

London Weighting and London costs – a fresh approach?

Key findings

Trust for London funded the Centre for Research in Social Policy at Loughborough University to explore London Weighting: who was currently benefiting from it; the principles behind it; and in particular how the Centre's work on Minimum Income Standards could be used to calculate a new minimum rate. This is a summary of a paper by Donald Hirsch.

- Most public and private employers pay their workers in London more than their equivalents in the rest of the UK. This supplement is sometimes referred to as London Weighting and its origins can be traced back to the early 20th century.
- London Weightings average under £4,000 and vary significantly across employers and different industries, with more paid in Inner London than Outer, and more in finance, manufacturing and public sectors than retail or the not-for-profit sectors.
- There is no longer a body responsible for the calculation or promotion of London Weighting, which may have contributed to its decline in value. It has risen relatively little over the past 15 to 30 years despite a rapid rise in costs, particularly housing.
- From the 1960s to the 1980s London Weighting was based on the additional costs Londoners spent as a result of living in the capital but has since moved to a market-based approach.
- There is a need for a fresh approach 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.
- The Minimum Income Standard for London research shows Londoners have much higher costs, especially in relation to housing, childcare and public transport; it can be used to estimate the minimum level at which London Weighting should be set.
- London Weighting should 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 (those earning up to £40,000 per annum, including London Weighting).
- A London Weighting based on minimum costs is less relevant for higher paid staff, whose earnings already allow them to reach a minimum living standard.
- London Weighting needs to be almost £7,700 per year in Inner London and just over £6,200 in Outer London to cover additional costs. An initial target should be a weighting reflecting the cost of living in Outer London, since it is the minimum that would allow someone to access a job anywhere in London.

Background

Should employers in London pay higher wages than elsewhere in the country? Is it unfair to expect Londoners to live on the same incomes as people elsewhere in the country, despite the cost of living being much higher in the capital? Or should wages depend on market forces, rather than concepts of fairness, with London employers only paying more if they need to attract people to work in the capital? In practice, a supplement (sometimes called London Weighting) is paid by many employers in London for a variety of reasons.

The concept of a London Weighting can be traced back to the early 20th century and was originally based mainly on market conditions. From the 1960s and 1970s there were attempts to base it on costs, but this idea was abandoned in favour of a return to a more market-driven approach in the 1980s. However, additional costs of living in London have risen sharply in recent years, and the signs are that London Weighting has not kept pace with these increased costs. At the same time, a debate about meeting additional costs has given increasing attention to whether the least well off can afford the basics.

London Weighting levels

Figures produced by Income Data Services in 2013/14 show the most recent data on the levels of London Weighting by sector and sub-region. There is significant variation, with the lowest supplement generally in the retail sector. In all sectors, Inner London is the highest rate.

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)

More significantly, over the past three decades the level of London Weighting does not appear to have risen by very much, despite large increases in wages and in costs. The £3,561 average for Inner London is not much higher than some employers were paying in the late 1980s. The following comparisons¹ for Inner London reinforce this.

[1] Labour Research Department (2015), "London Weighting helps with cost of living in capital", Workplace report, No 136, June. Updated data supplied by Labour Research Department and to be published in forthcoming Workplace Report, June 2016; Davies, R. and Wilson, R. (2002), *Assembly scrutiny of London Weighting*: report by Warwick University Institute for Employment Research published as Appendix 7 to London Assembly (2002)

A nurse gets a minimum of £4,158, compared to £3,268 in 2002.

A prison officer gets £4,250, compared to £3,000 in 2002.

A police officer gets £6,687. This is up just 10 per cent since 2000, when the Metropolitan Police allowance was more than doubled to £6,000.

In the financial sector, banks pay about £4,000 today and were reported to be paying the same amount in 2002.

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.

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. Although 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, there is no evidence that London Weightings overall have tracked 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 compared to 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. House prices in London have risen to over double the UK average. Combined with a general rise in house prices, this creates an even greater absolute increase in the difference between UK and average London prices. This tripled from £75,000 in 2002 to £220,000 in 2015.

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. 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. This standard 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. However, it cannot on its 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 minimum-cost-based calculation as representing a “minimum London Weighting”. Despite it 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.

The headline results for the Minimum Income Standard for London gave some initial examples of how much more different households need to earn in London to cover costs. 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 for both Inner and Outer London would be about £4,000 per parent, but for a lone parent it would be prohibitively high, around £18,000. This last result shows it is unrealistic to think that additional costs at their present level could possibly be covered for lone parents through wage supplements alone, given the very high cost of childcare and the difficulty of covering it with just one London salary.

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 according to the proportion of these household types living in London (using Census numbers) to produce a single average figure for Inner and for Outer London.

Calculation of a minimum London Weighting based on Minimum Income Standard: 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)

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

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.

Combining the calculations in the tables above 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. In interpreting the Outer and Inner London figures used in these calculations, some care is needed. The differences relate 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.

Who should benefit?

As someone 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 London Weighting. 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.

Conclusion

Based on the new evidence on what it costs to achieve a minimum acceptable living standard, a London Weighting above £6,000 a year could be a baseline that starts to compensate low- to middle-income London workers for the additional costs 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 Commission 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.

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

Trust for London

Established in 1891, the Trust is one of the largest independent charitable foundations in London and aims to tackle poverty and inequality in the capital.
www.trustforlondon.org.uk

The Centre for Research in Social Policy (CRSP)

An independent research centre based at Loughborough University. The Centre conducts applied social research and policy analysis on issues related to poverty, living standards and income adequacy.
www.crsp.ac.uk

The full paper by Donald Hirsch and key findings are available at:
www.trustforlondon.org.uk/research/london-weighting

The paper draws from research on Minimum Income Standards undertaken by CRSP.
Available at:
www.trustforlondon.org.uk/research/minimum-income-standard-for-london