# The Current Wage Negotiations Impasse

## Some Grand Challenges Confronting Rhodes University that require Discussion and the Making of Courageous Institutional Choices and Decisions

## Vice Chancellor's Forum

**Monday, 7 April 2014 - 15.00 - 17.00**

**Barratt Lecture Theatre 1**

**Introduction**

Later this year a draft Institutional Development Plan (IDP) will be tabled for discussion with diverse constituencies and at numerous University fora. In setting out a proposed compass and trajectory for Rhodes University in the coming ten years to 2025, the IDP will also crystallize some significant/grand challenges that must be confronted if Rhodes is to remain one of South Africa's outstanding universities. These grand challenges include equity and the current social profile of academics; institutional culture; institutional transformation and modernization; financial aid for students; remuneration of academic and support staff and the financially sustainability of Rhodes.

During this year's wage negotiation process it became apparent to the University leadership and the management negotiating team that there is limited understanding of the significant challenges that face Rhodes University, especially with respect to remuneration and financial sustainability. In the context of the wage negotiations, the focus on the minutiae perhaps means that larger macro institutional issues are not fully appreciated. This is despite the Vice-Chancellor's various references, most recently at the end of 2013 at the University Senate, to the challenges for the University budget and finances and remuneration associated with the 'size and shape' of Rhodes.

It is in this context and at the request of the NTEU negotiating team that this brief document has been produced.

**1. The current economic context**

In his 2014 Budget speech, Minister Pravin Gordhan called on all South Africans to spend their money carefully because of the current economic situation: "Our present circumstances oblige us to live and spend modestly and keep a careful balance between social expenditure and support for growth. It's not an either or question" he said, and called for South Africans to tighten their belts.

The recent report of the Ministerial Committee for the Review of Funding of Universities states that "the average growth rates show that in real terms, government funding per full-time equivalent enrolled student fell by 1.1% annually between 2000 and 2010, while student tuition fees per FTE increased by 2.5% per year. Based on the differential increases in fee income and government grants, it can be concluded that the amount of government funding is not sufficient to meet the needs of the public university system". This refers to the public subsidy provided by the state. In essence, universities have to cope with increased enrolments and the costs associated with this with less funding.

There is, however, also a significant shortfall in state funding related to financial aid for eligible students through the National Student Financial Aid Scheme (NSAFS) funding. This fuelled student protests at a number of universities earlier this year. Currently, Rhodes receives R17m from NSFAS

for financial aid. We are providing some R32 million for undergraduate funding and R22 million for postgraduate funding from our own funds. This is the maximum amounts that the University budget can bear, which is the reason that we had to turn away eligible students this year.

During the previous three years we received block grants from the state that have been an average of 8.1% per annum. Considered from the perspective of 'higher education inflation' this is a slight decrease in funding in real terms. The block grant increase for 2014 is 6.0%, for 2015 6.9% and for 2016 5.3%, with an average for 2014-2016 of 6.1%. This means that, again taking into account higher education inflation, Rhodes will in all likelihood face a decrease in funding in real terms.

**2. Balanced University budget**

From a financial management perspective, universities are required by the Higher Education Act to operate on a balanced or zero-deficit budget. The University has two key budgets: the Central University budget whose sources are state subsidies, tuition fee income and interest income, and the Residence Budget whose source is residence fees. It has over the past few years become increasingly difficult to balance the annual Rhodes University budget. In my opening address to the Budget Committee I always draw attention on the one hand to the few lines which reflect our sources of income, and on the other hand the very large number of lines that reflect expenditure.

On the income side in the Central University budget, we have noted the decline in the value of the state subsidy. Revenue can only be increased either through increasing tuition fees or by finding a reliable source of 'third stream' income. Most third stream income is 'earmarked funding', which must be used for specific purposes that have to be reported on. There is currently no reliable third stream of income that can make a significant recurring contribution annually.

Our tuition fees are the fourth highest in South Africa (2014 comparison of the BA fee). Some suggest that, like UCT, we should raise tuition and residence fees as high as our fee-paying constituency can bear; we should also charge international students considerably more than we currently do. However, there are possible signs that the maximum tolerance level of parents/students may already been reached – over 400 undergraduates in good academic standing have not returned this year, and there has been a considerable no-show rate at UCT. Our under-enrolment may require us to shave some R3.5 million off the 2014 budget. Last year, the shortfall in tuition fee income in relation to our budget was 1.3% or R2.6 million.

