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London weighting and London costs - a fresh approach?

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PUBLISHER

Centre for Research in Social Policy, Loughborough University and Trust for London

VERSION

VoR (Version of Record)

PUBLISHER STATEMENT

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REPOSITORY RECORD

Hirsch, Donald. 2019. "London Weighting and London Costs - a Fresh Approach?". figshare.
<https://hdl.handle.net/2134/22221>.

London Weighting and London costs – a fresh approach?

Donald Hirsch

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The Centre for Research in Social Policy (CRSP) is an independent research centre based in the Department of Social Sciences at Loughborough University. Over the past 30 years, it has built a national and international reputation for high quality applied policy research. The Centre conducts applied social research and policy analysis on issues related to poverty, living standards and income adequacy. The Centre's biggest role at present is the researching and analysis of a Minimum Income Standard for the United Kingdom, the leading standard of its kind in the UK.

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Minimum Income Standard for London

The full paper by Donald Hirsch and key findings are available at:

www.trustforlondon.org.uk/research/london-weighting

It draws from research on Minimum Income Standards undertaken by CRSP.

London Weighting and London costs – a fresh approach?

Available at:

www.trustforlondon.org.uk/research/minimum-income-standard-for-london

Typeset by Cambridge Publishing Management Limited

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About the author

Donald Hirsch is Director of CRSP, where he leads the Minimum Income Standard (MIS) for the UK programme. A former journalist and writing and research consultant, he has been involved in MIS since its inception and is responsible for the analysis of MIS data and its application in policy and practice. From 1998 to 2008 he was Poverty Adviser to Joseph Rowntree Foundation (JRF), where he wrote a number of major reports on child poverty, welfare reform, long-term care and the situation of older workers.

Executive summary

Over the past century, supplements to national pay in London have taken many different forms. Today, both public and private employers generally pay London staff more than their equivalents elsewhere. However, such London Weightings vary greatly across employers, have no systematic relationship with additional costs in London and have declined in value relative to those costs. In addition many Londoners have limited understanding of the concept, particularly since there is no longer a body which is responsible for its calculation or promotion. This paper takes a fresh look at the idea of a London Weighting in light of new evidence on how much extra it costs to live in London and asks whether a more systematic approach is possible in relating additional pay to the higher cost of living.

Originating as separate London and provincial pay scales in the Civil Service from the 1920s, London Weighting was systematised in the 1960s and 1970s. The aim at that time was to create cost-reflective premiums across employment sectors, as a fair basis for wage bargaining. However, in the 1980s, a coherent system for setting London Weighting based on costs broke down, and since then London Weightings and supplements have been largely based on strategic efforts to secure staff in London, especially in shortage areas. Under this more market-based approach, London Weightings have become more variable and in general have declined in value relative to the cost of living in London.

Part of the reason for a move away from a cost-related London Weighting was the lack of any fair and objective criterion for assessing whether higher spending by Londoners genuinely reflected the additional cost of meeting essential needs. Recent research (published last year) on a Minimum Income Standard for London fills this gap by looking closely not at what Londoners spend but at what they *need* to spend to reach a minimum living standard compared to elsewhere in the UK. This Minimum Income Standard for London shows how much higher costs are in London especially to pay for housing, childcare and transport.

A new calculation set out in the paper, based on this research, shows that workers in various household types need to earn almost £8,000 per year more in Inner London and just over £6,000 more in Outer London. This is well in excess of what employers pay now as an explicit London Weighting, which according to one survey averages under £4,000, and has risen little in the past 15 years despite soaring housing costs.

The paper suggests that having such cost-reflective benchmarks could provide a useful reference point when setting London pay. It is unrealistic to think that a universal London Weighting will be adopted by employers, and both public and private employers are bound to consider labour market conditions and the need to attract staff, not just additional costs, when setting pay. Public employers will also be constrained by available budgets. However, having this reference point of how much more it costs as a minimum to live in London is a relevant factor when setting London Weightings. For public bodies in particular, having as a long-term goal that pay scales should at least have this level of London supplement built in would return to the principle of fairness that once governed the calculation of London Weighting.

Having a standard for a minimum London Weighting applying across the income range would build on the London Living Wage. It would help not just those on low pay, but also others on modest to medium pay who struggle to afford the additional costs of living in London. It is less relevant as an objective for higher paid staff, whose earnings already allow them to reach minimum living standards, even in London, and many of whom have earnings well above what they might earn elsewhere in the country.

On this basis, the paper ends by recommending that the Trust for London regularly publish a *Minimum London Weighting* as a target, cost-reflective addition to pay in London for staff earning at least up to £40,000 a year, including this weighting. Given that existing London supplements are so far behind a cost-reflective level, an initial target should be a weighting reflecting the additional cost of living in Outer London, presently around £6,000 a year, while acknowledging that covering Inner London costs is about £2,000 higher.

1. Introduction

Should London employers be systematically paying higher wages than elsewhere in the country? There are various reasons why a “London weighting” may be justified, other reasons for opposing it and no single criterion on which to base it.

