LONDON ASSEMBLY

Report of the London Weighting Advisory Panel

London Weighting

June 2002

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Greater London Authority
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Chair's Foreword

'When a man is tired of London,' said Dr. Johnson, 'he is tired of life'.

London is a world-class city and it needs world-class services. Many of the workers who provide these services are thinking of leaving London because they cannot afford it - but most are not tired of London, or of life, and would stay if they could.

We have tried to find a fair method of paying London's public sector workers the extra they need to work in the capital. All would agree that, if we are to have a public sector in this country, we should pay our employees fairly. The disagreement comes in deciding what is fair.

We propose that London Weighting in the public sector should be calculated by comparison with the private sector. Whether you work in a bank or as a nurse, you occupy the same seat on the tube and have the same need for a roof over your head so it is fair that, in either sector, your London Weighting should bear a similar proportion to your pay.

We believe that implementation of our proposals would help to keep London's vital public services running efficiently.

My thanks are due first to our Panel, Francesca Okosi – Vice Chair, John Chastney, Professor Robert Elliott, Chris Humphreys and Denise Milani, who all brought skill and thought to our discussions and gave freely of their time. Geoffrey Roberts, our adviser, gave us the benefit of his long experience and was of great help to me. I would also like to thank the consultants who performed their tasks efficiently and well: the Employers' Organisation for local government, Incomes Data Services, University of Warwick Institute for Employment Research and National Economic Research Associates.

My thanks are also due to the London Assembly staff, particularly Danny Myers and Lisa-Jane Paul, and above all to our scrutiny manager, Carmen Jack, whose grace and diligence lightened our burden.

Bill Knight

Bill Knight June 2002

The London Weighting Advisory Panel

The London Weighting Advisory Panel was established by the London Assembly on 12 September 2001 with the following membership:

Bill Knight – Chair
Francesca Okosi – Vice Chair
John Chastney
Professor Robert Elliott
Chris Humphreys
Denise Milani

The Assembly also approved the appointment of Geoffrey Roberts, as External Adviser to the Panel.

Meg Hillier, Labour Assembly member and Chair of the Affordable Housing Investigative Committee was noted as the Assembly link to provide support, advice and assistance as required.

The Panel's terms of reference are set out in Appendix 2.

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Summary

We are an independent panel, appointed by the London Assembly to review London Weighting.

London Weighting is an allowance paid to those who work in London in the public sector. Traditionally its purpose has been to compensate London workers for the additional costs of working in the capital. In the private sector, London employees are, as a rule, paid more than their counterparts elsewhere in the country but this extra pay may or may not be called London Weighting. We use the expression 'London Premium' to describe this extra pay for Londoners in the private and public sectors, however it may be identified.

Our review comes at a time of increasing concern that the high cost of working in London, and in particular the high cost of housing, makes it difficult to staff essential services, because people cannot afford to live within a reasonable distance of their work.

London Weighting was last reviewed by the Pay Board in 1974. That Board recommended a flat rate allowance, distinguishing between Inner and Outer London, but otherwise payable on a uniform basis across the public sector, calculated on an after-tax basis. London Weighting was calculated by working out the increased costs of living and working in the capital. We call this 'direct cost compensation'.

Our report is about London Weighting, but the evidence we received showed that there is also much to be done on affordable housing, travel costs and the problems of the lower paid. We hope that others will take these issues forward urgently.

Our main findings and recommendations are:

- There are increasing difficulties in the recruitment and retention of public sector workers in London.

- Pay levels recognising the additional expense of working in the capital would help to solve those problems.

- Pay setting in the public sector has become more decentralised and London Weighting is no longer paid on a consistent basis. Some uniformed members of the Metropolitan Police Service, for example, receive double the London Weighting for teachers, and in some branches of the Civil Service the allowance has been frozen for some years or absorbed into basic pay.

- Direct cost compensation has not stood the test of time. It is complex and arbitrary in calculation, and does not take account of all the advantages and disadvantages of living and working in London. Moreover it attempts to compensate for the additional costs of those who *live* in London, while London Weighting is paid to those who *work* in London.

- Improvements in the availability of data and in information technology enable us to approach the problem in a new way. In the private sector, negotiation and pay-setting at local level produces the premium which is needed to keep employees of the right quality in their jobs. This tells us what London Premium ought to be. So we looked at pay levels in the private and the public sectors and we asked the University of Warwick Institute for Employment Research to calculate the London Premiums paid to those who work in London. Here is a summary:

	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%**

Average standardised spatial wage differentials from New Earnings Survey for 1999/2001 rounded to the nearest percentage. 'Central London' is Camden, City, Islington, Lambeth, Southwark, Tower Hamlets, and Westminster. 'Inner London' is Central London plus Kensington and Chelsea, Lewisham, Newham, Haringey, Wandsworth, Hackney and Hammersmith.

Source: National Statistics/University of Warwick Institute for Employment Research

- We recommend that London Weighting in the public sector should be set by private sector comparison, and the appropriate percentage of the total pay-bill in each occupation be made available for London Weighting. In the case of some occupations this would mean a significant increase.

- We would expect employers to argue that the City of London should be excluded from the calculations. As one of the world's leading capital markets it is a workplace like very few others. Salaries there are driven by world competition and there is very little public sector employment.

- Employers and employees in each occupation will have their preferred method of dividing the amount available for London Weighting. The traditional method is by flat rate payment, which benefits the lower paid, where it has the greatest impact. This has advantages for social justice and for the employer faced with high turnover in the lowest paid jobs. We heard evidence however that senior staff, vital to the running of London's public services, are leaving London and recommend that increased payments of London Weighting at other levels should be made, to help equalise earnings inside and outside London. So overall, we would look at flat rate payments, percentage payments, and a combination of the two.

- We recommend that employers and employees should agree their own definitions of Inner and Outer London for London Weighting purposes. The Metropolitan Police Service, for example, makes no distinction between the two zones.

- We recommend that London Premium, calculated on the private sector comparison basis, should be paid to all those working in London in the public sector. We do not believe that 'key workers' should be singled out, because we think that all workers are 'key' if there is a need for their services.

- When using private sector comparison there is scope for negotiation of different rates depending on occupation. Details are given in our report.

- Our recommendations are also relevant to employment in the recently privatised industries, where pay is administered nationally rather than set by local negotiation.

- Private sector comparison involves comparison of wages before tax, so our recommendations are not tax-free.

- We recommend that the private sector comparison studies should be repeated annually and published.

- Our report should be considered in context. It is not only pay which can attract and retain staff in London. Our report gives information about other benefits which employers offer. Because of the high cost of travel, free travel is particularly attractive.

- We do not pretend that our recommendations will solve the problems of the first-time homebuyer. The London Assembly report on Affordable Housing made it clear that other measures, increasing the supply of housing in London, are required for that.

- Neither do we pretend that our recommendations will solve the problems of the low paid – London Weighting is only a component of pay, and the poorest do not receive it. Nevertheless, increased levels of London Weighting will assist London's resident population, who often do the lowest paid jobs.

We emphasise that our report is about relative differences in pay inside and outside London. It is not about comparing total pay package levels in the private and public sectors. If we were to do that, other factors such as job security and job satisfaction would have to be taken into account.

We fully appreciate that our proposals represent significant increases in London allowances in some occupations and they can be opposed on the grounds of cost. But, like the Pay Board in 1974, we are trying to ensure comparability of real earnings for working in London and elsewhere. Money spent on implementing our proposals will do no more than that. London will, in the end, get the workforce of the quality it pays for.

We believe that calculating the London Premium for the public sector by private sector comparison is understandable and fair, and we think that, if we are to have a public sector in this country, we should pay our employees fairly.

We have no power to enforce our recommendations. Our ambition is to produce a report which will assist those who negotiate pay in London. Our report contains a great deal of information which should do that.

We heard evidence that fair pay will play an important part in keeping London's workers in their jobs, where we need them to be. We hope that our report will help.

Key Issues

i. This section of our report summarises the key issues surrounding London Weighting. For convenience, what we say elsewhere in our report is summarised here.

ii. There are three essential questions about London Weighting - 'why?' 'how much?' and 'who gets it?'. Traditionally, the answer to the first question has informed the answer to the other two.

Reasons for London Weighting

iii. The two reasons usually given for London Weighting – cost compensation and worker retention – are not alternatives but inextricably linked. People will take up jobs, and stay in them, when they believe they are being adequately rewarded.

iv. Public sector workers look to their employers to pay London Weighting to ensure that their reward is comparable to those in the same occupation elsewhere. We believe that, properly calculated, London Weighting will contribute to the solution of recruitment and retention problems in London. But to be effective London Weighting must be calculated on a fair and transparent basis and applied consistently to all public sector workers; not just to those groups who can count on media interest, public sympathy or temporary strategic importance.

v. It has been clear for many years and it is obvious to us from all the evidence we have received that it is necessary to pay a London allowance to attract and retain workers in London. So for us the key question is not 'why?' but 'how much?'.

Problems with direct cost compensation

vi. As we explain in Chapter 4, the calculation of a direct cost compensation allowance involves establishing how much goods and services cost in London, compared with the rest of the United Kingdom. If you then find out what people who work in London and elsewhere spend their money on it is thought to be possible to arrive at a sum of money which, if paid to the Londoner, equalises the differential.

vii. The first problem with direct cost compensation as a method of working out 'how much'… is that it attempts to compensate for the additional costs of those who *live* in London, while London Weighting is paid to those who *work* here. Of course, people need to live within a reasonable distance of their work, and this applies particularly to the lower paid, so many of those who work in London also live in London. Nevertheless, whether or not you get London Weighting is decided by where you work, not where you live.

viii. Also, we should not forget that London has many advantages. Discussion of London Weighting, with its talk of high prices and 'wear and tear' dwells on the disadvantages of our city. But London is a wonderful place, and many people are happy to live and work here for all the advantages that the capital brings. Direct cost compensation does not take this into account; neither does it take into account the fact that the availability of amenities may alter the pattern of expenditure. Londoners may spend more on entertainment and education because these things are readily available in the capital, and very attractive. As the economists would say, it is extremely difficult to separate avoidable costs from unavoidable costs.

ix. In short, it is not possible to sum up all the advantages and disadvantages of the capital in money terms by direct cost compensation. Any attempt to do so will be complex and arbitrary in calculation and will be unlikely to be technically robust or reliable.

Our approach

x. We do not approach the problem from the point of view of an employer wishing to set appropriate pay levels for its staff – we are not employers and it is the employers themselves who need to set pay levels in order to recruit and retain the staff they require. Our aim is to help that process by suggesting principles for London Weighting which can be seen to be fair and command support.

xi. Having accepted the need to pay London Weighting but acknowledged the problems with the Pay Board's approach, which has not stood the test of time, we are left looking for something to put in its place. We have been asked why we need a new approach – why not leave the situation as it is, with London allowances resolved by individual decision and negotiation?

xii. In truth, that is what we are doing. We have no power to impose our ideas; our work will have value if we are able to help the existing processes. A rational basis for assessing a London Premium should help to resolve anomalies and reduce discontent. It will not solve the problems of the low paid, as it is only a component of pay, neither will it cure all recruitment or retention problems, or solve the challenges facing the first-time house buyer, but it might help to answer the question of how the extra pay is calculated, in so doing provide employers with a reasoned method of calculating London Weighting and go some way to convince employees in London and elsewhere that it has been fairly assessed.

Our core proposal

xiii. Our core proposal is that London Weighting in the public sector should be set by comparison with London Premium in the private sector – not as the same amount, but as a comparable proportion of pay. We call this 'private sector comparison'. Advances in the availability of data and in information technology enable us to do this using sophisticated modern techniques.

xiv. Our principal concern is with the public sector, as the private sector is free to set pay according to market forces. Private sector employers will set pay to achieve the maximum levels of profit that they can, consistent with attracting and retaining the workforce necessary to produce the products or services which they sell. In other words they will pay the amounts needed to keep employees of the right quality in their jobs. Being free to act as they wish, they can respond quickly to changes in circumstances.

xv. Market forces are not allowed free play in the public sector, where employers are not constrained to make a profit, nor are they able to move as quickly or as flexibly. Political considerations, such as the desirable level of taxation, play their part and questions of whether or not an employer can 'afford' to pay at any particular level are resolved by political will and the perceived need for the service being provided in the locality rather than the necessity of making a profit.

xvi. We accept that private and public sector employees will be paid at different rates, and indeed that pay rates will differ within each sector, often significantly, but if, as we believe, the private sector sets the London Premium by market forces the question which we ask is 'Why should the proportionate London Premium be any different in the public sector?'.

xvii. We should make it clear that we are not adopting this approach in order to make the public sector competitive with the private sector for the same workforce. Many other factors come into play in that context including job satisfaction, job security and total pay benefits. We are suggesting this approach because the London Premium meets a common human need. All would agree that we should pay workers in the public sector fairly – the disagreement comes in deciding what is fair. We believe that it is fair to pay London Premium in the public sector in the same proportion paid in the private sector.

xviii. Private sector comparison, based as it is on the actual pay necessary to recruit the workforce, takes into account all the factors which affect pay, including the advantages of living in London.

xix. In the end, of course, setting the London Premium in this way is a form of cost compensation, but not a direct one. The fundamental reason driving the London Premium in both the private and the public sector is the additional cost of living and working in London. Whether you work in a bank or as a nurse, you occupy the same seat on the tube and have the same need for a roof over your head. But the great advantage of getting away from the attempt to derive a direct relationship between cost and pay is that the sums are done for us by the market rather than by some methodology which, however complex, cannot reliably return the correct answer.

How much?

xx. We commissioned the Institute for Employment Research at the University of Warwick to investigate the London Premium in the private and public sectors and to compare the two. Their report is summarised in Chapter 5 and set out in full in Appendix 7.

xxi. As might be expected, the results show a complex position. There are two available data sets appropriate for our study, the New Earnings Survey and the Labour Force Survey. The common theme in the Institute's findings is that differentials in the private sector are greater than those in the public sector except, according to the New Earnings Survey, in Outer London. Here is a summary table, drawn from the New Earnings Survey:

	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%**

Average standardised spatial wage differentials from New Earnings Survey for 1999/01 rounded to the nearest percentage. 'Central London' is Camden, City, Islington, Lambeth, Southwark, Tower Hamlets, and Westminster. 'Inner London' is Central London plus Kensington and Chelsea, Lewisham, Newham, Haringey, Wandsworth, Hackney and Hammersmith.

Source: National Statistics/University of Warwick Institute for Employment Research

xxii. Public sector figures from the Labour Force Survey are similar, but there are differences in the private sector differentials derived from that data set, which are greater than the corresponding public sector differentials in all areas.

	Public Sector	Private Sector
Central London	**26%**	**44%**
Inner London	**23%**	**36%**
Outer London	**13%**	**15%**
Greater London	**19%**	**27%**

Average standardised spatial wage differentials from Labour Force Survey for 1998/00 rounded to the nearest percentage.

Source: National Statistics/University of Warwick Institute for Employment Research

xxiii. We would expect employers to argue that the City of London should be excluded from the calculations. As one of the world's leading capital markets it is a workplace like very few others. Salaries there are driven by world competition and there is very little public sector employment. It is not possible to exclude the City of London from the Labour Force Survey data, because sufficient geographical detail is not available, but the New Earnings Survey figures are shown including and excluding the City.

xxiv. Each occupation can apply the results of the research to their individual circumstances. The figures we have given above are the 'all occupations' figures which we think should be the norm but, as our report shows, there are differences between occupations, and this will give scope for negotiation. There is also some difference between those of varying grades of educational attainment but, given the entry and promotion requirements of most occupations where qualifications are needed, we expect that any differences based on occupation will include differentiation based on educational attainment.

xxv. The report by the Institute for Employment Research in Appendix 7, contains a commentary on the differences between the Labour Force Survey and the New Earnings Survey. Part-time workers and the low paid are under-represented in the New Earnings Survey, which otherwise provides larger samples.

xxvi. We recommend that the appropriate percentage of the total pay-bill for each occupation should be made available for London Weighting. There is clearly scope for discussion as to what this might be, but within limited boundaries.

Who gets it?

xxvii. Our Panel does not believe in distinguishing some workers in the public sector from others on the grounds that they are 'key'. Every worker is 'key' if you need the service that he or she provides. Supply and demand for workers fluctuates from time to time and from place to place, and just because there is a shortage of a type of worker at a particular time does not make that worker 'key' - rather it reveals the importance of that worker, which existed when there was no shortage.

xxviii. We take the view that London Premium, calculated on the private sector comparison basis, should be paid to all those who work in London in the public sector because fairness demands it. If we are to have a public sector, then we should pay those who work in it fairly. There will be differences of opinion over what is fair, but for the reasons which we set out above, we have come to the conclusion that it is fair to pay London Premium in this way.

Dividing it up

xxix. There will be differences of opinion as to how the available amount should be divided, and we believe that this should be negotiated between employers and employees in each occupation. We acknowledge that there will be difficulties in the definition of 'occupation' for these purposes, but we doubt that they are insurmountable.

xxx. The traditional method is by flat rate payment, which benefits the lower paid, on whom it has the greatest impact. This has advantages for social justice and for the employer faced with high turnover in the lowest paid jobs. It will also benefit London's resident population, who often do the lowest paid jobs.

xxxi. We heard evidence however that senior staff, vital to the running of London's public services, are leaving London and we recommend that increased payments of London Weighting at senior levels should be made, to help equalise earnings inside and outside London. So overall, we would look at flat rate payments, percentage payments, and a combination of the two. No employee should be worse off than he or she is at present.

xxxii. We heard evidence to the effect that the differentiation between Inner and Outer London is becoming increasingly blurred, but the figures show that, in pay terms at least, the distinction remains clear. This apparent clarity masks a huge variety of personal circumstances. We recommend that employers and employees should agree their own definitions of Inner London and Outer London for these purposes according to their individual circumstances. The Metropolitan Police Service, for example makes no distinction between the two zones.

xxxiii. All this should be read subject to the caveat that London Premium is not necessarily the same as London Weighting, and in any particular case it is necessary to understand whether the employee is receiving amounts which fall under the heading of London Premium even though they may not be labelled as London Weighting. Obvious examples are recruitment and retention allowances or extra pay resulting from broad-banded pay scales.

xxxiv. We do not wish to be prescriptive, but it may be helpful to summarise how the calculation could be made for each occupation.

(a) Select the percentage rate applicable for the area. Using the 'all occupations' rate will give 36-37% for Inner London (33% if the City is excluded) and 11-15% for Outer London.

(b) Apply the percentage rate to the total pay-bill for the employees in that area (excluding existing London Premium). Our figures follow the statistical definitions of Inner and Outer London, and others may be chosen.

(c) Divide the result among the employees according to the agreed method – flat rate, percentage payment or a combination of the two – but no employee should get less London Premium than he or she receives at present.

Other issues

xxxv. We do not pretend that our recommendations will solve the problems of the first-time homebuyer. The London Assembly report on Affordable Housing made it clear that other measures, increasing the supply of housing in London, are required for that.

xxxvi. Our report is largely confined to questions of money and we do not compare benefits in the public and private sectors. We appreciate that employers have a wide variety of measures available to make working in London more attractive. Our survey shows that some employers give benefits in kind to compensate for the additional costs of living in the capital, and we are confident that they are appreciated. We are mindful, however, of the point that benefits such as this tend to alter behaviour and we think it is best left to individual employers and employees to decide whether benefits are appropriate in any particular case. The costs of travel for London employees are particularly onerous and free travel is likely to be a popular benefit.

xxxvii. We do not pretend that our recommendations will solve the problems of the low paid – London Weighting is only a component of pay, and the poorest do not receive it.

xxxviii. We heard evidence that the lowest paid workers in London today are in the private sector, working in such jobs as cleaning and catering. Our recommendations will not reach them, but we welcome the Government review of the treatment of employees in privatised industries announced in March this year and support the use of 'fair employment clauses' through which organisations using contracted out labour seek to improve the conditions of those workers.

xxxix. The East London Communities Association told us in evidence that work commissioned by them shows that a gross wage of £6.30 per hour is required for a single earner in a two parent household to reach the London poverty threshold without recourse to means tested benefit. They are campaigning for this as a London living wage. This is outside our terms of reference, and we have not considered the issues in detail, but we are happy to draw attention to this debate, and to ask organisations in all sectors who use contracted-out labour whether they are prepared to accept that people should work in their premises, providing services for them, earning less than a living wage.

xl. Our report is about London Weighting, but the evidence we received showed that there is also much to be done on affordable housing, travel costs and the problems of the lower paid. We hope that others will take these issues forward urgently.

Cost

xli. A number of public sector employers told us that, while they would welcome a rational method of assessing London Weighting, any increases could not be funded from existing budgets without detriment to services. They will be looking to central government for additional funds, and we recommend a joint approach by employers and employees.

xlii. We are not in a position to calculate the costs of implementing our recommendations although it is clear that for some occupations it could be expensive. Our proposals may be attacked on the grounds of cost and the apparent disparity between London and elsewhere. However, if we are right in our conclusions, then the savings which result from paying London Weighting at current levels are achieved by requiring London workers to work for lower real pay than their counterparts elsewhere.

xliii. We could have suggested phased implementation or some other methods of reducing costs, but we think that it is not for us to put that forward. We have decided that we should say what we believe to be right in principle.

xliv. If London's workers are to be at a disadvantage compared with elsewhere then, in the end, the quality of the workforce will be lower. So money spent on fair pay is money well spent.

xlv. In 1974 the Pay Board said that the basic justification for London Weighting was to ensure comparability of real earnings for working in London and elsewhere. We believe that our recommendations will, if accepted, have that effect. Money spent on implementing our proposals will do no more than that.

Chapter 1 - Introduction

Background to London Weighting

1.1 London is the most expensive city in the European Union and the fifth most expensive in the world. This was the conclusion reached in the World Wide Cost of Living Survey conducted by the Economist Intelligence Unit in December 2001. For many years employers have recognised the additional cost of living and working in the capital and have paid more to London workers than to those working elsewhere. London Weighting - an allowance compensating London workers for their additional costs - is the traditional approach adopted by many public and private sector employers.

1.2 London Weighting dates back to the 1920s and was pioneered by the Civil Service. Many public and private sector employers adopted the Civil Service system and paid London Weighting prior to 1950. In 1967 the National Board for Prices and Incomes completed an important review of London Weighting; this was a precursor to the landmark report of the Pay Board in 1974, which standardised London Weighting in the public sector.

1.3 In October 1973 the Pay Board was asked to review the approach to London Weighting by examining the formula recommended by NBPI, determining whether any changes were needed and what these should be and assessing the overall costs of any increase resulting from its recommendations. The request for the review came amidst increasing dissatisfaction with the operation of London Weighting and the rising perception that employees were no longer adequately compensated for their increased living costs, particularly housing.

1.4 The Pay Board recommended a London Weighting allowance which aimed to compensate employees for the additional costs of living and working in London, and to equalise real earnings for comparable work elsewhere in the UK. The allowance consisted of four main elements – housing, travel to work, 'wear and tear', and other consumer expenditure, and was applied uniformly across the public sector.

1.5 The Government subsequently published annual indices to monitor changes in the cost of living in London but publication ceased in 1982 following a change in government policy. The independent research organisation Incomes Data Services continued to calculate the index until 1987, but then discontinued the calculation as they considered that 'Without a complete overhaul of the 1974 expenditure patterns on which the index was based…it no longer offered a reliable guide to cost compensation'. The Labour Research Department, an independent trade union based research organisation, continues to calculate the index but also draws attention to the inadequacies of the data.

London Assembly involvement

1.6 Many people believe that London Weighting in its present form does not adequately fulfil its function of attracting and retaining workers in the capital. For this and other reasons, such as lack of affordable housing, public sector employers in London have found it increasingly difficult to attract and retain workers of high quality.

1.7 In February 2001 the London Assembly published the results of its investigation into affordable housing for key public sector workers. The report recognised that the capital's impending recruitment and retention crisis could in part be addressed 'through improving the quality and availability of affordable housing'. However, it also concluded that a review of London Weighting practices was necessary, particularly as evidence suggested that they were inconsistent across sectors. It recommended that an independent body be commissioned to re-examine London Weighting, paying particular attention to the high housing costs experienced by key workers in the early years of their careers.

1.8 On 12 September 2001, the London Assembly approved our appointment as an independent panel with an external adviser to assist and advise on the review. These appointments, authorised under section 55 (4) of the Greater London Authority Act 1999, are the first of their kind and represent a new departure for the Assembly. The terms of reference set by the Assembly give the Panel freedom to consider all matters we think relevant to the London Weighting issue, including a re-examination of the principles underlying the 1974 Pay Board report.

1.9 During October and November 2001 the Panel met to establish and develop its main areas for focus. Then over a period of five months, January to May 2002, we heard evidence from a variety of employers, employer organisations, trade unions and employees and received over 100 written submissions.

1.10 We were assisted by the Office for National Statistics, the University of Warwick Institute for Employment Research, Incomes Data Services, National Economic Research Associates, the Employers' Organisation for Local Government, the Mayor's Office and the Greater London Authority's Data Management & Analysis Team.

What this report looks at

1.11 We are acutely aware that our enquiry is the first comprehensive review of London Weighting since the 1974 Pay Board report, and our ambition is to produce a well researched report which can be used to assist those who negotiate pay in London. To achieve our aims, we believe that we need to review the history and development of London Weighting, examine current employer practices and explore methods of identifying an appropriate London Premium.

1.12 Here we should make a point of definition. 'London Weighting' is an allowance paid to those who work in London and designated as such. It applies with its greatest force to nationally set pay rates such as in the National Health Service and the Police. Our work deals with this, but also with what we call the 'London Premium', which is the difference in pay between London and the rest of the United Kingdom for comparable work, irrespective of what that difference is called, if it is called anything at all. For example it may be the case that a particular organisation does not pay London Weighting, but habitually places its London employees higher up a salary scale – we would call the difference the

London Premium, but those employees would probably say that they do not receive London Weighting.

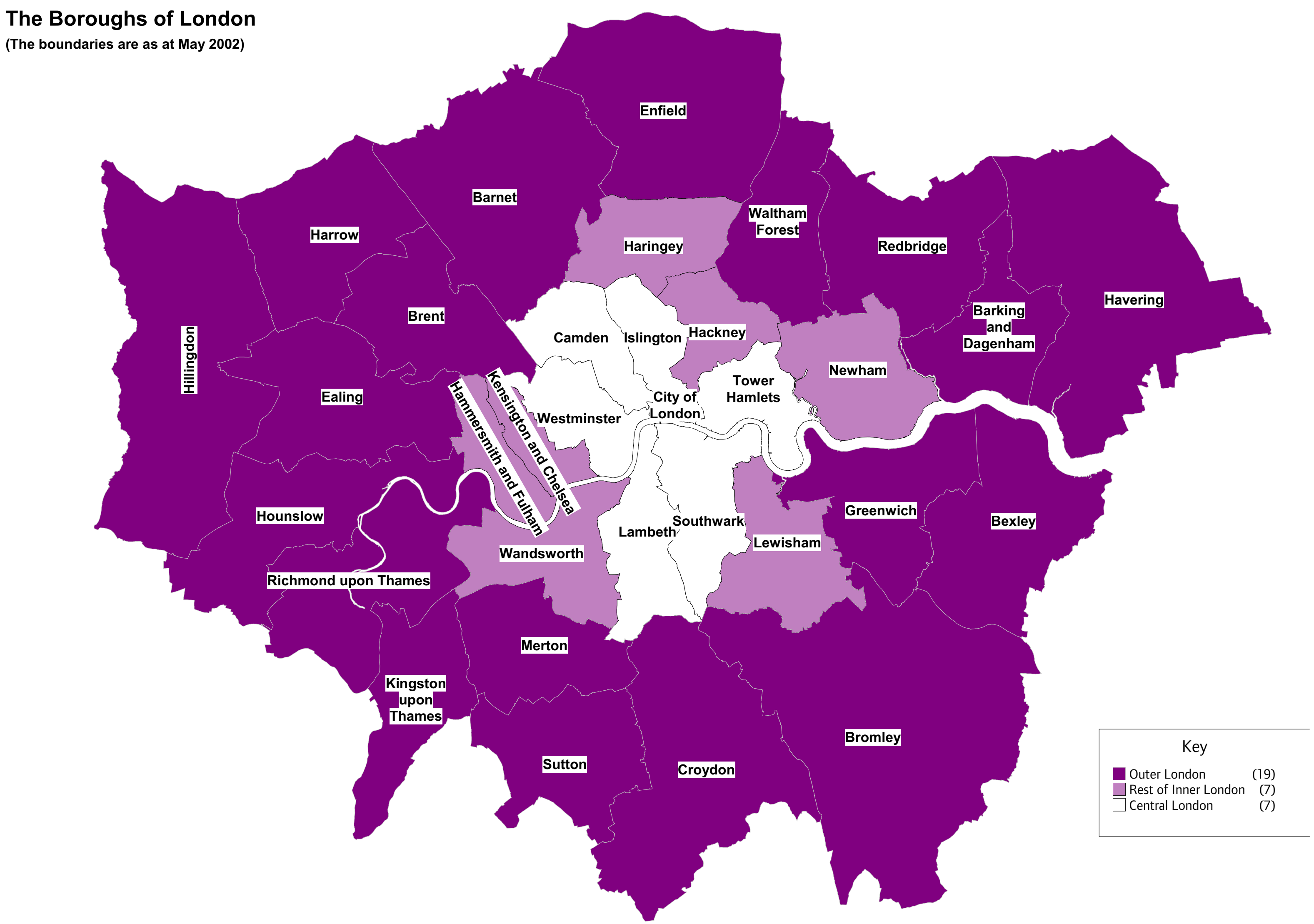
1.13 Chapter 2 looks at London today compared with 1974. The chapter examines the demographics of the working population in London and the public/private sector employee split, and considers the pay-setting process in the public sector.

1.14 Chapter 3 sets out highlights of the written and oral evidence we received. Chapter 4 examines the cost implications for employees living and working in London today.

1.15 Chapter 5 describes our approach to our task and sets out the reasoning behind our conclusions. Chapter 6 lists all our findings and recommendations.

1.16 Appendices 1 to 3 provide background information on the Panel membership, the Panel's terms of reference, scrutiny programme and witnesses who gave oral evidence. All employers, organisations and individuals contributing written evidence are listed in Appendix 4. Appendix 5 reports on the results of the employers' survey which were analysed by the Employers' Organisation for local government. Appendix 6 contains a report from National Economics Research Associates on the cost of living in London and Appendix 7 contains a report from the University of Warwick Institute for Employment Research on the London Premium. Appendix 8 is a list of exemplar employees prepared by Incomes Data Services and Appendix 9 contains a history of London Weighting, also prepared by IDS. Finally, Appendix 10 defines unusual terms or phrases used throughout this report.

Figure 2.1 – The Boroughs of London (Boundary markings for Central, Inner and Outer London are based on the New Earnings Survey areas.)



Chapter 2 –London then and now

2.1 London is one of the largest cities in the developed world in terms of built-up area. It is also the most populous city in the European Union, with a population currently exceeding 7.2 million.

2.2 London is a city of great cultural diversity. One in four people living in London is of ethnic minority origin and over 300 languages are spoken in its communities.

2.3 This chapter examines the demographics of the working population in London and the public/private sector employee split, and considers the pay-setting process in the public sector. This information provides the backdrop against which the Panel has carried out the review.

London and its boundaries

2.4 In this report 'London' means the 32 boroughs of the former Greater London Council – now the areas of the Greater London Authority and the Corporation of the City of London. Figure 2.1 shows the London boroughs, making up Central, Inner and Outer London; they are based on the New Earnings Survey areas which are listed in Appendix 7 and also in Annex A of the University of Warwick Institute for Employment Research's report.

2.5 The boundary definitions described in paragraph 2.4 above are used for statistical analysis and we appreciate that the boundaries for London Weighting purposes are not so clearly defined. The Pay Board established a general definition for Inner London – up to four miles from Charing Cross, and Outer London, in line with the GLC boundary. However, they chose not to impose the boundaries for London Weighting purposes, accepting that employers would wish to apply a degree of flexibility. Many employers have chosen to vary existing boundaries and create new ones to meet their individual requirements.

London's population in 1974

2.6 In 1974, London's population was 7.4 million, with approximately 4.3 million being in employment. The population had been declining for 35 years; population decline was due to a reduction in birth rates and migration, with more people leaving than entering the capital. The Pay Board Report noted that other factors such as boundary changes and movement of armed forces also contributed to population change.

2.7 A paper on Employment in London and the South East Region published by the Greater London Council in 1976, confirmed that the annual net loss of population was exceeding 100,000. Figure 2.2, on the next page, shows the population trend from 1971 to 2001.

2.8 The Pay Board report noted that, despite the overall population decline, there was an increase in single person households. Coupled with the lack of affordable housing for low and middle-income families, this adversely affected housing provision at the time.

Figure 2.2 – Population trend 1971 to 2001

	1971	1981	1983	1991	1998	2001
Inner London	3,060	2,550	2,523	2,627	2,761	2,765
Outer London	4,470	4,255	4,242	4,263	4,427	4,450
London	7,529	6,806	6,765	6,890	7,187	7,215

Source: Office for National Statistics; Government Actuary's Department

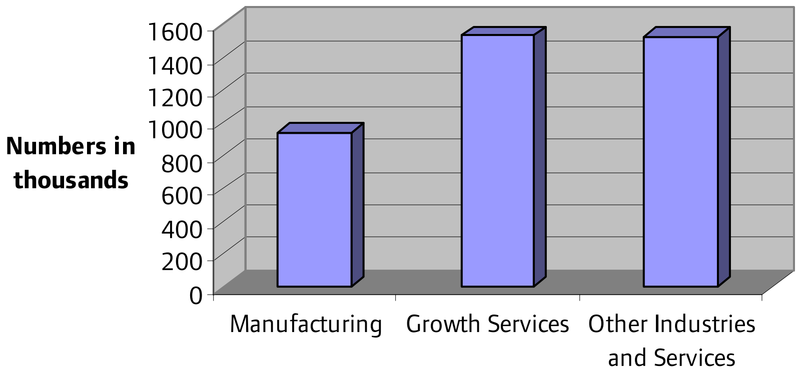
2.9 Despite the relatively high level of London employment in 1974, there were pockets of unemployment in the south east and east of London, areas which traditionally relied on industrial employment. There were recruitment difficulties in both the private and public sectors and the Pay Board's review took place at a time of staff shortages in London's public services.

2.10 In January 1976 the Department of Employment Gazette reported, 'the staffing situation in London will continue to deteriorate in the long term'. The Gazette also reported that recruitment problems in the public services covered a wide range of sectors, including education, social services, local government and the police. London was a training ground for new recruits who moved on after gaining a few years experience, leading to a shortage of experienced staff. Incomes Data Services told us in their evidence that the high turnover of staff with five years or more service continues to contribute to staff shortages today.

2.11 Commenting on staff shortages in the public sector in 1976, the Gazette predicted that the situation was 'likely to get progressively worse' and noted that 'The number of employees in the public sector in London…is so great and the nature of their jobs so disparate, that shortages cannot be solved throughout the sector solely by using obvious remedies like pay and housing'.

2.12 During the 1960s, employment was largely driven by manufacturing industry, but by 1974 the balance had changed, with increases in employment in the 'Growth Services' and 'Other Industries and Services'. Growth Services include all air and miscellaneous transport, post and telecommunications, insurance, banking, finance and business services, professional and scientific services and public administration. Included in 'Other Industries and Services' are agriculture, forestry, fishing, mining, quarrying, construction, the utilities, distributive trades, rail, road and sea transport and ports and miscellaneous services. Figure 2.3, on the next page, shows the distribution of the three industry groups in 1974.

Figure 2.3 Employment in the three industry groups in 1974 in London



Source: Greater London Council

London today

2.13 Statistics published by the Government Actuary show that from 1983 there has been a steady increase in London's population with growth averaging just over 40,000 a year during the 1990s. This turnaround in population trend may be attributed to the level of estimated net migration - the steadily reducing number of people leaving the capital, and the large influx of young adults aged between 16 and 24.

