New JNCHES Negotiations 2020-21 Employers' Statement

Nov 2020

1 Introduction

In preparation for the Autumn JNCHES meeting, UCEA has updated the Employers' statement presented to the HE trade unions in July 2020.

Covid-19 has had a huge impact on the HE sector, but the latest data release from HESA documents 2018-19, a period prior to the advent of Covid-19, and therefore it cannot be used as a means of modelling the immediate impact of the pandemic on the HE sector.

Despite efforts by the Office of National Statistics (ONS) to release data ahead of schedule, it is still two-three months' out of date. We have updated ONS releases to September 2020, but given the sudden and unforeseen changes affecting the whole economy and employment in general, this is still subject to changes that have occurred since the publication date.

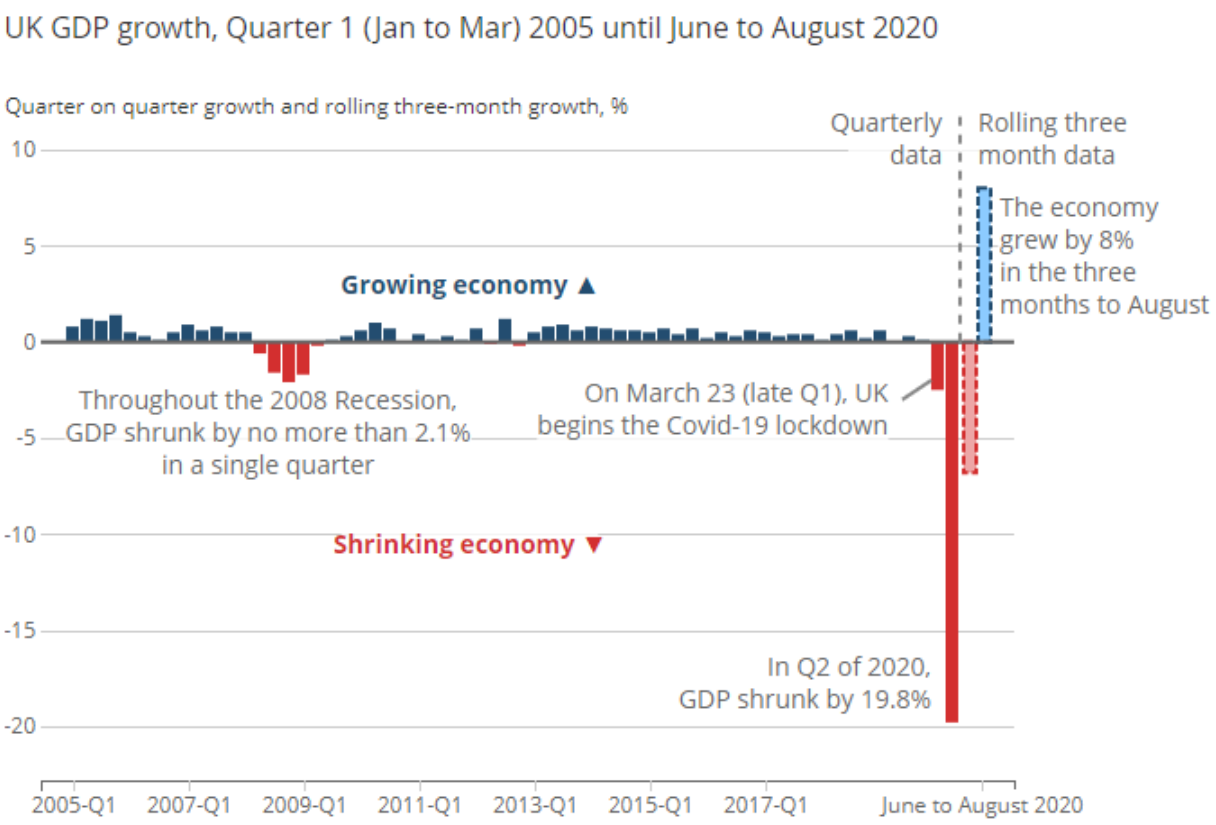
While the most recent data for August and September 2020 showed some degree of "bounce-back", as the spring lockdown measures were eased, the prospect of a national lockdown is likely to reverse any recent recovery.

2 Impact of Covid-19 on the UK economy

2.1 Change to UK GDP growth, Quarter 1 2020

The health of the economy is measured using Gross Domestic Product (GDP) as the value of manufacturing output and service industries. In recent times we refer to the recession of 2008 as the marker of extreme negative economic performance (falls of 2%). But we can see that those downturn figures are dwarfed by the GDP economic performance for late March and April 2020, in which GDP fell by 10.4% in the three months to end April 2020.

Gross domestic product (GDP) grew by 8.0% in the three months to August 2020 as restrictions on movement eased across June, July and August.



Source: ONS

The Office for Budget Responsibility[1] forecast that the fall in GDP could equal 35% for Quarter 2, 2020, and 13% for 2020 as a whole.

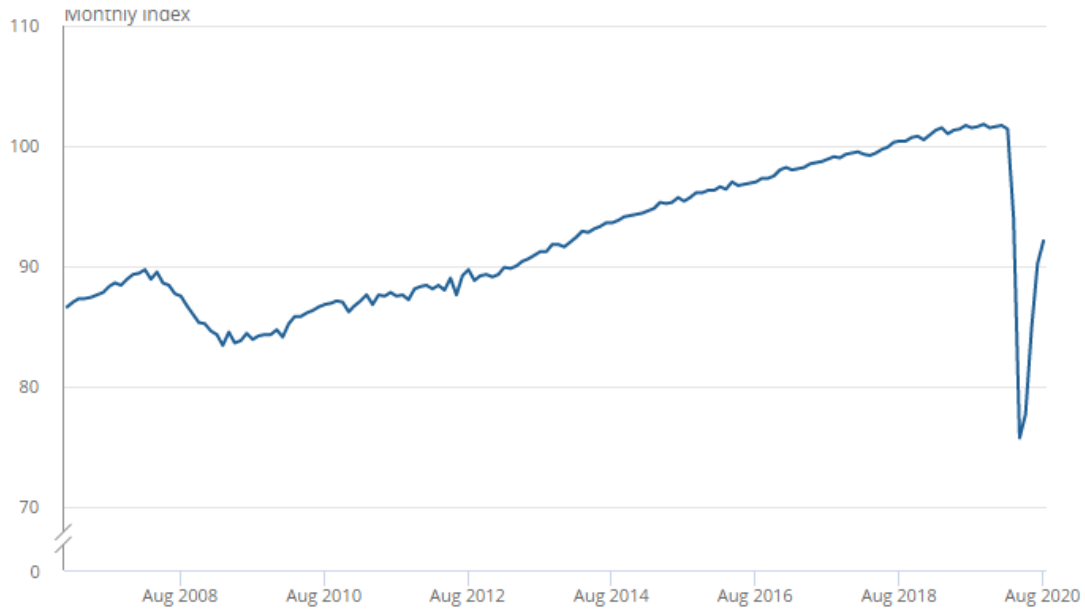
2.2 Change to GDP growth, August 2020

Monthly gross domestic product (GDP) grew by 2.1% in August 2020 as lockdown measures continued to ease. This is the fourth consecutive monthly increase following a record fall of 19.5% in April 2020.

August 2020 GDP is now 21.7% higher than its April 2020 low. However, it remains 9.2% below the levels seen in February 2020, before the full impact of the Covid-19 pandemic. And it is likely to have fallen back during September and October.

[1] https://obr.uk/coronavirus-analysis/ (14/04/2020)

UK Monthly GDP index, January 2007 to August 2020



Source: ONS

2.3 Change to service sector GDP growth

Looking at the rolling three-month growth, services output grew by 7.1% in August 2020, following falls of 7.1% in July, 19.2% in June, 18.5% in May and 10.8% in April. This was driven by increases in nearly every industry, most notably:

- wholesale and retail trade and repair of motor vehicles, which recovered to above its February 2020 level, as a result of the reopening of car showrooms
- retail trade which grew by 17.9% as a result of strong growth in non-food stores and a record proportion of online sales
- education, which grew by 16.4% as some children returned to school
- the growth in education comprises only 0.82% to UK growth

3 Impact of Covid-19 on the labour market

3.1 Impact of Covid-19 on the jobs and employment

Payroll jobs

The ONS[2] defines its employment figures as the number of people aged 16 years and over who are in or temporarily away from paid work.

