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Tackling poverty and inequality

A minimum London Weighting – a revised and updated approach

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May 2022

Supplemented by:

‘A technical report on the calculation of a minimum London Weighting’

About the report

About Trust for London

This research has been funded by Trust for London. Trust for London is an independent charitable foundation working to tackle the root causes of poverty and inequality in London. We do this primarily by funding voluntary and charity groups, awarding upwards of £10 million in grants each year and typically funding 300-400 organisations at any one time. We also make social investments, fund independent research and provide knowledge and expertise on London's social issues to policymakers and journalists.

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This report is published alongside '*A technical report on the calculation of a minimum London Weighting*' (2022) by Matt Padley.

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Key findings

- Many public and private employers pay their employees more in London than they do in other locations in the UK. This wage supplement is often referred to as the London Weighting or the London Allowance.
- At present, there is no systematic or agreed approach to calculating this weighting or allowance, with significant variation across employers and sectors.
- An annually updated figure, rooted in public consensus about minimum needs in London would provide an important reference point for employers, unions, policy makers and beyond.
- A previous report in 2016¹ highlighted the value of a London Weighting based on the costs of a minimum, decent standard of living in the capital compared to elsewhere in the UK.
- The Minimum Income Standard (MIS) for London research – which began in 2015 – shows that households in London have much higher costs, particularly in relation to housing, childcare and public transport².
- The ongoing MIS research can be used as the basis for estimating what the minimum London Weighting should be, and updating this on an annual basis.
- A minimum London Weighting should not just help those on low pay in the capital, but should also support low- to middle-income workers in London towards reaching a minimum living standard (those earning up to £40,000 per annum, including minimum London Weighting).
- Higher paid workers are more likely to be able to reach a decent living standard without a minimum London Weighting than those on lower pay.
- Based on updated analysis, a minimum London Weighting needs to be £9,600 in Inner London and £6,549 in Outer London to cover the additional costs of a minimum living standard.
- It is the recommendation here that the minimum London Weighting be set at the Outer London level – **£6,549** – as this represents the minimum that would enable people to live in London and access employment anywhere in the capital.

Background

Should employers in London pay higher wages than elsewhere in the country? Given that the cost of living – and importantly here, the cost of a decent living standard – is higher in the capital than elsewhere in the UK, is it reasonable to expect workers in London to live on the same incomes as workers elsewhere? These key questions were posed by analysis undertaken in 2016, which set out an approach to calculating a minimum London Weighting, based on in-depth research on minimum living standards in the capital⁹. While these remain critical questions, the context in which they are posed has changed in the intervening years. Most notably, Covid-19 has impacted on expectations and norms around work, as well as having profound impacts on individuals, communities and the capital as a whole. Recent increases in inflation, brought about by a combination of many different factors, directly impact the cost of living and the adequacy of wages and social security support in meeting a decent living standard. Broader economic changes and policy agendas – such as levelling up – raise questions about equity and fairness across the UK.

The purpose here is not to explore or interrogate these issues and questions in full. But in this broader context, outlining a minimum London Weighting, which takes into account the higher cost of a minimum, decent standard of living for workers living in London, is a worthwhile task. If employees earning less than £40,000 a year were to receive such a minimum London Weighting, this would make it more likely that households are able to meet their minimum needs and participate in the life of the city in which they live and work. This report updates the minimum London Weighting, capturing changes since 2016 in what is needed for a decent standard of living, in the key areas of housing, childcare and transport, but also more broadly. The core argument here is that a minimum London Weighting, rooted in publicly defined and determined minimum living standards in London, can provide a baseline for employers who want to ensure that their London workers are paid fairly: a baseline that explicitly recognises the higher cost of a minimum living standard in the capital, and which looks to address the ‘shortfall’ faced by many low to middle income households in meeting these essential costs. This shortfall is only likely to be increased by the current historically high levels of inflation.

The report looks first at existing London Weighting levels before outlining the calculation of a minimum London Weighting. We go on to highlight some critical questions relating to London Weighting, including the consequences of changes to working patterns resulting from Covid-19 and how place-specific pay fits in with public, policy and political discussions of ‘levelling up’. The report concludes with recommendations and suggested next steps.

