New JNCHES Negotiations 2020-21
Employers' Statement

7 July 2020

1 Introduction

UCEA, acting on behalf of the participating employers, has arranged a special meeting with the HE trade unions under the auspices of New JNCHES to reach agreement on a pay freeze for 2020-21 because of the unprecedented challenges facing the HE sector this year. This replaces the normal negotiating process as UCEA has a clear mandate from participating employers to achieve financial certainty swiftly to aid planning for the difficult academic year ahead.

Under these unusual circumstances the Employers' statement differs from the usual format, for obvious reasons. The latest data release from HESA documents 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.

Given the sudden and unforeseen changes affecting the whole economy and employment in general, the vast proportion of available government data is outdated before it is published.

Economic performance has been subject to dramatic changes since the last week of March 2020, which affected just one week of Quarter 1 data. Despite magnificent efforts by the ONS, most national economic indicators reported on a moving annual total (MAT) or quarter basis provide scant information on the impact of Covid-19 because of the time lag in reporting, and the short time period covered..

Consequently, this paper will be briefer in scope than was previously the case and draws extensively on a number of bespoke sources as well as UCEA analysis of publicly available data.

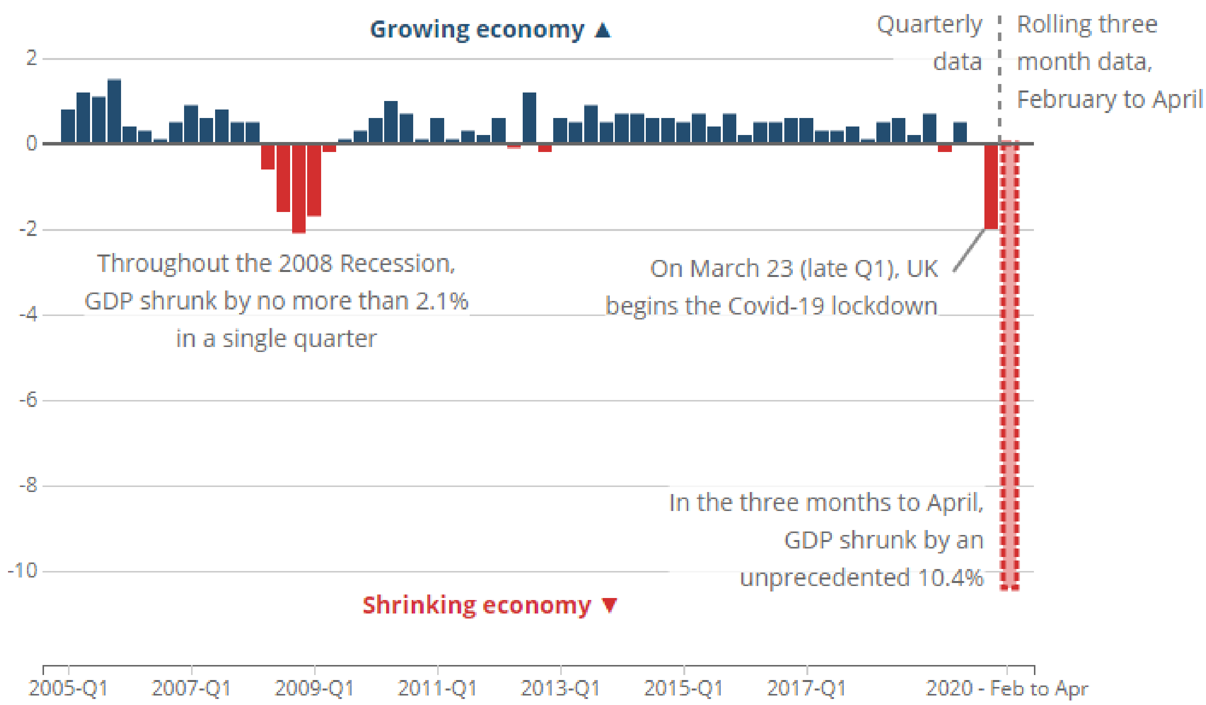
2 Impact of Covid-19 on the UK economy

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.

