

1 Introduction

The timing of the last pay round was affected by the outbreak of Covid-19, with the resulting uncertainty and financial difficulties caused by ensuring campuses were Covid secure, moving to online teaching, and travel difficulties for International students. In common with many employers across the UK economy the pay negotiations were deferred in the spring of 2020 and ultimately to minimise uncertainty the employers reluctantly needed to offer a pay freeze for the 2020-21 round.

The economy overall is performing below par on a number of key metrics, with a drop in GDP particularly in the sectors of the economy most affected by the series of lockdowns. The Chancellors' Coronavirus Job Retention Scheme (CJRS) of furlough has preserved a number of jobs as the unemployment rate is still just 5%. Redundancy levels have been contained both within HE and the wider economy (11 per thousand), but at substantial cost in terms of national debt. Even before the pandemic the 2018-19 HESA record reported that for the first time more HEIs were in deficit than surplus.

In HE investment in staff costs as a percentage of expenditure have increased to 59% in 2018-19, and are likely to have grown further as HEIs increased borrowing and delayed or cancelled capital projects. Looking forward, pension costs for the three main pension schemes in the HE sector are a major concern for HEIs. The Office for Students (OfS) published an interim response to the Augar Review in January 2021 but did not comment on or evaluate the proposed changes to tuition fees or student loans, deferring this to a later date. It is understood that in preparation for the Autumn 2021 Comprehensive Spending Review, the DfE will be carrying out an extensive piece of work to inform their submission which is likely to include the headline fee level in England. This provides important context for the 21-22 pay offer as it will shape the political view on what headline fee the Higher Education sector could absorb.

CPIH inflation has been volatile over the course of 2020; starting at the 12-month rate of 1.7% in February 2020, it has only been above 1% for a single month since the start of the pandemic in March 2020. By February 2021 CPIH inflation was 0.7% and CPI was 0.4%.

Competitiveness in HE remained high with median earnings for higher education teaching professionals (academic staff with teaching duties such as lecturers and tutors, excluding researchers) ranked 4th out of 71 professional occupations included in the ONS's data collection. The gender pay gap between the median woman and the median man working in HE has fallen to the lowest percentage in a decade.

Over half (51%) of academic staff and 46% of professional services staff will be eligible for incremental progression in 2021-22. UCEA/XpertHR survey data shows that this progression resulted in an average within-grade pay increase of 3.6% for academic staff and 3.4% for professional services staff in pay spine grade levels.

The National Living Wage will rise by 2.2% in April 2021 to £8.91 for those aged 23 and above, a lower than forecast rise, and the Voluntary Living Wage rates are set at £10.85 for London and £9.50 per hour for the rest of the UK. Pay freezes rose seven-fold from 2019 to early 2021. An early look at the distribution of awards so far for 2021 differs somewhat, with nearly half of awards worth less than 2%.

2 Maintaining a competitive employment package

It is important to the employers that HEIs continue to offer competitive salaries. The negotiations balance the importance of maintaining good living standards for staff and the needs of institutions to recruit and retain staff in international, national and local labour markets while maintaining financial sustainability. Despite the necessary freeze to base pay in the academic year 2020-21, the New JNCHES settlements have only slightly fallen behind CPIH inflation and those at the lowest spine points have seen a real-terms pay rise of 11.1%.

It is also worth noting that individuals can progress through the grades that are based on the pay spine, with around half of staff being eligible for an increment as discussed in 7.1.

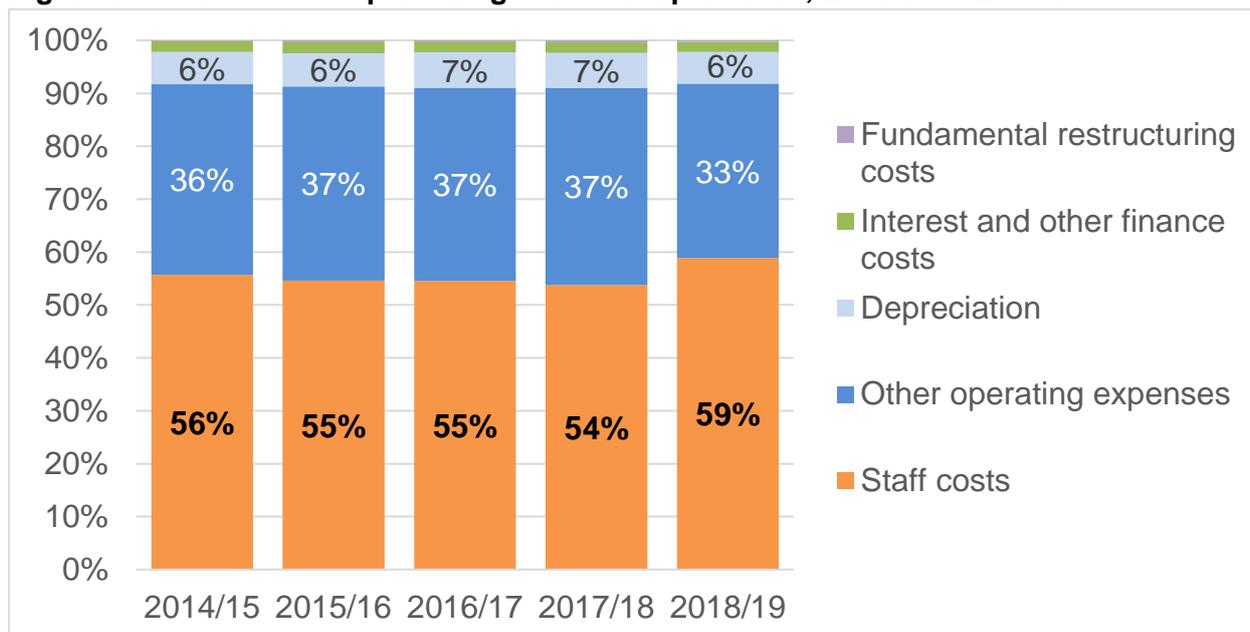
Table 1: Real terms change in pay spine points, 2013-14 to 2020-21

Spine point	2013-14 (real terms 2019)	2020-21	Real terms change to 2020-21
Spine floor	15,061	16,736	11.1%
3	15,860	16,736	5.5%
30	33,976	33,797	-0.5%
51	63,059	62,727	-0.5%

Source: UCEA calculations based on CPIH inflation as at August.

After a period of relative stability, with HEIs investing approximately 59% of their costs into their workforce, HEIs increased the proportion of expenditure on staff in 2018-19 compared to previous years. This percentage is very likely to increase in the future as many HEIs report cancelling infrastructure projects and other non-staffing related investments in order to protect staff jobs in the wake of the pandemic.

Figure 1: Staff costs as a percentage of total expenditure, 2014-15 to 2018-19



Source: HESA.

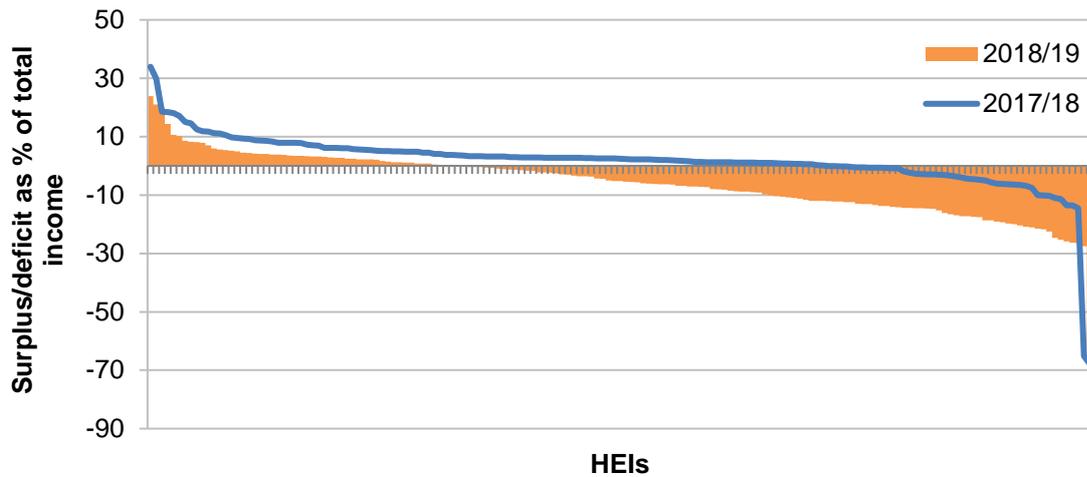
HEIs have recognised the extra cooperation and hard work of staff during the Covid-19 crisis. In response to concerns about workload UCEA found that almost nine out of ten HEIs surveyed (118) had given their staff additional holiday. To examine that further, 20 HEIs offered additional days that were unrestricted in the time they could be taken, 106 offered additional days that had to be taken at a particular time such as over the Easter break or by extending Christmas closure, and nine HEIs gave some days at a fixed time and some which could be used flexibly (one HEI offered days to professional services staff but not to academics).

