New JNCHES negotiations 2015-16

Employers' Statement

25 March 2015

Summary of key points from higher education employers

1 Introduction

Staff in higher education are central to the delivery of a high-quality student experience and maintaining the UK's position as a world-leader in research and innovation. Higher education is reliant on a committed and engaged workforce that takes pride in their institution and their contribution to wider society. In return for this commitment and engagement, higher education institutions (HEIs) are mindful that they need to offer competitive salaries, well-maintained facilities, and provide terms and conditions of employment that form a total reward package.

This employment deal is a fundamental component in the sector's success, yet has been challenged by a difficult financial climate. This has required HEIs to make significant adjustments to financial management and in some cases to the structure and composition of faculties, schools, departments and professional services. Financial sustainability is naturally a shared objective for all in HEIs, senior leaders and staff, and while external and internal pressures have at times challenged employment relations at local and national levels, social dialogue has played an important role in finding solutions and agreements.

The multi-employer pay negotiations at New JNCHES are an important forum for addressing these pressures and contributing to the sustainability of the sector. Combined with efficiency gains in research, procurement and estates management, moderation of HE pay costs has enabled a 3.4 per cent increase the workforce directly employed by HEIs since 2008-09, during a period when general government employment decreased by 7.7 per cent. Joint working to address the gender pay gap, highlight good practice in training and development, and review practices regarding the employment of hourly-paid and casual staff have also been important for the sector during this time.

The financial pressures for all HEIs are distictively acute in 2015-16 with employers already having to fund rising payroll costs of between 4.5 to 5 per cent during 2015-16 just as a consequence of employer pension contribution and NI increases.

2 Financial considerations

The UK public deficit is the most important driver of Government departmental expenditure limits and its reduction will be of primary importance to the next UK Government irrespective of its composition. So while the 2015-16 pay negotiations take place against a generally improving UK economic backdrop, independent analyses of public spending in the next Parliament indicate that there will be reductions to the unprotected Department of Business, Innovation and Skills (BIS) in the region of 25 to 40 per cent. This is expected regardless of the election outcome and the sector starts from an already dilapidated baseline. Despite ring-fencing funding for research for the duration of the current Parliament, it has not kept up as it has been frozen at 2010 levels in cash terms – a £600 million cut in real-terms.

The public funding settlements vary in each nation as does the approach to student funding but there are no public funding increases in any of the four nations. Unlike recent years, there is no clarity on the funding situation beyond 2015-16 and even an expectation of in-year cuts in 2015-16 as the General Election makes 2015-16 allocations merely provisional. While tuition fee income across the UK increased by 17.3 per cent in 2013-14, largely due to the student funding policy in England, this was more than offset by a 23.3 per cent reduction in recurrent teaching grant funding.

In England, HEIs have generally coped well in adjusting to a new undergraduate student funding system but the sector continues to operate on fine margins with high levels of variability between institutions. In addition to the challenges faced from reducing real-terms research funding, the undergraduate student fee, which was brought in to replace an 80 per cent cut in recurrent teaching funding, has remained frozen in cash terms and therefore the unit of resource per student has reduced every year since its introduction. There is no expectation that the £9k fee cap will be increased in the next Parliament and a new anxiety arises from the Labour commitment to reduce it to £6,000 with the source and sustainability of the replacement funding that all acknowledge would be needed in the hands of the Treasury.

HEFCE's annual report on the financial health of HEIs in England, published in October 2014, cautiously states that the financial results for the higher education sector in 2012-13 showed a 'sound position overall' but notes a wide range of financial results across institutions. The report indicates a challenging overall financial picture, highlighting that:

- Surpluses are projected to fall from £943 million in 2012-13 (3.9 per cent of income) to £769 million (3.0 per cent of income) in 2013-14.
- Cash flow from operating activities and liquidity levels is also expected to be lower, at 7.5 per cent of total income and 114 days respectively (compared with 8.3 per cent and 123 days reported in 2012-13).
- Projected falls in liquid funds and increased borrowing are "not sustainable in the long term".
- Strong liquidity is necessary to efficiently manage the potential increased volatility and unpredictability of the new funding system and the increasingly competitive home and overseas markets.

- Without strong surpluses, liquidity and sound regulation, significant elements of the investment programme are at risk - HEI forecasts assume ongoing confidence from capital markets which are dependent on risk assessments of the sector and individual HEIs.
- The sector continues to operate on fine margins, with projected operating surpluses ranging between 2.4 and 3.4 per cent of total income in the forecast period.
- In the medium to long term, some institutions will need to generate larger surpluses to make progress towards covering the full economic costs of their activities and maintaining sustainability.
- Overall, the sector reported a sustainability gap of £869 million in 2012-13 which has increased 19.7 per cent since 2011-12 when it was £726 million.