Existing London Weighting levels

There is no systematic and regular collection of data regarding levels of London Weighting paid across and within different sectors and different parts of London. The data that are publicly available show considerable variation in the level of wage supplements paid by different employers in Inner, Outer and on the fringes of London. The table below provides some examples of London allowances currently being paid – these should not be taken as representative of wage supplements being paid in the capital, but rather point to the variation in amounts being paid and the variety of approaches being applied. Some employers are paying a fixed amount depending on location; some are paying a percentage of a basic salary in recognition of higher costs in London; others are paying an additional fixed amount to workers across the capital; in other roles, such as teaching, there does not appear to be a consistent principle being applied – that is, there is neither a flat rate nor a percentage-based ‘uplift’ being applied.

Table 1: Examples of London allowances

Employer/ role	Year updated/ agreed	Inner London	Outer London	Fringe/ South East
Metropolitan Police ⁴	2019	Maximum of £6906		
National Health Service ⁵	2021	20% of basic salary, subject to a minimum payment of £4,608 and a maximum payment of £7,097	15% of basic salary, subject to a minimum of £3,898 and a payment of £4,967	5% of basic salary, subject to a minimum of £1,066 and a payment of £1,845
National Probation Service ⁶	2019	£3889		
Environment Agency	2019	£3702	£1836	
Teaching ⁷	2021	Between £5088 and £9331	Between £3316 and £4201	Between £1159 and £1234
Sixth Form Colleges ⁸	2021	£4095	£2729	£1081

This variation in practice points to the importance, and value, of having a regularly updated minimum London Weighting, rooted in public consensus about minimum needs and consequently the extent of higher costs within the capital.

Calculating a minimum London Weighting

Since 2015, the Minimum Income Standard (MIS) for London research has identified, and regularly updated, what is needed for a minimum socially acceptable standard of living in the capital, compared to other urban areas of the UK. The MIS London research highlights the key challenges around living costs in the capital – particularly relating to housing, transport and childcare – and the pressures that these exert on living standards for many households. A key finding of the research is that people living in the capital need to earn more than their counterparts living in urban UK outside London in order to have a decent living standard. For example, in 2021, a single person living on their own in the private rented sector, needs to earn around £20,000 a year for a decent standard of living, but need £35,000 in Inner London and £29,000 in Outer London. A couple with two primary school age children living in social housing in urban UK each need to earn around £18,000 a year for a minimum living standard; in Inner London each parent needs to earn around £4,500 more, while in Outer London, each parent needs to earn around £8,000 more each year to have the same living standard.

MIS London research – and the standard that it establishes⁹ – can be used as the basis for calculating the minimum level at which to set a London Weighting so that low- to middle-income households are more likely to be able to afford a decent, minimum standard of living. There are clearly many factors influencing this which are beyond the remit of a London pay supplement – the availability of affordable housing, access to childcare, the cost of public transport, the level of support through the social security system - each of which will interact with and affect the level of living standard provided through a minimum London Weighting. The calculation of a minimum London Weighting, based on MIS London research, is necessarily based on a number of assumptions, which are explored in detail the [technical report](#) that accompanies this main report¹⁰.

The calculations presented in the [technical report](#) set out the extra earnings that would be needed to cover minimum additional costs for a range of working-age household types in London. It weights these results by the proportion of these household types living in London using 2011 Census data, in order to produce a single average figure for Inner and for Outer London. Future updates of the calculation will explore including a wider range of household types to better reflect the levels of additional costs faced by different households across the capital. They will also make use of 2021 Census data to weight results. Current calculations provide a baseline however, and a starting point for discussion about what a minimum London Weighting should be.

These calculations are shaped by [the assumptions that underpin them](#). Housing costs for working-age couples, for example, are based on lower quartile rents for a one bedroom property; were properties at this level unavailable, resulting in a rent nearer to the median, this would bring an additional cost of £35 a week in Inner and £22 in Outer London, increasing the additional earnings required. Where households with children are unable to access social housing – the basis of rents in the calculation currently – additional earnings requirements would be increased. In Inner London, lower quartile rent for a three bedroom house in the private rented sector is around £285 a week more than in other areas of the UK.

Combining the calculated London Weightings in the tables below gives an average minimum London Weighting of £9,600 in Inner London and £6,549 in Outer London. Comparing these to the existing London Weighting figures presented earlier, it is clear that for the most part, many sectors are paying well below what is needed from a minimum London Weighting to cover additional London costs.