UK GDP growth, Quarter 1 (Jan to Mar) 2005 until February to April 2020

Quarter on quarter growth and rolling three-month growth, %



April's fall in GDP is the biggest the UK has ever seen, more than three times larger than the previous month, March, and almost ten times larger than the steepest pre-Covid-19 fall. In April the economy was around 25% smaller than in February 2020.

2.2 Change to GDP growth, April 2020

Monthly GDP fell by 20.4% in April 2020, the biggest fall since the series began in 1997, dwarfing the 2008 financial recession. This follows a 5.8% drop in March 2020.

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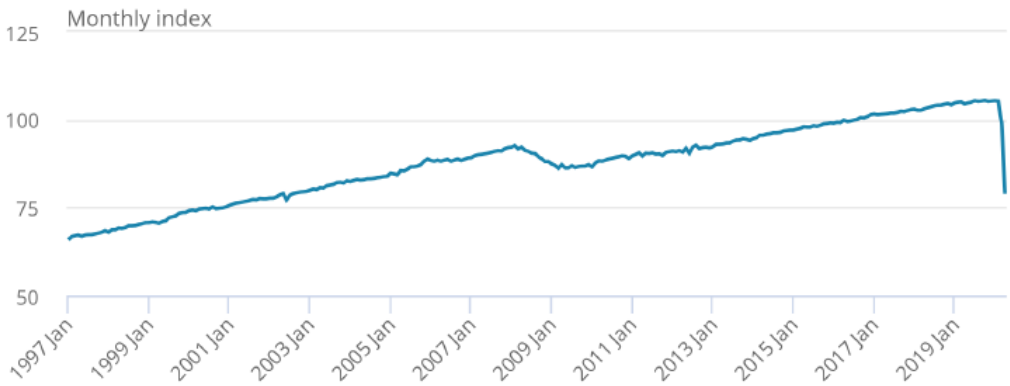
Monthly index, January 1997 until April 2020



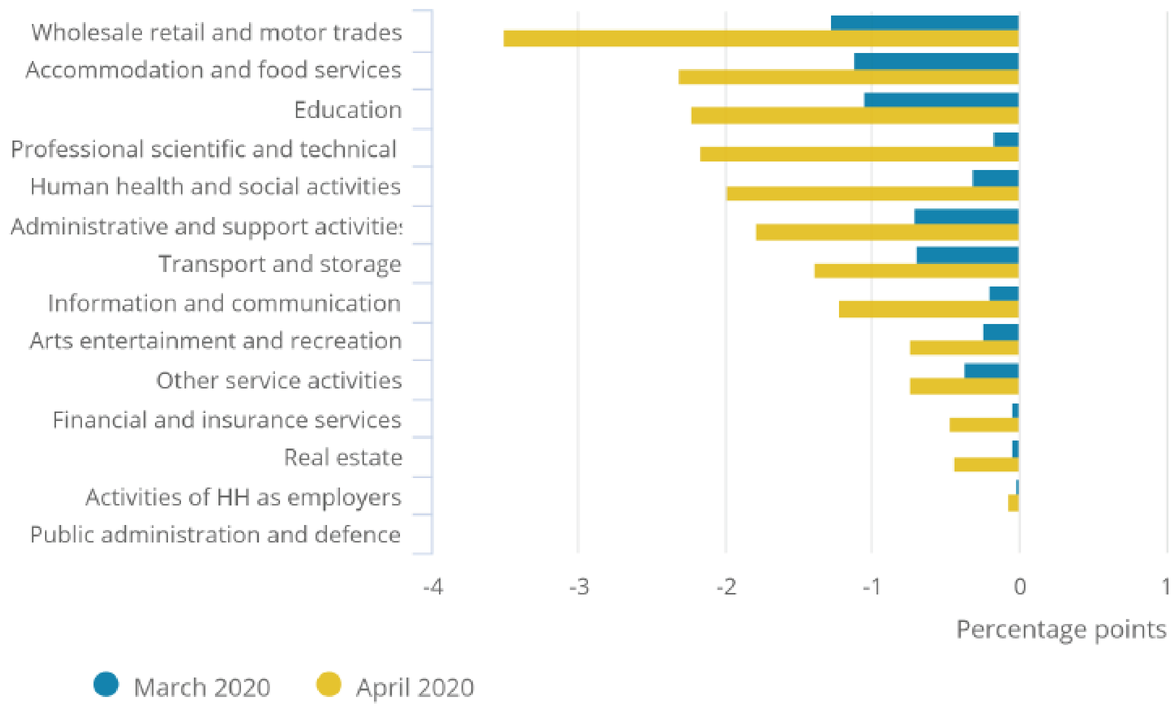
Although this update only reports on the first month in Quarter 2, 2020, we know that lockdown has continued for the whole quarter, and it is not yet certain when, or if, GDP growth will return to pre Covid-19 levels. The Office for Budget Responsibility[1] forecast that the fall in GDP could equal 35% for Quarter 2, 2020, and 13% for 2020 as a whole.