In Scotland, funding for higher education and research will fall in cash and real terms in 2015-16, while HEIs will be expected to accommodate a further 3,284 additional undergraduates. The Scottish Government cut proposed grant funding by £21.5 million from its draft budget leaving total programme funding at £1,041 million - a £39 million reduction from 2014 in real-terms. As was the case last year, universities in Scotland are required to find efficiency savings in the delivery of teaching and learning as the unit of resource per student is falling overall. Scottish HE capital funding has declined rapidly over recent years from a high point of £101.7 million in 2009-10 to £21 million in 2015-16. By 2015-16 capital funding will have decreased in real terms by £45.2 million since 2006-07 and £13.7 million since 2012-13.

In Wales, funding allocations for HEIs in 2015-16 are not yet known but the Welsh Government's budget for higher education in 2015-16 has fallen by 0.4 per cent in nominal terms to £361.3 million. After meeting fee grant commitments HEFCW will have £17 million less than 2012-13 in nominal terms. In response to the Welsh Government's 2015-16 draft budget, Universities Wales reiterated their view that there is no further capacity to reduce funding without serious consequences for universities' activities. Analysis of financial data in 2012-13 by HEFCW found that, when adjusted to take account of the full economic cost adjustments for the cost of capital and infrastructure, the sector had an aggregate deficit of £85 million, up from £64 million in 2011-12. According to HEFCW key risks to the Welsh HE sector's financial sustainability include continued pressures on salary and pension costs, student recruitment and the need for significant capital programmes to maintain and improve the student experience.

In Northern Ireland, like the rest of the UK, public finances continue to be restrained following the 2008-09 recession and universities in Northern Ireland are being asked to deliver efficiencies amounting to some 14 per cent of their block grant between 2011 and 2015 in order to maintain overall capacity and quality in the sector. The final budget for the Department for Education and Learning in Northern Ireland (DELNI) provides an additional £33 million to FE and HE than the draft budget had anticipated, although in reality this still translates into an 8.2 per cent nominal cut in the HE budget (to £186.5 million) and is likely to result in a reduction in student places – as noted in the final budget:

> *The reductions will also have an adverse impact on other areas such as the universities' research capabilities, the overall student experience, the number of courses on offer, and their ability to attract top academics and international students.*

The reduction in recurrent capital funding across the four nations has led to a permanent shift in the way in which capital projects and maintenance of the estate are funded and has necessitated a fundamental shift in HEIs' financial planning. Sharp cuts in capital spending across the UK, changes to public resource allocations and the investment requirements of the HE estate have required HEIs to increase their surpluses and their borrowing. Indeed, there has been a four-fold increase in the amount of capital spending financed from internal cash and in a challenging lending environment institutions have to be able to demonstrate financial health, including a sustainable level of surplus. As noted by HEFCE in October 2014:

> *"Current public capital funding is now significantly lower than historical levels, requiring institutions to deploy more of their own resources or raise finance through external borrowing to maintain and enhance their estates. This places greater pressure on HEIs to generate higher surpluses to remain sustainable."*

And furthermore:

> *"Financial projections for 2014-15 to 2016-17 show that cash inflows from operating activities will not be sufficient to fund the major capital investments planned for those years. The sector is therefore forecasting increased borrowing and greater utilisation of its cash reserves."*

Capital and maintenance spend as a percentage of Insurance Replacement Value (IRV) has declined over the past ten years and a 35 per cent increase would be required to meet the industry benchmark of 4.5 per cent. The maintenance requirements of the HE estate as well as the heightened competition for national and international students will require an anticipated 50 per cent increase in infrastructure investment over the next four years – totalling £15.2 billion in England. HEFCE concludes:

> *"There continue to be some significant challenges and risks for the future. These include the sector's capacity to generate enough financial headroom to sustain the investment in infrastructure."*

The Universities UK-led review of efficiency, effectiveness and value for money, which published its report in February 2015, emphasised that there is an imperative to invest in facilities in a more restrained public funding environment, and to ensure a world class workforce is available to serve the needs of learners and to deliver excellent research. The report is notes that while decisions around pay and reward, performance and contribution management mechanisms, and strategic decisions on working practices are matters for individual institutions, there will continue to be ongoing pressure on both institutional and public finances. It urges that pay and reward settlements continue to recognise the wider economic and political context and are in step with comparable sectors.

Overall undergraduate student numbers have recovered from a dip in 2012-13, but part-time and postgraduate student numbers have seen year on year falls. There is also increased variability between HEIs in the year-on-year student recruitment outcomes which has increased income volatility. The School Direct programme has significantly impacted direct recruitment into initial teacher training. International student recruitment remains a vital source of income for HEIs and the UK continues to be an attractive destination in spite of the UK Government's immigration policy. However, there was a slowdown in international full-time undergraduate entrant numbers in 2012-13 which shows that this is not a guaranteed source of income.