On the expenditure side in the Central University budget, the largest expenditure item is staff costs, comprising 68% of all income. I deal with this separately below. All of the other University operating expenses comprise the remaining 32% of the budget. Priority is given to expenditure directly related to teaching and learning and research and the general academic project. Over a number of years the budget has been balanced by reducing infrastructure maintenance and renovation budgets and by squeezing furniture and equipment budgets. Whilst this has been expedient, this practice is simply not sustainable. The time is upon us when we have to begin to address backlogs. It should be clear that without state Infrastructure and Efficiency Funding since 2007, complemented by donor funding, it would have been extremely difficult if not impossible to mount all the new infrastructure developments (library, education building, life sciences and school of languages buildings, residences and halls) at Rhodes.

## 3. Modest reserves & financial sustainability

It is a myth that Rhodes University is a wealthy institution, or that it has significant reserves or "slush funds" tucked away for a rainy day. This is all wishful thinking. In comparison with other universities, and especially other research-intensive universities, Rhodes' reserve funding pales into insignificance.

At the end of 2013, the reserves of the University stood at a modest R463 million, a far cry from the many billions of some other universities. Of this, R310 million is *endowed* funding which can only be used for the purposes that it is endowed – scholarships, bursaries, academic programmes and the like. The University can make no call on these funds for any other purposes. The *free* reserves stand at R153 million; the investment income from this free reserve is used to fund academic/scientific equipment, the *Sandisa Imbewu* development fund and the VC's discretionary fund for strategic academic initiatives. It is also this free reserve that must stand surety for infrastructure development projects like the Life Sciences and School of Languages buildings, in case we do not raise our co-funding share through alumni, corporate and other donor fundraising. For example, for the R178.6 million that we received for infrastructure funding during 2013-2015, we must contribute R29.8 million of our own funds (or raise these funds); for the R111.1 million Life Sciences building, the state has provided R95.2 million and we must co-fund R15.8 million.

In a nutshell, if there are no new sources of revenue or revenue cannot be significantly increased from third stream income or tuition fees, then the focus of attention has to be elsewhere. We have to look at either greater state subsidy income through more research and postgraduate outputs (more articles, book chapter and book or/and more Postgraduate Diploma, Honours, Masters and Doctoral graduates) – greater productivity on the part of academics; or/and greater productivity on the part of support staff, or/and greater effectiveness and efficiency in how we conduct our operations, across the board or in certain key areas.

While we are confronted by a certain fiscal reality we do not have to be paralysed by it. We need to approach our financial challenges with the same creativity, rigour and effort that we approach our academic endeavours and put into ensuring that we are the most open and beautiful campus in South Africa. Paradoxically, more adequate remuneration and sustainability go hand in hand. Tough courageous decisions are, however, going to be needed to ensure the financial sustainability of Rhodes into the future.

## 4. Staff cost budget

The staff budget is constituted by academic and support staff salaries and benefits; the annual adjustments for current staff; expenditure related to temporary teaching, temporary assistance, tutoring and graduate assistance, sub-wardening and academic leave, and new expenditure such as the cost of promotion of academics, new academic and support staff posts, re-grading of support staff posts and merit awards and increases. It is becoming extremely difficult to ensure adequate remuneration of certain categories of academic and support staff, adequate annual adjustments for staff and to also accommodate all the other expenditure encompassed by the staff budget within the overall University budget context.

As noted, the staff cost in the Central University budget is 68%. Compared to other universities, this is high; the ratio of support staff to academic staff is also high. There is a good reason for this situation: unlike many other universities, Rhodes University has not, apart from additional security

services and some external contracting, outsourced its support services. I have on numerous occasions and in a number of fora justified this on the basis of the principles of social and economic justice, social responsibility and the sustainability of Grahamstown and the Makana region. It is well-known that I have an agreement with NEHAWU that there would be no outsourcing during my vice-chancellorship. I very much hope that remains the case in future at Rhodes, and it is within this framework that we will pursue ways of ensuring greater financial sustainability and make whatever trade-offs we may need to make.

