

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.

Differentials between London and UK rates

A minimum income standard (MIS) for the UK is the income people need in order to reach a socially acceptable standard of living in the UK. A new MIS figure for London has also been revised to take into account the higher cost of living in London. Their findings showed:

- **4 in 10 Londoners (41%) have an income below that needed for a minimum socially acceptable standard of living;**
- **Transport costs in the capital have increased – fare freezes have not be applied to travel cards;**
- **Childcare costs in London are higher than elsewhere in the UK.**

The report '*A Minimum Income Standard for London 2016/17*¹ published in March 2017 highlighted that there has now been a shift between Londoners owning their own home with people now moving into the private rented sector because of the rising cost of house prices in the capital.

The single biggest element in the extra cost of living in the capital is housing. In February 2017, Land Registry figures showed average house prices had an annual increase across the whole of England and Wales by 5.8% making the average property value £217,502, but in London the average was £474,704 (more than double the UK average). This house price gap has been growing ever larger, with London experiencing 3.7% growth over the last year, compared to 6.3% across England.

Region	Monthly change since January 2017	Annual change since February 2016	Average price February 2017
Eastern	2.1%	10.3%	£281,665
East Midlands	2.0%	7.5%	£176,784
London	-0.9%	3.7%	£474,704
North East	-0.1%	2.2%	£123,749
North West	1.8%	6.7%	£152,618
South East	-1.0%	5.4%	£311,539
South West	0.4%	6.2%	£241,582
West Midlands	1.1%	7.0%	£180,516
Yorkshire and Humberside	2.5%	5.2%	£152,591
Wales	0.9%	1.8%	£145,293

The same picture is apparent in the private rental sector, with the average UK rental rate continuing to rise to £895 a month in February 2017, compared to £1,520 a month in London. The rise in rental costs in London has steadied over the last 12 months but grew by 0.4% in one year from March 2016 to February 2017. This does not include the other costs of moving including agency fees and deposits.

¹ A Minimum Income Standard for London 2016/17 - https://www.trustforlondon.org.uk/wp-content/uploads/2017/03/MIS_2016-17_Key_Findings.pdf

Local authorities and housing associations use two types of rent models - social and affordable. Social Rent is generally lower and is based on target rents which housing associations set. Affordable Rent is 80% of market rent. Any rent values housing associations set have to be lower than the Local Housing Allowance. Local authority rented property have less exaggerated increases as rent is capped, but the costs are still significant, with average rent across London running at an average of approx £260.64 a week in 2016/17 for a one bedroom property².

The table below highlights that the cost of rental properties in London compared with the rest of the UK is now at the highest on record:

Region	Average Price (£)	Annual Change (%)
Greater London	£1,520	0.4%
South East	£992	-0.2%
South West	£791	0%
East Anglia	£896	1.2%
West Midlands	£660	1.5%
Scotland	£597	0.8%
North West	£677	2.5%
East Midlands	£596	1.8%
Yorkshire and Humberside	£623	3%
Wales	£602	2.1%
Northern Ireland	£604	2.5%
North East	£524	0%

Source: Homelet - Average Price for new rental properties across the UK, February 2017

Homelet have produced a rental index per London borough – below is a list of the five London boroughs with the lowest rents. All the boroughs identified as having the lowest monthly average rents are outer London boroughs, therefore workers would need to factor in the increased costs of commuting to work.

All five London boroughs below have average rents which are a third higher than the UK average rent costs (£895 a month)³ – Average rental values in London were 69% higher than the UK:

London borough	Average rent February 2017
Bexley (zone 5)	£1,236
Redbridge (zone 4)	£ 1,265
Sutton (zone 5)	£1,278

² Local Housing Allowances April 2016/17 – ONS March 2017 – Inner London - <http://www.entitledto.co.uk/help/Local-Housing-Allowance-Rates>

³ Source Homelet Rental Index 2017 - <https://homelet.co.uk/homelet-rental-index>

Croydon (zone 5)	£1,067
Barking and Dagenham (zone 5)	£1,139

Average (Gross) Weekly Earnings

Below are the latest figures from the ONS on average gross weekly earnings (Oct – Dec 2016) by region for full-time employees. It is worth noting that London’s average weekly earnings are 16.5% higher than the UK average weekly earnings, but London is also the base for lots of organisations who have their headquarters here. These figures would include a higher proportion of professionals on senior levels for example, senior managers and directors:

Region	Average gross weekly earnings by region (Oct – Dec 2016) (£)
North East	508
North West	543
Yorks and Humberside	519
East Midlands	536
West Midlands	536
East of England	622
London	700
South East	648
South West	562
Wales	521
Scotland	571
Northern Ireland	477
UK	585

Source: ONS February 2017

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 parts 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. 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.

