New JNCHES negotiations 2015-16 Employers' Statement: background material

25 March 2015

1 Introduction

This document supplements the Employers' statement and provides additional data and context for the 2015-16 negotiations conducted in the New JNCHES.

2 Employers' consultation

UCEA undertakes a three stage consultation with its subscribers ahead of the annual negotiating round which provides the UCEA Board with a range of quantitative and qualitative information to determine the employers' approach. Our approach to the negotiations is informed by key points raised by HEIs and information gathered during the course of an extensive consultation process.

As part of this process UCEA subscribers are asked each year whether they wish to 'opt-in' to the collective negotiations – the list of participating institutions will be made available to the trade unions at the first negotiating meeting.

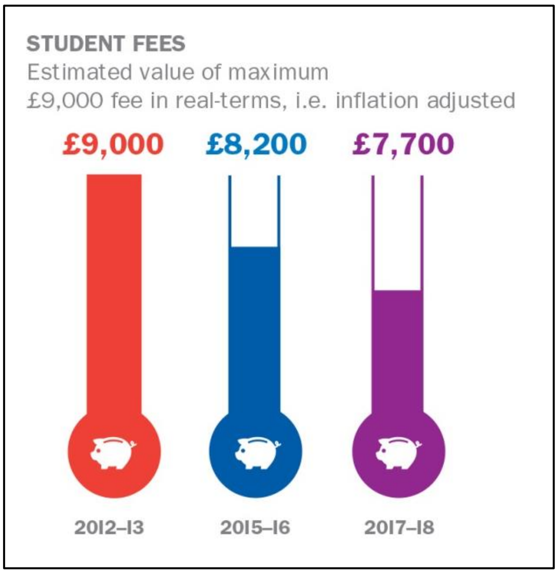
Stage one – briefing paper
For Stage one of the UCEA consultation process, a detailed briefing paper was distributed to Heads of Institutions and HR Directors. This provided members with background information on the forthcoming negotiating round and an outline of key issues that are likely to arise in the round.

Stage two – consultation events
Stage two of the consultation process involved a series of regional consultation meetings held across the UK where members have the opportunity to discuss together and with UCEA representatives the key issues affecting the negotiating round and the outcomes they wish to achieve.

Stage three – written consultation
The final part of the consultation process is a formal written consultation with UCEA member HEIs. This is the point at which HEIs are asked formally to confirm if they intend to 'participate' in the 2015-16 round and to provide their views on the approach to an uplift to the 51 point pay spine and related matters. The responses are fully considered at a meeting of the UCEA Board to determine the extent of the employers' mandate prior to the opening of the negotiations.

3 Higher Education funding

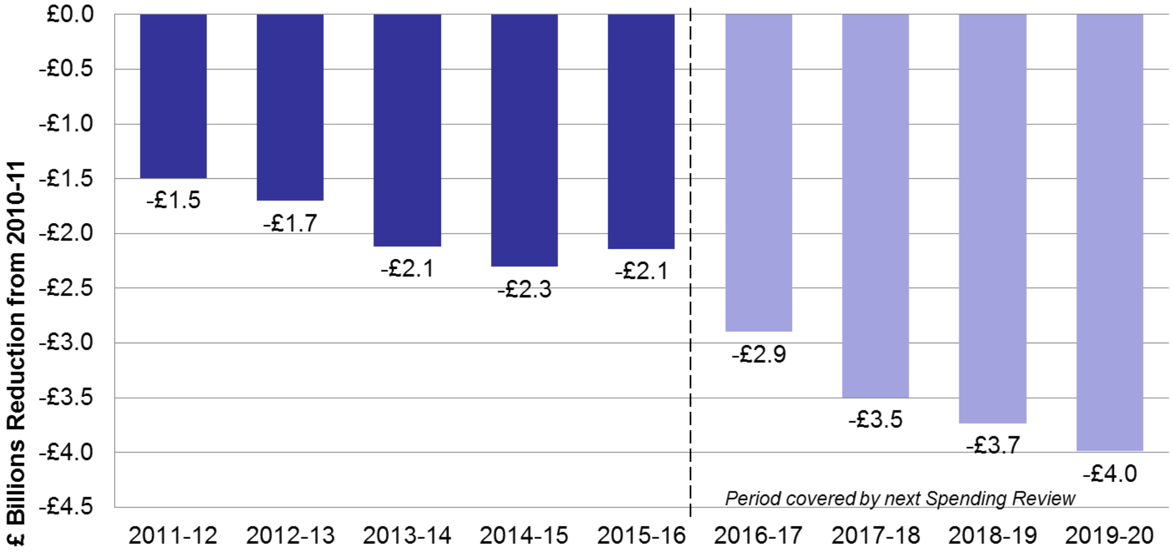
3.1 Public funding for HE in 2015-16 and beyond



While indicative funding allocations have been announced for public spending on higher education and research, the 2015 General Election means that these commitments are less certain than in previous years. Public finances will remain in poor shape irrespective of the party or coalition in power and the Office for Budget Responsibility (OBR) estimates that only 40 per cent of the proposed cuts to public spending have been realised – the balance would need to be accommodated in the next Parliament. Assuming that spending ring-fences remain, this would require, according to think-tank Institute for Public Policy Research (IPPR), a further cut of £3.9 billion to the Department for Business, Innovation and Skills departmental expenditure limit (DEL) in the first four years of Parliament. There is also the threat of further reform to student funding in England due to the sustainability of the current system and an as yet unconfirmed commitment from Labour that it would reduce fees to £6,000 – in real-terms value, on the same basis as the decline in the value of the £9k fee cap, these will be £5,333 in 2015-16.

Funding settlements for the devolved nations are also expected to be affected – for example, in Scotland funding is expected to be £4 billion lower in real terms by the end of next Parliament - Figure 1.

Figure 1: Cumulative real terms cut to Scottish Government Total Budget since 2010-11



Source: Universities Scotland.

3.2 Sector surpluses as a margin for reinvestment

Surplus – in accounting terms, a surplus is the extent to which income exceeds expenditure in a not-for-profit organisation's Income and Expenditure Account. A surplus is not equivalent to cash.