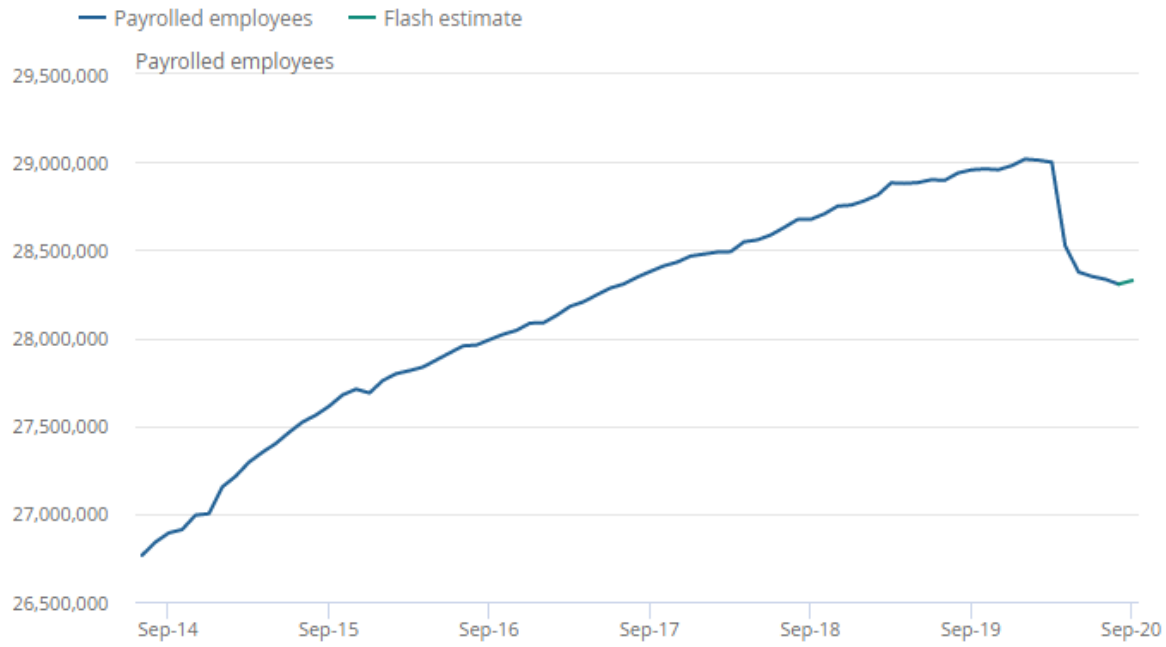
2 https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/uklabourmarket/latest (October 2020)

By August 2020 early estimates for from Pay As You Earn (PAYE) Real Time Information (RTI) provide a less favourable outlook on the labour market, indicating that 695,000 jobs were lost as the number of payroll employees fell by 2.4% compared with March 2020.

This recovered a little by September 2020, up 20,000 compared with August, an increase of 0.1%.

Early estimates for September 2020 indicate that there were 28.3 million payrolled employees, a fall of 2.2% compared with the same period in the previous year and a decline of 629,000 people over the 12-month period. Since March 2020, the number of payroll employees has fallen by 673,000; however, the larger falls were seen at the start of the coronavirus (COVID-19) pandemic.

Payrolled employees, seasonally adjusted, UK, July 2014 to September 2020



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

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 June to August 2020 show 32.59 million people aged 16 years and over in employment, 102,000 fewer than a year earlier and 153,000 fewer than the previous quarter.

For June to August 2020:

- the estimated employment rate for all people was 75.6%; this is 0.3 percentage points down on the year and 0.3 percentage points down on the quarter
- the estimated employment rate for men was 79.1%; this is 1.1 percentage points down on the year and 0.6 percentage points down on the quarter
- the estimated employment rate for women was 72.1%; this is 0.4 percentage points up on the year and 0.1 percentage points down on the quarter

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 was on average 2 to 2.5 million people temporarily away from work[3].

The number of people temporarily away from work rose to almost 7.3 million people in April to June 2020 but has fallen to 6.4 million people in June to August 2020.

There were also around 192,000 people away from work because of the pandemic and receiving no pay in June to August 2020, this has fallen from 419,000 in April to June.

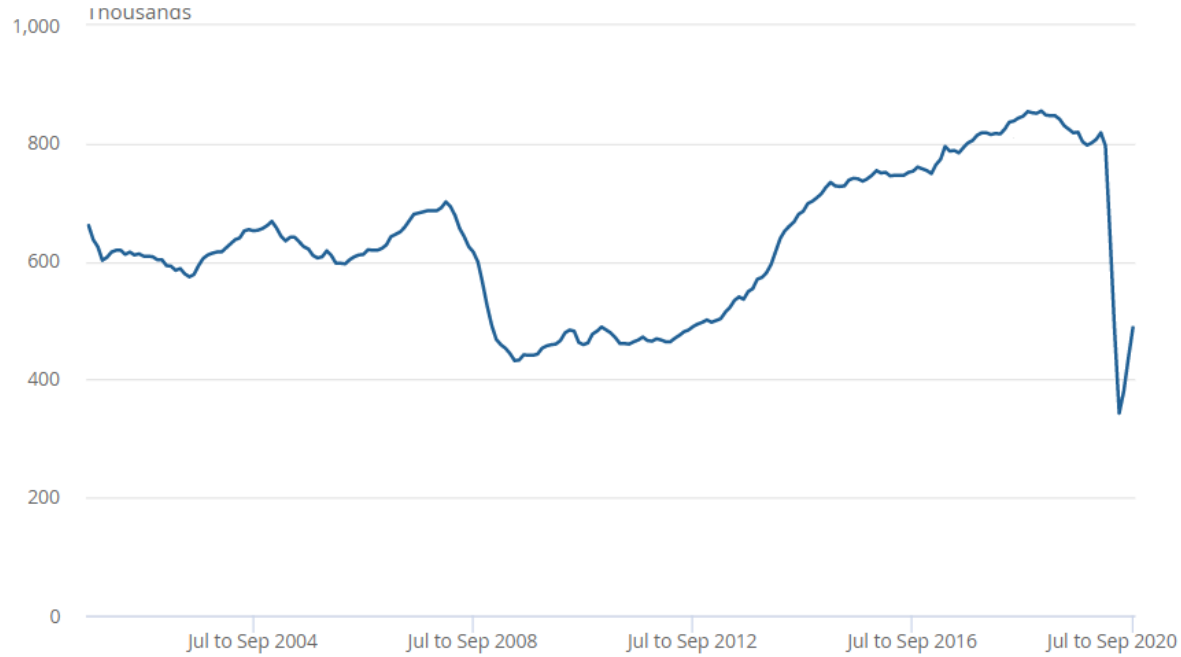
This emphasises the precarious nature of UK employment at the present time, where substantial numbers of people are reliant on the furlough scheme for their continued employment.

UK Vacancies

For July to September 2020, there were an estimated 488,000 vacancies, which is a record quarterly increase of 144,000 vacancies from the record low in April to June 2020. The increase is driven by small businesses (49 or fewer employees). Despite the record quarterly increase, vacancies remain below the pre-coronavirus (COVID-19) pandemic levels and are 332,000 (40.5%) less than a year ago.

3 https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/uklabourmarket/october2020

Number of vacancies, UK, seasonally adjusted, between July to September 2001 and July to September 2020



Source: Office of National Statistics – Vacancy Survey

UK Pay growth

Pay growth has stabilised in comparison to the sharp slowing that has been seen in previous months. In May to July 2020, regular pay growth was positive at 0.2%. Total pay growth, however, was at negative 1.0% over the same period. The disparity between these two figures can be explained by subdued bonuses which fell by an average of 21.4% (in nominal terms) in the same period.

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.

Estimates for June to August 2020 show an estimated 1.52 million people were unemployed, 209,000 more than a year earlier and 138,000 more than the previous quarter.

For June to August 2020:

- the estimated UK unemployment rate for all people was 4.5%; this is 0.6 percentage points higher than a year earlier and 0.4 percentage points higher than the previous quarter

- the estimated UK unemployment rate for men was 4.9%; this is 0.8 percentage points higher than a year earlier and 0.7 percentage points higher than the previous quarter
- the estimated UK unemployment rate for women was 4.0%; this is 0.3 percentage points higher than a year earlier and 0.1 percentage points higher than the previous quarter

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 despite 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 statistics relate to 10 September 2020 when it increased in to 2.7 million. This represents a monthly increase of 1.0% and an increase of 120.3%, or 1.5 million, since March 2020.

UK Claimant Count, seasonally adjusted, January 2008 and July to September 2020

Source: Department of Work and Pensions

The major increase increases occurred in April and May 2020 as changes to UC were brought in for people on low earnings / low hours. This dropped back in June, but began to climb again in July to September, albeit at a slower rate than during the spring.