2.14 A recent GLA study, 'Towards the London Plan', shows that generally young people move to London from other parts of the United Kingdom to study or to take up their first job. This echoes the position in 1974. The study also shows that London's population is projected to exceed 8.1 million by 2016. This figure, based on GLA projections exceeds the Office for National Statistics 1996-based projections. Recently released government population growth figures are in line with the GLA projections. If realised, they will have profound implications for public services in the capital.

2.15 London's population tends to be younger, on average, than in the country as a whole. In 1998 London had proportionately more children under five and adults aged between 20 and 44 than the United Kingdom, but considerably fewer persons aged between five and 15, or 45 or over. One of the consequences of this is that London has one of the lowest average household sizes in the country at 2.32 in 1998. The proportion of one-person households in London is five percentage points higher than in England as a whole and higher than in any other English region. The dominant household type, however, remains the married couple (38 per cent in 1998).

2.16 There are approximately four million people employed in London today. As in 1974, the relatively high level of employment disguises pockets of high unemployment, also predominantly in London's east and south eastern regions.

2.17 Labour Force Survey data show that approximately one fifth of London's resident work force are public sector workers, with the highest percentage being employed in Education – 29%, closely followed by Health and Social Work – 27% and Public administration – 23%.

2.18 New Earnings Survey data, which provides information on London's work force shows similar public/private sector and industry based percentage splits. It should be noted, however, that the NES does not cover the self employed and part-time and low paid workers are under-represented.

Figure 2.4 London's workforce: employment in private and public sectors 2001 (residence based)

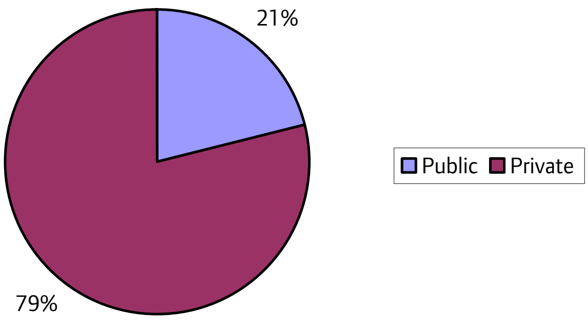
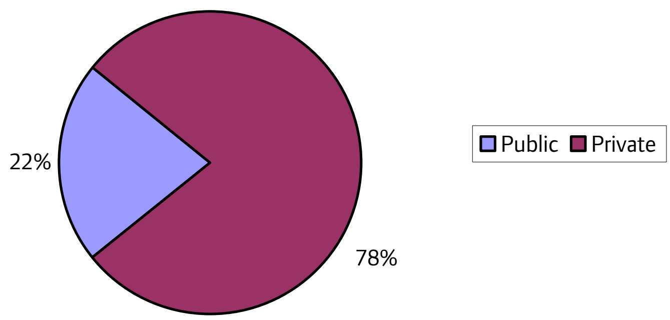


Figure 2.5 London's work force: employment in private and public sectors 2001 (work based)



Source: National Statistics/GLA (Figure 2.4)
National Statistics/Warwick University Institute for Employment Research (Figure 2.5)

Source: National Statistics/GLA

Figure 2.6 Public sector employment by industry London 2001 (residence based)

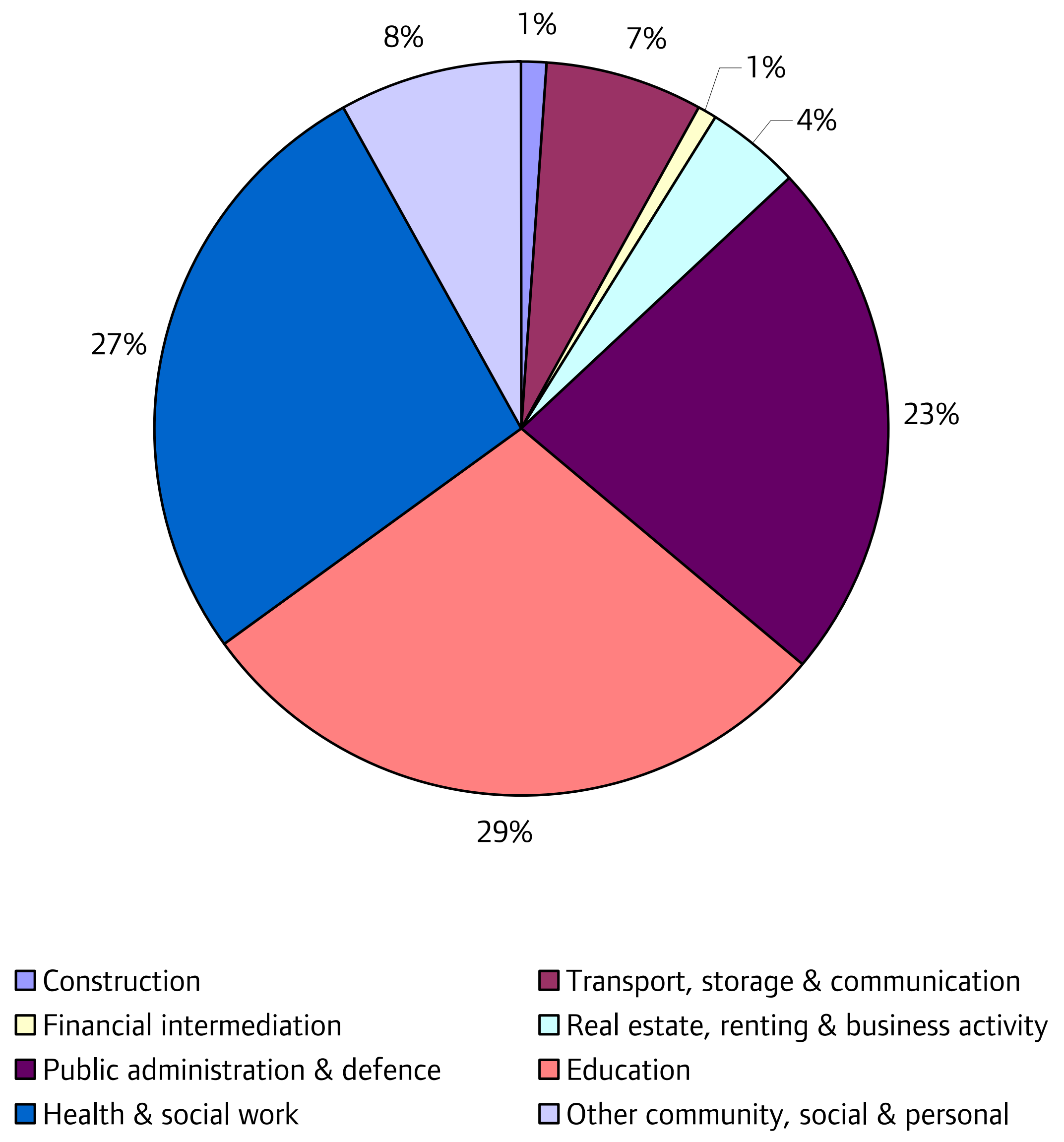
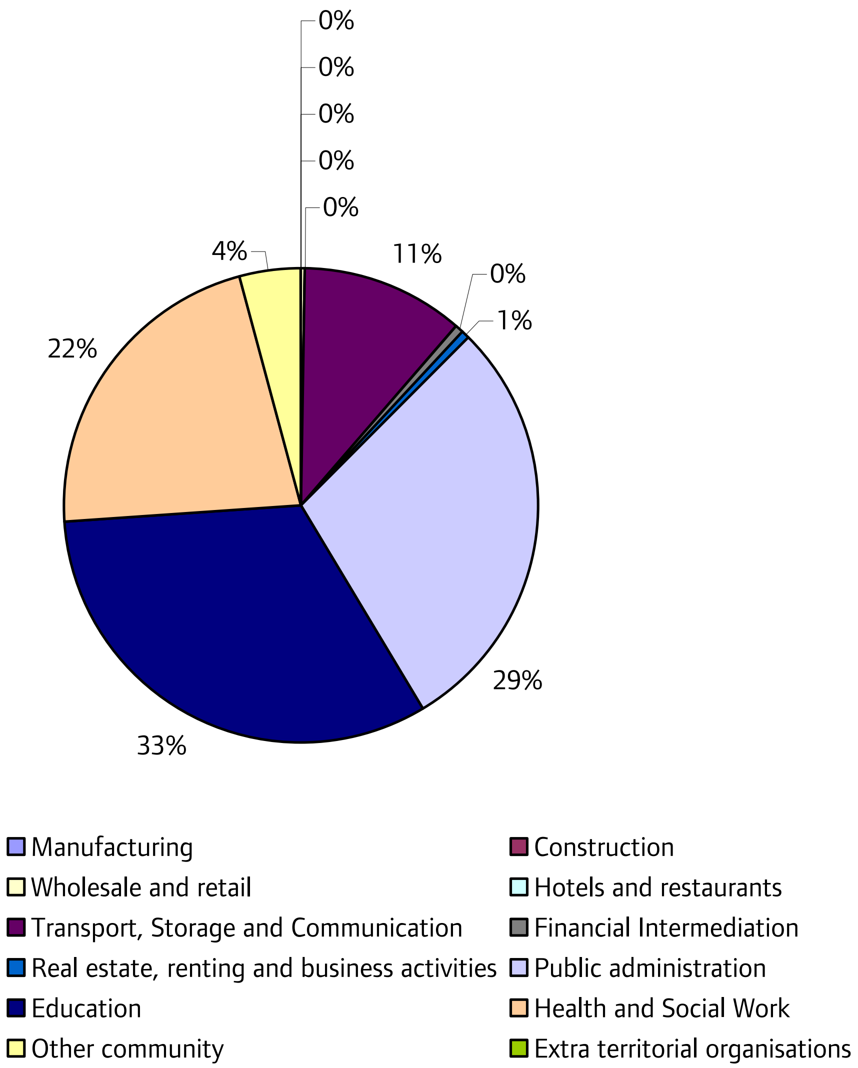


Figure 2.7 London's work force: employment in private and public sectors 2001 (work based)



Note: Categories below one per cent are – Manufacturing 0.1%; Construction 0%; Hotels and restaurents 0%; Financial intermediation 0.4%; Retail estate, renting and business activites 0.6%; Extra territorial organisations 0.1%

Source: National Statistics/University of Warwick Institute for Employment Research

2.19 As in 1974, the public sector continues to experience recruitment and retention difficulties. In 2001 the Government sanctioned a series of extra payments for police, nurses and midwives and teachers based in the south of England. These payments were primarily motivated by a need to address severe recruitment and retention problems in these groups.

2.20 In its written evidence to the Panel, the NHS Confederation confirmed that with approximately 140,000 employees, the NHS is one of London's largest employers. The NHS continues to experience high recruitment and retention difficulties with one third of the reported 15,000 vacancies throughout England being in London. The Office for National Statistics publication on teachers' statistics, produced for the Department for Education and Skills in 2001, shows that teaching vacancy rates in London reached 1,788, almost three times the figure noted for the east of England, the next highest recorded vacancy area.

2.21 We were told by the Council of Civil Service Unions that 'staffing levels in London benefit offices are in permanent crisis', and that recruitment 'barely keeps pace with wastage and turnover rates', which in some offices are as high as 20 per cent. Although the Benefits Agency proposes to increase recruitment and retention allowances paid in the worst affected offices to £1,500, the CCSU say that the problems exist in many other offices.

Pay-setting in the public sector

2.22 In 1974 pay setting was centralised to the point that the Pay Board's recommendations could be given effect across the public sector. Pay setting in the public sector today is largely decentralised and is in a state of evolution. In March 1999, the Government published its White Paper on Modernising Government which put forward its proposals for pay reform in the public sector, the main aims being to simplify pay structures and introduce greater pay flexibility while improving individual career development and prospects.

2.23 According to Incomes Data Services, pay variances within the public sector are a consequence of the recent historical differences in pay developments within each of the groups, a brief description of which is given below. More information is available in chapters 9 and 10 of the IDS report on the history of London Weighting which appears as Appendix 9 to this report.

2.24 The national single status deal agreed in 1997 made provisions for introducing a single pay spine for local government manual and white-collar workers. Implementation involves completion of job evaluations and local pay reviews. The Employers' Consultation Document for the 2002 Local Government Services Pay Round confirmed that progress on implementation was 'slow and patchy' and that those authorities which had completed the exercise were 'very concerned by the potential cost and turbulence that had emerged…'.

2.25 Pay reviews for nurses and midwives and schoolteachers, including allowances and benefits, are completed annually by independent pay review bodies. These bodies assess evidence on the need for an annual increase, including recruitment and retention rates within these fields and increases in the median level of private sector non-manual total pay settlements.

2.26 Significant changes to pay-setting in the Civil Service occurred in 1994 when pay bargaining was delegated to individual departments, agencies and other organisations. This coincided with the formal abolition of London Weighting and its replacement with a recruitment and retention allowance and/or a London salary differential in some departments.

2.27 Research into further improvement and refining of public sector pay-setting continues with the Treasury Cross-Cutting Review of the public sector Labour Market, due to be published later this year. The Review is investigating the role for greater use of geographically differentiated pay and examining innovative schemes in the private sector which allow employers the flexibility to adjust pay in response to local labour market pressures.

Recent developments in London Weighting

2.28 In their evidence to us Incomes Data Services helpfully summarised recent developments in London Weighting. More detail is given in Appendix 9.

2.29 Over the past 18 months or so there have been a number of initiatives aimed at addressing recruitment and retention problems among public sector staff. There have been new market or cost-of-living supplements for nurses and midwives payable in areas of high costs and low unemployment, paid on top of London allowances, and now payable across almost the whole of the South and South East. There have been significant increases in London allowances for the police, for schoolteachers and for fire-fighters and there are golden hellos for teachers in certain shortage subjects and for GPs. There is now a range of pay claims across the public sector seeking higher payments for key workers in London and the South East.

2.30 In the summer of 2000 the Home Office decided to increase the combined London allowances for some Metropolitan police officers to £6,000 a year. On 23 June 2000 Jack Straw, the Home Secretary, said that he 'recognised that the Metropolitan Police has been experiencing difficulties in recruiting and retaining officers, not least because of the cost of living in London'. In this context he said he was approving the Police Arbitration Tribunal decision to increase the combined London allowance for police officers to £6,000, an increase of 124 per cent from the previous level of £2,673. The increase applied to all serving officers not receiving a housing allowance, which meant all those recruited since September 1994. The increase was aimed at retaining a higher proportion of the approximately 6,300 officers with five years or less service and at recruiting more than 1,000 new policemen and women.

2.31 Following the raising of the combined London allowance from 1 July 2000, concerns were expressed by police chiefs in the areas surrounding London about the loss of officers and potential recruits to the Met. Consequently, following talks in the Police Negotiating Board, agreement was reached to introduce extra allowances in eight designated forces in the South East outside London. So with effect from 1 April 2001 a new allowance of £2,000 became payable in the five forces immediately bordering London – Essex, Hertfordshire, Kent, Surrey and Thames Valley. Outside of this immediate circle round London, an allowance of £1,000 a year became payable in Bedfordshire, Hampshire and Sussex. In all cases these allowances apply to officers recruited since September 1994 who do not receive housing allowances.

2.32 On 10 November 2000, the Prime Minister announced that extra pay supplements were to be made available to nurses and other key NHS staff in areas with full or near full employment. He said that some places in Britain were reporting a reduction in the number of nursing vacancies, but that there were still areas with significant staffing shortages. He said, 'The nurse shortages are not uniform across the country. They are most severe where there is full or near full employment and the cost of living is highest'.

2.33 Later the Health Secretary announced that the extra pay supplements would cover an estimated 100,000 nurses and professions allied to medicine, effective from 1 April 2001. They were to be worth a minimum of £600, over and above London Weighting, for nurses throughout London, and up to £1,000 for senior nurses in the capital. In areas outside London, where unemployment was two per cent or below, such as Surrey, Wiltshire, Cambridgeshire, Avon and Buckinghamshire, nurses were to receive between £400 and £600 each.

2.34 Initially these extra payments were called 'market supplements' but the staff side unions were critical of this terminology as it reminded them of the attempt in the mid-1990s to go to local pay bargaining. So the terminology changed over a period of months so that the payments became known as 'cost-of-living supplements', even though this meant that in London there were now two separate cost of living payments, the London allowance and the cost of living supplements.

2.35 This change in terminology meant that the union argument, that all NHS staff in the areas where the new supplements were being paid should receive the payments, gained more validity. The unions argued that the higher cost of living applied to all staff including clerical and ancillary staff. In its evidence to the review bodies in the Autumn of 2001 the employers' body, the NHS Confederation, said, 'There is no doubt that the high cost of living in London and the South East affected unqualified staff, and indeed non-review Body staff, as much as qualified staff. Also, the inclusion of some but not all areas of the South East caused problems. There was resentment from other areas of the country that felt they had high costs of living'.

2.36 The NHS Confederation also said: 'The perceived unfair allocation of the cost of living supplements affected the morale of both lower grade staff and other specialities that did not receive the benefit,' and 'if the supplements are to be retained as a cost of living allowance it should logically be payable to all staff in the designated high cost area. Alternatively, it could actually be turned into a recruitment and retention payment that trusts could use in a targeted way for particular staff groups.'

2.37 When the supplements were introduced, certain parts of the South East were not included. However, the Health Secretary announced an extension to the scheme in November 2001. Following representation from MPs and health authorities in areas where the supplements were not yet available, the Government decided to extend the scheme from 1 April 2002 to cover East and West Kent, North and South Essex, East Sussex, Brighton and Hove and

Northamptonshire. The move means around 20,000 staff will qualify for the supplement.

2.38 Separately, the Government announced after the 2001 Budget, special measures to aid the recruitment and retention of GPs. This involved the introduction of 'golden hellos' of £5,000 for every new GP who joins the NHS (and £5,000 for every GP who returns to NHS work), a further £5,000 for newly qualified GPs who go to work in deprived areas, and bonds worth £10,000 each for GPs who continue to work between the ages of 60 and 65. Further to this the Government accepted the 2002 Doctors' and Dentists Review Body recommendation that the starting salaries for trainee GPs should be uplifted by 19.5 per cent from April 2002.

2.39 The School Teachers' Review Body for England and Wales recommended an additional higher recruitment and retention allowance of £5,805 from 1 April 2001. At the time there were four recruitment and retention allowances or bonuses, which schools could award to teachers in posts that were difficult to fill. They were worth £942, £1,848, £2,802 and £3,903 from 1 April 2001. From 1 April 2002 they were worth £975, £1,914, £2,901 and £4,041. The allowances are paid at the discretion of head teachers and school governing bodies and are in addition to London allowances.

2.40 The London area allowances for teachers were raised by 30 per cent from April 2001, giving a new inner London allowance of £3,000 a year and an outer London allowance of £1,974. This raised the starting salary for a newly qualified teacher with a good Honours degree in an inner London school to £20,001, excluding any recruitment or retention points. The area allowances have since been increased to £3,105 for inner London, and £2,043 for outer, bringing a newly qualified teacher's starting salary in inner London to £20,700.

2.41 Other measures aimed at teachers include £4,000 'golden hellos' to attract teachers of shortage subjects such as maths, foreign languages or science. There is also a teacher Recruitment and Retention Fund worth £33 million, which is distributed direct to those schools in the areas with the highest vacancies aimed at local initiatives such as housing and childcare costs or abnormal travels costs. There is also a scheme, which is designed to pay off teachers' student loans, over a set period of time, for those who enter and remain in state education.

2.42 In the fire service, the London allowance was raised by ten per cent, to £3,072 from 1 July 2000. The rise, which was the result of independent arbitration, was the first increase since 1997, when the employers imposed a capped rise of two per cent.

2.43 A new system of pay for prison officers in London and the South East was introduced from 1 January 2001. New single allowances were introduced for inner, intermediate and outer areas, with existing rates increased by between 28 and 85 per cent, to take the inner London allowance to £3,000 a year. A new fringe zone payment of £800 was also introduced.

2.44 In an unusual move, the London transport authority, Transport for London, introduced a subsidy in April 2001 to the bus companies in the capital in order to pay a bonus of £4 a shift (£20 a week) for drivers and conductors on London buses. The subsidy is aimed at easing recruitment and retention pressure with TfL estimating a shortfall of between 1,500 and 2,000 bus drivers in London last year.

2.45 At Railtrack, an entirely new London Area Operations Supplement has been introduced for signalling and supervisory staff and electrical control room operators in response to ongoing recruitment and retention difficulties in the capital. Staff in inner London (within 16 miles of Charing Cross) received a supplement of £1,200 a year; those in outer London (16-40 miles from Charing Cross) received £600. These supplements are on top of existing London allowances of £2,000 for inner London and £1,100 for outer London but do not apply for either station staff or for clerical and administrative grades employed in group support.

Conclusion

2.46 This chapter has charted the move from the standardised London Weighting of thirty years ago to today's piecemeal allowances, which vary between public sector occupations and mix London Weighting with other payments. There is no apparent consistency or principle in the way the payments are calculated or in the way their recipients are selected. Does this matter?

2.47 The evidence we summarise in the next chapter suggests to us that it does. There is no guarantee that arbitrary payments will in the long run convince even those who receive them that they are being fairly compensated for the higher cost of living in London. And there are many public sector workers, often less well paid, who do not receive such additional payments, with serious consequences for morale, the retention of high quality staff and the standard and quality of London's public services.

Chapter 3 Highlights of evidence

3.1 From the outset we decided that our main concern was with the public sector and we identified two possible approaches to the calculation of the extra sum payable to those who work in London: the traditional 'direct cost compensation' approach - attempting to calculate the higher cost of living in London and compensating workers accordingly - and the 'private sector comparison' approach which involves identifying the London Premium paid to workers in the private sector and applying that to the public sector.

3.2 We commissioned statistical work to assist our analyses of these approaches. This work is summarised in Chapters 4 and 5. Chapter 5 contains our reasons for preferring private sector comparison.

3.3 In this chapter we give an overview of the written and oral evidence we received and examine views on the two approaches outlined in paragraph 3.1 above. We also examine views on:

- the purpose of London Weighting
- targeted allowances
- the contribution to be made by London Weighting to recruitment and retention problems
- alternative approaches to London Weighting and
- boundary issues.

We also consider the implications of London Weighting for low paid workers and include testimony from individual employees.

3.4 Witnesses had much to say which is not recorded here. Minutes of the Panel's hearings, which give a much fuller account, can be found on the London Assembly's website www.london.gov.uk/assembly/lonweight.

The purpose of London Weighting

3.5 Reporting in 1974, the Pay Board considered that the basic justification for London Weighting was to ensure comparability of real earnings for working in London and elsewhere. They therefore took the direct cost compensation approach and recommended that standard amounts of London Weighting should be paid to all employees in the public sector.

3.6 The evidence we received revealed confusion about the purpose of London Weighting. In general the lines were drawn between cost compensation, which implies an across the board payment – because costs are the same for everyone - and recruitment and retention, which implies targeted payments in the occupational groups where there is a recruitment and retention problem.

3.7 Trade unions and employees argued for cost compensation, while employers wanted the freedom to make targeted payments to solve their recruitment and retention problems. Our survey analysis showed that 59 per cent of employers were influenced by labour market needs when setting the rate of allowance to be paid.

3.8 Incomes Data Services' Study 708 'London Allowances', published in May 2001, concludes that recent adjustments to London Weighting, whether by negotiation or employer decision, have been made on grounds other than cost compensation, for example the employer's ability to pay or to address recruitment and retention difficulties. The history of London Weighting in Appendix 9 and the evidence received by the Panel support this conclusion.

3.9 Ian Wardrop, the Assistant Director of HR Services for the Metropolitan Police Service, told us that a clear rationale behind a London salary differential was less important than the effect such a differential had on recruitment and retention of staff.

3.10 In Chapter 5 we go further into the question of the purposes of London allowances. In talking to witnesses we were looking for a rational basis of assessing London allowances, where the choice lies between direct cost compensation and private sector comparison. We think that the question of who receives the payment should be tackled separately from assessing the value of the payment.

Direct cost compensation

3.11 Direct cost compensation attracted support from trade unions. Employers and academic and research experts were less enthusiastic.

3.12 Laurie Heselden, the Regional Policy Officer for the Southern and Eastern Regional TUC, said that he regarded London Weighting as compensation for the additional and unavoidable cost of working in London and that cost compensation was the best method of calculating it. Many goods and services were more expensive in London and cost compensation tackled this directly.

3.13 Unison said that they would welcome the re-establishment of an updated Pay Board London Weighting Index which takes into account in a realistic way the additional costs (particularly of housing), wear and tear, and the earnings differential of comparable jobs inside and outside London. This should be updated on a regular basis to take into account changing patterns in spending and, for example, the proportion of income required for housing. This could then be used as an authoritative indicator to inform pay negotiations.

3.14 While Dr Gilles Duranton of the London School of Economics appreciated that there was some merit in the 'cost driven' approach, he said that there was also a need to take account of the 'labour supply'. Peter Elias of the University of Warwick Institute for Employment Research told us that in his view there was no significant contribution to be made to London Weighting by the cost compensation approach.

3.15 Dave Statham of the Labour Research Department, which continues to calculate the Pay Board indices, said that the old Pay Board formula was neither transparent nor easily understood by the public. The LRD's written evidence emphasised that any recommendations from our review needed to be transparent and easily understood by the public if they were to achieve widespread acceptance.

3.16 Brian Williamson of National Economic Research Associates told us that cost compensation failed to take account of the many benefits that London had to offer. He was in favour of the private sector comparison approach. He also said that directly compensating employees for a particular cost encouraged changes in their behaviour, for example, employees who enjoyed free travel would live further away from the work place.

3.17 There was evidence that housing costs remain a major priority for prospective employees. A serving Metropolitan police officer informed us that a significant number of his colleagues were transferring to other forces so that they could buy their own property. A teacher told us that he moved out of London so that he could afford a reasonable flat. Witnesses told us that such considerations and actions were not uncommon and could result in a drain of experienced staff – see the personal accounts in this chapter.

3.18 The main issues for nurses submitting evidence to the Panel were high housing costs in London and travel costs incurred by living further away from their place of work in an attempt to reduce their housing expense.

3.19 A number of witnesses drew our attention to the average price of a London home which, according to the latest available figures from the Halifax, then stood at £179,558 compared with a United Kingdom average of £96,149. When asked whether London Weighting could enable employees to purchase property in London as first time buyers most witnesses said that London Weighting, although helpful, would not provide the solution. Other measures were needed to ensure a supply of suitable accommodation.

3.20 Dave Statham of the Labour Research Department said that no formula would adequately address the huge difference in property prices found in London. Any allowance would only cushion the impact of the discrepancy.

3.21 The Association of London Government told us that, for those attempting to get on the property ladder or to move into London, the level of house prices when compared to average pay meant that any London Premium was unlikely to make the difference between affording a mortgage or not. For this reason they suggested that housing costs should be excluded from the calculation of London allowances.

3.22 Unison said that, while London Weighting increases would go some small way to assisting people with a mortgage, London had to face up to its housing shortage in a more fundamental way by increasing affordable housing stock, preferably for public sector workers.

3.23 As we say above, support for cost compensation was, at least in part, based on the concept of its being an across the board payment. In this context a direct cost compensation allowance was often seen as an alternative to an allowance for recruitment and retention purposes, which tends to be targeted, rather than as an alternative to an across the board allowance based on some other method of calculation, such as private sector comparison.

Employee Testimony 1
Dr Bruce Butt, English Teacher

I worked at Chiswick Community School, a successful comprehensive in West London, which has around 70 staff. I would say that about half of the staff lived within 10 miles of the school and the other half beyond that, in places further afield in London or outside London in areas like Surrey and Oxford.

I recently moved to Cambridge and one of my main reasons for moving was to get on the property ladder. I had rented for some time and reached the stage where I wanted to get somewhere of my own. Despite having spent 12 years in Higher Education between us, my partner and I could not afford to move closer to the school, where the average house would cost £205,000.

I think that the housing problem is contributing to high staff turnover in schools and causing younger teachers to move away within three or four years, possibly leaving the schools only older teachers who would have already got on to the property ladder.

London Weighting is a bonus but doesn't really tackle the housing issues.

Employee Testimony 2
Derek Ramsey, Intensive Care Nurse

I am an Intensive Care Nurse at a large trust in South West London. I was employed full time there but I couldn't afford to live and work full time in London. So, what I had to do was to work part time for the Trust and part time for an agency and this significantly increased my earnings. It costs the Trust a lot more but I can earn double what I did before by doing this. This has obvious cost implications to the Trust. The majority of my colleagues are doing the same because they too can't afford to live and work in London.

My wife is also a nurse and she is a cancer specialist. She doesn't work in the NHS any more because we can't afford the childcare. She is lost to the NHS purely because we couldn't afford the childcare. The Trust did offer childcare but it wasn't for shift times and we couldn't afford private childcare. It wasn't economically viable.

We bought a house in order to rebuild it purely because we couldn't afford anything else. We did move out of London and now commute in. It adds £15 a week to travel in and that's with subsidised parking. There is a limited amount of subsidised parking and if we have to park in local authority parking that increases costs further. That's another factor that needs to be looked at. I know a lot people commute out from London. People travel in from Kent, Hertfordshire.

The disadvantages of working for an agency is that I don't get sick pay or pension but I can cover sick pay with private insurance. I've got the NHS pension with my part time job with them and I can make additional contributions into that.

I don't have to go to another hospital because there is so much work and I can also pick and choose my shifts which is a big advantage. I do eight 12-hour shifts a month for the Trust and between 10 and 12 for the agency. This works out at about a 44-hour week. At the moment there isn't an issue about job security and I can't see that changing. It's been like this for the past six years. In the last month two more colleagues have gone part time agency. I think that soon the majority of staff will be agency.

Boundaries

3.24 There was trade union and employee support for removing the distinction between Inner and Outer London for London Weighting. The Pay Board survey in 1974 demonstrated cost differentials not only between London and the rest of the United Kingdom but also within London. However evidence from trade unions, including Unison, the South Eastern Region of the TUC, the Fire Brigades Union and NATFHE, the University & College Lecturers' Union, suggested that the differential within London had narrowed considerably, no longer making the rationale for separate Inner and Outer London rates viable.

3.25 The Panel received evidence calling for clarity in addressing the problems of high living and housing costs in other south eastern areas. One employee expressed bemusement at the fact that workers in Hertfordshire, even though parts of the county are north of Luton, receive London Weighting, while workers in Bedfordshire do not.

3.26 Concern was also expressed that where payments were made these varied between occupational groups within the public sector. The recently awarded location allowances for police officers on the fringe were cited as an example. Officers in Kent receive £2,000 while teachers receive £800. In Bedfordshire and Hampshire, teachers do not get an allowance while police officers receive £1,000.

The effect of targeted allowances

3.27 Trade union representatives favoured London allowances paid on an across the board basis to all categories of staff, rather than targeted on particular groups. In their written evidence the Labour Research Department said that ad hoc allowances 'especially those based around recruitment and retention were short term' and 'may even exacerbate' the employment problems the public sector is experiencing.

3.28 The Council of Civil Service Unions told us that since 1994, London Weighting in the civil service had become largely based on judgments concerning recruitment and retention difficulties as opposed to across the board cost of living compensation. This had often been done in an ad hoc manner leading to a plethora of different London pay rates. Unjustifiable pay differentials had been created between workers in different offices carrying out the same work.

3.29 The introduction of cost of living supplements for NHS staff based in London and areas of the South East also was the subject of criticism from Unison who were concerned that support staff were excluded.

3.30 Evidence from the Chartered Society of Physiotherapists also expressed concern that unqualified and low paid support staff, playing vital roles in patient care and facing the same high housing costs as their qualified colleagues, were excluded from the supplement. The staff side of the Professions Allied to Medicine & Related Grades said that the scheme had done little to address high living and working costs and had lowered morale among workers in London who did not receive it.

3.31 The Association of London Government told us that, where pay enhancements for working in London were appropriate, they favoured a targeted approach as, in the context of recruitment and retention, an average across the board enhancement based on cost compensation, or any form of index, was fairly meaningless. They told us that there was no employers' support for unfocused, across the board increases in pay for London local government employees beyond the national pay award.

3.32 The London Fire and Emergency Planning Authority said that it was inappropriate to use a payment that is payable to all staff to address any issue of low pay.

3.33 Examination of allowances implemented since July 2000 reveals a common purpose - to address recruitment and retention problems. Limited data are available to tell us what the impact of these allowances has been on recruitment and retention, but figures suggest that it has been moderate.

3.34 Figures on police recruitment following the Metropolitan Police Service's increase in allowances in July 2000, are available from the Home Office Statistical Bulletin on Police Service Strength, published on 18 December 2001. The Bulletin confirmed that between September 2000 and 2001, a further 680 officers were added to the MPS, an increase of 2.8%. Surrounding forces in Thames Valley, Surrey and Hertfordshire saw force reductions ranging from 1% to 6%, which the bulletin attributes to boundary changes occurring in April 2000.

3.35 Chapter 2 provides an overview of recent developments in London Weighting in the public sector and more detail is given in Appendix 9.

Recruitment and retention

3.36 Recruitment and retention difficulties in London are undisputed. Incomes Data Services, who are in a good position to know, told us 'It has become increasingly difficult in recent years to recruit and retain key workers in the public sector … as well as certain key workers in the private sector...These employees are facing rising housing costs, high travel costs and a generally higher cost of living. As the labour market has tightened these problems have been exacerbated'.

3.37 What was open to discussion was the extent of the difficulties, the underlying causes, whether London Weighting had a place in helping to alleviate them and what the options were.

3.38 The Panel heard a number of different views. Although the British Medical Association said that there was no evidence to suggest that their recruitment and retention problems were any more acute in London than elsewhere, the staff side of the Professions Allied to Medicine & Related Grades told us that the 'PAM professions in the NHS are facing a serious recruitment and retention crisis'. They told us that at 6.8%, the vacancy rate in London was significantly higher than the national average of 4.3% for the same group of professions. For other professions, the vacancy rates in London were even higher, 9% for radiography, 7% for occupational therapy and almost 8% for physiotherapy.

3.39 We read a number of reports referring to recruitment and retention difficulties - Association of London Government analysis of salary and benefits survey – March 2001; Employers Organisation for local government – recruitment & retention – January 2001; Incomes Data Services Report 849 Pay Benchmarking in Local Government – January 2002. Examples of the occupational groups where problems exist include home care, cleaning and catering staff, social workers, occupational therapists, engineers and accountants.

3.40 Huw Jones-Owen of the Association of London Government, told us that factors other than pay contributed to staff shortages, including 'the shift pattern of many public sector jobs, the low morale of public sector staff and the perception of public sector work'. Mr. Jones-Owen also told us that the tailoring of job evaluation schemes to suit an individual authority's needs helped to exacerbate problems, as that could result in pay discrepancies between boroughs and so intensify competition for staff. Aggressive recruitment packages in areas such as teaching and social work increased the pay levels at which boroughs found it necessary to compete for staff.

3.41 Other public sector groups, such as the civil service and nursing appear to be experiencing more wide-spread recruitment and retention problems. Low pay across the civil service was highlighted as a significant contributory factor, a view echoed in evidence received from trade unions. Also singled out were high housing and travel costs. Additional factors affecting the recruitment and retention of nurses include job satisfaction, workload and flexibility, but again it was recognised that pay levels play a significant role particularly in relation to housing and travel costs.

Private sector comparison

3.42 There were mixed views about the comparison of public and private sector pay differentials. While some witnesses thought that such comparisons were essential others, although accepting that they could produce useful data, were cautious.

3.43 Brian Williamson of National Economic Research Associates said that private sector differentials provided an independent basis for considering an appropriate rate for London Weighting and that private sector relativities from one location to the other would inform what the public sector should pay.

3.44 Professor Peter Elias favoured private sector comparison, which he called 'Earnings Differential.' He pointed out however that the best comparison was not between public and private sectors, but between employment where pay was negotiated locally and where it was administered centrally.

