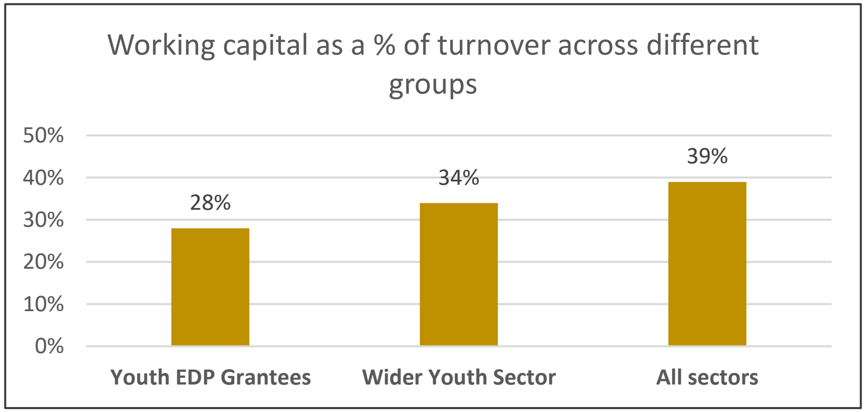
Tier Two Analysis: The EDP Cohort

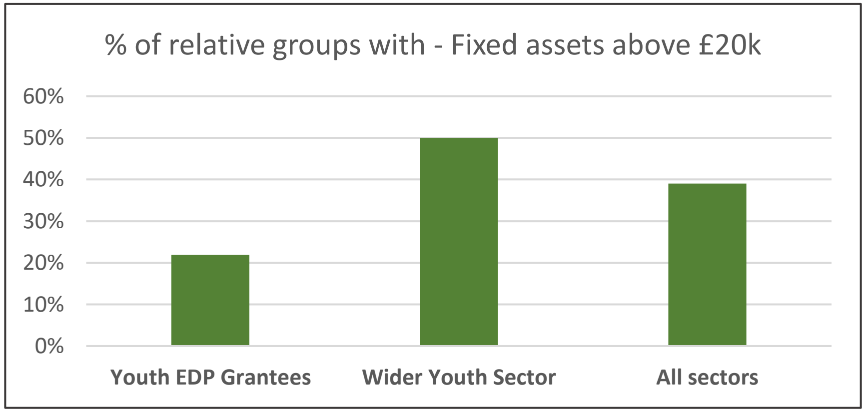
Youth sector tier 2 analysis: EDP cohort compared to the youth sector

There were a number of significant differences between the grantees and the wider youth sector more broadly. Some of these were:

- Grantees had a lower median income and were smaller on average. They also had lower median working capital (as a % of total turnover) – 28% versus 34%. They also had a significantly lower median values of fixed assets. The upper quartile of grantee and other youth sector organisations being £26,319 and £288,437 respectively.
- Grantees were less likely to have salary costs.
- Grantees were less likely to have a surplus and have a negative median loss
- Fewer grantees had grant income as well as a lower level of Local Authority income as a percentage of turnover. They were more likely to have trading income and the median of delivery contracts as a percentage of income was 61% in grantees compared to 14% in other youth organisations
- Grantees had higher levels of long term debt and a higher debt to asset ratio.







How did the grantees engage with EDP?

The typologies explored by grantees in the youth sector were very diverse ranging from; work training, vocational training, space hire, shop, practitioner training, life skills, licensing, and consulting

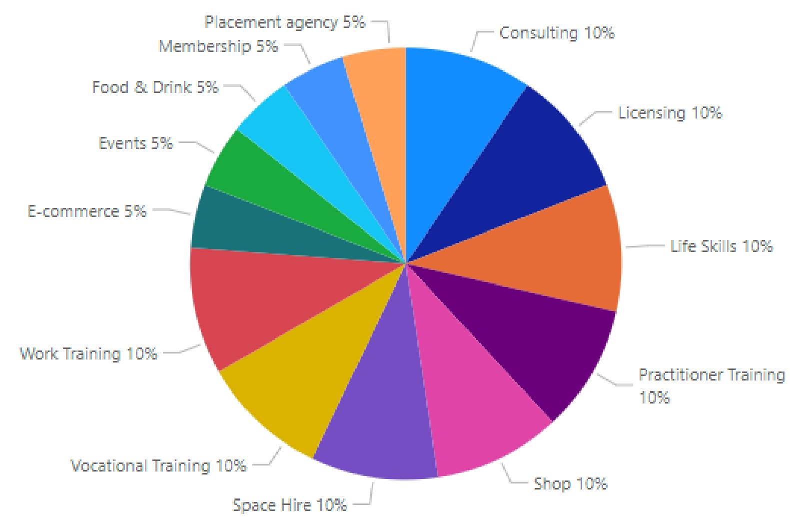
This was distinct from an all sector comparison in which the most explored revenue model was consulting followed by wellbeing and work training.