Date	Claimant number	Monthly increase	% increase
March 2020	1240.122		
April 2020	2098.153	858.031	59%
May 2020	2662.783	564.630	79%
June 2020	2594.277	-68.506	103%
July 2020	2664.211	69.934	97%
August 2020	2703.676	39.465	99%
September 2020	2731.744	28.068	99%

Source: Department of Work and Pensions, reproduced in the ONS Labour Market Overview

Redundancies in UK

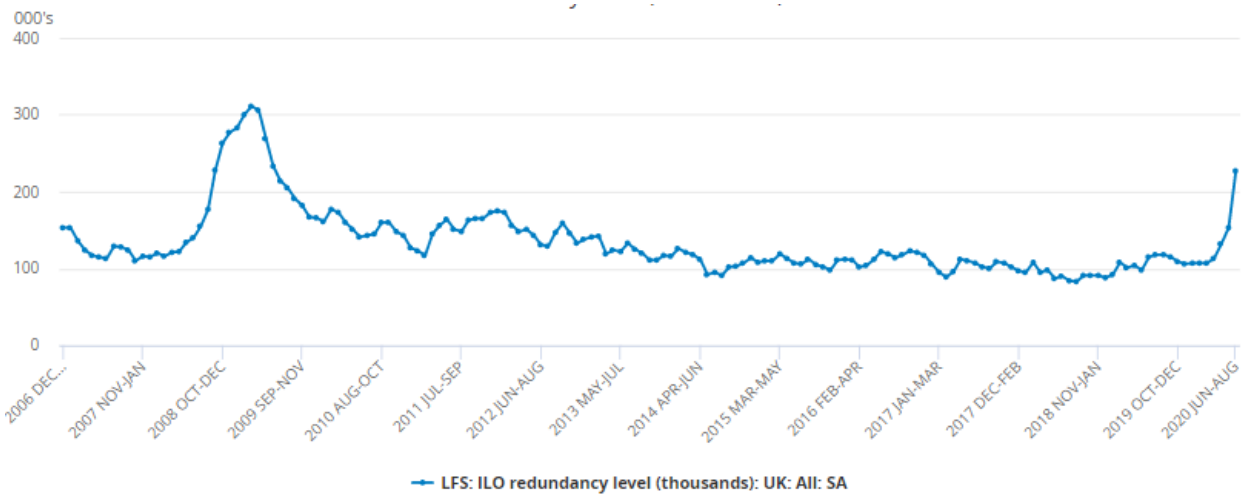
Redundancies for the period June to August 2020 stood at 227,000, almost double the amount of 115,000 for the same period in 2019, according to evidence gathered from the Labour Force Survey[4].

The ONS admits that Covid-19 has presented challenges to the usual methodology of conducting household interviews in person. The move to data collection “by telephone” has resulted in a higher proportion of owner-occupied households compared to rented

[4] https://www.ons.gov.uk/employmentandlabourmarket/peoplenotinwork/redundancies

accommodation households in the sample. Weighting has been applied to adjust for this change in balance.

Redundancy level, UK, December 2006 to February 2007 and June to August 2020



Source: Labour Force Survey (International Labour Organisation)

Consultation on redundancies in England, Wales and Scotland

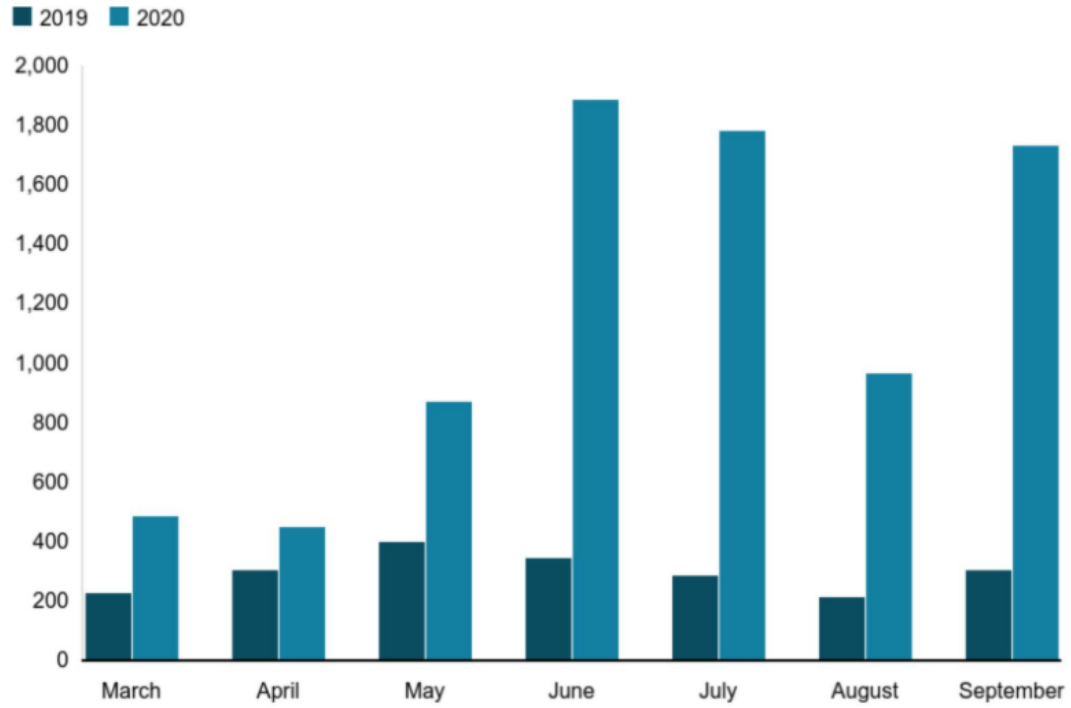
British employers planned making redundancies at close to a record level in September, as the second wave of coronavirus took its toll on jobs[5]. September saw an increased number of restrictions introduced around the UK as a second wave of Covid-19 infections took hold.

Employers in England, Scotland and Wales must notify the Insolvency Service if they plan to make 20 or more workers redundant in any single "establishment" using a form called HR1. The figures were obtained by an Institute for Employment Studies (IES) Freedom of Information request.

Some 1,734 employers notified the government of plans to cut 20 or more posts, close to the peak levels seen in June and July. Those were the highest levels seen since 2006, the earliest date for which figures have been published.

[5] https://www.bbc.co.uk/news/business-54620758

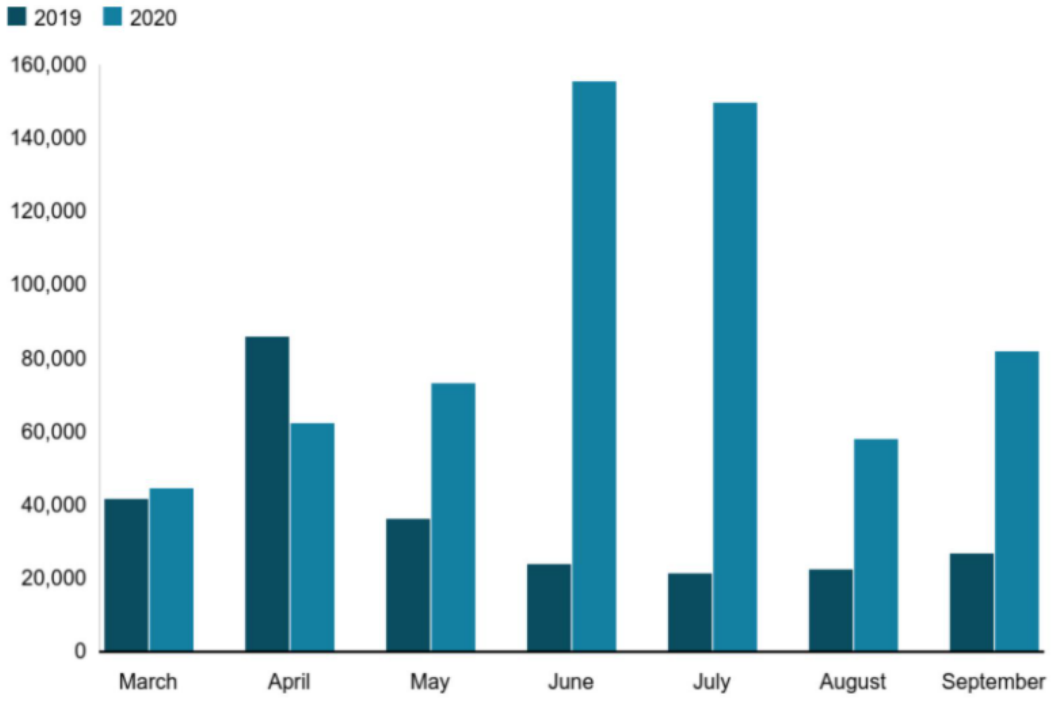
Employers planning 20 or more redundancies - HR1 forms submitted



Source: Insolvency service - England, Scotland and Wales

The total number of positions notified as at risk in September was 82,000 - down on the peak in the summer, but three times the level of the previous September.