3.45 The Association of Magisterial Officers said that comparisons between the public and private sectors were essential. They also said that the private sector had based payments on the amount required to recruit and retain staff, while the public sector payments were based on arbitrary amounts confined by cost limited budgets. The effect was to update already low allowance rates below the level of inflation and consequently erode its original value.

3.46 Ian Wardrop of the Metropolitan Police Service told us that if the public sector is going to be able to attract and retain the best staff it needs to match some of the benefits which the private sector is able to offer. He said that many employees will compare the London Weighting elements of remuneration packages between private sector and public sector employers when considering where their next career move should be.

3.47 London First cautioned us against drawing direct comparisons, as it was necessary to examine the whole employment package.

3.48 Incomes Data Services said that there were very few jobs where there can be meaningful comparisons between the public and private sectors. The vast majority of nurses, teachers and policemen work in the public sector. Where they work in the private sector they will work on public sector rates plus a modest premium to attract them out of the public sector. Where direct comparisons can be made, for example clerical and administrative staff and managers, there may be some good data but the data may not tell us anything intrinsic about the public sector against the private which would shed light on public sector differentials.

3.49 Huw Jones-Owen of the Association of London Government told us that boroughs would find a 'well researched baseline' helpful as it 'would give them the sort of structured base they are looking for'. He said that if the Panel were to come up with a rational basis for a London Allowance then the public sector ought to have regard to it as a matter of principle and fairness. A rational formula could very often prove beneficial in negotiations and could form the basis of long term agreements. He stressed that he would only accept such findings if they had been based on a well-researched document capable of convincing central government of the importance of the issue and the need to provide funding support.

Alternative approaches

3.50 A number of witnesses pointed out that London employees were often paid more than their counterparts elsewhere irrespective of London Weighting. The Association of London Government produced figures to show significant pay differences within London for similar jobs but an overall increase over country rates, even without taking London allowances into account. They said that our recommendations would only be valid if they took into account the fact that some employees were already paid a London Premium. They said that current pay arrangements should not necessarily serve as the starting point for all pay negotiations.

3.51 The increasing need for employers to consider an alternative method of addressing recruitment and retention of their workforce was clear from the written evidence and survey responses. Fifty-three per cent of employers surveyed said that they offered increased flexible working as an alternative, while 19% offered subsidised travel.

3.52 Housing and travel costs were considered to be the main problems for public sector workers. A variety of other benefits were suggested, all aimed at recruitment and retention difficulties. They included locality payment schemes, flexible working, child care provision and/or assistance, subsidised parking, reviewing workloads and image perception. The range of benefits identified from the survey is set out in Appendix 5.

3.53 We were told that radical change to the housing sector in London has resulted in a greater proportion of income being spent on housing costs and that there was consequently a need to improve housing provision. UNIFI, the trade union representing workers across the finance sector, suggested that the Government or London Assembly would need to take a lead on social policy to ensure high living and housing costs are effectively addressed.

3.54 The Government's Starter Homes Initiative aims to address the shortage of affordable housing in London for some public sector workers. Managed by the Office of the Deputy Prime Minister, the initiative is targeted at nurses and healthcare workers, teachers and police officers and also aims to provide assistance to firefighters, paramedics, social workers and junior doctors. Ten thousand workers will benefit over a three year period at a cost of £250 million. The Employment Review 744, Pay and Benefits, published by Industrial Relations Services, shows that in January 2002 a total of 2,286 nurses and health workers, 1,588 teachers, 552 police and 189 other workers such as firefighters, social workers or transport workers were identified as eligible to receive financial assistance in London.

3.55 Both employers and unions welcomed the Starter Homes Initiative, but felt that there was scope to widen the scheme to include other public sector workers and to consider further initiatives aimed at providing more affordable rented accommodation for those for whom owner-occupation may not be a feasible option.

3.56 There was concern that a substantial increase in London Weighting would fuel house price inflation and therefore prove a self-defeating exercise. London First suggested to us that an inflationary effect could be minimised by reviewing planning restrictions and targeting housing developments to provide more affordable housing or repayment schemes.

3.57 But the Association of University Teachers did not believe London Weighting had any effect on house prices. Pointing out that the increase of prices in London last year was some 17.1 per cent, they said that it lacked credibility to suggest that monthly London Weighting payments of around £250 before tax could have any effect on house prices.

3.58 We were given examples of how some employer-led housing schemes were working in practice. Mrs Jasy Loyal of HCA International told us that they provide short-term free accommodation as part of the employee's relocation package. The scheme allowed new recruits to become acquainted with their new surroundings and look for permanent accommodation under less pressured conditions. Mr Glen Connell, Compensation and Benefits Director at Logica plc, told us that they offer employees the option of contributing to one of two housing schemes over a three year period to save for a deposit for house purchase or a mortgage subsidy. Throughout the three years the employer would match the employee's contribution.

3.59 Free or subsidised travel was a popular alternative consideration to increased London Weighting. Incomes Data Services and the Labour Research Department both drew on the MPS model for police officers allowing free bus, rail and underground travel within a 70 mile radius of London, as a positive initiative. The London Fire and Emergency Planning Authority and Metropolitan Police Service themselves, for their civil staff, told us that they were in early discussion with transport providers on the viability of similar schemes for their workers.

Low paid workers

3.60 We heard evidence from The East London Communities Organisation which researches employee conditions in low paid jobs in both the public and private sectors. Their research has found that the vast majority of contracted out staff working for local authorities and health trusts – typically cleaning staff – received the minimum wage of £4.10 per hour. Most of the employees do not receive London Weighting or any other benefits such as sick pay. Employee conditions are no different in the private sector. They told us that work commissioned by them shows that a gross wage of £6.30 per hour is required for a single earner in a two parent household to reach the London poverty threshold without recourse to means tested benefit. They are campaigning for this as a London living wage.

3.61 We also heard how many employees in low paid jobs are vulnerable and therefore willing to accept the low pay. Despite this, low pay is contributing to a chronic staff turnover problem, having a knock-on effect to the delivery of services. Unison said that employers tolerate the inconvenience of 'high turnover and low morale in the drive to maximise profits'. The study by the Joseph Rowntree Foundation, 'Recruiting and Retaining Employees in Low-paid Labour Markets', published January 2001, found that the employers with the lowest pay levels had the highest turnover rates.

3.62 The East London Communities Association said that in seeking to remove the culture of constantly selecting the lowest bidder for service contracts, London Weighting should be applied as widely as possible and public bodies encouraged to include a provision for London Weighting in their terms and conditions for contracting out services.

3.63 Unison has welcomed the Greater London Authority's commitment to fair employment clauses and Dave Prentis, Unison's General Secretary, has called on 'other public authorities to follow the GLA's example'.

Employee Testimony 3
Mr Daniel Atakora, Domestic First Line Manager

At the hospital where I work, most of my colleagues do not get London Weighting, only those who are employed directly by the NHS. My colleagues come from hard working communities and are disillusioned that they are not being paid enough. One person I work with takes home £133.28 a week. Out of this he has to pay £70 for rent and that is before any council tax, bills and money for travelling. Not having London Weighting is contributing to their social exclusion.

I have seen staff turn up to work sick because they need the money. This is obviously risky. If you are sick and you stay at home, you do not get any sick pay for the first three days, but you will get statutory sick pay from the fourth day.

Chapter 4 – The cost of living in London

4.1 London Weighting has traditionally been based on direct cost compensation. For the reasons given in Chapter 5 we have decided to propose a different method of calculating London allowances, but the higher cost of living in the capital still remains at the heart of the problem. This chapter examines the traditional approach and the cost of living in London today.

The traditional approach

4.2 In their report on London Weighting in 1967 the National Board for Prices and Incomes considered whether the purpose of London Weighting should be to solve labour supply difficulties or to compensate for higher living costs. They concluded that London Weighting was too blunt an instrument to be used to solve particular staff shortages, and that it would be too complex to pay varying and fluctuating levels of London allowance to different groups at different times according to the state of the recruitment market. They concluded 'we think that it is the cost of living which should be the determining factor in setting the level of London Weighting'.

4.3 The NBPI recommended a flat-rate cash allowance for those working in inner London (£125 a year) and a lower level in outer London (£75 a year), based on calculations of differences in travel and housing costs between London and the provinces. These levels of weighting were to be reviewed every three years using a new Ministry of Labour annual index of movements in public transport fares and housing costs.

4.4 The 1974 Pay Board report noted that '[the NBPI's] recommendations were subsequently adopted by other employers, especially in the public sector, as the basis for calculating their own London Weighting'. But, while widely adopted, the NBPI formula was not without its problems. As house prices and rents rose sharply in the early 1970s, the housing element of the index was thought not to reflect the differences in housing costs in London and the rest of the country. Dissatisfaction with the system led in due course to a further review under the auspices of the Pay Board.

4.5 The Pay Board recommended that London allowances should be paid at the same rate throughout the public sector for all manual and non-manual workers. It said the rates should be based on four elements – housing costs, travelling costs, consumer costs and 'the extra wear and tear connected with the journey to work and the lower standard of housing in London compared with elsewhere' – and should (except for the last factor) be adjusted to take account of income tax. The recommended rates grossed up for tax, were as follows:

	Inner London £pa	**Outer London £pa**
Housing	141	80
Travel to work	73	15
Other consumer costs	81	81
Wear and tear and housing standards	105	24
Total	**400**	**200**

4.6 In their report, the Pay Board said that London Weighting could conceivably be used for three purposes: (1) equalisation of real earnings for work in London with comparable work elsewhere; (2) alleviating labour shortages in the capital; (3) to reward jobs that are more demanding in London.

4.7 The Pay Board report said, 'We consider that the basic justification for London Weighting is to ensure comparability of real earnings for working in London and elsewhere. We feel it will also have the secondary, but important effect of helping to ease London's labour shortage problems. …Any remaining problems of labour supply are mainly specific and must be the concern of individual employers and trade unions, either to pay for additional responsibilities, to consider improved manpower utilisation, or to provide special assistance to meet the London differential in capital payments in first time house purchase.'

4.8 The Pay Board's approach was to establish expenditure, cost and price differences between London and elsewhere for four main groups of costs: housing, travel to work, other consumer costs and wear and tear of travel to work and lower quality housing; to recommend allowances as sums of money for Inner and Outer London and to recommend a way of updating these allowances. The main problems it had to overcome were deciding what goods and services to include by way of expenditure, costs and prices, and how to measure them.

4.9 The reluctance of the Department of Employment to make available relevant figures from the Retail Prices Index (even though the Pay Board report was part of the Government's prices and incomes policy) caused great difficulties. A survey to establish housing and travel to work expenditure of public sector and some private sector workers covered 63,000 individuals. Another survey to establish other consumer costs involved taking over 21,000 price quotations. A variety of other survey sources were also used.

4.10 The Pay Board also recommended that these patterns of expenditure, costs and prices should be reviewed within five years and a set of indices established to update the 1974 figures. Following the election of a Conservative government in 1979 the review was not undertaken, and the indices abandoned.

4.11 On 19 October 1982 the Employment Secretary, Mr Norman Tebbit, said in Parliament, 'London differentials are a matter for employers and employees to determine according to the circumstances of each firm or industry. But in the Government's view the indices encourage negotiators to place too much emphasis on the need to compensate employees for the additional cost of working in London and too little on the need to set rates of pay which the employer can afford, and which are sufficient to recruit, retain and motivate employees in London. Moreover the indices are based on expenditure patterns which are now out of date. I therefore have decided to discontinue publication of the indices'.

4.12 Following the Government's decision to discontinue publication of the indices, Incomes Data Services and the Labour Research Department decided to publish their own regular revisions to the existing indices. IDS continued to update the allowances until 1987, using figures from a range of sources for rail and bus fares, cost of motor vehicles, owner-occupiers' mortgage interest payments, local government and private rents and rates, and the RPI for other consumer costs and wear and tear. IDS stopped updating the allowances in 1987 because without a complete overhaul of the 1974 expenditure patterns on which the index was based, it believed there was no longer a reliable guide to cost compensation. It approached a range of employers to see if they supported large-scale surveys to rebase the index, but employers considered that the labour market was more important than cost factors.

4.13 IDS research also found that Pay Board cost compensation based London allowances had become much less important in organisations' London Weighting reviews. In 1987 reviews were heavily influenced by competition for staff, especially in the rapidly expanding finance and retail sectors. The major clearing banks had increased their inner London allowances by 50% to £3,000 and introduced a new 'Roseland' payment of £750 covering most of the 'Rest of South East'. The clearing banks' inner London allowances have only increased to £3,500 or so since then, as more relevance is placed on broad banded structures, London scales and London differentials.

4.14 The Labour Research Department has continued to update the Pay Board formula since 1982. The LRD has used figures from a range of sources for rail and underground fares, bus fares, car running costs, local government and private rents and rates and the RPI for mortgage interest payments, other consumer costs and wear and tear. The latest cost compensation figures for 2001 are: Inner London £3,340 and Outer London £1,074. LRD consider that it is vital to update the expenditure/costs/prices base for London and elsewhere if the figures are to have any real meaning.

The CEBR report

4.15 The Centre for Economics and Business Research Annual report to the Corporation of London, 'London's Contribution of the UK Economy', has a section on 'Standards of Living'. In this it examines the differences between London and the United Kingdom/Great Britain in average earnings, earnings after tax, costs of living and standards of living. Some figures are shown from 1993.

4.16 Average earnings figures from the New Earnings Survey show a 30% London differential over Great Britain in 2000. Adjustment from the Labour Force Survey to take account of the different mix of occupations in London and nationally brings the London differential down to 24-26%; the lower figure is based on the national mix, the higher one on the London mix. Average earnings are further adjusted for the effects of national insurance and tax. This reduces the London differential from 30% to 27% and 24-26% to 21-23%.

4.17 Because the RPI does not provide regional price figures, CEBR uses the Reward Group 'Cost of Living Report' to indicate differences in prices between London and the rest of the country. Weights showing London and British baskets of goods are taken from the Office for National Statistics Family Expenditure Survey, which is used to provide some basic expenditure figures, and the Halifax house price survey, the ONS General Household Survey and the FES, which are used to provide additional figures for differences in housing costs. The CEBR calculations show that prices for a London basket of goods are 13% higher in London than they would be at national prices. A British basket of goods is 11% more expensive in London.

4.18 Differences in standards of living in London and the rest of the country are derived by subtracting the cost of living differential of 11-13% (adjusted for expenditure) from the average earnings differential of 21-23% (adjusted for tax and National Insurance). On this basis Londoners' standard of living is 10% (9.8-10.3%) higher than the rest of the country. The differences ranged between 8 and 14% during the years 1993-2000.

4.19 The CEBR considers the standards of living for people in a number of different occupations. These include a nurse, teacher, secretary, builder, commercial driver and corporate manager. They look at how well off each person would be if s/he lived and worked in London, compared with their standard of living if they lived and worked outside the capital.

4.20 The CEBR apply three accommodation scenarios to each occupation. These are, owner-occupier in 1999, owner-occupier in 1992 and renting accommodation. They argue that, with the exception of two cases, all are better off working outside London. The exceptions are the nurse and secretary purchasing in 1992, who would have been better off living in London, by 1% and 12%, respectively. London owner-occupiers buying in 1992 are significantly better off than those buying in 1999 or renting. Figure 4.1 below tabulates the percentage differences.

Figure 4.1 Differences in Standards of Living, London and Great Britain 2000

	Owner occupier Moved 1999 Purchasing power		Owner occupier Moved 1992 Purchasing power		Renting Purchasing power	
	London	GB	London	GB	London	GB
Nurse	0%	27%	0%	-1%	0%	39%
Teacher	0%	55%	0%	5%	0%	74%
Secretary	0%	24%	0%	-12%	0%	49%
Builder	0%	125%	0%	8%	0%	223%
Commercial driver	0%	111%	0%	7%	0%	188%
Corporate manager	0%	56%	0%	3%	0%	85%

Source: CEBR calculations

4.21 Additional information is provided from the Department of Environment, Transport and the Regions' survey on housing in England 1999/2000. The survey compares household characteristics and accommodation types. The CEBR demonstrate from the survey analysis that more Londoners live in flats and maisonettes than in the rest of the country (40%/15%) and fewer live in detached houses (5%/22%). The CEBR acknowledge that these percentage differences in part reflect a lifestyle difference but argue that they are indicative of London's higher living costs.

4.22 The CEBR also refer to the Labour Force Survey data on travel to work times in London and the United Kingdom for 1999. Londoners spend more time travelling to work. Just over seven per cent of Londoners travel for more than an hour compared with four per cent in the United Kingdom. Fifty per cent of Londoners travel less than 30 minutes compared with 80% in the United Kingdom.

The Panel's research

4.23 We did not have the resources or the time to commission a major expenditure survey of the type carried out by the Pay Board in 1974, nor did we think it necessary to do so. Nevertheless, we wanted to obtain up to date information on prices and costs of living in London compared with the rest of the country. We saw this as an important companion to research into pay levels in London and elsewhere and our other enquiries and evidence-collection on the range of issues connected with London Weighting

4.24 The straightforward way of producing cost of living figures for London is to use modified national statistics. The basis we used for prices and costs of living comparisons is the recent Office for National Statistics paper 'Price Levels in 2000 for London and the regions compared with the national average', published in Economic Trends no. 578 January 2002, The Stationery Office. This shows price levels in London compared with the United Kingdom as a whole (including and excluding London).

4.25 This paper points out that these price levels do not show how much more expensive it is to live in London because owner-occupied housing costs, mortgage interest payments, council tax and vehicle excise duty are excluded; and because price differentials for London were not weighted together by the expenditure patterns of London households. Information was not available at the required level of detail to achieve this.

4.26 The ONS obtained their information from the database of prices underpinning the RPI, a special nationwide survey carried out by Research International Limited, government sources and published data. The prices selected were representative of consumer expenditure across the United Kingdom. Nearly 550 goods and services were compared. Twenty-one have no regional variations, 140 came from the RPI (mainly food and tobacco products and a limited number of services), 380 from the special survey (most other goods and services, 50,000 prices were collected); and the remaining items came from government sources and published data (local transport, rents and foreign holidays).

4.27 The price differences between London and elsewhere were weighted together using expenditure on a national basket of goods and services taken from national accounts data for 1999 (the latest detail needed available). The national expenditure weights allow standardised comparisons to be made between regions, without interference from any differences in regional expenditure patterns.

4.28 Although these comparisons do not include the vital owner-occupier housing sector they do allow some useful comparisons to be made between London and elsewhere on a national basis both including London and excluding London from the rest of the United Kingdom. The results are shown in Figure 4.2, on the next page, at the broadest level of Classification of Individual Consumption by Purpose (COICOP, as used in the European System of Accounts, ESA, 95).

4.29 Figure 4.2 shows that in 2000 overall London prices (excluding owner-occupier housing costs) were 8.5% higher than in the rest of the UK (9.3% using hybrid London-National weights). There was a much greater range of price differentials between London and the rest of the United Kingdom for services than for goods. At broad category level price differences for goods ranged up to 5.3% (clothing and footwear) compared with the range for services up to 35.4% (housing etc.). No goods and services were cheaper in London at this level.

Figure 4.2 London & National expenditures, & price relativities for London versus the rest of the United Kingdom

	London Expend (£)†	National Expend (£)	National weights	London weights	London prices vs. rest of UK (%)
Food & non-alcoholic beverages	41.48	23.03	100	111	5.0
Alcoholic beverages, & tobacco††	11.20	8.78	38	30	1.0
Clothing & footwear	26.56	14.53	63	71	5.3
Housing, water, electricity, gas & other fuels	49.59	20.68	89	133	35.4
Owner occupied housing costs	N/A	N/A	N/A	N/A	N/A
Council tax	N/A	N/A	N/A	N/A	N/A
Furnishings, household equipment & maintenance	29.88	15.07	65	80	3.1
Health	5.10	3.45	15	14	14.9
Transport	58.90	31.77	137	158	1.0
Communications	11.53	4.71	20	31	0.0
Recreation & culture	53.78	32.69	141	144	3.6
Education	9.89	2.77	12	27	1.5
Restaurants & hotels	43.24	25.27	109	116	13.6
Miscellaneous goods & services	31.56	28.56	124	85	10.3
Total	**243.88**	**144.29**	**914**	**1000**	
All products London prices vs. rest of UK using National weights					**8.5**
All products London prices vs. rest of UK using high-level London weights					**9.3**

† Averaged over the three years 1998-99 to 2000-01 (due to the small sample size for London alone).

†† The low London weight for Alcohol & tobacco reflects under recording of these items in the FES).

Source: National Statistics/National Economic Research Associates

4.30 The Office for National Statistics paper showed that overall, goods prices were three per cent higher and the cost of services 16.5% higher. The greatest price difference between London and the rest of United Kingdom at the most detailed level was for housing rents, which were 74% higher in London. Other services significantly more expensive in London were:

- services of decorators, plumbers and electricians, 58.5% higher;
- repair of household appliances, 25.5% higher;
- out-patient services (dentists etc), 33.9% higher;
- taxis, 42.2% higher;
- veterinary services, 26.1% higher;
- hairdressers, 32.2% higher;

There were very few detailed categories where London prices were lower than the rest of the United Kingdom. The major difference was for local railway passenger transport, which was 39.6% lower. Other services which were cheaper in London, were:

- sewerage collection, 23.7% lower;
- water supply, 10.2% lower;
- passenger transport by railway, 29.2% lower;
- local passenger transport by bus, 33.5% lower;

4.31 Figure 4.3 shows summary results for regional differences in aggregate category level prices compared with the United Kingdom as a whole. These data, also taken from the recent Office for National Statistics' paper noted in paragraph 4.24 above, differ from those in Figure 4.2, in that they are not based on detailed analysis of price level differences which may exist within regions. They do, however, provide a broad indication at aggregate level.

4.32 The results show that including housing rents at aggregate category level compared with the UK prices are higher in London (6.8%), South East (3.1%) and the East (1.5%). All other regions have lower prices than the UK average. The North East, Yorkshire and the Humber, and Wales have the lowest prices.

Figure 4.3 Regional price levels compared against the UK average: 2000

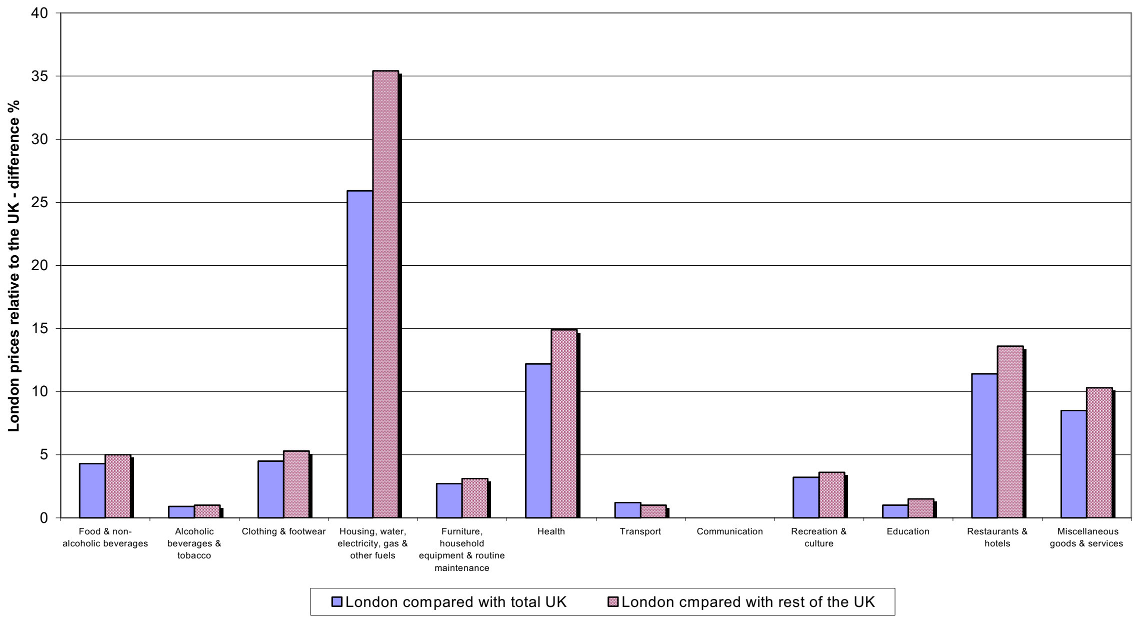
Difference (%) between regional and average UK prices
(number greater than zero means more expensive than the UK average)

	Inc. of housing rents other than owner-occupiers' costs			**Exc. of housing rents other than owner-occupier's costs**		
	Goods	Services	Total	Goods	Services	Total
London	2.6	13.0	6.8	2.6	7.3	4.4
South East	1.8	5.1	3.1	1.8	3.8	2.5
East	0.0	3.8	1.5	0.0	2.8	1.0
South West	-0.6	-0.9	-0.7	-0.6	-0.3	-0.4
East Midlands	-0.7	-3.1	-1.7	-0.7	-0.7	-0.7
West Midlands	-0.3	-2.6	-1.2	-0.3	-1.3	-0.7
North West	-1.2	-3.5	-2.2	-1.2	-2.1	-1.6
Yorkshire and the Humber	-1.7	-5.9	-3.4	-1.7	-3.5	-2.4
North East	-2.8	-7.4	-4.7	-2.8	-5.1	-3.6
Wales	-2.1	-6.3	-3.8	-2.1	-4.9	-3.2
Scotland	0.8	-3.3	-0.9	0.8	-0.5	0.3
Northern Ireland	0.9	N/a	n/a	0.9	-2.1	-0.2

Source: National Statistics

4.33 Figure 4.4, on the next page, shows London price levels compared against the rest of the country using country weights, including housing rents but excluding owner-occupiers' costs.

Figure 4.4 London price levels compared with the rest of the country



Source: National Statistics/National Economic Research Associates

Cost comparison including owner-occupiers' costs.

4.34 Given the importance of owner occupation and the very high cost of housing in the capital it is obviously vital to obtain information on London and United Kingdom price levels using London expenditure patterns as a basis of comparison and including owner-occupiers' costs.

4.35 We are grateful to the Office of National Statistics which obtained expenditure patterns for London from the Family Expenditure Survey for our weighting purposes. This information is at the two-digit level shown on Table 1 of the paper on 'Price levels in 2000' for national household expenditure. The ONS also provided us with an explanation of the methodology they use in dealing with housing and mortgage matters, and advice on appropriate sources of information on house prices and mortgage interest payments.

4.36 We then commissioned National Economic Research Associates to pull this information together and report on comparative costs of living in London and the rest of the country. This involved making judgments on the selection of data on appropriate housing prices, mortgage and mortgage interest payments. A review of the comprehensiveness of the data provided and its appropriateness for the Panel's purpose was also required and proposals made for any significant gaps to be filled from published sources.

4.37 NERA's report is reproduced in full in Appendix 6. In their report NERA comment on the problems of using existing data. They also point out that there is a fundamental difficulty in comparing the cost of living in London with the rest of the country, because it is not possible to take into account differences in expenditure which would compensate a household for all the differences in the environment, such as accessibility to work, shops, schools and leisure activities and a whole range of environmental quality factors.

4.38 Moreover, expenditure patterns are different in London and the rest of the country and one is not clearly preferable to the other as a measure of the cost of living in London relative to the costs of living elsewhere.

4.39 Figure 4.5 on page 49, sets out the price differences between London and the rest of the United Kingdom, derived from NERA's work; these include owner-occupiers' costs.

4.40 NERA combine the ONS information from *Economic Trends* for the relative price of goods and services in London versus the rest of country with their own estimates for owner occupied housing and council tax costs and the value of commuter travel time. They use both London and National (excluding London) 'expenditure' weights to construct measures of the relative cost of living in London versus the provinces.

4.41 Using provincial expenditures, NERA find that the cost of living in Greater London relative to the rest of the country is 30.7 per cent higher and using London expenditures, 22.1 per cent higher. The inclusion of owner occupied housing, council tax, and the value of time spent commuting has increased their cost of living relativity substantially compared to the ONS estimate in Economic Trends of 8.5 per cent for the price relativity (using national expenditure weights), which excludes these costs. Their measure is nevertheless partial, including only the value of time spent commuting among the many less tangible elements of London and provincial living.

4.42 NERA's report must be read subject to the qualifications they make, which may be summarised as the inadequacy of the available data, the difficulty in selecting appropriate weights and the impossibility of using direct cost compensation to take into account all the differences between London and the rest of the country, including of course, the attractions of London. We would add the obvious point that, because of very sharp rises in price of housing in London in recent years, the position of any individual is likely to be significantly affected by the timing of his or her house purchase.

Conclusion

4.43 In this chapter we have drawn together and presented important material on the cost of living in London and how it relates to the rest of the country. It provides the statistical basis for what most of us already instinctively know – that London is much more expensive. Particularly so when you factor in housing costs and the value of time spent commuting. When such costs are considered, the cost of living is significantly higher in Greater London than elsewhere in the country. This provides clear justification for the public sector to pay London Weighting if, across the country, it wishes to be seen to treat all members of the same occupation fairly.

4.44 We must, however, note the warnings from NERA, both on the inadequacy of available data and on the vital point that such cost of living comparisons fail to consider all the differences between London and the rest of the country. The cost of living differential between London and the rest of the country may be the reason for London Weighting but it cannot be the basis for its calculation. We develop this point in the next chapter.

Figure 4.5 Relative Cost of Living in London versus the Provinces (£ weekly)

	Provincial† Expenditure	Cost of Provincial Expenditure at London Prices	London Expenditure	Cost of London Expenditure at Provincial prices	London Provincial Price Relative (%)†††
Food & non-alcoholic beverages	20.29	21.30	41.48	39.51	5
Alcoholic beverages, & tobacco	8.42	8.50	11.2	11.09	1
Clothing & footwear	12.74	13.42	26.56	25.22	5.3
Housing, water, electricity, gas & other fuels	16.38	22.19	49.59	36.62	35.4
Furnishings, household equip & maintenance	12.87	13.27	29.88	28.98	3.1
Health	3.20	3.68	5.1	4.44	14.9
Transport	24.86	25.79	52.8	50.87	3.8
Communications	3.70	3.69	11.53	11.53	0
Recreation & culture	29.56	30.62	53.78	51.91	3.6
Education	1.71	1.74	9.89	9.74	1.5
Restaurants & hotels	22.60	25.67	43.24	38.06	13.6
Miscellaneous goods & services	28.11	31.01	31.56	28.61	10.3
Sum, excluding items below	**184.44**	**200.88**	**366.61**	**336.58**	
Opportunity cost of owner-occupied housing††	75	132.08	114	64.74	76.1
Sum, excluding items below	**259.45**	**332.97**	**480.61**	**401.32**	
Council tax	16.52	14.96	14.96	16.52	
Public rail and bus transport††	2.88	6.1	6.1	2.88	
Opportunity cost of commuter travel time††	17.42	33.25	33.25	17.42	
Overall sum	**296.27**	**387.29**	**534.92**	**438.15**	

† *Provincial expenditure is based on National expenditure less London expenditure allowing for population weights.*

†† *The cost of rail and bus transport, and the opportunity cost of owner-occupied housing and commuter travel time are NERA estimates.*

††† *Below group level the price relativities are weighted together using National weights.*

Source: National Statistics/National Economic Research Associates

Chapter 5 – The London Premium

5.1 There are three essential questions about London Weighting - 'why?' 'how much?' and 'who gets it?'. Historically, the answer to the first question has informed the answer to the other two. This chapter sets out our views on these questions. Our path is well trodden for us, although not recently, and we take as our beginning the monumental Pay Board report of 1974. We will not follow them all the way, but we will end up not far from their destination.

The 1974 Pay Board report

5.2 As we note in Chapter 4, the Pay Board in their turn started from the 1967 report of the National Board for Prices and Incomes. They were asked to consider whether the NBPI approach was still valid, and they concluded that it was.

5.3 The NBPI recommended that London Weighting should be determined on the basis of compensation for differential living costs between London and elsewhere, with the purpose of equalising net remuneration for comparable work in both areas. They rejected the idea that the primary aim of London Weighting should be to solve difficulties of labour supply where they were more acute in London than elsewhere because, they said, this would be inflationary, ineffective and create anomalies.

5.4 The overwhelming weight of the submissions which the Pay Board received in the run up to their report in 1974, was in favour of continuing to base London Weighting upon the principle of compensating for London's higher costs as compared with the rest of the country. However they also received evidence that a premium rate of London Weighting should be paid to ease labour shortage problems in essential public services and they looked into the question of whether London's labour shortages were worse than elsewhere.

5.5 They came to the conclusion that it was not possible to measure relative labour shortages within a single industry or occupation with any degree of precision, nor was it possible to make meaningful comparisons of one industry with another.

5.6 The Pay Board also thought that it would be very difficult to devise a system of monetary payments that would help to solve particular shortage problems. They concluded that the basic justification for London Weighting was to ensure comparability of real earnings for working in London and elsewhere. They believed that it would have the secondary, but important, effect of helping to ease London's labour shortage problem.

5.7 So the Pay Board answered the question 'why?' by saying that the purpose of the allowance was to compensate for the additional costs of working in London. They then calculated an appropriate cost compensation allowance, which told them 'how much'. Since costs are the same for everyone, it followed that the allowance should apply to all.

Direct cost compensation.

5.8 As we explain in Chapter 4, the calculation of a direct cost compensation allowance involves establishing how much goods and services cost in London, compared with the rest of the United Kingdom. If you then find out what people who work in London and elsewhere spend their money on it is thought to be possible to arrive at a sum of money which, if paid to the Londoner, equalises the differential.

5.9 The Pay Board faced up to the fact that the range of personal circumstances is very wide. They said 'For example, there are young people at the start of their career, many living at home or in lodgings without direct responsibility for accommodation costs; married people embarking on house purchase at today's high prices, in some cases with both husband and wife working, in others not; there are older people, at the higher end or in the higher ranges of salary scales, who may have bought their accommodation when prices were lower, many of whom have paid off their mortgages'. Making due allowance for changes in society, this range of circumstances is echoed today.

5.10 The Pay Board therefore accepted that the cost compensation approach inevitably involved the striking of very broad averages since the circumstances of individuals and groups vary so markedly. However they pointed out that individuals' costs vary during their working lives and from this standpoint the variation in costs between individuals over their working lives is less than it is at any point of time.

5.11 In calculating the direct cost compensation allowance the Pay Board took different approaches to different components. For items other than housing and travel to work they based their calculations on the prices of standard items in London and elsewhere, but in the case of housing and travel to work they took the 'expenditure' approach. For this purpose they undertook a major survey of housing and travel to work costs, sending questionnaires to 63,000 individuals in London and the rest of the country. By discovering how much more Londoners spent on these items they were able to come to a figure which would compensate them for the increased cost.

5.12 Then as now, housing was the principal component of the extra cost of living in London. The Pay Board chose to restrict the calculation of differentials to the interest element of mortgage repayments, arguing that, because of the long term rising trend in house prices, capital repayments made under mortgage should be properly regarded as savings rather than expenditure.

5.13 The Pay Board also formed the view that standards of housing were lower in London than elsewhere and included this in a general allowance for 'wear and tear' which was intended to compensate for the additional stress of working in London.

Reasons for London Weighting

5.14 It is fortunate that the Pay Board were able to form the view that the purpose of London Weighting was to secure parity of earnings rather than to solve the problems of labour shortage, as they admitted that it would not have been possible to devise a system of monetary payments which would solve those problems.

5.15 We found that the two reasons usually given for London Weighting – cost compensation and worker retention - are not alternatives but inextricably linked. People will take up jobs, and stay in them, when they believe they are being adequately rewarded.

5.16 Public sector workers look to their employers to pay London Weighting to ensure that their reward is comparable to those in the same occupation elsewhere. We believe that, properly calculated, London Weighting will contribute to the solution of recruitment and retention problems in London. But to be effective London Weighting must be calculated on a fair and transparent basis and be applied consistently to all public sector workers, not just those groups who can count on media interest, public sympathy or strategic importance.

5.17 One key benefit of London Weighting may be worker retention but it will be more effective for this purpose, if it is, and is seen to be fair. Fairness cannot be applied selectively.

