

EMPLOYERS' BACKGROUND DOCUMENT

HE PAY NEGOTIATIONS 2010/11 – CONTEXT

PART 1 SUMMARY OF KEY POINTS FROM HE EMPLOYERS

INTRODUCTION

1. This Part 1 sets out as key points the employers' views on the context for this year's pay negotiations. We provide this commentary as both background information for the negotiations and as a summary of the key issues to be addressed from the employers' perspective.
2. The following Part 2 provides supporting detail and analysis to substantiate the key points. It deals with the economic, political and financial context for the negotiations, the current state of the labour market, the current situation with pay and earnings levels in HE, the rising cost of employee benefits, especially pensions, and institutions' ability to meet increases in staffing costs.

KEY POINTS

- The UK Economy is in a weak state with a massive public spending debt, high unemployment and low earnings growth. We are currently experiencing a slow recovery from the worst economic recession since the Second World War.
- There is added political uncertainty over the future of HE funding, compounded by the pending General Election, which is expected to take place in May this year.
- The sector is already experiencing the impact of current Government policy to reduce the public debt and we have already seen cuts in HE funding. It is clear that the period of expansion in HE has now come to an end. The new challenge for institutions is sustainability.
- Over half of English HEIs will receive a funding cut in 2010/11. Only 25 (19%) of English HEIs will receive a real terms funding increase. The overall increase of 0.9% in cash terms amounts to a real terms cut of 1.1% when inflation is taken into account. All but 1 of Welsh HEIs will experience a cash decrease in recurrent grant, with the overall cash decrease at 1.99%. These allocations are provisional with Funding Councils warning that further reductions could be applied in 2011. In Scotland 3 HEIs will see a very small increase in real terms in their grant allocation and the remainder of HEIs will see a real terms decrease in grant.

- The reductions in funding will be combined with some unavoidable increases in staffing costs for employers – e.g. increases in pension costs; an increase of 1% in NI contributions from April 2011; and the annual cost of increments (around 2% per annum for most HE employers) before any increase in base pay. The recent Grant Thornton analysis of HE finances for the Times Higher Education magazine (18 March 2010) indicated that the HE wage bill has grown by 16.7% over the last two years (2008 to 2009), on top of an increase of 18.5% between 2005 and 2007.
- HE pay and earnings levels remain very competitive in comparison to other sectors. HE staff base pay has risen by at least 16.4% over the four year years since the 2006 Agreement (2006/07 to 2009/10), the highest increase among public sector comparator groups. The second highest increase was the 12.2% received by the Armed Forces over this period.
- The average gross annual earnings for full-time HE Teaching Professionals were £50,091 at April 2009 (using specially commissioned ASHE data using the methodology agreed by the unions in the JNCHES Review of Higher Education Finance and Pay Data). HE Teaching Professionals' earnings were fourth highest in a list of 44 professions.
- The gross weekly earnings of all HE staff increased by 11% (median) between April 2008 and April 2009 (i.e. over one year) and by 8.6% at the mean. Over the same period the gross weekly earnings of all HE Teaching Professionals rose by 11.4% at the median and by 11.6% at the mean. In comparison the gross weekly earnings of all employees in the whole economy increased by just 2.2% at the median and 1.6% at the mean over the same period.
- The lowest-paid workers in HE have seen the largest pay rises and HE employers report that they are often paying well ahead of their local market. The lowest hourly rate in HE, based on a 37 hour week, is currently £6.82 (£7.22 based on a 35 hour week). This compares with £6.30 in local government (37 hours) and £6.77 in the NHS (37.5 hours). National Minimum wage is now £5.80 per hour. Cleaners now earn an average £8.47 per hour in HE, compared to £7.16 in the wider economy (ONS, ASHE)
- For support staff, in April 2008, HE earnings were significantly ahead of the rest of the economy for almost all occupations where comparisons could be made. The 2009 ASHE data (based on the same methodology used in the JNCHES Review of Higher Education Finance and Pay Data) indicates that that lead has been maintained.
- The value of HE salaries has been maintained for much of the period since October 2008 because of negative inflation during 2009. Between February and October 2009 the RPI was continuously below zero. While inflation has recently risen, commentators are divided over whether the current increase in inflation will continue. Most predict a fall in the latter half of 2010.

