



# Financial Pressures and the Funding Landscape

Evidence from Wave 12  
of the VCSE Barometer

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With thanks to Professor Daniel King  
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# Introduction

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If you speak to almost any leader of a voluntary, community or social enterprise (VCSE) organisation, it rarely takes long before funding enters the conversation.

Income generation has been the most frequently cited concern in the VCSE Barometer for the past three years and has continued to rise, with more than eight in ten organisations identifying it as a key challenge. This reflects a funding environment shaped by constraint and uncertainty, driven by rising costs, shrinking public budgets, and volatile income streams.

**Wave 12** focuses on funding and financial sustainability. It examines where organisations receive their income from, how this has changed over the past year, how successful they have been in securing funding, and the extent to which funding reflects the real costs of delivery.

Wave 12 findings point to a sector operating under sustained financial pressure, including using reserves to meet the shortfall in funding.

## **The full cost recovery gap**

One of the clearest findings relates to full cost recovery. While many organisations routinely include their full costs in funding applications, this is rarely reflected in funding decisions. Two thirds of organisations say they mostly or always request full cost recovery, yet fewer than one in three report that their full costs are mostly or always covered when funding is awarded.

This gap creates difficult choices about whether to proceed with underfunded work, draw on reserves, or scale back activity. These pressures are compounded by inflation and rising employment costs.

Few organisations reported receiving funding uplifts that fully reflect cost increases, and multi-year funding remains uncommon. Even where funding is secured, it is often short-term or fixed-value, limiting organisations' ability to plan, retain staff, or invest for the future.

As a result, many organisations are increasingly relying on reserves to sustain core activity, alongside changes to staffing, reduced non-essential spending, delayed investment, and greater reliance on volunteers. While these responses support short-term survival, they also point to growing strain on organisational resilience.

Taken together, the findings in this wave suggest that financial pressure in the VCSE sector is not simply a matter of income levels, but of funding design, cost coverage, and where risk ultimately sits.



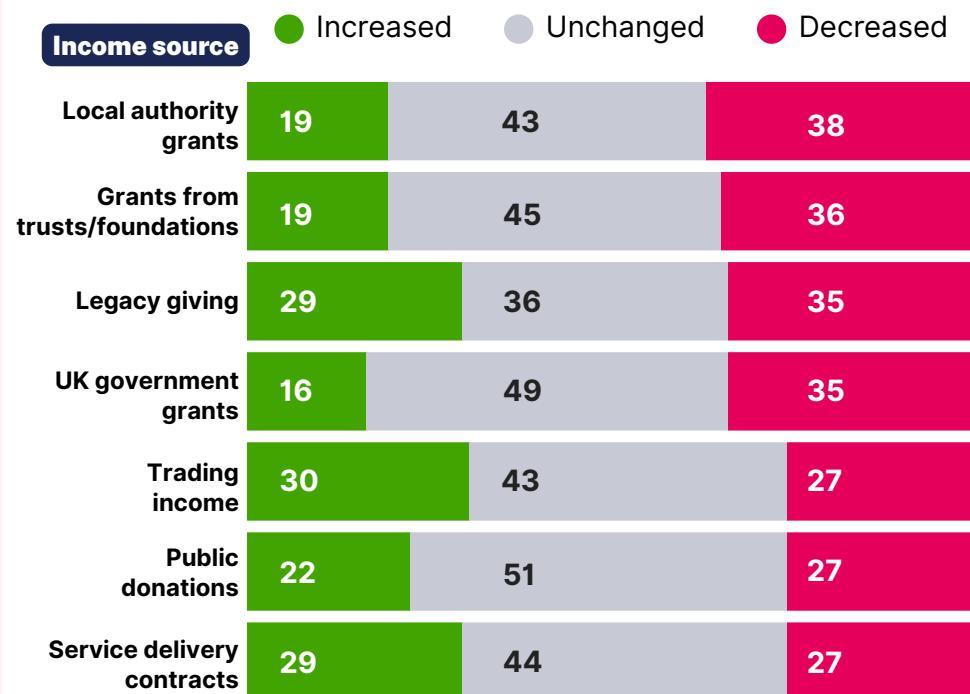
# Changes in Income from Different Sources

VCSE organisations are operating within an evolving funding landscape. While overall sector income has recovered in cash terms since the pandemic, it has not kept pace with inflation, placing pressure on organisations' real-terms spending power. Against this backdrop of rising costs, reduced national<sup>1</sup> and local<sup>2</sup> government funding, declining donations<sup>3</sup> and intensifying competition, Wave 12 explored how income from different sources has changed for VCSE organisations over the past year.