2.3 Change to service sector GDP growth

Jonathan Athow, Deputy National Statistician for Economic Statistics, said: "Virtually all areas of the economy were hit, with pubs, **education,** health and car sales all giving the biggest contributions to this historic fall".

Rolling three-month services growth fell by 9.9% in April 2020, following a 1.9% fall in the three months to March 2020.The downturn in GDP growth was driven by falls in nearly every industry, and education as a whole fell by twice the average (18.8%) as a result of school closures during March and April.

Services fell by 9.9% in the three months to April 2020, with widespread falls across nearly all industries



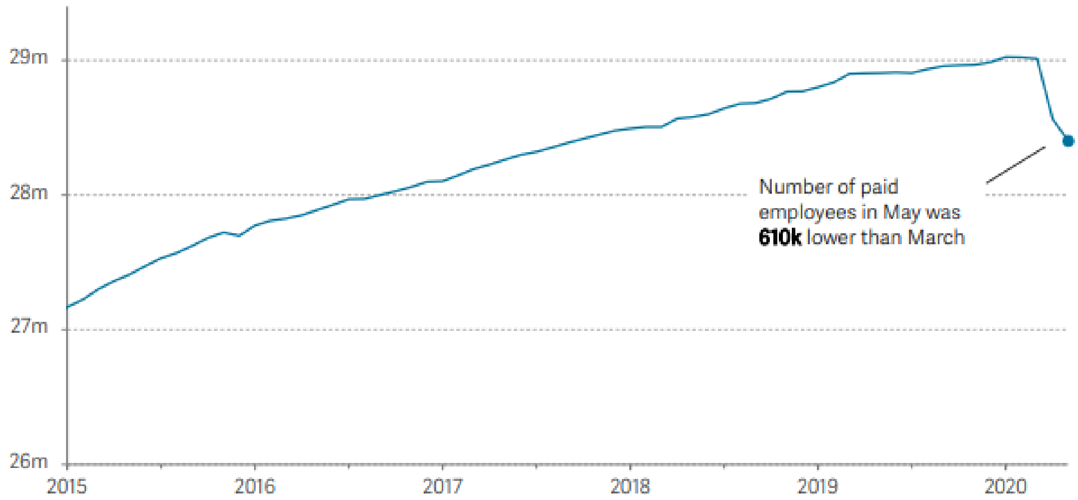
2.4 Impact of Covid-19 on employment in the wider economy

Employment figures are also showing a labour market weakened by the economic impacts and social distancing measures arising from Covid-19. Data from HMRC and the ONS suggests that unemployment is rising much quicker than official headlines suggest: the number of paid employees has fallen significantly and the number claiming