Planned redundancies - HR1 forms submitted

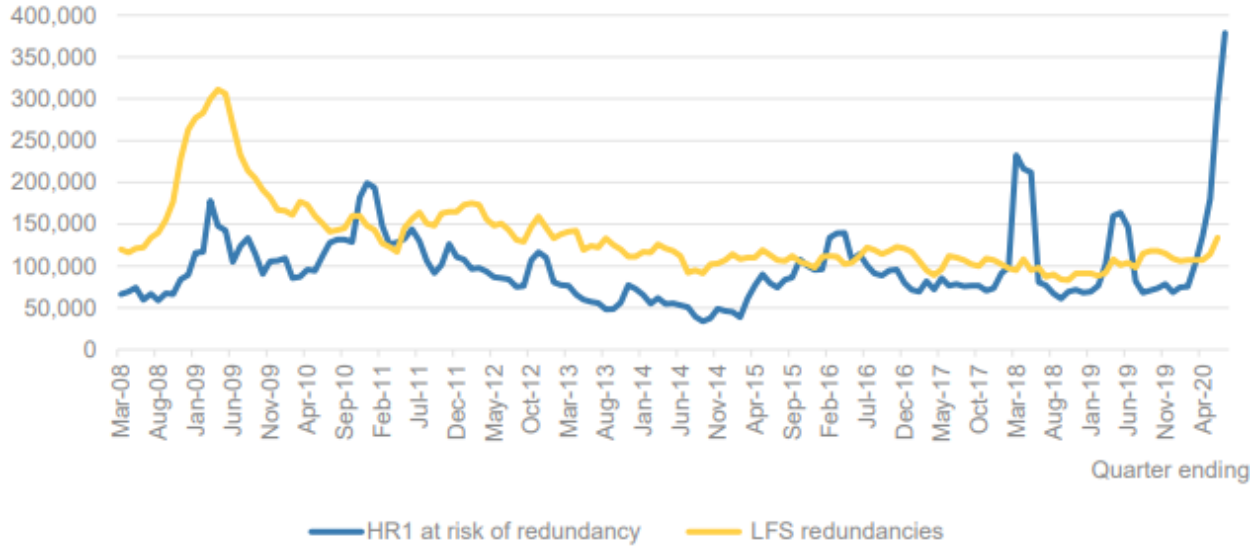


Source: Insolvency service - England, Scotland and Wales

IES considered completed redundancies could reach 735,000 this autumn as the furlough scheme comes to an end[6]. These may be deferred with the extension of the Furlough scheme announced 31 Oct 2020.

Firms often make fewer job cuts than they initially plan. However, any redundancy process involving fewer than 20 people does not need to be reported, so in the past the ONS redundancy figures have mostly been higher than the HR1 numbers.

Quarterly number of employees notified as at risk of redundancy (HR1 forms) and reporting having been made redundant (Labour Force Survey)



Source: IES analysis of Insolvency Service and Labour Force Survey data

4 HE Income and Expenditure data

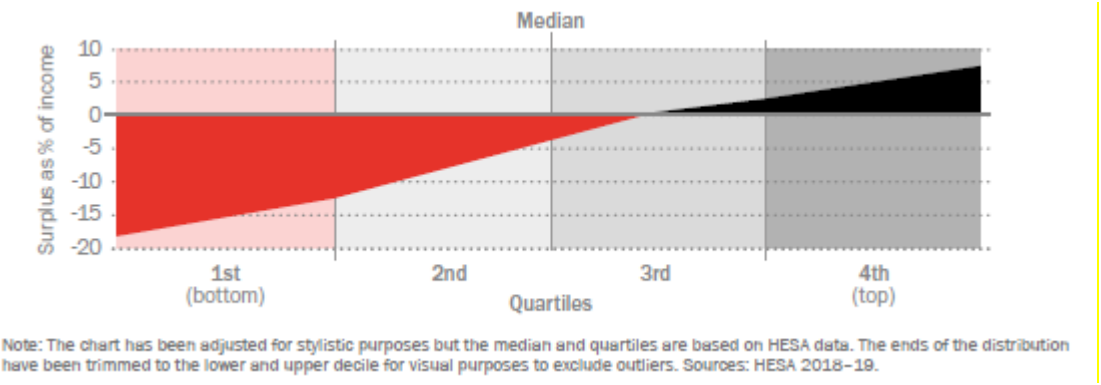
The most recent HE sector data published by HESA relates to the 2018-19 academic year, which is unable to take account of more recent developments in the HE income and expenditure.

4.1 HE Surplus or deficit

Analysing the 2018-19 HESA data, we can see that even before Covid-19 appeared in the UK, the HE sector was experiencing diminishing economic health, with changes to both income and expenditure, and a reduction in the level of surpluses and resultant liquidity.

For the first time, overall surplus in the HE sector was transformed into a median deficit of -3.48% with an interquartile range of -12% to 2.7%.

[6] https://www.employment-studies.co.uk/system/files/resources/files/On%20Notice%20-%20estimating%20the%20impact%20on%20redundancies%20of%20the%20Covid-19%20crisis.pdf

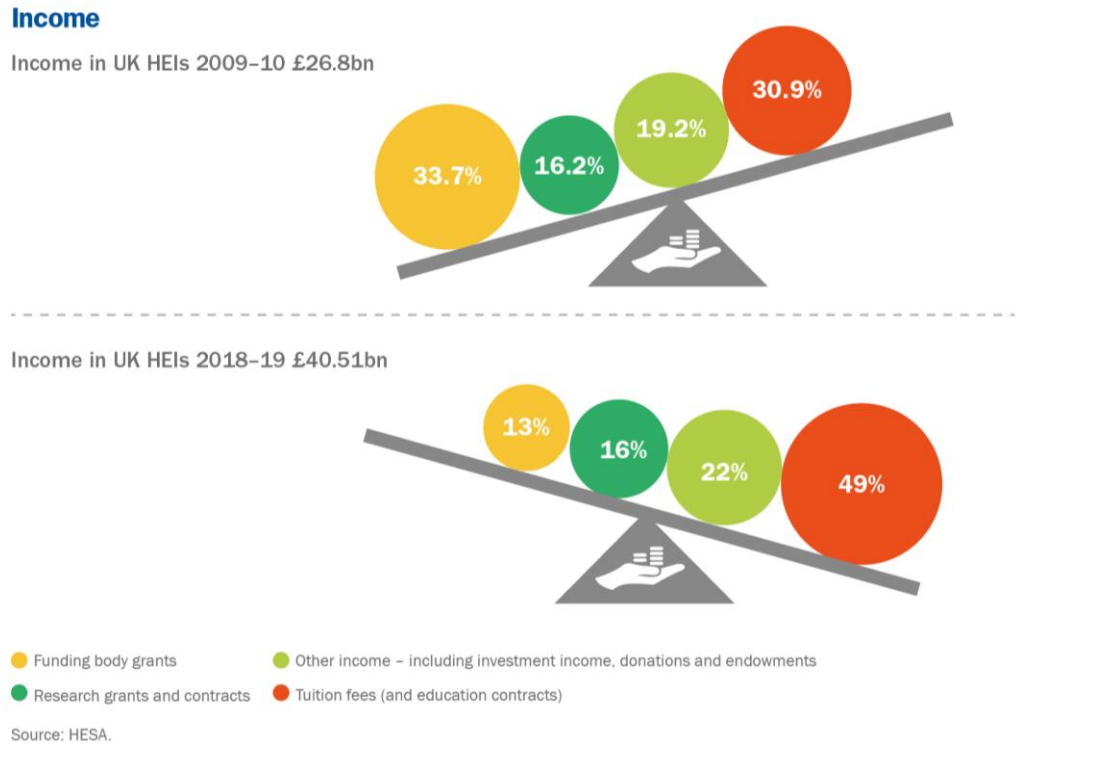


Note: The chart has been adjusted for stylistic purposes but the median and quartiles are based on HESA data. The ends of the distribution have been trimmed to the lower and upper decile for visual purposes to exclude outliers. Sources: HESA 2018–19.

Given this was the situation in 2018-19, the impact of Covid-19 is highly likely to push an even greater majority of HEIs into deficit.

4.2 Proportional contribution of student fees

Part of the reason that Covid-19 is likely to impact HEI finances to such an extent is the change in income sources in the sector. In the past nine years, the largest source of income for the sector has shifted from funding body grants to tuition fees, which now makes up almost half of all income for HEIs. This has meant that the uncertainty around student numbers due to Covid-19 may impact HEIs more than it would have previously.



4.3 Student numbers

This time last year the assumption was that most providers would see growth in student numbers, both UK and international, with two-thirds projecting increases of more than five per cent over the next three years[7].