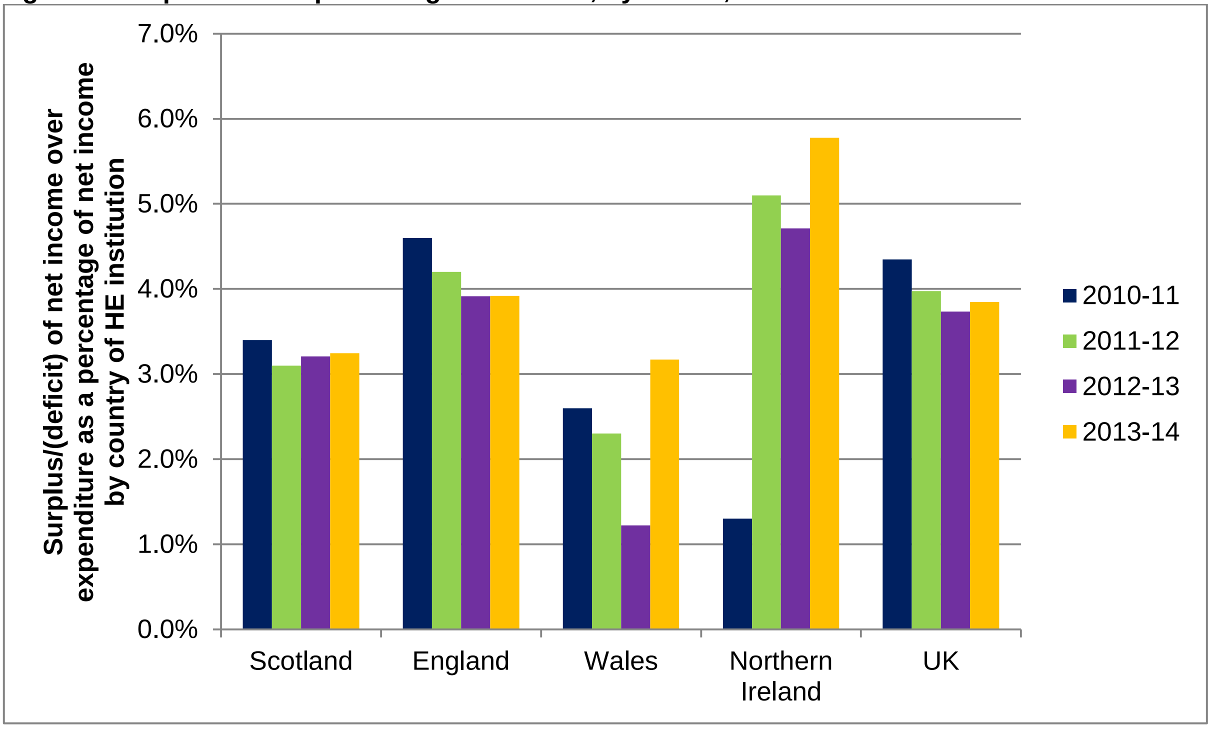
Reserves – reserves are an HEI's assets less its liabilities and are effectively equivalent to the institution's equity. Reserves are not the same as cash as in order to convert all reserves to cash an institution would have to sell its assets.

Capital expenditure - covers all expenditure which increases the value of an institution's (or a subsidiary undertaking's) fixed assets, including the purchase of land, buildings, and those items of equipment which are included in the institution's register of fixed assets and shown in the balance sheet.

Sector surpluses of net income over expenditure are strongly influenced by figures in England, but reductions in capital funding across all four nations have led to institutions seeking higher surpluses in order to directly finance capital investment in the estate, deal with financial uncertainty and demonstrate financial health to lenders.

While the recent increase in surpluses has been an intentional strategy to respond to the financial environment, as a proportion of net income, sector surpluses have fallen from 4.3 per cent in 2010-11 to 3.8 per cent in 2013-14 - Figure 2. The surplus in Scotland as a percentage of income was 0.7 percentage points lower than for the equivalent figure in England. This may explain why there was a fall in reserves at 12 out of 18 Scottish HEIs and an overall fall of 1.2 per cent.

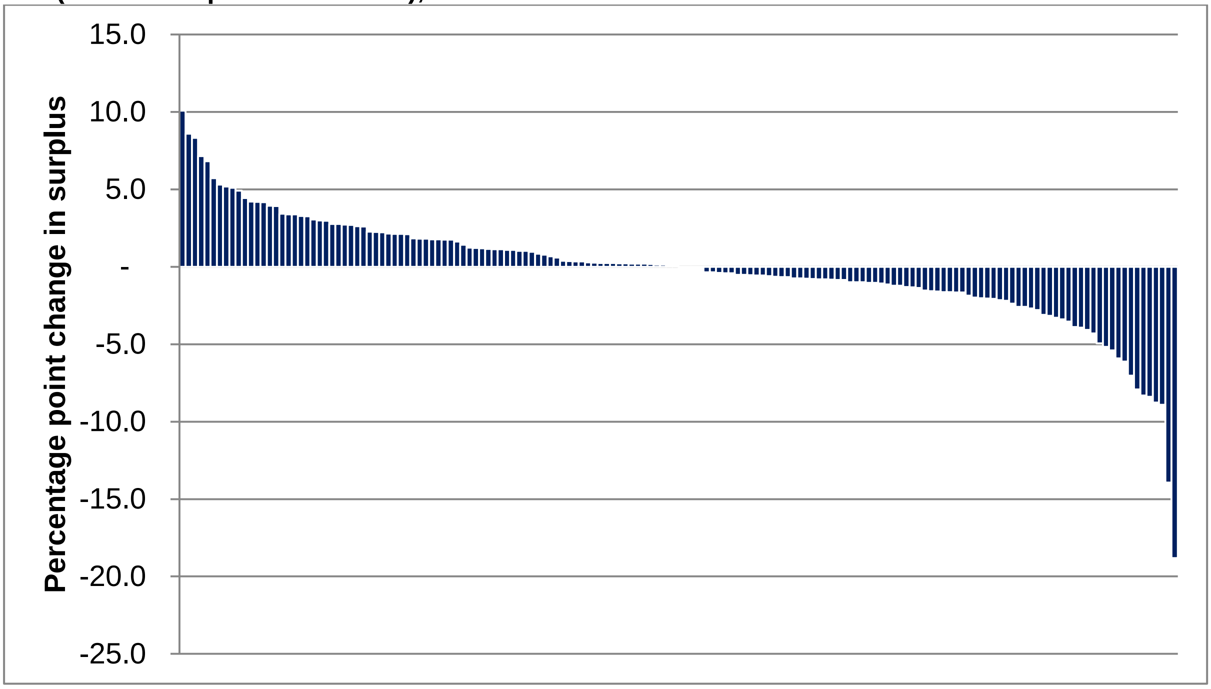
Figure 2: Surpluses as a percentage of income, by nation, 2009-10 to 2013-14



Source: HESA.