5.18 It has been clear for many years and it is obvious to us from all the evidence we have received that it is necessary to pay a London allowance to attract and retain workers in London. So for us the key question is not 'why?' but 'how much?'.

Objections to direct cost compensation

5.19 The first problem with direct cost compensation is that it attempts to compensate for the additional costs of those who *live* in London, while London Weighting is paid to those who *work* here.

5.20 Moreover, we should not forget that London has many advantages. Discussion of London Weighting, with its talk of high prices and 'wear and tear' dwells on the disadvantages of our city. But London is a wonderful place, and many people are happy to live and work here for all the advantages that the capital brings. Direct cost compensation does not take this into account; neither does it take into account the fact that the availability of amenities may alter the pattern of expenditure. Londoners may spend more on entertainment and education because these things are readily available in the capital, and very attractive. As the economists would say, it is extremely difficult to separate avoidable costs from unavoidable costs.

5.21 In short, as NERA point out in their report in Appendix 6, it is not possible to sum up all the advantages and disadvantages of the capital in money terms by direct cost compensation. Any attempt to do so will be complex and arbitrary in calculation and will be unlikely to be technically robust or reliable.

5.22 Moreover, direct cost compensation can alter behaviour – subsidised travel, for example, can mean that workers choose to live further from their workplace. The effect of such incentives can be perverse.

5.23 As our history of London Weighting shows, the Pay Board approach has not stood the test of time, being effectively abandoned in 1982 and never revived. The reasons for its demise are the decision of the Government of the day to base allowances on 'ability to pay'; the practical problems of keeping the survey of expenditure up to date and the decentralisation of pay-setting which has allowed employers in the public sector to pay London Weighting for reasons of recruitment and retention (or as the Pay Board would have said, for labour shortage reasons).

Our approach

5.24 We have to remember that circumstances were very different when the Pay Board made their report. Their report was commissioned as part of a statutory incomes policy - an attempt to regulate pay across public and private sectors - and, although that policy had been abandoned by the time the Board reported, pay setting was centralised to the point that the Board's recommendations could be given effect across the public sector. Today of course, as we note in Chapter 2, pay setting is much more decentralised and our outlook is correspondingly less *dirigiste*.

5.25 Labour shortages convey important information about the relative attractiveness of jobs in different parts of the country. Differences in the degree of labour shortage tell us that there are differences between the relative attractiveness of jobs in different parts of the country. This could be because there are differences in the costs faced by employees working in these different areas, which are not fully compensated by differences in wages, or there may be differences in the demands of the jobs in the different areas which are not fully compensated by wages.

5.26 There may also be other aspects of living and working in different areas of the country which make jobs in different parts of the country more or less attractive. The important point is that if there are greater labour shortages in one part of the country than in others then it can be concluded that wages are not sufficiently high in the areas of greatest shortage.

5.27 We do not approach the problem from the point of view of an employer wishing to set appropriate pay levels for its staff – we are not employers and it is the employers themselves who need to set pay levels in order to recruit and retain the staff they require. Our aim is to help that process by suggesting principles for London Weighting which can be seen to be fair and command support.

5.28 Having accepted the need to pay London Weighting but rejected the Pay Board's approach we are left looking for something to put in its place. We have been asked why we need a new approach – why not leave the situation as it is, with London Weighting resolved by individual decision and negotiation?

5.29 In truth, that is what we are doing. We have no power to impose our ideas but our work will have value if we are able to help the existing processes. Extra pay for work in London continues to be paid across the public sector whether it is called 'London Weighting' or not but the methods by which it is calculated are not transparent nor understood. Quite often the allowance is frozen at a figure of historical importance only. A rational basis for assessing a London Premium should help to resolve anomalies and reduce discontent. It will not solve the problems of the low paid, as it is only a component of pay, neither will it cure all recruitment or retention problems, or solve the challenges facing the first-time house buyer, but it might answer the question of how the extra pay is calculated, and in so doing provide employers with a reasoned method of calculating London Weighting and go some way to convince employees in London and elsewhere that it has been fairly assessed.

Our solution

5.30 Our core proposal is that London Premium in the public sector should be set by comparison with London Premium in the private sector. We call this 'private sector comparison'. Advances in the availability of data and in information technology enable us to do this using sophisticated modern techniques.

5.31 Our principal concern is with the public sector, as the private sector is free to set pay according to market forces. A private sector employer will tend to set pay to achieve levels of profit consistent with attracting and retaining the workforce necessary to produce the products or services which she or he sells. In other words s/he will pay the amounts needed to keep employees of the right quality in their jobs. Being free to act as s/he wishes, s/he can respond quickly to changes in circumstances.

5.32 Adam Smith is often quoted in this context. In the Wealth of Nations he pointed out that labour market competition ensures 'that the whole of the advantages and disadvantages of different employments of labour and stock must in the same neighbourhood be either perfectly equal or tending to equality.' (Book 1, Chapter 10).

5.33 Market forces are not allowed free play in the public sector, where employers are not constrained to make a profit, nor are they able to move as quickly or as flexibly. Political considerations, such as the desirable level of taxation, play their part and questions of whether or not an employer can 'afford' to pay at any particular level are resolved by political will and the perceived need for the service being provided in the locality rather than the necessity of making a profit.

5.34 We accept that the division between public and private sector for this purpose is less than perfect. The distinction should be drawn between employment where pay is negotiated freely and locally and employment where it is centrally administered. Many of the recently privatised industries – the railways for example - are nominally private, but fall into the latter category. Nevertheless, given the current availability of statistical information, we can do no better.

5.35 We accept that private and public sector employees will be paid at different rates, and indeed that pay rates will differ within each sector, often significantly, but if, as we believe, the private sector sets the London Premium by market forces the question which we ask is 'Why should the proportionate London Premium be any different in the public sector?'.

5.36 Of course that is a very broad question. Because employers use London Weighting in an attempt to resolve recruitment and retention difficulties individual employers will pay more or less according to the level of difficulties which they face from time to time. A good example of this is the recent decision by the Metropolitan Police Service to double London Weighting; this shows what happens when pay systems respond flexibly to regional labour market differences. However, if we can define the London Premium in the private sector, it is our opinion that it provides a guide for the London Premium in the public sector.

5.37 If the London Premium in any particular public sector occupation is at the top end of or above the range suggested by our findings that is likely to be an indication of some particular recruitment or retention difficulty in London, but if it is below the range then we would say it is likely to be unfairly low.

5.38 We should make it clear that we are not adopting this approach simply in order to make the public sector competitive with the private sector for the same workforce. Many other factors come into play in that context including job satisfaction, job security and total pay package levels. We are suggesting this approach because the London Premium meets a common human need. All would agree that we should pay workers in the public sector fairly – the disagreement comes in deciding what is fair. We believe that it is fair to pay London Premium in the public sector in the same proportion paid in the private sector.

5.39 Private sector comparison, based as it is on the actual pay necessary to recruit the workforce, takes into account all the factors which affect pay, including the advantages of living in London.

5.40 In the end, of course, setting the London Premium in this way is a form of cost compensation, but not a direct one. The fundamental reason driving the London Premium in the private sector is the additional cost of living and working in London. Whether you work as a nurse or in a bank, you occupy the same seat on the Tube and have the same need for a roof over your head. However, getting away from the attempt to derive a direct relationship between cost and pay has the great advantage that the sums are done for us by the market rather than by some methodology which, however complex, cannot reliably return the correct answer.

Our research

5.41 We commissioned the Institute for Employment Research at the University of Warwick to investigate the London Premium in the private and public sectors and to compare the two. Their report is set out in full in Appendix 7.

5.42 They measure 'spatial wage differentials'. The rationale for this approach is based on the theory of 'compensating wage differentials'. Differences in wage rates, which employers are forced to offer in order to be able to attract and retain labour of a certain quality, can be partly explained by geographical differences in the amenities or disamenities associated with each area and with regional differences in the cost of living. In essence, the spatial wage differentials measure the additional earnings an employee requires to compensate them for the relative amenities and disamenities of working in a particular area.

5.43 The key issue is how to calculate these spatial wage differentials. Crude wage differentials are not appropriate, since like would not be compared with like. It is crucial to take account of all other factors which influence pay, including differences in employment structure, in order that the geographical wage differentials calculated only reflect the relative amenities and disamenities of working in a particular area.

5.44 The analysis uses multivariate, linear regression techniques to achieve this. By this means the influence of personal characteristics (ie gender and age), skills (educational attainment and the length of time spent in current job), occupation and industry is removed from the analysis. The analysis is applied to the two available data sets, namely the Labour Force Survey and the New Earnings Survey. These give slightly different conclusions for reasons which the Institute explains.

5.45 Consistent with the data, the analysis breaks London down into Central London (Camden, City, Islington, Lambeth, Southwark, Tower Hamlets, and Westminster) and Inner London excluding Central London, (Kensington and Chelsea, Lewisham, Newham, Haringey, Wandsworth, Hackney and Hammersmith) and Outer London. It is repeated for Inner London (including Central London) and Outer London and then figures for London as a whole are given.

5.46 Figure 5.1 (page 57), shows Standardised Spatial Wage Differentials based on the Labour Force Survey. They are expressed as percentages of non-London pay. Pay outside England was ignored for this purpose. Figure 5.2 (page 58) shows Standardised Spatial Wage Differentials based on the New Earnings Survey.

5.47 The most noticeable differences between the two data sets are the private sector figures for Central London (43.76% for 1998/00 in LFS, 40.09% in NES) and Outer London (14.97% for 1998/00 in LFS, 11.02% in NES). According to the NES figures, the Outer London differential is greater in the public sector than in the private sector.

5.48 In their report the Institute comments on the differences between the Labour Force Survey and the New Earnings Survey. Part-time workers and the low paid are under-represented in the New Earnings Survey, which otherwise provides larger samples.

5.49 We would expect employers to argue that the City of London should be excluded from the calculations. As one of the world's leading capital markets it is a workplace like very few others. Salaries there are driven by world competition and there is very little public sector employment. It is not possible to exclude the City of London from the Labour Force Survey data, because sufficient geographical detail is not available, but it is possible to do so using the New Earnings Survey, so we asked the Institute to calculate figures excluding the City of London.

Figure 5.1 Estimates of SSWDs Based on the Labour Force Survey
Note: Figures represent percentages of non-London pay

	Annual Estimates				Three Year Averages	
	1997	1998	1999	2000	1997/99	1998/00
All Employees						
Central London	39.76	39.92	38.59	40.67	39.42	39.73
Inner London (excl. Central London)	23.55	21.77	24.93	25.02	23.41	23.91
Outer London	13.63	15.38	14.34	14.88	14.45	14.87
Inner London	32.50	31.85	32.60	33.80	32.32	32.75
Outer London	13.61	15.38	14.33	14.87	14.44	14.86
Greater London	24.19	24.25	24.20	25.55	24.21	24.67
Private Sector						
Central London	44.02	44.17	42.57	44.54	43.59	43.76
Inner London (excl. Central London)	24.00	21.80	26.15	27.18	23.99	25.05
Outer London	13.72	15.97	14.13	14.86	14.61	14.99
Inner London	36.01	35.30	36.13	37.74	35.81	36.39
Outer London	13.69	15.96	14.11	14.84	14.59	14.97
Greater London	25.89	26.24	25.84	27.61	25.99	26.56
Public Sector						
Central London	26.45	24.91	25.54	28.72	25.63	26.39
Inner London (excl. Central London)	22.19	20.84	21.65	20.58	21.56	21.02
Outer London	13.03	13.03	13.08	13.59	13.05	13.23
Inner London	24.05	22.62	23.39	24.17	23.36	23.39
Outer London	13.03	13.04	13.09	13.60	13.06	13.24
Greater London	19.56	18.35	18.85	19.70	18.92	18.97

Source: National Statistics/University of Warwick Institute for Employment Research

Figure 5.2 SSWDs for the Private and Public Sectors: NES Estimates
Note: Figures represent percentages of non-London pay

	Annual Estimates						Three Year Averages			
	1996	1997	1998	1999	2000	2001	1996/98	1997/99	1998/00	1999/01
All Employees										
Central London	35.09	34.94	35.61	36.03	36.91	38.30	35.22	35.53	36.18	37.08
Inner London (excl. Central London)	22.63	21.76	22.46	21.57	20.61	22.01	22.28	21.93	21.55	21.40
Outer London	13.14	11.91	11.89	11.59	12.72	11.48	12.31	11.80	12.06	11.93
Inner London	32.25	31.80	32.50	32.74	33.26	34.63	32.18	32.35	32.83	33.54
Outer London	13.14	11.90	11.88	11.57	12.71	11.48	12.30	11.78	12.05	11.92
Greater London	24.02	23.20	23.48	23.12	24.10	24.21	23.57	23.27	23.56	23.81
Private Sector										
Central London	38.89	38.01	39.00	39.55	41.71	41.47	38.64	38.86	40.09	40.91
Inner London (excl. Central London)	22.43	23.95	24.27	21.51	20.38	22.23	23.55	23.25	22.05	21.37
Outer London	12.99	10.54	11.21	10.04	11.83	11.21	11.58	10.60	11.03	11.03
Inner London	35.55	34.99	35.81	36.02	37.44	37.35	35.45	35.61	36.43	36.94
Outer London	12.98	10.53	11.20	10.03	11.82	11.20	11.57	10.58	11.02	11.02
Greater London	25.63	24.02	24.60	23.85	25.61	25.03	24.75	24.15	24.69	24.83
Public Sector										
Central London	24.94	26.66	25.45	24.86	24.00	28.84	25.69	25.66	24.77	25.90
Inner London (excl. Central London)	21.36	17.48	18.62	19.11	17.94	20.03	19.15	18.40	18.56	19.03
Outer London	13.18	15.16	13.97	15.33	15.24	14.04	14.10	14.82	14.85	14.87
Inner London	23.94	24.01	23.53	23.14	22.32	26.64	23.83	23.56	23.00	24.03
Outer London	13.18	15.15	13.97	15.32	15.24	14.04	14.10	14.81	14.84	14.87
Greater London	19.51	20.49	19.74	19.84	19.43	21.65	19.92	20.03	19.67	20.31

Figure 5.3 SSWDs Excluding the City of London (Private Sector Only)
Note: Figures represent percentages of non-London pay

	Annual Estimates						Three Year Averages			
	1996	1997	1998	1999	2000	2001	1996/98	1997/99	1998/00	1999/01
Excluding the City of London										
Central London	34.60	34.87	34.72	35.54	37.64	37.29	34.73	35.05	35.97	36.82
Inner London (excl. Central London)	22.41	24.01	24.34	21.50	20.28	22.33	23.58	23.28	22.04	21.37
Outer London	12.99	10.55	11.23	10.02	11.79	11.19	11.59	10.60	11.01	11.00
Inner London	31.62	32.03	31.92	32.24	33.45	33.39	31.86	32.06	32.53	33.03
Outer London	12.98	10.54	11.22	10.00	11.77	11.18	11.58	10.59	11.00	10.99
Greater London	22.63	21.40	21.41	20.85	22.46	21.90	21.81	21.22	21.57	21.74

Source: National Statistics/University of Warwick Institute for Employment Research

5.50 Figure 5.3 (page 58) shows Standardised Spatial Wage Differentials based on the New Earnings Survey, excluding the City of London.

5.51 The Institute points out that the size of the compensating wage differential should reflect a wide range of factors that affect the desirability of living within a given area (e.g. quality of schools and other public services, the environment, availability of recreational or cultural activities). The relative importance attached to these factors may be expected to vary between different groups of people. They therefore analyse the results according to occupation and educational attainment.

5.52 Their analysis shows differences between occupations, with the lowest pay differentials for Plant and Machine Operatives and the highest for Associate Professional and Technical Occupations.

5.53 Pay differences between those of varying educational attainment are less marked, but there is a significant difference between those with qualifications and those without.

5.54 Summing up, it can be seen that public sector employees working in Outer London generally receive allowances that are commensurate with compensating differentials received by private sector employees. It is public sector employees who work within Inner London who face significant disadvantage relative to private sector employees. Furthermore, given that the allowances received by public sector workers tend to incorporate flat rate elements that do not vary with income, the scale of this disadvantage faced by public sector employees increases with career progression.

5.55 We recommend that the studies we have commissioned, both on London Premium and the cost of living in London, should be repeated and published on an annual basis. We have no doubt that they will improve with time and experience, and as additional data becomes available.

How much?

5.56 We are left with our questions 'how much?' and 'who gets it?'

5.57 Before setting out our own views we should repeat that we have no power to enforce our recommendations. We hope that by presenting the evidence, the arguments and the data in this report we will provide material which will assist those who negotiate pay to set a fair London Premium.

5.58 In recommending that London Premium in the public sector should be set by private sector comparison we recommend that this should be done using the techniques set out in the report from the Institute for Employment Research.

5.59 The Institute's report shows that there are differences between occupations. We think that the 'all occupations' figures should be the norm, but there is scope for negotiation in this respect. There is also some difference between those of varying grades of educational attainment, but given the entry and promotion requirements of most occupations where qualifications are needed we expect that any differences based on occupation will include differentiation based on educational attainment.

5.60 We recommend that the appropriate percentage of the total pay-bill for each occupation should be made available for London Weighting. There is clearly scope for discussion as to what this might be, but within limited boundaries.

Who gets it?

5.61 Our Panel does not believe in distinguishing some workers in the public sector from others on the grounds that they are 'key'. Every worker is 'key' if you need the service that he or she provides. Supply and demand for workers fluctuates from time to time and from place to place, and just because there is a shortage of a particular type of worker does not make that worker 'key' - rather it reveals the importance of that worker, which existed when there was no shortage.

5.62 We take the view that London Weighting, calculated on the private sector comparison basis, should be paid to all those who work in London in the public sector because fairness demands it. If we are to have a public sector, then we should pay those who work in it fairly. There will be differences of opinion over what is fair, but for the reasons which we set out above, we have come to the conclusion that it is fair to pay London Premium in this way.

Dividing it up

5.63 There will be differences of opinion as to how the available amount should be divided, and we believe that this should be negotiated between employers and employees in each occupation. We acknowledge that there will be difficulties in the definition of 'occupation' for these purposes, but we doubt that they are insurmountable.

5.64 The traditional method is by flat rate payment, which benefits the lower paid, on whom it has the greatest impact. This has advantages for social justice and for the employer faced with high turnover in the lowest paid jobs. It will also benefit London's resident population, who often do the lowest paid jobs.

5.65 We heard evidence however that senior staff, vital to the running of London's public services, are leaving London and we recommend that increased payments of London Weighting at senior levels should be made, to help equalise earnings inside and outside London. So we would look at flat rate payments, percentage payments, and a combination of the two. No employee should be worse off than he or she is at present.

5.66 We heard evidence to the effect that the differentiation between Inner and Outer London is becoming increasingly blurred, but the figures show that, in pay terms at least, the distinction remains clear. This apparent clarity masks a huge variety of personal circumstances. We recommend that employers and employees should agree their own definitions of Inner London and Outer London for these purposes according to their individual circumstances. The Metropolitan Police Service, for example makes no distinction between the two zones.

5.67 All this should be read subject to the caveat that London Premium is not necessarily the same as London Weighting, and in any particular case it is necessary to understand whether the employee is receiving amounts which fall under the heading of London Premium even though they may not be labelled as London Weighting. Obvious examples are recruitment and retention allowances and extra pay resulting from broad-banded pay scales.

5.68 Private sector comparison involves comparison of wages before tax, so our recommendations are not tax-free.

5.69 We do not wish to be prescriptive, but it may be helpful to summarise how the calculation could be made for each occupation.

(a) Select the percentage rate applicable for the area. Using the 'all occupations' rate will give 36-37% for Inner London (33% if the City is excluded) and 11-15% for Outer London.

(b) Apply the percentage rate to the total pay-bill for the employees in that area (excluding existing London Premium). Our figures follow the statistical definitions of Inner and Outer London, and others may be chosen.

(c) Divide the result among the employees according to the method agreed – flat rate, percentage payment or a combination of the two – but no employee should get less London Premium than he or she receives at present.

Housing and the London Premium

5.70 We do not pretend that our recommendations will solve the problems of the first-time homebuyer. The London Assembly report on Affordable Housing made it clear that other measures, increasing the supply of housing in London, are required for that.

5.71 Our terms of reference require us to comment on the effect of our recommendations on house prices. If implemented in full we expect that our recommendations may increase house prices to some extent by bringing higher earners in the public sector, or those who have some capital, into the market for the first time.

London Premium and the low paid

5.72 We do not pretend that our recommendations will solve the problems of the low paid – London Weighting is only a component of pay, and the poorest do not receive it.

5.73 We heard evidence that the lowest paid workers in London today are in the private sector, working in such jobs as cleaning and catering. Our recommendations will not reach them, but we welcome the Government review of the treatment of employees in privatised industries announced in March this year and support the use of 'fair employment clauses' through which organisations using contracted out labour seek to improve the conditions of those workers.

5.74 The East London Communities Association told us in evidence that work commissioned by them shows that a gross wage of £6.30 per hour is required for a single earner in a two parent household to reach the London poverty threshold without recourse to means tested benefit. They are campaigning for this as a London living wage. This is outside our terms of reference, and we have not considered the issues in detail, but we are happy to draw attention to this debate, and we ask organisations in all sectors with contracted-out labour whether they are prepared to accept that people should work in their premises, providing services for them, earning less than a living wage.

The effect on surrounding areas

5.75 Our terms of reference require us to have regard to the effect of our recommendations on surrounding areas. The example of the Metropolitan Police Service is an instructive one.

5.76 Following the raising of the combined London allowance for the MPS from 1 July 2000, concerns were expressed by police chiefs in the areas surrounding London about the loss of officers and potential recruits to the Met. Consequently, following talks in the Police Negotiating Board, agreement was reached to introduce extra allowances in eight designated forces in the South East outside London.

5.77 So with effect from 1 April 2001 a new allowance of £2,000 became payable in the five forces immediately bordering London – Essex, Hertfordshire, Kent, Surrey and Thames Valley. Outside of this immediate circle round London, an allowance of £1,000 a year became payable in Bedfordshire, Hampshire and Sussex. In all cases these allowances apply to officers recruited since September 1994 who do not receive housing allowances.

5.78 Our recommendations do not necessarily involve increases in Outer London allowance, where the public and the private sectors are in line. There is, therefore, no necessary 'cliff effect' with the rest of the South East unless, like the Metropolitan Police, employers choose to pay a substantial increase to those working in Outer London. In that event we would expect similar consequences.

Other areas of England

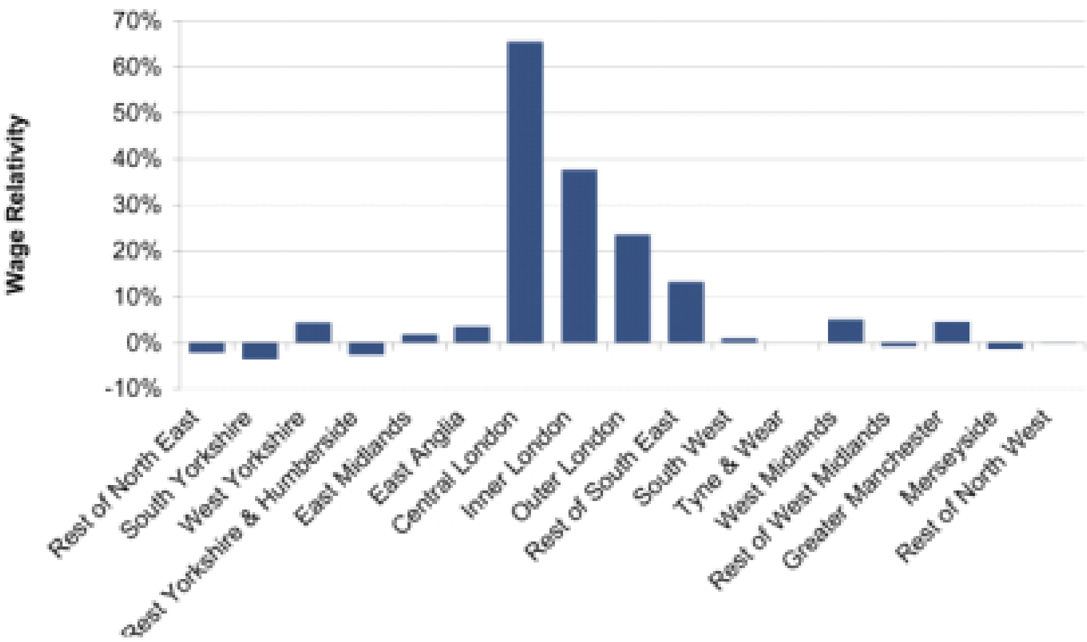
5.79 We are conscious of the argument that increasing London pay draws scarce resources to the capital at the expense of the regions. We are also conscious of arguments that other cities can be expensive places to live, and perhaps there should be weightings for workers there.

5.80 In February 2002, National Economic Research Associates published a paper estimating private sector regional wage relativities for England. The approach they adopted was to examine regional wage differentials revealed by labour market statistics. To isolate the impact of region alone on regional wage relativities – to ensure a like-with-like comparison - they controlled statistically for factors such as the composition of the workforce and occupations region by region.

5.81 NERA considered both New Earnings Survey and Labour Force Survey data. They used estimates based on the LFS since the NES excludes many of the low paid (those not required to file income tax returns) – thereby biasing downwards-estimated regional wage relativities. Another reason for preferring the LFS was that the sample data includes, and allowed NERA to 'control for', information on worker characteristics such as qualifications.

5.82 The results are shown as percentages of Tyne and Wear, in Figure 5.4 below.

Figure 5.4 Estimated regional wage relativities



Source: National Economic Research Associates

5.83 This work shows how far London pay relativities in the private sector, and Central and Inner London in particular, exceed those for any other area in England. The closest region is the rest of the South East. It confirms our belief that London has an overwhelming claim to be treated differently from other parts of the country, and other major towns in England.

The Tebbit criticisms

5.84 In 1982 Norman Tebbit, the Secretary of State for Employment decided to discontinue publication of the Pay Board's indices. He said, 'London differentials are a matter for employers and employees to determine according to the circumstances of each firm or industry. But in the Government's view the indices encourage negotiators to place too much emphasis on the need to compensate employees for the additional cost of working in London and too little on the need to set rates of pay which the employer can afford, and which are sufficient to recruit, retain and motivate employees in London. Moreover the indices are based on expenditure patterns which are now out of date'.

5.85 To refer, in the public sector, to 'rates of pay which the employer can afford' is to misuse language. The country can 'afford' to pay London Premium at a fair rate. The question is one of resource allocation and political will. Setting that aside, however, we believe that our proposal self-evidently should lead to 'rates of pay which … are sufficient to recruit, retain and motivate employees in London' and does not depend on analysis of expenditure patterns which will become out of date.

Funding and practicality

5.86 We are not in a position to calculate the cost of our recommendations although it is clear that they will be expensive. Our proposals may be attacked on the grounds of cost and the apparent disparity between London and elsewhere which would arise if they were implemented in full.

5.87 A number of public sector employers told us that, while they would welcome a rational method of assessing London Weighting, any increases could not be funded from existing budgets without detriment to services. They will be looking to central government for additional funds, and we recommend a joint approach by employers and employees.

5.88 If we are right in our conclusions, the savings which result from paying London Weighting at current levels are achieved by requiring London workers to work for lower real pay than their country counterparts. The work NERA has done on the cost of living in London supports this conclusion.

5.89 We could have suggested phased implementation or some other methods of reducing costs, but we think that it is not for us to put that forward. We have decided that we should say what we believe to be right in principle.

5.90 If London's workers are to be at a disadvantage compared with elsewhere then, in the end, the quality of the workforce will be lower. So money spent on fair pay is money well spent.

5.91 We said at the beginning of this chapter that we would end up not far from the Pay Board's destination. In 1974 they said that the basic justification for London Weighting was to ensure comparability of real earnings for working in London and elsewhere. We believe that our recommendations will, if accepted, have that effect. Money spent on implementing our proposals will do no more than that.

Chapter 6 – List of findings and recommendations

6.1 We hope that others will take forward urgently the issues of affordable housing, travel costs and the problems of the lower paid referred to in our report.

6.2 There are increasing difficulties in the recruitment and retention of public sector workers in London. (Chapter 3).

6.3 Pay levels recognising the additional expense of working in the capital would help to solve those problems. (Chapter 3).

6.4 Pay setting in the public sector has become more decentralised and London Weighting is no longer paid on a uniform basis. (Para 2.22).

6.5 Direct cost compensation has not stood the test of time. It is complex and arbitrary in calculation, and does not take account of all the advantages and disadvantages of living and working in London. (Paras 5.19-5.21).

6.6 London Premium in the public sector should be set by comparison with pay in the private sector, using the techniques set out in the report from the University of Warwick Institute for Employment Research (Para 5.30 and 5.58).

6.7 The studies we have commissioned, both on London Premium and the cost of living in London, should be repeated and published on an annual basis. (Para 5.55).

6.8 The all occupations' figure should be the norm for calculating London Weighting, but there are differences between occupations, and this will give scope for negotiation. (Para 5.59).

6.9 The total pay-bill for each occupation should be made available for London Weighting. (5.60).

6.10 London Weighting calculated on the private sector comparison basis should be paid to all those who work in London in the public sector. (Para 5.62).

6.11 The available amount should be divided by negotiation between employers and employees in each occupation. (Para 5.63).

6.12 Increased payments of London Weighting at senior levels should be made, to help equalise earnings inside and outside London. (Para 5.65).

6.13 No employee should be worse off than he or she is at present. (Para 5.65).

6.14 Employers and employees should agree their own definitions of Inner London and Outer London for London Weighting purposes according to their individual circumstances. (Para 5.66).

6.15 Private sector comparison involves comparison of wages before tax, so our recommendations are not tax-free. (Para 5.68).

6.16 If implemented in full we expect that our recommendations may increase house prices to some extent by bringing the higher earners in the public sector, or those who have some capital, into the market for the first time. (Para 5.71).

6.17 Our recommendations will not solve the problems of the low paid – London Weighting is only a component of pay, and the poorest do not receive it. (Para 5.72).

6.18 If, like the Metropolitan Police, employers choose to pay a substantial increase to those working in Outer London, we would expect similar consequences. (Para 5.78).

6.19 London has an overwhelming claim to be treated differently from other parts of the country, and other major towns in England. (Para 5.83).

6.20 There should be a joint approach to Government by public sector employers and employees to discuss additional funding for London Weighting. (Para 5.87).

6.21 The savings which result from paying London Weighting at current levels are achieved by requiring London workers to work for lower real pay than their country counterparts. (Para 5.88).

6.22 If London's workers are to be at a disadvantage compared with elsewhere then, in the end, the quality of the workforce will be lower. (Para 5.90).

Appendix 1
Panel members/external adviser

Bill Knight – Chair
A solicitor specialising in company law, Bill Knight has recently retired as Senior Partner of the international law firm, Simmons & Simmons. He is a past chairman of the Law Society's Company Law Committee and currently a nominated member of the Council of Lloyd's, where he sits on the Regulatory Board and Executive Committee and chairs the Investigations Committee.

Francesca Okosi – Vice Chair
With extensive experience in personnel matters, Francesca Okosi is currently Director of Human Resources and Consultancy Services at the London Borough of Brent, and President of the Society of Personnel Officers in Local Government.

John Chastney
John Chastney is an audit partner and consultant at Mazars Neville Russell in London, in charge of several public sector audits. He was seconded to the Department of Trade and Industry where he was Director of the Industrial Development Unit and obtained an understanding of the working of government during this time.

Professor Robert Elliott
A professor in Economics at Aberdeen University, Robert Elliot has acted as an adviser on wages and employment to a wide range of private and public sector agencies, including HM Treasury and the McCrone Committee Inquiry. He is currently the Economic Adviser to the Police Federation of England & Wales.

Chris Humphreys
Chris Humphreys is the Greater London Regional Secretary of Unison. He is a member of the South and Eastern Regional TUC Executive and has been a Trade Union Officer for thirty years.

Denise Milani
Denise Milani is currently Director of the Development & Organisation Improvement Team at the Metropolitan Police Service. Prior to that she was Head of the Police Service's Positive Action Team, with lead responsibility for the recruitment, retention and progression of ethnic minority Police Officers.

External Adviser

Geoffrey Roberts
Geoffrey Roberts is an economist specialising in pay and employment and a consultant to the Employers' Organisation for local government. He was Chief Economics and Industrial Relations Adviser at the National Board for Prices and Incomes, the Office of Manpower Economics and the Pay Board, where he was involved in the last major review of London Weighting in 1974.

Appendix 2
Terms of reference

1. The Panel was given the freedom to consider all matters it deemed relevant to the London Weighting issue.

2. The Assembly identified the following actions it considered the Panel could usefully undertake:

   (i) Re-examine from first principles, the basis of London Weighting calculations

   (ii) Consider variations in remuneration among and within occupations

   (iii) Take into account reward "packages" where staff receive benefits in addition to a basic salary

   (iv) Investigate any relationship between rising London Weighting and increasing house prices

   (v) Examine the implications for people located at the geographical boundaries of the zone covered by London Weighting, and for other regions of the UK

Appendix 3
Public sessions and private panel meetings (including witnesses)

Public Session 1, 23 January 2002
Witnesses:

Dave Statham	Researcher, Labour Research Department
Alastair Hatchett	Editor, Incomes Data Services
Brian Williamson	Senior Consultant, National Economic Research Associates

Public Session 2, 13 February 2002
Witnesses:

Huw Jones-Owen	Director, Modern Local Government, Association of London Government
Simon Pannell	Head of Employment Services, Association of London Government
Geoff Martin	London Convener, Unison
Lynnette Savings	Regional Head of Education, Unison
Charles Cochrane	Secretary, Council of Civil Service Unions
Dave Watson	Research Officer, Public and Commercial Services Union
Jayne Tierney	Public Affairs Officer, London Region, Royal College of Nursing
Derek Ramsey	Member, Royal College of Nursing

Public Session 3, 6 March 2002
Witnesses:

Ian Wardrop	Assistant Director of HR Services, Metropolitan Police Service
Wendy Thomas	Director of Nursing, Newham Primary Care Trust
Iain Patterson	Assistant Director Human Resources, Newham Primary Care Trust
James Dalgleish	Human Resources Director, London Fire & Emergency Planning Authority

Public Session 4, 28 March 2002
Witnesses:

Philip Wright	Executive Director of Healthcare and London Medicine, London First
Jasy Loyal	Human Resources and Legal Director, HCA International
Glen Connell	Director of Compensation and Benefits, Logica plc
Laurie Heselden	Regional Policy Officer, Southern & Eastern Region TUC
Steve Hart	Senior Regional Industrial Organiser, Transport & General Workers Union
Adrian Weir	Senior Research Assistant, Transport & General Workers Union

Public Session 5, 18 April 2002
Witnesses:

Keith Colley	Head of Group Services, Circle 33 Housing Group
Wayne Donaldson	Head of Human Resources, Network Housing Group
Dino Patel	Policy Officer, London Housing Federation
Catherine Howarth	Organiser, The East London Communities Organisation (TELCO)
Daniel Atakora	Unison Representative TELCO
Dr Bruce Butt	Teacher, Long Road Sixth Form College, Cambridge
Paul Stanyer	IT Contractor

Public Session 6, 1 May 2002
Witnesses:

Professor Peter Elias	Labour Economist, University of Warwick
Brian Williamson	Senior Consultant, National Economic Research Associates
Alastair Henderson	Policy Manager, NHS Confederation
Nigel Turner	Human Resources Director Royal Free NHS Trust Chair of Human Resources Advisory Committee
Peter Mitchell	Assistant General Secretary, Association of University Teachers
Jane McAdoo	Vice-President, Association of University Teachers
Tony Meredith	Association of Teachers and Lecturers
Barry Fawcett	National Union of Teachers
Brian Clegg	National Association of Schoolmasters Union and Women Teachers

Private Panel Meeting, 4 October 2001
This was the first time that the Panel met. At this meeting the Panel members and external adviser introduced themselves, and explained the perspective from which they would be able to contribute to the review.