The majority of youth organisations used EDP grant on human capital to engage consultants and working capital for ongoing operating expenses. The third highest use of grant was for hiring new employees. Only two organisations used grant for fixed assets.

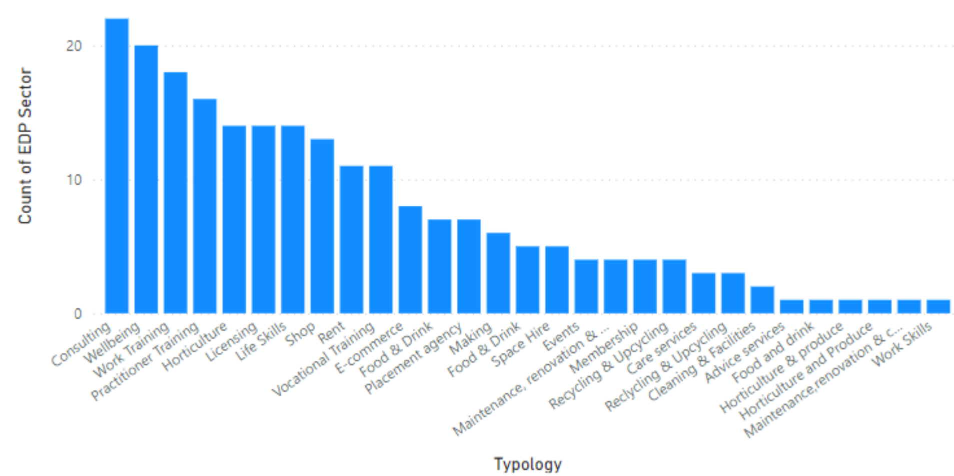
This was closely aligned with all sector use of grant though most organisations used grant for ongoing operating expenses, hiring new employees followed by engaging consultants to support their revenue model development.

There were no discernible links between the size (turnover) of youth sector grantees to the revenue models they chose to explore. The organisation with the smallest turnover explored a placement agency revenue model and the largest organisation explored a shop revenue model.

Typologies explored by youth sector grantees



Typologies explored by all grantees



Tier Three Analysis: EDP Grantee Case Study

Organisation Context

Name:	Grace House North East
Organisation Overview:	A charity based in Sunderland focused on supporting and inspiring disabled children, young people and their families to manage the challenges of, and enjoy the benefits of, playing a full part in society.
Services / interventions:	A range of support services, delivered from a purpose-built facility, including youth groups, counselling services, family inclusive events, therapeutic activities such as Reiki training for parents, work experience and independent life skills for young people.
Operational model:	To ensure success the organisation focuses on making full use of their purpose-built facilities, having the best range of specialist equipment, and continuing investment in their skilled and committed staff and volunteers.
Overall income mix:	Prior to EDP, income from grants and donations made up 80% of the organisation's income. Following participation in EDP, the ratio of trading income has marginally increased from 19% to 22% of the total income.
Objectives for trading income:	The organisation strive for services to be led by what families want and need (rather than services being designed around the grant funding that is available). Unrestricted income is needed from trading to contribute to that need for flexibility.

Revenue Model Analysis

Trading typology:	Space hire, Respite care services
Market and customers:	Local business, VCSEs and local residents are all customers of their space hire trading activity. For their respite care services they are trying to establish direct relationships with local authorities (delivered to through a sub-contract currently)
Profit margins & contributions to wider business model:	Information on product-based margins is unavailable. Space hire is unlikely to be ever a large part of overall income with funding related to core delivery likely to be at least 75%. But the opportunity for surplus is important to add flexibility to delivery. Delivery under respite care services is likely to offer surplus albeit it would be further unrestricted income.
Multi-year view:	The trading income over the last 4 years comprises of both space hire income and also a short breaks service contract. However, space hire through support of EDP has grown over that period by 20% to c. £41k per year.
Growth plan:	Space hire (the trading activity focused on during EDP support) will have a natural 'ceiling' due to size and availability, and therefore is unlikely to grow much further. It will also be important to retain current levels given that other unrestricted income via a subcontract for 'short break services' has recently ended.
How EDP supported:	Received external business consultancy to test / grow their trading plans. The overarching result was the conclusion that their plans to enhance their space hire offering through a new soft-play has potential but should be secondary to a more pressing opportunity and demand for a 'care home' for disabled young people. This is still being explored.