Some argue that it is unfair to expect Londoners to live on the same incomes as people elsewhere in the country, because life is so much more expensive. Others say that wages should depend on market forces, not concepts of fairness, so London employers will pay more if they need to in order to attract people to London, which will be influenced by the cost of living and by the attractiveness of living there. On this view, setting rigid wage differentials by region, based on costs, may risk becoming circular, since if higher-cost areas become higher-wage areas, this helps maintain higher prices because people there can pay more. On the other hand, the idea of wages being determined only by markets is illusory. For example, public employers may be constrained by nationally determined funding levels and by national wage agreements. Campaigns such as the London Living Wage are influential in setting norms about what kinds of wages are “fair”. For both of these reasons, we at least need some basis for thinking about how to adjust pay in an expensive region.

The concept of a London Weighting was originally based mainly on market conditions. Then, from the 1960s and 1970s there were attempts to base it on cost, but this idea was abandoned in favour of a more market-driven approach in the early 2000s. However, additional costs of living in London – particularly the cost of public transport, housing and childcare – have risen sharply in recent years, and the signs are that wage differentials have not kept up. At the same time, a debate about meeting additional costs has given increasing attention to whether the least well off can afford the basics, rather than just to whether professionals can be attracted to work there. A recent study of minimum living costs (Padley *et al.*, 2015) creates a new basis for benchmarking differences in living costs against need, rather than the more dubious criterion of differences in how much people actually spend.

This paper assesses what kind of London Weighting might be used as a benchmark in considering pay in different parts of the country. Its purpose is not to propose a negotiated pay system, but to help inform debates about wage-setting. The paper:

- Reviews previous approaches to a London Weighting and the rationales that have guided them;
- Sets out some principles of what might influence a London Weighting;
- Suggests how a cost-reflective supplement could be re-introduced into the consideration of wages in London.

2. Approaches to London Weighting – a changing history¹

Beginnings in the Civil Service

Systematically higher pay in London in one form or another can be traced back to the early 19th century. In 1830, a compositor in the printing industry earned 10 per cent more in London than in Manchester (33 shillings rather than 30 shillings a week), and a century later the differential was 15 per cent (89 shillings compared to 77.5 shillings). From the 1920s onwards, national rates for Civil Service salaries were subject to different levels in and out of London. Initially this took the form of a “provincial deduction” on the basis that London-based civil servants were the norm. This was unpopular until turned around in the 1950s to a national (out of London) rate with a London premium on top (a more popular presentation of essentially the same policy, proving that “spin” is not a recent invention). The London supplement was not then conceived as a standard addition to reflect London costs but rather took the form of a stepped premium at different salaries, which in 1967 provided between 4 and 6 per cent of salary in Outer London and between 6 and 13 per cent in Inner London. In contrast, private firms then tended to pay a *flat* rate considerably more generous than the Civil Service’s higher rate: commonly £150 a year in Inner London compared to £85 at the top of the Civil Service scale.

Efforts to establish a cost-based system: 1967–1982

Two reports, by the National Board for Prices and Incomes in 1967 and by the Pay Board in 1974, created a more formal and widespread London Weighting that was intended better to reflect higher costs in the capital. Both of these reports had the objective of setting a general standard, via the public sector, that could influence private practices rather than just being for the Civil Service. They came to the conclusion that the main idea of a London Weighting should be cost compensation not a market mechanism to attract staff to London. The general idea was that if London supplements were harmonised to reflect London costs, there may be a spin-off labour market benefit of removing a disincentive to work in London, but that a market- rather than cost-led approach could simply lead to bidding wars.

These two reports introduced, and then revised, a London Weighting system that was widely used in the public sector and increasingly taken up in the private sector during the late 1960s and through the 1970s. The main reason for the second report and revision of the system in 1974 was that rapidly rising house prices had not been sufficiently captured by the initial formula. The refinement of the formula in the 1970s included (separately for Inner and Outer London):

¹ The information in this summary up to 2002 is drawn from *Income Data Services, 2002*

- A housing element based on differences in actual expenditures (but just the interest element of owner-occupied housing);
- Travel to work, also based on actual expenditures;
- Other consumer costs, based on slightly higher consumer prices in London;
- Some inferred costs: wear and tear on cars where these were used for additional travel, and the lower value of living in more cramped housing conditions;
- A taxation element based on the fact that, to cover these costs, pre-tax income needed to take into account the deduction of income tax.

From 1974 to 1982, the London Weighting set by the Pay Board was the principal benchmark for negotiations over London allowances. This was the time when London Weighting was most formally recognised. It was also a time when, more than before or after, it was most standardised in terms of a flat rate: initially £400 a year for Outer London and £200 for Inner London. Previously there had been stepped rates sometimes related to different grades, while later market-based systems also often differentiated the reward according to different categories of staff.