Declines were most evident in public funding. Around two in five organisations reported a decrease in income from local authority grants (38%), compared with one in five reporting an increase (19%). One in three reported decreases in income from trusts and foundations (36%), with one in five seeing increases (19%). UK government grants showed a similar pattern, with 35% reporting decreases and 16% increases.

Some earned and voluntary income streams showed more growth. Around three in ten reported increases in trading income (30%), service delivery contracts (29%), and legacy giving (29%). However, in each case, similar or higher proportions also reported decreases, highlighting a mixed funding picture overall.

## Change in income from different sources over the past year (%)



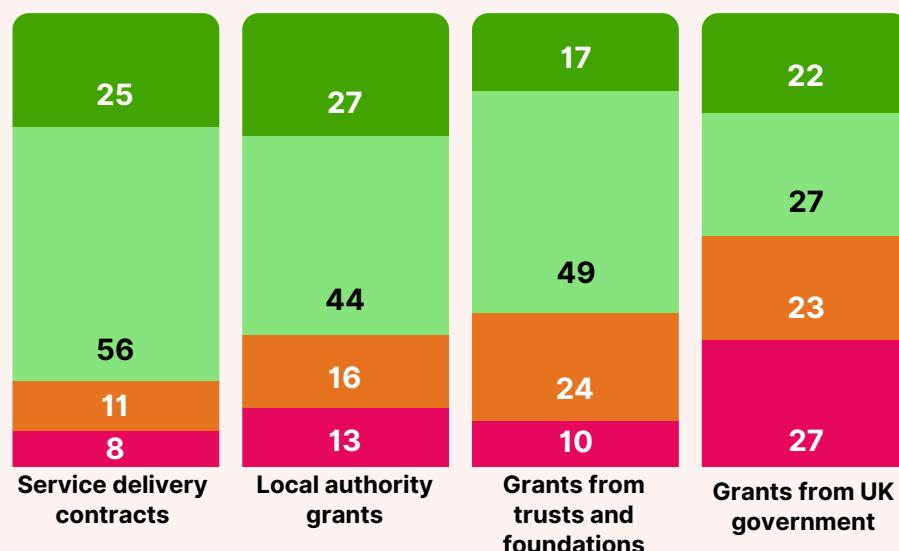
**Income source:** N excludes 'not applicable'. Local authority grants N=198. Grants from trusts/foundations N=259. Legacy giving N=103. UK Government grants N=101. Trading income N=204. Public donations N=275. Service delivery contracts N=138.

**Source:** VCSE National Data & Insights Observatory, VCSE Barometer, Wave 12

# Success Rates Across Funding Sources

## Success rates in funding applications over the past 12 months (%)

- Not at all successful
- Not very successful
- Somewhat successful
- Very successful



**Notes:** N excludes 'not applicable'. Service delivery contracts N=114. Local authority grants N=180. Grants from trusts and foundations N=259. Grants from UK government N=99.

