

# New JNCHES Negotiations 2017-18

## Employers' Statement

28 March 2017

### 1 Rewarding staff in higher education

**The higher education sector is vital to the economic, social and cultural well-being of the UK and employs nearly half a million people in the delivery and support of teaching, research and innovation.** Higher education institutions are uniquely formed as autonomous not-for-profit charities that receive significant public investment as well as income from private sources, most notably in the form of tuition fees. Our staff reflect this unique formation exhibiting a public service ethos within a competitive national and international environment.

**Employment in the sector is at an all-time high with substantive sector employment at 410,130 in 2015-16, a 7 per cent increase since 2008-09.** This employment required an investment of £18 billion in 2015-16, over half of all annual expenditure. Since 2009-10 there has been a year-on-year and an absolute increase in expenditure on staff totalling £3.4 billion, representing a 23.3 per cent increase. Over a similar period the sector has been obliged to increase its capital expenditure to adjust for the substantial removal of capital grants.

**Although trade unions raise concerns about an increasing use of fixed-term and casual contracts in the sector, available data show an opposite trend.** The total number of atypical academic contracts used in 2015-16 (72,015) fell by 4.7 per cent from 2014-15 with these contracts accounting for just 4,850 full-time equivalent staff (2.9 per cent of total FTE). Over the past decade the proportion of academic employees on fixed-term contracts has declined; in the period the number of fixed-term contracts used for academic staff has increased by just 3 per cent compared to a 53 per cent increase in staff on open-ended contracts.

**Reflecting the reliance on world class academic and professional services staff, the total reward package in higher education is comprehensive and remains competitive** – HEIs offer competitive salaries with opportunities for pay progression, generous leave entitlement, excellent pension schemes and enhanced benefits such as sick pay and holiday. In addition to these benefits, staff have access to extensive training and development opportunities, a wide range of campus facilities and services, and opportunities to work flexibly where roles allow.

**Following a period of modest base pay awards with generally higher inflation, during the longest recession in UK history, the last three base pay settlements in HE have exceeded the Government's inflation measure (CPI) and the preferred consumer inflation measure of the Office for National Statistics (CPIH).** The 2015-16 pay settlement was the best real-terms base pay award since 2008-09 on all measures of inflation. The 2016-17 award offered a

greater real-terms increase than the 5 per cent award in 2008-09 on the basis of CPI and was equivalent to the 2 per cent base award in 2014-15 in real-terms - Table 1 (including also the trade unions' preferred measure, RPI).

**Table 1: HE base pay awards, 2008-09 to 2016-17**

Year	Headline base pay settlement (%)	CPIH	Real-terms (CPIH)	CPI	Real-terms (CPI)	RPI	Real-terms (RPI)
2008-09	5	4.4	0.6	4.7	0.3	4.8	0.2
2014-15	2	1.5	0.5	1.5	0.5	2.4	-0.4
2015-16	1	0.3	0.8	0	1	1.1	-0.1
2016-17	1.1	0.9	0.2	0.6	0.5	1.8	-0.7

Source: ONS. Inflation at August in year of implementation.

**Recent base pay awards have also provided additional increases exceeding the headline offer to the lowest-paid staff.** The 2016-17 base pay award provided significant bottom loading to the pay spine and the bottom pay spine point 1 will be removed from 1 April 2017. The new minimum, pay point 2, has increased 7.7 per cent as a result of the last three settlements, far exceeding all measures of inflation. These adjustments mean that the pay spine is currently 30p clear of the current National Living Wage (NLW) of £7.50 per hour based on a 37 hour week and met the Living Wage Foundation rate prevailing at the time of the pay uplift (£8.25) based on a 35 hour week.