		LQ	Median	Mean	UQ
Extra days at any time	Academic staff	2.8	3	3.3	4
	Professional services	2	3	3.2	4
Extra days at a fixed time	Academic staff	3	4	4.1	5
	Professional services	3	4	4.1	5

3 Recent financial performance

Even prior to the Covid-19 pandemic and related financial pressures, HEI finances were deteriorating. The backdrop of the on-going undergraduate fee freeze is a significant contributor to these pressures and this will persist in 2021-22. The 2018-19 HESA record reported that for the first time more HEIs were in deficit than surplus (see Figure 2). In 2018-19 the median HEI had a deficit of 3.48% of its income representing a fall of more than five percentage points from the median HEI which had a surplus of 2.4% in 2017-18. The 2018-19 figures fail to recognise the impact of the Covid-19 pandemic, increased pension contributions or any of the other challenges mentioned above.

Figure 2: Distribution of surplus/deficit as % of income, by UK HEIs, 2017-18 and 2018-19

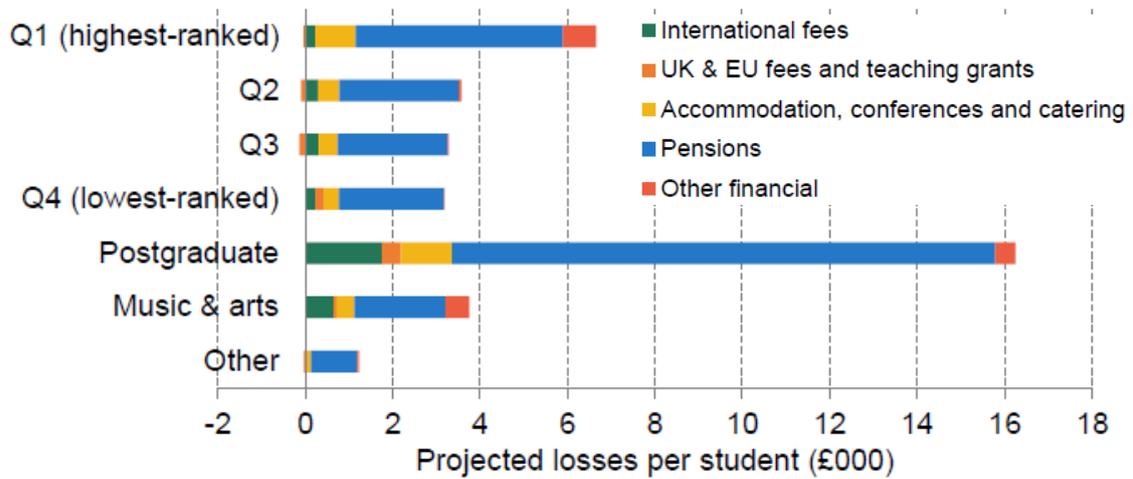


Indeed, the Institute of Fiscal Studies (IFS)'s current estimates¹ from losses relating to international student enrolments is in the region of £600 million although there is still a significant degree of downside uncertainty over this. In addition, the IFS's estimate of the increases in the deficits of university-sponsored pension schemes, which universities will need to fund through increasing deficit reduction contributions, has doubled from a central estimate of £3.8 billion to £7.6 billion. In addition, the sector faces losses of income described above from student accommodation and conference and catering operations, as well as financial losses on long-term investments. This led the IFS to suggest that at least 13 institutions were at risk of insolvency. Three in five HEIs have used reserves or surpluses generated in previous years in order to keep afloat. Nearly 90% of HEIs have reduced capital spending to meet current funding requirements.

Large sector-level losses mask substantial differences between institutions, without publicly available data from the population of HEIs it is difficult to know the actual extent of losses for individual HEIs. In general, institutions with a large share of international students and those with substantial defined pension obligations that need to be declared in their accounts have been most affected. These tend to be higher-ranking institutions as well as postgraduate and music & arts institutions. Some of the least selective universities, which rely largely on domestic fee income, have also been badly hit as a result of higher-ranked universities admitting more UK students to make up for the shortfall in their international enrolments.

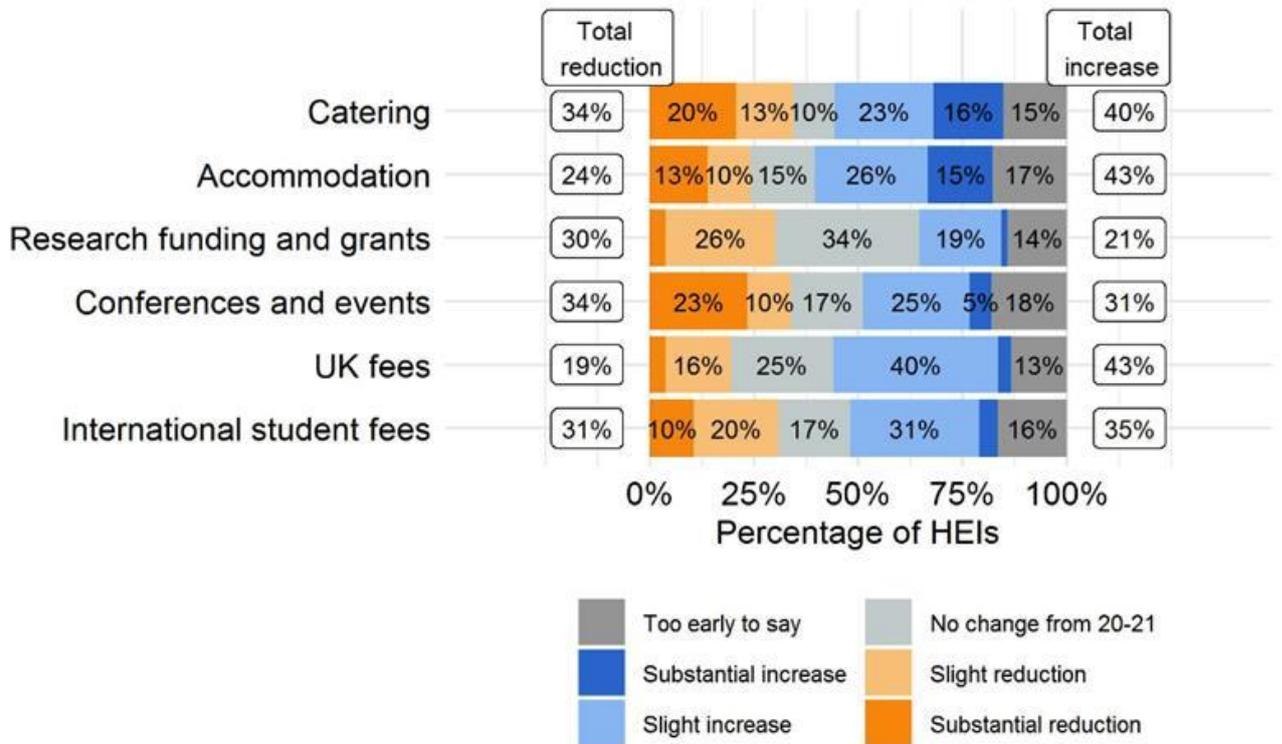
¹ www.ifs.org.uk/uploads/BN300-Will-universities-need-bailout-survive-COVID-19-crisis-1.pdf

Figure 3: Projected losses per student by type of institution and loss



Looking forward, there continues to be a large degree of uncertainty for the academic year 2021-22. Costs are expected to remain high in the face of continued social distancing, Covid-testing and new ways of working. UCEA research suggests that between 57% and 33% of HEIs expect various costs to increase from 2020-21 in the upcoming academic year, with only between 4% and 12% believing it will fall to pre-pandemic levels.

Figure 4: Expected costs in 2021-22



134 HEIs

4 Other funding challenges

4.1 Pensions

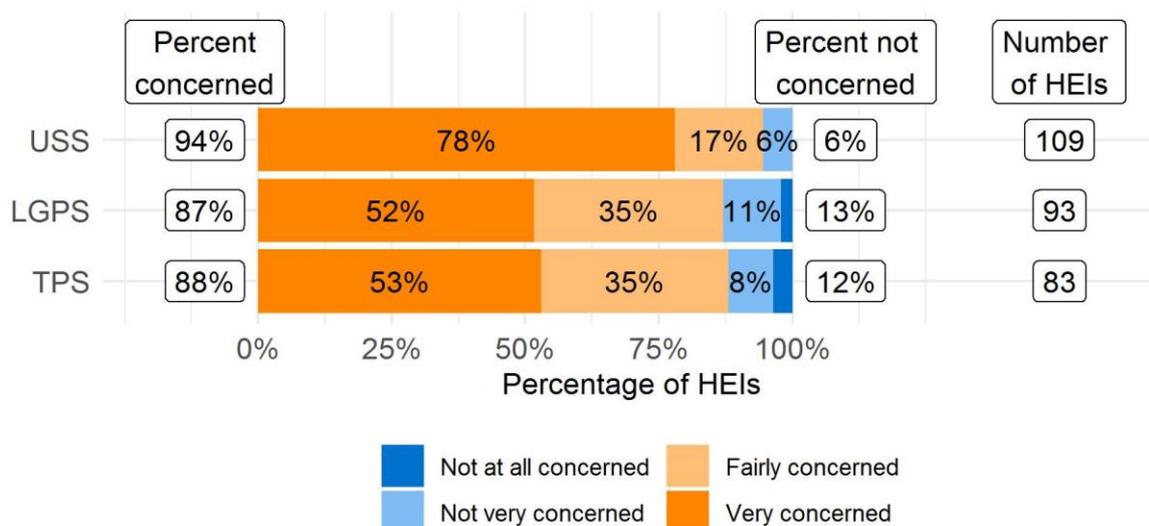
Employer pension contributions across all of the main schemes used in the HE sector have been facing unprecedented increases in their pension contributions for a number of years. These scheme cost increases mean that the financial consequences of this important part of the employment package could be significant. In addition to the increased costs in terms of the valuation, **the McCloud & Sargeant** case affects the public service schemes including LGPS, NHSPS and TPS and relates to scheme reforms implemented between 2014 and 2015 and in particular the transitional protections put in place to protect older members from the move to career average, which are deemed to be discriminatory on age grounds. Following a government consultation, a remedy has been agreed for the unfunded schemes. This is expected to increase scheme liabilities and costs though initial indications are that this may not necessarily be as significant initially thought.