Unfortunately, this adoption of the principle of a standard London Weighting also coincided with a time of fraught labour relations and public budgets that for the first time were being cash-limited. This meant in practice the weighting was subject to endless disputes and bargaining, with the private sector generally being able to afford to pay more than the public. It is certainly a fiction to imagine a golden age when a standardised London Weighting was paid by all large London employers. By 1982, if you worked in a London clearing bank you got nearly £1,600 London Weighting, but if you were a doctor/nurse or teacher, it was only around half this amount (£722 and £834 respectively: Inner London).

The market returns, bringing diverse practices: 1982–2002

In 1982, Employment Secretary Norman Tebbit took a big step in returning to a more market-based free-for-all. He abruptly stopped publication of the index uprating the London Weighting, saying that pay should be a matter for employers in relation to what they could afford.

For the next five years (1982–1987), Income Data Services, a private research body, continued to calculate and publish an uprated value of the London Weighting on the basis established in 1974. This continued to be used as a benchmark by many employers, but in an increasingly selective way. An interesting development early in this period was the GLC's cutting of public transport fares, which at one point helped push the indexed London Weighting *down*, but in general employers did not cut the allowance paid. A more significant issue was that the 1974 calculation had been based on a survey of expenditure patterns, but the annual upratings were in line with changes in costs, with the understanding that patterns of expenditure should be reviewed after five years. This was never done, and by 1987 Income Data Services concluded that the basis for the weighting was becoming increasingly inaccurate. Asking employers if they would value a full review, it found that most thought "the labour market is now overwhelmingly more important than cost factors" in setting London pay. The last published London Weighting was therefore made in April 1987:

£1,507 for Inner London and £548 for Outer London. But by this time banks were paying around £2,000, and in 1987 the Bank of Scotland underlined the importance of market forces by raising its allowance to £3,000 to reduce staff turnover, a move followed by some other banks.

In the 1990s, the general level of London Weighting in the private sector stayed fairly stable, reaching a median of £3,100 in 2001 (while this was a reduction in real terms, the overheated conditions of the late 1980s did not persist). However, employers structured this in complex ways in terms of geography and job type to try to address localised staff shortages without creating a general bidding war for London staff. The finance sector tended to have multiple rates following concentric circles from Central London (in the public sector, three bands for Inner London, Outer London and Outer Metropolitan had emerged). The retail sector tended to have lower rates in this period.

One of the issues raised by these structures is that differentiation by concentric bands around Central London is inevitably linked to the place of work rather than the place of residence (one could not imagine two people working side by side in the same location being paid differently according to where they choose to live). Such differences may be linked to a combination of a gradient of living costs as you move outside London and the additional time and financial costs you must face by commuting to more central areas if you do not live there. Such gradations are one factor that has been used as an argument favouring market- over cost-based systems. For example, if the difference between housing costs in Inner and Outer London greatly exceeds the commuting cost, any one cost-based weighting for people working in Inner London will either over-compensate people living in Outer London or under-compensate those in Inner London. However, one could argue that, since no system is perfect, this does not make such a weighting unacceptable. In a market-based system, such questions do not arise, however: the market rate is simply what it takes to attract people to work in each area.

In the public sector, Inner London Weightings were typically of the order of £2,000 in the 1990s. From 1994, far greater diversity emerged in the Civil Service and throughout the public sector, as different departments and bodies developed their own policies. Some introduced separate London pay bands rather than (or in addition to) London allowances – implying a more graduated London supplement, potentially changing with each point on a pay scale, and also being uprated automatically with general pay – and others stuck to London Weightings. The diversity of experience was reflected in the fact that, for example, by 2002 a uniformed police officer typically got about twice as high a London Weighting as a teacher.

An important issue in this period was whether to bring local pay bargaining into the public sector, which was resisted by the trade unions, largely successfully. A tight labour market at the end of the 1990s encouraged the government to seek ways of recruiting in shortage areas including teaching, with various bodies enabled to award what were initially called “market supplements” but which the unions got relabelled “cost of living supplements”. This once again showed that terminology is important, but created an odd situation of coexisting with London allowances so some workers effectively got two separate London Weightings.

The 21st century: a move to restore public sector comparability, with mixed results

The last major review of London Weighting was carried out in 2002 by the London Weighting Advisory Panel, reporting to the London Assembly (2002). A study carried out for this panel by Warwick University (Davies and Wilson, 2002) found that, in Central Inner London especially, private sector London Weighting was running well ahead of the public sector, as shown in Table 1.

Table 1. London premiums, 2002

	Public sector	Private sector	Private sector excluding City
Central London	26%	41%	37%
Inner London	24%	37%	33%
Outer London	15%	11%	11%
Greater London	20%	25%	22%

Source: London Assembly (2002)

The Panel came out strongly in favour of a London Weighting in the public sector that would mimic the de facto premium paid for London in the private sector, in order to attract staff. It argued that a cost-based London Weighting was doomed to failure because it was impossible for it to take account of all factors including the relative attractiveness of living in London compared to elsewhere. The conclusion of the Panel was therefore that, subject to affordability, public sector bodies needed to increase wage premiums, defined by the percentage additional pay in Inner and Central London (but not in the exceptional situation of the City), to ensure comparability within their sector to the private sector. In Outer London, the premium was found to be slightly higher in the public than the private sector, but the Panel recommended that nobody should lose out from the change and therefore there should not be a cut.