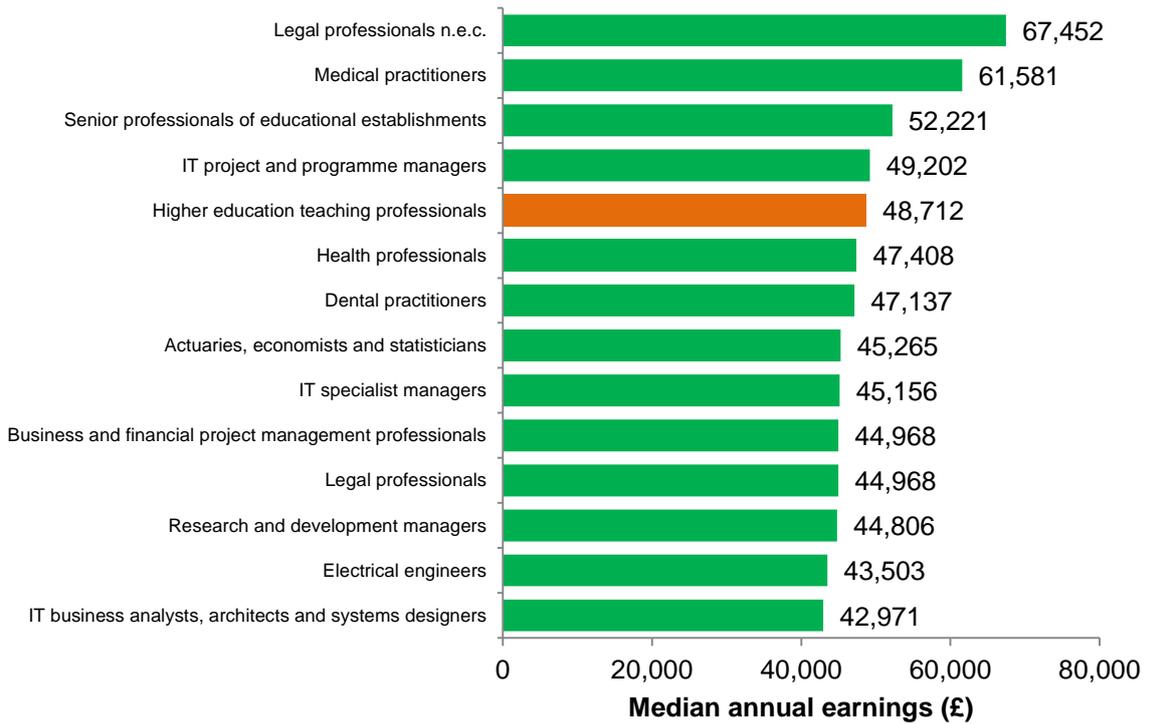
**Pay progression for staff on the pay spine is generally a mixture of service-related and contribution-related progression.** While service-related incremental progression has been phased out in the public sector, many higher education institutions continue with this practice alongside contribution-related pay arrangements, which are used by around two-thirds of HEIs. Such progression provides staff below their grade maximums with a typical pay increase of 3 per cent as well as the base pay increase. In 2016-17, 48 per cent of staff covered by the New JNCHES negotiations received a 4.1 per cent pay increase. The average increase received across all staff on the pay spine is estimated at 2.7 per cent. Data from HEIs show that 53 per cent of academic staff and 45 per cent of professional services staff will be eligible for service-related progression pay increases in 2017-18.

## 2 Competitiveness and fairness of HE pay

**Looking at occupations within the sector, pay remains, on average, competitive even when employer pension contributions are excluded.** Even when job levels are taken into consideration, HE pay compares favourably with the wider labour market. Our analysis of earnings data is supported by feedback from HE employers who do not report recruitment and retention difficulties outside perennial hotspots such as IT and finance (which are reported by employers in all sectors).

**The pay of academic staff compares favourably against other professions in the UK and this group has improved its position relative to other teaching professionals over the past decade.** Within national statistics, the 'HE teaching professional' occupational group has the fifth highest median earnings among all 72 professional occupations - Figure 1.

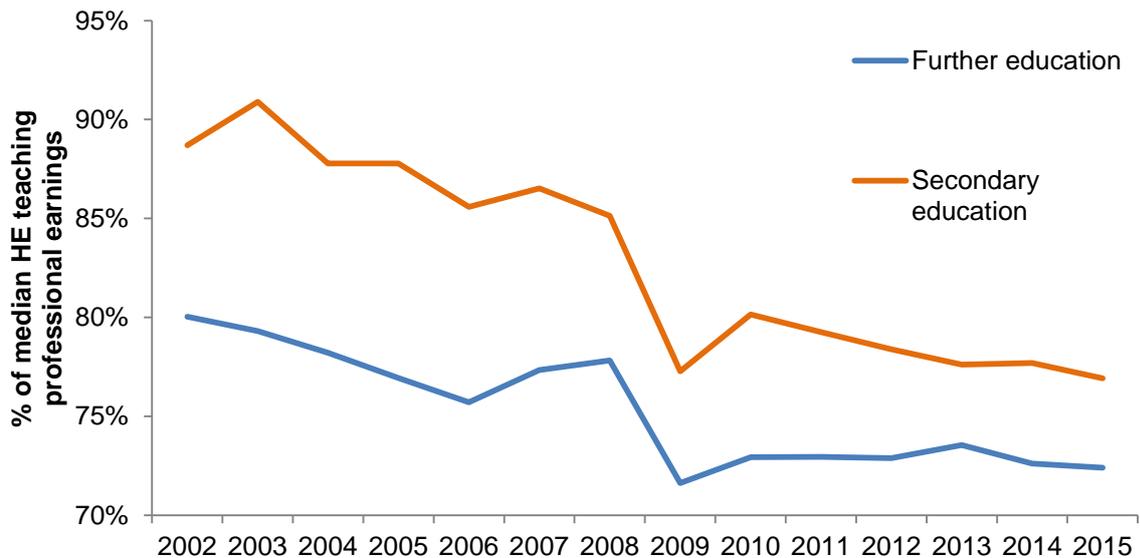
**Figure 1: Full-time annual earnings, professional occupations (SOC 2), 2015 (top 14)**



Source: ONS. Based on full-time weekly gross earnings in April 2015.

HE teaching professionals improved their position relative to further and secondary education teaching professionals significantly in the 2000s and those gains have been sustained or improved since 2010 - Figure 2.