- In 2009/10 a third of organisations in the economy as a whole had a pay freeze (Source: IDS and IRS).
- The labour market is still weak and likely to remain so for the foreseeable future. While unemployment is now falling, employment also continues to fall. HE is therefore not facing widespread problems in recruiting and retaining staff from the wider labour market when vacancies arise.
- HE continues to provide very generous benefits provision compared to other sectors, notably in its pension provision.

In conclusion, the financial context for this year's negotiations is severe. Institutions are facing unavoidable increases in staffing costs in 2010/11, even before any increase from August 2010 is discussed. At the same time they face reduced income because of the reduction in Governments' funding, the cap on student numbers and reductions in non-publicly funded elements of income (e.g. business consultancy and contract research). While it is recognised that the cost of living is now rising, the value of HE pay has seen a significant increase since 2001 when JNCHES was created. Recent increases have placed HE salaries and earnings at the top of the public sector pay league table. This is still the case, even after last year's modest increase when inflation was negative and a third of employers in the wider economy had frozen pay. The state of the labour market also indicates that competition for labour between HE and other sectors is not generally problematic. Labour turnover within HE remains low compared to other sectors, partly because of the competitive levels of pay provided and the very generous benefits offered by institutions. More than ever this year, HE faces a very real issue of affordability and this is the employers' major concern underpinning their approach to this year's pay negotiations.

PART 2 SUPPORTING DETAIL AND ANALYSIS

ECONOMIC CONTEXT

3. The economy remains a significant concern for all, as the impacts flowing from the banking crisis and the subsequent recession continue to unfold. As a result of the economic downturn the Government initially cut its economic growth forecasts for 2009 from 2.75% to between minus 0.75% and minus 1.25%, and by December 2009 the projected growth for the year was minus 4.75%.
4. The final figures for 2009 from the Office of National Statistics (ONS) published on 26 January 2010, show that the UK economy actually shrank by 4.8% in 2009.
5. The ONS figures also show that in the last quarter of 2009, the UK economy grew by just 0.3%. While technically this means that the UK has now emerged from recession, the level of growth is less than had been expected by most economic analysts.
6. While the general expectation is that the economy will grow again in 2010, it is likely to be a slow and gradual recovery, with a projected rate of GDP growth for 2010 of 1.2% per the Treasury forecast published on 17 March 2010.
7. The other substantial feature in the economy is the growth in the public sector borrowing requirement. Over the next few years, government borrowing will be extremely high by historical standards. The Treasury forecasts that borrowing will be £177.6 billion, equivalent to 12.6% of GDP, in 2009/10 (see below). The previous peak in borrowing was in 1993/94 when it reached 7.7% of GDP. The Treasury forecasts that borrowing will fall to £96 billion (5.5% of GDP) by 2013/14. This is still a very high level compared with period from 1997/98 to 2008/09 when borrowing averaged 1.6% of GDP.

Public sector net borrowing

	£ bn	%GDP
2007-08	34	2.4
2008-09	95	6.6
2009-10	177	12.6
2010-11	176	12.0
2011-12	140	9.1
2012-13	117	7.1
2013-14	96	5.5

Source:

HM Treasury, Public finances databank

8. The increase in borrowing has been caused by both a fall in revenues and an increase in public spending. Comparing the Treasury forecast provided in the 2009 pre-budget report with that of the 2008 report shows that the revenue raised in 2007/08 was £547.5bn, compared with £532.4bn for 2009/10. According to the Treasury forecast in the 2009 pre-budget report they are not expecting revenues as a percentage of GDP to return to the 2007/08 level at any

- time prior to 2014/15. On the spending side, the Treasury expects that social security costs will increase by 8% from their 2007/08 level as a result of the recession. In addition paying the interest on the government borrowing is projected to increase from £29.9bn in 2007/08 to £44.4 billion in 2010/11.
9. According to the Bank of England the strength of the recovery remains highly uncertain and depends on opposing forces affecting the outlook. The Bank's asset purchases have injected money into the economy, raising the prices of assets and improving companies' access to capital markets. Nevertheless spending growth remains weak.
 10. The UK Budget announced on 24 March 2010 is not expected to be the end of the matter in terms of current economic and financial context. Following the next general election, an incoming administration would be expected to hold an emergency budget.