It is often erroneously assumed that because sector level surpluses have been maintained that individual surpluses must exhibit similar stability. As shown by Figure 3, there is a high degree of variability from year-to-year in HEI surpluses with 47 HEIs experiencing a 3 percentage point change in their surplus position between 2012-13 and 2013-14. So even though the median change in surplus was 0.05 percentage points the standard deviation was 5.1 percentage points indicating significant volatility.

Figure 3: Percentage point change in surplus as percentage of income, 2012-13 to 2013-14, by HEI (each bar represents an HEI), UK



Source: HESA.

UUK's report *The funding environment for universities: an assessment* provides a detailed review of the funding challenges facing HEIs in 2013. It includes information on undergraduate and post-graduate student demand, international students, and trends in income and expenditure. The report quotes the credit rating agency Standard and Poor's, which has noted that '*the generation of relatively modest surpluses is an important indicator of a university's ability to meet its operating obligations, to attract external capital and service debt, to withstand unexpected shocks, and to invest adequately in its physical infrastructure*.' The report also highlights that:

- Surpluses play an increasingly important role in institutional capital investment strategies due to reductions in capital funding grants
- Surpluses are also required to access additional borrowing and external funding
- Some HEIs report that a surplus of 7 per cent of total income is required to maintain the existing estate and surpluses of 10 per cent are required for major growth or new areas of investment

The report concludes that:

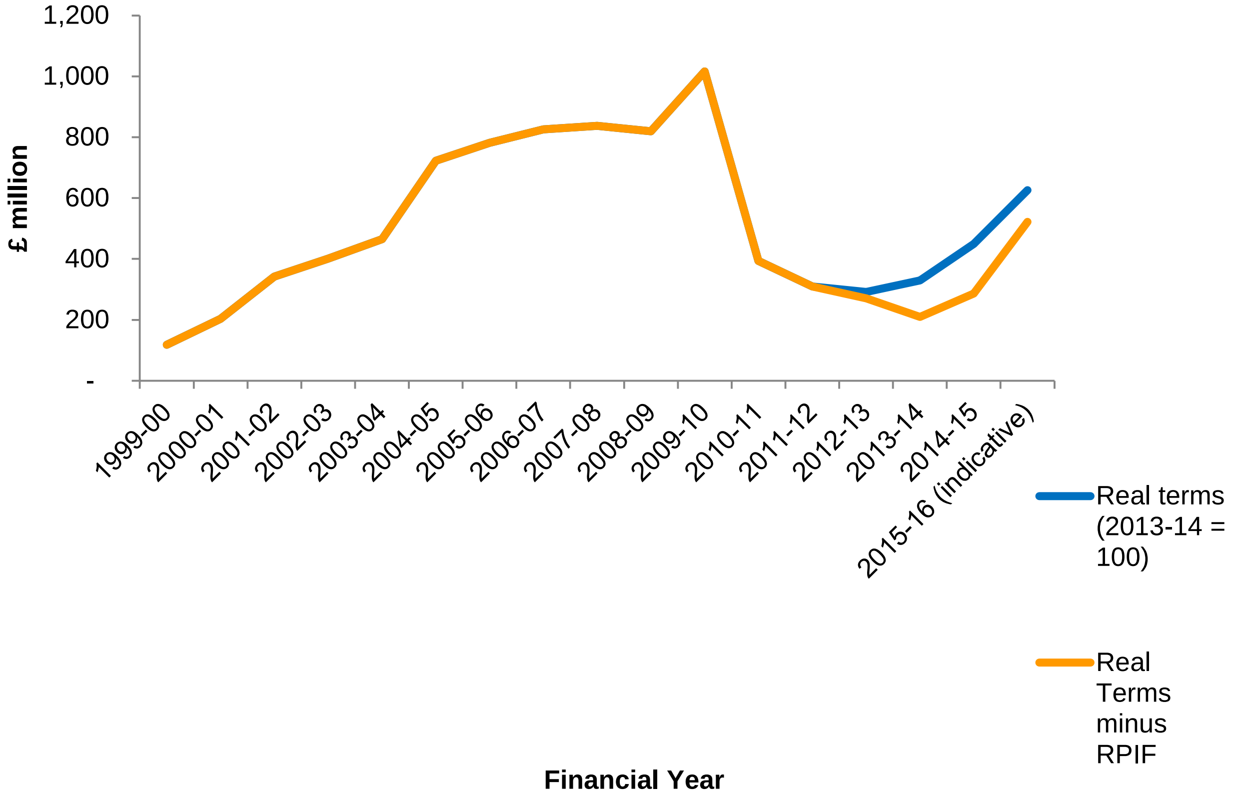
> *"While institutions have been resilient in building surpluses and have used them to fund capital expenditure, there is significant doubt that this is sufficient to compensate for the significant cuts to capital grants, with implications for the long-term sustainability of the UK's teaching and research capital infrastructure. Failure to invest in maintaining and enhancing capital could mean a return to the period of historical underinvestment in capital, which had only been partially rectified prior to the 2010 Spending Review. It would mean a significant step back for the sector and would be detrimental to the UK's ability to provide a world-class teaching and research environment."*

The UUK report *Efficiency and effectiveness in higher education* (2011), also referred to as the 'Diamond Report', found that universities are responding to the changing funding environment by implementing efficiencies so that institutions are in a position to meet their operating obligations, reinvest in infrastructure and attract investment, and to invest to support organisational change. UUK says that surpluses should therefore be understood as a "*margin for reinvestment*" and that we may see "*greater fluidity as institutions use their margin for reinvestment to service borrowing, capital investment or other obligations while balancing this off against the need for financial sustainability*".