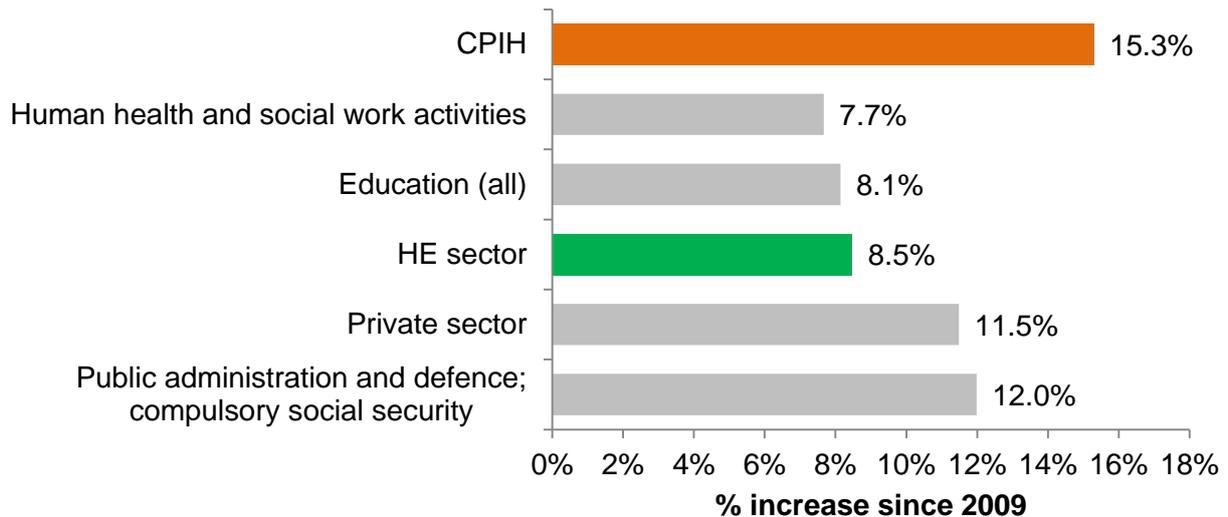
**Figure 2: Median secondary and further education teaching professionals' earnings as a percentage of HE teaching professionals, 2002 to 2015**



Source: UCEA and ASHE.

Although the pay spine points did not keep pace with inflation between 2008 and 2013, this was not unique to the higher education sector following the financial crisis. Average earnings in the public and private sectors are worth significantly less in real-terms than they were in 2009 and this is also the case at industry level. As Figure 3 shows, the increase in average earnings in the HE sector since 2009 is ahead of the health and social work sector as well as the education workforce as a whole. All four sectors in the chart trail considerably behind CPIH inflation over the period.

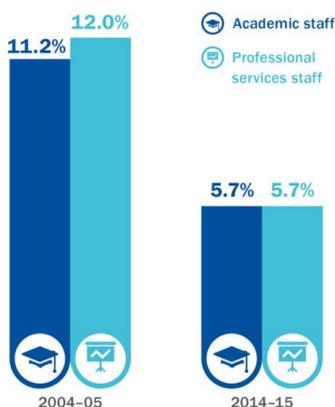
**Figure 3: Change in median weekly earnings, HE and public service sectors, 2009 to 2016**



Source: Annual Survey of Hours and Earnings. Based on full-time median weekly earnings.

**Tackling the gender pay gap and continuing to meet legal requirements under the Equal Pay Act 1970 continue to be priorities for employers in the sector.** Although an overall gender pay gap remains in the sector, progress in this area is promising. Recent New JNCHES work examining the gender pay gap in HE found that the difference between the earnings of the average male and female in the sector has fallen consistently over the past decade. As Figure 4 shows, the gender pay gap between full-time academic staff has fallen from 11.2 per cent to 5.7 per cent with a similar fall for professional services staff.

**Figure 4: The gender pay gap in higher education**



Source: HESA. Based on median basic salary for full-time employees.

Sector initiatives such as Athena SWAN have been important drivers in improving women’s career development and progression and there were 513 departments that received recognition in 2016 compared to just 52 in 2011.

Following on from joint work concluded in 2015 and 2016 on the gender pay gap, the employers look forward to continuing joint work in this area by updating guidance on undertaking Equal Pay Reviews in light of the new mandatory gender pay gap reporting requirements that enter into force in 2017.

### 3 Pay bill challenges

**Although pay levels in the sector remain competitive, HE employers have been affected by increases in the ‘on costs’ of employment in recent years due, for example, to increases in employer pension contributions, employer National Insurance and the introduction of the immigration skills charge. The Apprenticeship Levy, payable from April 2017 is another additional cost of employment.** Although many HEIs are looking to maximise the use of their funds, where funds cannot be accessed or used it is essentially a further payroll tax - Table 2.