**5. The Salary negotiation process**

Each year the University management negotiating team negotiates separately with each union within the mandate approved by the Remuneration Committee of Council, of which I am a member. The team reports regularly to the Vice-Chancellor's Office. The mandate that the management negotiating team is provided is the "basket" or the percentage by which the overall total package can shift (including the annual adjustment, 'market'-related adjustment, benefits, new posts, etc.). The mandate is provided after careful consideration of various factors, including the likely income from the state subsidy; projected student fee income; possible other income; current inflation and projected inflation during the forthcoming year; likely salary increases in the university sector and other sectors, and Rhodes remuneration relative to other universities. Although state subsidy income is only usually confirmed in early December of each year by the DHET, and student increases are finally determined in October (and ultimately by the University Council in December) as part of the budget process, the salary negotiation process with the unions starts in June/July of each year. At the outset there is a presentation of the likely budget to both unions, and formal negotiations usually begin in mid-August.

**6. The NTEU dispute details**

After being unable to reach agreement on the 2014 annual adjustment for its collective, NTEU declared a dispute on 13 December 2013. Following the dispute resolution process, as per the recognition agreement with the NTEU, NTEU and the management negotiating team met in January and February 2014. A final offer was tabled by the management negotiating team. NTEU, after polling its members, indicated its intention to take the matter to the CCMA. The matter was due to be heard on the 17 March 2014 but was postponed until 11 April 2014.

The dispute relates to two issues:

- NTEU wants an annual adjustment increase of 7% applied to all staff. The University management team offer is a 6.5% basket (total cost for 2014 compared to 2013, including costs of new posts, etc.), plus the savings that will accrue from expenditure related to overtime with a move to a 40 hour week for all staff.

  NTEU also wants the annual adjustment applied as a percentage on basic salary to all staff. The University management negotiating team wants to continue implementing a rand value strategy. This has been the practice for a number of years, in order to drive internal equity and address inequalities due to past historical remuneration practices. In terms of this, a rand value is determined on the minimum of each grade and post level and applied to all staff in that grade or post level.

In terms of the offer by the University management negotiating team, this would mean that 96% of all support staff would receive at least a 6.5% increase on their basic salary, and staff on the minimum would receive a 7.55% increase. For academics, the increase would mean 90% of academic staff would receive at least a 6% increase, and those staff at the minimum would receive at least 6.5%.

- The offer made by the University management negotiating team is conditional on support staff in full-time posts moving to a working week of at least 40 hours per week. NEHAWU has agreed to this move during the recent negotiation process, on the basis of the inequitable nature of differential hours. Of some 1250 permanent staff (academic and support), about 283 staff do not work at least 40 hours a week. 153 of these staff belong to the NTEU.

**7. The 40 hour work week**

The current working hours for full-time support staff on grade 6 and above are as follows:

- Food Services staff work 45 hours a week in a two week cycle. 5 of these hours are converted into annual leave;
- Housekeeping staff work 43 hours a week in a two week cycle. 2 of these hours are converted into annual leave;
- Staff in the previous Estates Division work 39 hours a week;
- Staff in other areas, for example academic departments and administrative sections work 37.5 hours a week. Previously this was 36.25 hours, but this was increased after previous negotiations with NTEU and NEHAWU;
- As per a Council decision, with the remuneration market adjustment in 2009 for support staff, from 1 July 2009, all new support staff, excluding Food Services and Housekeeping staff, work 40 hours.

Where there were differential working hours for staff on grades 1 to 5, in terms of the agreement with NEHAWU all these staff now work a 40-hour week from 1 January 2014.

It should be noted that historically inequitable, and in the context of a particular occupational structure prior to 1994 racialized practices such as different annual leave and long-leave allocations amongst support staff have been eliminated in recent years.

The University leadership believes that requiring staff to move to a 40-hour week is important for two important reasons.

- Firstly, support staff receive the same remuneration, irrespective of the hours worked. It is not feasible to differentiate staff remuneration based on working hours, an option that has been explored. Furthermore, among grades 6 to 17 staff more Black staff work a 40-hour week than White staff. This is so because of the demographic profile of Food Services, Housekeeping and the 'old Estates' division staff, and the increase in Black administrative staff as a result of employment equity.

