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Paying the Price

Difficult Decisions in an
Uncertain Financial Landscape

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With thanks to Julia Cook, Professor Daniel King,
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Introduction

The Autumn 2024 budget introduced two major changes affecting many voluntary, community, and social enterprise (VCSE) organisations: increases in Employer National Insurance Contributions (ERNICs) and the National Living Wage (NLW).

As the financial year-end approaches, findings from the ninth wave of our quarterly Barometer reveal how these policy changes are impacting the sector amidst rising costs, funding pressures, and financial uncertainty.

Size Matters

The findings reveal that while the effects are prevalent, they are not balanced. Organisations with a paid workforce, a cohort comprised mostly of medium and large organisations, feel this impact the most. Around half of large organisations expect to make significant changes to staffing, overheads and how they deliver services, compared to fewer than one in ten small organisations.

This report explores these trends, detailing the impact of policy changes, uncertainty in funding streams, and the actions organisations expect to take to shore up their financial position in an uncertain and changing landscape.

Help Shape the Barometer

You may notice that the Barometer is evolving. We're making the report more reader-friendly and launching a new analytics feature: Individual Insight Reports, allowing you to compare your responses with others.

We'd love to hear your thoughts - please get in touch with any suggestions to help improve the Barometer.

✉ VCSEobservatory@ntu.ac.uk

Thank you

Thanks to over 600 voluntary organisations that took part in Wave 9 of the VCSE Barometer Survey.



The Impact of Policy Changes

With Employer National Insurance Contributions (ERNICs) rising and the National Living Wage (NLW) increasing to its highest level yet, sector leaders have raised urgent concerns about the unintended consequences for organisations and the communities they support.

“ It's a straw that breaks the camel's back situation ”

Medium Registered Charity

Nearly half of organisations say that rises in ERNICs (54%) and the NLW (47%) will negatively impact their financial position, rising substantially for organisations with a paid workforce.

98%

of large organisations anticipate negative impacts from ERNICs

Although smaller organisations employ over half (53%) of the sector's paid workforce¹, only around a quarter anticipate negative impacts from rises in ERNICs (24%) and the NLW (29%).

In contrast, larger organisations - which have substantially bigger workforces - expect a much greater impact. Most large (98%) and medium (74%) organisations expect rising ERNICs to negatively affect them, with similar concerns for the NLW (74% and 57% respectively). These effects are already being felt across the sector, with many taking steps to shore up their financial position².

Bigger Budgets, Better Prepared?

Despite reporting a lesser impact, small organisations show a marked polarisation in their preparedness to absorb costs associated with these policy changes. Around a quarter fall at either end of the spectrum, from being fully prepared (26%) to completely unprepared (24%).

While most large organisations expect these policy changes to have a negative impact, only 1 in 8 (13%) reported feeling completely unprepared to absorb the costs associated with these changes.

This divide could suggest that some small organisations may lack the size or flexibility of larger organisations to absorb increased costs - potentially making them more vulnerable despite being less impacted.



Financial Outlook: Doing More With Less

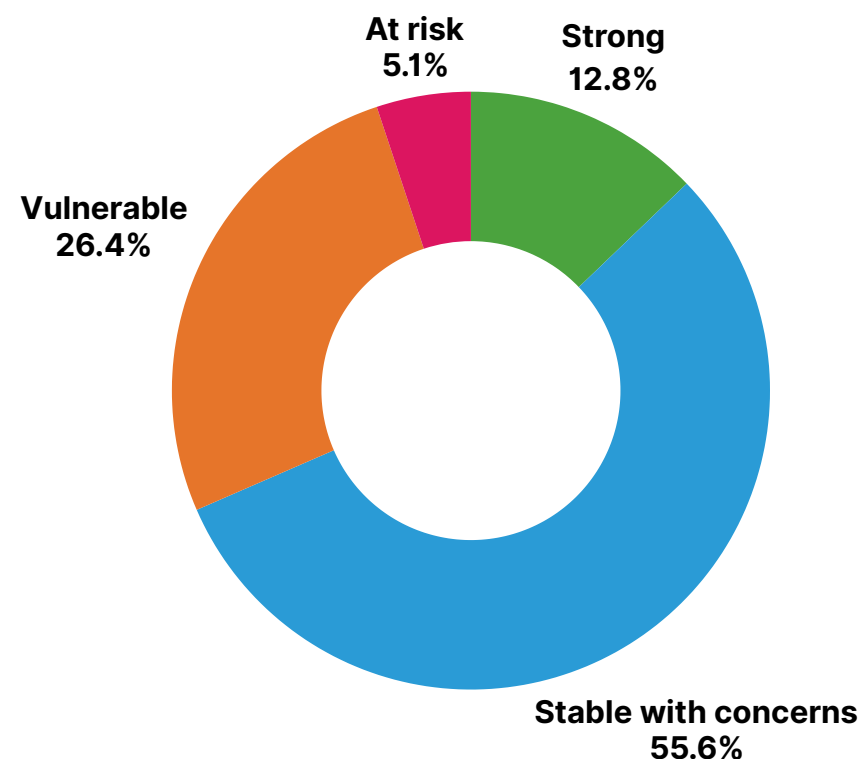
The estimated annual cost of these policy changes varies, ranging from £8,000 to £6 million per organisation based on their size³. They come at a time when voluntary organisations are already having to do more with less⁴, trying to keep up with rising costs, surging demand, and an increasingly uncertain funding landscape.