**Table 2: Employment-related costs**

Policy	Description	Cost implications	Effective date
The Apprenticeship Levy	A levy on employers with more than 250 employees and payrolls of £3 million or more to fund three million apprenticeships.	A 0.5% increase in all HEI paybills. Will cost the sector an estimated £65 million per year. A limited amount may be reclaimed by those HEIs able to and which can significantly increase their employment of apprentices.	April 2017
Immigration Skills Charge	An annual charge payable for each non-EU migrant employed on a Tier 2 Visa.	£364 per employee per annum paid up front i.e. £1,820 for a 5-year visa. PhD-level occupations and Tier 4 switchers are exempt.	April 2017
National Insurance and the Single Tier State Pension	As a result of introduction of the single tier State Pension, the National Insurance contracting out discount for defined benefit pension schemes will end.	Employers lost their 3.4% rebate on NI costs for earnings between £8,112 and £40,040. This was equivalent to an increase of between 2 and 2.5% on salaries depending on staff profile. The 1.4 percentage point rebate for employees on band earnings also ended.	April 2016
Employer pension contributions	Following scheme reforms, the employer contribution rates for the USS and SAUL are increasing. Employer and employee pension contributions have already gone up for public sector schemes	USS: A 2 percentage point increase in the employer contribution rate to 18%. Member contributions increased by 0.5 to 1.5 percentage points to 8% alongside scheme changes. SAUL: Employer contributions increased by 3 percentage points	April 2016

Policy	Description	Cost implications	Effective date
	(LGPS/S, NHSPS and TPS/STSS).	<p>to 16%. Member contributions remained at 6%.</p> <p>LGPS: Employer costs have been rising in many funds with the median employer contribution for 2016 standing at 18.4%.</p> <p>Results of 2016 fund valuations are leading to higher contributions being required from April 2017.</p>	April 2017

**Employer pension cost concerns remain on the agenda in 2017 with an increasing USS deficit and the latest (2016) local government scheme (LGPS) valuations driving up employer contributions for many HEIs.** The next formal triennial valuation of the USS scheme is as at March 2017 and it is likely that the parties to the Joint Negotiation Committee will need to engage in further discussion on a deficit recovery plan to meet the requirements of the Pensions Regulator.

**As a sector in receipt of significant public investment, there remain expectations from Government that HE will be mindful of pay restraint at all levels, with the public sector pay policy still limiting pay bill increases to 1 per cent.** With hardly any exceptions, a 1 per cent increase on paybill or salaries has been the outcome for workforces throughout the public sector for the last few years alongside the phasing out of service-related pay progression. Although HE is not bound by this policy, this policy is an important benchmark for consideration.

#### 4 The impact of Brexit

**The ‘Brexit’ result is highly significant for the higher education sector which has strong ties with the other 27 member states through collaborative research projects, a diverse student population and a highly-international workforce.** The sector has high risk exposure to the UK’s exit from the EU as 14 per cent of all research contract/grant income is from the EU (over 50 per cent at some HEIs). At some HEIs, over 20 per cent of students are from other EU countries and 9.5 per cent of all students in Scotland. Despite some reassurances, the detail of our future involvement in Horizon 2020 and other EU research programmes has not yet been agreed nor have funding arrangements for new students beyond 2017-18. The impact will be differential with some HEIs more reliant on EU funding and students than others. HE employers are concerned about the future working rights of the 43,000 existing EU staff as well as the immigration system that will be introduced post-Brexit – including post-study work rights for EU students.

**The fall in the pound as a result of the referendum decision has led to higher inflation due in part to the higher cost of imports.** This inflation will affect both employers, particularly energy and borrowing costs, and staff alike, with providers of goods and services now starting to pass on this increase to HEIs and increases in the price of goods for consumers. While an inflation increase is expected in 2017-18, the Office for Budget Responsibility and commercial

forecasters expect a return to inflation at just above the Bank of England target rate of 2 per cent in 2019 - Table 3.

**Table 3: Inflation forecasts, 2016 to 2020**

Measure	2016	2017	2018	2019	2020	2021
CPI (%) - OBR	0.7	2.4	2.3	2.0	2.0	2.0
CPI (%) - Independent forecasts	0.7	2.6	2.5	2.1	2.0	n/a

[CPIH projections currently unavailable]

**A UCEA member survey in October 2016 found that HEIs were quick to respond to EU staff concerns about the referendum result and offered information through intranets, drop-in sessions and roadshows.** Several HEIs provided legal advice and support to staff to assist with 'leave to remain' applications. Although the immediate impact on staff recruitment and retention was not significantly negative, there were many cases where the result had made an impact on individuals' decisions to accept offers or leave the institution. The survey also found that several HEIs had worked in partnership with trade unions to provide communications and support to staff.