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

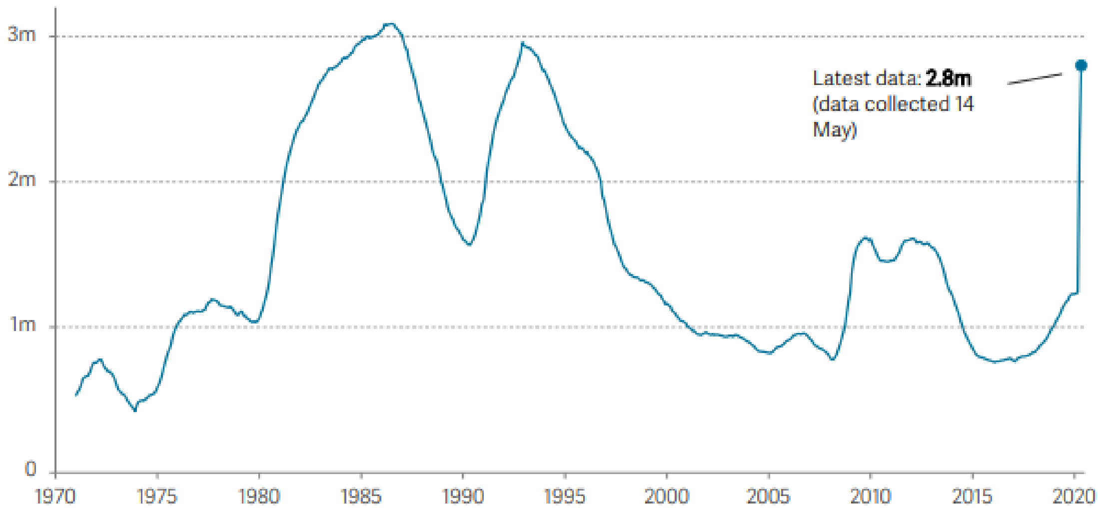
unemployment-related benefits has risen to levels not seen since the 1980s and 1990s recessions (Resolution Foundation, 2020)[2].

Number of paid employees according to HMRC real-time PAYE data: UK



NOTES: This data includes furloughed workers since they are still paid employees. Monthly data is an average for the whole month.
SOURCE: ONS, Labour Market Statistics.

Number of people claiming unemployment-related benefits: UK



NOTES: The claimant count is not the same as total unemployment. The measure includes all claimants subject to work-search requirements, which may include some employed claimants on low hours/earnings. Data is seasonally adjusted.
SOURCE: ONS, Labour Market Statistics.

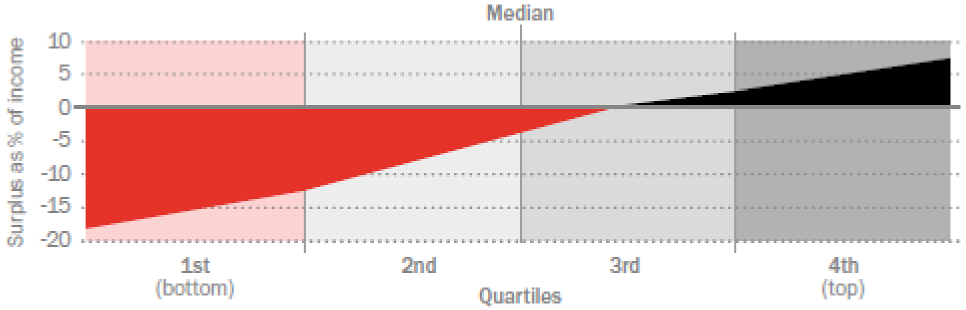
3 Background HE Income and Expenditure data

The following information comes from UCEA analysis of publicly available information such as the 2018-19 HESA data.

[2] Resolution Foundation, The Full Monty, July 2020 Available for download: https://www.resolutionfoundation.org/publications/the-full-monty/

3.1 HE Surplus or deficit

Examining 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%.