**Source:** VCSE National Data & Insights Observatory, VCSE Barometer, Wave 12

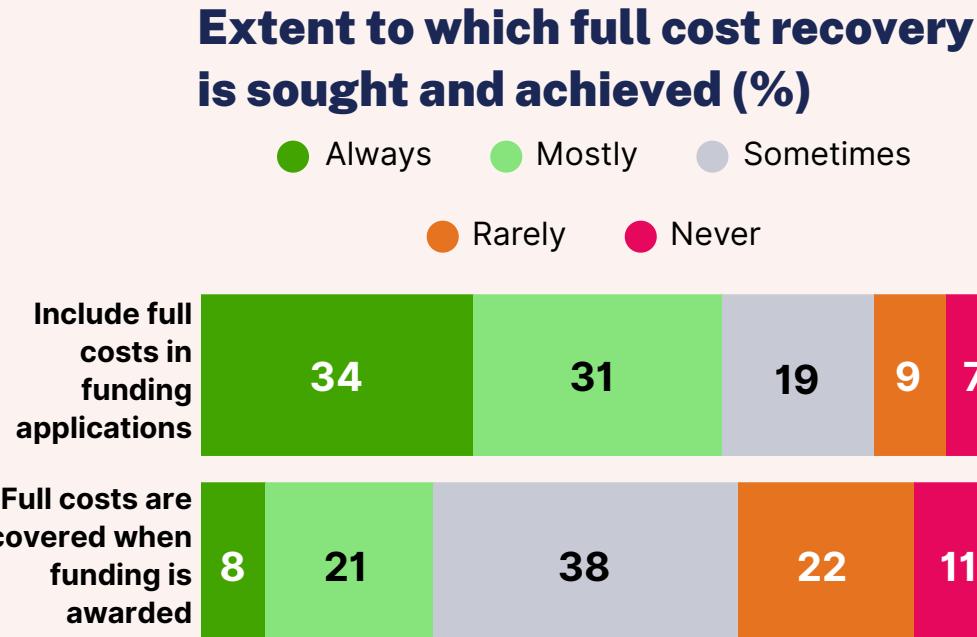
As costs continue to rise, VCSE organisations are also facing increased competition for a shrinking pool of available funding.<sup>4</sup> When asked about their success in funding applications over the past year, organisations reported the strongest outcomes for service delivery contracts, with most describing themselves as either somewhat successful (56%) or very successful (25%). Local authority grants also showed relatively high success rates, with the majority reporting some success (44% somewhat successful and 27% very successful), despite ongoing pressures on council budgets.

Grants from trusts and foundations attracted the largest number of applicants. While around two thirds of applicants reported at least some success, a third said they had been less successful, reflecting the increasingly competitive nature of this funding route.

## Uneven success rates in UK government grants

Success rates with UK government grants were the most polarised, with similar proportions reporting high success (22%) and no success at all (27%), highlighting a more uncertain funding route overall.

# Requesting and Receiving Full Cost Recovery



**Notes:** Full costs included in funding applications N=294. Full costs covered when funding is awarded N=284.

**Source:** VCSE National Data & Insights Observatory, VCSE Barometer, Wave 12

Most VCSE organisations recognise the importance of full cost recovery when seeking funding. In Wave 12, around two thirds said they always (34%) or often (31%) include their full costs in funding applications.

However, this does not translate into funding decisions. Fewer than one in three organisations reported that their full costs are always (8%) or often (21%) awarded, while over seven in ten said costs are only sometimes, rarely, or never covered.

**“ Static contract prices make our job increasingly harder. ”**

Large Community Interest Company

This gap between what organisations ask for and what funders award reflects wider sector evidence showing that public service contracts and grants frequently fail to cover the true cost of delivering services, leaving organisations to absorb unfunded overheads, cross-subsidise from other income, or draw on reserves<sup>5</sup>. While organisations demonstrate resilience by continuing to deliver projects and services, rising cost pressures and limited access to full cost recovery risk undermining long-term financial sustainability.



# Public Funding: Uplifts and Duration

VCSE organisations deliver more than £14 billion of public services each year, operating within funding systems that have become more complex and less predictable over time. Public grants and contracts remain a major source of income for many organisations, but long-term evidence shows that government funding has declined in real terms and increasingly shifted towards short-term, fixed-value arrangements.<sup>1,5</sup>

Wave 12 findings show that half of organisations receiving public grants or contracts (55%) reported receiving no uplift at all in the past 12 months. Around a quarter (24%) said only a small proportion of their funding was uplifted. Only one in eight (12%) organisations said most or all of their public funding had been uplifted. Even where uplifts were applied, they rarely kept pace with costs: only 4% said uplifts fully covered the true cost of delivering services, while half (49%) said they only partly did so.