- For the **USS**, significant delays in completing the 31 March 2020 valuation within the 15 months statutory deadline now mean that it is increasingly likely that default employer and member contribution increases will come into effect from 1 October 2021. Employers would pay 23.7% and member 11% of salary. At the time of writing, the trustee had recently published its assessment of the cost of the current benefits under different levels of employer covenant support. The highest contributions are 37.6% employer 18.6% member, the mid-range is 33.3% employer 16.3% member and the lowest based on the trustees preferred levels of covenant support is 28.5% employer 13.6% member. UUK is due to publish options on covenant measures and benefit reform with a review to further discussions in the Joint Negotiating Committee on the future structure of the scheme going forwards.
- For the **LGPS**, the results of the 2019 LGPS valuations in (E&W) showed that most HEIs had seen their employer costs remain fairly stable compared to previous valuations. However, the valuations were conducted before the Covid-19 pandemic and while the next valuations are over 12 months away, it seems likely that funding levels and the cost of the future service will have been negatively impacted by the pandemic, potentially adding to the cost of pensions for professional service staff in post-92 HEIs in future years.
- The **LGPS valuations in Scotland** take place 12 months later than in England & Wales so their valuation date is 31 March 2021. We await news of the outcome of the valuations for Scottish HEIs, however it seems likely that LGPS costs will increase with effect from April 2021.
- For the **NHS Pension Scheme**, Medical schools across the UK receive some additional funding towards their increased employer contribution rates, however this only covers the period up to 2020-21. At the time of writing, it is not clear whether any additional government support towards the employer contributions for UK medical schools will continue.
- For the **TPS**, HEIs in England and Wales do not receive any government funding support for increases in their employer contributions unlike schools and colleges that participate in the TPS. In Scotland universities did receive partial funding support for their TPS contributions up to 31 March 2020.

UCEA research found that for the top three pension schemes almost 90% of member HEIs were concerned about the increased contributions. This figure was particularly stark for HEIs that

contribute to the USS (about eight in ten HEIs who responded to the survey) of whom 78% were extremely concerned. This is potentially likely to rise further as the research was conducted prior to the valuation results.

Figure 5: Level of pension scheme concern



134 HEIs

4.2 Impact of Covid-19

The biggest challenge facing the HE sector (and the rest of the economy) in 2021 and beyond is, of course, the Covid-19 pandemic. The biggest concerns for HEIs relating to the pandemic include:

- Fears over loss of international students
- Money spent on creating Covid-secure campuses
- National lockdowns and new variants of the virus
- Any possible calls for fees/accommodation rebates due to online teaching

Since their increase in 2012, tuition fees have become an increasingly large proportion of an HEI's income. In 2009-10, tuition fees and other educational contracts represented 31% of the sector's income, compared with 49% in 2018-19. The most recent HESA data (2018-19) indicates that tuition fees alone totalled £19bn while income from university accommodation totalled almost £2bn². Recent petitions that have requested rebates on tuition fees and/or accommodation³ may therefore have significant consequences. The Westminster government has stated that these will not come from central government⁴. As HEIs are therefore expected to cover these rebates, they stand to risk substantial losses.

4.2.1 International students

Fees from international students represented 37% of all fees in 2018-19 and 17% of total sector income. In recent years, international student numbers have increased at a rate greater than that seen for UK-domiciled students. International student numbers increased by 12% in 2018-19 while increases of 0.8% were seen for both home students and EU students.

² www.hesa.ac.uk/data-and-analysis/finances/income

³ <https://petition.parliament.uk/petitions/550344>

⁴ <https://committees.parliament.uk/oralevidence/512/pdf/>

Without accurate information on the 2020-21 intake, the UK's departure from the EU leaves the answers to the following questions still uncertain:

- What will be the impact of withdrawing the cap on EU students while increasing their fees to the same as other international students?
- What impact will potential continued Covid-19 restrictions in the next academic year have on student applications?
- What will the impact on international student applications if more learning is conducted online in a post-Covid world?

4.2.2 Covid-secure campuses

At the same time as potential losses in income, institutions have made considerable investments that limit the spread of the virus, such as:

- Test and trace systems
- Private vaccination facilities
- Provisions for online blended learning content
- Making classrooms and other facilities Covid-19 compliant
- Making accommodation Covid-19 compliant
- Staff and student support

4.2.3 National restrictions

Though over 40% of the population have been given a first dose of the vaccine, a high level of uncertainty about the lifting of restrictions remains as a consequence of new coronavirus variants. The timing of an allowed return to face-to-face teaching remains uncertain with some HEIs encouraging students not to return to their campus accommodation. Institutions within the sector remain unable to plan effectively both regarding the current academic year and the next.

4.3 Impact of Brexit

With the Brexit transition period having finished on 31 December 2020, the uncertainty around the future of the UK in Europe has ended. Nevertheless, many barriers remain that HEIs must navigate in light of these changes:

- Research funding: Horizon Europe and other research funding schemes
- Student exchange programs
- Introduction of the new Points-based immigration system

In terms of research funding, the UK will remain part of Horizon Europe (the successor of Horizon 2020) and will have access to four other EU funding programmes. Because of this, the UK secured around €7 billion in funding from 2007-13. However, at this point for the 2021-22 financial year there remains no clarity where around £1 billion for participation in Horizon Europe will come from. There is a real danger it will need to come from the core UKRI research budget which would then have a knock-on consequence for other elements of research funding into universities.

Conversely the UK will not remain part of the Erasmus+ student exchange scheme, with the UK claiming it would be "too expensive". Instead, they will contribute £100 million toward the new Turing scheme. The Welsh and Scottish governments are developing their own replacement schemes⁵. This operates not only between the UK and European HEIs but also HEIs across the world, specifically targeting disadvantaged students.

⁵ <https://www.theguardian.com/education/2021/mar/21/wales-sets-up-its-own-erasmus-programme>

As the UK has left the EU, HEIs will face the same immigration costs in respect of EEA staff as for their non-EU counterparts. A UCEA survey of 100 HEIs found that the majority were planning on keeping their original approach to immigration costs despite having to pay these costs for EEA staff. Around a quarter of HEIs now expect to pay all visa costs for EEA staff, which is likely to represent a significant increase in staff costs as 12% of the sector workforce are EEA nationals.

4.4 Other Pressures on the Research Budget

With the pressures caused by the pandemic there are several other research-related costs that have been placed on the sector that are real and immediate. UKRI has now announced three waves of support for PhD researchers. While welcome, given the majority of PhDs in the sector are not funded by UKRI many institutions have had to respond with their own schemes to support these other students. This has seen very significant levels of unanticipated expenditure having to be absorbed by institutions.

The cuts to the Official Development Assistance (ODA) budget announced in the March Budget saw the amount of Global Challenges Research Fund (GCRF) funding cut immediately. This has had the almost unprecedented consequence of in-train grants being cut. There are real costs associated with this. In England the immediate associated cuts of the GCRF-related elements of QR mean the loss of significant budgeted income.

4.5 Augar Review

The Augar Review, published in May 2018, assessed the status of post-18 education and its funding in England. Its primary recommendations included the reduction of undergraduate fees to £7,500, the reintroduction of maintenance grants, changes to student loan payback, and additional support for lifelong learning in further education. It further recognises that higher education needs to address the current skills shortage, especially in light of the large number of graduates that it creates.

In January 2021, the Secretary of State also communicated its priorities⁶ for the Higher Education Teaching Grant (T-Grant) in 2021-22 to the OfS. Subjects will now be prioritised with STEM, nursing, veterinary science, and information technology subjects being favoured over other high-cost subjects. High-cost subjects outside of these priorities will have their funding reduced by 50%.

This announcement also indicated greater support for mental health, student hardship funds and specialist institutions.