In practice, while the 2002 review reinforced the case for a market-based approach, it did not seem to change patterns significantly. While the overall averages showed that the public sector in Inner London was relatively underpaid, the advice was for each employer to look for effective solutions within their own sector.

Not surprisingly, given the message that employers should use their discretion, no very coherent London Weighting systems seem to have followed the London Assembly report. Figures produced by Income Data Services in 2013 (Unison, 2014) appear to show that there may have been some degree of catching up by the public sector in Inner London – where premiums do not seem to be seriously out of line with the private sector, as shown in Table 2. These data need to be read with caution in that the absolute level of the allowance may be higher in the public sector as a result of there being a higher proportion of professional jobs, particularly if allowances are being set as a proportion of pay. However, at the very least, it shows that there is no longer the lag that there once was in absolute terms when flat-rate allowances were more common.

Table 2. Average London allowances by sector, 2013/14

Organisation type	Central/ Inner London	Intermediate/ Outer London	Outer London/ Fringe	Fringe/ South East
All organisations	£3,561	£2,000	£1,060	£770
Energy & water	£5,100	£4,285	£2,700	
Manufacturing & primary (e.g. farming, forestry)	£4,100	£2,165	£1,380	
Public	£4,098	£2,756	£1,049	£1,000
Finance	£3,948	£2,500	£1,636	£825
Not for profit	£3,285	£1,746	£805	£555
Private services (i.e. services sector not covered by other categories)	£3,154	£1,800	£1,140	£770
Retail	£2,055	£1,384	£1,038	£509

Source: Unison (2014)

Perhaps a more significant feature of these figures, however, is that over the past three decades the level of London allowances does not appear to have risen by very much, despite large increases in wages and in costs. The £3,561 average for Inner London calculated by Income Data Services in 2014 is not much higher than some employers were paying in the late 1980s. More recent data from the Labour Research Department (due to be published in June 2016) also suggest an average of between £3,000 and £4,000. The following comparisons for Inner London can be made between these figures and earlier data (Davis and Wilson, 2002):

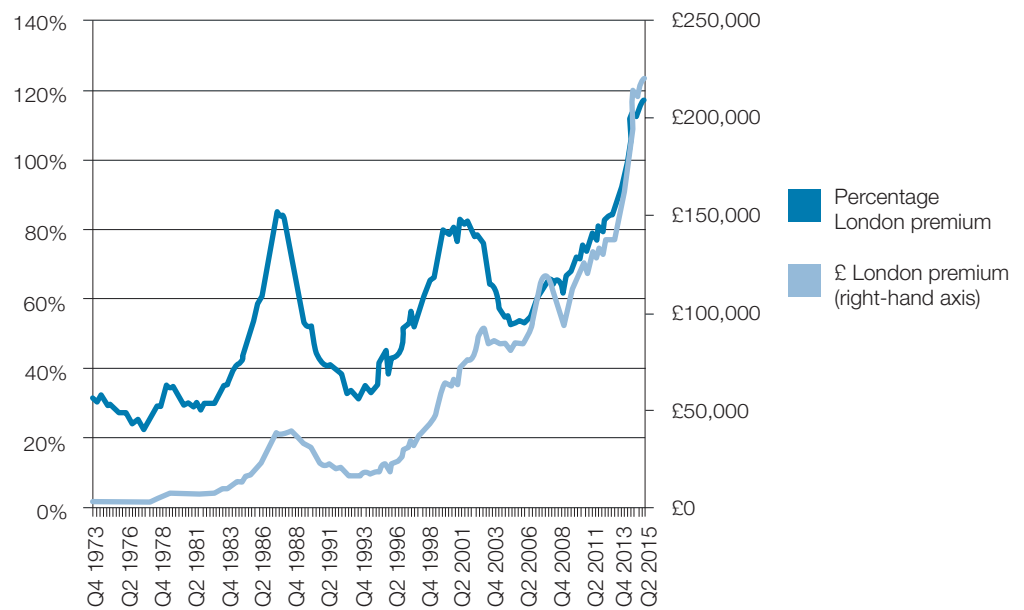
- A prison officer presently gets a London allowance of £4,250, compared to £3,000 in 2002;
- A nurse gets a minimum of £4,158, compared to £3,268 in 2002;
- A police officer gets £6,687. This is up just 10 per cent since 2000, when the London police allowance was more than doubled to £6,000;
- In the financial sector, banks were reported to be paying of the order of £3,000 in 1987/88, £4,000 in 2002, and about £4,000 on average today;
- A wide range of allowances reported in the private sector ranged from £1,050 to £3,000 in 1988, and range from £900 to £5,500 in a 2015 survey (Labour Research Department, 2015).