**In the face of these challenges, the sector has worked hard to make the case for sustaining investment in HE and research and retaining the flows of talented staff and students. It is evident that the importance of the sector is recognised by the Government.** UK higher education remains at the heart of the UK economy in providing high-level skills to the public and private sector, undertaking ground-breaking research, and collaborating with industry to drive innovation. Prime Minister Theresa May said on 17 January 2016 that UK is a leader in science and innovation:

*One of our great strengths as a nation is the breadth and depth of our academic and scientific communities, backed up by some of the world's best universities. And we have a proud history of leading and supporting cutting-edge research and innovation.*

In line with May's remarks, the industrial strategy green paper put science, research and innovation at the forefront and investment in skills (at all levels) is an underpinning theme. The paper recognises the strengths and weaknesses of the HE and research sectors and acknowledges that the UK invests less in this area as a percentage of GDP (1.7 per cent) than many of its competitors (the OECD average 2.4 per cent). Helpfully, the paper confirms that:

*As the UK prepares to leave the EU we remain committed to maintaining and building on our strengths in R&D to continue attracting world-class people, skills and foreign investment.*

## **5 Sector funding and financial performance**

**With the introduction of the Teaching Excellence Framework and a new Higher Education and Research Bill, which makes changes to regulatory and research frameworks, uncertainty and change is not limited to Brexit.** The HE bill will increase provision and competition from alternative providers of which there are already over 730 providing tuition to nearly 300,000 students per year. International competition for students is also intensifying with increasing investment in competitor countries to improve student attractiveness and strengthen profile. Several countries have set ambitious recruitment targets with Canada, China, Japan, New Zealand and Taiwan seeking to double student numbers or revenue.

**Both HEFCE and Audit Scotland have recently raised concerns about ongoing financial sustainability and according to a report from Deloitte, 62 per cent of HEIs are now less optimistic about their financial prospects than they were a year ago.** Despite an overall sector balance sheet in surplus, finance directors in HEIs report a range of financial risks threatening financial sustainability in the near term. These include:

- Uncertainty around home/EU student recruitment in an increasingly competitive market.
- Future challenges for achieving non-EU student recruitment targets.
- Increasing costs of employment.
- Business rates increases.
- Falling liquidity and high sustainability gaps.
- Increasing pension liabilities.
- Loss of the ability to borrow at affordable rates.

**There has been a significant change in the average surplus in HEIs outside England with half of HEIs in Scotland reporting a deficit in 2015-16 and 4 of 9 HEIs in Wales.** The latest HESA data show considerable variation in HEI surpluses which mean that a sector average position masks some very significant differences in financial health. Figures 5 to 8 illustrate this dramatic variation between HEIs and between nations.