Findings from Wave 9 reveal that most organisations (56%) describe themselves as being **'stable - managing current pressures but with some concerns about the future'**. For some, these concerns have already materialised, with one in three (31%) reporting they are vulnerable or struggling, raising doubts about their organisation's financial sustainability and viability.

“ We face a triple impact of rising costs, rising demand and additional pressures; none of which are supported by existing funders ”

Large Registered Charity

Most organisations are stable but have concerns about the future

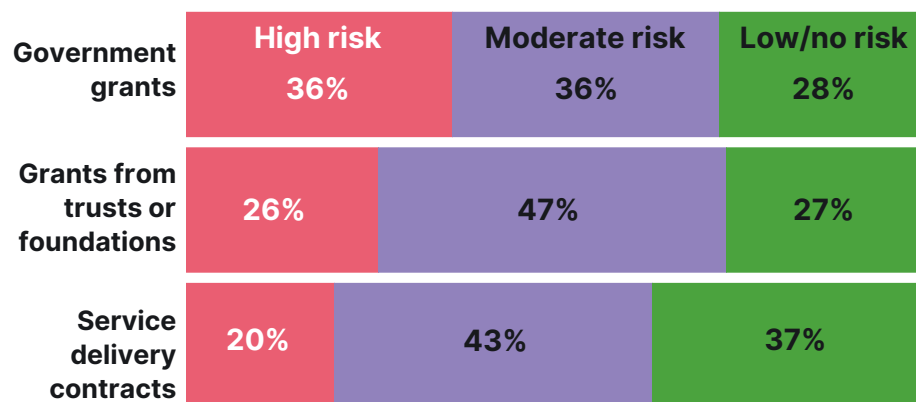


Notes: N=647

Source: Nottingham Trent University VCSE National Data & Insights Observatory, VCSE Barometer, Wave 9

Uncertainty in Funding Streams

Level of Risk by Funding Type



Notes: Government grants N=402. Grants from Trusts and foundations N=510. Service delivery contracts N=300.

Source: Nottingham Trent University VCSE National Data & Insights Observatory, VCSE Barometer, Wave 9

The voluntary sector faces an increasingly uncertain funding landscape. Growing competition has made securing grants harder, success rates are declining, and government grants - once a key income source - have continued to decline in quantity and value^{1,5}.

These challenges combined with rising costs and increased demand mean that contracts and grants are not covering the true cost of delivering services⁶. As a result, two thirds (69%) of organisations currently rely on reserves to cover gaps in funding.

“ **Investment from grants and foundations is harder than ever, and we're now competing against some of our partners for the same funds** ” Medium-Sized Registered Charity

When asked to evaluate the financial risk posed to their organisations by different funding sources, nearly three-quarters (72%) rated government grants as moderate or high risk, with similar concerns about grants from trusts and foundations (73%) and service delivery contracts (63%).

An even higher proportion said it was uncertain or unlikely that income from government grants (79%) and service delivery contracts (73%) would cover the cost of delivering services.

Expected Changes in Staffing and Overheads

In response to policy changes, over one quarter of organisations (27%), nearly all of which have a paid workforce (95%), plan to make adjustments to staffing and overheads in the coming year. Over half of those expect to increase staff redundancies (55%) while cutting hours (52%) and recruitment efforts (59%). Despite ongoing challenges in volunteer recruitment and retention, over two thirds (68%) expect to increase their reliance on volunteers to mitigate changes in staffing.

Organisations also expect to scale back on operational spending, cutting non-essential purchases (86%), reducing investment in equipment and technology (62%), and decreasing use of outsourced services (47%).

Growing Reliance on Volunteers

In Wave 7, less than a quarter (23%) of organisations reported relying more on volunteers due to staff challenges⁷. In Wave 9, three times as many (68%) expect to rely more on volunteers due to financial uncertainty.