While direct comparisons over time are difficult due to changing pay structures, these figures show that at best London Weightings have risen selectively by up to about a third since 2002, when they were not in general much different from the end of the 1980s. Some occupations, such as teaching, have seen significant catching up at certain times, and others such as the police have received exceptional treatment at the time of pay reform, but there is no sense that London Weightings overall have followed rising costs or general increases in earnings – which have more than tripled since 1987.

To put this in perspective in relation to costs, public transport is around 3.5 to 4 times as expensive now than in 1987 according to the Retail Prices Index, and the cost of

a London home has doubled in a decade and is over five times as high as in 1987, according to the Nationwide Index. Moreover, the gap between housing costs in and out of London has widened in both relative and absolute terms. Figure 1 shows that house prices in London have risen significantly compared to the UK average, which combined with a general rise in house prices creates an even greater absolute increase in the difference between UK and average London prices. These tripled from £75,000 in 2002 to around £220,000 in 2015.

Figure 1. London house price premium, 1973–2015



Source: Nationwide data

To sum up this short history of the London Weighting:

- Market pay has been higher in London for a long time, and for the past century the public sector has looked for ways of reflecting this;
- Attempts to ensure that higher pay in London reflects costs never worked very well, and since the 1980s the priority has been to use London Weightings to attract suitable staff rather than to give fair pay;
- Such a market orientation has given a boost to some workers especially in shortage areas, but has not led to a general improvement, and over the past three decades, the average value of London Weighting relative to London costs appears to have declined greatly.

3. Principles of London Weighting

The above history makes it clear that London Weighting has long been considered desirable for two related reasons, both as relevant as ever today: to prevent Londoners from being disadvantaged by the higher cost of living in the capital; and to attract suitable staff to work in London, especially in the public sector where national pay bargaining may otherwise prevent this. Previous reviews of London Weighting described above have acknowledged the dual objective of covering additional costs and attracting staff. After a period in the 1960s and 1970s when the cost rationale was dominant, the past three decades have seen a mainly market-based rationale, combined with additional flexibilities that allow public organisations to respond to labour supply. However, there are several reasons why simply relying on the market can prove problematic:

- Such an approach can help make London pay more attractive for workers in shortage industries, but strand other Londoners in working poverty. This risk has become far greater as a result of a shortage of social housing, spiralling private rents and a tightening of support through Housing Benefit;
- Where there is no cost-based norm, there is a risk of bidding wars to attract workers to come to or stay in London, and public sector bodies may lose these wars. The scope for raising wages for scarce staff in shortage areas to levels that compete with the private sector is constrained by increasingly tight budgets;
- A London Weighting focused on attracting staff who might otherwise work outside London tends to point towards a percentage London premium, in which higher paid staff are compensated proportionately for higher average living costs than outside London. A cost-based system may potentially pay a premium that is closer to being a standard flat rate, particularly if it is based on differences in minimum or average costs, which will be more favourable to people on lower incomes. Given the acute difficulties people on low incomes now face living in London, the arguments for addressing the needs of the worst-paid Londoners are growing, which helps explain the success of the London Living Wage.

An important feature of the history of the London Weighting is that previous attempts to base it on costs are seen to have failed and are considered unfeasible. These attempts, however, were based on a particular way of calculating costs, which is problematic: by looking at what Londoners actually spend. This is a highly imperfect approximation of what extra costs entail, for two main reasons:

- Additional spending depends not on needs but on resources. If Londoners are better off they are likely to spend more, especially on items such as housing, where what you can afford heavily influences what you buy (as opposed to, say, public transport, where what you spend on a travelcard is standardised). The greater concentration of professional and head-office jobs in London may feed this higher expenditure, as may the London Weighting itself, creating a

circular process through an expenditure-based salary calculation that in turn influences prices;

- Expenditure does not measure living standards. If many Londoners are unable to afford certain basic needs such as an adequate home, differences in average expenditure between London and the UK average does not tell you how much more you need to live adequately in London.

An alternative approach to cost has been made possible by the development of budget standards, which did not exist in the 1970s when a cost-based approach was last systematically attempted. Budget standards identify what households need as a minimum to live at an acceptable level, and this can be compared inside and outside London. The Living Wage has been informed by budget standards, and in principle the London rate is higher than the out-of-London rate because the minimum cost of living is higher in the capital. In practice a different basis for calculation inside and outside London has meant that these rates have not been based on a direct comparison, but a review of the Living Wage is considering (early 2016) whether there can be better co-ordination. In the meantime, research on a Minimum Income Standard originating outside London (Hirsch, 2015), and based on developing consensus about minimum needs among members of the public, has now been applied to London on an identical basis, allowing direct comparisons to be made (Padley *et al.*, 2015).