**Figure 5: Surplus/deficit by HEI, England, 2015-16**

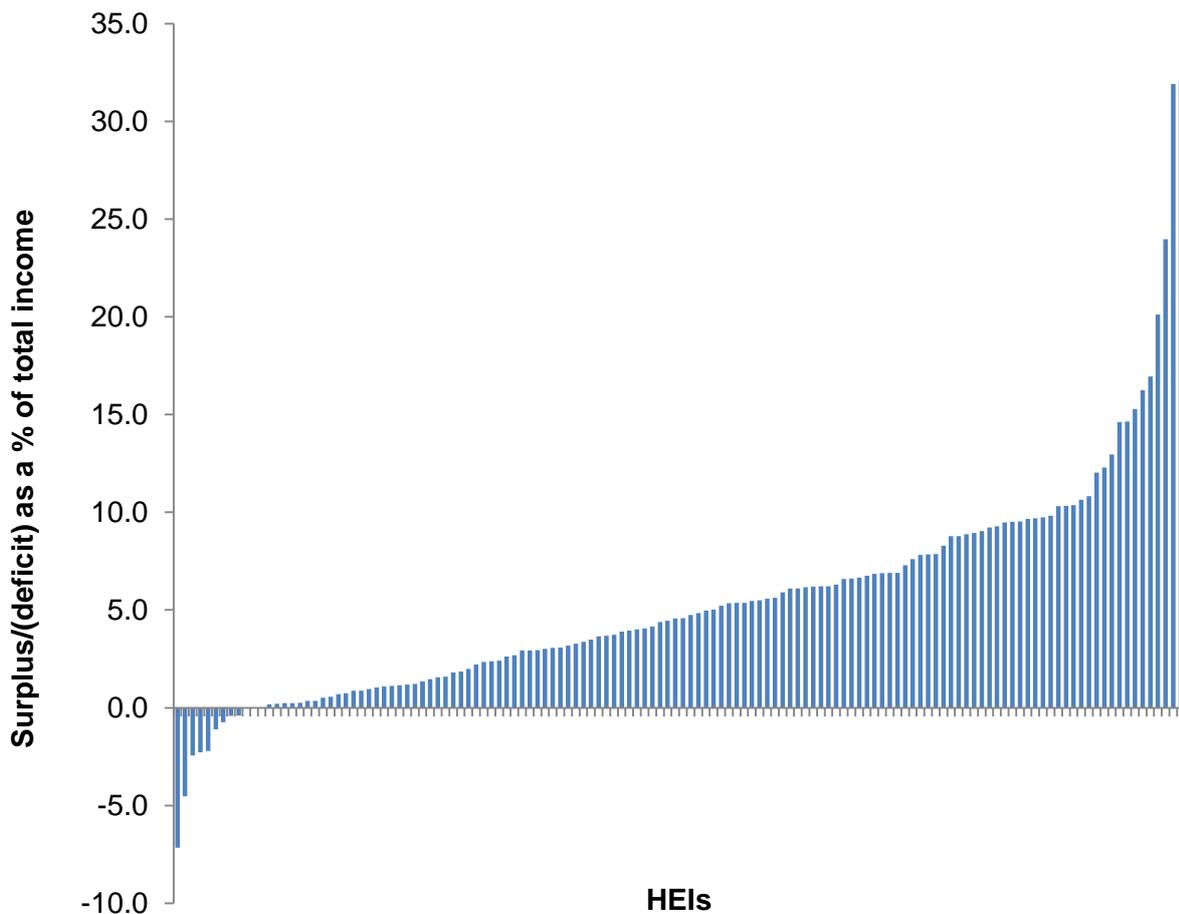


Figure 6: Surplus/deficit by HEI, Wales, 2015-16

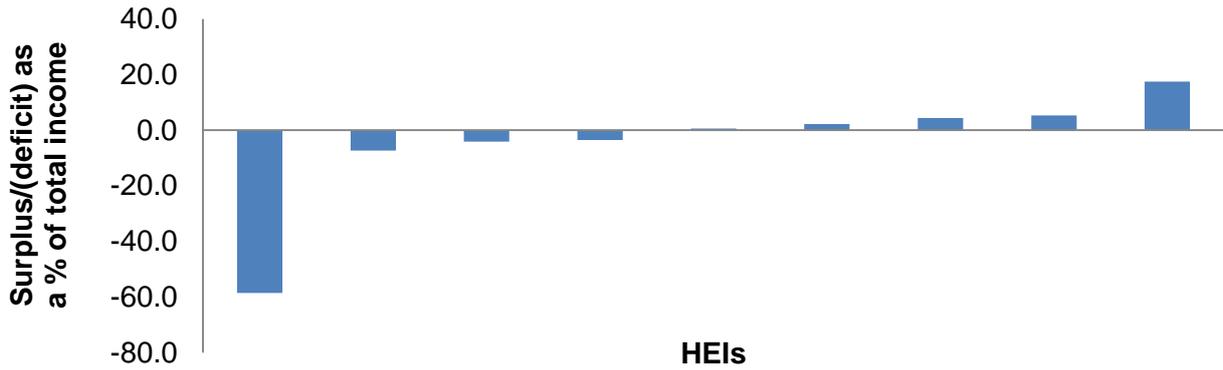


Figure 7: Surplus/deficit by HEI, Northern Ireland, 2015-16

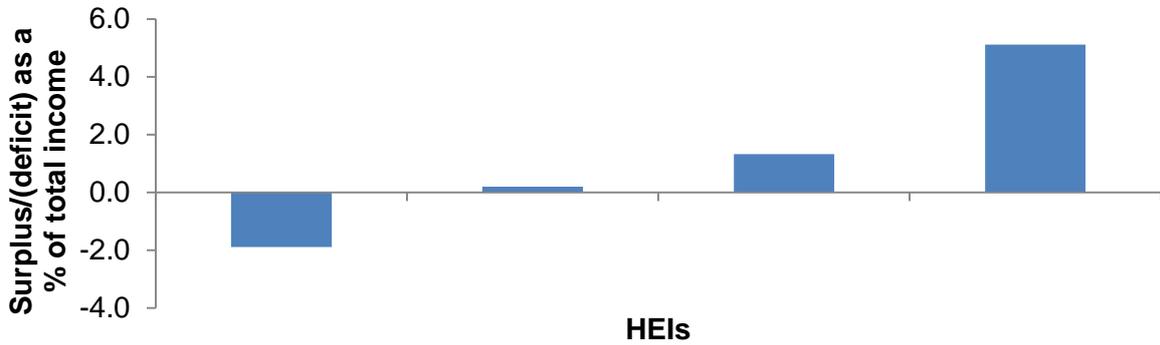
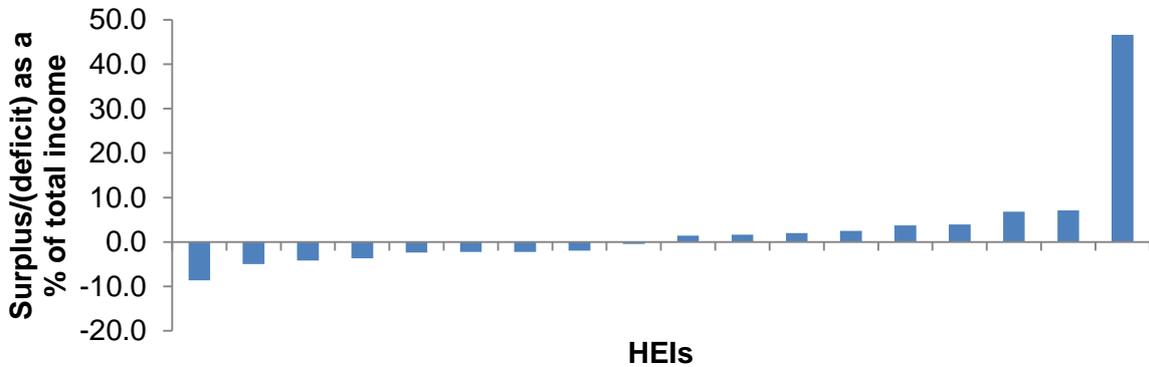


Figure 8: Surplus/deficit by HEI, Scotland, 2015-16



Source for figures 5 to 8: HESA.