3.3 Capital funding and expenditure

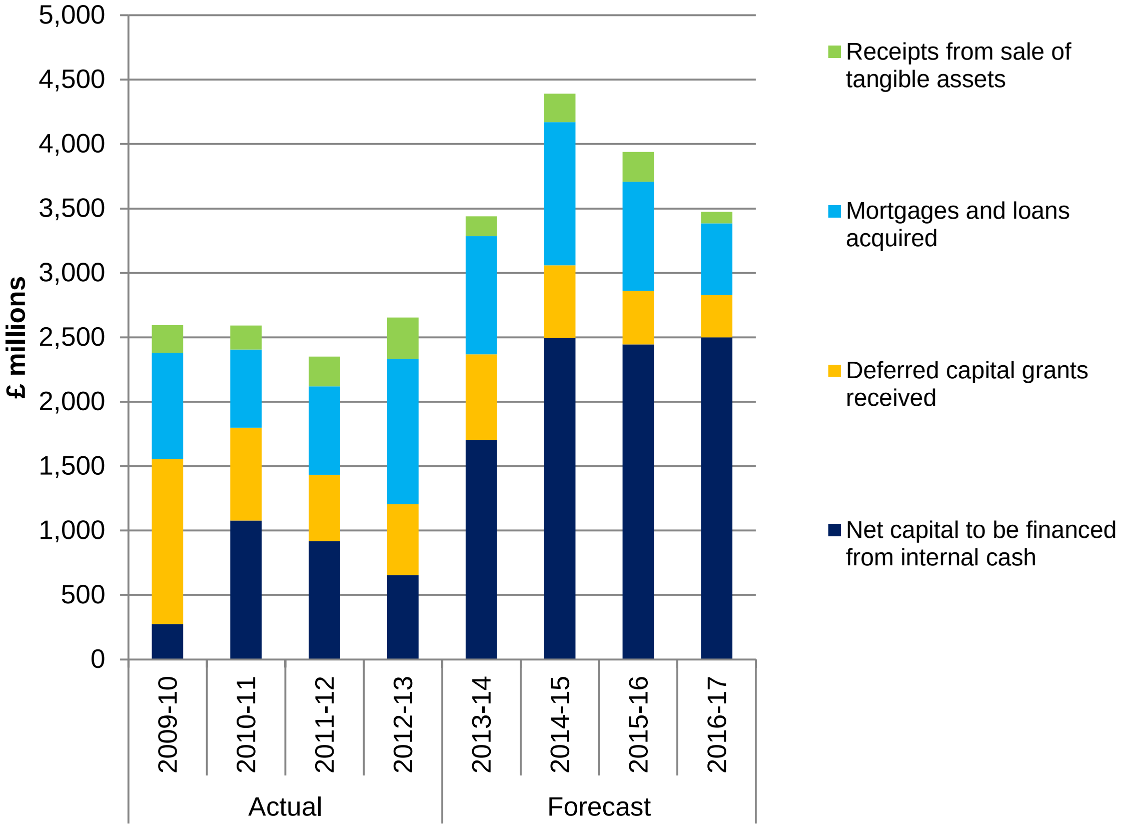
Capital funding has been particularly hard hit since 2011 and this cut has been one of the primary drivers for the trends noted above. Most noticeably, the reduction in capital funding, from an average of £825 million per annum between 2008-09 and 2010-11 to £299 million in 2011-12 (Figure 4), led to HEIs seeking to increase their surpluses in order to directly fund capital projects as well as provide an indicator of financial well-being to negotiate favourable borrowing conditions. This trend is illustrated in Figure 5 which shows that the proportion of capital expenditure financed from internal cash in English HEIs is expected to increase four-fold between 2012-13 and 2015-16.

Figure 4: HEFCE capital funding, 1999–2000 to 2015–16 in real terms (2013–14 prices)



Source: UUK. RPIF = UK Research Partnership Investment Fund.

Figure 5: Capital expenditure by universities in England by source, 2009–10 to 2016–17



Source: HEFCE.

While capital expenditure finally surpassed 2009-10 levels in cash terms in 2013-14, this was still 5.3 per cent lower in real-terms on a CPI basis. The largest category increase is in equipment spend (excluding residences) which has gone up 29.8 per cent in real terms while capital expenditure on buildings (excluding residences) has fallen 4.9 per cent in real terms.

Figure 6: Capital expenditure by category, 2012-13, All UK HEIs

	Total residences (Buildings)	Total residences (equipment)	Total other (buildings)	Total other (equipment)	Total all categories
2013-14	458,139	16,833	2,609,972	820,949	3,905,893
2012-13	387,674	12,997	2,011,693	694,958	3,107,322
2011-12	368,528	11,177	1,813,133	596,911	2,789,749
2010-11	266,366	12,118	2,853,968	593,933	3,726,385
2009-10	616,581	16,166	2,403,738	573,076	3,609,561

Source: HESA

4 Student trends

4.1 Undergraduate tuition fees and student trends

The changes to student funding have had widespread impacts on HEI strategies, recruitment methods and financial stability. Despite increasing student satisfaction scores, institutions are under increasing pressure to demonstrate value for the higher fees being paid by undergraduates and scrutiny of facilities and services has also intensified. The Government has emphasised the importance of transparency in how tuition fee income is spent and HEFCE recently published a series of case studies showing how institutions are communicating this information to students.[1] Universities UK also published information for students and stakeholders in 2013.[2]

While year-to-year variability in undergraduate student numbers has increased since the changes, as illustrated in detail elsewhere[3], overall numbers have increasing by 3.2 per cent since 2010-11 and there has been no impact on the participation of people from disadvantaged and underrepresented backgrounds. However, demographic decline will reduce annual 18 year old cohorts in England by 12.3 per cent between 2012 and 2021 which will pose a challenge to institutions in the long-term while the 10.8 per cent reduction in part-time undergraduates in 2013-14 is an immediate challenge. Part-time entrants are now 47.8 per cent below 2010-11 level with the fall primarily seen in non-Bachelor undergraduate courses (e.g. certificates and diplomas of higher education).