The OfS published an interim response to this in January 2021. This response did not comment on or evaluate the proposed changes to tuition fees or student loans. Such issues are deferred for discussion at a later date. The response instead seeks to address skills shortages by introducing the Lifetime Skills Guarantee. In order to support post-18 education and training, the National Skills Fund will make £2.5 billion available to provide individuals with the equivalent of four years of post-18 education. There will also be greater investment in apprentices. The response outlines a reform that will bolster technical education so that it can be viewed as a prestigious alternative to academic education. The response expresses a need for education to provide benefits to both students and to the labour market. Higher education teaching grants will therefore have greater prioritisation for healthcare, STEM and specific labour market needs.

⁶ www.officeforstudents.org.uk/advice-and-guidance/regulation/guidance-from-government/

4.6 London weighting

The government also advises removing London weighting from the T-Grant in recognition that high quality HE provision can be delivered across the country as a whole. However, it may create additional challenges for London HEIs with a higher cost base, not least in terms of London allowances or “weighting” in staff remuneration.

4.7 Student numbers

Though many students initially were at risk of losing their first-choice university place due to the handling of A-level results in August, record numbers of undergraduates entered universities in 2020. HEIs were more permissive on entry tariffs and the government lifted the 5% cap on admissions. Universities were further able to bid for funding from an additional pot of up to £10 million that has been provided to support expansion in high-cost subjects in 2020/21. As reported by the THE⁷, “less selective universities” were adversely affected while large research-intensive universities were able to recruit a third more UK undergraduates. Other institutions saw falls which compounded several years of declining domestic numbers. Higher tariff HEIs fared best with all 24 Russell Group HEIs increasing their acceptances by a total of 15,000 applicants. In terms of subjects, the Times⁸ reports that STEMM subjects have had a greater intake than subjects in humanities and the arts. This is a rapid and significant shift between institutions and between disciplines, creating winners and losers within HE. One of the direct consequences of this is it is much more rapid than the workforce can be reshaped, complicating the discussion over workloads.

UCAS published its latest progress report in January 2021. This indicated a number of undergraduate applicants that was greater than any year prior to 2012, at a total of 616,360. This represents an increase of 8% compared to the figures for the same period last cycle.

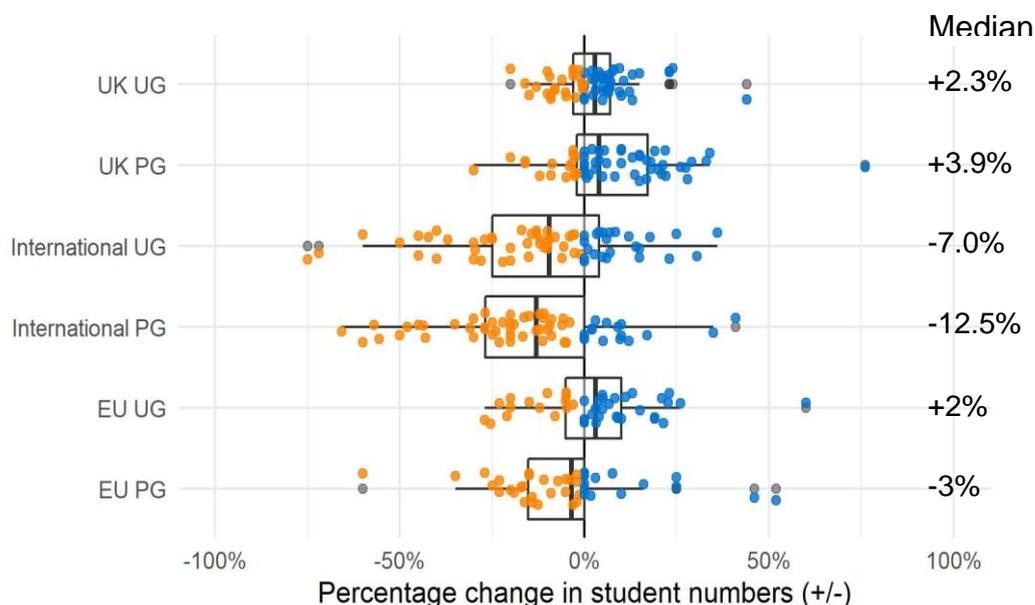
Postgraduate numbers are of major financial value to HEIs as tuition fees can range from £13-15k for mathematics or humanities at a post-92 institution to £50k for subjects like medicine at a high tariff institution. Three-quarters (74%) of HEIs in our survey⁹ expect to see a fall in their international postgraduate student intake compared to 2019-20. The median expected change in postgraduate numbers was -12.5%: this is greater than the reduced intake that was expected for international undergraduates (-7%) or for EU postgraduates (-3%).

⁷ www.timeshighereducation.com/news/ucas-data-russell-group-boosted-recruitment-post-92s-squeezed

⁸ www.thetimes.co.uk/article/university-students-ditch-arts-degrees-and-opt-for-medicine-w63vnrxd?shareToken=15c6ba905c8dbff8fe0fceb437848d4

⁹ Pulse survey on the financial situation in HE, UCEA, October 2020

Figure 6: Change in expected student enrolments in 2020-21



5 The state of the economy

5.1 The labour market

Prior to the Covid-19 pandemic, employment rates were at a record high while unemployment was at an historic low. In March 2020, this changed dramatically due to the Covid-19 pandemic. Of particular note are the claimant count which has more than doubled in the course of a year, redundancies which have nearly tripled year-on-year and vacancies (601,000) which have fallen by 26.8% from 821,000 since February 2020.

Table 3: Labour market indicators, Sept-Nov, All aged 16 to 64, 2016-20, February 2021

	2016	2017	2018	2019	2020	Feb 2021
Employment rate	74.5%	75.1%	75.7%	76.2%	75.2%	75.0%
Unemployment rate	4.8%	4.3%	4.1%	3.8%	5.0%	5.0%
Inactivity rate	21.7%	21.5%	21.0%	20.8%	20.7%	21.0%
Claimant count (thousands) (December)	781	825	999	1229	2644	2700
Redundancies	4.6 in 1,000	4.0 in 1,000	3.0 in 1,000	4.3 per 1,000	14.2 per 1,000	11.0 per 1,000
Vacancies	2.5 per 100	2.7 per 100	2.8 per 100	2.8 per 100	1.9 per 100	2.1 per 100

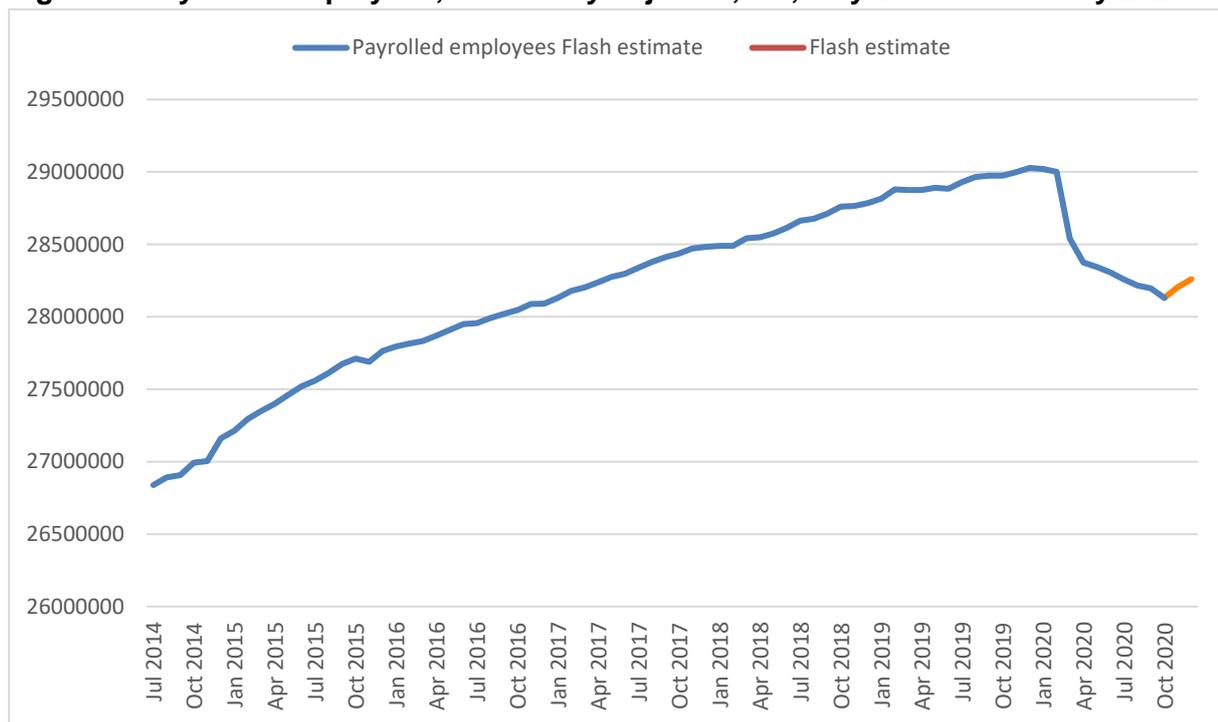
Source: ONS.