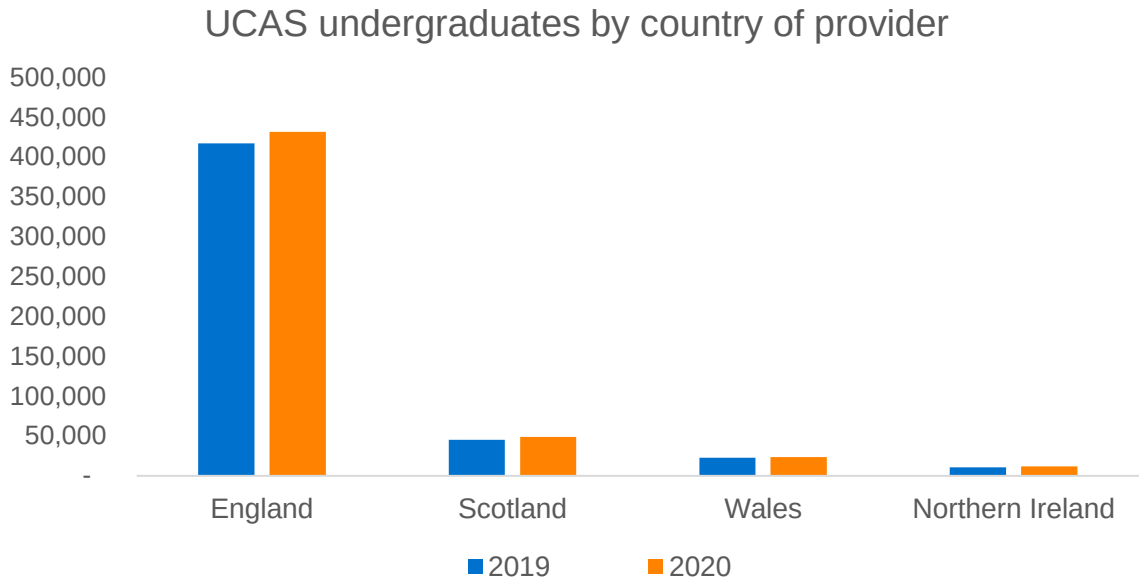
On 17 August the Westminster Government reassessed its approach to assessing this year's 'A' level results. While this reassessment restored higher grades for many students, the delay had resulted in many losing their first-choice university place, as universities had made offers to other students who had better grades despite the assessment system. In an effort to restore the original position for students the government was also obliged to lift the 5% cap on admissions at any individual university or college.

The following section includes an analysis of UCAS undergraduate application data for the 2020-21 cycle. As some places may be deferred this includes total applications rather than places taken up within this academic year. The end of cycle data for 2021 will be published from the 17 December 2020, with more detailed analysis available through January 2021. There are three progress publication dates, for each cycle, in October of the preceding year, January and the end of June. Once the 'A' Level results are published on the Joint Council for Qualifications (JCQ) results day in August, the clearing process commences, accompanied by regular updates. These UCAS statistics[8] are published 28 days after the JCQ results day, on the 4th September 2020. They do not include the number of undergraduate students studying in their second and third years, nor does it include postgraduate students. Applications to Teacher training college and Music Conservatoires are also separate.

The total number of undergraduate applications from around the world for the 2020-21 UCAS cycle increased by 20,020, 4% across the UK. Proportionately HE providers in Northern Ireland and Scotland gained the highest increases at 13.2% and 8.2% respectively.

[7] OfS, Financial sustainability of higher education providers in England, 4 April 2019: https://www.officeforstudents.org.uk/publications/financial-sustainability-of-higher-education-providers-in-england/

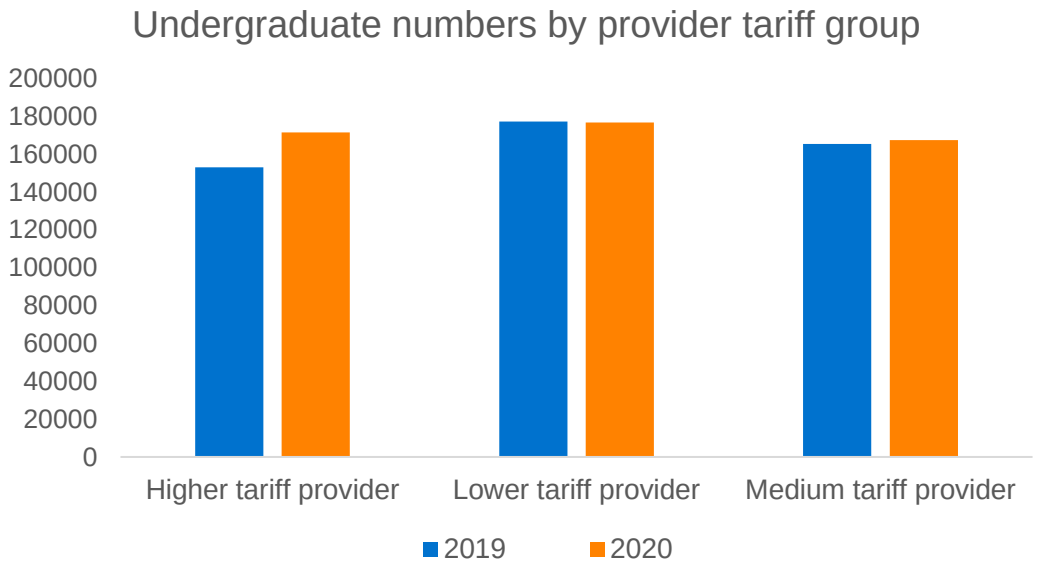
[8] https://www.ucas.com/data-and-analysis/undergraduate-statistics-and-reports/statistical-releases-daily-clearing-analysis-2020



Source: UCAS undergraduate statistics - Joint Council for Qualifications (JCQ) + 28 days

	England	Scotland	Wales	Northern Ireland	UK Total
2019	417,190	45,120	22,700	10,620	495630
2020	431,460	48,820	23,350	12,020	515650
% increase	3.4%	8.2%	2.9%	13.2%	4.0%

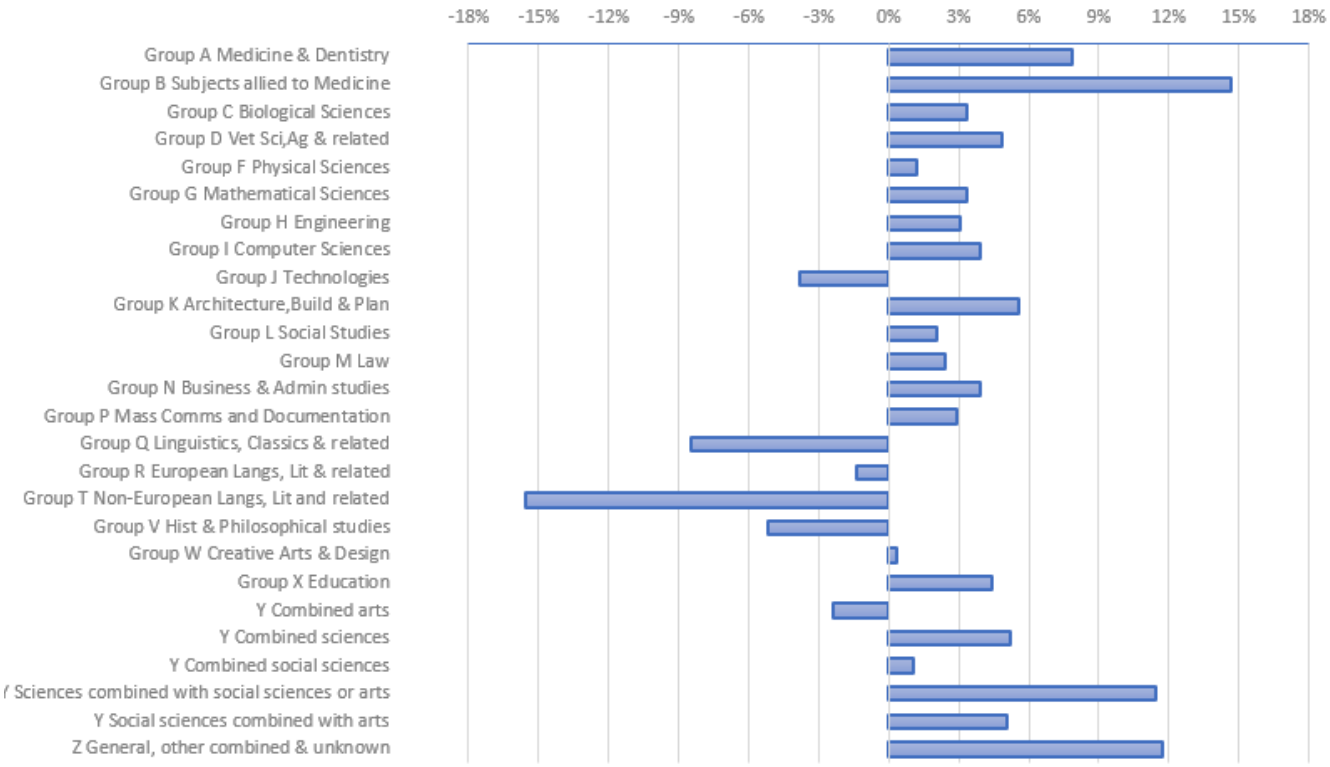
Lifting the cap was considered to favour the more prestigious universities and was expected to create an imbalance in undergraduate admissions in 2020 by type of provider. This had the effect of increasing applications levels at a higher rate (+12% compared to 4% on average) for high tariff universities, but it had little, if any, overall impact for medium or low tariff providers.



