

LONDON ALLOWANCES

Introduction

This factsheet is intended to provide recent data and advice to support negotiators in bargaining over London allowance levels. Opening with an explanation of the history behind London allowances, it goes on to set out the most common types of allowance in use, the economic factors underpinning allowances, practical advice for negotiations and prevailing rates in the public and private sectors.

Background

London allowances have their roots in the 1974 report of the Pay Board, which recommended an extra payment to compensate for the extra costs of living in the capital. This was based on a flat rate for inner London (up to four miles from Charing Cross) and a flat rate for the other London boroughs. The process then spread into the counties bordering London in the late 1980s, when competition for staff led to “Roseland” allowances covering south east England (typically Hampshire, Berkshire, Oxfordshire, Buckinghamshire, Bedfordshire, Hertfordshire, Essex, Kent, East Sussex, West Sussex and Surrey).

The public sector often did not have the resources to follow these changes, and instead ended up targeting specific groups of workers, or locations, with special pay supplements. However, labour shortages and the high cost of living in London, with its knock-on recruitment and retention problems, subsequently forced most organisations to adopt some form of London allowance.

Types of allowances

Although many employers still use a model based on distance from central London, others have been using a wider array of strategies in their efforts to recruit and retain staff. This can lead to difficulties in comparing different schemes.

Some employers have a national pay structure with inner London, outer London and/or London “fringe” allowances. However, entirely separate London pay scales have been established by some employers, such as teachers and some parts of the Civil Service. Other employers, typically in the retail sector, have a zoned pay structure that incorporates London and the south east in some form.

A 2012 survey of London employers by the Industrial Relations Service (IRS) found that 51% of employers pay a specific London allowance, while a further 44% have higher basic rates or salary scales for employees working in the capital. The remainder did not have either arrangement, while some employers deployed both a London allowance and higher pay scales.

The survey went on to establish that almost three-quarters of employers pay a London allowance that incorporates an entitlement into the contract of employment without any caveats. However, the remaining 26% have a clause permitting payments to be varied at management discretion. These clauses allow employers more leeway in ceasing location payments, shifting sites from one pay band or zone to another or revising the value of the allowances.

Differentials between London and UK rates

The single biggest element in the extra cost of living in the capital is housing. In January 2014, Land Registry figures showed average house prices across the whole of England and Wales were £168,536, but in London the average was £409,881 (143% higher than the England/Wales rate). This house price gap has been growing ever larger, with London experiencing 10.9% growth over the last year, compared to 4.2% across England and Wales.¹

The same picture is apparent in the private rental sector, with the the England rental rate runnings at £665 a month in January 2014, compared to £1,516 a month in London (128% higher than the England rate)². The differential in local authority rented property is less exaggerated but still significant, with average rent across England running at £79 a week in 2012/13, compared to £99 in London (25% higher than the England average)³.

In general, these differences in housing costs are not in line with the difference in average weekly earnings. The 2013 Annual Survey of Hours and Earnings put the average gross weekly wage in London at £571, compared to £416 across the UK. Therefore, average earnings are around 37% higher in London, but this is principally due to the different composition of the London labour market. The average is driven up by the far higher proportion of relatively highly paid professional and senior management employees within the London workforce.

The differential for similar jobs is probably reflected more accurately by a 2012 XpertHR survey which asked London employers by how much their pay rates exceeded their main national scales. The results revealed that 55% reported that they are between 1% and 10% higher, 40% are paying between 11% and 20% higher, while 4% are paying in excess of 20%.

¹ House Price Index, Land Registry, January 2014

² Gumtree Listings, January 2014

³ Local Authority Average Weekly Rents, Table 702, Department of Communities & Local Government, Dec 13

Allowance levels

A survey by Incomes Data Services of 95 organisations found that the average London allowance payments in 2013/14 were as per the table below.

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	£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	£3,154	£1,800	£1,140	£770
Retail	£2,055	£1,384	£1,038	£509

The 2012 XpertHR allowance survey found that two thirds of public sector London allowances saw no increase between 2011 and 2012, but of those that did see an uplift, the increase ranged from 0.5% to 4.9%. In contrast, 60% of private sector employers did provide an uplift, which ranged from 2% to 8.9%. In addition, the survey revealed that just over half of employers make allowances pensionable.

IDS has also reported that there has been a trend toward simplifying allowance arrangements among many organisations, along with narrowing of the gap between outer and inner allowances, perhaps in recognition of the high costs across London.

Negotiating advice

The case for improvement in allowance rates can build on the growing housing cost differentials set out above. However, it is also worth emphasising the following points in negotiating the details of a scheme.

- Allowances should be paid to all workers. Favouring one group of staff over another creates division and inequality.
- A single London allowance is preferable to inner/outer London allowances. Costs, particularly for housing, are no longer significantly different between inner and outer London.