The identification of minimum living costs in and out of London offers a new dimension in calculating London Weightings. Unlike previous cost calculations, it does not leave unanswered the issue of whether intangible advantages or disadvantages of living in London need to be taken into account. For example, previous calculations of housing costs has not had a solid basis for making like-for-like comparisons between the cost of accommodation inside and outside London, given that available housing in London is generally less spacious. Comparing exactly the same sized units would be unrealistic, while comparing the cost of different-sized units may seem arbitrary, and fail to take account of the disadvantage for Londoners of living somewhere small. The groups in this research considered and judged separately what is a socially acceptable minimum in each local context. This, for example, specified a house for a family with children outside London, but a flat for the same family in London. These judgements were made by the people in the areas to which they applied, so “acceptability” could be seen from the perspective of what would exclude you from normal life in the context of an area, not by making moral judgements about what is acceptable for someone who lives elsewhere.

It would seem reasonable to argue that a fair addition to pay for those who live in London should *at least* cover the difference between the minimum cost of living in London and the minimum cost of living elsewhere in the UK. However, such a calculation needs to be interpreted with some caution. It does not necessarily describe additional costs for those not starting out on the minimum. This point can be illustrated by an example.

For a single person moving to London from, say, Manchester, some additional London costs would be similar regardless of whether they were on a relatively high or relatively low income. For example, additional transport costs required to travel to work can be readily calculated by comparing the price of a monthly season ticket to use public transport in both places. This is the minimum extra that you need in order to get around those two cities. However, when it comes to the same person’s housing costs, the minimum addition may be more variable. Assuming that this person will

not be able to get social housing in either place, we may think of the minimum additional cost being the gap between a modest private rent on a small flat in Greater Manchester compared to a studio in London (these are the minimum acceptable units of accommodation specified by groups of single people inside and outside London in the Minimum Income Standard research). However, for someone who has been living above the minimum – in more comfortable accommodation – maintaining this standard may be more expensive (e.g. moving from a flat with a guest bedroom in Greater Manchester to a one-bedroom flat with living room in London). Table 3 illustrates this point, showing that to maintain a certain standard, even accepting that space will be more limited in London, could cost twice as much for someone living a bit above the minimum. For a family with children, this variability could be even greater if tenure is taken into account. For a family eligible for social housing, the additional cost of moving to London is likely to be far lower (subject to availability of a social tenancy) than for a better-off family relying on private housing in both places.

Table 3. Average monthly rents, in and out of London

1) Low-cost property (lower quartile)		2) More comfortable property (median)	
One-bedroom flat, North West	£375	Two bedroom, North West	£500
Studio, London	£750	One bedroom, London	£1,200
Extra cost	£375	Extra cost	£700

Source: Valuation Office Agency data (December 2015)

Thus, minimum costs can be used to estimate the minimum level at which London Weighting should be set in order to compensate low-income households for additional London costs, but cannot on their own determine what London Weighting is needed either to attract workers to London or to provide them with a comparable standard of living, which will vary with income level. In this context, we can regard a calculation based on minimum cost as representing a “minimum London Weighting”. Despite being a minimum addition, it does not just apply to people on low pay, but also to a wide range of Londoners struggling to cover high costs. Such a minimum London Weighting would therefore have a far wider reach than the London Living Wage.

4. Calculating a minimum London Weighting

The Minimum Income Standard research identifies significant differences in costs between London and other urban areas of the UK, concentrated in particular in three areas of spending: housing, public transport and childcare (Padley *et al.*, 2015). This takes account not only of price differences but also of different living patterns and space standards that help define what comprises a minimum in London and outside.

As argued in the previous section, the results of this research can be used to say what, as a minimum, a London Weighting would have to be in order to enable households to meet their needs.

Such a calculation is sensitive to many assumptions including in particular:

- The composition of the household;
- How many people in the household are working;
- What kind of housing they live in;
- Whether families need to use childcare;
- Whether a household is receiving tax credits, which can make a big difference to the additional salary needed to cover a given additional cost, since 41 per cent of all additional earnings will be clawed back in a reduction of tax credits through the means test.

The headline results for the Minimum Income Standard for London gave some initial examples of how much more you need to earn in London to cover costs. These confirmed that the difference varies greatly according to family type and housing type. For a single person, who needs to earn around £17,000 as a minimum outside London in 2014, this rose by £7,500 in Outer London or £10,000 in Inner London if renting self-contained private accommodation, but only by about half those amounts for Londoners renting rooms in shared houses. For couples with children able to access social housing and with two working parents, the required supplement would be about £4,000 per parent, but for a lone parent it would be prohibitively high – around £18,000. This last result shows that it is unrealistic to think that additional costs at their present level could possibly be covered for lone parents through wage supplements alone. This is caused by the very high cost of childcare and the difficulty of covering it with just one London salary. Even outside London, a lone parent on a medium salary can only cover childcare with a large amount of help through tax credits. To cover the London additions, a lone parent's earnings have to go up so much because, as they rise, this subsidy is rapidly reduced. The problem is less acute for couples with children, whose dependence on help with childcare costs is much smaller outside London, and so they have less to lose.