- Secondly, a 40-hour week is necessary for reasons of increased productivity and financial sustainability. The pressure on the University budget has been noted. At the same time, Rhodes has to find ways of using and reallocating money within the HR budget in order to improve salaries of academic and support staff. The move to a 40-hour week will add a further 4000+ days per annum (about 15 posts) to the overall institutional support staff capacity. This then will

impact on the number of support staff posts that are needed, particularly in areas with large numbers of staff currently.

The move to a 40-hour week is one of a range of productivity and sustainability measures that we have been exploring and seeking to implement in recent years to enhance sustainability. With looming budget pressures in coming years, similar and further productivity and sustainability measures become critical. We are going to have to boldly explore various options and have the courage to make tough choices and decisions. The University's Institutional Development Plan will table the various options and engage academic and support staff in the making of choices and decisions, informed by certain values and principles.

**8. Attempting to resolve the dispute**

In the dispute process, NTEU indicated that its collective may be receptive to *all* support staff receiving *an additional 6.75%* annual adjustment (on top of a 6.5% annual adjustment applied to all staff) as compensation for having to move from a 37.5 hour week to a 40-hour week. This would mean finding an additional R8.9 million in 2014 in a budget already under strain, and further adding R8.9 million plus to the HR budget of future years in a context where lower state subsidies in real terms is looking. The NTEU proposal is simply not affordable. As part of its final offer, the University management negotiation team provided NTEU with information that demonstrated that of its 153 of members that do not work a 40-hour week, 73 (48%) of these staff already earn at least 6.75% above the minimum of the grade.

NTEU's basic proposition is that some *incentive* is required for its members to move from a 37.5-hour week to a 40-hour week - its members must feel that they are being compensated for this change. It is argued that as a result of the 40-hour week its members' hourly rate will decrease by 6.75%, and as the 2014 annual adjustment will not match that it will result in a net decrease in the hourly rate of these members.

In discussions, NTEU has made reference to the special long-leave pay-out that was made to staff in 2009. This pay-out was a once-off payment made to those, essentially black, staff who had never enjoyed long-leave; this was *reparation* on the part of the University in recognition that this was the consequence of a pre-1994 employment practice that benefitted principally white staff. The incentive that is proposed by NTEU would accrue to those staff who already benefit from a 37.5 hour working week and higher hourly rates for over-time worked. As indicated it is simply not possible to accommodate the NTEU proposal of a 6.5% across the board adjustment that will cost R8.9 million; if such an adjustment was to be effected to 'compensate' those staff on a 37.5 hour week, how would one justify this to those staff who already work a 40-hour week at the same level of remuneration and would now earn less those staff previously on a 37.5 hour week.

In any event should any incentive be paid (which would add to the salary budget on an ongoing basis), there is no new or additional funding available to do this. The incentive would have to be found within the basket currently available for the 2014 adjustment – it would require a reallocation of funds from one area to another. In the current budget environment, is this the best use of limited resources?

## 9. Communication with staff

The practice at Rhodes University has been that that when agreement is reached with NTEU on the terms of the remuneration adjustment, the implementation of the adjustment is applied to staff in the collective represented by NTEU. As at 3 March 2014, NTEU represented 51% of its collective (permanent academic staff and support staff on grades 6 to 17).

It has also been the practice that when the University is in dispute with a union, no communication with staff occurs until all dispute processes (including attempts at conciliation at the CCMA) have been exhausted.

This communication has become necessary because the conciliation meeting that was due to take place at the CCMA on 17 March 2014 did not take place. It has now been postponed until 11 April 2014.

It has been agreed with NTEU that the University leadership will issue this communication and hold a VC's forum on **Monday, 7 April 2014 between 15.00 and 17.00 in Barratt Lecture Theatre 1**. This will allow staff to read about the issues in contention prior to the VC's Forum and also formulate questions for the forum. You are invited to send any questions that you may have to me at vc@ru.ac.za or to NTEU at nteu@ru.ac.za by **08h00 on Monday, 7 April 2014**.

The Forum is being held before the 11th of April 2014 for two reasons. Firstly, 11 April 2014 is the last day for final decisions to be taken in order to allow for a May 2014 implementation of the annual adjustment. This is also the day of the CCMA meeting. Secondly, the VC Forum will allow for both parties to consider the input of staff in general and through consultation with their principals reconsider their positions, should they so wish, before 11 April 2014.