5.1.1 Payroll jobs

The ONS¹⁰ defines its employment figures as the number of people aged 16 years and over who are in or temporarily away from paid work.

By February 2021 early estimates indicate that there were 28.2 million payrolled employees, a fall of 2.7% compared with the same period in the previous year and a decline of 693,000 people over the 12-month period. 68,000 more people were in payrolled employment in February 2021, when compared with January 2021; this is the third consecutive monthly increase. The largest falls were seen in March 2020 and these figures were prior to the latest lockdown.

Figure 7: Payrolled employees, seasonally adjusted, UK, July 2014 to February 2021



Source: HM Revenue and Customs – Pay As You Earn Real Time

5.1.2 UK Employment

Employment measures the number of people aged 16 years and over in paid work and those who had a job that they were temporarily away from (to which they are expecting to return). The employment rate is the proportion of people aged between 16 and 64 years who are in employment.

Estimates for November 2020 to January 2021 show 32.37 million people aged 16 years and over in employment, 611,000 fewer than a year earlier and down 147,000 on the quarter. This was the largest annual decrease since December 2009 to February 2010 and was mainly driven by men.

For people aged between 16 and 64 years, for September to November 2020:

¹⁰www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/uklabourmarket/march2021

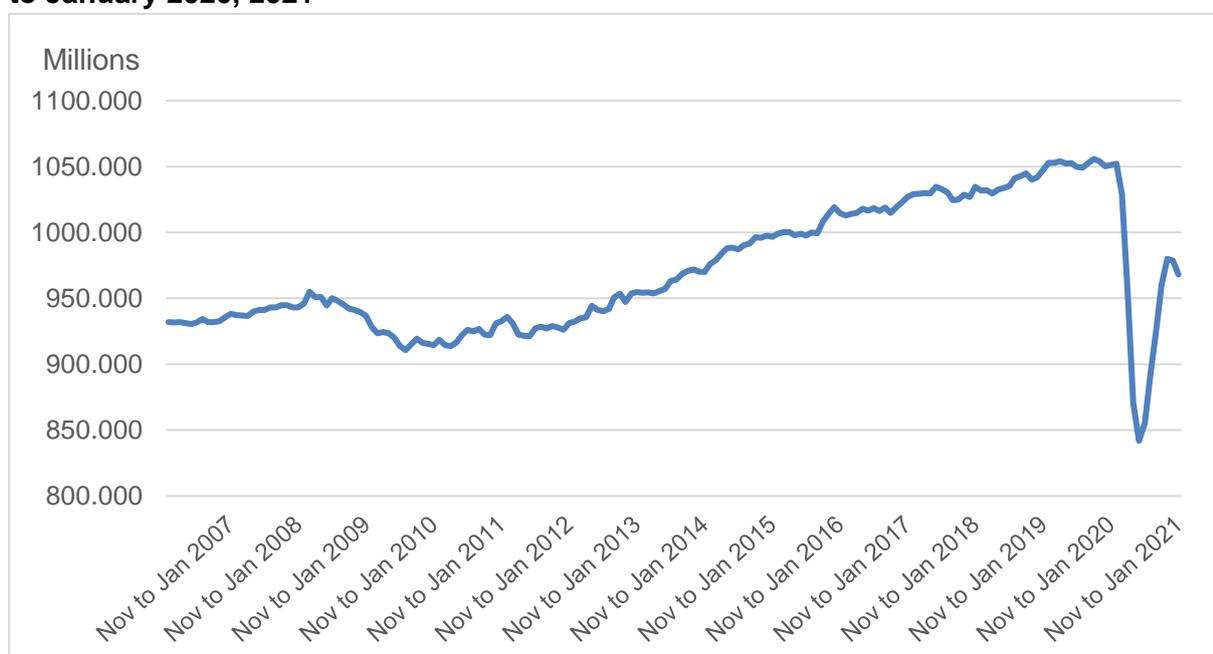
- the estimated employment rate for all people was 75.0%; 1.5 percentage points lower than a year earlier and 0.3 percentage points lower than the previous quarter. (September to November 2020).
- the estimated employment rate for men was 78.2%; this is 2.3 percentage points down on the same period the previous year and 0.3 percentage points down on the quarter.

5.1.3 Total hours worked

Between August to October 2020 and November 2020 to January 2021, total actual weekly hours worked in the UK saw an increase of 8.0 million, or 0.8%, to 968.0 million hours (Figure 8). However, this still has not returned to the pre-pandemic levels of 1.051.1 for November 2019 to January 2020.

Average actual weekly hours worked saw an increase of 0.4 hours on the quarter to 29.9 hours.

Figure 8: Total hours worked (age 16+), UK, seasonally adjusted September to November to January 2020, 2021



5.1.4 Furlough (included in employment figures)

The number of people who are estimated to be temporarily away from work includes furloughed workers, those on maternity or paternity leave and annual leave. Prior to the coronavirus (Covid-19) pandemic there were on average 2 to 2.5 million people temporarily away from work¹¹. The number of people temporarily away from work rose to almost 7.3 million people in April to June 2020 but has fallen to around 3.9 million people in October to December 2020.

Approximately half a million employees received no pay while their job was on hold and/or affected by the coronavirus pandemic in April and May 2020. This initially decreased and had remained largely flat at around 200,000 since July 2020, however, it has increased over the last quarter to an average of 300,000 in December and January 2021. This emphasises the

¹¹www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/employmentintheuk/january2021

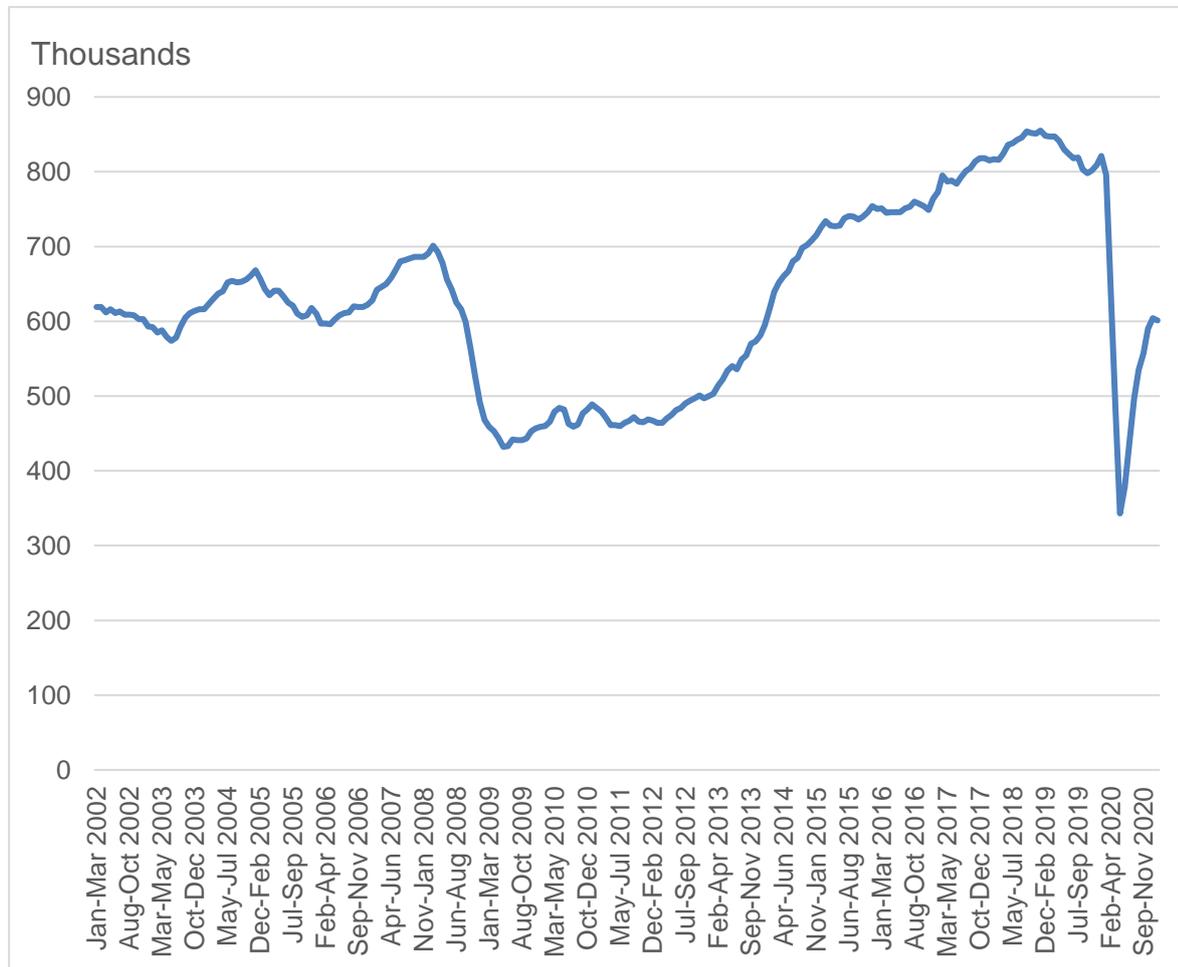
precarious nature of UK employment at the present time, where substantial numbers of people are reliant on the furlough scheme for their continued employment.