HEI FUNDING

11. In this section we detail the funding allocations for Higher Education for 2010/11 and beyond.
12. **England** – The Higher Education Funding Council for England (HEFCE) knows from announcements made already that it will see its budget reduced by £915m over a three year period.
 - a. As a result of the April 2009 Budget, £180m was cut from the funding for 2009/10 fiscal year.
 - b. The funding letter from BIS to HEFCE of 22 December 2009, announced that “in addition, it has been necessary to make an adjustment of £135m from your baseline to meet additional pressures”.
 - c. The Chancellor's Pre-budget report advises that £600m will be cut from the Higher Education and science and research budgets. Although we have yet to be informed as to where these cuts will be applied, we do know that the savings will need to be made by 2012/13. The Government has also yet to clarify whether the £600m cut is to be measured as a 'real terms' or 'cash' reduction in funding.

In addition, the funding letter from BIS included the following statement;

“In the current difficult economic circumstances, there is a particular need to exercise discipline on pay in higher education, at all levels and in all areas. I (Lord Mandelson) am pleased that universities made a realistic pay offer in 2009. Over the next year, moving towards a sustainable position on pensions within the sector will be a key challenge.”

On 1 February 2010, HEFCE sent a letter to the Heads of HEFCE-funded higher education institutions and Heads of universities in Northern Ireland. The letter sets out in more detail the funding position for these HEIs in 2010/11. The main points to record here are;

“The total HEFCE grant available for the 2010-11 financial year (1 April to 31 March) is £7,291 million compared with £7,809 million in 2009-10. Making like-for-like comparisons between 2009-10 and 2010-11 is complicated by £250 million of capital funding having been brought forward from 2010-11 into 2008-09 and 2009-10.

There is a £449 million reduction in funding for the 2010-11 financial year compared with the previously announced plans¹ for that year (rather than compared with 2009-10). The Board’s overall approach in managing these reductions in funding is to minimise across-the-board reductions in core funding of institutions so that they have maximum flexibility to pursue their own priorities in accordance with the principle of the block grant.

When compared with the 2009-10 academic year, the 2010-11 allocation represents

- i. a 0.9 per cent cash increase for recurrent grants (teaching², research and HEIF)
- ii. a 14.9 per cent reduction in cash terms in capital funding after adjusting for the £250 million of capital funding that was brought forward from 2010-11 into 2008-09 and 2009-10
- iii. a 7 per cent reduction in cash terms in special funding.

The Board recognises that real-terms funding reductions will be challenging to institutions, but acknowledges the work that many are doing in preparing for a more uncertain future. The impact of the grant allocations will affect universities and colleges differentially, but there will be moderation funding to help institutions manage change. We will continue to work with institutions as they adjust their activities to meet growing financial pressures.”

The result of the HEFCE announcement of individual institutional funding allocations on 17 March is that over half of HEIs will receive a funding cut in 2010/11 and, while around half will receive an increase, the overall increase of 0.9% in cash terms amounts to a real terms cut of 1.1% when inflation is taken into account. As the UCU press release of 17 March pointed out, only 25 (19%) of institutions in England will receive a real terms funding rise and more than a quarter will see a real terms cut.

13. **Scotland** – In January 2010, the Scottish government produced a Budget Bill for 2010/11, as part of the third year of the spending review period. The budget provides the Scottish Further and Higher Education Funding Council with a budget for 2010/11 of £993.2m, in relation to the ‘Current funding for Higher Education Institutions’.

¹ 18 January 2008 grant letter.

² After taking account of the £65 million reduction in teaching grant for 2009-10.