- A flat rate is better than a percentage of salary or allowances targeted at particular groups. All workers face significantly increased costs in London, and a percentage of a large salary is much more than a percentage of a small salary. set The precedent of an “across the board payment” and a formula based on the increased costs of living in London goes right back to the 1974 Pay Board report.
- Generally, a specific allowance is preferable to more points on a pay scale or separate London grades. These do not give a transparent picture of pay (vital for ensuring equal pay for equal work) and can distort grading structures.
- Seek to avoid contracts that allow employers leeway in ceasing location payments, shifting sites from one pay band or zone to another or revising the value of the allowances.
- “Fair employment” clauses for outsourced workers can help to ensure all public service workers benefit from improved allowance payments.

Examples of London Allowances

As benchmarks for negotiating London Allowances, the following tables set out prevailing allowances across the main public sector bodies where UNISON’s membership is concentrated, along with other public sector bodies, not-for-profit organisations and private companies.

National Health Service				
Organisation	Effective Date	High Cost Area Supplements		
		Inner London	Outer London	London Fringe
NHS Agenda for Change	01/04/13	20% salary (minimum £4,076 to maximum £6,279)	15% salary (minimum £3,448 to maximum £4,351)	5% salary (minimum £942 to maximum £1,632)

Local Government
For NJC conditioned local authority staff, as part of the London Agreement in 2000, the London Weighting Allowance was incorporated into the GLPC London pay spine. At the time, the London Allowance was £2,556 for Inner London, £1,869 for Outer London scale points 4-10 and £1,359 for Outer London scale points 11 and above. The London pay spine has since been increased by the national pay settlement. Local Government Employers (LGE) publish advisory rates for organisations that are not bound by NJC but often link pay to NJC rates. The latest advisory notice by the LGE gave Inner London Allowance at £3,332 and Outer London Allowance at £1,773.

Education				
Organisation	Effective Date	Inner London	Outer London	London Fringe
Further Education (Lecturers)	01/08/13	£2,966	£1,945	£766
		The Association of Colleges (AoC) no longer sets London allowances, these figures are based on applying to allowances the same percentage increase as the AoC recommended increases to basic salary		
Sixth Form Colleges (Teachers & Support Staff)	01/09/13	£3,652	£2,434	£964
Teachers (England & Wales)	01/09/13	Differential between London and national scales - £5,466 to £8,326	Differential between London and national scales - £3,564 to £3,677	Differential between London and national scales - £1,048 to £1,049
Universities (New) & Colleges of Higher Education		£3,357	£2,756	
		Allowances can vary between institutions, so the figures above are medians of allowances paid		
Universities (Old)		£2,323	£2,150	
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Police & Probation Service		
Organisation	Effective Date	Single London rate
Police officers	01/07/13	London weighting - £2,301
	01/09/10	London allowance - £4,338
Probation Service	04/01/13	£3,889

Other Public Sector				
Organisation	Effective Date	Inner London	Outer London	London Fringe
Department for Works and Pensions	01/07/13	Differential between London and national scales £3,730 to £5,330	Differential between London and national scales £2,580 to £4,390	
HM Revenue & Customs	01/06/11	Differential between London and national scales £3,840 to £6,884		
Fire Service	01/07/12	Single London rate - £5,160		

Community and Voluntary				
Organisation	Effective Date	Inner London	Outer London	London Fringe
Advance Housing & Support	01/04/07		£1,483	£1,051
Barnardo's	01/04/13	£3,354	£1,785	£811-£565
Liveability	01/04/12	£3,230	£1,712	£532
NSPCC	01/01/10	£3,300	£1,755	£798-£555
Oxfam	01/08/13	£3,285	£2,215	
Turning Point	01/04/09	£3,561	£1,689	£708

Utilities & Environment				
Organisation	Effective Date	Inner London	Outer London	London Fringe
Environment Agency	01/07/09	£3,372	£1,672	
National Grid	01/07/12	Single London rate - £4,210		
British Gas Services	01/04/13	£5,461	£4,900 - £4,340	£1,398 - £699
Sellafield (formerly British Nuclear Fuels)	01/04/13	Single London rate - £5,100		

Private Sector				
Organisation	Effective Date	Inner London	Outer London	London Fringe
Aviva	01/04/01	£3,710	£1,725	
Barclays Bank	01/10/04	£3,550	£2,550	£1,670 - £750
BBC	01/08/13	Single London rate - £3,716 for staff earning £25000 and above, £4,288 for staff earning less than £25,000		
HSBC	01/10/04	£4,000	£3,000	£2,000
Royal Mail Letters (secretarial grades)	02/04/12	£4,654	£3,110	
Network Rail	01/04/09	£2,400	£1,390	£955
Santander	01/11/10	£3,500	£2,000	£1,000