5.1.5 UK Vacancies

In December 2020 to February 2021, there were an estimated 601,000 vacancies. This is 220,000 (26.8%) fewer than the estimated 821,000 vacancies a year earlier, prior to the start of coronavirus (Covid-19) social distancing measures. Vacancies declined sharply from April 2020, at the start of the pandemic.

The increase in vacancies over the latest quarter was 44,000, which is a slowdown relative to recent periods. There had been a quarterly increase of 69,000 in the three months to January 2021, 93,000 in the previous period and more than 100,000 in each of the three periods prior to that.

Figure 9: Number of vacancies, UK, seasonally adjusted, between Dec 2001 to Feb 2002 and Dec 2020 to Feb 2021



Source: Office of National Statistics – Vacancy Survey

5.1.6 UK Unemployment

Unemployment measures people without a job who have been actively seeking work within the last four weeks and are available to start work within the next two weeks. The unemployment rate is not the proportion of the total population who are unemployed. It is the proportion of the economically active population (those in work plus those seeking and available to work) who are unemployed.

The estimated UK unemployment rate for all people was 5.0%; this is 1.1 percentage points higher than a year earlier and 0.1 percentage points higher than the previous quarter.

- the estimated UK unemployment rate for men was 5.2%; this is 1.1 percentage points higher than a year earlier and 0.1 percentage points lower than the previous quarter
- the estimated UK unemployment rate for women was 4.7%; this is 1.1 percentage points higher than a year earlier and 0.2 percentage points higher than the previous quarter

For November 2020 to January 2021, an estimated 1.7 million people were unemployed, up 360,000 on the same period the previous year and up 11,000 on the quarter.

5.1.7 Economic inactivity

The economic activity rate for all adults aged 16 to 64 for November 2020 to January 2021 was 21.0%, up by 0.6 percentage points on the same period last year (the largest increase since February to April 2010) and up by 0.3% on the quarter.

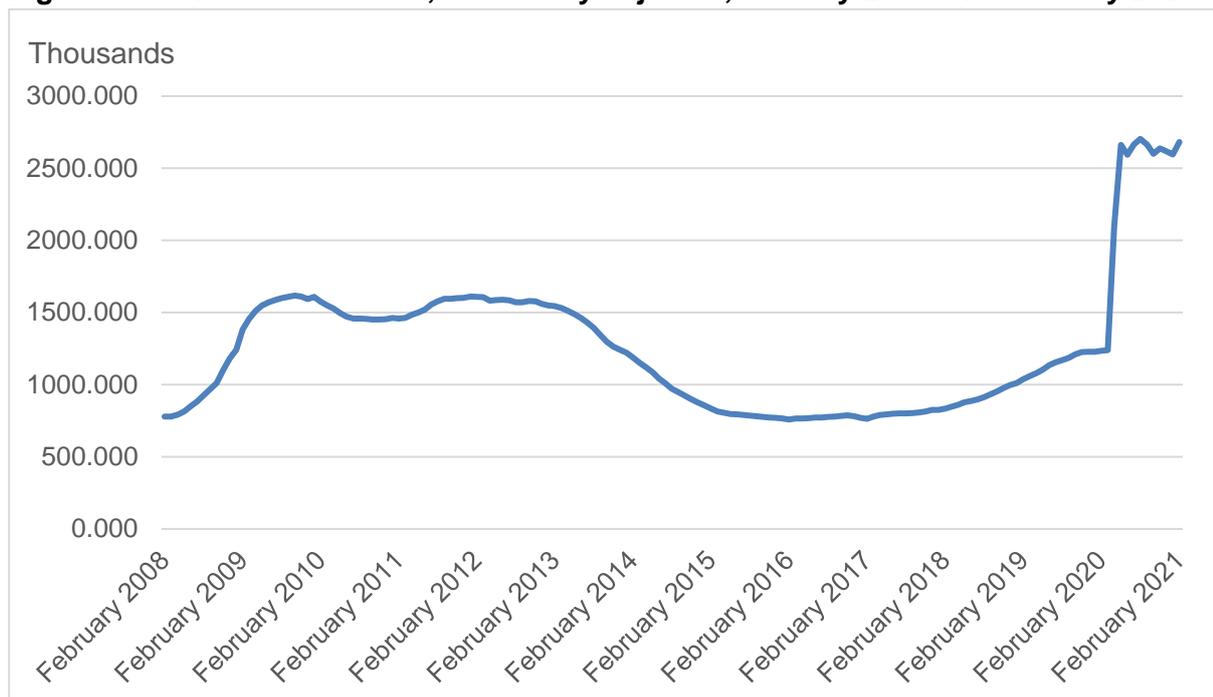
5.1.8 UK Claimant count

Enhancements to Universal Credit as part of the UK government's response to the coronavirus (Covid-19) mean that an increasing number of people became eligible for unemployment-related benefit support although still employed. Consequently, changes in the Claimant Count will not be wholly because of changes in the number of people who are not in work.

To achieve this, the Claimant Count has generally been a count of the appropriate benefits within the UK's current benefit regime that best meet that criteria. Currently this is a combination of claimants of Jobseeker's Allowance (JSA) and claimants of Universal Credit (UC) who fall within the UC "searching for work" conditionality. Those claiming unemployment-related benefits (either UC or JSA) may be wholly unemployed and seeking work, or may be employed but with low income and/or low hours, that make them eligible for unemployment-related benefit support.

The Claimant Count at 11 February 2021 had increased to 2.7 million. This represents a monthly increase of 3.3% and an increase of 116.3%, or 1.4 million, since March 2020.

Figure 10: UK Claimant Count, seasonally adjusted, January 2008 and February 2021



Source: Department of Work and Pensions

5.1.9 Redundancies in UK

Reports of redundancy in the three months prior to the Labour Force Survey interview in November 2020 to January 2021 increased by 7.2 per thousand on the year, but decreased by 2.3 per thousand on the quarter to 11.0 per thousand. This is a reduction from the record high of 14.2 per thousand for September to November 2020. This does not take account of planned redundancies.

5.2 Inflation

Inflation is an important indicator for pay negotiations, providing an indication of the values of salaries relative to previous points in time. The official government target for CPI, set by the Bank of England, is 2% and the majority of the forecasts predict CPI to be close to this level in the long-term. Although official and commercial forecasts use CPI, UCEA's preferred measure for discussion in pay negotiations is CPIH. This is a more relevant measure for pay negotiations as it includes owner occupier housing costs, which directly impact employees' standards of living. CPIH Inflation rate was 1.4% in December 2019, whilst CPI was 1.3%. We would expect CPIH to follow a similar path to CPI in terms of forecasts.

Due to the Covid-19 pandemic, CPIH inflation has been volatile over the course of the year. Starting at 1.7% in February 2020, it has only been above 1% for a single month since the beginning of the pandemic in March 2020, when it reached 1.1% in July 2020. Since July, the CPIH 12-month rate reached a low of 0.5% in August, rising again to 0.9% in October, only to drop back to 0.6% in November. By February 2021 CPIH inflation was 0.7% and CPI was 0.4%.

CPI forecasts are also marked with uncertainty around how quickly the country will recover from the pandemic. This could be impacted by a number of unpredictable factors such as vaccine

rollout, viral mutations and impacts of national lockdowns and other policies intended to control the spread of the virus. For example, the Bank of England's November Monetary policy report forecasted CPI to be 1.8% in 2021 but the forecast released on 4 February 2021 is 0.8%, highlighting the volatility of forecasts.

Table 4: CPI forecasts (year-on-year %)

Source	2021	2022	2023	2024	2025
OBR	1.2	1.6	1.7	1.9	2
Bank of England	0.7	2.1	2.1	2.0	n/a

Source: ONS, HM Treasury and Bank of England.

5.3 GDP

Similar to inflation, actual GDP as well as forecasts for GDP have both been incredibly volatile in 2020. GDP quarter-on-quarter growth fell by 3% in Q1, 19% in Q2 followed by a rise of 16% in Q3. Q4 2020 GDP at market prices stood at £547,361 million. Double-digit GDP growth in quarter-by-quarter figures have not been reported since records began. The OBR expects GDP to grow by 4% in 2021 and to regain its pre-pandemic level in the second quarter of 2022, six months earlier than forecast in November.

It is, therefore, unsurprising that the uncertainty is impacting on forecasts. In November 2020, the Bank of England was a few percentage points different from the other forecasters, but as the only forecaster to have released data in 2021, shows drastically different predictions three-months on. Mainly due to measures to prevent the Covid-19 spread that were unforeseen in the Autumn, predictions show a year-on-year drop of 9.2% in 2021 followed by a recovery growth of 14.2% in 2022. However, as the situation develops these predictions could change drastically.