The Scottish HEI general fund grant allocations were made known on 25 March 2010. In cash terms, 2 HEIs will see a decrease in grant and 17 will see an increase, the highest being 2.4% and the majority less than 2%. In real terms, 3 will see a very small increase and the remainder of HEIs will see a real terms decrease in grant.

14. **Wales** – The Welsh Assembly Government’s final budget for the financial year 2010/11 shows a real terms decrease of 4.9% compared with the previous year. This consists of a decrease of 0.6% in revenue and a decrease of 32% in capital funding. The Funding Council’s core grant has increased in cash terms by 1.4%, with all the increase added to revenue funding for *Reaching Higher* expenditure. However HEFCW has announced a reduction of 5% in the previously announced allocation of capital funding in Academic Year 2010/11. It had previously announced an efficiency gain of 2% in teaching funding to support increased strategic funding. Some changes are also likely following the publication of *For our Future – the Twenty First Century Higher Education Plan for Wales*.
15. The recurrent grant announcement for 2010/2011 made on 23 March was for a cash decrease of 1.99% for the sector, with all but one institution experiencing a cash decrease in recurrent grant. The Funding Council also states that an in-year decrease in grant is possible. Some significant changes in funding methodology are likely following the requirements contained in the remit letter to HEFCW, including the establishment of the Strategic Implementation Fund which will eventually account for 80% of the recurrent funding to the sector.
16. **Northern Ireland** – The Higher Education Funding section of the Department for Education and Learning has advised that it expects to notify Queen’s University Belfast and the University of Ulster of their grants for 2010-11 around the end of March.
17. It is important to recognise that the changes to the level of Funding Grants set out above do not provide a full picture of the HE sector’s funding for 2010-11. There is also general uncertainty shared across the sector in relation to the level of funding that may apply in HEIs in the fiscal year commencing in April 2011, that is covering 4 months of the 2010-11 year. The Funding Councils for England and Wales have made it clear that the allocations are provisional, and have warned institutions that they may need to review their allocations for 2010-11. Also, HEIs are not a uniform body and will vary in their different income streams; as such the impact of the changes in funding levels will vary considerably across institutions.

OTHER HE SECTOR INCOME

18. **Funding Council Grants as a Proportion of Total Income** - The funding that HEIs receive from the funding councils is only a proportion of their total income. In 2007/08 the UK funding council grants amounted to £8.5bn, out of a total income for the sector of £23.4bn. In other words, the funding council grant accounted for around 36% of the sector’s income in 2007/08.

19. **Tuition Fees** – In 2007/08, tuition fees amounted to £6.3bn of the sector's income, which accounted for around 27% of the sector's income, but with major regional differences.
20. **Other Income** – Whilst the economy has technically exited the recession, we are still in uncharted territory in terms of the strength and shape of the recovery. The impact this is having on HEI income is very much an unknown factor at this time. More information on the economic context is set out in Section E below. However, there is anecdotal evidence suggesting that the level of research funding from the private sector and charities has reduced as these organisations look to shore up their own finances through the recession.
21. A recent analysis of UK HE financial data by Grant Thornton for the Times Higher Education magazine (18 March 2010), based on individual institutional accounts for 2008/09, indicated that a fifth of UK institutions were in deficit and that only 29% had a surplus of more than the 3% of income recommended by HEFCE.

POLITICAL CONTEXT: PUBLIC SECTOR PAY

22. As a General Election must be called by June 2010, the political context of this pay round is also important. This is particularly so as the concerns around how the UK government, whatever its political complexion post-election, will tackle the public sector deficit leads to a significant level of uncertainty regarding the funding of Higher Education over the short to medium term.
23. The three main UK political parties have referred to pay in the public sector as being matters that they would wish to address. Whilst HE is not technically part of the public sector, our negotiations are informed by government and funders' pay policies. The views expressed so far can be summarised as follows.

Labour

24. On 5 October 2009, the Treasury wrote to the Pay Review Body (PRB) Chairs asking them to freeze the pay of senior public sector employees and limit awards to groups not covered by long term deals in 2010/11. The formal statement to the PRBs is as follows.