The following calculations consider what extra earnings would be needed to cover minimum additional costs for a range of household types, other than lone parents, found among the London working-age population. It then weights these results using Census numbers to produce a single average figure for Inner and for Outer London.

Table 4 shows the categories used for the calculation, and the number of Londoner adults of working age who lived in those types of household at the time of the last Census (and, for context, how this has changed since the previous Census).

Table 4. London working-age adults, by most common household types

	Single sharer	Single, living on own	Couple, no children	Couple, with children
2011	809,741	686,080	490,199	1,201,997
2001	581,625	680,014	789,088	1,103,864

Source: Author calculations from Census data. Sharers are those living with people other than family members or partners

Tables 5 and 6 below work out Inner and Outer London Weightings for each of these categories, and the weighted average. The following discusses the basis of these calculations and what they show.

Single sharers. The Census shows that more single working-age people in London now share accommodation than live in self-contained homes. This is a reversal of the situation at the turn of the century, as shown in Table 4, with the number of sharers estimated to have risen by 39 per cent between 2001 and 2011 – and in all probability by a lot more in the past five years of soaring London rents. While this does not mean that being forced to share is acceptable, it would be unrealistic to ignore entirely the lower costs achieved by Londoners who do so. Even so, as shown in the results in Table 5, shared London tenancies bring higher costs than self-contained ones outside, and this must be added to the substantial additional travel costs faced by a single Londoner because of more expensive public transport. Thus, even sharing, a single person needs to earn an additional £5,500 in Inner London and £4,400 in Outer London to cover minimum costs.

Singles and couples living independently. Even though sharing has increased, it would not feel acceptable for Londoners without children to live in shared accommodation permanently. Those who live in their own studio or (for couples) one-bedroom flat still have modest accommodation, but their additional costs are particularly high. It is not realistic for those without children to secure social housing and, in the private sector, renting self-contained accommodation is far more expensive per head than shared housing. Added to the additional public transport costs, this means that a minimum London Weighting for these categories rises to £11,000 and £9,100 for a single person and couple respectively in Inner London and to £7,700 and £6,900 in Outer London.

Families with children may face more modest additional housing costs if they get social housing, which is costlier in London than elsewhere, but not by nearly as much as private housing. Their additional transport costs are also not as severe as for those without children, partly because outside but not inside London families say that cars are needed, and also because children in London travel free. On the other hand, costs are increased for families by the additional cost of childcare, especially in Inner London, and as mentioned above, the loss of tax credits as earnings rise increases the additional earnings requirement for some families. (In theory, London Weighting could also be increased further by the simultaneous loss of Housing Benefit and tax credits. However, at the earnings required for a minimum living standard, households no longer have entitlement to Housing Benefit.)

In recognition of the fact that some but not all families require childcare, Table 5 makes separate calculations for two types of family: a couple with two younger children who require childcare and a couple with older children who do not. These two cases are given equal weight in the final calculation. It is assumed in both cases that both parents work full time to share the additional costs between two earners, although where parents work fewer hours, higher salary additions (expressed as full-time equivalent salary) would be required. The results for these families in Table 5 show that the supplement needed is less than half as great where children are older – £4,200 per parent of an older child compared to £9,300 per parent of a younger child in Inner London, and £3,700 and £8,900 respectively in Outer London.

Table 5. Calculation of a minimum London Weighting based on Minimum Income Standard

Based on living in Inner London

Household type	Single sharer	Single not sharing	Couple	Couple with two young children (3 and 6)	Couple with two older children (13 and 16)
1) Additional weekly costs					
Rent	£46.87	£119.12	£186.03	£53.71	£53.71
Transport	£20.58	£20.58	£41.16	£17.15	£32.66
Childcare	£0.00	£0.00	£0.00	£93.04	£0.00
Other	£4.29	£4.29	£11.06	£10.25	£22.82
Total	£71.74	£143.99	£238.25	£174.15	£109.19
2) Additional earnings required, per adult					
To cover additional costs	£3,741	£7,508	£6,212	£4,540	£2,847
Additional tax & NI	£1,760	£3,523	£2,923	£2,963	£1,340
Loss of tax credits	0	0	0	£1,756	0
Total: London Weighting needed	£5,501	£11,031	£9,135	£9,259	£4,187
Weighting given to this household type	0.25	0.22	0.15	0.19	0.19
Weighted component	£1,375.25	£2,426.82	£1,370.25	£1,759.21	£795.53
TOTAL WEIGHTED AVERAGE	£7,727				

Source: Calculations using Minimum Income Calculator (www.minimumincome.org.uk)