**HEIs across the UK need higher surpluses than historically was the case in order to directly finance capital investment in the estate, deal with financial uncertainty and demonstrate financial health to lenders.** Surplus projections for HEIs in England provided to HEFCE show average surpluses expected to fall to 2.3 per cent of income in 2016-17, before rising again to 3.3 per cent in 2017-18 and 3.4 per cent in 2018-19. TRAC data for England show that in order to cover full economic costs, a surplus as a percentage of income of 7.6 per cent is needed - Table 4 – with equivalent data for Scotland indicating a target surplus of 6.5 per cent.

**Table 4: Summary of TRAC data 2011-12 to 2014-15, England only**

	2011-12	2012-13	2013-14	2014-15
Target sustainability surplus to cover long run costs (full economic costs) (% of total income)	£1,761m (7.6%)	£1,876m (7.7%)	£1,947m (7.6%)	£2,082m (7.6%) (excluding RDEC £2,082M 7.7%)
Actual surplus as a % of total income	£1,036m	£1,007m	£1,064m	£1,560m (5.7%) (excluding RDEC £1,223m 4.5%)
Sustainability gap (% of total income)	£726m (3.1%)	£870m (3.6%)	£883m (3.5%)	£522m (1.9%) (excluding RDEC £860m 3.2%)

Source: HEFCE. Note: Surpluses differ from those reported in annual financial statements because of adjustments in respect of joint ventures, minority interests and endowments in the TRAC returns.

**The introduction of the new financial reporting standard FRS102 has significantly altered the reporting of surpluses which has made it even more difficult to use this as an indicator of financial well-being.** Cash (liquidity) is largely unaffected by the FRS102 changes and is now regarded as an important fundamental indicator of financial health. Unfortunately, deteriorating liquidity is highlighted by HEFCE as a critical challenge for HEIs in England. Forecasts suggest net liquidity will fall from 113 days' expenditure to just 67 days between 2014-15 and 2017-18 - Table 5. HEFCE concludes that:

*...reducing surpluses and cash levels and a rise in borrowing, all signal a trajectory that is not sustainable in the long term...As charities, HE institutions are obligated to ensure that they remain sustainable and do not expose themselves to undue risk. Strong liquidity is particularly important given the level of uncertainty and risk that currently exist in the sector.*

**Table 5: Key financial indicators, England, 2013-14 to 2017-18**

	2013-14	2014-15	2015-16	2016-17	2017-18
Operating surplus (%)	3.9	3.9	2.4	2.4	3.3
Net liquidity as no. of days' expenditure	122	113	93	76	67
External borrowings as a % of total income	26.3	28.8	30.2	30.4	29.8

Source: HEFCE

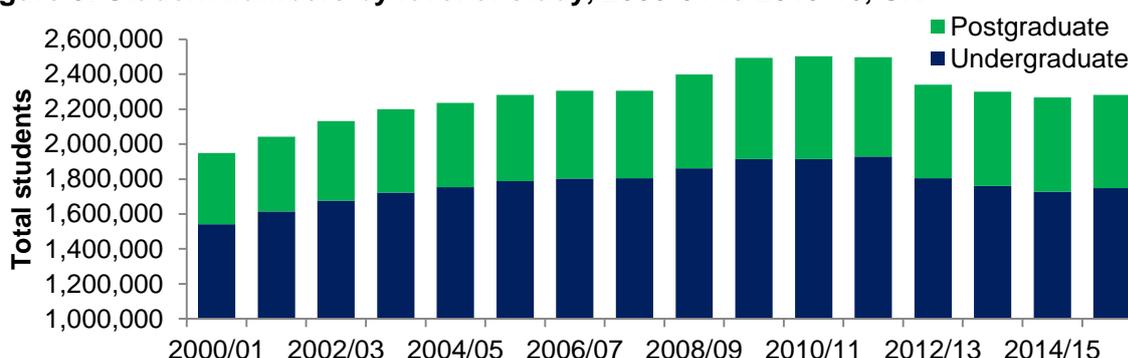
Significant financial sustainability challenges were identified in Audit Scotland's rigorous assessment of Scottish HEIs. The Audit Scotland report on Scottish Higher education concluded that:

*The strong overall financial position masks significant underlying risks within the sector. Surpluses and reserves are concentrated in a small number of universities and some are heavily reliant on Scottish Government funding at a time when it is reducing. Universities need to continue generating surpluses and reserves and making efficiency savings to fund capital costs and subsidise some of their activities.*

**All HEIs have had to find resources to invest in the development and maintenance of their estates, essential for both their students and their staff.** However, the sector level figures can be misleading; according to HEFCE, the level of capital investment in England in 2015-16 is attributable to a small number of HEIs, with 18 responsible for 50 per cent of the total investment. Capital investment includes expenditure to upgrade existing buildings and equipment, including IT infrastructure; on buildings alone, HEFCE has said that HEIs in England need to invest a *further* £3.6 billion in non-residential estates just to restore them to a 'sound baseline condition'.