Table 2: Calculation of a minimum London Weighting based on MIS: Inner London (April 2021 prices)

Household type	Single working-age sharer	Single working-age not sharing	Couple working-age	Couple with two young children (pre-school and primary)	Couple with two older children (both secondary, 13 and 16)
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1) Additional weekly costs

Rent*	£95.27	£104.56	£164.82	£53.00	£53.00
Transport	£18.99	£18.99	£37.99	£7.89	£15.58
Childcare	£0.00	£0.00	£0.00	£38.67	£0.00
Other**	£34.81	£36.65	£69.26	£25.46	£37.62
Total	£149.07	£160.20	£272.07	£125.02	£106.20

2) Additional earnings required, per adult

to cover additional costs	£7,773	£8,353	£7,093	£3,259	£2,769
additional tax, NI and pension contribution	£4,373	£4,699	£3,990	£2,289	£1,558
loss of universal credit	0	0	0	£809	£0
Total: London weighting needed	£12,145	£13,052	£11,083	£6,357	£4,326
Weighting given to this household type	0.25	0.22	0.15	0.19	0.19
Weighted London weighting	£3,036.25	£2,871.44	£1,662.45	£1,207.83	£821.85
TOTAL WEIGHTED AVERAGE	£9,600				

* Rental costs included in the calculation are explored in more depth in the [technical report](#). In Inner London sharers are assumed to be sharing the rent for a three bedroom flat in the private rented sector (PRS); single working-age adults living alone are in a studio flat in the PRS; working-age couples are in a one bedroom flat; couples with two children are in a three bedroom flat in the social rented sector.

** This category includes a range of other goods and services that are different and/or additional in London compared to urban UK outside London, and captures, for example, the generally higher cost of eating out in Inner London.

Table 3: Calculation of a minimum London Weighting based on MIS: Outer London (April 2021 prices)

Household type	Single working-age sharer	Single working-age not sharing	Couple working-age	Couple with two young children (pre-school and primary)	Couple with two older children (both secondary, 13 and 16)
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1) Additional weekly costs

Rent*	£51.49	£54.08	£89.95	£53.00	£53.00
Transport	£25.97	£25.97	£47.28	£33.52	£33.77
Childcare	£0.00	£0.00	£0.00	£43.95	£0.00
Other**	-£0.98	-£1.03	£5.52	£21.85	£32.57
Total	£76.48	£79.02	£142.75	£152.32	£119.34

2) Additional earnings required, per adult

to cover additional costs	£3,988	£4,120	£3,722	£3,971	£3,111
additional tax, NI and pension contribution	£2,245	£2,060	£2,093	£3,371	£1,750
loss of universal credit	0	0	0	£2,021.1	£0
Total: London weighting needed	£6,231	£6,438	£5,815	£9,362	£4,861
Weighting given to this household type	0.25	0.22	0.15	0.19	0.19
Weighted London weighting	£1,557.75	£1,416.36	£872.25	£1,778.78	£923.59
TOTAL WEIGHTED AVERAGE	£6,549				

* Rental costs included in the calculation are explored in more depth in the [technical report](#). In Inner London sharers are assumed to be sharing the rent for a three bedroom flat in the private rented sector (PRS); single working-age adults living alone are in a studio flat in the PRS; working-age couples are in a one bedroom flat; couples with two children are in a three bedroom flat in the social rented sector.

** This category includes a range of other goods and services that are different and/or additional in London compared to urban UK outside London, and captures, for example, the generally higher cost of activities for children.

Who should benefit?

The difference between the minimum London Weighting figures for Inner and Outer London is a product of where people live and the costs and norms associated with living in either Inner or Outer London. In both cases, a minimum budget includes the cost of travel across London – including through Zone 1 – and on this basis it is reasonable to argue that the **Outer London minimum London Weighting should serve as the baseline**, because it allows workers to access employment anywhere in the capital. A minimum London Weighting of £6,549 a year would begin to help to cover the essential costs that come with living in London. These additional essential costs are felt most acutely by those in the lowest paid jobs, but a minimum London Weighting should not just help those on low pay in the capital. It should also support low- to middle-income workers in London towards reaching a minimum living standard (those earning up to £40,000 per annum, including minimum London Weighting). Workers in higher paid jobs are more likely to reach a minimum living standard without a minimum London Weighting than those on lower pay.

How does this relate to the London Living Wage?

The minimum London Weighting and the London Living Wage are both rooted in a recognition that wages play a key role in helping households to achieve a decent standard of living, and that a key way in which living standards can be improved is through increasing incomes. There is obvious benefit in everyone in the capital being paid at least the London Living Wage, however this should not be an end point, but rather a starting point for discussion and negotiation about wages which recognises the additional costs of a decent standard of living in London. The minimum London Weighting provides clear evidence about what a starting point for wage supplements for low to middle income earners could be.

While wages are a critical part of the living costs puzzle, neither the London Living Wage nor the minimum London Weighting can, on their own, address the challenges of high and increasing living costs in the capital – discussions around wage floors and wage supplements in London should necessarily be intimately connected to discussions relating to addressing and reducing costs in the capital.