**Table 6. Calculation of a minimum London Weighting based on Minimum Income Standard
Based on living in Outer London**

Household type	Single sharer	Single not sharing	Couple	Couple with two young children (3 and 6)	Couple with two older children (13 and 16)
1) Additional weekly costs					
Rent	£19.27	£61.16	£99.66	£53.71	£53.71
Transport	£35.59	£35.59	£71.17	£36.34	£27.32
Childcare	£0.00	£0.00	£0.00	£69.35	£0.00
Other	£3.02	£3.02	£8.54	£5.85	£16.69
Total	£57.88	£99.77	£179.37	£165.25	£97.72
2) Additional earnings required, per adult					
To cover additional costs	£3,018	£5,202	£4,676	£4,308	£2,548
Additional tax & NI	£1,420	£2,449	£2,201	£2,854	£1,199
Loss of tax credits	0	0	0	£1,756	0
Total: London Weighting needed	£4,438	£7,651	£6,877	£8,918	£3,747
Weighting given to this household type	0.25	0.22	0.15	0.19	0.19
Weighted component	£1,109.50	£1,683.22	£1,031.55	£1,694.61	£711.93
TOTAL WEIGHTED AVERAGE	£6,231				

Source: Calculations using Minimum Income Calculator (www.minimumincome.org.uk)

It is also important to note that in cases where families cannot get social housing, additional earnings requirements are dramatically higher. Renting a modest three-bedroom house costs of the order of £200 a week more in London than outside, which would require an additional £15,000 in earnings even before the effect of additional childcare costs. This again underlines how the calculations made here represent only a baseline minimum.

Combining the calculations in Tables 5 and 6 produces an average “minimum London Weighting” of £7,700 in Inner London and £6,200 in Outer London. This suggests that London Weightings in general pay well below what would be needed as a minimum truly to cover London costs (although the Metropolitan Police’s London Weighting of £6,600 a year is an exception).

In interpreting the Outer and Inner London figures used in these calculations, some care is needed. The differences pertain to where people live, but in both cases include travel budgets that allow commuting into Central London. Arguably, the lower figure, for Outer London, should therefore be a baseline norm since it is the minimum that would allow someone to access a job anywhere in London. It is interesting to note

that when the London Pay Board originally recommended different Inner and Outer London Weightings in 1974, it made its calculations based on higher costs actually incurred for those *working* in Inner than Outer London, including the additional amounts it cost to travel to work (Income Data Services, 2002). In contrast both Inner and Outer Londoners participating in the 2014 Minimum Income Standard research saw mobility across London as now being a necessary part of London life, so that even those not living in the centre would need travelcards allowing them to access it regularly or to travel through it to work further afield. This in fact makes a London Weighting based on place of work less relevant, and whether a London Weighting should take account of the higher costs of living in Inner London depends on whether employers should be expected to help cover them, or whether it is reasonable to expect workers to travel from relatively cheaper areas.

5. Conclusion and recommendation

This paper has shown that any ambition for a London Weighting to give systematic compensation for the additional cost of living in London has long since been abandoned. It has also shown that, where employers are giving compensation for living in London, they are in most cases only going a small way towards covering even minimum cost differences. This matters particularly for those in the lowest paid jobs, who are left unable even to cover minimum living costs. It creates an argument for any additional pay for those working in London being based on some minimum flat-rate supplement, even if some better paid workers also get further elements that increase with salary.

Indeed, as one moves towards higher pay levels, the relevance of a minimum London Weighting diminishes. This is because higher paid workers can reach a minimum living standard even without a London Weighting, and a weighting based on a minimum standard becomes less relevant for showing what it costs to achieve an equivalent (higher than minimum) standard in London as the rest of the UK. Workers earning up to £30,000, including a London supplement, may be close to the minimum in London, and those slightly higher up a pay scale are likely to struggle in the absence of a London supplement. On this basis, a minimum-additional-cost-based London Weighting can be considered relevant up to salaries (including the weighting) of around £40,000.

Based on the new evidence on what it costs to achieve a minimum acceptable living standard, we have seen that a London Weighting above £6,000 a year could be a baseline that starts to compensate these low- to middle-income London workers for the additional costs that they face. It would be naive to argue that all London employers should immediately be paying this amount. However, it gives a useful benchmark for anyone seeking to ensure that London workers are paid fairly. Most importantly, these calculations allow a better informed conversation about how a London Weighting could once again take some account of costs, and not just be seen as a market-based mechanism designed to avoid labour shortages.

This approach produces a pay difference that is greater than the current gap between the Living Wage inside and outside London. The Living Wage Commission² is revisiting the way in which these rates are calculated in light of all current evidence, but it should be noted that a London Living Wage and a London Weighting perform different functions. A London Weighting is focused on employers who have workers doing similar jobs in and out of London, on a range of pay levels. The London Living Wage seeks to be a minimum for all London employees, including those with small local employers who do not have employees outside London. While both are informed by similar considerations about minimum costs, their difference in purpose results in differently structured formulae, so results cannot be directly compared.

Specifically, therefore, I recommend that Trust for London publish annual figures for a cost-reflective Minimum London Weighting. The main figure should be based on minimum costs in Outer London, with a supplementary higher figure for Inner London.

² www.livingwage.org.uk/living-wage-commission

This can be presented as a benchmark target figure for additional pay, compared to UK-wide rates, for those earning below £40,000 a year to help cover essential costs associated with living in the capital.

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