Expected changes to staffing and overheads in response to increased ERNICs and NLW

Decrease non-essential spending **86%**

Increase reliance on volunteers **68%**

Decrease equipment/tech spend **62%**

Decrease staff recruitment **59%**

Increase staff redundancies **55%**

Notes: Question displayed to participants that expect to make changes to staffing and overheads in response to ERNICs and NLW changes (N=137). Percentage represents total valid responses for each statement.

Source: Nottingham Trent University VCSE National Data & Insights Observatory, VCSE Barometer, Wave 9

Expected Changes in Service Delivery

Over one in five (22%) organisations - the majority with a paid workforce (93%) - plan to adapt their service delivery model due to policy changes. This includes reducing the number of services (42%), cutting free services (45%), and raising prices (53%) for services that remain.

Expected changes to service delivery in response to increased ERNICs and NLW

Increase service prices **53%**

Pursue partnerships or collaborations **50%**

Reduce free services **45%**

Reduce number of services **42%**

Limit access to certain services **36%**

Notes: Question displayed to participants that expect to make changes to service delivery in response to ERNICs and NLW changes (N=137).

Source: Nottingham Trent University VCSE National Data & Insights Observatory, VCSE Barometer, Wave 9

With financial sustainability uncertain, fewer staff available and a growing reliance on volunteers when resources are already stretched, it's no surprise that over a quarter of organisations expect the price, availability, accessibility, and number of their services to worsen in the next year due to rising ERNICs and the NLW.

“ Although a relatively small impact it has come at a time when there are many small impacts and some large ones - death by a thousand cuts seems very appropriate ”

Medium-Sized Registered Charity

With many organisations already expecting to fall short in meeting demand (40%) and others operating at capacity (53%), these changes are likely to hit communities hardest, particularly those that rely on voluntary organisations for support³.



The Wider Impact

At the juncture of the old and the new financial year, it is clear that many Barometer respondents are experiencing sustained and growing operational and financial pressures. The multiplicity of challenges of the past 12-24 months has undermined their resilience, and the addition of new employment costs in the coming year presents a landscape of multiple coinciding threats.

The combined impact of rising demand, increasing costs, and funding uncertainty is placing significant pressure on organisations' ability to maintain service delivery.

“ We have taken the difficult decision to close some services and are reducing staff... ERNICs and NLW pressures are not solely to blame - but can be considered 'the final straw' of extra pressures on several service areas that were barely clinging on in terms of financial viability ”

Large Registered Charity

Direct and indirect consequences

The upcoming increases in NLW and ERNICs may not be significantly or directly impactful for some - particularly micro, small and volunteer-led organisations – but they coincide with ongoing cross-sector challenges that are already damaging individual and community resilience. While the consequences of this will only become clear over time, it is likely to have ripple effects, increasing demand for statutory services, particularly in health and social care.

“ VCSE organisations delivering public services to some of the most vulnerable in society are on the brink of closure because of ERNIC/NLW increases ”

Large Registered Charity

Organisations that can adapt with agility, creativity, and flexibility best positioned to weather these challenges. However, navigating this uncertainty will require tough decisions on priorities, resources, and service delivery. For some, this may mean restructuring operations, re-evaluating funding models, or scaling back services to remain sustainable in an increasingly demanding environment.



Methods and References

Methods

The findings in this report are based on an analysis of Wave 9 of the VCSE Barometer, a quarterly survey of VCSE organisations designed and administered by Nottingham Trent University's VCSE National Data and Insights Observatory. The VCSE Barometer offers a snapshot into real-time trends, changes, and challenges in the UK voluntary, community and social enterprise (VCSE) sector. It is supported by over 50 major social sector membership organisations and networks, and findings are shared every quarter with national policy and decision-makers, local infrastructure organisations and the VCSE sector.

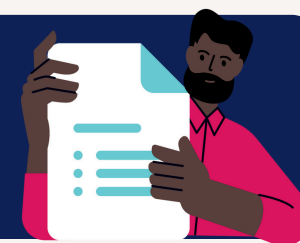
Wave 9 of the VCSE Barometer was conducted between 22 January and 12 February 2025 and comprises the views of 665 VCSE organisations. Data were prepared and analysed using Microsoft Excel, R Studio, and Python. Data tables are available upon request.

References

1. NCVO (2024). *UK Civil Society Almanac 2024*.
2. Civil Society (2025). *Macmillan confirms cutting a further 151 jobs last year*.
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Nottingham Trent University's Voluntary Community and Social Enterprise Sector (VCSE) Observatory develops innovative methods to collect, uncover and unify existing and new data so that a clearer, more accurate picture of the nature and value of UK VCSE can be painted for policymakers, practitioners and stakeholders.

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