3 Pay trends in the UK

While the UK's Gross Domestic Product is growing, average earnings across the whole UK economy have not kept pace with inflation since the recession and are lower in real-terms since 2008. Furthermore, while GDP has recovered GDP per capita is still below its 2008 peak and productivity (output per hour worked) is 2 per cent below its peak. Despite median pay settlements, as reported by monitoring organisations, averaging 2 to 2.5 percent over the past few years, the effect of inflation on wages has been felt across all sectors of the economy. On the basis of CPIH (CPI including owner occupier costs), full-time weekly real earnings for all employees were 8.3 per cent lower in April 2014 than in April 2009.[1] This fall was 7.1 per cent in the public sector and 7.5 per cent in the private sector.[2] On the same basis, median earnings for all employees in professional occupations have fallen 9 per cent. Data for HE teaching professionals in higher education is only available up to 2013 and shows that median full-time earnings growth since 2009 was 0.8 percentage points ahead of that for professional occupations (5.5 per cent compared to 4.7 per cent).

Public sector pay deals remain constrained to 1 per cent, either in terms of the pay award or, increasingly in England, as a total increase on pay bill. The current Government pay policy shows no sign of abating and Labour has indicated that, if it were to assume power, it would not increase pay settlements for 2015-16. The pay restraint in the public sector has been accompanied by the removal of incremental pay progression in almost all public sector workforces for which the Government has direct control. These changes made to pay progression solely based on service in the public sector also put a spotlight on both practice in those higher education institutions where such service-based progression systems prevail and the consequent pay growth.

Inflation has fallen noticeably with the Consumer Prices Index (CPI), the Government's preferred measure, dropping below 1 per cent (0.3 per cent in January 2015) due in part to a sharp fall in oil prices. The Retail Prices Index (RPI), no longer a national statistic, is at 1.1 per cent. The CPIH (which includes owner occupier costs) is at 0.4 per cent while RPIJ (which uses the same formula as the CPI to reduce the 'formula effect') is 0.5 per cent. A review of UK consumer prices measures commissioned by the National Statistics Authority, carried out by the Institute for Fiscal Studies and published in January 2015 strongly recommended that the Government and others discontinue the use of RPI due to flaws in its methodology that lead it to overstate inflation. The IFS states that:

> *There is an unhelpful proliferation of price indices in the UK at present. The current situation is causing confusion, and as a result many users are still using the RPI, a statistic that is no longer fit for purpose.*

[1] To calculate the reduction on the basis of RPI add 6.1 percentage points. CPIH was recommended as the most appropriate measure of inflation by the Institute for Fiscal Studies independent review of inflation indicators for the Office for National Statistics.
[2] The sector splits are lower than the overall fall due to a composition effect – i.e. a reduction in the proportion of public sector employees in the workforce.

4 The higher education workforce

Despite a challenging funding environment, the HE workforce has continued to grow. According to the HESA Staff Record for 2013-14, there were 395,780 staff employed in the HE sector, excluding staff on atypical contracts, which is a 3.5 per cent increase on 2012-13. The number of academic staff on atypical contracts has increased by 1.3 per cent from the previous year. The workforce is fairly evenly split between academic staff (49.1 per cent) and professional services staff (50.9 per cent) and there are twice as many staff in full-time employment (66.9 per cent) as are in part-time employment (33.1 per cent).

Total expenditure on staff has increased annually between 1998-99 and 2013-14 including a 5.4 per cent rise in 2013-14 to £16.3 billion. Since 2008-09 staff expenditure has increased by 15.0 per cent while income has increased by 14.7 per cent with staff expenditure as a percentage of income unchanged at 53 per cent. The falling level of staff expenditure as a proportion of total expenditure is due to a higher rate of increase in other expenditure. For example, since 2007-08 there has been a 19.4 per cent increase in expenditure on loan interest and other financing costs and a 19.9 per cent increase in the costs of depreciation.

Evidence from HESA data and UCEA's own surveys suggests that outside of a small number of 'hotspots', there are limited issues with recruiting and retaining staff. The employee turnover rate among staff on open-ended contracts in 2012-13 was 8.9 per cent (HESA) which compares favourably to the CIPD's all sector average of 11.9 per cent (2013).

5 Pay and reward in higher education

UCEA's regular review of HE pay data confirms that HE pay levels remain competitive with external benchmarks.[3] This benchmarking is vital for the sector as it shows how pay in HE compares with comparable occupations and sectors. According to ASHE data, full-time HE teaching professionals in the HE sector recorded median earnings of £47,526 in April 2013 which was 29.6 per cent above the median earnings of all professional occupations. HESA data indicate that the median salary for full-time academic staff (excluding professors) in 2012-13 was £43,312 - an increase of 1.0 per cent on the previous year. Professors had a median salary of £69,410 (an increase of 0.8 per cent). Higher education teaching professionals (essentially academic staff excluding researchers) have the fifth highest median earnings among 72 professional occupations and all 12 occupations that UCEA tracks in the official statistics remain ahead of their non-HE comparators on a median hourly-earnings basis. Despite the real-terms decline in the value of pay since 2009, growth in median earnings for most groups is modestly ahead of all inflation indicators since the beginning of single table bargaining in JNCHES (2002). With regard to pay dispersion in the sector, the ratio between the median pay of heads of institutions and the median pay of all staff has hovered between 6 and 6.4 over the past decade.