Source: UCAS undergraduate statistics - Joint Council for Qualifications (JCQ) + 28 days

Within the HE sector it is recognised that there have been winners and losers within HEIs as students have been able to exercise more choice. The individual HEI data is not yet available, but looking at the JACs subject codes we can see quite a variation by degree subject. Group B: *Subjects allied to medicine* has gained the largest proportion of additional students in 2020 (at 14.7 %) and combined science and general subjects in groups Y and Z have seen rises of 11-12% while Group T *Non-European Langs, Lit & related* has seen the deepest fall at (-15.5 %) followed by Group Q *Linguistics, Classics & related* (-8.4%).

Change in undergraduate applications by subject (JACs codes), 2020 compared to 2019



The Government has said it will provide additional teaching grant funding[9] to cover the costs to universities of the increased number of places in medicine, nursing STEM subjects and "…and other high-cost subjects which are vital to the country's social needs and economy".

Universities will be able to bid for this funding from an additional pot of up to £10 million has been provided for capital spending to support expansion in 2020/21.

This will serve to assist HEIs offering high demand courses, but will do little to offset the losses of those HEIs offering less popular subjects.

[9] PQ 83878 [on Higher Education: Finance] 1 September 2020

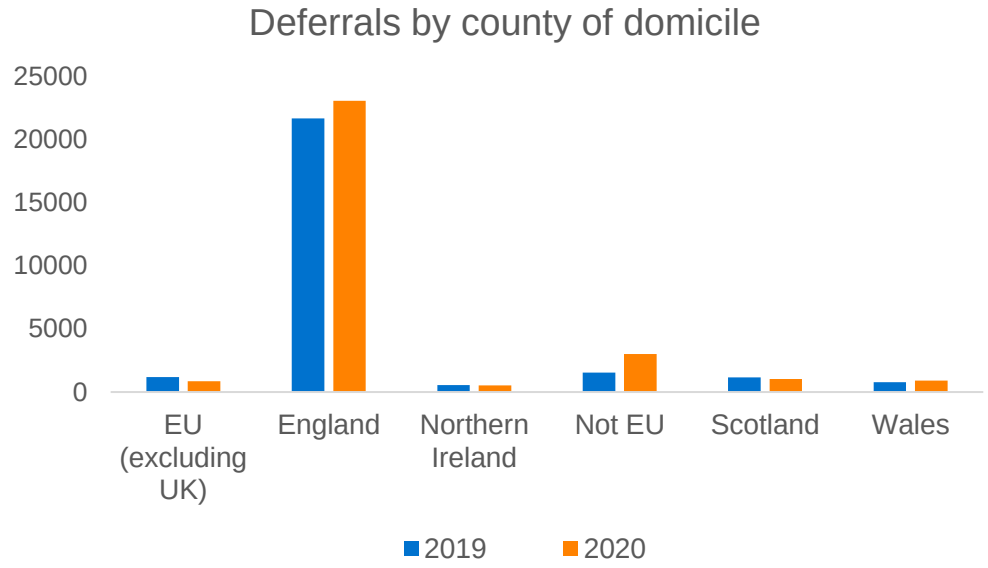
Deferrals

However, it's worth noting that the total number of undergraduates deferring this year is 29,360, compared to 26,840 in 2019. The increase in applications for the 2020-21 cycle includes a higher proportion of deferrals compared to 2019, which have increased by 9.4% compared to the overall percentage increase of 3.7% amongst non-deferrals.

Not only is the deferral rate higher year on year but looking solely at the increased number of applications in the 2020-21 cycle, the deferral rate has increased to 12.6%.

	2019	2020	Change in cycle	% change
Deferred	26840	29360	2520	9.4%
Not deferred	468790	486290	17500	3.7%
Total	495630	515650	20020	4.0%
Proportion of deferrals in cycle	5.4%	5.7%	12.6%	

Deferrals amongst undergraduates from the EU (excluding the UK) were down 28% compared to 2019 and deferral amongst Scottish students were down 10% while deferrals from the rest of the world not including the EU virtually doubled to 3,000 in 2020.



Source: UCAS undergraduate statistics - Joint Council for Qualifications (JCQ) + 28 days

International students

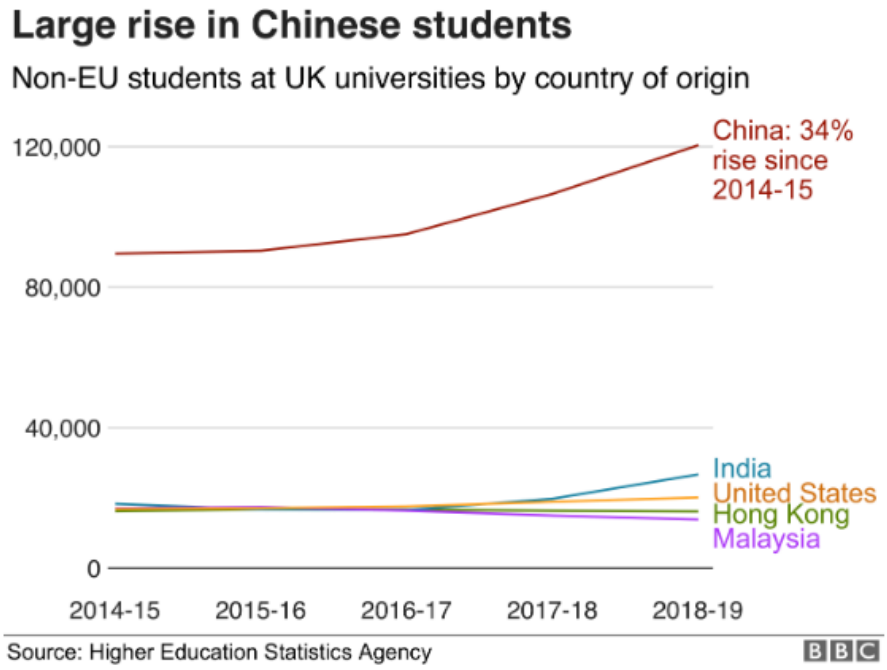
The UK higher education sector had almost 350,000 international students in 2018/19[10]. This was 14% of the 2.4 million students at UK universities. Just over half of international students study at postgraduate level. Many of these courses do not start until the second semester.

[10] HESA 2018-19

There is great uncertainty about international travel, quarantine rules and the university social experience which is doubtless the cause of these deferrals. International students' fees are not capped like students from the UK, who currently pay £9,250 for the higher tariff universities except Scottish students in Scotland.

International fees vary substantially depending on the university and the nature of the course. For example, mathematics or humanities course at HEIs can range from around £13,000 to £22,000, while medicine and veterinary science courses can cost more than £50,000 at higher tariff universities. Any change to international students may have a disproportionate effect on individual universities' incomes.

Over the last five years the number of Chinese students at UK universities has risen by 34% to 120,000 in 2018-19[11]. It means China now sends more students than any other country, inside or outside the EU, to the UK.



Any reduction in the projected numbers is likely to have a significant impact and most HEIs will be anxious about their ability to remain viable if student numbers are even marginally down. It is too soon to know for certain, as many HEIs will not know their international postgraduate student numbers before January 2021. A recent UCEA survey suggested that over 70% of HEIs would be unable to predict student numbers with certainty until February 2021 or later.

In 2018/19[12] fee income from non-EU students in the UK was £5.8 billion or 14.4% of the total income of all UK universities. Total overseas fee income increases to £7.0 billion (17.3%) in 2018/19 if income from EU students is included.

[11] HESA 2018-19 / https://www.bbc.co.uk/news/education-51149445 /

International students' fees provide a large and increasing share of providers' total income and universities gain a surplus on teaching international students. In 2018/19 teaching of overseas students generated an estimated surplus of £1.7 billion or 43% in England and Northern Ireland combined. Research income was £3.9 billion less than cost; a deficit of (44%) of income[13].

Further analysis of cross-subsidisation by the Office for Students emphasised the importance of these 'income cross flows' to give universities the flexibility to support a wide range of important activities. This surplus helps to fund important 'loss making' activities such as research. This 'cross subsidisation'[14] can also provide flexibility to support STEM teaching, investment in facilities and widening participation activities.

In its *2020 Annual report on education spending in England*, the IFS highlights that undergraduates applying through UCAS only make up around a quarter of incoming international students at UK universities, and less than a fifth of non-EU students. The lack of data on postgraduate students means that student number projections for this year are still subject to a large degree of uncertainty. Although its central estimate for international fee losses is currently around £600 million, the IFS has this note of caution:

> *"However, all of these numbers are still subject to a very large amount of uncertainty, largely due to the dynamic and unpredictable nature of the COVID-19 pandemic. It is impossible to know at the time of writing how many international students have dropped out or deferred at the last minute given the recent rise in COVID-19 cases."*

Having started the first semester of 2020-21, two-thirds of HEIs surveyed by UCEA[15] expect undergraduate international student enrolment numbers to drop compared to 2019-20. In addition, three-quarters of HEIs expect to see a fall in postgraduate international student numbers compared to 2019-20. In respect of both domestic and international students, only around 1 in 10 HEIs expect to be able to predict numbers with any certainty before the end of 2020. The majority of HEIs (around 60%) do not expect to be able to have reliable student numbers until February 2021 at the earliest.