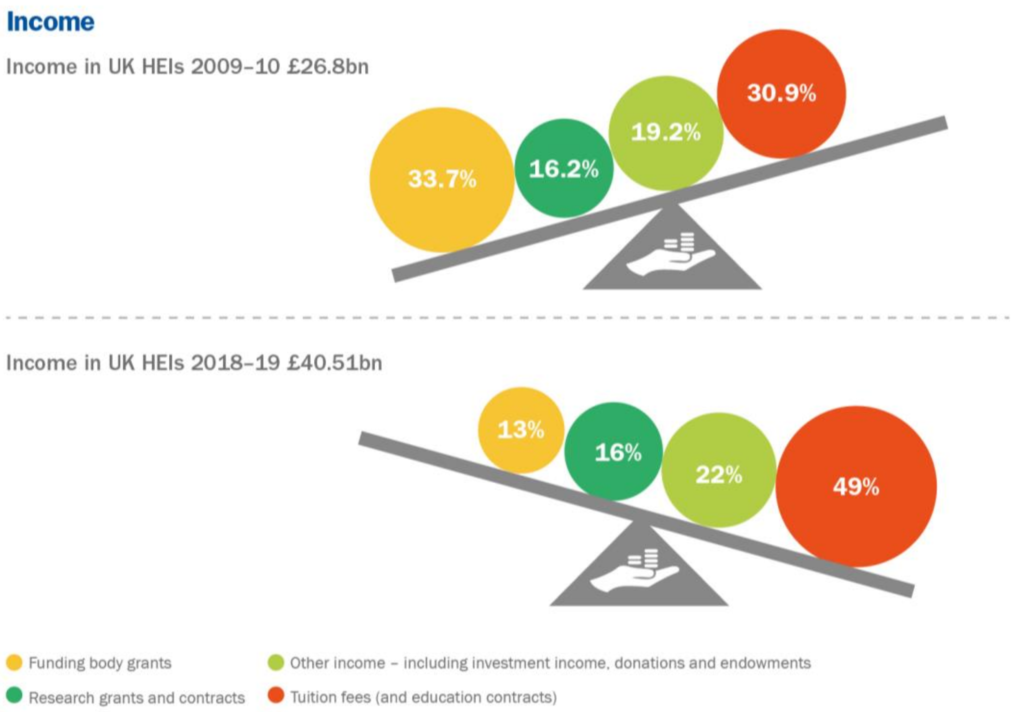


Note: The chart has been adjusted for stylistic purposes but the median and quartiles are based on HESA data. The ends of the distribution have been trimmed to the lower and upper decile for visual purposes to exclude outliers. Sources: HESA 2018–19.

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.

3.2 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.



Source: HESA.

3.3 Student numbers

Whilst the number of UCAS applicants accepting a conditional or unconditional place by the 18th June deadline are 1% higher in the 2020 application cycle (UCAS, 2020)[3] compared to the same stage in 2019, there is still much uncertainty around grades being dependant of teacher assessment in 2020 rather than exams.

Students still have the option of deferring even if they achieve the required grades, and there is great uncertainty about the university social experience and face-to-face teaching as a result of social distancing.

Analysis of a YouthSight poll of 516 students who have applied to a UK university this year by London Economics[4]* found that an additional 17% of prospective students will not enrol in higher education in September 2020 if universities are not operating as usual. Figures from UCAS show that in normal years between 5-6% of students opt to defer their place[5] - around 30,000 students. The current analysis suggests there would be around 120,000 deferrals. The same survey also asked students how likely they were to switch universities by going through the clearing process. Of those surveyed, on average, there was a 25% chance that they would consider switching institution.

At present 21% more international students have a deferred place compare to 2019. A second wave, travel restrictions or localised hot spots could affect take-up by international students in 2020.

Over the last five years the number of Chinese students at UK universities has risen by 34% to 120,000 in 2018-19[6]. It means China now sends more students than any other country, inside or outside the EU, to the UK.