“The Government favours maintaining the existing multi-year pay awards, but reflecting the wider conditions that we discussed when we met, the Government is proposing awards of up to 1 per cent across the board for workforces not in multi-year deals, with proposals of 0 percent for senior groups within this. Evidence which is being submitted at a later date will also reflect this approach.”
25. This announcement was then followed by the Pre-Budget Report in December 2009 which expanded upon the previous statement, advising that going forward the Government will additionally seek a 1 per cent cap on pay uplifts in the public sector in 2011/12 and 2012/13.
26. Not all groups of staff will be impacted by this policy in 2010/11, as teachers, nurses and police officers are still subject to the three year pay deals that end in

2010, and cover the 2010/11 year. It is important to note that these increases were agreed during a very different economic climate.

Conservatives

27. In his speech to the Conservative Party conference on 6 October 2009, George Osborne (shadow Chancellor) outlined his proposals for public sector pay and pensions. With regards to pay, the Conservatives say they will set a one year pay freeze for all public sector employees earning £18,000 and over for 2011-12. While HEIs are technically defined as Private Sector Not-for-profit Corporations, it is entirely possible that any pay freeze would be applied to HE through the funding councils.

Liberal Democrats

28. In his speech to the Liberal Democrats' conference on 21 September 2009 Vince Cable stated that "A freeze in the total pay bill is better than cuts in services".

LABOUR MARKET

29. There has been a rapid deterioration in the UK labour market with falls in the number of jobs, resulting in lower employment, increases in redundancies and increases in unemployment. Over the last 18 months the number of jobs has fallen, with manufacturing and construction showing the largest percentage declines. In contrast, in public administration, education and health jobs continued to increase. The worst affected region has been the West Midlands and the least affected the East region. Employment levels have also fallen, with Northern Ireland and Wales the worst affected countries. Employment rates have also fallen more for men and young people than for women and older workers.

30. Redundancy levels reached a peak of 299,000 in March 2009. Since then they have fallen and at September 2009 they stood at 205,000. The worst affected industry has been construction where the redundancy rate reached a peak of 32.8 redundancies per thousand workers in the three months to March 2009.

31. For the most recent three-month period, November 2009 to January 2010, the employment rate was 72.2% (28.86 million employed people) and the unemployment rate 7.8% (2.45 million unemployed people). The employment rate has not been lower since the three months to November 1996. The number of people unemployed for more than 12 months increased by 61,000 over the quarter to reach 687,000, the highest figure since the three months to August 1997. The number of people claiming job seekers' allowance (the Claimant count) in February 2010 was 1.59 million.

32. In conclusion, while unemployment has begun to fall, the labour market remains fragile. Most of the recent increase in jobs has been in part-time employment and the number of people in full-time employment has continued to fall. There were 1.04 million employees and self-employed people working part-time in January 2010 because they could not find a full-time job, up 20,000 on the quarter. It is likely, moreover, that any recovery in employment levels this year

will be slow. We do not therefore expect HE to experience any major problems in recruitment or retention of staff as competition for labour is very slack.

PAY SETTLEMENTS

Public sector

33. The Government wrote to the Chairs of the independent Pay Review Bodies in October recommending a pay freeze for staff covered by the Senior Salaries Review Body. These include the most senior civil servants, members of the judiciary and senior NHS managers. On 10 March the Government announced that it was freezing the pay of senior civil servants, senior military officers, the judiciary, senior NHS managers, medical consultants, General Practitioners and dentists. The Government has proposed awards of up to 1% for other workforces not in multi-year deals; these include prison officers, hospital doctors and dentists and other civil service groups. Other new deals in the public sector in 2010 are also likely to be subject to the same 1% cap.
34. Looking beyond 2010, the Government's pre-Budget report in December 2009 included the announcement that across the public sector, pay rises will be capped at 1% for two years from 2011. As stated earlier in this briefing, the opposition parties have also made strong statements in relation to public sector pay and this policy could be replaced by any new incoming Government after the General Election in May.
35. In its formal letter of grant to SFC, the Scottish Government has indicated that it expects the sector to follow public sector pay policy set by HM Treasury. In doing so, institutions are expected to take account of fairness, equal opportunities, the need to recruit, motivate and retain staff, and affordability.
36. In local government in England and Wales the employers have stated that they will be unable to increase pay this year; in other words the Local Government employers' position is to freeze pay in 2010-11.