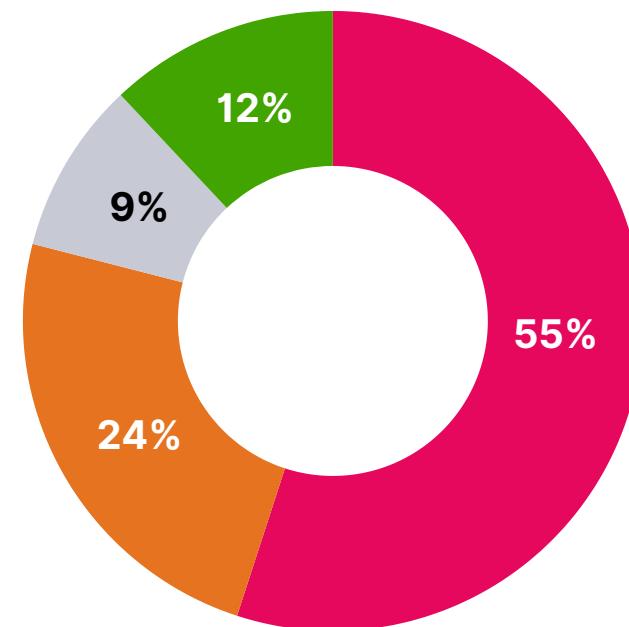
## Multi-year funding

Just 16% of organisations said public grants or contracts always or often provide multi-year funding, while 46% said this rarely or never happens. This uncertainty makes it harder for voluntary organisations to plan services, retain staff, and absorb rising costs over time.



## Proportion of public funding uplifts, past 12 months (%)

● Most or all (61-100%)  
● Some (31-60%)  
● Small proportion (1-30%)  
● None (0%)

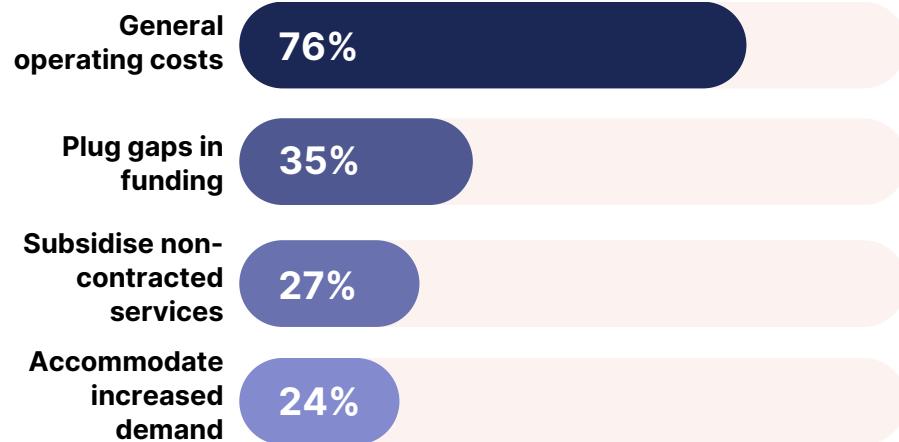


Notes: N=189. Public funding recipients only.

Source: VCSE National Data & Insights Observatory, VCSE Barometer, Wave 12

# The Role of Reserves

## Main reasons for using reserves, past 12 months



**Notes:** Question displayed to participants that had used reserves over the past 12 months (N=184).

**Source:** Nottingham Trent University VCSE National Data & Insights Observatory, VCSE Barometer, Wave 12

Against a backdrop of declining income, limited uplifts, and short-term public funding arrangements, many VCSE organisations are increasingly relying on reserves to sustain core activity.<sup>4,5</sup>

Over half of organisations (51%) reported using reserves to meet operating costs in the past 12 months. Among those doing so, reserves were most commonly used to cover general operating costs (76%) and to plug gaps in funding (35%). Over a quarter used reserves to subsidise non-contracted services (27%), while others drew on them to accommodate increased demand (24%), manage unplanned or emergency costs (19%), or subsidise government contracts that did not cover delivery costs (17%).