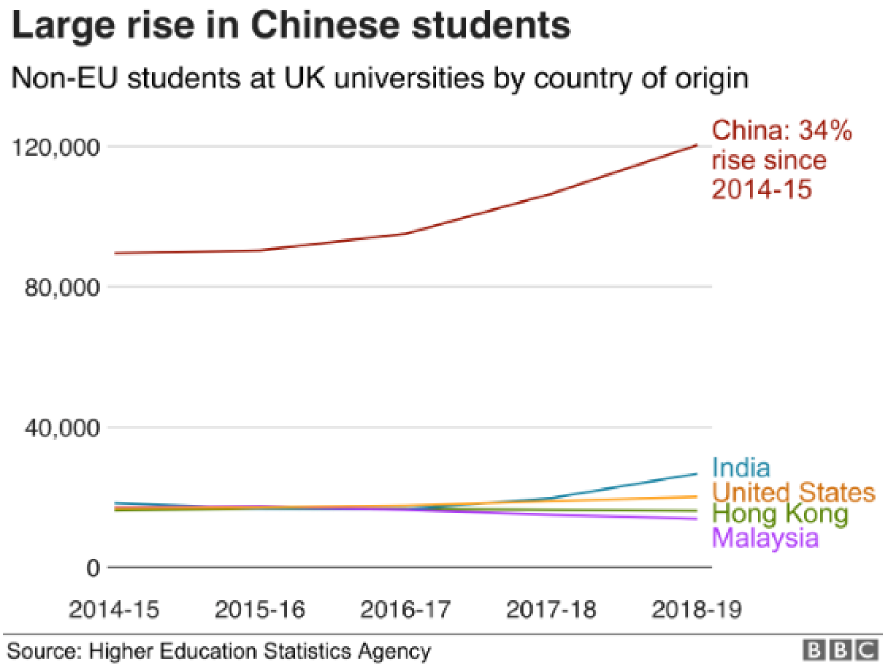
Diplomatic relations with China over Hong Kong might affect the number of Chinese students in 2020-21.

[3] https://www.ucas.com/corporate/news-and-key-documents/news/rise-number-students-planning-start-university-autumn

[4] Impact of the Covid-19 pandemic on university finances, London Economics, April 2020 for the UCU

[5] Currently standing at 20,690 (UCAS, 18 June 2020) with International student numbers up 21% on 2019

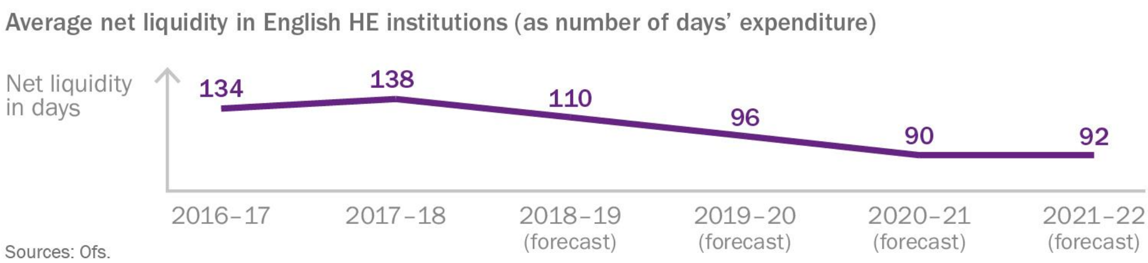
[6] HESA 2018-19 / https://www.bbc.co.uk/news/education-51149445 /



Therefore, while it is too soon to know for certain, most HEIs will be anxious about their ability to remain viable if student numbers are even marginally down. 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]. Any reduction in the projected numbers is likely to have a significant impact.