The removal of undergraduate student number controls in 2015-16, following an interim increase of 30,000 undergraduate places in 2014-15, may only have a modest impact on student recruitment dynamics as it is only expected to increase overall numbers by another 30,000. An analysis by UCAS suggests that the increase could be as low as 10,000 and that forecasts for the next few years need to be revised downwards.[4] Commenting on the 60,000 figure used by BIS as an estimate of unmet demand, UCAS notes:

> *In recent cycles around 60,000 UK 18 and 19 year old applicants have been unplaced at the end of the cycle. However, to view this fully as unmet demand, that could convert to acceptances, neglects that a large proportion of these unplaced applicants immediately reapply and are placed.*[5]

The facilitation of alternative providers into the sector is another factor that is introducing additional turbulence with a 259 per cent increase in students accessing loans since 2010-11 as well as a 35 per cent increase at further education colleges.

4.2 International students

The UK remains a premier destination for international students, but changes to immigration policy have had a negative impact on the perception of access to UK higher education, particularly in India and Pakistan. Between 2010-11 and 2013-14 there was a 53.0 per cent fall in first year students from India and a 41.2 per cent fall in students from Pakistan. Excluding students from China, whose numbers grew by 31.2 per cent over this period, the non-EU international student population fell by 6.8 per cent. According to HEFCE, if the

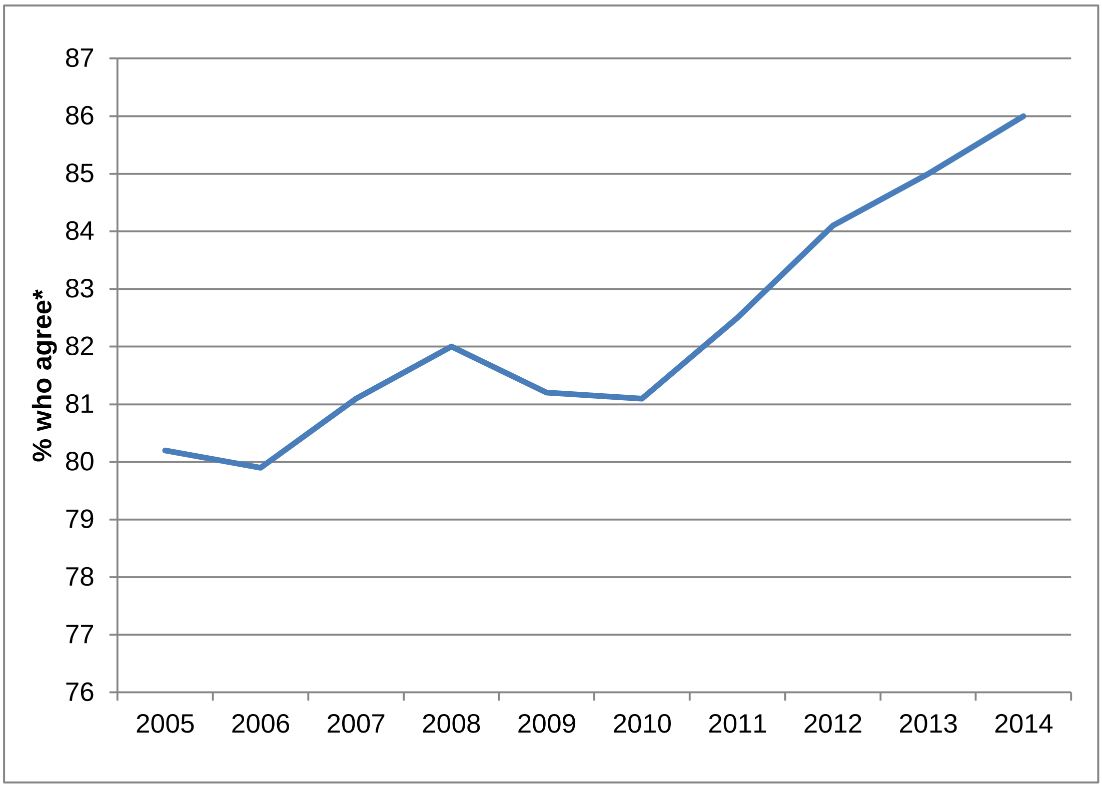
[1] HEFCE (2015), 'Providing institutional financial information for students'. Available at: www.hefce.ac.uk/whatwedo/lt/publicinfo/financetransparency/
[2] Universities UK (2013), 'Where student fees go'.
[3] See Universities UK's 'Trends in undergraduate recruitment' (2014).
[4] http://www.bbc.co.uk/news/education-31092271
[5] https://www.ucas.com/sites/default/files/summary-of-demand-factors-to-2018.pdf

slowdown in growth of international student numbers continues it could increase the risk of HEIs not achieving their fee income growth targets. This would have a significant adverse impact on the sector’s income and surplus projections.

4.3 Student satisfaction

The quality of student provision is a fundamental indicator of sector performance and the data show that HEIs have managed to improve significantly despite the challenges they have faced in recent years. As Figure 7 shows, the percentage of students who agree that they are satisfied with the quality of their course has increased from 80 per cent in 2005 to 86 per cent in 2014.

Figure 7: Overall student satisfaction, as measured by the National Student Survey, 2005–2014



Source: HEFCE. * Overall, I am satisfied with the quality of the course.

5 Pay in higher education

5.1 Staff expenditure

Staff expenditure has increased in nominal terms in every year since HESA records began in 1998-99. Staff expenditure as a percentage of total income peaked in 2002-03 and has fallen incrementally since then due to increases in other items of expenditure. After reaching 55.2 per cent in 2012-13, the share has now increased to 55.4 per cent - Figure 8. Staff expenditure as a percentage of income, the ratio monitored on by many HEIs, has also fallen but has been static at around 53 per cent since 2010-11.

Following real terms falls in staffing expenditure in 2010-11 and 2011-12, investment in staff increased by 1.5 per cent and 3 per cent ahead of inflation in 2012-13 and 2013-14 respectively - Figure 9.