Table 5: GDP growth forecasts (%)

Source	2021	2022	2023	2024	2025
OBR (March 2021)	4.0	7.3	1.7	1.6	1.7
Bank of England (February 2021, Q1 forecast)	-9.2	14.2	1.3	1.3	n/a
Bank of England (November 2020)	7.1	6.1	1.8	n/a	n/a

5.4 Public pay awards

In the Spending Review 2020¹², the Chancellor announced a 'pause' of public sector pay for 2021-22, affecting 2.6 million public workers "to reduce the pay premium the sector enjoys over private sector workers"¹³. As exceptions to this headline announcement, the Westminster government has advised a 1% pay increase for NHS staff and a pay rise of at least £250 for workers earning below £24,000 (covering 2.9 million workers).

¹² <https://commonslibrary.parliament.uk/research-briefings/cbp-8037/>

¹³ www.resolutionfoundation.org/press-releases/public-sector-workers-affected-by-the-pay-freeze-next-year-already-face-a-pay-penalty-compared-to-private-sector-staff-in-similar-roles/

In Scotland, the 2021-22 pay policy advises a minimum 1% pay increase for public sector workers who earn £80,000 or less. Uplifts for those above £80,000 will be limited to £800. The Scottish Government also announced a substantial pay increase for NHS workers¹⁴. Staff who earned less than £25,000 in 2020/21 will receive a guaranteed minimum increase of £1,000 in 2021-22, representing an increase of at least 4%. Those on the highest pay points will reportedly receive an uplift of £800.

6 Competitiveness of HE pay

Median earnings remain competitive across the sector with all the occupational groups identified in the 2008 Review of HE Finance and Pay Data earning at least the same, and in most cases significantly more than their counterparts in the rest of the economy (see Table 6). Data from the UCEA/Xpert HR salary survey shows that the average comparison against the market for the four most senior levels in each function area are favourable to HE, ranging from 131% of market for secretarial occupations to 100% of market for natural and social science professionals.

Table 6: Comp-ratios by occupation, higher education and rest of the economy, 2020

Occupation	HE pay as % of non-HE pay
Secretarial and related occupations	131%
Managers	127%
Caring, leisure and other service occupations	120%
Administrative occupations	118%
Personal assistants and other secretaries	115%
Kitchen and catering assistants	113%
Science, engineering and production technicians	111%
Skilled trades occupations	109%
Business and related research professionals	106%
Information technology technicians	103%
Cleaners and domestics	102%
Natural and social science professionals n.e.c.	100%
Source: ONS ASHE. Comp-ratios calculate median full-time HE earnings as a percentage of non-HE earnings for the same occupation and mode of employment.	

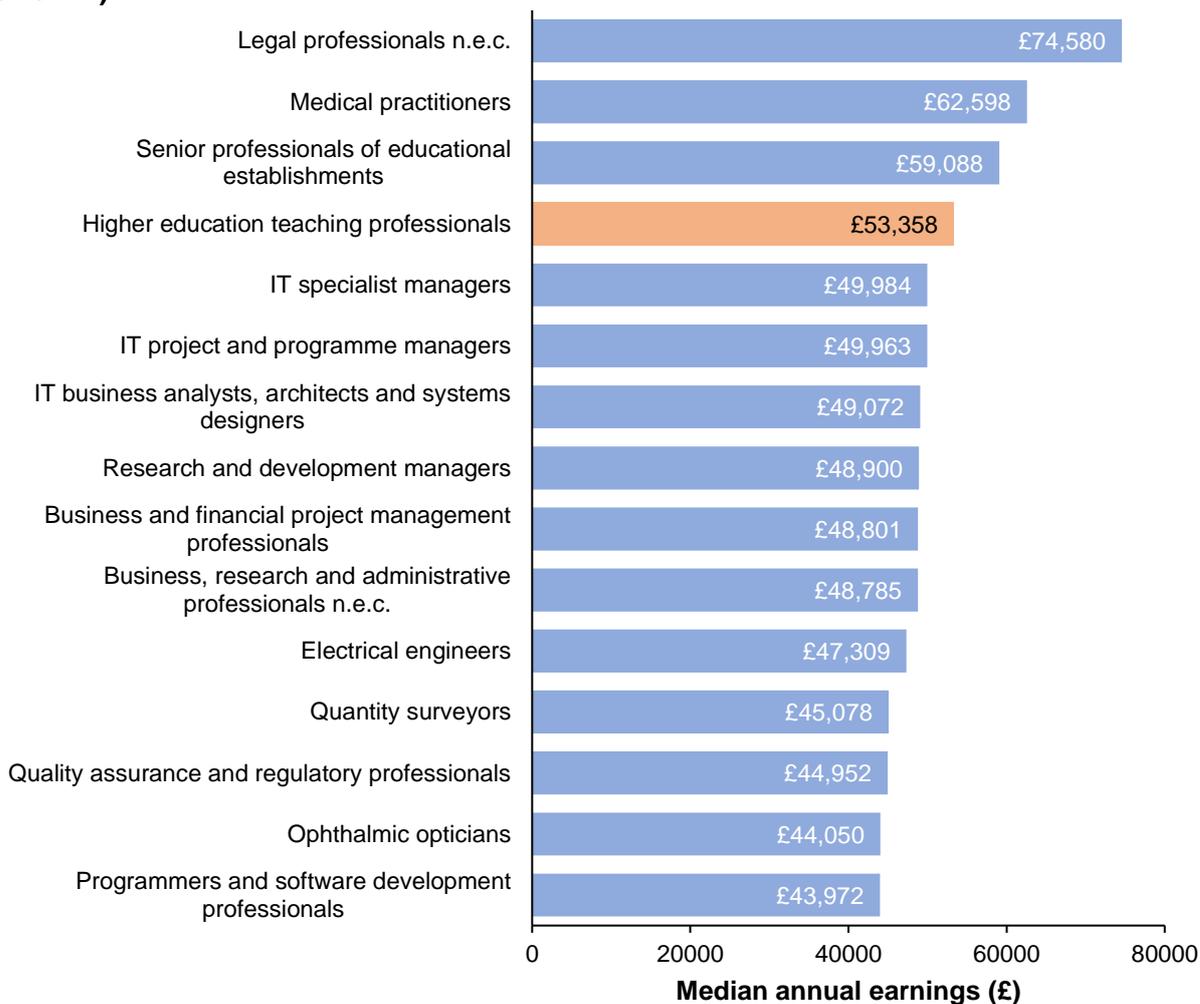
Median earnings for higher education teaching professionals (academic staff with teaching duties such as lecturers and tutors, excluding researchers) are ranked 4th (in Fig 11) of 71

¹⁴ www.gov.scot/news/pay-rise-for-nhs-scotland-staff/

professional occupations included in the ONS’s data collection. They have remained in a similar ranking position for a decade¹⁵

HE teaching professionals continue to have a significant pay premium over secondary and further education with secondary teachers earning approximately 77% and FE teachers earning 72% of an HE teaching professional’s salary. Teaching staff in other sectors are likely to fall under the public sector pay “pause” and are therefore unlikely to see a significant pay award in 2021-22.

Figure 11: Full-time annual earnings, professional occupations (SOC2), April 2019 (top 15 out of 71)



Source: ONS ASHE. Based on full-time weekly gross earnings in 2019.

Note: Self-employed and firm partners are excluded. N.e.c = not elsewhere classified.

Occupations with small sample sizes have been excluded (Dental Practitioners).

¹⁵ The relative position in this group is more important than the absolute position as these data exclude self-employed and partners in other sectors and exclude researchers in the HE sector, which means that early career staff are excluded.

7 Pay structures and living wages

7.1 Pay progression in HE

Increases to pay spine rates are supplemented in a majority of cases by pay progression in the form of service-related increments or contribution-related awards, in addition to the possible promotion through the career structure. According to UCEA's research, 51% of academic staff and 46% of professional services staff will be eligible for incremental progression in 2021-22. UCEA/XpertHR survey data shows that this progression resulted in an average within-grade pay increase of 3.6% for academic staff and 3.4% for professional services staff in pay spine grade levels.¹⁶

7.2 Living wages

The National Living Wage (NLW) will rise by 2.2% to £8.91 an hour from April 2021. It will also be extended to those aged 23 years and older. The government notes that this amounts to an increase in wages of £345 for a full-time worker on 2020 pay, and since its introduction in 2016 a rise of £4,030 a year.

Table 7: National Minimum Wage and National Living Wage rates annual increase

National Living and Minimum Wage rates	New rate (April 2021)	Current rate (April 2020)	Percentage increase
23 years and older (NLW)	£8.91	£8.72	2.2%
21 to 22-year olds	£8.36	£8.20	2%
18 to 20-year olds	£6.56	£6.45	1.7%
16 to 17-year olds	£4.62	£4.55	1.5%
Apprentices	£4.30	£4.15	3.6%
Daily accommodation offset rate	£8.36	£8.20	2%

The NLW eligibility reduces to 23 years of age in 2021 and to 21 with effect from 2024.