3.4 Liquidity of HEIs

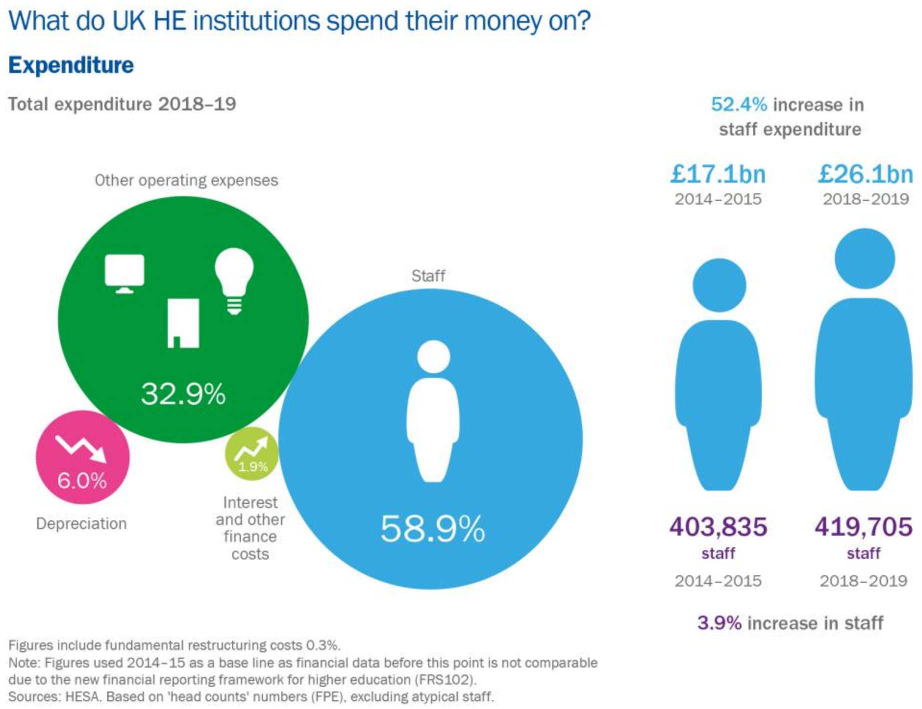
It may be especially difficult for HEIs to weather the decreased revenue from Covid-19 related challenges because their liquidity (as predicted by the Office for Students) was already expected to fall prior to the Covid-19 crisis. This means that the "buffer a provider has against unexpected financial challenges" (OfS, 2019)[8] 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.



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

3.5 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)[9]. 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.

3.6 Financial situation

The *Impact of the Covid-19 pandemic on university finances* makes a compelling case about the impact on student enrolments, HE income and the resulting impact on net cash inflow from operating activities. London Economics report in detail on the economic growth forecasts for the UK in the Office for Budget Responsibility's Economic and Fiscal Outlook for March 2020, reflecting the earlier UK GDP growth figures from the ONS.

In addition to analysis of the likely shortfall in grant income and fees, the London Economics report acknowledges that "a further £7.00 billion in university income was accrued from the provision of a range of other services (for instance, accommodation, catering and events), which will clearly be impacted by the economic slowdown and the reduced number of students expected to enrol in UK HEIs in 2020".

[9] Kornferry data, presented at 2020 Vision - Reward priorities for higher education in context (05/06/2020)

In terms of the financial impact, the total decline in tuition fee and teaching grant income experienced across the sector was estimated to be £2.47 billion (comprised of a decline in tuition fee income of £2.33 billion, and a loss of teaching grant income of £137 million). By student domicile, approximately £612 million of this loss in income is associated with UK-domiciled students, with a further £350 million associated with EU-domiciled students. Driven by the significantly higher tuition fees charged to non-EU students, the largest decline in income was associated with non-EU students, where the expected loss in fee income was estimated to be approximately £1.51 billion.

The London Economics report acknowledges that it's modelling has been limited to the decline in fee and teaching grant income associated with first-year students in the 2020-21 academic year i.e. in these students' first year of study: "Given the fact that many higher education students enrol in multi-year programmes, the total financial impact associated with the decline in first-year students (over their entire study duration) may be much larger – especially depending on the extent to which students decide to no longer come to the UK at all".

HEIs responding to the London Economics report expect the impact the negative financial impact to extend over the next 3-4 years.

4 Pay structures and living wages

4.1 Inflation

The Consumer Prices Index (CPI) 12-month rate was 0.5% in May 2020, down from 0.8% in April. The Consumer Prices Index including owner occupiers' housing costs (CPIH) 12-month inflation rate was 0.7% in May 2020, down from 0.9% in April 2020.

Falling prices for motor fuels and a variety of recreational and cultural goods resulted in the largest downward contributions to the change in the CPIH 12-month inflation rate between April and May 2020.

4.2 National Living Wage

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. They seek to resolve that swiftly without protracted discussions continuing into the summer.

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.

4.3 Recognition for higher workloads

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.

5 Conclusion

In proposing 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.