Figure 8: Staff expenditure in higher education, ratios and expenditure level, 1998-99 to 2013-14

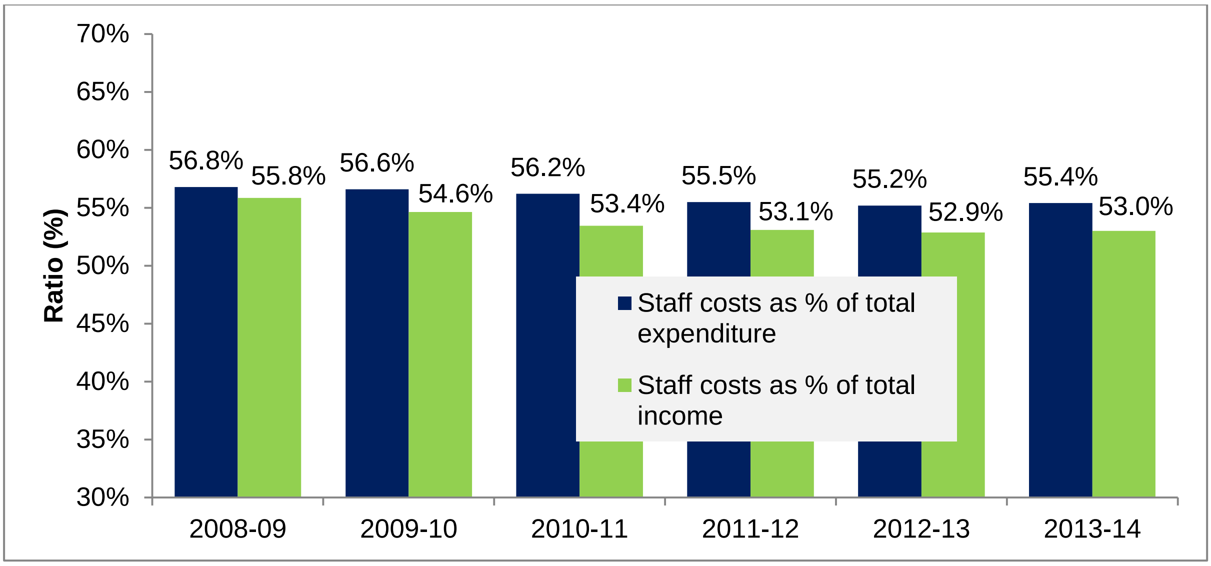
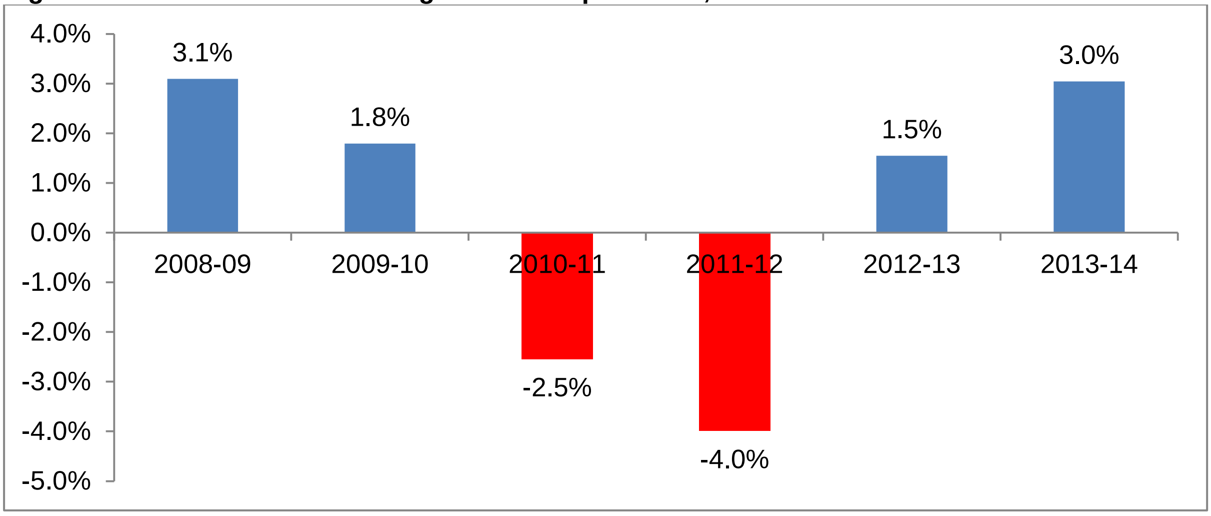


Figure 9: Annual real terms change in staff expenditure, 2008-09 to 2013-14

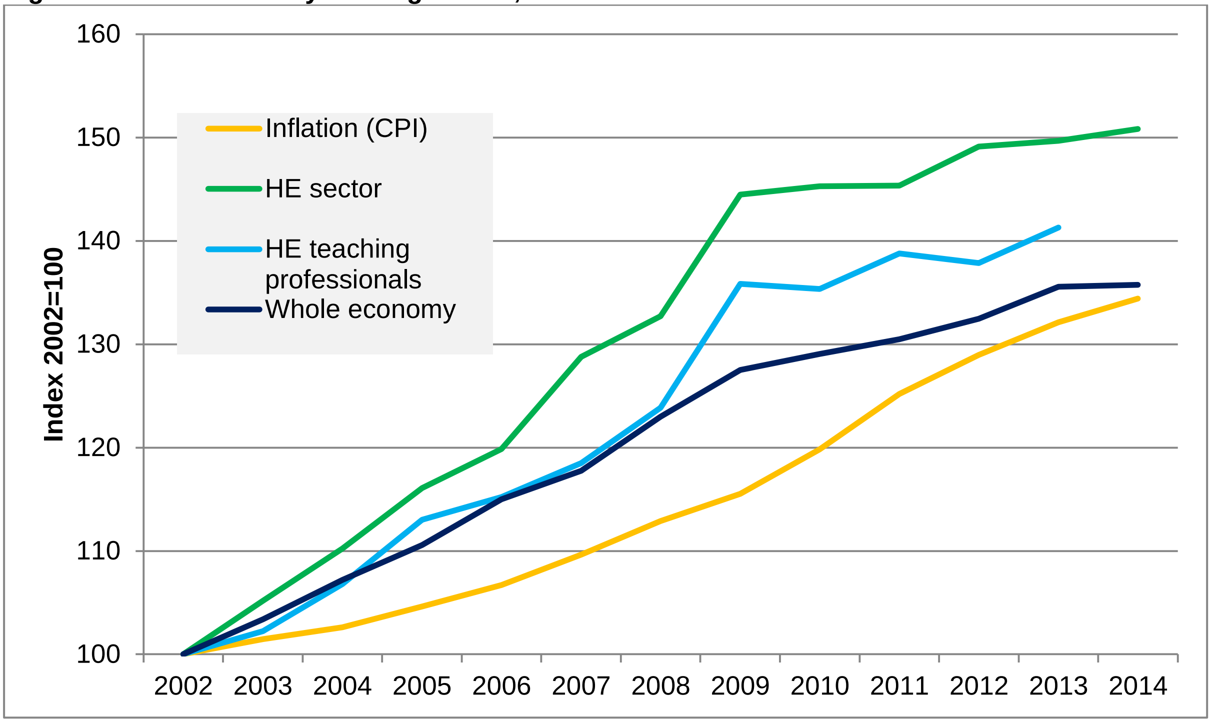


Source: HESA and ONS. Real terms calculation based on CPI.