HE SECTOR PAY LEVELS

37. The increase in base pay in HE between 2006/07 and 2009/10 (i.e. the four years since the 2006 agreement) have been higher than public sector comparator groups. HE has seen an increase of 16.4% compared to between 7.5% (Judiciary) and 12.2% (Armed Forces). The lowest hourly rate in HE, based on a 37 hour week, is currently £6.82. This compares with £6.30 in local government (37 hours) and £6.77 in the NHS (37.5 hours). The current value of the statutory minimum wage is £5.80 per hour for workers aged 22 years and older (from October 2009).

Bargaining Group	2006-2007%	2007-08 %	2008-09 %	2009-10 %	2006-2010 % Cumulative
NHS – Nurses, PAMS, and ancillary staff (April)	2.5	2.5	2.75	2.4	10.5
NHS – Doctors and dentists(April)	2.4	Up to 2	2.2	1.5	8.3
Schoolteachers (England and Wales) (September)	2.5	2.5	2.45	2.3	10.1
Schoolteachers (Scotland) (April)	2.0	2.25	2.25	2.5	9.8
Judiciary (April)	1.0	2.40	2.5	1.5	7.5
Police (September)	3.0	2.50	2.65	2.6	11.2
Prison Service (England and Wales) (April)	1.6	2.50	2.2	1.8	8.3
Local Government Services (E & W) (April)	2.95	2.475	2.75	1 (1.25% for lower points 4-10)	9.5
Local Government (Scotland) (April)	2.5	2.5	3.0	2.5	11.0
Armed Forces (April)	3.0	3.3	2.6	2.8	12.2
Fire Service (July)	2.7	2.40	2.45	1.25	
Further Education (August)	3.0	3.00	3.20	1.5	11.15
Higher Education (August)	4.0	6.00	5.00	0.5	16.4

Source:IDS

Earnings data – pay levels

38. The Annual Survey of Hours and Earnings undertaken by the ONS in April 2009 showed that the average earnings for full-time employees in the HE sector were £33,656 at the median. Average earnings in the HE sector remain considerably higher than the economy as a whole with HE average earnings 25% higher than earnings in the whole economy, 17% higher than in the public sector and 28% higher than in the private sector.
39. Full-time Higher Education Teaching Professionals earnings in April 2009 were £50,091 at the mean (£46,243 at the median). These figures are based on weekly earnings multiplied up to an annual salary and taken from tables specially commissioned from ONS by UCEA, using the methodology agreed for the JNCHES Review of Higher Education Finance and Pay Data (December 2008). The JNCHES Review of Higher Education Finance and Pay Data found that the ONS published data for this category included 10% of employees that were employed outside Higher Education (e.g. in further education or the private sector). The specially commissioned data excludes this 10% of non-HE staff and therefore provides a more accurate sample. The ASHE published data places full-time HE Teaching Professionals in the top decile of earners. The median full-time earnings for Higher Education Teaching Professionals are higher than for comparative occupations. Secondary teachers earn 77% of HE Teaching Professionals, whilst FE teachers only earn 72%. 'All professionals' on average earn 78% of HE Teaching Professionals' earnings. According to the ONS data,

HE Teaching Professionals' earnings are the fourth highest ranked in a list of 44 professional occupations.

40. Other HE occupations also earn more than their counterparts outside of the sector. For example, the ONS ASHE data shows that clerical occupations earn an average hourly rate of £11.75 in HE whilst in the wider economy they earn an average £10.00 per hour. Cleaners earn an average £8.47 per hour in HE, compared to £7.16 in the wider economy. .