4.4 Student retention

There is also a concern that student retention may be more difficult in 2020-21, particularly if there is another national lockdown. When asked in a recent UCEA survey about student retention, all HEIs responded that they had concerns for the future. On

[12] HESA, 2018-19
[13] OfS Office for Students, Annual TRAC 2018-19: Sector summary and analysis by TRAC peer group
[14] OfS, Understanding the impact of income cross-flows on financial sustainability in the UK higher education sector, February 2019
[15] Pulse survey on the financial situation in HE, UCEA, October 2020

the reasons for concern about whether students would return after Christmas or for future years of study, over 90% cited a national lockdown and almost three-quarters cited a local infection amongst students.

> *Our retention concerns are that restrictions have changed the student experience and that students will want to withdraw/return home, or be forced to. We're particularly worried about students returning to uni after xmas. It puts tuition fee and accommodation income at significant risk. Whilst students may be contractually obliged to pay, we haven't yet collected all fees due.*
>
> - *Post-1992 HEI, North of England*

Other HEIs were worried that any government restrictions and guidance mandating HEIs to teach fully online would have a negative impact on student experience and mental health, meaning that some students would choose not to return to their studies.

4.5 Operating cost increases due to Covid-19

Institutions have understandably increased investment in a range of activities as a result of the pandemic. These have included a one-off cost for creating online and blended learning content and making classroom and teaching facilities Covid-19 compliant. An important new area of activity for many HEIs has been taking on responsibility for test and trace systems, especially where local public health facilities have not had the capacity to provide this support.

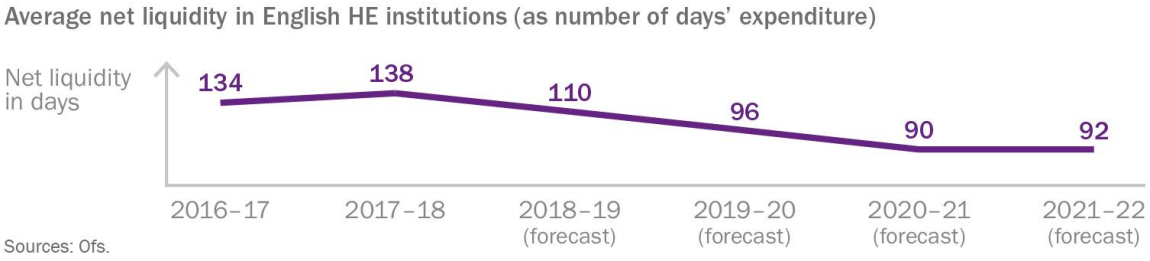
IFS suggests that the current situation created by the pandemic has meant that catering facilities within many HEIs are unable to be used as normal, resulting in losses for those institutions. In addition, the measures taken by HEIs to prevent the spread of infection will have created extra costs for universities, including from the provision of free food and security staff. A significant risk which has been identified by a number of HEIs is the loss in revenue streams resulting from the under usage of student accommodation. In many instances this has immediate financial consequences for institutions. Where HEIs have agreed to provide rent rebates to students, these will also create further losses. Based on the information currently available, IFS calculates that this would have the effect of cancelling out any gains from above expectation student numbers, leaving total losses nearly unchanged at around £1.4 billion. According to IFS[16] this estimate is still subject to some downside risk that the coronavirus pandemic will result in larger losses for HEIs.

4.6 Liquidity of HEIs

It may be especially difficult for HEIs to weather the decreased revenue from Covid-19 related challenges because their liquidity (as predicted by the Office for Students) was already expected to fall prior to the Covid-19 crisis. This means that the “buffer a

[16] IFS 2020 Annual report on education spending in England

provider has against unexpected financial challenges" (OfS, 2019)[17] has diminished over time. Covid-19, and the resultant shock to the economy as outlined below, has been a huge unexpected financial challenge to many HEIs.



4.7 Proportion of staff costs

Adding to the difficulties facing HEIs during this time is the difference between private sector and HE sector costs. HE staffing costs accounted for 59% of all expenditure in 2018-19 compared to the private sector where staff costs are under 50% and sometimes much lower (Kornferry, 2020)[18]. This puts HEIs in a precarious situation when their income is suddenly reduced as is likely due to Covid-19.

Given the large proportion of expenditure accounted for by the pay bill, the annual settlement from JNCHES negotiations is one of the largest variations in the increase in costs and investment for HEIs.

4.8 Financial situation

The House of Commons Library[19] published *Coronavirus: Financial impact on higher education* on 17 September 2020, which draws heavily on IFS reports cited in this section. A report by the IFS in July 2020, *Will universities need a bailout to survive the Covid-19 crisis?* outlined the significant financial risk to the UK higher education sector of the coronavirus pandemic.[20] The IFS's *2020 Annual report on education spending in England,* cited above, builds on the analysis in this report.

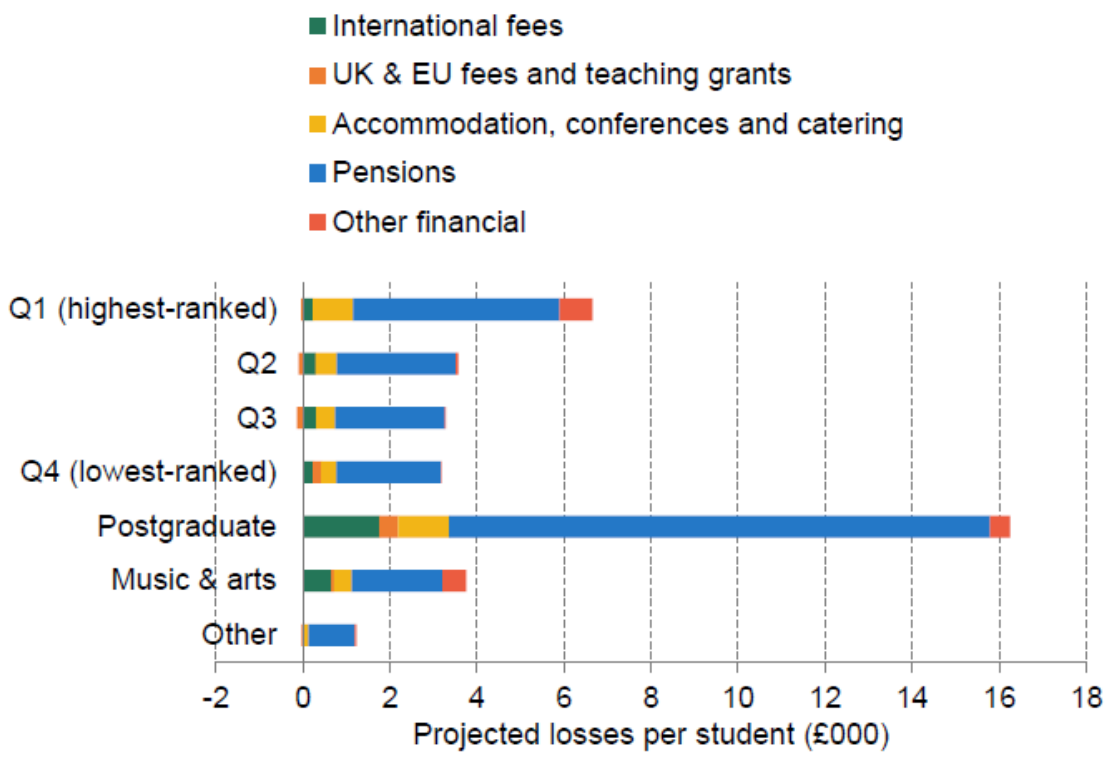
The IFS's current estimates from losses relating to international student enrolments is in the region of £600 million although, as set out above, there is still a significant degree of downside uncertainty over this. In addition, the IFS's estimate of the increases in the deficits of university-sponsored pension schemes, which universities will eventually need to cover have 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

[17] OfS, Understanding the impact of income cross-flows on financial sustainability in the UK higher education sector, February 2019
[18] Kornferry data, presented at 2020 Vision - Reward priorities for higher education in context (05/06/2020)
[19] http://researchbriefings.files.parliament.uk/documents/CBP-8954/CBP-8954.pdf
[20] https://www.ifs.org.uk/publications/14919

accommodation and conference and catering operations, as well as financial losses on long-term investments.

Large sector-level losses mask substantial differences between institutions. In general, institutions with a large share of international students and those with substantial pension obligations are 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, will also be badly hit if higher-ranked universities admit more UK students to make up for the shortfall in their international enrolments. While recently introduced student number caps will constrain some of this behaviour, there are still likely to be falls in student numbers at the least selective institutions. Universities are unlikely to be able to claw back a large portion of these losses through cost savings unless they make significant numbers of staff redundant.