Private Panel Meeting, 31 October 2001
The Panel identified five main focal areas for its work -

a) identifying a London Premium based on private sector outputs
b) undertaking an updated cost study
c) an Employers' survey to help gather evidence on recruitment and retention issues
d) encouraging public debate
e) collating and comparing international information on similar practices

Private Panel Meeting, 8 November 2001
The Panel further debated the focal areas identified on 31 October and agreed an approach to the collation of written and oral evidence and complementary commissioned work to investigate the history of London Weighting, survey public and private sector employers, analyse current living costs in London and identify a London Premium.

Private Panel Meetings, 21 and 30 May 2002
The Panel met to finalise the report.

Appendix 4
Written evidence

Individuals and organisations submitting written evidence

Andy Dunbar
Andy Loakes
Alan Pardoe
Alan Spooner
ALG
Allison Bell
Anne-Marie Webb
Association of Magisterial Officers
Association of Teachers & Lecturers
Association of University Teachers
Bernard Farrugia
Bob Simkins
British Medical Association
Calvin Lawson
Chartered Society of Physiotherapy
Chief Constable, Paul Kernaghan, Hampshire Constabulary
Christine Chapman
Christopher Joynes
Colin Nursery
Colleen Samuda
Communication Workers Union
Council of Civil Service Unions
Customs & Excise
David Darby
Denise Price
Dr Gilles Duranton, London School of Economics
Elaine Smith
Emma Featherstone
Employers' Organisation
Fiona Albone
Fire Brigades Union
General Dental Practitioners' Association
Greater London Authority
Greater London Provincial Council Trade Union Side
HM Prison Service
Ian Portway
Incomes Data Services
Iris Beazley
Industrial Relation Services Research
Jacqueline Baker
Jodie Fiddimore
John Spencer
Joy Laguda
Judy Tribe
Julia Jaeger
June Cook
Karen Marsh
Keith Macleod
Keith Murray
Kensington & Chelsea & Westminster Local Dental Committee
Kevin Young

Labour Research Department
Logica plc
London Ambulance Service
London Fire & Emergency Planning Authority
London First
Maria Ward
Mark Field MP
Mark Hill
Martin Elliott
Martin Saggers
Martin Tucker
Metropolitan Police Service
Miah Mokul
Michael Garratt
Michael Griffin
Michael Harrison
Nicola Willy
NASUWT – National Association of Schoolmasters Union and Women Teachers
NATFHE - The University & College Lecturers' Union
National Economic Research Associates
National Probation Service
National Union of Rail, Maritime & Transport Workers
National Union of Teachers
Newham Primary Care Trust
North Middlesex University Hospital NHS Trust
Office of Manpower Economics
Paul Stanyer
Prison Officers' Association
Professions Allied to Medicine & Related Grades – Staff side representation
Professor Peter Elias, University of Warwick Institute for Employment Research
Richard Curthoys
Robert Wright
Rosalind Edholm
Royal College of Nursing
Roy Upton
Sarah Pollington
South East Employers
Stephen Butterworth
Stephen Townson
Steve Holmes
Stuart Curtis
TELCO - The East London Communites Organisation
The NHS Confederation
The Reward Group
Tracy Wiseman
Transport & General Workers' Union
TUC
UNIFI
Unison
Varsha Mistry
Vincent Doyle
William Bethel

Copies of the written evidence gathered during the review may be inspected by the public during normal office hours at the GLA offices, Romney House, 43 Marsham Street, London SW1P 3PY. Contact Carmen Jack, Scrutiny Manager on 020 7983 6542.

Employers participating in the survey

Abbey National plc
AAH Pharmaceuticals Ltd
Age Concern (London)
Amerada Hess
Anchor Trust (Oxford)
Banardo's
Consigna plc
Co-operative Bank
Crown Prosecution Service
Customs & Excise
Department for Work and Pensions
Greater London Authority
Halifax Plc
Hampshire Constabulary
HM Prison Service
HSBC
Joy Steel Structures (London) Ltd
Laura Ashley Ltd
Littlewoods Retail Ltd
Lloyds TSB
Logica UK Ltd
London Ambulance Service
London Borough of Barking and Dagenham
London Borough of Bexley
London Borough of Brent
London Borough of Camden
London Borough of Enfield
London Borough of Hammersmith and Fulham
London Borough of Harrow
London Borough of Havering
London Borough of Hillingdon
London Borough of Kensington & Chelsea
London Borough of Kingston upon Thames
London Borough of Lewisham
London Borough of Newham
London Borough of Southwark
London Borough of Sutton
London Borough of Tower Hamlets
London Borough of Waltham Forest
London Fire & Emergency Planning Authority
Metropolitan Police Service
National Probation Service
Newham Primary Care Trust
Next Retail Ltd
Northern Rock plc
Royal National Institute for Blind People
Royal National Institute for Deaf People
Royal & Sun Alliance
Royal Bank of Scotland
Shell UK Limited
Standard Chartered Bank
Thames Valley Police
W H Smith
Yorkshire Building Society Head Office

Appendix 5

LONDON WEIGHTING ADVISORY PANEL

SURVEY REPORT

March 2002

LONDON WEIGHTING ADVISORY PANEL SURVEY

INTRODUCTION

LONDON WEIGHTING/ALLOWANCES/DIFFERENTIALS

RECRUITMENT AND RETENTION

HOUSING AND TRAVEL

THE WAY FORWARD

LONDON WEIGHTING ADVISORY PANEL SURVEY

LIST OF TABLES

LONDON WEIGHTING ADVISORY PANEL SURVEY

INTRODUCTION

Purpose
The survey sought information on Employer approaches to and practices on London Weighting/Allowances/Differentials to provide a solid base on which the Panel can make recommendations to be used by those who negotiate pay, to help set a fair London Premium.

Response
The survey was despatched by the London Assembly to 190 organisations in January and February 2002.
To date 45 responses (24% of organisations approached) have been received and analysed from the following sectors:

Sector	No.	%
Public sector	23	35
Voluntary sector	4	40
Private sector	18	16
All	45	24

In addition replies were received from 7 organisations who did not wish to take part in the survey, either because they no longer had employees in London, or had very few, or another organisation was replying on their behalf as they were members of the same Group, or because they did not wish to participate.

The main activities of the 45 responding organisations are:

Activity	No.	%
Public admin, education & health	18	40
Energy and water	2	4
Finance & business services	8	18
Retail/hotels & restaurants	4	9
Transport and communications	3	7
Manufacturing	1	2
Construction	1	2
Other service industry	1	2
Other	7	16

Base: 45

The response is dominated by Public admin, education and health (40%) and Finance and business services (18%).The highest response was 48% from the London Boroughs within Public admin, education and health. This comparatively high response affects the results to certain questions in particular. The impact of this on the analysis will be investigated further as appropriate. However, no attempt has been made to weight by sector, activity or employment as by design the 190 organisations (based on organisations reported in IDS study on London allowances (May 2001), supplemented by all London boroughs and other selected London and Fringe organisations), to whom the survey was sent were not themselves representative, especially of small employers in the private sector. In considering the results of the survey, these points should be appropriately borne in mind.

Forty three of the organisations employed employees in London. Eight employed employees in Inner London only, 15 Outer London only and 20 in both Inner London and Outer London. Only two organisations did not employ employees anywhere in London. On the basis of the organisations able give employment numbers (41 of the total of 45), the survey covers a minimum of approximately:

61,347 employees in Inner London
115,866 employees in Outer London.

Twenty two organisations reported having employees elsewhere in the South East and 22 in the rest of the UK. The minimum employees covered are approximately:
46,376 elsewhere in the South East
312,901 elsewhere in UK

LONDON WEIGHTING/ALLOWANCES/DIFFERENTIALS

Forms of London differentials

Organisations were asked what London weighting payments (defined as "all payments for working in London compared with elsewhere) were made to employees.

The most common forms of differential in both the public and private sector were London allowance (79% of 43 organisations), separate London pay scale (49% of all organisations), and recruitment & retention allowance (21% of organisations). Many organisations, particularly local authorities paid more than one payment. In the case of local authorities these were London allowance for teachers, a separate London scale for their 'Single Status' employees and in some cases a recruitment and retention allowance for specific groups of employees.

1. Number and percentage of organisations with employees in London, by sector, paying London differentials

Type of London payment	Public		Private & Vol		All	
	No.	%	No.	%	No.	%
London allowance	18	86	16	73	34	79
On a higher salary pay scale point	2	10	1	5	3	7
A London office premium	0	0	0	0	0	0
On a higher individual/personal pay scale	0	0	1	5	1	2
On a separate London pay scale	18	86	3	14	21	49
Recruitment & retention allowance	9	43	0	0	9	21
London market supplement	0	0	0	0	0	0
Other London pay premium	1	5	2	9	3	7

Base: 43 organisations

The London (Inner and Outer) allowances paid were all flat rate.

The range of payments (£ per annum) for Inner London was £1300 to £4127 with mean average of £3072 and a median of £3000. The 26 reported figures included 10 London education authority figures for teachers (£3000). The average increases marginally to £3117 if these are excluded.

The range of payments (£ per annum) for Outer London was £1200 to £1855 with mean average of £1844 and a median of £3000. The 22 reported figures included 7 London education authority figures for teachers (£1974). The average decreases marginally to £1784 if these are excluded.

No more than 3 values were given for any other type of London payment and so no figures are reported.

Pensionability

Organisations were asked whether their payments were pensionable. The vast majority paying London allowance or using a separate London pay scale are pensionable.

2. Number and percentage of organisations, by sector, whose London payments are pensionable

Type of London payment	All	
	No.	%
London allowance	31	91
On a higher salary pay scale point	3	100
On a higher individual/personal pay scale	0	0
On a separate London pay scale	20	95
Recruitment & retention allowance	7	78
London market supplement	3	100
Other London pay premium	2	66

Base: 43 organisations

Intention of payments

Organisations were asked what the amount of the payments were set to reflect.
London allowance was mainly said to reflect differences in the cost of living (88%) and labour market needs (59%) whilst recruitment and retention allowances (78%) unsurprisingly reflect labour market needs. Separate London pay scales (76%) primarily reflected cost if living differences. In the case of the London boroughs, it was observed that this had been the original intention rather than the scales necessarily doing so now. Other organisations may also have given 'original or historic' intentions but this was not explicitly stated.

3. Number and % of organisations whose payments reflect cost of living differences, labour market and organisational needs and ability to pay

London allowance (Base 34)

Basis of payment	No.	%
Cost of living differences	30	88
Labour market needs	20	59
Organisational needs	0	0
Organisation's ability to pay	1	3
Other	0	0

On a higher salary pay scale point (Base 3)

Basis of payment	No.	%
Cost of living differences	1	33
Labour market needs	2	66
Organisational needs	0	0
Organisation's ability to pay	0	0
Other	0	0

On a higher individual/personal pay scale (Base 1)

Basis of payment	**No.**	**%**
Cost of living differences	0	0
Labour market needs	0	0
Organisational needs	1	100
Organisation's ability to pay	0	0
Other	0	0

On a separate London pay scale (Base 21)

Recruitment & retention allowance (Base 9)

Basis of payment	**No.**	**%**
Cost of living differences	1	11
Labour market needs	7	78
Organisational needs	1	11
Organisation's ability to pay	2	22
Other	0	0

London market supplement (Base 3)

Basis of payment	**No.**	**%**
Cost of living differences		
Labour market needs	7	78
Organisational needs	1	11
Organisation's ability to pay	2	22
Other	0	0

Basis of payment	**No.**	**%**
Cost of living differences	1	33
Labour market needs	1	33
Organisational needs	2	66
Organisation's ability to pay	1	33
Other	0	0

Other London pay premium (Base)

Basis of payment	No.	%
Cost of living differences	16	76
Labour market needs	4	19
Organisational needs	1	5
Organisation's ability to pay	2	10
Other	1	5

Basis of payment	No.	%
Cost of living differences	0	0
Labour market needs	1	33
Organisational needs	0	0
Organisation's ability to pay	0	0
Other	1	33

Bases shown for each sub-table

Variation by occupational type

The amounts paid tended to be the same for different occupation types for London allowances (91%) and separate London scales (81%) and different for recruitment and retention allowances. (It should be noted that the London allowance for teachers in London education authorities has been treated as being the same for different occupational types. 'Single Status' employees were treated as being on a separate 'London pay scale', again without variation by occupation.) On the other hand, unsurprisingly, recruitment and retention allowances varied by occupational type (78%).

4. Number and % of organisations whose payments, by type of payment, vary for different occupational types

Type of payment	All	
	No.	%
London allowance	3	9
On a higher salary pay scale point	1	33
On a higher individual/personal pay scale	1	100
On a separate London pay scale	4	19
Recruitment & retention allowance	7	78
London market supplement	0	0
Other London pay premium	0	0

Base 43

Frequency of revision

40 organisations reported how often their London pay difference in general was revised. Annually was by far the most common frequency. A number of organisation said that although they reviewed annually they did not necessarily revise annually.

5. Number and % of organisations by frequency of the revision to the London pay difference

Frequency	No.	%
Every year	33	83
Every 3 years	1	3
Every 5 years	3	7
Other	3	7

Base: 40 organisations

Appropriate London addition amount

Organisations were asked to specify what they thought the most appropriate amount of London addition would be. A large majority declined to give a figure saying that across the board figures were no longer appropriate and the amounts should vary according to labour market and organisational circumstances and affordability. The range of the 9 organisations giving a figure for Inner London was £2500 to £5000 with a mean average of £3678 and a median of £3600. For Outer London the range from 6 organisations was £1200 to £4000 with a mean average of £2412 and a median of £2250.

Only 12 (27%) organisations think that the London difference should be varied by different occupational types. 28 (62%) organisations think that they should not vary. This is not inconsistent with the statistics presented elsewhere which indicate support for labour market based allowances. The labour market is seen to be far more segmented than the 6 broad occupational groups referred to in the survey. As an example, several local authorities reported specific problems with, and solutions, for social workers but they are only one of many 10s of different professional ocupations employed in local government.

A larger number of organisations 20 (44%) thought that the London difference should be at similar levels in both the public and private sectors.15 (33%) said that they should not be referring to different labour markets and ability to pay between the sectors.

Regional allowances outside London

26 organisations also employed employees outside London but only 13 (50%) paid flat rate regional allowances. For the region nearest to London these varied between £444 and £3000 with an average of £1291 and a median of £1040. For the region next nearest to London these varied between £312 and £1400 with an average of £778 and a median of £650. Although the boundaries varied between organisations the vast majority related to locations in the South East with a few 'city or large town' locations outside.

Implications of London weighting for employers at the geographical boundaries of the Outer London zone

Several organisations referred to the 'cliff edge 'and 'knock on' problem at the boundary and that this was inevitable.

RECRUITMENT AND RETENTION

Difficulties experienced

Organisations were asked whether they had experienced recruitment and retention difficulties (defined as "requiring re-advertisement/replacement within 12 months")in the last five years for listed broad occupational groups. The largest proportion of organisations in London said that they had encountered recruitment problems with Professional (63%), Managers/Senior Administrators (49%) and Associated Professional and Technical (44%) occupations. In each case the problems were greater in London than the South East (27%, 27% and 22% respectively) and the rest of the UK (27%, 18% and 23% respectively). Lesser problems were reported for Clerical/Secretarial (35%), Sales (16%) and Craft/Skilled Manual (21%) occupations in London but in the South East and the Rest of the UK problems were no less for Clerical/Secretarial (36% and 22% respectively and in the South East no less for Sales (27%). In the case of Sales and Craft/Skilled Manual the lower proportion in London is probably in part due to smaller proportions of organisations employing these types of employees.

6. Number and % of organisations experiencing recruitment difficulties in London

	London		South East		Rest of UK	
	No.	%	No.	%	No.	%
Managers/Senior Administrators	21	49	6	27	4	18
Professional	27	63	6	27	6	27
Associate Professional and Technical	19	44	8	22	5	23
Clerical/secretarial	15	35	8	36	1	22
Sales	7	16	6	27	3	14
Craft/Skilled Manual	9	21	15	8	1	5
Other	4	9	1	5	1	5

Base: London 43, South East 22, Rest of UK 22

As with recruitment difficulties, the largest proportion of organisations in London said that they had encountered retention problems with Professional (49%), Managers/Senior Administrators (40%) and Associated Professional and Technical occupations (33%). As with recruitment lesser problems were reported for Clerical/Secretarial (23%), Sales (16%) and Craft/Skilled Manual (16%) occupations in London but in the South East problems were no less for Clerical/Secretarial and Sales (23% and 27% respectively) and in the South East no less for Sales (27%). In the case of Sales and Craft/Skilled Manual the lower proportion in London is probably in part due to smaller proportions of organisations employing these types of employees.

7. Number and % of organisations experiencing retention difficulties

Occupational group	London		South East		Rest of UK	
	No.	%	No.	%	No.	%
Managers/Senior Administrators	17	40	5	23	2	9
Professional	21	49	5	23	4	18
Associate Professional and Technical	14	33	7	32	3	14
Clerical/secretarial	10	23	5	23	2	9
Sales	7	16	6	27	3	14
Craft/Skilled Manual	7	16	1	5	1	5
Other	4	9	5	23	2	9

Base: London 43, South East 22, Rest of UK 22

Duration of recruitment and retention problems

Most commonly both the recruitment and retention problems had in general lasted between 13 and 16 months, followed by over five years. No organisation reported them lasting 6 months or less and only 3 reported 7 months to a year.

8. Length of R&R difficulties- number and % or organisations

Length	Recruitment		Retention	
	%		%	
6 months	0	0	0	0
7 to 12 months	3	8	3	8
13 to 36 months	26	65	24	65
37 to 60 months	3	8	3	8
over 5 years	8	20	7	19

Base: London 43, South East 22, Rest of UK 22

Future recruitment and retention difficulties

In London, the South East and the rest of the UK the greatest proportion of organisations thought that their recruitment and retention problems would stay the same. In London the same proportion thought that they would get worse. In each of the 3 areas fewest organisations thought that they would get better.

9. Number and % of organisations thinking on future R&R problems

Change	London		South East		Rest of UK	
	No.	%	No.	%	No.	%
Get better	4	9	4	18	3	14
Get worse	16	37	7	32	3	14
Stay the same	16	37	12	55	13	59

Base: London 43, South East 22, Rest of UK 22

Measures taken

Organisations were asked whether they had used any pay or non-pay measures to improve recruitment and retention in the last 5 years. Increased basic pay scales (53%) and market supplements (40%) were the most frequently used pay measures in London followed by higher pay scale point (26%). Increased London allowance was used in 23% of organisations in London and 29 % of organisations in London paying London allowances. Recruitment supplements were used by 21% of organisations. In the South East market supplements (23%) were most frequently used and in the rest of the UK recruitment supplements (18%). Thus the 4 most frequently used measures in London were each used more than the most used measure in the areas outside London.

10. Number and % of organisations using any pay measures to improve recruitment and retention in the last 5 years

Pay measure	London		South East		Rest of UK	
	No.	%	No.	%	No.	%
Increased London pay allowance	10	23	n/a	n/a	n/a	n/a
Increased other London pay premium	1	2	n/a	n/a	n/a	n/a
Increased regional allowance	n/a	n/a	2	9	1	5
Increased basic pay scales	23	53	11	50	11	50
Higher pay scale point	11	26	4	18	0	0
Higher individual/personal pay scale	7	16	4	18	3	14
Market supplement	17	40	5	23	3	14
Recruitment supplement	9	21	4	18	4	18
Retention supplement	8	19	3	14	1	5
Other	3	7	3	14	3	14

Base: London 43, South East 22, Rest of UK 22

Improved training and development (56% of organisations), increased flexible working hours (53%) and improved used of staffing (28%) were the most commonly used non-pay measures in London as they were in the South east (64%, 59% and 27% respectively) and the Rest of the UK (50%,50% and 23% respectively). Thus there was no significant differences between the Areas.

11. Number and % of organisations using any non-pay measures to improve recruitment and retention in the last 5 years

Non-pay measure	London		South East		Rest of UK	
	No.	**%**	**No.**	**%**	**No.**	**%**
Reduced working hours	8	19	3	14	3	14
Increased flexible working	23	53	13	59	11	50
Improved use of staffing	12	28	6	27	5	23
Improved training and dev.	24	56	14	64	11	50
Improved childcare facilities	4	9	3	14	2	9
Help with housing costs	5	12	2	9	0	0
Subsidised travel	8	19	3	14	2	9
Other	2	5	2	9	1	5

Base: London 43, South East 22, Rest of UK 22

Organisations most commonly reported that the measures which they had taken were effective although in London and the South East a significant number thought them to be not very effective.
In London (49% of organisations) the South East (32% of organisations), and the Rest of the UK (23% of organisations), the measures taken were most commonly regarded as effective or not very effective (21%,23% and 18% respectively).

12. Effect of measures taken - number and % of organisations

Effectiveness	London		South East		Rest of UK	
	No.	**%**	**No.**	**%**	**No.**	**%**
Very effective	1	2	1	5	1	5
Effective	21	49	7	32	5	23
Not very effective	9	21	5	23	4	18
Of no effect	3	7	1	5	0	0

Base: London 43, SE 22, Rest of UK 22

Organisations were asked to explain why they thought that the measures taken had worked if they had said they had been *very effective* or *effective*. The most frequently reported pay measures were market and R&R supplements and non – pay measures were training and development initiatives.

Organisations were also asked what they would do differently next time if they had said they that the measures taken were *not very effective of no effective*. In general, organisations explained why they had not been effective rather than what they would do differently next time. Reasons reported included:

HOUSING AND TRAVEL

Housing assistance

Only a third (36%) of organisations give employees housing assistance.

No single type of assistance, except *other,* was given widely. The most common was assistance with legal fees in London (195) of organisations.

13. Number and % of organisations giving types of housing assistance

Type of housing assistance	London		South East		Rest of UK	
	No.	%	No.	%	No.	%
Loan towards mortgage deposit	0	0	0	0	0	0
Contribution towards mortgage deposit	1	2	1	5	1	5
Contribution to mortgage	4	9	2	9	2	9
Preferential mortgage rates	2	5	2	9	2	9
Assistance with legal fees	8	19	1	5	0	0
Loan towards rent deposit	2	5	0	0	0	0
Contribution to rent deposit	1	2	0	0	0	0
Contribution to rent	2	1	2	5	0	0
Interest free loan	2	5	0	0	0	0
Other	7	16	3	14	2	9

Base: London 43, SE 22, Rest of UK 22

Eight organisations reported on the percentage of employees requesting assistance. Six organisations in London reported that 5% or less had requested assistance and one organisation 18% (it also reported between 5 and 10% in the South East and the Rest of the UK).

Views differed as to whether higher pay in London is responsible for higher house prices. 42% of organisations thought that they are, 31% that they were not and 24% did not know. Many organisations, irrespective of their answer, thought that the relationship was a complicated and complex one and that it was very much a 'chicken and egg' situation.

Travel assistance

This was much more commonly provided than housing assistance with 80% providing some form assistance. By far the most common type of assistance in each Area was a season ticket loan.

14. Number and % of organisations giving types of travel assistance

Type of travel assistance	London		South East		Rest of UK	
	No.	%	No.	%	No.	%
Season ticket loan	31	72	12	55	12	55
Subsidised travel	2	5	0	0	0	0
Free travel	0	0	2	9	0	0
Other	1	2	0	0	1	5

THE WAY FORWARD

Organisations were asked whether they thought that in future London weighting (covering **all** payments for working in London compared with elsewhere) should be based on a number of specified factors.

The table below shows in **bold** the number and % of organisations reporting each basis and whether other bases were also reported. A large number of organisations reported multiple bases- 24 (53%) 3 or more. For example pay differences, labour market requirements and the organisation's ability to pay in combination. This reflects the views of organisations that a range of factors, rather than any single factor, should determine pay levels and differences in pay between London and elsewhere.

Just over half of the organisations said that the organisation's ability to pay (56%) and labour market requirements (53%) should be the basis of London weighting in the future and just under half said that it should be based on cost of living differences and organisational requirements (47%). Only a fifth (20%) said that it should be based on comparing differences in pay levels between pay in London and elsewhere in the public and private sector.

Looking at pairs of bases reported (others may also have been reported too), the most common were:
Labour market requirements and the organisation's ability to pay (44%)
Organisational requirements and the organisation's ability to pay (44%)
Labour market requirements and organisational requirements (40%).
The next most frequent pair of bases was reported by less than a third of organisations- living cost differences and ability to pay (31%).

15. Basis of future London weighting - no. and % of organisations

Future basis	Orgs No.	Orgs %
Pay Level Differences	**9**	**20**
Pay level differences alone	2	4
With living costs differences	6	13
With labour market requirements	4	9
With organisational requirements	6	13
With organisation's ability to pay	6	13
Living Costs Differences	**21**	**47**
Living costs differences alone	5	11
With pay level differences	6	13
With labour market requirements	11	24
With organisational requirements	12	27
With organisation's ability to pay	14	31
Labour Market Requirements	**24**	**53**
Labour market requirements alone	3	7
With pay level differences	4	9
With living costs differences	11	24
With organisational requirements	18	40
With organisation's ability to pay	20	44
Organisational Requirements	**21**	**47**
Organisational requirements alone	0	0
With pay level differences	6	13
With living costs differences	12	27
With labour market differences	18	40
With organisation's ability to pay	20	44
Organisation's Ability To Pay	**25**	**56**
Organisation's ability to pay alone	0	0
With pay level differences	6	13
With living costs differences	14	31
With labour market differences	20	44
With organisational requirements	20	44

Base:45

The organisations who said that cost of living differences should be the basis of London weighting were asked what costs- housing, travel to work and other- should be included. Over three quarters said that housing (81%) and travel to work costs (76%) should be included and a fifth other costs (19%).

The organisations who said that London weighting should be based on differences in pay levels or costs of living in London and elsewhere were asked whether it should be paid as a percentage or flat rate and whether it should be based on average figures or different pay levels. 71% said that it should be paid as a flat rate, 4% as a percentage, 8% as 'other and 17% did not respond. 58% said that it should be based on average figures, 4% on different pay levels, 13% other and 25% did not answer.

General comments

Organisations were invited to make general comments. These along with all the other 'write ins' in the survey are set out in Appendix 1. The most common comment (9 organisations) was that across the board increases in allowances or across the board allowances themselves were erroneous, irrelevant or inappropriate.

General comments - lack of motivation

Organisations were specifically asked to comment on whether lack of motivation was a factor in any recruitment and retention problems. Only 5 commented at all and only 2 of these said that they had any impact.

General comments - poor image

Organisations were specifically asked to comment on whether poor public image was a factor in any recruitment and retention problems. Only 7 commented at all and only 3 of these said that it had any impact.

	Other London premium
3a	There is some evidence that local government employers in London remunerate at higher grading levels than counterparts elsewhere in the UK for similar jobs.
3a	We benchmark salaries according to the role and location. Therefore higher salaries are paid in London in general.
3a	There are a span of different allowances, depending on difficulty in recruiting in particular stores. Oxford Street has £2,800 within the M25 is £800.
	Frequency of revision to London difference/addition - other
3f	Being phased out, rolled into basic salary.
3f	Ongoing review, revised as required.
3f	Reviewed every year, but not necessarily changed.
3f	Monitored & reviewed as necessary.
3f	The allowance is reviewed annually, though changes are not necessarily made annually.
3f	Reviewed annually - not always adjusted.
3f	Never revised, as this is an allowance, it is added to Pay Scales which are revised annually.
	Reasons for appropriate amount of London difference/addition
3h	We pay between £1200 - £4750, depending on location, role and market conditions. We feel that this compares well with our competitors as an employer, i.e. in the banking & retail business.
3h	The amount of London difference currently paid to the majority of staff in the council is approx. £2646 pa. This is similar to the amount paid to other public sector services. It is increased annually in line with the national pay award for local government employees. this seems to be both an appropriate level of allowance and system of maintenance.
3h	I would prefer to establish the rate for the job/region rather than try to pick a premium level. Paying a separate premium or allowance causes greater levels of administration.
3h	Not agree this is the way to approach this.
3h	£4000. Present amount is too small. £2-3k is usual "gap" between salary offered & market rate in many situations.
3h	Overall, we do not consider there is any justification for an 'across the board' increase in London weighting and this would not be our preferred approach. However, if this view did not prevail we would only comment that we see no case for rewarding Inner & Outer London workers with the same level of supplement. There would be need for a clear distinction in levels of allowance.

3h	We believe that our current allowances are comparable with those paid by other organisations in the financial sector (where a separate allowance is paid, some companies have consolidated these allowances into basic salary for positions in London).
3h	Need to keep inner London rate higher (£5000) to attract in. Outer London needs to be significant (£3500). Figures based on cost of living data collected by the Reward Group - rounded to an acceptable figure.
3h	There needs to be a balance between the additional costs of housing, travelling etc against the benefits gained by the access to amenities and international travel links. £4000 IL; £2000 OL.
3h	Reflects average costs of travel to/from work for employees. £3000 IL.
3h	Pay settlements are negotiated with trades unions. We do not wish to release such commercially sensitive information.
3h	Despite £3500 inner and £2500 outer suggested, we plan to harmonise the London weighting across our offices in inner and outer London to facilitate staff mobility.
3h	We cannot give an exact amount/percentage. Our own internal research shows market rates significantly higher than those we pay e.g. in inner London our administrative staff would need a 20% increase to match market rate minima Any increase or rate we set, however, would have to be constrained by public funding constraints currently aimed at the government inflation target of 2.5%.
3h	Regardless of the "appropriate" amount, the key issue (in common with other public sector employers) is affordability.
3h	The existing differential between London & National pay rates are fair and equitable. We would not wish to see any across the board increase for London & do not believe that this would help to solve our current recruitment & retention difficulties areas where there are known national shortages of skills e.g. social workers.
3h	Except, perhaps for teachers, we do not believe that a 'blanket' rate for all employee groups is appropriate. An appropriate 'rate for the job' should be determined by reference to internal relatives and jobs market forces .
3h	I think a percentage of salary better reflects the differences in cost. 5% on £20,000 equates to 3,000 which seems appropriate.
3h	We fully support the ALG's evidence to the panel: the pay differential between national & the outer London pay spine is only part of the current difference between outer London and national rates for similar jobs. We do not support un-focused, across-the-board increases to pay beyond the annual national pay award.
3h	Needs to be based on labour market conditions and will therefore vary from time to time and for particular jobs.
3h	We are currently reviewing the amounts we pay. Having researched what other companies in financial & non-financial sectors pay, this (£4000 for IL & OL) is the amount that would allow us to attract & retain high calibre staff in both inner & outer London.
3h	Cannot specify this but do believe 'inner/outer' distinction is unhelpful and unrealistic now. The location of the employer is irrelevant to the costs faced by the employee in (a) living in London (b) travelling to work. Many employees resent this distinction which they see as unfair and artificial.
3h	Empirical judgement of appropriate market rate. £3500 Inner London - £1720 Outer London.

3h	The idea of London weighting is an out-dated one and does not allow a targeted response to where the organisation 's recruitment difficulties are. It is a blunt & expensive instrument whose purpose needs to be questioned. What is needed is the ability for organisation to target where resources is needed to meet current labour market position.
3h	No suggested set figure, but differences based on needs to recruit & retain employees.
3h	INNER LONDON - These differentials between Inner - Outer London & our national ranges are sufficient to maintain our competitive position in London.
3h	Competitive salary compared to other retailers.
	Basis of variation in the London difference/addition on an occupational basis
3i	We do not consider that there should be differential levels of London weighting - employers should be able to target and address shortage occupations by more direct means.
3i	Our base Locality payment is standard for all types. This is the right approach. But need flexibility beyond that to adjust for specific occupations where unable to fill posts.
3i	Yes, but unable to suggest a suitable amount - would depend on skills required for the role & labour market conditions.
3i	Different market forces affect recruitment and retention of different occupational groups.
3i	Lower paid workers who may otherwise find it difficult to survive.
3i	London allowance most significant for lower paid. At higher levels pay is more determined by other factors such as performance.
3i	Modern pay strategies should target additional payments to those jobs and occupations that are difficult to recruit and retain, rather than pay across the board. Flat rate allowances are not sufficiently flexible to deal with the range of recruitment and retention difficulties that local authorities face today. We are content with the present London pay spine arrangements but want to apply additional more focused allowances payments to specific hard to recruit occupations. At present like many local authorities we have difficulties in recruiting professional and technical staff - building surveyors, traffic engineers, environmental health officers, social workers in community care and children and families areas, planning officers, trading standards officers, housing benefits officers, accountants and teachers.
	Explanation of view as to whether London difference/addition or any other London benefit should be at similar levels in the public and private sectors
3k	Private companies have the 'freedom' to set & pay whatever level they wish - this should remain their choice!
3k	The results from staff surveys show that pay is not the prime reason why employees choose to work for the organisation. On a general level therefore recruitment & retention of staff is not a major issue. We do however have shortages in particular areas & we therefore need to be in a position to apply pay & non-pay policies in a flexible way to help to address these.
3k	Whilst we acknowledge that there will be more involvement of the private sector in the delivery of public services the pay arrangements for the two sectors are very different which makes comparison difficult. Local government has a national pay framework whilst private sector organisations tend to develop their own in-house pay strategies based on maintaining a competitive edge. Both sectors have their own pay and terms and condition packages. In many instances the public sector offer better non-pay benefits that can be used as recruitment and retention measures if packaged effectively. It is therefore too simplistic only to compare pay and to review the two sectors as homogenous groups.

3k	Comparable jobs in public & private sector should be paid the same rate.
3k	For the public sector ability to pay is the key issue.
3k	Yes, but depends if competing for same labour. Some occupations are primarily private sector so public sector might not need to compete.
3k	No, public sector workers are essential in London & frequently receive lower basic salaries. London weighting should be similar across public/private sector but additional housing benefits should be targeted at public sector workers.
3k	No public sector/voluntary sector cannot afford to match/compete with private sector.
3k	Level of London Allowance may need to vary to reflect companies' own pay policies & rates.
3k	Consistency, retention across board.
3k	Yes, in an ideal world, this should be the case but employer affordability will determine ability to pay.
3k	We are not in favour of externally improved differentials.
3k	Effective market reviews & effective reward structures (i.e. salary) should address recruitment & retention, London allowances should reflect the cost of living, commuting costs & competitor activity. This should not make a difference as to whether you are in the public or private sector.
3k	Pay must be looked at in terms of total remuneration & benefits package, rather than pay alone.
3k	Allowances must reflect the needs of specific groups, not be an all-encompassing approach.
3k	Yes, same labour market & location.
3K	Private sectors may have less flexibility in the amounts they can afford to pay verses the public sector.
3k	All competing for the same employees.
	Regional allowances amounts
3m	Sutton, Romford, Watford £1,833. Southampton, Bristol, Maidstone £975. Bury St Edmunds £494
3m	Various locations within about 20 miles of London. Rate varies (£1000 to £3500) according to local needs. It's not traditional circles radiating out from London.
3m	Home counties £1200 - Bristol £1200.
3m	South East (West & North of London) between £350 - £1500.