Earnings data – pay growth

41. The JNCHES Review of Higher Education Finance and Pay Data found that earnings in HE had grown at a faster pace in HE than in other sectors between 2002-08. This has continued to be the case in 2008-09 as a result of the 5% increase in October 2008. In the period 2002 to 2009, earnings in the HE sector grew by 44.5% (based on hourly figures), compared to 30% for the whole economy, 27.8% in the public sector and 22.7% in the private sector.
42. The latest published figures from the ONS 2009 ASHE (data as at April 2009 published in October 2010) indicate that the weekly gross earnings for all HE staff showed a median increase of 11% between April 2008 and April 2009 (a mean increase of 8.6%). For all HE teaching professionals the median increase was 11.4% and the mean 11.6%. In comparison the gross weekly earnings of all employees in the whole economy increased by just 2.2% at the median and 1.6% at the mean over the same period.
43. The earnings growth between 2002-09 for the HE teaching professionals category at 35.8% is higher than for the whole economy (30%) and double that for secondary teachers (16.1%) and higher than for Further Education (26.5%) and all other 'professional occupations' category (21.4%).

HE SECTOR STAFF COSTS

44. Staff costs have remained broadly constant as a proportion of total institutional costs; the average is at 57-58% with some variation amongst institution types. Many institutions' governing bodies regard this ratio of staff costs to total costs as a key performance indicator which they wish to manage. This is partly because staff costs are relatively "fixed" and if this ratio becomes too high, institutions have reduced flexibility to respond to risks or opportunities.
45. Over the last six years, according to HEFCE, total staff costs have increased on average by 8% per annum. This is significantly higher than the increase in public funding for teaching in higher education. The recent Grant Thornton analysis conducted for the THE magazine (18 March 2010) indicated that the HE wage bill, including pension contributions and social security costs, has grown by 16.7% over the last two years (2008 to 2009), on top of an increase of 18.5% between 2005 and 2007.
46. Although the pay settlement for 2009/10 was 0.5%, for many institutions the impact of the increases in pension costs (for example 2% in USS) and for all

institutions the impact of incremental and promotional pay growth, has meant that the overall increase to staff costs in HEIs will have significantly exceeded the headline 0.5% pay award.

47. Looking to 2010/11, it will be difficult in a period where funding is falling for institutions to finance increasing staff costs without impacting on their overall balance of expenditure. Employers will also have to fund an additional 1% national insurance cost on all staff with effect from April 2011, impacting in the latter third of the 2010-11 year.

THE COST OF HE PENSION SCHEMES

48. Pensions are a significant and costly element of the overall remuneration of many employees in HE. There is a range of pension provision in UK higher education: multi-institution defined benefit schemes (USS, SAUL); defined benefit public sector schemes which have HE members (TPS, LGPS, NHSPS) and 48 institution-specific schemes (mostly defined benefit schemes) for support staff.
49. As from October 2009, HEIs that offer their staff USS are now paying an additional 2% employer contribution to fund the scheme.
50. As a result of the fall in market values over recent months, there is an expectation that as a number of the Higher Education pension schemes, such as LGPS, USS and some self-administered trusts (SATs) approach their triennial valuation, there will be a deficit in their funds which will need to be addressed. Were employers expected to make additional contributions, this in turn will increase the level of staff costs. In particular, the valuation of the LGPS scheme in March 2010 is expected to reveal a substantial deficit, and as a result additional employer contributions may be required here too. Currently there is speculation that the additional contribution rate will be around 3%, but this may be phased in.
51. One of the most striking comparisons of HE pension schemes with those in the private sector has been the dramatic change in the nature of pensions offered to new employees in the private sector. The Government's Actuary Department data published in March 2009 shows that of the 17,900 Defined Benefit schemes open to new members in 2000, only 2,240 were still open to new members by 2007.
52. Even where such schemes continue to exist in the private sector, member contribution rates have increased, normal retirement ages have been increased and accrual rates have been reduced. These changes reflect the increasing cost of pension schemes resulting from demographic changes and falling investment income. The majority of private sector employees are not members of any pension scheme.

25/03/2010