Calculations regarding real terms increases/decreases in HE staff pay for the last three pay settlements

I have tried below to show how the union side figures showing real terms pay cuts since August 2009 are calculated. Any mistakes are mine alone. Other unions may use or favour different methodologies in determining real changes.

 The TU joint claim for 2012-13 stated:

"For most staff the increase in pay over the last three settlements has amounted to approximately 1.4%. During the same period, the RPI index has increased by over 12%, resulting in a real terms cut of over 10% in the value of take home pay for staff."

The last three pay settlements cover the period from August 2009 to August 2012:

Date of pay settlement implementation	Pay Settlement Uplift	Annual change in RPI (year on year, for pay settlement period)
August 2009	0.5%	4.7%
August 2010	0.4%	5.2%
August 2011	£150 (This is equivalent to a 0.3% pay rise for a lecturer on point 43 of the salary scale. UCEA have previously stated that it is equivalent to 0.5% uplift to the paybill.)	3.4% (projected)
Total % Increase	**1.2% (for a typical lecturer)** **1.4% is the total increase in the paybill to the three pay uplifts.** **2.0% (for an employee on point 1)**	**13.3%**

RPI figures are not available for the entire period of the current pay settlement (i.e. for August 2012) so the TU side used the IDS (Pay Report 1088) projected figure of 3.4%. The RPI figures for the period of the three last pay settlements add to 13.3%, which was rounded to "over 12%".

as,   real rate = nominal rate − inflation

then,   real terms pay increase = cash terms pay increase − RPI inflation

            = 1.2% - 13.3

            = -12.1% (for a lecturer on point 43)

Clearly this is based on a projected RPI figure for the final year of the three year pay settlements. However, using the UCEA method of calculating % changes of RPI, the real rate may be calculated any period of time for which monthly RPI figures are available.

The % change in RPI from August 2009 to February 2012, is 11.9%
[239.9 − 214.4 = 25.5. (25.5 / 214.4)*100 = 11.9%]

Therefore, for the first two years and seven months of a three year pay settlement period, a typical lecturer's real terms pay increase may be calculated as:

real terms pay increase = cash terms pay increase − RPI inflation

            = 1.2% - 11.9%

            = -10.7% (for a lecturer on point 43)

(It is worth noting that a person paid on point 1 of the New JNCHES pay scale had a 1.1% pay uplift in August 2011, giving a total of 2.0% pay uplift from the last three pay settlements. Inserting this value in the August 2009 to February 2012 period gives a real terms cut of 9.9%, two years and seven months into a three year period.)

Therefore, the methodology used by UCEA supports the TU side's calculations that HE pay has fallen in real terms by over 10% in the last three settlements for all staff covered by New JNCHES.

For the final and complete answer, we will need to wait until the August 2012 RPI value is published, but no one is expecting a period of negative RPI inflation in the coming months.

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