5.2 Pay levels

Over the longer term, median earnings in higher education have outpaced median earnings in the UK economy as well as inflation – see Figure 10.

Figure 10: Median hourly earnings in HE, 2002 to 2014



Source: ONS. Figures are based on median full-time hourly earnings as recorded by the ASHE. HE teaching professionals is based on a commissioned dataset that only includes those in the group working in the HE sector (about 90 per cent of the sample) – these data are not yet available for 2014.

Pay for academic staff continues to remain competitive against other professional occupations - Figure 11 and Figure 12. Full-time HE teaching professionals (defined in the ASHE to cover academics up to vice-chancellor level, including clinical academics but excluding researchers) recorded median earnings of £47,526 in April 2013, which is a 1.5 per cent increase from April 2012 when the median was £46,817.[6] Over the past 11 years HE teaching professionals have improved their position relative to further and secondary education teaching professionals by a considerable amount – Figure 13.

Figure 11: Median full-time teaching professional earnings, 2013

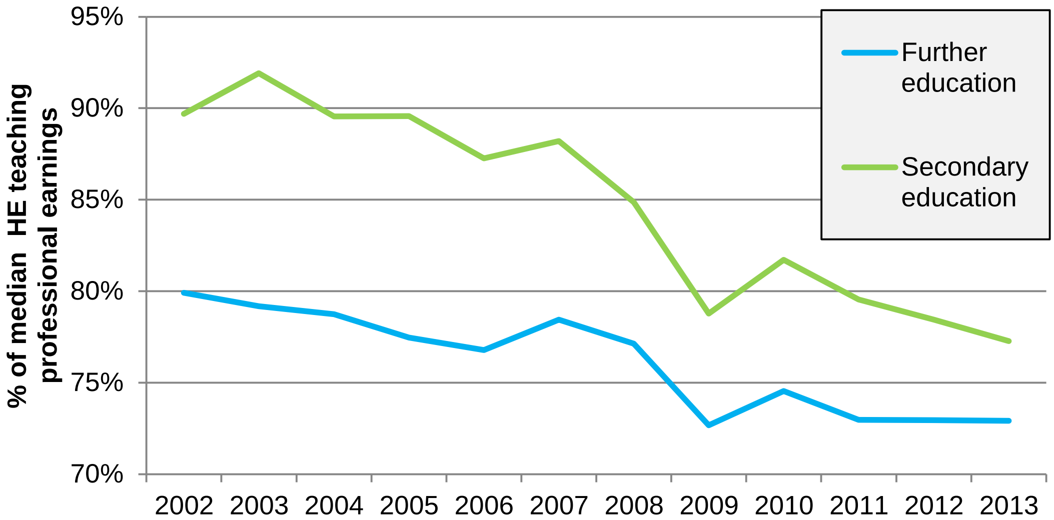
Source: ONS.

[6] HE teaching professional figures are taken from specially-ordered tables, and relate to the 90% of all ‘HE teaching professionals’ who are classified as working in the HE sector.

Figure 12: HE teaching professionals and other professional occupations, full-time weekly earnings, 2013

Source: ONS.

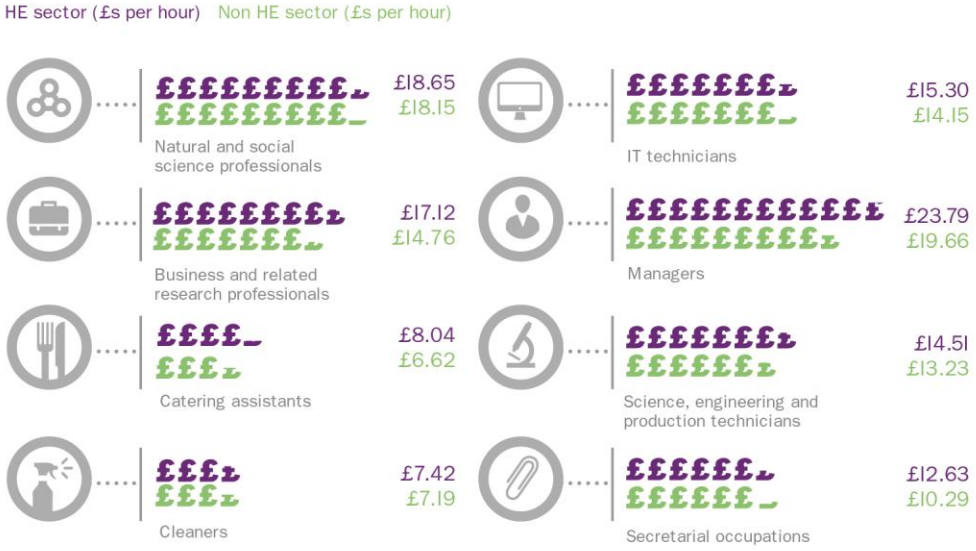
Figure 13: Median secondary and further education teaching professionals' earnings as a percentage of HE teaching professionals, 2002 to 2013



Source: UCEA and ASHE.

Professional and support staff earnings in HE remain ahead of comparators outside the sector. Median hourly pay for those in the HE sector was higher than pay in the rest of the economy for 12 non-academic occupations with the largest differences between those in clerical occupations, secretarial occupations and catering assistants – see Figure 14.