Critical questions in 2022

The context of discussion and debate about a minimum London Weighting is clearly different in 2022 compared to 2016, and the idea of a London Weighting or Allowance is not one that is universally embraced. It has links into discussions of fairness and equity both within London and across the UK, and could potentially be used as one of a number of interrelated tools through which to begin to address the challenges of low income and persistent inequalities within the capital. And yet it could all too easily become entangled in debates and disagreements around 'levelling up (and/or down)' or the perceived London-centric nature of policy and political decisions, detracting from the very benefits that it could bring to workers in London.

In the past couple of years – with sudden and dramatic changes to work patterns globally, particularly in cities such as London, as a result of Covid-19 – it is an idea that has become part of a global discussion about the premiums paid to attract workers to particular locations and occupations. In 2016, home-working or hybrid work patterns were not as widespread as they are in 2022, and the perception that London has thrived while other parts of the UK have struggled is perhaps clearer now than it was a few years ago. So, what are some key questions that it is important to work through and address in order for a voluntary, independently calculated minimum London Weighting to be accepted as a baseline minimum when considering pay in the capital.

The changing nature of work?

Increases in home-working and the impact of changing work patterns in the post-Covid capital raise questions about who should receive a London Weighting, but also about how the calculation of a minimum London Weighting might be affected by changing norms and expectations in the medium-long term. However, by no means all workers are impacted by these changes, as they work in sectors and occupations where home-working or hybrid working is not possible – for example, many working in education, the NHS and the London Fire Brigade are unable to work from home. Flexible working has accelerated for some, while others cannot work from home or adopt different working patterns. In this complex and varied context, some key questions need to be addressed:

- Who should receive a minimum London Weighting? Should all workers (below the salary threshold) receive the Weighting, or should this only be paid to those who are not largely home-based?
- Should a minimum London Weighting take into account the additional costs that come with working from home – such as increases in domestic fuel use?
- Should those commuting to work in London from locations where the additional cost of living is not as great, receive a minimum London Weighting?

London and ‘Levelling up’?

There has been much talk of the importance of ‘levelling up’ over the last few years, and the recently published white paper places at its heart ending the ‘geographical inequality which is such a striking feature of the UK’¹¹. The proposals and initiatives brought together under this banner are many and varied, but there is a clear commitment to ‘boosting’ pay and living standards across the UK. A minimum London Weighting would begin to do just this, providing a baseline for employers who want to ensure that their London workers are paid fairly: a baseline that explicitly recognises the higher cost of a minimum living standard in the capital, and which looks to address the ‘shortfall’ faced by many low to middle income households in meeting these essential costs. But establishing a minimum London Weighting would pose broader questions for the UK as a whole:

- If part of a minimum London Weighting is related to attracting workers to London, could or should the same principles be applied in other cities and/or regions of the UK?
- How would a minimum London Weighting contribute to reducing inequalities, both within the capital and beyond?
- Is ‘place-specific pay’ a useful tool in ‘levelling up’?

The questioning and interrogation of the need for ‘place-specific pay’ is justified – greater clarity in the discussion, explanation and application of the idea of a London Weighting is to be welcomed. But it is possible to lose sight of what a minimum London Weighting could do, and who would benefit most from a regularly updated London Weighting benchmark in discussions about how London fares relative to other parts of the UK. A minimum London Weighting would begin to help to cover the essential costs that come with living in London; it will not and cannot address inequalities that exist between and indeed within different regions of the UK.

Recommendations and next steps

This short report has set out a basis for calculating a minimum London Weighting that can be updated annually, as part of ongoing MIS London research. In a period where the cost of living is increasing rapidly as a result of high inflation, regularly updating the minimum London weighting is critically important. The report has also highlighted some critical questions relating to discussion and debate around London Weighting.

It is the recommendation here that the minimum London Weighting should be based on minimum costs in Outer London, and therefore would need to be £6,549. This figure is a baseline for additional pay, compared to UK-wide pay rates, for those earning below £40,000 a year, which would help to cover the additional, essential costs of living in London. It is also the recommendation that the minimum London Weighting is updated on an annual basis. This would incorporate any changes in what is needed for a minimum living standard in London as well as capturing changing costs both relating to the core basket and to rent, transport and childcare. An annual update should also build in a review of the central assumptions informed by ongoing MIS research, relevant policy change and the availability of new data, setting out clearly each year the impact of any changes on a minimum London Weighting.

References

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