Table 8: National Minimum Wage and National Living Wage rates and forecasts - 2020 to 2024

Eligibility for NLW (NMW)	2020	2021	2022	2023	2024
25+	£8.72				
23+		£8.91	£9.24	£9.71	n/a
21+				£8.60	£10.10

Source: OBR, March 2021. Forecasts in with grey background

In November 2020 the Low Pay Commission made recommendations for the rise in the NLW and NMW, based on the average pay award during 2020 of 2.2%, although much of the 2020 increase was for pay awards introduced in January and April 2020 prior to knowledge of the Covid-19 pandemic.

In the supporting statement for the Budget 2021 the OBR set out forecasts for future increases of the NLW and NMW which are lower than previous forecasts, suggesting an increase of 3.7% in 2022, rising to 5.1% in 2023 before reducing to 4% and below from 2024.

¹⁶ These figures refer to the average (mean) increase received by staff not the increase in paybill. Paybill increases will typically be lower due to employee turnover and new staff starting on lower salaries.

Table 9: National Minimum Wage and National Living Wage, OBR forecasts (March 2021)

	£ per hour					
	2020	2021	2022	2023	2024	2025
National Minimum Wage (NMW)	7.92	8.36	8.48	8.6	n/a	n/a
National Living Wage (NLW)	8.72	8.91	9.24	9.71	10.1	10.46
NLW annual increase		2.2%	3.7%	5.1%	4.0%	3.6%

The JNCHES spine pay point 3 is still compliant with the NLW for HEIs operating 36 contracted hours or less, and UCEA has issued guidance to HEIs using longer contracted hours on the additional allowances required to lift the lower pay spine points to adjust pay.

UCEA research indicates that just over a third of HEIs operate 35 contracted hours per week. An equal proportion use a 37-hour week. Slightly less, around a quarter use 35.75 to 36.5 hours per week for staff on the lower pay scales. Nine out of ten HEIs operating longer contracted hours are opposed to standardising on a shorter working week, citing difficulty delivery services, reduced productivity and increased staff costs.

Not all HEIs use the lowest available pay spine point, as HEIs have autonomy over how the pay spine is used. In recent research four out of ten started their lowest pay grade at pay point 3. More than six out of ten started their lowest pay grade at pay point 3 or 4, and over a third started their lowest pay grade at pay point 5 or above. Almost half of HEIs have made changes to the bottom of the pay spine.

7.3 Voluntary living wage

The Living Wage Foundation announced the new Voluntary Living Wage (VLW) rates of £10.85 in London and £9.50 across the rest of the UK in November 2020. Accredited employers have until May 2021 to implement the award. Just over six out of ten HEIs meet the VLW rates, although not all of those are accredited employers. Almost three in ten do not, and 10% decide whether they will meet the VLW each year¹⁷.

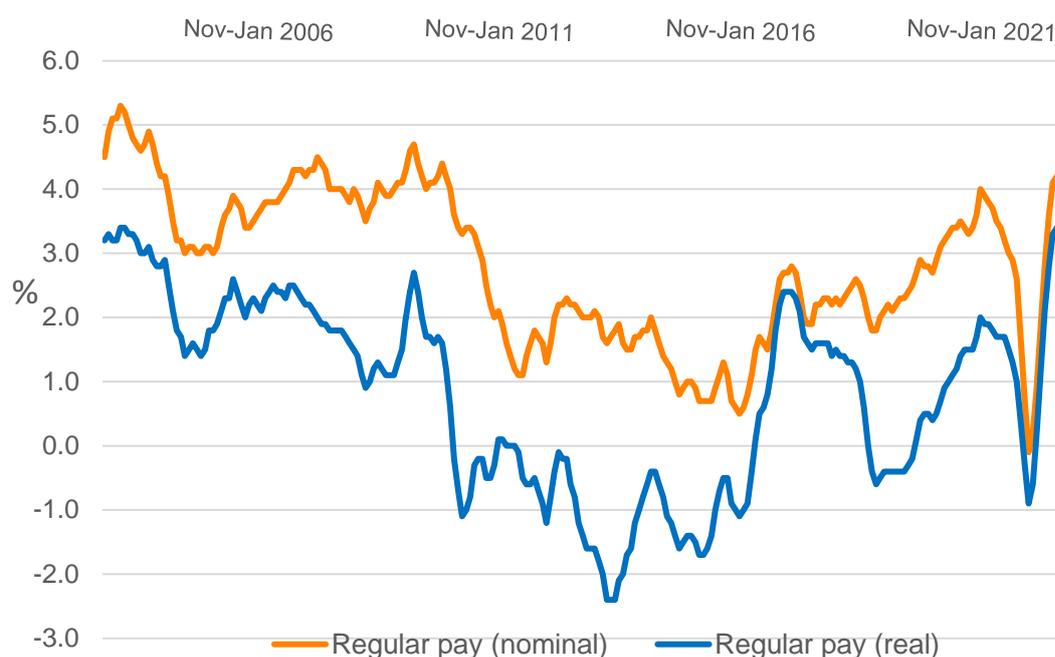
7.4 Average weekly earnings

In November 2020 to January 2021, the rate of annual pay growth was positive 4.2% for regular pay (Figure 12). The rate of regular pay growth had stood at 2.9% in December 2019 to February 2020 immediately prior to any impact from the coronavirus (Covid-19) pandemic. It then slowed sharply in April to June 2020 to negative 0.1% for regular pay before increasing.

Average pay growth rates have been affected upwards by a fall in the number and proportion of lower-paid jobs compared with before the coronavirus (Covid-19) pandemic (discussed in more detail in this section). Therefore, the ONS estimated the net impact of recent job losses is to increase the estimate of average pay by approximately 1.6% – suggesting an underlying earnings growth of around 2.5% for regular pay.

¹⁷ UCEA research, 2021

Figure 12: Average weekly earnings, ONS, Nov- Jan 2001 - 2021



Source: ONS

Pay growth was higher in the public sector than the private sector during 2020, and this is unlikely to continue because of the public sector pay freeze declared by the Chancellor.

Incomes Data Research (IDR)'s 2020 monitoring of pay awards revealed a notable increase in the number of pay freezes and employers deferring pay decisions after July 2020. As noted earlier, two thirds of pay awards are implemented in January or April each year and for 2020 they would have been decided before the Covid-19 pandemic was factored in. Pay freezes rose seven-fold from 2019 to early 2021. "Early indications for 2021 suggest we will continue to see pay freezes and where paid, lower pay rises"¹⁸. An early look at the distribution of awards so far for 2021 differs somewhat, with nearly half of awards worth less than 2%.

8 Pay gaps

The gender pay gap between the median woman and the median man working in HE has fallen to the lowest percentage in a decade. This implies that the significant action to close the gender pay gaps is making a difference for low to middle earners. The fall in median pay gaps is welcome as it has risen for the previous three years. The median figures in the wider economy have also fallen by almost two percentage points in 2020, though the data from both the wider economy and in HE indicates that progress on such a headline measure will be incremental.

Table 10: Gender pay gap in higher education sector

Year	2015-16	2016-17	2017-18	2018-19	2019-20
Mean	14.1%	15.5%	16.1%	15.9%	17.7%
Median	14.8%	14.3%	15.0%	15.5%	13.6%
All sectors (median)	18.2%	18.4%	17.8%	17.4%	15.5%

Source: ASHE. Based on hourly earnings excluding overtime for all employees.

¹⁸ IDR, How have pay rises responded to the pandemic, March 2021

While statutory gender pay gap reporting has been enforced since 2017 and actions are being taken to address gender pay gaps, UCEA found that an intersectional approach to pay gaps was needed in their 2018 report: [Caught at the Crossroads](#). Despite the government consultation on statutory ethnicity pay gaps closing in January 2019, there is still no confirmed plans on enforcing this type of reporting. UCEA is intending to conduct research on ethnicity pay gaps in the sector.

9 Conclusions

The HE sector has faced unprecedented challenges over the last year, struggling to achieve a balance of providing high quality education to students, maintaining the safety of staff while absorbing increased costs. For many institutions Covid-19 has precipitated their producing a deficit rather than a surplus in the last year, and UCEA understands that those extra costs are unlikely to evaporate in the near future.

It is against that backdrop that we enter the JNCHES pay negotiation round for 2021-22, and never has the equation between staffing costs and maintaining current employment levels appeared as clear as now. The vast majority of HEIs have maintained staffing levels in the face of these challenges and have rewarded staff with additional holiday to alleviate the workload pressures.

The freeze in base pay for 2020-21 preceded a policy which has now been announced for most of the public sector. UCEA recognises the importance of a meaningful uplift to the base pay spine for 2021-22. We are, therefore, not looking to continue with the base pay freeze which was implemented for 2020-21, although this is the preferred position of some of our members. However, any uplift must be based upon a reasonable view of what is affordable for institutions, given it is a collective negotiation. UCEA hopes that agreement can be reached with the trade unions that fair and sustainable for staff at all levels, considers the aspirations of all parties, and accommodating as best as possible the different pressures on the parties.