**Undergraduate applications for 2017-18 are down 5 per cent on 2016-17 with some subject areas, such as nursing, seeing double digit percentage falls.** Overall undergraduate numbers were relatively steady between 2012-3 and 2015-16 but are still 9.4 per cent lower than in 2009-10 - Figure 9. International recruitment remains broadly healthy although HEI forecasts in this area are optimistic. Brexit appears to have had some immediate impact on EU undergraduate applications for 2017-18, which have fallen. Reforms to nursing student funding have led to a sharp downturn (23 per cent fall) in nurse training applications affecting a significant portion of the sector offering such provision.

**Figure 9: Student numbers by level of study, 2000-01 to 2015-16, UK**



Source: HESA.

**Understanding the funding and finances of HEIs across the sector is essential in order to appreciate the challenges associated with financial sustainability, which impact directly on affordability of pay increases.** However, sector level statistics hide increasingly significant variation between nations, between institutions and even between different parts of institutions. There is greater year-to-year variation in student numbers - international, home and EU - and HEIs in all nations have adjusted to severe reductions in capital grants.

**In England, the new Teaching Excellence Framework (TEF) will enable undergraduate fees for entry in autumn 2017 to be uprated at eligible HEIs in line with inflation, following a 8 per cent real-terms fall since 2012-13. HEIs in Northern Ireland, Scotland and Wales will not benefit from this policy change.** The Treasury is to use the RPIX measure (RPI excluding mortgage interest) for future UG fee increases in England. Based on RPIX, the £9,000 undergraduate tuition fee introduced in September 2012 was worth £8,270 in October 2016. A 2.8 per cent increase still leaves the fee more than 8 per cent lower by the time it is introduced in September 2017. The fee uplift will only increase English undergraduate fees (at the maximum permissible level) for 2017 entrants. In 2015, there were 532,265 undergraduate acceptances representing 23.4 per cent of all students. It is not yet known whether any or many HEIs would charge the higher fee for other than 2017-18 new entrants and it is thought that the increase in tuition fee income may be around half the above figure for most English HEIs.

**The Scottish Government continues to maintain levels of funding in cash terms leading to ongoing real-terms reductions in funding.** According to Audit Scotland, overall SFC funding to universities has reduced by six per cent in real terms since 2010-11 to 2014-15 with a further 6 per cent fall since then calculated by Universities Scotland. This includes a 69 per cent real-terms reduction in capital funding from £83.5 million to £28 million. Despite stated commitments to the sector from the Scottish Government, the HE resource budget allocation for 2017-18 has fallen by 6.2 per cent from the 2016-17 outturn and 1.3 per cent lower than the baseline. HE capital funding increased from £25.7 million to £47.4 million, but this is comprised largely of pre-existing commitments rather than new money in the system. The Convenor of Universities Scotland offered the following response to the budget allocation:

*This settlement does not enable recovery towards sustainable funding of universities' core teaching and research activities. We urgently need to discuss with Government how we might chart a three-year path towards a sustainable funding settlement. Year-by-year budgets have added to the uncertainty and unsustainability facing universities as they have to make multi-year commitments to students and research projects.*

But future funding for the sector remains uncertain and the Fraser of Allander Institute estimates that further real-terms cuts of 1.9 per cent and 1.4 per cent are expected in 2018-19 and 2019-20 respectively.

**The public funding situation in Wales continues to be difficult with further cuts announced in the 2017-18 Welsh Budget.** Universities Wales note that this is the sixth successive year of cuts to Welsh HE with a 74 per cent reduction in real-terms since 2010-11. It warns that any further in year cuts are unmanageable especially given the difficult settlement in 2016-17. Reform to student funding is in the pipeline but will not offer any immediate relief.

**Universities in Northern Ireland have dealt with a challenging set of settlements since 2010-11 and this is likely to continue in 2017-18.** Unfortunately the Executive Draft Budget for Northern Ireland is not available at time of publication and the collapse of power sharing arrangements has created further delay and uncertainty.

## **6 Conclusion**

**Staff in HE are the foundation of our world-class sector and HE employers continue to provide an excellent total reward package to new and existing staff that remains competitive with employers in other sectors.** Despite the financial and policy challenges the sector has faced over the past few years, settlements have been reached through New JNCHES in recent years that have provided base pay awards at or above the primary indicators of inflation. Employers recognise that the lowest paid have been hit hardest by changes in the economy since 2008 and as such awards on the lowest pay spine points have increased at a faster rate.

**The employers are committed to maintaining the attractiveness of HE as a sector to work in and are committed to arriving at a pay settlement in negotiation with the trade unions that reflects the challenges set out in this document.** We look forward to engaging in positive dialogue over the three scheduled New JNCHES meetings in order to achieve such a result.