	Implications of London weighting for employers with employees at the geographical boundaries of the outer London zone
3n	Being fixed about boundaries will create unwanted effects. Taking a more generalised "regional" approach to pay rates leaves this within the discretion of pay managers who understand local difficulties.
3n	London weighting is not our preferred solution. Housing costs and costs of living and travelling bear a closer relationship on either side of the Greater London boundary than they do between inner and outer London.
3n	Employers on the boundary who do not pay a London allowance are more likely to have recruitment and retention difficulties. Clearly this will depend on the competitiveness of their reward package as a whole.
3n	"Cliff edges" in locality payment rates attract people to jobs on the more favourable side of the "cliff". In a tight labour market, those on the cheaper/no rate find it hard to attract/retain. Surrey has been the most difficult area in recent years. The 'London' issue has spread well beyond the traditional boundaries. Worst affected areas are those from Surrey clockwise around London to the lower end of the Midlands.
3n	I believe that weighting should be phased according to zones which vary from central London outwards but that there should not be too much variation, as living costs are generally higher in London, whether central or outer. In general, I prefer to benchmark rather than pay a premium to all.
3n	At some point in time you have to draw a line - there will always be employees outside the boundary. The only way you can avoid this is to have no allowances at all.
3n	Recruitment & retention issues may arise in certain 'Roseland' areas - covered by our defined payment structure.
3n	Recruitment difficulties when people are prepared to travel an extra 5/10 minutes each day , so that they can get a higher band allowance. This also impacts on internal staff transfers/movements between branches that cross different allowance boundaries.
3n	Employers located immediately outside the boundary may face recruitment difficulties.
3n	1. Retention difficulties 2. Recruitment/replacement costs.
3n	Employers in those areas may have to pay a market supplement to attract and retain staff.
3n	Large salary differentials between individuals in similar jobs would create unnecessary problems for companies setting pay rates. Many employees in any case may live in an expensive area & travel to an office out of the zone. General guidance on pay rates on a national basis is preferable, which allow market rates for a job to be set.
3n	Ease of access and travel options could encourage employees to move to a higher payment zone.
3n	We have particular problems in recruitment & retention of police officers and some support staff throughout our area. Depending on conditions that apply London weighting can attract staff who can still reside outside London but attract the allowance by working in London. Those staff may otherwise work for us. It also tends to maintain a cycle of pushing cost of living up in both London & surrounding areas.
3n	This is an issue for us - with staff living in Herts where housing costs are equal to if not in excess of Harrow's. Staff will and do travel to the borough from areas of cheaper housing. However staff will not move just because of £1000 London weighting.
3n	The figure always needs to be competitive or the employees feel they are not receiving sufficient benefits or prospective employees do not apply for roles.

3n	The decision needs to be made whether market rate, R&R allowances or some London weighting to enable the organisation to be competitive in the job market.
3n	This can cause knock on difficulties for recruitment as people may be prepared to commute. Affect morale of employees.
3n	May lead to some recruitment & retention difficulties.
3n	We don't use the geographical boundaries. Allowance is given in stores to be able to recruit at similar rates to competitors.
	Other occupations with which there are R&R problems
4a	Care staff; teachers catering staff (professional and skilled manual also ticked).
4a	Semi skilled.
4a	Other, care staff.
4a	Technician & paramedic staff.
4a	Police Officers
4a	Warehouse.
	Description of most effective measures used in the last 5 years to improve recruitment and retention
4c	Market supplement - target posts with specific problems and justify differential basic pay scales - improved general marketability.
4c	Pay measures (selectively applied) have been the most effective as a recruitment tool, but they have often been necessitated simply to 'catch up' with competing employers. We aim to retain staff by being an 'employer of choice' with a good all round package.
4c	Market supplement and higher scale point in some areas.
4c	Social Workers increased basic pay scales not effective in terms of attaching social workers into London - just recycles the ones in London and around London.
4c	Other. Flexible starting pay. Recruitment practices, including advertising.
	Regular salary benchmarking. Better training and development.
4c	Improved training & development subsidised travel, higher pay scale point.

4c	Improved training and development aids retention. Salaries and London weighting allowance increase annually dependent on ability to pay and market rates. Good performance rewarded by above average pay rise.
4c	Annual reviews/increases of the pay scales are effective as is the introduction of recruitment and retention allowances outside the London boundaries. The full effect still needs to be measured in terms of long-term retention.
4c	London increases in overall remuneration level.
4c	Other pay measure- progression structures.
4c	Other non pay measure, maternity, adoption and carers leave. Most effective- good terms & conditions overall in terms of flexible working provisions, annual leave entitlement and other non-pay benefits. Market supplements have helped to retain our position in the market place. Special strategies introduced to recruit teachers & social workers.
4c	All measures have been effective particularly for teachers, social workers & ICT staff.
4c	Market Supplement.
4c	Other non-pay measures, reducing case loads for social workers. Overseas recruitment of teachers and social workers.
4c	Market/recruitment & retention supplement.
4c	Other pay- effective market reviews annually to ensure the bank pays the median for the roles. If individual capability increases then reward with higher salary.
4c	Technical graduates receive £1000 towards relocation costs on joining the organisation.
4c	Other, fast track health care. Most effective- Regional Allowance, Subsidised Travel, Fast Track Health Care.
4c	Several measures are quite new initiatives so it is too early to report accurately on their success. Market supplements we have newly introduced for some support staff posts and we hope will assist in some professional posts (e.g. IT). We have sought to improve our family friendly range of policies and provide flexibility as much as we can in a 365 day/24 hour operation.
4c	Increased the scope & variety of sourcing methods. Improved training in recruitment & selection techniques for managers improved selection methodology to give realistic job previews & ensure better fit.
4c	Increased basic pay scales. Improved training & development.
4c	Allowance has been used for IT staff up to year 2000. Allowance currently given to social workers. These have been our most effective measures.
4c	Increasing location allowance. Improved working conditions, environment.
4c	Most effective. Targeted market supplements and other recruitment & retention measures are tailored to specific difficulties. What is effective in one case may not be effective in another.

4c	Generally we have focused more on non-pay measures and these have been well received by staff. However, in the near future we will be combining these with pay measures as part of our recruitment and retention strategy.
	Description of very affective and effective measures
4g	Market supplement gave us an edge on competitors.
4g	Combination of pay measures. Salary gap was the main problem - no other interventions would have provided a remedy.
4g	Maintained competitive where necessary, made us an employer of choice.
4g	Market supplements and higher pay scale points worked for local skill shortages, not for national/regional skill shortages.
4g	Market supplements and flexible starting pay improved competitiveness in London and the South East.
4g	London, SE, UK benchmarking ensures we keep pace with competitors. Training ensures that employees feel valued and challenged. Better use of resources shows that the company considers workload pressures and does not place an extra burden on employees when there are vacancies.
4g	London & SE increase in monetary terms, plus perceptions that we have done something about it.
4g	London weighting and additional spine points have assisted recruitment in the past but are becoming increasingly less effective.
4g	If we did not have separate/higher rates in London we could not recruit staff. SE recruitment & retention allowances have attracted staff but as yet we have not formally evaluated retentiveness.
4g	London measures taken to address recruitment & retention issues proved effective, but we believe that a combination of factors were at work. Turnover in the targeted staff group has reduced by 50% in the past 12 months. We are of the view that a local increase in basic pay and London weighting in addition to the national pay award addressed some concerns about remuneration in comparison with other public sector employment. Other factors which we believe have played a part in improving retention rates are: (1) the implementation of a series of measures designed to improve the quality of working life for staff. These measures are part of a comprehensive 4 year programme of improvement and modernisation (2) the fact that a number of staff who had left during the previous year returned to work for the organisation. This perhaps provided staff with a more objective view of the benefits of remaining in the organisation's employment (3) the predicted downturn in the economy following the events of the 11 September 2001.
4g	General pay & non-pay benefits are good and these help to recruit & retain employees from within and nearby boroughs. The strategies to recruit teachers have been very effective with very few vacancies existing in September 2001. Initiatives for social worker recruitment include increase in pay points, introduction of career grade scheme, bursary scheme, creation of social work assistant posts and increased training/development opportunities. These initiatives are newly developed & have so far had little impact on the overall vacancy level for social workers. The Government's Starter Home initiative should also benefit teachers & social workers.
4g	London. Increased the salary of the jobs.
4g	London, potential employees will compare salaries in the market.
4g	London - Because they were tailored to meet the specific difficulty and kept under review.

4g	London- market payments significantly increased total pay for key employees (e.g. Lawyers).
4g	London, increased starting salary so higher than neighbours boroughs incentive for staff to stay.
4g	REST OF UK - More competitive pay rates in line with rest of High Street. Recognised careers path for employees.
4g	LONDON - Enhanced pay scales have assisted with recruitment & retention, as we have become more competitive.
	Not very effective or if no effect measures - what would you do differently next time
4h	Increase salaries further in all locations in UK.
4h	LONDON SE - Review more closely pay rates for these areas versus competitors. Increased/improved job advertising.
4h	ALL UK - Increase pay rates.
	Other types of housing assistance
5a	Other, removal expenses. In exceptional circumstances we will provide housing.
5a	Other- relocation expenses to cover legal expenses, bridging loans and removal expenses to some key posts on moving to the organisation.
5a	Other- up to £200 for transporting personal belongings.
5a	Housing Allowance.
5a	Removal expenses, plus full reimbursement of lodging allowances for up to 26 weeks where 2 homes have to be maintained.
5a	Key workers scheme. Removal expenses.
	Views on whether higher pay in London is responsive for higher house prices
5c	The concentration within the capital of the highest paid sectors of employment without doubt causes property prices to outpace other areas.
5c	Basic economics - supply and demand.
5c	High pay is undoubtedly a very significant factor.

5c	This is a "chicken & egg" situation, in that the two are linked, however it is difficult to say which comes first.
5c	Chicken & egg situation. There is a shortage of low-cost housing. This leads to difficulty in filling lower-paid jobs because staff cannot afford to live near their place of work.
5c	No, I think the demand for housing stock is largely responsible although in some more affluent areas, city bonus payments etc could drive prices up.
5c	No, more a factor of supply and demand.
5c	No, higher house prices are a cultural /historical thing.
5c	Yes, but it is not, however, the only factor affecting house prices.
5c	Yes, amongst other factors such as demand.
5c	To a certain degree due to supply & demand. However transport links such as DLR & planned East London line has impacted on house prices. Schools also impact on house prices.
5c	No, more employment opportunities in London create housing shortages which drive up house prices.
5c	Higher pay is only one of a number of factors, including location and mortgage interest rates, which affect house prices. Attention is drawn to paragraph 8 of the ALG evidence to the panel outlining the complexities of the effect of the costs of housing different individuals.
5c	Yes, to some extent - if people earned less couldn't afford the mortgage or houses so increases would not be as steep as less demand.
5c	Believe house prices are being pushed up by investors who but-to-let. The difference in house prices in London is far greater than the difference in salaries.
5c	The general cost of living and housing prices in London are increasing at a rate far above increments in salary.
5c	This is a difficult question to answer. There is unlikely to be one single reason for the rise in house prices. Whilst salaries may have some influence there are likely to be many other economic and investment factors affecting the property market.
5c	Yes, not solely responsible but they contribute.
5c	Don't know, too difficult to analyse. To a certain extent yes but the main factor is the general supply & demand!
5c	A large variety of factors come into this, higher pay would only be part of the reasons.
5c	"Chicken & Egg", higher house prices fuel the need for higher pay.

	Basis of calculations of premia based on comparing differences in levels of pay in London and elsewhere in the public and private sector and differences in the cost of living between London and elsewhere
6b	It does not matter what others pay if you are able to recruit and retain staff of a suitable quality. This aspect bites the most when there is a labour shortage.
6b	Zones according to how close to inner London the place of work is.
6b	By using relevant market data to calculate appropriate amounts.
6b	Through research of other companies.
6b	In line with inflation rates - preferably a flat rate.
6b	We are thinking of 4 zones relating to hotspots ranging from £1000 - £4000. £4000 for London and the other 3 zones depending on labour market requirements.
6b	Salary scales should reflect the very specific market for the skills and competencies needed in each role.
	Other costs to be included in London weighting based on differences in living cost between London and elsewhere
6c	Cost of living in the area - see Reward Group data - very useful.
6c	General cost of living, e.g. groceries, lunches.
6c	Consumer costs

	London weighting based on pay or costs differences between London and elsewhere- other
6d	Flat rate but with secondary mechanisms that kick in if there remain problems with specific occupations.
6d	Market premia for job.
	London weighting based on pay or costs differences between London and elsewhere- what should be based on
6e	It would be helpful if occupational information were available.
6e	Other - all available data should be considered to agree an appropriate amount.
6e	Figures to be based on information on 'central' database.

6e	Market premia for job.
	General comment
7i	We have chosen to roll London allowances into base pay as the administration of the separate allowance creates problems. Pay is benchmarked against the employers in the same region making a London allowance irrelevant. It is therefore very difficult for us to give an opinion on an appropriate level of London weighting. What is interesting is that despite Banking being the highest paid sector, there is still competition within the sector for experienced and qualified staff which drives up pay.
7i	LA pay is now localised - based on job evaluation against locally determined grading structures. The notion of London-wide and national rates is erroneous. The only area for provincial bargaining is the relative annual uplift compared to national. This needs to be across the London spine and linked to the London market - perhaps differential at hierarchical points.
7i	It should be emphasised that we do not experience recruitment and retention difficulties 'across the board' - they are specific to small groups of staff. As such, national shortages are a contributory factor as much as 'London aspects'. For this reason we do not consider that the thesis that there should be on 'across the board' increase in London weighting has logical justification.
7i	Problems generally in London Local Authorities recruiting Social Workers.
7i	Like many other parts of the public sector, we froze locality payments for years. When the labour market tightened, the cracks appeared in this policy. We not only introduced higher rates but also: widened the area of coverage - run annual reviews where any locations can make a case for a locality payment or to vary their rate - created starting pay flexibility to enable problem occupations to be offered higher than normal starting rates of pay. Lifting pay rates or improved advertising etc helps individual employers compete better against other employers. It does not increase the pool of labour with the necessary skills. The solution to labour shortages in and around London is provision of affordable housing, which should attract more people into the pool of labour in this area. Training has a role too - better skilled people have access to a wider range of jobs.
7i	We have faced a significant difficulties over a number of years in recruiting sufficient numbers of qualified officers and to a certain extent administrative and other grades. There is a national shortage of trained officers. The work in London involves a higher proportion of problems than other parts of the country. This combined with the cost of living is leading to high turnover which the London weighting is not sufficient to address. The central purpose of the service has shifted. Some staff trained in the earlier philosophy may feel out-of-tune with the current vision. This could partially explain poor retention levels. However, it is undoubtedly the case that the cost of living in London has played a big part.
7i	Recruitment and Retention to the voluntary sector is difficult at the best of times as cannot compete with salaries on offer to professionals by the private sector.
7i	Concerned to see any recommendations from the review take account of the divisive nature of different levels of London weighting for different staff groups within the organisation, and generally between different public sector employers such as the Metropolitan Police, the teaching profession, the fire service and the NHS.
7i	The majority of our recruitment/retention problems result from national shortages of skills e.g. teachers , social workers, senior managers.
7i	All in all I believe the low pay (London weighting) is a major difficulty for the borough. There may be issues around the geographical location of the borough. Travelling is also a factor for a number of applicants.

7i	We have no intention of re-establishing a London allowance/difference. The largest problem appears to be shortage, often nationally, of particular skilled or professional staff e.g. legal, social workers, planning officers, accountants & building trades staff.
7i	Neither localised recruitment difficulties nor national/London shortages in specific groups are resolved by 'across the board' pay differentials for all groups. Targeted Government initiatives for "key workers" are welcomed as are, for instance, proposals to increase the stock of "affordable" housing in the capital. Since the 'London differential' will be varied and variable it would be useful if some efforts could be focussed on producing a database of pay rates.
7i	With increasing frustration at transport difficulties, more staff are rejecting the idea of working in London and wanting a home base or flexible working. We may need to pay staff to travel to London. Also with a large number of staff based across the UK there are specific areas where costs are high and we may need to re-evaluate this. The current London weighting does not cover cost of travel for those staff who live in Greater London and certainly does not keep up with the cost of housing.
7i	We support the ALG's evidence to the panel. We do not support a review of cost compensation calculations. Projects along the lines of the Starter Home Initiative should be extended to groups of public sector employees such as social care staff.
7i	Our general R&R issues for staff where we compete with all private sector have virtually disappeared. Our main problem is very high response rates (500-600) for adverts. We do experience some difficulties with specialist local government jobs, teachers, social workers, planners etc, but are able with supplements to fill and retain.
7i	The bank struggles to recruit & retain in it's branches. This is primarily due to the strong competition from the bigger banks. The flatter structures we have in place mean that people used to progressing up a hierarchical career ladder quickly become demotivated.
7i	In general, we have found that consolidating local allowances into basic pay in areas where these have previously existed has made little difference to recruitment & retention issues.
7i	We have developed a recruitment and retention strategy which aims to attract and retain the most talented people possible. Our strategy to achieve this will have a number of strands and each of these will be developed over the short, medium and long term: Intelligence to understand fully the nature of the problem and the strategies being adopted, at national, regional and local level. Marketing the organisation's reputation in order to maximise applications for our posts. Modernise our recruitment methods to use the recruitment market more effectively and recruit more smartly. Improve the image of the public sector as a potential employer. Analyse our future resource needs and develop/retrain our existing workforce to meet those needs. Progress medium term strategies to 'grow' new talent, particularly from those communities that are under represented in the workforce. Develop a flexible employment package that ensures that our salaries remain competitive and responsive to market changes.
7i	We have experienced severe problems recruiting police officers during the last year to 18 months. Based on previous recruitment records during the past 20 years where we have not experienced any problems and networking with other forces nationally we believe our current problems are almost exclusively due to salary levels (which we can not change locally) relative to the cost of living in this part of the South East.
7i	This is a personal view at best. However, London weighting is needed because living & working in London is very, very costly, especially for low paid workers, irrespective of where they live. It should apply in the public & voluntary sectors & as a real incentive. If applied in the voluntary sector, it should be recognised as an incentive to quality , as much as elsewhere, and reflected in public & funding attitudes to voluntary sector income.

7i	In line with other London Boroughs that have had recruitment difficulties in a number of areas. Some of these echo national problems e.g. teachers & social care staff. For teachers, we like others have travelled to New Zealand & recruited overseas teachers. For social care staff we have changed staffing salaries & introduced retention payments for staff in Children & Families. This of course just causes a pay spiral with boroughs & neighbouring authorities just upping the rates! We have difficulties with recruiting manual staff particularly PSV drivers, refuse loaders, catering staff etc. This is because local pay rates (as a result of CCT) are below current market rates. Action is being taken to address these - but at a cost. Other factors which are hindering our approach to pay is the National & London single status agreements.
7i	Looking to withdraw location allowances.
7i	Recruitment & Retention difficulties are generally in particular occupational groups. The whole economy and degree of unemployment will have an impact also. Most of our employees live locally and do not have big travel expenses. Housing costs are also lower in outer than inner London. Across the board increases would not be helpful in targeting our needs.
	Impact of lack of motivation on recruitment and retention difficulties
7ii	Not everyone wants to work in the voluntary sector due to the unattractive salaries and the perception of charities being do gooders and the view that charities cannot offer a defined career with good promotional opportunities.
7ii	This has not been a problem for the borough in terms of recruitment/retention.
7ii	This is not an issues for us.
7ii	Whilst there is evidence to suggest that poor image is influencing our ability to attract people into local government (particularly young people at a time that the LG workforce is getting increasingly older), employee survey 2000 showed that job satisfaction was high. Two thirds of respondents said they had enjoyable and interesting jobs. Recruitment and retention strategies work best when combining national, provincial and local initiatives to deal with the image overall whilst developing local solutions that take account of occupational group and local market situation of each council.
	Impact for poor image
7iii	This factor undoubtedly contributes in staff groups such as social workers, care staff and teachers. In a labour market where employment levels are still high this plays a part in someone's decision to take up or continue in a particular career path.
7iii	General image problem for local government - all staff. Image problem of specific London boroughs - all staff. Morale & image problems for specific professions - e.g. social work. Image of public verses private sector as employer - e.g. finance, IT & engineers.
7iii	The charity has a positive image in the voluntary sector - however the voluntary sector might not have a positive image in the private & public sectors.
7iii	Again, this has not been a factor for recruitment difficulties.

7iii	Whilst there are reports that local government as a whole has a poor image, the council is perceived as a "good" employer in the local community from which over 80% of our employees are drawn. In wider recruitment campaigns (including overseas) we have made strenuous efforts to market the Borough.
7iii	The police service can at times suffer a poor media image however if this was a reason for recruitment problems you would expect all forces in the country to be in the same position which they are not.
7iii	Local government does not have a sexy image and we are seeing fewer young people entering - even for those areas where training for a career path is offered e.g. in housing. This makes the ability to recruit so much more difficult.
7iii	Poor image of the country units has affected the recruitment of sales consultants/store management at all levels.

Appendix 6

LONDON WEIGHTING SCRUTINY:
RELATIVE LONDON LIVING COSTS

A Report for the
London Assembly

Prepared by NERA

June 2002
London

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1. INTRODUCTION

NERA, in association with Professor Ralph Turvey, were commissioned by the London Assembly (LA) London Weighting Advisory Panel to examine the cost of living in London in the context of the appropriate "London Allowance" for employees in London.

The agreed terms of reference for the work were as follows:

- Report to the Panel on comparative costs of living in London and the rest of the country. This will involve making judgements on the selection of data on appropriate housing prices, mortgage and mortgage interest payments.
- Provide examples of the effects of differences in costs of living for selected occupations in different housing positions.
- Review the comprehensiveness of the data provided and its appropriateness for the Panel's purpose.
- Make proposals for filling any significant gaps identified in the data - from published sources if possible.
- Provide a view on whether there is any call for an element for additional 'wear and tear' for working in London, and if so how the available information could be used to demonstrate it.

We note that our approach differs from the approach used to calculate specific price indices in a number of respects since the purpose is different. We are seeking to measure differences in the overall cost of living (including quality of life factors) by location at a point in time, while a price index seeks to measure changes in the cost of consumption over time.

2. CONTEXT & APPROACH

2.1 Context in Relation to London Weighting Scrutiny

London Weighting was introduced in the 1920s to bridge the gap between house prices and salaries, and the last review was carried out in 1974. In September 2001, the London Assembly established the London Weighting Advisory Panel to undertake independent analysis of London Weighting, research current critical factors and consider revision of the formula and report to the Assembly in June 2002. It will:[1]

- *"Re-examine, from first principles, the basis of London Weighting calculations.*
- *Consider variations in remuneration among and within occupations.*
- *Take into account reward "packages" where staff receive benefits in addition to a basic salary.*
- *Investigate any relationship between rising London Weighting and increasing house prices.*
- *Examine the implications for people located at the geographical boundaries of the zone covered by London Weighting, and for other regions of the UK."*

Our report on the cost of living in London relative to the rest of the country is therefore set in the context of the question of how pay should vary between London and the rest of the country in order to attract employees of equivalent quality in each location. There is, however, an alternative way of tackling the question of what pay relativities should be aside from consideration of the cost of living, and consideration of the alternative will aid understanding of the approach in this report.

The two alternative approaches to estimating the appropriate London Weighting (assuming the objective is to allow employers to hire employees of the same quality in London as elsewhere) are:

- To compare the advantages and disadvantages of living in London versus the rest of the country (in principle this is a wider comparison than the narrow cost of living which should encompass, for example, the value of differences in travel times and environment).

- To compare, on a like for like basis, the relative income of employees between London and the rest of the country (using income data for employees whose wages are set more or less freely across the regions).

[1] http://www.london.gov.uk/assembly/lonweight/memberstermsreference.htm

If all advantages and disadvantages were included and quantified in the analysis then one would expect a close correspondence to estimated regional wage relativities for private sector employees.[2] However, the appropriate pay relativity will not be that required to finance identical consumption in each location - since employees will shift their consumption away from those items that have relatively high prices (for example, housing in London). Pay differentials do not therefore have to compensate for the costs of consuming identical goods and services in order to attract individuals of the same quality.

A further consideration is that individuals may have different tastes and therefore prefer attributes typical of London or the Provinces – yet have identical quality in a particular type of employment. For example, employees of identical quality may have a relative preference for rambling or night clubbing. Their ability to self-select the location consistent with their preferences would reduce the pay differential required relative to an assumption that preferences are identical.

We also note that expenditure data (and therefore feasible estimates of relative costs of living) are available for households, while we are interested in what pay relativity is required to attract individuals within households. There is no straightforward way of addressing this complication, which is relevant to all households bar those with only one earner.

Estimates of pay relativities have been published.[3] [4] However, while estimates of regional price relativities have been published,[5] it is unlikely to be possible to quantify *all the advantages and disadvantages* of different locations. In addition, labour market data can be analysed by place of work (the relevant location), while the weights for cost of living data are typically only available categorised by place of residence. This report explores the construction of an overall cost of living index.

2.2 Principles Behind Our Approach

In order to compare costs of living in London and the rest of the country we need to define what is meant by "cost of living". We take it to mean the household expenditures necessary to maintain a household's present standard of living. This depends not only upon the household's level and pattern of expenditure but also upon its environment – such

2 The basis for expecting a correspondence goes back to Adam Smith who noted in the Wealth of Nations (1776) "*that the whole of the advantages and disadvantages of different employments of labour and stock must in the same neighbourhood be either perfectly equal or continually tending to equality*". Here we are concerned with the same employment in different locations and the underlying argument is identical.

3 Elliot, R.F., McDonald, D., Maclver, R. July 1996. "Review of the Area Cost Adjustment", Waverly Press, University of Aberdeen and Department of Environment.

4 Blanchflower, Oswald & Williamson. February 2002. "Estimated Regional Wage Relativities for England". NERA.

5 David Baran and Jim O'Donoghue. January 2002. Price levels in 2000 for London and the regions compared with the national average. *Economic Trends.* No 578. Pages 28-38.

characteristics of the area in which the household lives as accessibility to work, shops, schools and leisure facilities and a whole range of environmental quality factors.

In principle, therefore, comparison of living costs in London and the rest of the country (where feasible compared to the rest of the UK, for brevity called the "Provinces") should cover differences in income that would compensate a household for all these differences in the environment. In practice there is not much that can be done to take account of many such matters. Furthermore some expenditure cannot be compared, for example expenditures on travel on the Underground. Box 1 provides further discussion of these points.

Box 1: Price & Cost of Living Indices

The weights used in the "Economic Trends" article of January 2002 relate to consumption expenditure for the whole of the UK. They thus average the expenditure patterns of households that are rich and poor, old and young, single and co-habiting, and with and without children. They also average the expenditure patterns of London households and provincial households. This latter aspect of the averaging means that they neither compare the London and provincial costs of London living nor the London and provincial costs of provincial living but an intermediate magnitude, namely (where the E_L and Ep are London and provincial expenditures):

$$\frac{/E_L\ 2\ Ep0\ \Delta \frac{P_L}{P_p}}{/E_L\ 2\ Ep0}$$

This differs, probably only by a small amount, from the approximation to a superlative index provided by an Edgeworth index, defined as:

$$\frac{P_L(Q_L\ 2\ Qp)}{P_L(Q_L\ 2\ Qp)}$$ which is equivalent to:

$$\frac{\left(E_L\ 2\ \frac{E_p}{Pp/P_L}\right)\Delta \frac{P_L}{Pp}}{E_L\ 2\ \frac{Ep}{Pp/P_L}}$$

The superlative Fisher, Walsh or Törnqvist indexes, which would give very nearly identical results to an Edgeworth index would also require these separate London and Provincial expenditures to be known, which they are not. They have the property of closely approximating what economic theorists term a "true cost of living index" and meet the common sense requirement that the product of a quantity index and a price index equals a total expenditure index. The Office of National Statistics provided NERA with additional information on London and National weights. However, below group level (of which there are twelve, for example, "Food and non-alcoholic beverages") the weights are calculated using national weights. Measures of relative London living costs using these weights therefore represent a hybrid between the London costs of London living and the London costs of National living.

Leaving these complications aside for the moment, if the necessary data existed what could be done *objectively* would be to compare:

- The London and provincial costs of the components of Provincial expenditure that can be made in London.
- The Provincial and London costs of the components of London expenditure that can be made in the Provinces.

These two comparisons would often yield divergent results because of differences in expenditure patterns – and one is not clearly preferred to the other as a measure of the cost of living in London <u>relative</u> to the costs of living elsewhere. In practice an indicator of relative living costs based, at least in part, on national average expenditure patterns is all that is feasible.

2.3 Key Differences Compared to Price Index Methodology

We are seeking to measure differences in the overall cost of living (including quality of life factors) by location at a point in time, while a price index seeks to measure changes in the cost of direct consumption over time.[6] In particular, we were able to draw on work published in *Economic Trends* in January 2002 on price levels in London compared to the national average.[7] Specific comments on differences in methodology are set out below:

- As discussed above in Section 2.2 for the purpose of comparing the relative cost of London versus Provincial living we use both London (partial) and National expenditure weights (London expenditure weights are unavailable below the twelve group level family expenditure headings). London expenditure weights are not necessarily preferred for the purpose of a *relative* comparison.

- The *Economic Trends* article did not include an estimate (using imputed rents) of the costs of owner occupied housing for London versus the Provinces due to structural differences between the owner occupied and rented markets and data limitations. However, for our purposes we wish to include *some* measure of owner occupied housing costs.

- The analysis in *Economic Trends* used National Accounts expenditure weights that exclude expenditures that do not directly involve consumption of goods and services, for example, council tax, stamp duty, and the non service charge aspect of

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[6] Price collection for the Retail Price Index provides only some of the data needed to estimate relative living costs between locations. Many prices are collected for goods and services whose specifications differ between locations, providing the basis for estimating movements over time, but not for comparing cost of living by location".

[7] David Baran and Jim O'Donoghue. January 2002. "Price levels in 2000 for London and the regions compared with the national average". *Economic Trends*, No 578, pages 28-38.

insurance premiums. A measure of relative living costs should account for such expenditures.

∉# An estimate of the cost of living for the purpose of estimating appropriate labour market wage relativities across locations should include the non-financial costs of factors such as travel time, air and noise pollution, the quality of public services etc. We provide an estimate of the value of commuter travel time alone.

3. COMMENTARY ON AVAILABLE DATA

What can be done in practice depends upon what expenditure data are available (in the longer term additional data might of course be collected). We make use of three primary sources of information: the Office of National Statistics (ONS) National "Family Expenditure Survey" and National Accounts Data, the ONS publication "Price levels in 2000 for London and the regions compared with the national average", and data provided by the ONS to NERA on London expenditure weights. We discuss these briefly below.

In addition, we make use of available data on house prices and transport travel times to extend existing measures of living costs to include owner occupied housing and estimated differences in the value of time spent traveling (an element of "wear and tear"). We also comment on less tangible differences between London and the Provinces.

3.1 Family Expenditure Survey & National Accounts Data

Data on the levels and composition of household expenditure are available from the Family Expenditure Survey published by the ONS, most recently for the year 2000-01. Tabulations are provided for breakdowns of the results by, for example:

- Age and income
- Socio-economic characteristics
- Household composition

Unfortunately, the sample size does not allow what is ideally wanted, namely cross-classified tabulations of results by region, by occupation, by household size and by income level.

The other available data set consists of the National Accounts aggregate consumption estimates for the UK. Unfortunately, the Family Expenditure Survey data and the latest National Accounts data classify expenditures differently (though the next Family Expenditure Survey report will use the European standard Classification of Individual Consumption by Purpose, known as COICOP which is already used in the National Accounts). The tabulations of average household expenditures for London, the regions and the UK as a whole which are provided relate only to overall averages and so do not allow us to distinguish expenditure differences between London and provincial by occupation, family size and socio- economic status.

3.2 ONS Regional Price Differences

Family Expenditure Survey Data and National Accounts Data were used by the ONS in the *Economic Trends* article,[8] together with the RPI database of prices, a special nationwide price survey and adjustment factors for prices of some service items obtained from government sources.[9]

Two general points about the data need to be stressed. The first is that, since most of them derive from sample surveys, they are subject to sampling errors and reporting errors so that no reliance can be placed upon small differences. The second point is that though some of the data relate to London versus the rest of the country, which is what is wanted, other data relate on the one hand to London and, on the other hand to the *whole* of the UK, GB or England and Wales, so *including* London.

This is illustrated by the data in the *Economic Trends* article that *does* compare London prices both with the whole of the UK and with the rest of the UK. London prices for food and non-alcoholic beverages for example are estimated to be 4.3 per cent higher than in the whole of the UK but 5.0 per cent higher than in the rest of the UK.

Average price levels in London, the South East, and the Eastern regions are shown to be higher than the UK average with London being the highest. In all the greatest price disparity between London and the UK as a whole was for property rentals, which were 53.9 per cent more expensive in London.

Figure 3.1 shows the estimated relativity of London prices with the UK (both the total UK and the UK excluding London ie the Provinces) for the year 2000. These relativities are weighted averages for the relativities of the subgroup composing each group using National weights. Note that differences in expenditure on owner occupied housing, other than expenditure on repairs maintenance were not included in the price level comparison in the *Economic Trends* article.

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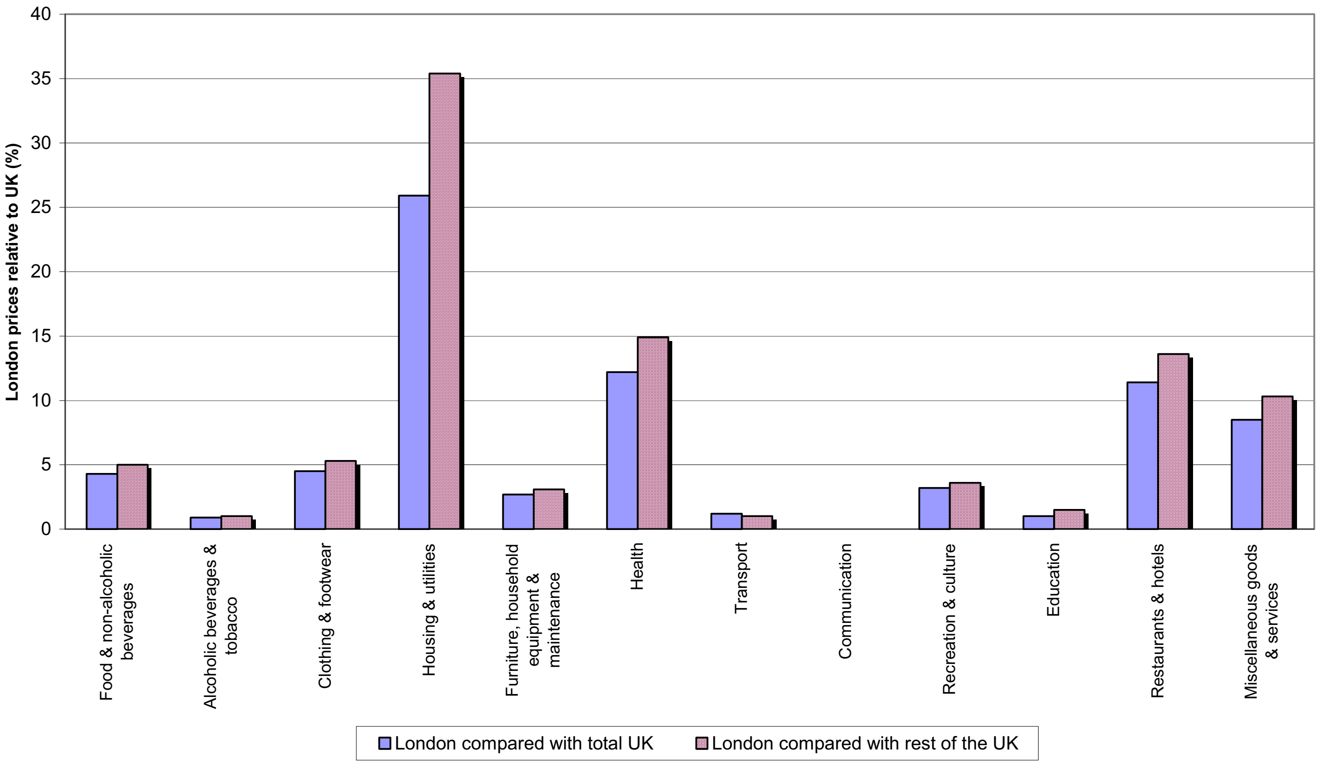
[8] David Baran and Jim O'Donoghue. January 2002. "Price levels in 2000 for London and the regions compared with the national average". *Economic Trends*, No 578, pages 28-38.

[9] National Accounts consumption estimates, which are based on a number of sources, usually diverge from Family Expenditure Survey results. The divergences reflect not only some differences in coverage but also under-reporting of some expenditure items, and some non-responses, by surveyed households. (Grossing up Family Expenditure Survey data by the reciprocals of sampling fractions usually yields totals that fall short of the National Accounts estimates.)