**“Our reserves have declined as we have used that money to cover increased costs.”**

**Small Registered Charity**

Together, these findings suggest reserves are increasingly propping up day-to-day delivery to compensate for an increasingly precarious funding landscape, rather than supporting long-term resilience.



# Responding to Rises in ENICs and the Living Wage

In February 2025, organisations were asked about their expectations of the impact of increases in Employer National Insurance Contributions (ENICs) and the National Living Wage.<sup>6</sup> Wave 12 findings validate these concerns. Around two thirds (68%) of organisations with paid staff reported that these rises had a negative impact on their organisation, compared to just 7% of organisations without paid staff. In response, one in five organisations (21%) said they had already made changes to staffing and overheads.

## Cost pressures driving cost-cutting measures and greater reliance on volunteers

Consistent with expectations set out in Wave 9, organisations reported reducing staff hours (60%) and recruitment (50%), alongside an increase in staff redundancies (45%).

Cost pressures have also driven wider operational cutbacks, with nearly three quarters reducing non-essential spending (74%) and half scaling back investment in equipment or technology (50%). As resources tighten, over half of organisations (54%) reported an increased reliance on volunteers to help offset these changes.

### Changes to staffing and overheads in response to increased ENICs and NLW

Decreased non-essential spending **74%**

Decreased staff hours **60%**

Increased reliance on volunteers **54%**

Decreased equipment/tech spend **50%**

Decrease staff recruitment **50%**

Increased staff pay **48%**

Increased staff redundancies **45%**

**Notes:** Question displayed to participants that made changes to staffing and overheads in response to ENICs and NLW changes (N=76). Percentage represents total valid responses for each statement.

**Source:** Nottingham Trent University VCSE National Data & Insights Observatory, VCSE Barometer, Wave 12



# Reflections

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Wave 12 points to a funding landscape marked by trade-offs rather than uniform decline, with VCSE organisations continuing to secure income from a range of sources but under conditions that limit predictability and financial resilience.

Funding applications for service delivery contracts and local authority grants continue to offer relatively higher chances of success compared with other routes, suggesting these remain accessible funding mechanisms.

While local authority funding showed some of the strongest success rates among organisations that applied, it also recorded the highest proportion reporting declines over the past year. Grants from trusts and foundations received lower success rates despite higher application volumes, aligning with national evidence of constrained funding and rising demand.

This reflects wider evidence of long-term pressure on local government finances, where real-terms spending has fallen over the past decade. In contrast, income from trading and contracts showed signs of growth, but these gains were often offset by similar proportions reporting declines, reinforcing a mixed picture overall.

## Costs, uplifts, and funding certainty

Findings on full cost recovery, uplifts, and funding duration cut across all income sources. Many organisations report good practice in including full costs in applications, yet far fewer see these costs reflected in funding decisions. Similarly, uplifts and multi-year funding remain limited for public grants and contracts. These features are consistent with existing sector research and help explain why funding success does not necessarily translate into financial security.

For many organisations, this has left reserves as the primary way of managing gaps between income and expenditure, supporting general operating costs or cover shortfalls in funding. These findings reiterate the importance of funding adequacy, certainty, and cost coverage in shaping financial resilience and supporting sustainable VCSE delivery.



## Thank you

Thank you for taking part in the VCSE Barometer. Your time and insights are greatly appreciated and play a vital role in helping us build an accurate and timely picture of the sector.

We value your feedback, and would love to hear how the Barometer can better support you and your organisation in future waves.

 [VCSEObservatory@ntu.ac.uk](mailto:VCSEObservatory@ntu.ac.uk)



# Methods and References

## Methods

The findings in this report are based on an analysis of Wave 12 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 12 of the VCSE Barometer was conducted between 15 October - 12 November 2025 and comprises the views of 377 VCSE organisations. Data were prepared and analysed using Microsoft Excel and R Studio. Data tables are available upon request.

## References

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6. VCSE National Data & Insights Observatory (2025). [Paying the Price: Difficult Decisions in an Uncertain Financial Landscape](#). Nottingham Trent University.

## How to cite this report

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Nottingham Trent University's Voluntary Community and Social Enterprise Sector (VCSE) National Data and Insights 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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