Although this guidance focuses on London allowances, the Labour Research Department identified that employers are starting to pay regional allowances in geographical areas outside of London and the South East where there are higher costs of living and recruitment and retention issues. They cite in their research the higher cost of living in places like Aberdeen in Scotland and the Scottish Isles where recruitment may be more difficult and cities in the UK like Cambridge, Oxford and Bristol where living costs are on par with London.

Not all employers in London offer a London allowance / weighting - if you are unsure if you should be receiving London weighting, speak with your trade union representative. It may be useful for your rep to see a copy of your wage slip as it may already be included in your pay as a separate allowance.

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.

Labour Research Department (Source: Payline April 2017):

National Health Service				
Organisation	Effective Date	High Cost Area Supplements		
		Inner London	Outer London	London Fringe
NHS Agenda for Change	01/04/17	20% salary (minimum payment of £4,200 and a maximum payment of £6,469)	15% salary (minimum payment of £3,553 and a maximum payment of £4,528)	5% salary (minimum payment of £971 and a maximum payment of £1,665)

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. The London pay spine has since been increased by the national pay settlement and there has been a revision of inner and outer London spinal column points with effect from 1st April 2017.

Local Government Association (LGA) publishes advisory rates for organisations that are not bound by NJC but often link pay to NJC rates. The latest advisory notice by the LGA gave Inner London Allowance at £3,473, Outer London Allowance at £1,848, Greater London £2,540, Inner Fringe £840 and Outer Fringe £585.

Education

Organisation	Effective Date	Inner London	Outer London	London Fringe
Further Education (Lecturers)		£2,725	£1,790	£704
	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 – The figures above include uplift for 2014/15 - 1% 2015/2016 – Pay freeze			
Sixth Form Colleges (Teachers & Support Staff)	01/01/17	£3,764	£2,508	£994
Teachers (England & Wales)	01/08/16	London Fringe - £1,080 London Outer - £3,672 - £3,827 London Inner - £5,631 - £8,579		
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)	1/08/16	£2,980		Term time only London weighting £2008
		Allowances can vary between institutions, so the figures above are medians of allowances paid		

Police, Prison & Probation Service

Organisation	Effective Date	Single London rate
Police officers (Metropolitan Police)	01/08/16	Zone 1 - £3,406
	01/08/16	Zone 2 - £1,807
Probation Service (NPS)	01/01/17	London allowance - £3,889

National Crime Agency	01/08/16	London allowance - £3,226
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Other Public Sector				
Organisation	Effective Date	Inner London	Outer London	London Fringe
City of London	01/07/16	£5,583	£4,963	£3,350 - £3,015
Department for Works and Pensions – AA grade	01/07/16	London minimum - £1,204 London Maximum - £3,088		
Fire Service	01/07/16	Single London rate - £5,162		
BBC	01/08/16	Single London rate - £3,912 for staff earning £35,000 and above, £4,515 for staff earning less than £35,000		

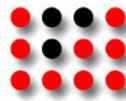
Community and Voluntary				
Organisation	Effective Date	Inner London	Outer London	London Fringe
Barnardo's	01/04/16	£3,405	£1,812	£811-£565
NSPCC	01/01/17	£3,366	£1,790	£798-£555

Utilities & Environment				
Organisation	Effective Date	Inner London	Outer London	
Environment Agency	01/01/17	£3,544	£1,757	

Private Sector				
Organisation	Effective Date	Inner London	Outer London	London Fringe
BT	01/4/16	£3,380	£1,636	
Co-operative Banking Group	01/04/16	£4,000	£2,500	£1,000
Southeastern (not drivers)	05/4/17	London Minimum - £411 London Maximum - £3,366		
Santander UK	01/03/17	London Minimum - £2,114 London Maximum - £3,214		

Source: LRD Payline – April 2017

UNISON has access to the Labour Research Department Payline database, which contains details of London allowances for employers across the economy. For details of how to access Payline contact the Bargaining Support Group on bsg@unison.co.uk



Labour Research Department
PayLine