Figure 3.1
London price levels compared with the UK and the UK excluding London



Source Data: "Economic Trends" (January 2002)

The *Economic Trends* article shows that there were very few expenditure categories where London prices were cheaper than the national average and concludes in the summary (page 28):

> *"The results show London to be more expensive for most categories of goods and services. Goods were generally no more than nine per cent more expensive while the costs of services ranged from around 29 per cent cheaper for local bus fares to 54 per cent more expensive for property rentals. Overall, London prices excluding owner-occupier housing costs (imputed rents), based on national expenditure patterns, were 6.8 per cent higher while costs for services were 13.0 per cent higher."*

However, the analysis in *Economic Trends* excludes various categories of living costs that are relevant to a comparison of relative living costs:

> *"Although the results show how price levels in London compare with the UK and the regions, they do not show how much more expensive it is to live in London or the regions. This is because owner occupied housing costs and certain types of expenditure commonly paid by households are excluded from this analysis because they are not considered to be part of final consumption in the national accounts. These include*

> *expenditure on mortgage interest payments, council tax and vehicle excise duty."*
> *(Page 30)*

While the analysis in the *Economic Trends* article excludes expenditure that is not considered part of final consumption expenditure for national accounting purposes we wish to measure the relative cost of living in London versus the Provinces. We therefore wish to take account of the cost of owner occupied housing in particular, since this forms a large component of household "expenditure". Other expenditures that are not final consumption expenditures, such as council tax and the non-administrative element of insurance premiums for example, would also ideally be taken into account.

The *Economic Trends* article also suggests that a measure of London living costs would require the price differentials for London to be weighted together by the expenditure patterns of London households. For our purposes, as discussed Section 2.2 (Principles behind our approach), London expenditures are not necessarily preferred as a basis for weighting price differentials.

Finally, a further difference between our needs here and the approach by the ONS is the treatment of transport costs. The *Economic Trends* article notes that:

> *"Within transport services, local rail travel was 23.8 per cent cheaper in London, while the cost of local bus travel was 28.8 per cent lower. These figures are based on an analysis of fares actually paid per kilometre travelled (excluding season tickets) derived from the National Travel Survey"*. (Page 32)

In terms of a cost of living measure we want to measure actual transport costs – not per kilometre costs (excluding season tickets) that are used by the ONS to construct price indices. For rail transport and bus transport the ONS measure yields London compared to the rest of the UK price relativities of –29.2 per cent and –33.5 per cent respectively. From a cost of living standpoint, account should be taken of distance travelled and expenditure on season tickets should be considered. We adjust our estimate of relative transport costs in Section 4.3.3 to take account of actual expenditures on public transport rather than the relative prices per kilometre.

3.3 ONS London Weights

The ONS provided NERA with information on London and National weights in March 2002. We report this information in Table 3.1. Below group level (of which there are only twelve, for example, "Food and non-alcoholic beverages") the weights are calculated using National expenditure. Measures of relative London living costs using these weights therefore represent a hybrid between the London costs of London living and the London costs of National living. (Figure 3.1 included London prices relative to the UK, and relative to the rest of the UK excluding London - as in the last column of Table 3.1.)

Table 0.1
London & National expenditures, & price relativities for London versus the rest of the UK

	London Expend (£)†	National Expend (£)	National weights	London weights	London prices vs. rest of UK (%)
Food & non-alcoholic beverages	41.48	23.03	100	111	5.0
Alcoholic beverages, & tobacco††	11.20	8.78	38	30	1.0
Clothing & footwear	26.56	14.53	63	71	5.3
Housing, water, electricity, gas & other fuels	49.59	20.68	89	133	35.4
Owner occupied housing costs	N/A	N/A	N/A	N/A	N/A
Council tax	N/A	N/A	N/A	N/A	N/A
Furnishings, household equipment & maintenance	29.88	15.07	65	80	3.1
Health	5.10	3.45	15	14	14.9
Transport	58.90	31.77	137	158	1.0
Communications	11.53	4.71	20	31	0.0
Recreation & culture	53.78	32.69	141	144	3.6
Education	9.89	2.77	12	27	1.5
Restaurants & hotels	43.24	25.27	109	116	13.6
Miscellaneous goods & services	31.56	28.56	124	85	10.3
Total	**243.88**	**144.29**	**914**	**1000**	
All products London prices vs. rest of UK using National weights					**8.5**
All products London prices vs. rest of UK using high-level London weights					**9.3**

† *Averaged over the three years 1998-99 to 2000-01 (due to the small sample size for London alone).*

†† *The low London weight for Alcohol & tobacco reflects under recording of these items in the EFS).*

The weights indicate, for example, that Londoners (who live more in rented accommodation) spend much more as a proportion of overall expenditure on Housing (including water, gas and electricity but excluding owner occupied housing & council tax). Excluding owner occupied housing London is shown to be 8.5 per cent more costly using National weights and 9.3 per cent more costly using hybrid London-National weights.

Differences in expenditure between London and the Provinces within each of the twelve high level categories due to tastes and price differences may be proportionately greater than between them. For example, expenditures on private versus public transport could be expected to differ significantly between London and the Provinces. We cannot therefore construct a genuine measure of relative living costs using pure London or pure Provincial weights.

4. COMPONENTS OF RELATIVE LONDON LIVING COSTS

4.1 ONS "Economic Trends" Components

Direct living costs excluding owner occupied housing and transport are estimated using the ONS data provided using National weights. We provide estimates for owner occupied housing and council tax (included in the ONS *Economic Trends* estimate). We also estimate the value of time spent commuting and allow for this. Other less tangible factors are briefly discussed.

4.2 Owner-occupied housing

Expenditure on owner-occupied housing, with the exception of regular maintenance, was not included in the ONS measure of London compared with national price levels published in *Economic Trends*, yet owner-occupied housing accounts for a significant share of household expenditure, and such expenditures differ greatly between London and the Provinces. For our purposes we wish to include a measure of the relative cost of owner-occupied housing in London versus the Provinces. We use available information on the house price relativity between London and the Provinces, and construct a measure of "expenditure" on owner-occupied housing in London and the Provinces in order to incorporate owner-occupied housing into our overall measure of relative living costs.

Current actual expenditure on owner-occupied housing in terms of mortgage outlays and repayments depends on what prices were in the past when people bought their houses.[10] However, we are interested in current decisions over where people chose to live and work, and it can be argued that it is <u>current</u> house prices that have an impact upon such decisions.[11]

In addition, the <u>full value</u> of the home is the relevant consideration when deciding on a first purchase or change of location, since both the deposit and mortgage have a cost. For the former the relevant cost is the foregone investment income or alternative consumption opportunities. For the latter the cost is simply the mortgage interest payments. We

[10] Actual outlays on mortgage interest payments *as a proportion of household income* are similar between London and the UK excluding London at 15.7 and 14.1 per cent respectively for 2001 (DTLR. House Price Statistics, 4th Quarter 2001. Produced by Housing Data and Statistics Division).

[11] House prices also reflect the attractiveness of different locations, for example, they may be lower where journey times to work are long. However, for our purposes we want to compare the cost of living in London versus the Provinces taking account of, for example, house prices <u>and</u> journey times and no inappropriate double counting is involved in accounting for both house prices and journey times separately.

approximate the overall "cost" as the value of the home (deposit plus mortgage) times the mortgage interest rate.[12]

Anyone moving between owner-occupied houses will both sell the one and buy the other at current prices, while first time homebuyers face current market prices. Some examples of the choices that, in part, underlie regional pay differentials help illustrate why we consider full current house price differentials in calculating an overall relative cost of living:

- A worker currently working and living in London is considering a first home purchase and could therefore be expected to take into the cost of a home in London including the required deposit and mortgage commitment, versus the cost in other potential locations to work and live.
- An existing homeowner contemplating moving from elsewhere in England to London or the South East will almost certainly be looking at a substantial increase in the cost of housing, and the entire difference in house prices will figure in their decision.
- An established home owner living in London and considering purchasing a larger (or smaller) property due to a change in family circumstances will likewise consider the difference in housing costs in different locations – irrespective of both the original purchase price of their existing home and whether they have any outstanding mortgage.

Since house prices differ significantly between London and the Provinces, and housing is a large component of household expenditure, the "bundle" individual movers chose would not be expected to include houses that are the same in terms of size/quality in London and the Provinces.[13] They are likely to move to dwellings like those occupied by other people in their occupational group who live in the area they are moving to. The housing stock in London and the Provinces does differ – in terms of available descriptive statistics – as indicated in Table 4.1 that shows the proportion of different types of housing.

[12] For those with bank accounts that net account balances off the outstanding mortgage in calculating mortgage interest charges this approximation is exact since account balances "earn" the mortgage interest rate and returns are un-taxed.

[13] In economic terms individuals who are just indifferent between housing (& other goods) and income offered in London and the Provinces will substitute away from housing in their consumption in London compared to the Provinces. They will require compensating income – but not income compensation for the cost of purchasing an identical house in London versus the Provinces to attract them to London.

Table 0.1
Households by type of dwelling

	London	UK	UK excl London
Detached house	5%	23%	26%
Semi-detached house	21%	32%	34%
Terraced house	29%	28%	28%
Purpose-built flat or maisonette	31%	12%	9%
Other, including converted flats	15%	5%	4%

Source: Regional Trends 2001 Edition, Table 6.5
Note: A much more detailed breakdown of households by tenure and type of accommodation is available from the ONS publication "Family Resource Survey Great Britain"

We are not therefore seeking a like-with-like comparison of dwelling prices in London and the Provinces. The difference in price for houses that similar people actually purchase provides a better measure of what we want – and we can approximate by using available data on house prices based on transactions.

For new house buyers, the price of homes actually purchased in London versus the Provinces provides a good measure of relative costs. Purchase prices can be annualised using average mortgage interest rates (treating any deposit as equivalent to additional mortgage in terms of the interest they were earning on that money), and mortgage terms are the same in London and the Provinces. For existing homeowners the difference between what they would get if they sold their existing home and the price of a new home is the relevant consideration for our purposes.

As a check on whether house price relativities differ significantly between first time purchases and former owner-occupiers we report DTLR data on this in Table 4.2.

Table 0.2
Average house prices for first time buyers & former owner-occupiers (£)

	First time buyers	Former owner occupiers
United Kingdom	89,120	128,485
London	144,068	219,142
UK excluding London	80,956	115,016
London excess relative to the Provinces	78%	91%

Source: DTLR House Price Statistics – 4th Quarter 2001 (Tables C2&C12).
Note: Sale price excluding London calculated using household numbers from Regional Trends Table 3.19, and applying owner-occupier rates from Regional Trends 2001 Edition, Table 6.4.

Not surprisingly average house prices for purchases by former owner-occupiers are higher than those for first time buyers in London and the Provinces. The ratio of house prices in both London and the Provinces for the two categories of buyers is not very different however. In our analysis of living costs we do not distinguish between the two categories and use a simple measure of relative living costs for both - the current cost of a house in London versus the Provinces multiplied by the base mortgage interest rate. A measure of average mortgage interest rates is available from Bank of England statistics. However, a number of measures of house prices are available.

HM Land Registry, the Halifax and Nationwide, and Department of Transport, and the Department of Transport, Local Government and Regions (DTLR) publish measures of regional house prices. These differ in their sample base, using registered transactions, Halifax and Nationwide mortgage approvals and a 5 per cent sample of all mortgage lenders mortgage completions respectively. Table 4.3 shows the average sale prices for houses in 2000 by type of home based on HM Land Registry Data.[14]

Table 0.3
Average sale prices for housing in England & Wales (£)

	Detached	Semi-detached	Terraced	Flats & maisonettes	Total
England & Wales	167,027	91,826	81,148	113,069	110,221
London	446,615	212,068	194,967	171,771	177,949
England & Wales excl London	129,151	75,537	65,729	105,117	101,046
London excess relative to E&W excl London	246%	181%	197%	63%	76%

Source: Regional Trends 2001 Table 6.9 (based on HM Land Registry data). Last quarter 2000.
Note: Sale price excluding London calculated using household numbers from Regional Trends Table 3.19, and applying owner-occupier rates from Regional Trends 2001 Edition, Table 6.4.

One feature of these data is that the calculated overall difference in average house prices between London and England and Wales (excluding London) is, at 76 per cent, much closer to that for flats and maisonettes (63 per cent) than for detached, semi-detached or terraced houses at 226, 181, and 197 per cent respectively.[15] The basis for comparison clearly matters a great deal to the result – but, as we have explained, data about the type of dwellings owned by different categories of employees are lacking, so we have to take some kind of average. A median seems to us to be more appropriate than an arithmetic mean as it is less influenced by outliers. Table 4.4 provides a comparison of DTLR data on mean and median house prices in London and the Provinces.

[14] The HM Land Registry data do not cover Scotland.

[15] The *Economic Trends* article reports that for housing rentals (COICOP category 04.1) the London compared with rest of the UK relativity is 74.0 per cent. This is very close to the relativity for total house prices in Table 4.3.

Table 0.4
Comparison of Simple Average and Median Housing Prices (£)

	4th Quarter 2000		4th Quarter 2001	
	Mean	**Median**	**Mean**	**Median**
United Kingdom	104,087	80,175	112,675	89,950
London	169,726	135,000	183,116	153,000
United Kingdom excluding London	95,195	72,748	103,132	81,409
London excess relative to the Provinces	78.3%	85.6%	77.6%	87.9%

Source: DTLR House Price Statistics – 4th Quarter 2001 (Table A3).
Note: Sale price excluding London calculated using household numbers from Regional Trends Table 3.19, and applying owner-occupier rates from Regional Trends 2001 Edition, Table 6.4.

The mean housing price relativity of 78.3 per cent in Table 4.4 for the 4th Quarter 2000 is close to the 76 per cent in Table 4.3 (for total transactions using HM Land Registry data). The relativity in Table 4.4 between the 2000 and 2001 fourth quarters changed little, both for the median and mean values, the ratio of median values having been significantly higher for both quarters. We use median house price relativities in our analysis. Mean prices exceed median prices, presumably because of an upper tail of extremely expensive dwellings, making the medians more representative for our purpose.

To estimate households' cost of owner occupied housing we multiply median prices by the proportion of those owning their own home and then by the average mortgage interest rate in London and the UK (converted to a weekly basis). Table 4.5 sets out the components and results of the calculation. Note we have not taken account of the additional cost of stamp duty on housing purchases.[16]

16 Rates of stamp duty on housing transactions are 0% if the price is less than £60,000, 1% between £60,000 and £250,000, 3% between £250,000 and £500,000, and 4% for transactions over £500,000 (with the rate for each band applying to the entire transaction value). Stamp duty will therefore involve greater expenditure for London than the rest of the UK, both because properties are on average more expensive, and because of the rate structure of the tax. Stamp duty on housing transactions may also reduce within region mobility, thereby raising average transport costs in London when employees switch their employment location. We do not estimate the impact of stamp duty on relative London living costs (ideally stamp duty would be added to the purchase price for each relevant price band).

Table 0.5
"Cost" of owner occupied housing

	Median sale price (£)†	Owner-occupied share††	Interest rate†††	Weekly "cost" (£)
UK	80,175	69%	7.58%	81
London	135,000	58%	7.58%	114
UK excl London	72,748	71%	7.58%	75

† *DTLR House Price Statistics – 4th Quarter 2001 (Table A3).*
†† *Regional Trends 2001 Edition, Table 6.4.*
†† *Bank of England. "Bankstats" - Monetary and Financial Statistics. Table G1.3. Quoted (nominal) Sterling interest rates – household sector (February 2001).*

We are left with the decision of what "expenditure" weights to use. Given the importance of owner occupied housing, the difference in "expenditure" and in house prices, we chose to consider both London and Provincial weights ie to present a range for owner-occupied housing "costs".

4.3 Expenditures Lacking Relative Price Information

For all the components of expenditure treated above, the ratios between London and Provincial prices have been used to compare Living Costs. For Council Tax, for the value of commuter travel time and for rail, tube and bus fares, however it is the absolute amount of expenditure or value of time foregone that matters. There are no price ratios for Council Tax or commuter time and the price ratio for public transport fares takes no account of the fact that London households have to spend more time and money on commuter travel because they travel further. Thus a Living Cost comparison should allow for the *absolute* differences in these costs. These three London costs must be added both to all other London expenditures and to what would be the London cost of all other Provincial expenditures.[17] Similarly, Provincial costs of these three items must be added both to all other Provincial expenditures and to what the Provincial cost of all other London expenditures would be. The results indicate:

i. How much more would be the costs of an average Provincial household if it had to incur these three London costs and, in addition, paid the higher London prices for all the components of expenditure treated above.

[17] This treatment is analogous to that applied in consumer price indexes (which measure changes through time rather than space) when a service, which was free, becomes subject to a charge. The cost of the basket at current prices plus the cost of the newly-charged item is divided by the cost of the basket at reference-period prices when the service was free. This procedure is recommended for the European Harmonised Index of Consumer prices. A UK example was provided in the case of the RPI when charging for NHS eye tests was introduced. See *The Retail Prices Index Technical Manual*, ONS, 1998, section 7.3.1.

ii. How much lower would be the cost of an average London household if it incurred these three Provincial expenditures and, in addition, paid the lower Provincial prices for all the components of expenditure treated above.

We apply this approach to Council tax; rail tube and bus fares, and the value of commuter travel time in Section 5.

4.3.1 Council Tax

Table 4.6 provides data on headline council tax and average council tax per dwelling.

Table 0.6
Headline Council Tax (Band D, 2 adults) for 2000/01

	Average annual council tax per dwelling
England	£847
London	£778
England excl London	£859

Source: DTLR. Local Government Financial Statistics 2001. Table 5.2.

Expenditure on council tax is therefore lower in London than the Provinces.

4.3.2 Travel costs

Motoring is significantly more expensive in London and car ownership is lower, 37 per cent of London households being without regular use of a car as against only 27 per cent in Great Britain as a whole, including London.[18] Average weekly expenditure on motoring 1998-99 – 2000-01 was lower, being estimated as £48.40 in London as against £53.76 in the rest of the UK (the £53.76 for the UK excluding London is calculated taking the difference between UK and London household numbers and expenditure and dividing the latter by the former).[19]

Relative public transport travel costs are estimated by the ONS based on public transport fares paid per kilometre travelled. For our purposes we ideally want a measure of actual transport expenditure (the combination of price and distance differences). According to the Family Expenditure Survey in the years 1998-99 to 2000-01, average weekly household expenditure on rail, tube, bus and coach fares averaged £6.10 in London and £3.30 in the UK (or £2.88 in the UK excluding London).[20] These estimates do not distinguish local from long-distance travel, as we should wish. But since the main component of the difference

18 *Transport Statistics Great Britain 20001 Edition*, Table 3.14.
19 Calculated from *Family Spending: A report on the 2000-2001 Family Expenditure Survey*, Table 5.1
20 *Family Spending: A report on the 2000-2001 Family Expenditure Survey*, Table 5.3.

presumably relates to local journeys, it seems reasonable to assume that the expenditure ratio applies to local journeys.

In recalculating the cost of living in relation to transport costs we reduce the weights and adjust the price relativity for other aspects of transport by removing public rail and bus transport expenditures from the weights and recalculating the index for transport excluding these elements (the recalculated price relativity for other transport services is 3.8 per cent). We then calculate relative rail and bus transport costs separately using the expenditure estimates.

4.3.3 Travel time

Local journeys in London take more time as well as more money, not only because they are longer but also because congestion is worse, making travel speeds lower. Table 4.7 shows travel times to work for London and Great Britain.[21]

Table 0.7
Time taken to travel to work, cumulative percentages

	< 20 minutes	<40 minutes	<60 minutes	<90 minutes	Mean (minutes)
London	22%	50%	68%	90%	42
Great Britain	46%	80%	90%	97%	25
GB excl London	50%	85%	93%	98%	22

Source: DTLR. Transport Statistics Great Britain 2001 Edition, Table 1.8.

Note: Numbers excluding London calculated using household numbers from Regional Trends Table 3.19 ie 3.12 million for London and 24.12 for Great Britain.

It is standard practice in the appraisal of transport decisions to value people's work and non-work related time. The DTLR has published guidance on the value of commuter time to be used in economic appraisals of transport projects.[22] By convention, a single economic value for travel time is used regardless of region (and regional income). In average 1998 values the standard appraisal value for non-working time was £4.52 (approximately one-third of the value of working time).[23] The standard appraisal approach is to uprate this value by the growth in per capita income – approximately 5 per cent to 2000 giving a value of £4.75. We do not differentiate this value between London and the rest of the Great Britain (arguably one should – though there is evidence that the value of travel time is less than proportional to cross sectional differences in income).

[21] A much more detailed survey of journey times is available for Inner and Central London, but not on a comparative basis with the rest of the country. DETR. April 2000. "Journey Times Survey: Inner and Central London: 1999".

[22] Department for Transport, Local Government and the Regions. April 2001. "Transport Economics Note: Values of Time and Vehicle Operating Costs".

[23] The value of time spent waiting for public transport or walking is double the standard appraisal value (we do not allow for this).

Applying the travel time values to the mean travel times yields implied "expenditures" on travel time of £33.25 per week for London and £17.42 for the rest of Great Britain (allowing for 10 trips per week).

4.4 Other Non-quantifiable Factors

The quality of goods and services, and the overall quality of life, differ between London and the Provinces. Many of these differences are difficult to quantify, but clearly matter to people. To some extent individuals/households self select their location according to their preferences. Nevertheless, there are likely to be important non-quantifiable factors that employers must compensate for in market pay rates if they are to attract employees of appropriate quality and skills in different locations.

Because the price of housing is much higher in London than in the Provinces people consume less of it ie they tend to live in smaller houses and/or houses with smaller gardens or lacking a garden. However, we argued in Section 4.2 that the relative costs of the houses that people typically buy in London versus the Provinces provides a better measure of relative living costs than the relative cost of an identical house in London and the Provinces. Taking separate account of differences in the quality and size of housing is not therefore necessarily appropriate.

Other factors such as differences in the level of noise, air pollution, crime, access to parks and cultural amenities etc should ideally be taken into account. But whatever such differences may be there is no prospect whatever of including allowances for them in cost of living comparisons. Finally, the quality and ease of access to public services such as health care, education and public transport may also differ significantly between London and the Provinces.[24] We do not attempt to estimate or value such differences – though a range of measures of service quality are available.

[24] One reason that output quality for public services may differ across regions is that differences in input prices (in particular underlying private sector regional wage relativities) are not currently fully funded and reflected in public sector wage relativities.

Overall Relative Living Cost Measure

Table.5.1: Relative Cost of Living in London versus the Provinces

	Provincial† Expenditure	Cost of Provincial Expenditure at London Prices	London Expenditure	Cost of London Expenditure at Provincial prices	London Provincial Price Relative (%)†††
Food & non-alcoholic beverages	20.29	21.30	41.48	39.51	5
Alcoholic beverages, & tobacco	8.42	8.50	11.2	11.09	1
Clothing & footwear	12.74	13.42	26.56	25.22	5.3
Housing, water, electricity, gas & other fuels	16.38	22.19	49.59	36.62	35.4
Furnishings, household equip & maintenance	12.87	13.27	29.88	28.98	3.1
Health	3.20	3.68	5.1	4.44	14.9
Transport	24.86	25.79	52.8	50.87	3.8
Communications	3.70	3.69	11.53	11.53	0
Recreation & culture	29.56	30.62	53.78	51.91	3.6
Education	1.71	1.74	9.89	9.74	1.5
Restaurants & hotels	22.60	25.67	43.24	38.06	13.6
Miscellaneous goods & services	28.11	31.01	31.56	28.61	10.3
Sum, excluding items below	**184.44**	**200.88**	**366.61**	**336.58**	
"Cost" of owner-occupied housing††	75	132.08	114	64.74	76.1
Sum, excluding items below	**259.45**	**332.97**	**480.61**	**401.32**	
Council tax	16.52	14.96	14.96	16.52	
Public rail and bus transport††	2.88	6.1	6.1	2.88	
Value of commuter travel time††	17.42	33.25	33.25	17.42	
Overall sum	**296.27**	**387.29**	**534.92**	**438.15**	

† *Provincial expenditure is based on National expenditure less London expenditure allowing for population weights.*

†† *The cost of rail and bus transport, the "cost" of owner-occupied housing, and the value of commuter travel time are NERA estimates.*

††† *Below group level the price relativities are weighted together using National weights.*

5.1 Overall Measure

Table 5.1 sets out our estimate overall cost of living estimates. We combine the ONS information from *Economic Trends* for the relative price of goods and services in London versus the rest of country with our own estimates for the "cost" of owner occupied housing, the cost of council tax and public transport, and the value of commuter travel time. We use both London and National (excluding London) "expenditure" weights to construct measures of the relative cost of living in London versus the Provinces. (Note that below group level all price relativity calculations use National weights.)

We take two ratios in calculating our overall relative cost of living measure: the cost of Provincial expenditure at London prices divided by Provincial expenditure; and London expenditure divided by the cost of London Expenditure at Provincial prices. Table 5.2 presents the results.

Table 0.2
Overall Relative Cost of Living in London versus the Provinces

	Provincial Expenditures	London Expenditures
On ONS basis (with adjustment to transport)	8.9%	9.2%
Including owner-occupied housing	28.3%	19.8%
Overall†	**30.7%**	**22.1%**

† *Including owner-occupied housing, Council tax, & the costs & value of time for commuter journeys.*

We therefore find that the cost of living in London relative to the Provinces is 30.7 per cent higher using Provincial expenditures and 22.1 per cent higher using London expenditures.[25] The inclusion of owner occupied housing, council tax, public rail and bus transport (allowing for journey length) and the value of time spent commuting has increased our *cost of living relativity* substantially compared to the ONS estimate in *Economic Trends* of 8.5 per cent for the *price relativity* excluding them (using national expenditure weights). Our measure is nevertheless partial; including only the value of time spent commuting among the many less tangible elements of London and Provincial living.

5.2 Implications for Selected Occupational Groups

A further question is what can be said about the cost of living for particular public sector groups such as teachers, police, nurses, and civil servants. There are a number of conceptual and data problems to consider in applying analysis of the cost of living at this level, namely:

∉# We do not have access to statistical data on what, for example, teachers spend their money on in London and the Provinces (note that the ONS did not use London weights below the twelve high level expenditure headings).

25 The estimate using London expenditure weights is lower since, even though the cost of housing is higher in London relative to the Provinces, the difference is smaller than the overall difference in household expenditure. In other words Londoners consume a smaller share of housing relative to other consumption.

- Available data are for households, not individuals, and individuals may be living in households with other income earners – household consumption may therefore result from more than one income.

- Incomes and expenditure will differ as households spend more/less than their income.

- Available expenditure and price data do not allow us to differentiate the relative cost of living for London into Inner and Outer London, and fringe areas – the areas into which current London area allowances are differentiated for teachers for example.

The actual cost of living for an individual will depend on their household circumstances and consumption of housing in particular. Our estimates for the "cost" of owner-occupied housing imply that overall housing contributes between 10.6 and 19.4 percentage points to the relative cost of living (using London and Provincial expenditures respectively) ie owner occupied housing accounts for approximately half of the difference in overall household living costs based on our measure. The difference in the price of flats and maisonettes is 76 per cent (close to the price relatively for rental accommodation of 74 per cent). However, the difference in the price of terraced and semi-detached houses are 197 and 181 per cent respectively. The additional living costs a "typical" teacher, for example, would face are therefore unlikely to be fixed in absolute terms as they progress through their career and their housing needs change due to changes in household composition, preferences and income.

6. CONCLUSION

We have aimed for consistency in our analysis; however there are limits to what can be done with available data, for example, London expenditure weights below high-level categories are not available. There are likely to be diminishing returns in attempting to refine such estimates. In particular, it is likely to prove extremely difficult to develop overall cost of living measures for particular occupational groups. We also note that comparisons of London and Provincial living costs using London and Provincial consumption patterns (where comparison is possible) are equally valid measures of relative living costs.

In addition to direct living costs we allow for and quantify the "cost" of owner occupied housing, and for the value of time foregone in commuting to work. Taking these factors into account we estimate that cost of living in London is 22.1 to 30.7 per cent higher than in the Provinces, calculated using London and Provincial expenditures respectively (approximately half of which is accounted for by differences in the "cost" of housing). The comparison of housing costs is the best we can make with available data. It should be clear that this may well diverge from what is wanted, namely the difference between the housing costs in London and in the Provinces of a local government accountant or of a social worker moving from the one to the other.

Non-quantified costs (in terms of their value to people) include, for example, crime, the quality of commuter journeys, access to cultural amenities, and air quality. Such factors may be important determinants of people's willingness to live and work in London, and of the relative remuneration required to attract equivalent workers to London versus the Provinces. If all of the factors making up the cost of living and quality of life could be identified and quantified then it should be possible to reconcile observed labour market differentials (for workers compared on a like-with-like basis) with the overall relative cost of living. While this is not possible our estimate of relative living costs is in the same ballpark as estimates of regional wage relativities for private sector workers.

Labour market data arguably provide a more direct way of estimating differences in the overall attractiveness of regions than further efforts at refining living cost estimates. However, if living cost estimates were to be refined attention should be focussed on the treatment of housing (and how housing consumption varies through the life cycle), and on quantifiable indirect living costs such as the value of commuter travel time.

Identification of differences in living costs may also serve to identify policy actions that could change living costs and the quality of life, for example, in relation to the impact of stamp duty on life-cycle housing costs and location and transport choices, and of decisions on public transport infrastructure funding and charging on journey times and crowding. These policy issues may justify further scrutiny as a complementary strategy to paying appropriate wage relativities to employees living in London.

Appendix 7

UNIVERSITY OF WARWICK

INSTITUTE FOR EMPLOYMENT RESEARCH

ASSEMBLY SCRUTINY OF LONDON WEIGHTING

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1. Introduction and Background

In November 2001 the Warwick Institute for Employment Research IER was invited to tender to carry out some technical research as part of the London Assembly's (LA) Scrutiny of London Weighting.

This analysis builds upon a body of previous work. In 1996 the IER was commissioned to review the procedures used by the Department of Health to assess the impact of labour market factors on NHS staffing costs. This study took place in parallel with an extensive review of the Area Cost Adjustment, which was being undertaken on behalf of the (then) Department of the Environment (DoE). The results of the IER research were published in Wilson *et al* (1996).[26] The basic calculations have also been updated annually since then. These have formed the basis for the estimates of the staff Market Forces Factor (MFF) used by the NHS in allocating funds to Health Authorities (HAs).

The main recommendations of the IER 1996 study for the NHS (in common with the research undertaken on behalf of the DoE) were that a general labour market approach was the most reliable and robust approach to assessing regional pay premia. Specific cost methods, while superficially attractive were, in practice, fraught with difficulties and impracticable to implement in a non-controversial manner. Estimation of a set of Standardised Spatial Wage Differentials (SSWDs) based on detailed econometric analysis of the New Earnings Survey (NES) dataset was the main outcome of this research.

Since this work was undertaken, the Department of the Environment and Transport (DETR) has continued to undertake extensive technical research in this area as part of its own Area Cost Adjustment (ACA) review.[27]

In 2001, the Department of Health decided that it was opportune to reflect upon this new evidence and to reassess the approach used in assessing some of the cost elements of the formula used within the NHS, in particular the MFF. IER were commissioned to undertake this review and to produce a new set of standardised spatial wage differentials, considering both alternative datasets (the Quarterly Labour Force Survey) and more sophisticated econometric methods. The results of this review are contained in Wilson *et al* (2002).[28] The methods used there have been used as the basis for the DoH's MFF calculation for the 2001/2002 expenditure round.

IER were also commissioned by DTLR in December 2001 to produce a new analysis of a similar nature, to inform the next round of decision making on the Area Cost Adjustment used by DTLR to allocate funding to Local Authorities. The results of this analysis are reported in a internal document prepared for DTLR.[29]

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[26] Wilson *et al.* (1996).

[27] See, in particular, the Local Government Finance Settlement Working Group Report for 1999/2000 – August 1998.

[28] See Wilson *et al.* (2002) for details.

[29] Davies and Wilson (2002).

The results of the IER analyses for the DoH and DTLR confirmed that the general labour market approach remains the most robust method for assessing regional pay premia.[30] The latest analysis also concluded that although the more sophisticated econometric approaches such as “fixed effects” (which make use of the panel nature of the NES and LFS data sets) show some promise, they also have a number or serious limitations. This conclusion is confirmed in an analysis by NERA for the South East Area Cost Adjustment Group and Association of London Government.[31] The ordinary least squares approach, using cross-sectional data, therefore remains the most reliable method. On balance the NES dataset was preferred to the LFS. In this we differ from NERA who argue that the LFS is to be preferred. Both data sets are used here.

The remainder of the present report is divided into 5 parts. Section 2 sets out details of the project brief, summarising the LA’s aims and objectives in commissioning this work. Section 3 details the methodological approach adopted and the data sources used. Section 4 presents results for all occupations based on analyses using both NES and LFS data. Section 5 presents more detailed results by occupation and by qualification.

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30 See Wilson *et al* (2002) and Davies and Wilson (2002) for details.

31 See Blanchflower *et al.* (2002)

2 The Project Brief

The general aim of the present project was to conduct some new analyses and to provide some additional results to inform the LA's deliberations about the appropriate size of the London weighting. The analysis draws upon the lessons already learned from the IER's previous research undertaken on behalf of the DoH and DTLR.

The Institute was asked to undertake a detailed statistical analysis of the following data sets:

- *The New Earnings Survey (NES).*
- *The Quarterly Labour Force Survey (QLFS).*

The analysis on the NES has been conducted on the NES Panel Dataset, to which the Institute has direct access. This is a version of the NES made available by the Office for National Statistics (ONS) for detailed econometric analysis. It is consistent with the published NES data although there are minor differences in detail. The Institute also has direct access to the QLFS dataset for detailed econometric analysis of individual data.

London Pay Premia have been estimated using techniques developed by the Institute in previous work undertaken for the NHS Executive/Department of Health and for the Department of Transport, Local Government and the Regions.

This involves multivariate linear regression analysis of both datasets to estimate standardised spatial wage differentials (pay premia) for those working in London. The salient features of the empirical analysis are presented below. These are discussed in more detail in the chapters that follow.

i) Separate analyses have been undertaken for those working in the private and public sectors.

ii) Estimates were based upon all full time employees.

iii) The analysis is restricted to cover those working in England.

iv) In contrast to earlier work for the DoH, the regression results included employees working within the City of London.

v) Results estimated on behalf of the NHS (and more recently for the DTLR) have traditionally used Barking and Dagenham as comparator group. It should be noted that the choice of this comparator group is entirely arbitrary. Given that the focus is of the present analysis is on comparison with the rest of England, this is the area that is used as the comparator group in the regressions.

vi) Three separate geographies for London are considered, distinguishing Inner London (including the City), Central London and Outer London. Detailed geographies are not retained for the rest of England which, as noted in (v), acts as a single reference category.

vii) Ordinary least squares methods have been applied to cross-sectional datasets for each year.[32] In the analysis of the NES, single year regressions were run over the period 1996-2001. In the analysis of the LFS, single year regressions were run over the period 1997-2000. In each case, three-year moving averages of estimated area wage differentials have been taken to provide the most robust estimates.

viii) The analysis of the LFS has considered whether the use of information collected by proxy respondents has an effect upon the size of estimated area wage differentials.

ix) Other variables used in the regressions to control for personal characteristics mirror those used in the previous work.

x) The analysis has been repeated for a number of separate occupation and qualification categories. However it should be noted that there are limits to how far such an analysis can be taken due to the need to ensure adequate sample sizes. To avoid such problems this has been limited to the 9 SOC 1990 major groups or the 6 main NVQ qualification levels.

[32] More sophisticated methods such as "fixed effects" have also been proposed. However, the benefits of such methods remain unproven and so it was recommended that they should not be considered here. For further discussion see Wilson *et al.* (2002)

3. The Calculation of SSWDs: Methodology & Data Sources

3.1 The General Labour Market Approach and the OLS Method

The essential purpose of this analysis is to estimate the differences in staff costs faced by employers in different parts of the country. The key issue is how to measure and adjust for unavoidable variations in such costs. In principle, two main methods of estimating these extra costs have been proposed:

- Specific Cost Approach (SCA);
- General Labour Market (GLM) Approach.