Pay progression and contribution-related pay provide additional annual increases available to many staff in HE and mean that many individuals who remain in employment for 12 months have seen higher pay growth. For example, the annual increase in median full-time weekly earnings for HE teaching professionals in the sector to

[3] http://www.ucea.ac.uk/en/empres/paynegs/new-jnches/jw-reports/index.cfm

April 2013 was 2.3 per cent when the pay award was 1 per cent. Within the ONS's "elementary" occupational group (covering catering assistants and cleaners) in HE, matched sample growth was 4.2 per cent. Data from UCEA's own survey suggest that 42 per cent of staff were eligible for service-related progression which is consistent with the matched sample growth figures. Staff receiving a pay progression point in August 2014 would have received a median increase of 5 per cent. Around half (48%) will be eligible this year.

The lowest pay spine point in HE remains competitive for those HEIs that choose to use it. However, HEIs acknowledge that the lowest rate of pay should not only be competitive in local markets but should provide staff with an adequate standard of living. While some HEIs have chosen to become accredited Living Wage employers, many others have been informed by the Living Wage in setting their lowest pay rate. Although the Living Wage remains an important benchmark for consideration, there are concerns from employers that the annual increases (23 per cent increase in the London Living Wage since 2008 and 9 per cent in the national Living Wage since 2011) may not be sustainable in the longer-term.

The HE sector remains committed to equality as evidenced by the amount of activity at national and institutional level to improve equality of opportunity and eliminate discrimination. UCEA's analysis of the gender pay gap shows that while within-grade pay gaps are minimal across the sector, occupational segregation and differences in career progression mean that the sector's pay gap (14.2 per cent) is higher than for all employees in the UK (10.8 per cent). It is important therefore to recognise that the gender pay gap is not synonymous with inequality in pay systems.

As an outcome of the 2014-15 pay settlement, UCEA and the HE trade unions have undertaken joint work on approaches to tackling gender pay gaps at institutional level and it is hoped that this can contribute to the sector's ongoing awareness and activity. Representation at the senior levels remains unbalanced but the data do show progress being made over time, albeit constrained by employee turnover at those levels – for example, the number of female academic staff employed as professors increased on the previous year by 14.1 per cent in 2013-14 to 4,415, increasing the representation of female staff at that level to 22.4 per cent.

The cost and sustainability of the main pension schemes offered in the sector forms an important backdrop to this year's negotiations. The average cost increases for employers from pension and National Insurance alone will be circa 4.5 to 5 per cent in 2015-16. The recent reform of public sector schemes is now largely complete and this is increasing both employer and (most, though not all) employee contribution rates. The USS is now consulting scheme members on changes which will result in a 2 percentage point increase in employer contributions. Again there would be increases for employees but with improvements in the CRB section. Auto enrolment has added administration and cost burdens to the sector and some of these costs will be borne for the first time in 2015-16 by HEIs that delayed implementation. As a consequence of the new Single State Pension, the National Insurance contribution opt-out from the State Second Pension (S2P), for those staff in defined benefit pensions, will be abolished in April 2016. In HE where the vast majority of staff are enrolled in defined benefit pensions, employees will pay slightly more NI for this improved state benefit but it will disproportionately affect employment costs. It is estimated that the NI change will add a 2.5 per cent cost to pensionable payrolls in HEIs from April 2016.

6 Conclusion

In conclusion, the HE sector continues to operate in a cost sensitive environment with increasing variability in the financial wellbeing of institutions. There are some stark warnings regarding institutions' future sustainability, combined with a period of certain reductions in public funding. There is a new degree of instability in the potential policy landscape, particularly affecting England but with impact beyond. The employers acknowledge that the last five years have also been challenging for staff and that, like most people across the UK, the real value of pay has fallen for many of them while the cost of living has increased. The significant pay increases last year – 2 per cent for all plus pay progression for many – and the current period of low inflation presents the first period for some years when more HE staff will have felt this pressure ease. Many staff in HEIs have also experienced changes in the way they work and have undoubtedly been major contributors to the continuing ability of their institutions to be successful during this challenging phase in the global economy. It is evident from the settlements achieved in past years that it is possible for common ground to be found and we are hopeful that the parties to New JNCHES can reach a settlement in 2015-16 that the staff would feel is both fair and sustainable.