Updated projected losses per student by institution type



Taken together with the higher costs relating to staff pensions, which have also been driven up by the lower expected future returns on investments resulting from the pandemic, the IFS now forecasts that the sector's losses from COVID-19 will be in the region of £10 billion. It also projects that 13 institutions will have negative assets by 2024.

From our most recent UCEA survey[21], 7 out of 10 HEIs reported ending the 2019-20 academic year with income down on their budgeted figures. On average, income was down by -1% and, with a median drop of -2.7%.

Looking to 2020-21, 7 out of 10 HEIs also report a reduction in their budgeted income compared the previous year's or most recent pre-Covid forecast. These drops are much steeper, with an average of -5.5% and a median of -4.9%. The vast majority of HEIs expect to see a fall in income across the range of their activities. Three-quarters anticipate a reduction in fee income for 2020-21. In addition, nearly 9 in 10 expect commercial income to fall. Three-quarters expect income from accommodation to fall and nearly 3 in 5 also anticipate reductions in research incomes. Again, nearly three-quarters of HEIs expect falls in all other income streams.

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. It is important to emphasise that these spending decisions are being made against a backdrop of considerable uncertainty. Feedback from HEIs has been consistent about the highly unstable situation facing the sector. With no clear end in sight to the pandemic, HEIs face volatility and uncertainty, particularly in respect of student retention and commercial income streams.

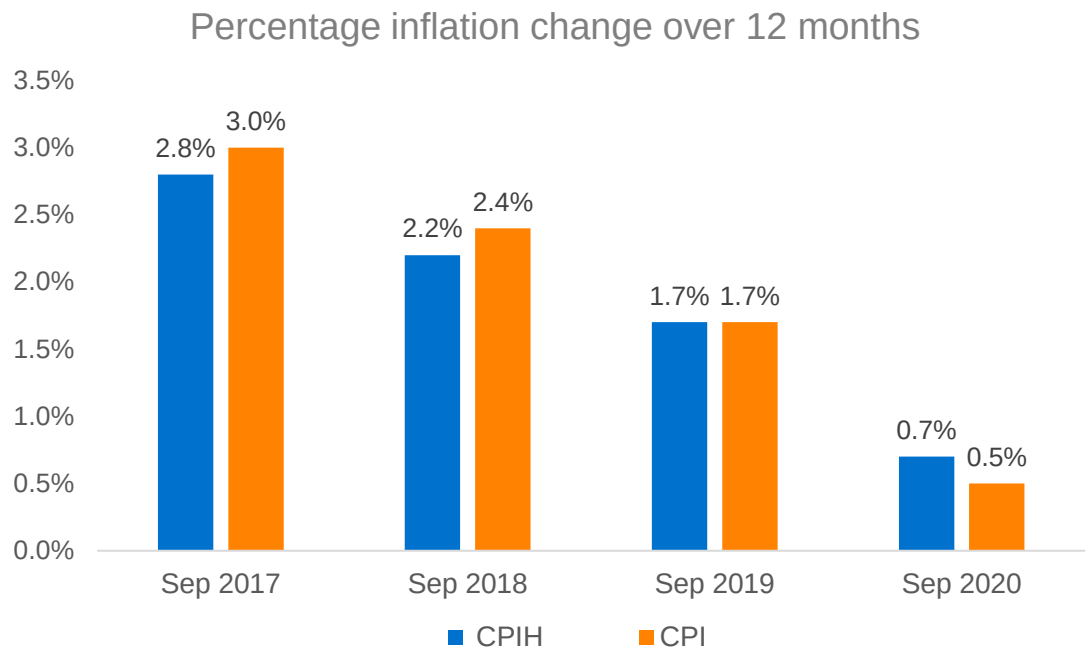
5 Pay structures and living wages

5.1 Inflation

The Consumer Prices Index (CPI)[22] 12-month rate was 0.5% in September 2020, a key reference month for inflation-linked price increases, pensions etc. The Consumer Prices Index including owner occupiers' housing costs (CPIH) 12-month inflation rate was 0.7% in September 2020, down from 0.9% in April 2020.

[21] Pulse survey on the financial situation in HE, UCEA, October 2020

[22] https://www.ons.gov.uk/economy/inflationandpriceindices/bulletins/consumerpriceinflation/september2020



Source: Consumer price inflation, UK, ONS, September 2020

5.2 National Living Wage

The Resolution Foundation have been forecasting the level of the increase in the national living wage, which will be decided by the Low Pay Commission, and that may also give us an indicator of the level of increase in the Foundation living wage. The Chancellor has allowed an "emergency break" if the LPC consider that a rise in the NLW might affect employment and jobs.

The Resolution Foundation predicted that an increase of 15p this year might be appropriate at the launch of this year's Low Pay Report[23] At the 17th Annual Labour Relations Conference on the 22nd of October the RF also suggested that it might be in the region of 10p or 20p. Should the same scale of actual increase apply to the Foundation living wage that would suggest a percentage increase of 1% or 2% respectively.

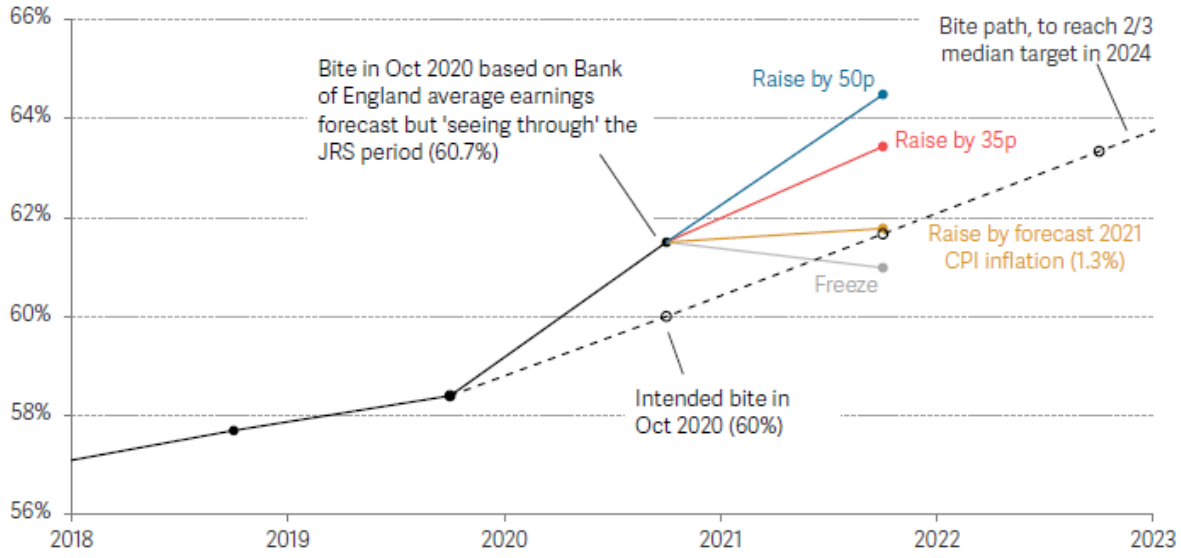
At the launch of the Low Pay Report in September, the Resolution Foundation provided the following analysis of the impact of Covid-19:

> *This creates a challenging and highly uncertain environment in which to set minimum wage policy. The Low Pay Commission (LPC) would have expected to be raising the National Living Wage (NLW) by around 50p this year. Instead, a lower uprating of around 15p is more likely. But this is still consistent with sticking to the longer-term aim of ending low pay by 2024.*

At the same time the national living wage has already achieved many of its objectives in reaching 66% of median pay, and its current “trajectory” is actually above this target. The forecast below illustrates a dotted line projection of forecast CPI inflation at 1.3% in 2021.

[23] https://www.resolutionfoundation.org/publications/low-pay-britain-2020/

Bite of the NLW relative to 25+-year-old median hourly pay: actual, and various scenarios: UK



NOTES: See notes to Figure 17.
SOURCE: RF analysis of Low Pay Commission, 2019 report; Bank of England, August Monetary Policy Report, August 2020.

6 Conclusion

For all the reasons contained herein, the HEIs participating in the New JNCHES pay awards consider that they need financial certainty for budget planning for the coming academic year. HEIs also recognise the additional work demands and stress caused by Covid-19 and new ways of working and many are rewarding that additional effort in creative ways, with a variety of means, ranging from awards, and additional time off.

Therefore, the participating HEIs have given UCEA an unequivocal mandate for zero per cent uplift, with no flexibility.

Nonetheless HEIs take their responsibility for low paid workers very seriously. All HEIs are aware that legislative requirements for low paid workers on the National Living Wage will undoubtedly require additional adjustments to the lower scales of the pay spine, particularly to ensure that HEIs with working weeks of 37 hours are compliant.

The zero pay award sought by UCEA will not compromise compliance with the National Living Wage. In deciding upon a pay freeze, UCEA and its members have not reached this conclusion lightly. If possible, UCEA wishes to work with the Union Side to provide the sector with the certainty that our institutions need in order to navigate what appears to many to be the most perilous set of circumstances we have encountered in living memory.