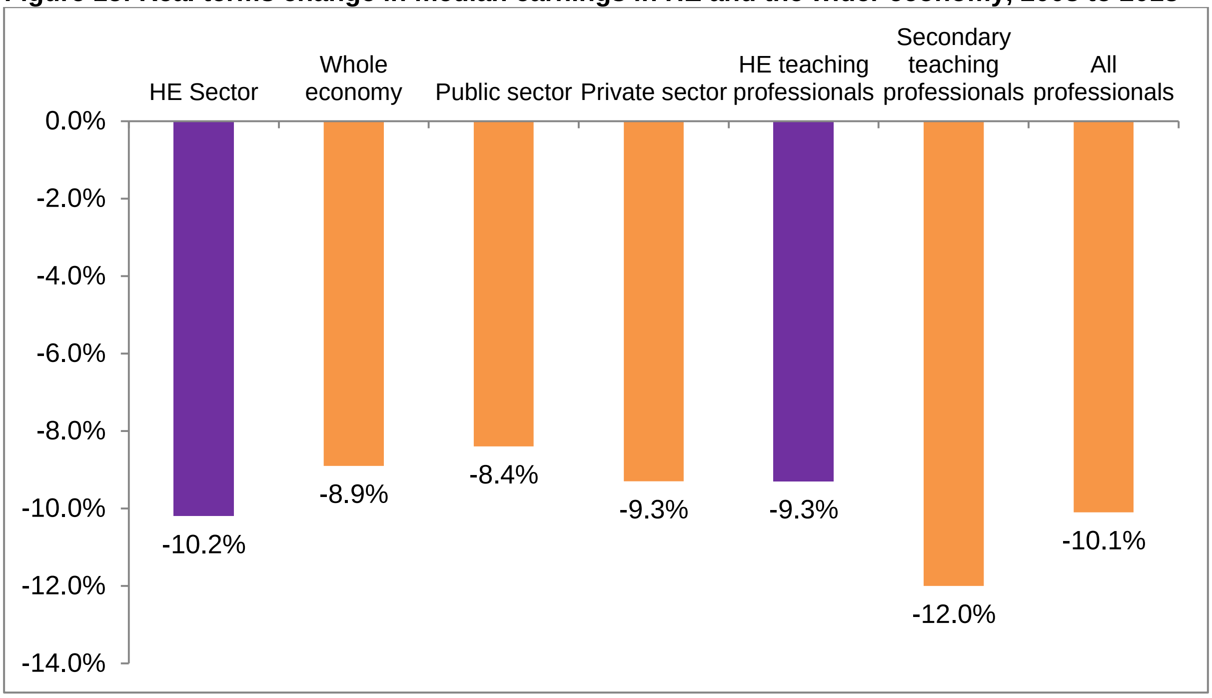
Figure 14: Median full-time hourly earnings by occupation, HE and not HE, 2013



Source: ONS

As with the rest of the economy, HE pay growth since the recession has not kept up with inflation. However, as shown by Figure 15 growth in median earnings for HE teaching professionals was 0.8 percentage points ahead of growth in median earnings for all professionals during the period.

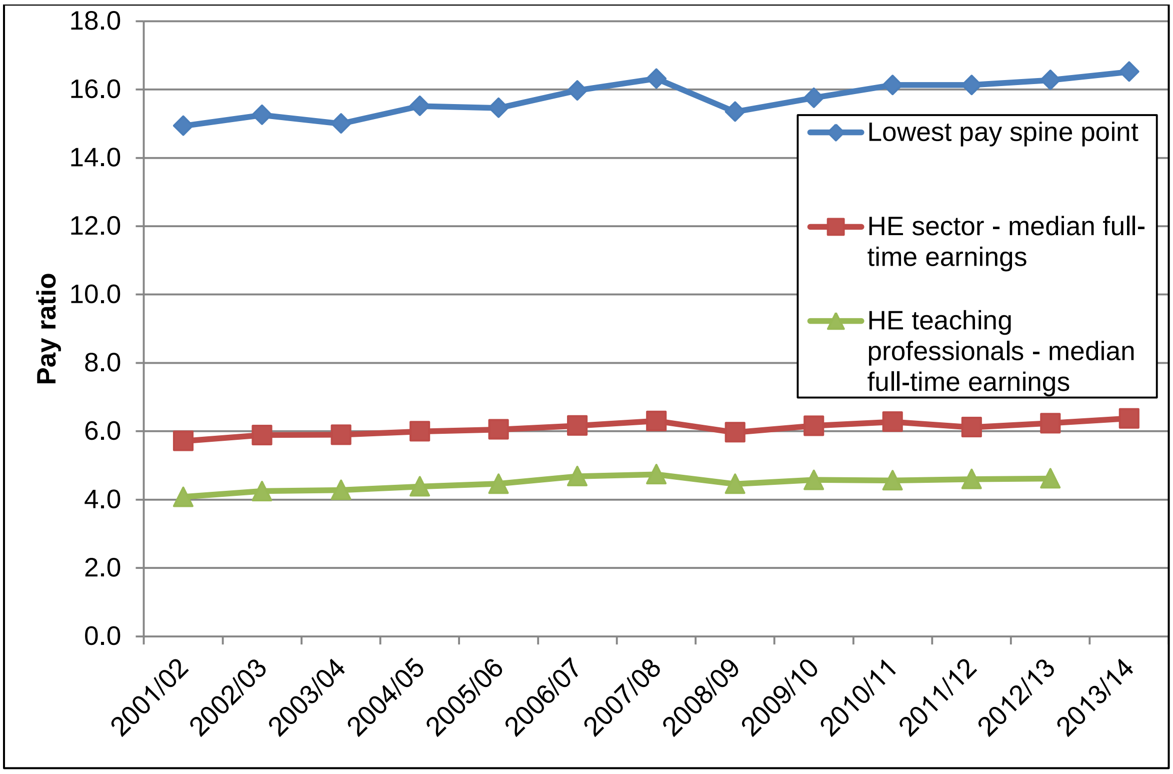
Figure 15: Real terms change in median earnings in HE and the wider economy, 2008 to 2013



Source: ONS

The ratio between median total pay for heads of institutions to median earnings and the lowest spine point has remained steady over the past decade as shown by Figure 16. The ratio between median HE sector earnings was 6.4 in 2013-14 while the ratio based on median earnings for HE teaching professionals was 4.6 in 2012-13 (comparable data not yet available for 2013-14).

Figure 16: Ratio of median total pay of Heads of Institution to the lowest spine point, median HE sector earnings and median HE teaching professional earnings, 2001/02 to 2013/14



Source: UCEA and ONS.