Although the SCA has considerable intuitive appeal, extensive technical research, including that in the original IER study for the NHS (Wilson *et al.* (1996), suggests that it is extremely difficult to separate avoidable costs from unavoidable costs. Several reports for the more recent DETR Area Cost Adjustment (ACA) review and various subsequent studies (including that by NERA (Blanchflower *et al.* (2002)) confirm that the SCA is very difficult, if not impossible, to put into practice, given current data limitations and that the GLM approach is preferred.

The GLM alternative is currently used for the DETR ACA calculations, as well as the NHS's own Market Forces Factor (MFF) calculations. The GLM approach uses measures of spatial differentials in earnings in the wider labour market as an estimate of the external labour market pressures facing employers in different locations.

The rationale for this approach is based on the theory of 'compensating wage differentials'. Differences in wage rates, which employers are forced to offer in order to be able to attract and retain labour of a certain quality, can be partly explained by geographical differences in the amenities or disamenities associated with each area and with regional differences in the cost of living. In essence, the spatial wage differentials measure the additional earnings an employee requires to compensate them for the relative amenities and disamenities of working in a particular area.

The key issue is how to calculate these spatial wage differentials. Crude wage differentials are not appropriate, since like would not be compared with like. It is crucial to take account of all other factors which influence pay, including differences in employment structure, in order that in the geographical wage differentials calculated only reflect the relative amenities and disamenities of working in a particular area.

The approach most commonly used is multivariate, linear regression using the method of Ordinary Least Squares.[33] This is a quite sophisticated statistical technique, which attempts to 'control' for the influence of other factors which affect wage levels in different geographical areas (e.g. occupational/industrial composition). This analysis is conducted using data form either the New Earnings Survey (NES) panel data set, or the Labour Force Survey (LFS). Both include information on the earnings of a large sample of individual employees (working full-time) in different geographical areas, although the NES provides greater spatial detail. A discussion of these two data sources is presented in Section 3.

[33] While other approaches such as Fixed effects, have also been considered, the OLS method is regarded as the best approach (see the discussion in Wilson *et al.* (2002) and in Blanchflower *et al.* (2002).

The estimate of the amount individuals have to be compensated to work in a particular area or NES zone is derived from a cross-sectional regression analysis of the earnings of the individuals in the NES or LFS sample at a particular point in time[34]. Using this approach, sets of Standardised Spatial Wage Differentials (SSWDs) are calculated. Details of the method are as follows:

1. The dependent variable in the regressions is the (log) of hourly full-time earnings[35]. The regressions were of the following general form:

Log (Earnings) = a	$+ \Sigma b_i$	(age and gender indicators)
	$+ \Sigma c_j$	(industry indicators)
	$+ \Sigma d_j$	(occupational indicators)
	$+ \Sigma e_j$	(area indicators)
	$+ \Sigma f_j$	(various other control variables)

2. In most cases the indicators are in the form of so called dummy variables. These take a binary form, with a value of 1 if the case falls into that category and zero otherwise. The categories including belonging to a particular age group, being employed in a particular industry or occupation, etc.
3. The regressions are estimated using the method known as Ordinary Least Squares.
4. The regression analysis attempts to control or 'standardise' for those factors – such as an individual's educational qualifications, age, sex, occupation, industry of employment – which economists have previously found to be important determinants of an individual's earnings. The coefficients on the Area dummy variables indicate the wage differentials which remain after controlling for all *measurable* differences in worker quality and job attributes. These values are taken to reflect the size of compensation that workers require to work in any particular area.
5. The primary influences determining these area effects are taken to be the relative key pressures in the local labour markets: for example, the level of unemployment and the local housing and commuting costs as well as other disamenities associated with working in a particular location.. In general, one would expect that these factors would tend to vary rather smoothly from one area to the next, so that their level in one local area will usually be more similar to other areas nearby than to more distant areas.
6. Technically, the coefficients on the area dummies represent the standardised spatial wage differentials (SSWDs), that is the additional pay that local employers in any area would need to offer, to be able to recruit and retain labour of a comparable quality.

[34] The choice of the NES was made in the original IER study for the NHS (Wilson *et al.* (1996)) because of concerns about the sample size and consequent reliability of estimates based on the only real alternative data source, the Labour Force Survey. The latter has now been increased in sample size and now offers a more serious alternative source of data although it still has some problems. Detailed comparisons of results based on both sources are presented in the present report.

[35] Since the dependent variable in the regressions is the log of earnings the coefficients on the spatial dummy variables must be anti-logged (i.e. take the exponential), subtracted from 1 and multiplied by 100 in order to convert them into percentage differentials from the comparator zone.

7. Effectively the regression results allow the creation of a ***representative worker*** who has free choice over where to locate. The SSWD represents the additional compensation necessary to attract and retain this worker in a given area.

3.2 Data Sources

Information on earnings from the New Earnings Survey

The New Earnings Survey (NES) is the largest regular survey of pay conducted in the UK. It has been conducted annually since 1970 with data currently being provided for around 160,000 employees. Whereas in the LFS, data are collected via interviews with individuals, in the NES they are provided directly by employers from their administrative records. The sample is effectively a random selection of approximately 1% of employees, depending upon their National Insurance Number. The employer is under statutory obligation to provide the data required, which include information on pay and hours relating to a week in April each year. Other information provided by employees includes sector, occupation, gender and age.

The NES therefore has several advantages over other sources of earnings data. First, it is the only survey where the collection of information on earnings is the primary objective. Second, it has a much larger sample size than other surveys, which means that a more detailed analysis can be undertaken for particular unit groups. Third, since the data are collected from administrative records, rather than being supplied by individuals, the accuracy of the data is likely to be greater.

The NES represents a detailed and accurate survey of pay across Great Britain. However, there are two problems of utilising the NES as a source of information on earnings. Firstly, as with the case of the LFS, the NES does not cover the self employed. Secondly, its coverage of low paid workers is incomplete. Selected employees are largely traced via their tax records and so those who do not pay tax because of low earnings are much less likely to be supplied. Some employees enter the sample despite their earnings being below the PAYE threshold. This is a result of approximately 10% of the sample being drawn from large organisations who are requested to submit information on all employees with relevant NI numbers, irrespective of their PAYE status. In addition, the growth in the use of computerised payrolls has lead to an increase in electronic submissions including employees earning below the PAYE threshold. Nevertheless, Wilkinson (1998) found that the NES reported only 8.9% of employees earning below the PAYE threshold, compared to 16.7% of employees in the Spring 1997 LFS.

Information on Earnings from the Labour Force Survey

The quarterly LFS available from Spring 1992 covers a sample of approximately 60,000 households. The sample however contains a panel element, with households being interviewed in 5 successive quarters. Each quarter therefore consists of a 12,000 households being interviewed for the first time (wave 1), 12,000 for the second (wave 2) and so on.

Questions about earnings have been included in each quarter of the LFS since the Winter Quarter (December to February) of 1992/3. These questions were originally only asked of those respondents receiving their fifth and final interviews (out rotating households). This was due to concerns that the questions might have an adverse impact on overall response rates. Because income questions were initially restricted to out rotating households, sample sizes were relatively small. Work was later undertaken to test whether incorporating income questions within the first wave would lead to higher rates of non-response in later waves. This was not found to be the case, so from Spring 1997 income questions were asked in both waves 1 and 5.

The Labour Force Survey is generally recognised to be a good source of earnings data, particularly on groups of employees such as part time workers and the low paid who are under-represented in the New Earnings Survey (see below). However, it does have some disadvantages. Firstly, earnings questions are only asked of employees or those employed on government training schemes. Secondly, earnings are self reported which might lead to less reliable reporting of earnings. Furthermore, approximately 30% of LFS responses are collected by proxy. Dickens, Machin and Manning (1997) estimate that proxy information results in reducing reported earnings by approximately 2-3 percentage points.

An important criticism of the utilisation of the NES for the estimation of SSWDs is that the NES does not contain information on the stock of human capital held by individuals. Previous research suggests that this is an important determinant of wages. Given that the level of formal qualifications, formal training and/or work experience required for the conduct of tasks will vary substantially across occupations, the approach of the previous analyses based upon the NES has been to incorporate detailed occupational information within the earnings regression.

In contrast, the LFS incorporates information that could be considered to control directly for both the accumulation of general and firm specific human capital by the respondent. Firstly, the LFS asks detailed questions regarding the level of qualification held by the individual. A derived variable classifies the highest level of qualification attained by the individual to one of 41 categories. Secondly, the LFS asks of those in employment, how long they have been employed with their current employer.

3.3 Specification of Data Sets

Analysis of the New Earnings Survey

Changes in the classification schema used within the NES inhibit the ability to make consistent comparisons with earlier vintages of the data set. Changes made to two classification schema are of particular importance to the present analysis. Between 1982 and 1995, industrial classification was based upon activity headings that were derived from the four digit code of the 1980 Standard Industrial Classification (SIC80). Since 1996, industrial classification has been based upon the five-digit code of the 1992 Standard Industrial Classification (SIC92). Secondly, prior to 1992, occupational coding within the NES was based upon the KOS classification of occupations. This was replaced in 1992 by the 1990 Standard Occupational Classification (SOC90). SOC90 is still utilised within the 2001 release of the NESPD.

Changes in the industrial classification of employment within the NES would lead to difficulties in comparing estimates produced for before and after 1996. Whilst additional mapping work could be undertaken to produce a consistent classification of industries, this would require significant additional resources. It is therefore proposed that the analysis of the

NES should focus upon the six-year period from 1996 to 2001. However, previous work suggests that averaging estimates over a number of years provide the most robust estimates of spatial wage differentials. It is therefore recommended that the analysis should be conducted for every year between 1996 and 2001. Ordinary least squares methods will be applied to cross-sectional datasets for each year.[36]

Analysis of the Labour Force Survey

The relatively small sample size of the LFS is an issue. Prior to Spring 1997, questions on earnings were only asked in wave five interviews. Sample sizes were therefore relatively small, leading to difficulties in interpreting the statistical significance of estimated results. From Spring 1997, income questions were asked in both the first and fifth waves, doubling the available sample size within a single quarter.

Despite this, sample sizes remain relatively small compared to the NES. It is therefore proposed that the analysis of the LFS will be based upon annual data sets created by merging data from four successive quarters. However, the process of merging data from successive quarters of the Labour Force Survey is not straightforward due to the panel nature of the survey. Each household/individual is surveyed five times (referred to as 'waves') in consecutive quarters such that 20% of the sample is new to the survey in each quarter. This creates a number of problems when merging quarterly data sets. Combining four surveys in one year to improve the sample size has the difficulty that many households/individuals will be included more than once. Forty per cent of the combined sample will be included four times with 20% included three, two and one time.

It is possible to prevent individuals appearing twice within merged data sets by only selecting individuals from certain waves within each quarter. The variable, which easily identifies the wave in which the interview is taking place, was not available prior to Spring 1997. The analysis of the Labour Force Survey within this report will therefore be based upon 16 quarters of Labour Force Survey data, covering the period Spring (March to May) 1997 to Winter 2000 (December to February). Annual data sets for the years 1997 to 2000 will be produced by merging four quarters of data. To prevent individuals appearing more than once within these merged annual data sets, information will be extracted from individuals within the first and fifth waves of the spring quarters and from the first waves of subsequent quarters for that year. As with the NES, it is recommended that the analysis should be conducted for every year between 1997 and 2000 so that taking averages can produce robust estimates. Note that this corresponds closely with the period that would be covered by the analysis of the NES. Ordinary least squares methods will be applied to cross-sectional datasets for each year.

Selection of Individuals to be Included within the Analysis

In estimates of SSWDs conducted on behalf of the NHS, a number of criteria have to be met for observations from the NES to be included in the multivariate analysis. Most significantly, the analysis is currently restricted to full time employees in the private sector who were aged

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[36] More sophisticated methods such as "fixed effects" could also be used. However, the benefits of such methods remain unproven and so it is recommended that they should not be considered here. For further discussion see Wilson *et al* (2001). *2001 Review of the Staff Market Forces Factor: Draft Final Report,* Department of Health/ Institute for Employment Research, University of Warwick: Coventry.

between 16 and 70, and whose pay was unaffected by absence during the survey period of the NES[37]. Estimates of the SSWDs have been restricted to private sector employees to avoid problems of circularity (see Wilson *et al* 1996, pp.65-66)[38]. As specified in the project brief, the present analyses will be extended to include those working in the public sector, with separate results being presented for all employees, private sector employees and public sector employees. The analysis of the LFS attempts to maintain the highest possible level of consistency with cross sectional analysis of the NES presented. The analysis focuses upon full time private sector employees aged between 16 and 70 years old.

It should be noted however that the definitions used to distinguish between both public and private sector employees and between full time and part time employees will differ between the analysis of the NES and the LFS. Firstly, the distinction between full time and part time employment within the LFS is based upon the respondent's assessment. This is in contrast to the NES where an individual is classified as part time if either:

- he/she works fewer than 30 hours a week (25 hours for teachers) excluding meal breaks and over-time
- or if no hours information was available but he/she was regarded as part-time by their employer.

Similarly, the distinction between the private and public sector within the LFS is based upon the respondent's assessment as to whether he/she works in a public limited company (i.e. quoted on the stock exchange), a private limited company, a charity or voluntary organisation, or a trade union. In contrast, information from the NES is collected from directly from employers.

3.5 Specification of Geographical Areas

The report produces estimates of wage differentials between people who work in London as compared to those who work in the rest of England. Three separate geographical schema are considered for the area that comprises Greater London. The most detailed level of disaggregation splits London into three regions – central, inner (excluding central) and outer London. Central London is defined as the area within the bounds of the main London railway termini. The detail of geographical coding makes the distinction possible within both the LFS and the NES. The second geographical schema splits London into inner and outer London. The final schema treats Greater London as a single area. It is noted that more detailed levels of area disaggregation for London are available within the NES where 33 area codes are available. The relationship between these area codes and the definitions of inner, central and outer London incorporated within the LFS are presented in Annex A. However, the administrative boundaries that are used within London are rather arbitrary and previous analyses indicate that the most important distinction is between the inner core boroughs around the City and the remainder.

[37] Aside from the exclusion of cases that include missing values for variables to be included in the multivariate analysis.
[38] See Wilson *et al* (1996) pp.65-66 for a discussion of circularity.

3.6 Presentation of Results

As described in the project specification outlined in Section 2, the present analyses involves a large number of results, based upon a variety of model specifications. At the most obvious level, estimates have been produced utilising both the NES and LFS. Within the analyses based upon both the NES and the LFS, the effects of distinguishing between those employed in the private and public sector have been considered. Within the analysis of the LFS, the effect of excluding individuals where information has been supplied by a proxy respondent has also been considered. In addition to these distinctions, the analysis has been repeated for separate occupation and qualification categories. In both the analyses of the LFS and the NES, separate sets of results for individuals in each of the 9 Major Groups of SOC90 have been estimated. Furthermore, in the analysis of the LFS, separate sets of results have also been estimated for individuals who possess different levels of educational attainment based upon NVQ equivalents.

For ease of exposition, the main body of the report does not present a detailed discussion of results based upon all potential combinations of model specification. Section 4 presents results of analyses that are based upon data for all individuals and which do not distinguish between different occupation or qualification groups. The emphasis in this section is to consider the effects of distinguishing between those working in the private and public sectors and, in the case of results based upon analysis of the LFS, the effects of proxy response upon estimated SSWDs. Section 5 then goes on to present estimates of SSWDs that are based upon data that distinguish between different occupation and qualification groups. In the light of results to be presented in Section 4, the discussion of these results will focus upon private sector employees only.

4. SSWDs for the Private and Public Sectors: All Occupations

4.1 SSWDs for the Private and Public Sectors: Evidence from the LFS

Estimates of Standardised Spatial Wage Differentials (SSWDs) based upon data for the Labour Force Survey are presented in Table 4.1. Results are presented based upon data for those employed in both the public and private sectors, and then separately for the public and private sectors. Across all results it is observed that the size of the annual estimates remain relatively stable over the four year period covered by the analysis of the Labour Force Survey. Taking three year moving averages for the years 1997/9 and 1998/00 further increases the robustness of SSWD estimates. Differences between these moving averages is typically no greater than 0.5%.

Table 4.1: Estimates of SSWDs Based on the Labour Force Survey

	Annual Estimates				Three Year Averages	
	1997	1998	1999	2000	1997/99	1998/00
All Employees						
Central London	39.76	39.92	38.59	40.67	39.42	39.73
Inner London (excl. Central London)	23.55	21.77	24.93	25.02	23.41	23.91
Outer London	13.63	15.38	14.34	14.88	14.45	14.87
Inner London	32.50	31.85	32.60	33.80	32.32	32.75
Outer London	13.61	15.38	14.33	14.87	14.44	14.86
Greater London	24.19	24.25	24.20	25.55	24.21	24.67
Private Sector						
Central London	44.02	44.17	42.57	44.54	43.59	43.76
Inner London (excl. Central London)	24.00	21.80	26.15	27.18	23.99	25.05
Outer London	13.72	15.97	14.13	14.86	14.61	14.99
Inner London	36.01	35.30	36.13	37.74	35.81	36.39
Outer London	13.69	15.96	14.11	14.84	14.59	14.97
Greater London	25.89	26.24	25.84	27.61	25.99	26.56
Public Sector						
Central London	26.45	24.91	25.54	28.72	25.63	26.39
Inner London (excl. Central London)	22.19	20.84	21.65	20.58	21.56	21.02
Outer London	13.03	13.03	13.08	13.59	13.05	13.23
Inner London	24.05	22.62	23.39	24.17	23.36	23.39
Outer London	13.03	13.04	13.09	13.60	13.06	13.24
Greater London	19.56	18.35	18.85	19.70	18.92	18.97

Considering the size of the estimated SSWDs, it can be seen that those employed within Greater London earn significantly more compared to those employed in establishments located outside Greater London. This is after controlling for personal characteristics (i.e. gender and age), skills (educational attainment and the length of time spent in current job), occupation and industry. Considering the position of those employed in the private sector, it can be seen that those employed within Greater London earn approximately 26% more than those employed in the private sector elsewhere in England. The more detailed geographical schema demonstrates the differences in hourly earnings exhibited by those employed in different areas of London. Again considering the position of those employed in the private sector, those employed in Outer London are estimated to earn approximately 15% more than those employed elsewhere in England. Those employed in Inner London are however estimated to earn approximately 36% more than those employed elsewhere in England. Further differentiation indicates that those employed in Central London are estimated to earn approximately 43-44% more than those employed elsewhere in England.

As discussed in Section 3 above, due to the issue of circularity, it is generally not appropriate to decide public sector regional allocations on the basis of what public sector workers currently earn. In these respects, the earnings of those in the private sector should remain the prime focus. However, given that those employed in the public sector within Greater London face the same advantages and disadvantages of working in this area as those employed in the private sector, it is interesting to compare the degree to which these two groups of employees are compensated for working in London. It should be noted that the issue is not whether public sector employees earn less than private sector employees, but whether the percentage premium paid to these two groups compared to those who work outside Greater London is the same.

It is evident from Table 4.1 that those employees in the public sector are compensated less for living within Greater London compared to employees in the private sector. For example, compared to the private sector Greater London differential of 26%, those employed in the public sector within Greater London earn approximately 19% more than public sector workers employed elsewhere in England. The size of this disparity in the estimated compensating differential for public sector workers increases when considering the position of those employed within Inner London and Central London. Finally, it can be seen that the inclusion of public sector sectors has a dampening effect upon the size of the all employee SSWDs due to the inclusion of lower compensating differentials that are estimated for public sector workers.

The Effect of Proxy Response within the Labour Force Survey

As outlined in Section 3, approximately 30% of responses to the Labour Force Survey are collected by proxy; i.e. interviewers take answers to questions by proxy if the intended respondent is not available. The prevalence of such proxy responses may call into the question the accuracy of earnings information contained within the Labour Force Survey. To provide an indication of the potential importance of proxy response to the accuracy of estimated SSWDs, Table 4.2 presents estimates of SSWDs for Greater London that are based upon data that exclude individuals where information was provided by a proxy respondent.

Compared to Table 4.1, it can be seen that the estimated size of the SSWDs is not influenced significantly by the exclusion of proxy respondents. Considering the 1998/00 three year moving averages for Greater London, neither of the estimates for all employees, private sector employees or public sector employees varies by greater than 1% upon excluding proxy respondents. It can therefore be concluded that any measurement error introduced by proxy response will not have a significant effect upon the robustness of estimated SSWDs.

Table 4.2: SSWDs for the Private and Public Sectors: LFS Excluding Proxy Respondents

	Annual Estimates				Three Year Averages	
	1997	1998	1999	2000	1997/99	1998/00
All Employees						
Central London	39.45	38.16	36.12	40.74	37.91	38.34
Inner London (excl. Central London)	23.00	21.58	24.95	25.77	23.18	24.10
Outer London	13.98	15.08	15.04	15.29	14.70	15.14
Inner London	32.02	30.63	31.18	34.15	31.28	31.99
Outer London	13.95	15.08	15.04	15.28	14.69	15.13
Greater London	24.15	23.50	23.78	25.93	23.81	24.40
Private Sector						
Central London	43.76	42.81	40.22	45.45	42.26	42.83
Inner London (excl. Central London)	23.45	21.84	26.92	28.42	24.07	25.73
Outer London	14.43	16.04	15.03	15.21	15.16	15.42
Inner London	35.64	34.39	35.05	38.84	35.03	36.09
Outer London	14.40	16.03	15.01	15.20	15.15	15.41
Greater London	26.06	25.77	25.67	28.41	25.83	26.61
Public Sector						
Central London	26.87	25.14	24.60	28.65	25.54	26.13
Inner London (excl. Central London)	22.39	20.39	20.89	20.95	21.22	20.74
Outer London	13.13	12.22	13.51	14.00	12.95	13.24
Inner London	24.34	22.45	22.52	24.38	23.10	23.12
Outer London	13.13	12.23	13.52	14.01	12.96	13.25
Greater London	19.84	17.99	18.57	19.96	18.80	18.84

4.2 SSWDs for the Private and Public Sectors: Evidence from the NES

Estimates of Standardised Spatial Wage Differentials (SSWDs) based upon data for the New Earnings Survey are presented in Table 4.3. As with the analysis of the LFS presented in Table 4.1, estimates are presented based upon data for all employees and separately for the public and private sector employees. Note that within the analysis of the NES, it has been possible to produce estimates of SSWDs for the years 1996 to 2001. As with the analysis of the LFS, it is observed that the size of the annual estimates remain relatively stable over the six year period covered by the analysis of the New Earnings Survey. Taking three year moving averages for the years 1996/8 and 1999/01 further increases the robustness of SSWD estimates. Differences between these moving averages is typically no greater than 1%.

Table 4.3: SSWDs for the Private and Public Sectors: NES Estimates

	Annual Estimates						Three Year Averages			
	1996	1997	1998	1999	2000	2001	1996/98	1997/99	1998/00	1999/01
All Employees										
Central London	35.09	34.94	35.61	36.03	36.91	38.30	35.22	35.53	36.18	37.08
Inner London (excl. Central London)	22.63	21.76	22.46	21.57	20.61	22.01	22.28	21.93	21.55	21.40
Outer London	13.14	11.91	11.89	11.59	12.72	11.48	12.31	11.80	12.06	11.93
Inner London	32.25	31.80	32.50	32.74	33.26	34.63	32.18	32.35	32.83	33.54
Outer London	13.14	11.90	11.88	11.57	12.71	11.48	12.30	11.78	12.05	11.92
Greater London	24.02	23.20	23.48	23.12	24.10	24.21	23.57	23.27	23.56	23.81
Private Sector										
Central London	38.89	38.01	39.00	39.55	41.71	41.47	38.64	38.86	40.09	40.91
Inner London (excl. Central London)	22.43	23.95	24.27	21.51	20.38	22.23	23.55	23.25	22.05	21.37
Outer London	12.99	10.54	11.21	10.04	11.83	11.21	11.58	10.60	11.03	11.03
Inner London	35.55	34.99	35.81	36.02	37.44	37.35	35.45	35.61	36.43	36.94
Outer London	12.98	10.53	11.20	10.03	11.82	11.20	11.57	10.58	11.02	11.02
Greater London	25.63	24.02	24.60	23.85	25.61	25.03	24.75	24.15	24.69	24.83
Public Sector										
Central London	24.94	26.66	25.45	24.86	24.00	28.84	25.69	25.66	24.77	25.90
Inner London (excl. Central London)	21.36	17.48	18.62	19.11	17.94	20.03	19.15	18.40	18.56	19.03
Outer London	13.18	15.16	13.97	15.33	15.24	14.04	14.10	14.82	14.85	14.87
Inner London	23.94	24.01	23.53	23.14	22.32	26.64	23.83	23.56	23.00	24.03
Outer London	13.18	15.15	13.97	15.32	15.24	14.04	14.10	14.81	14.84	14.87
Greater London	19.51	20.49	19.74	19.84	19.43	21.65	19.92	20.03	19.67	20.31

It can be seen that the size of SSWDs based upon data from the NES are very similar to the size of those estimated utilising LFS data. Comparing three year averages for 1998/00, the single Greater London SSWD for all employees is estimated as 24.7% when utilising LFS data, compared to 23.6% when utilising NES data. Similarly, the single Greater London SSWD for all employees is estimated as 26.6% when utilising LFS data, compared to 24.7% when utilising NES data. Finally, the single Greater London SSWD for public sector employees is estimated as 19.0% when utilising LFS data, compared to 19.7% when utilising NES data. More significant difference are observed when utilising more detailed geographical areas and when distinguishing between the private and the public sectors.

Differences in the definitions used to distinguish between both public and private sector employees and between full time and part time employees (see Section 3) mean that the estimates of the SSWDs from the two data sources (LFS and NES) are not strictly comparable. We may also expect differences to emerge due to sampling variability (i.e. the do not correspond to the same people). However, the analyses of these two data sources confirms the general size of the compensating differential for those employees who work within Greater London.

Excluding the City of London from Estimates of SSWDs

Wilson *et al* (1996) recommended that estimates of SSWDs conducted on behalf of the NHS should exclude the City of London from the analysis and that this area be given an MFF equivalent to other adjacent central London boroughs. The rationale for this treatment is because of the special factors operating in the City of London. For example, the City of London is characterised by the concentration of international organisational head quarters. Individuals who work within these establishments may be expected to differ in terms of their personal characteristics (e.g. career minded, ambitious etc). Failure to adequately control for these personal characteristics within a regression analysis could lead to biases in the size of the estimated SSWD for the City. The higher earnings that should be attributed to the unobserved characteristics of individuals working within this area may instead be mistakenly attributed to a compensating differential for working within this area. The failure to adequately control for personal characteristics may therefore result in an overestimation in the size of the SSWD for the City.

To consider these issues, Table 4.4 examines the sensitivity of the estimated SSWDs for London to the inclusion/exclusion of the City of London. It should be noted that the level of geographical detail available within the Labour Force Survey does not permit the exclusion of the City of London from the analysis of this data. Table 4.4 therefore only considers estimated based upon the NES. Furthermore, due to the issue of circularity as discussed in Section 3 above, the analysis will focus upon just the earnings of those in the private sector.

The first set of results presented in Table 4.4 corresponds to estimates for the private sector that include the City of London within the specification of the London areas. These estimates are identical to those for the private sector presented in Table 4.3 and are repeated here to assist in making comparisons. The second set of results repeat the analysis but exclude the City of London from the specification of the London areas. Considering the three year averages for 1999/2001, it is estimated that excluding the City of London reduces the compensating differential for Central London from 40.9% to 36.8%, while with Central and

Inner London merged the size of the compensating differential falls from 36.9% to 33%. Naturally, it can be seen that the effect upon the size of estimated SSWDs of including the City of London is dampened down when this area is subsumed within more aggregate area definitions. Excluding the City of London reduces the compensating differential for Greater London from 24.8% to 21.7%. It is also noted that the scales of these changes are consistent with sensitivity analyses conducted by Blanchflower *et al* (2002).

Table 4.4: SSWDs Including and Excluding the City of London (Private Sector Only)

	Annual Estimates						Three Year Averages			
	1996	1997	1998	1999	2000	2001	1996/98	1997/99	1998/00	1999/01
Including the City of London										
Central London	38.89	38.01	39.00	39.55	41.71	41.47	38.64	38.86	40.09	40.91
Inner London (excl. Central London)	22.43	23.95	24.27	21.51	20.38	22.23	23.55	23.25	22.05	21.37
Outer London	12.99	10.54	11.21	10.04	11.83	11.21	11.58	10.60	11.03	11.03
Inner London	35.55	34.99	35.81	36.02	37.44	37.35	35.45	35.61	36.43	36.94
Outer London	12.98	10.53	11.20	10.03	11.82	11.20	11.57	10.58	11.02	11.02
Greater London	25.63	24.02	24.60	23.85	25.61	25.03	24.75	24.15	24.69	24.83
Excluding the City of London										
Central London	34.60	34.87	34.72	35.54	37.64	37.29	34.73	35.05	35.97	36.82
Inner London (excl. Central London)	22.41	24.01	24.34	21.50	20.28	22.33	23.58	23.28	22.04	21.37
Outer London	12.99	10.55	11.23	10.02	11.79	11.19	11.59	10.60	11.01	11.00
Inner London	31.62	32.03	31.92	32.24	33.45	33.39	31.86	32.06	32.53	33.03
Outer London	12.98	10.54	11.22	10.00	11.77	11.18	11.58	10.59	11.00	10.99
Greater London	22.63	21.40	21.41	20.85	22.46	21.90	21.81	21.22	21.57	21.74

5. Estimation of SSWDs by Occupation and Education

5.1 Background

As described in Section 2, the estimates of SSWDs represent the additional pay (or compensating differential) that local employers in any area would need to offer, to be able to recruit and retain labour of a comparable quality. The most intuitive component of an SSWD will be the amount that compensates employees for variations in the cost of living between areas. However, the size of any compensating differential should reflect a wide range of factors that effect the desirability of living within a given area (e.g. quality of schools and other public services, the environment, availability of recreational or cultural activities). The relative importance attached to these factors may be expected to vary between different groups of people. For example, those entering graduate occupations may be expected to place greater importance on the availability of recreational and cultural activities in deciding where to locate compared to the provision of schools. It is therefore of interest to consider how estimates of SSWDs vary between different groups of employees.

The presentation of results focuses upon SSWDs estimated for employees in the private sector only. This is a reflection of the earlier discussion regarding circularity. Furthermore, results based upon analysis of the LFS do not make the distinction between proxy and non proxy respondents. Again, this is a reflection of the analysis presented in Section 4 which suggests that the inclusion or exclusion of proxy respondents does not have a significant effect upon the size of estimated SSWDs.

5.2 Defining Groups

For the purpose of the present analysis, estimates of SSWDs for different groups of employees will be considered along two dimensions. These are occupation and educational attainment.

Occupation

At the time of writing, both the NES and the LFS utilised the 1990 Standard Occupational Classification in order to record occupational information. At the most aggregate level, SOC distinguishes nine broad categories termed Major Groups. For present purposes, estimates of SSWDs for separate occupational groups will utilise this Major Group structure of SOC. The titles of these Major Groups of SOC90 are as follows:

Major Group 1:	Managers and Administrators
Major Group 2:	Professional Occupations
Major Group 3:	Associate Professional and Technical Occupations
Major Group 4:	Clerical and Secretarial Occupations
Major Group 5:	Craft and Related Occupations
Major Group 6:	Personal and Protective Services
Major Group 7:	Sales Occupations
Major Group 8:	Plant and Machine Operatives
Major Group 9:	Other Occupations

The major group structure of SOC is designed to be useful in bringing together occupations that are similar in terms of qualifications, training, skills and experience commonly associated with the competent performance of work tasks. Occupation is most often determined by reference to a person's main job at a reference time. The concept of 'skill' is operationalised in terms of the nature and duration of the qualifications, training and work experience required to become competent to perform the associated tasks in a particular job. Whilst more detailed occupational categories are available beneath the Major Group level of SOC90[39], these categories differentiate between jobs held by people with similar levels of qualifications and experience on the basis of tasks undertaken. If differences in compensating differentials are going to be observed between occupations, it is likely that the most significant differences will be observed at this most aggregate level rather than between more detailed occupational categories.

Educational attainment

The second dimension along which the estimation of SSWDs will be considered is that of educational attainment. The Major Groups of SOC bring together people who are similar in terms of qualifications, training and experience. Given that the attainment of a particular qualification may be prerequisite for entry into certain occupations, levels of educational attainment will vary across Major Groups. However, analysis by educational attainment will enable us to consider these distinctions more explicitly in terms of actual qualifications held.

As noted earlier, the New Earnings Survey does not contain information on the educational attainment of employees and therefore this stage of the analysis is restricted to the Labour Force Survey. The LFS asks detailed questions regarding the highest level of qualification held by the individual. A derived variable classifies the highest level of qualification attained by the individual to one of 41 categories that distinguish between a range of academic and vocational qualifications. For the purpose of the present analysis, these categories have been reclassified to one of six qualification levels based upon NVQ equivalents. The highest level of educational attainment is therefore classified as follows:

0.	No qualifications	
1.	NVQ 5	Higher Degree
2.	NVQ 4	First degree and equivalent, HE below degree level, HNC, BTEC, and RSA higher etc. Nursing and Teaching qualifications
3.	NVQ 3	2+ A levels and Equivalent, GNVQ Advanced, ONC, BTEC National
4.	NVQ 2	5+ GCSEs (grades A-C), GNVQ Intermediate, BTEC First Diploma etc.
5.	NVQ 1	GCSE (below grade C), GNVQ foundation, BTEC First Certificate

5.3 Analysis by Occupation: Evidence from the NES and LFS

Table 5.1 presents SSWDs estimated separately for each of the nine Major Groups of SOC90. Estimates are provided based upon data utilising the Labour Force Survey and the New Earnings Survey. For ease of exposition, estimates of the SSWDs presented in Table 5.1 relate to the area of Greater London treated as a whole. Separate occupational estimates

[39] At the most detailed level of classification 374 unit groups are distinguished. Each of these detailed unit groups is allocated to a minor group of which they 77.

utilising the more detailed geographical disaggregations for Greater London are presented in Annex B. Before discussing the results in detail, it can be seen that the annual estimates for each of the nine Major Groups tend to exhibit greater year by year fluctuations in the size of their SSWDs than those exhibited by estimates of SSWDs based upon all occupational groups. In some instances, year on year changes in excess of 5% are observed. This increased volatility in the size of annual estimates can be attributed to the smaller sample sizes upon which these figures are based. The year on year fluctuations are smoothed out to a large extent by taking three- year moving averages. However, the most important distinctions to be made are those that occur between occupational groups as opposed to those that occur over time.

Estimates based upon private employees in all occupations indicate that the compensating differential for working London is approximately 25-26% depending upon the data source used. It is observed that the compensating differentials for those employed in Major Group 1: Manager and Administrators and Major Group 2: Professional Occupations are both estimated to be slightly above the average figure for all occupations. In the case of Major Group 1: Managers and Administrators, compensating differentials of 25-27% are estimated. In the case of Major Group 2: Professional Occupations, compensating differentials are estimated to

Table 5.1: Standardised Spatial Wage Differentials for Greater London: By Occupation

	Annual Estimates						Three Year Averages			
	1996	1997	1998	1999	2000	2001	1996/98	1997/99	1998/00	1999/01
Labour Force Survey										
Major Group 1:		27.04	24.98	28.52	28.78			26.85	27.43	
Major Group 2:		27.59	30.57	25.67	26.93			27.95	27.73	
Major Group 3:		34.42	37.03	34.37	34.40			35.27	35.27	
Major Group 4:		30.55	33.92	30.08	38.04			31.52	34.01	
Major Group 5:		18.37	16.68	16.51	20.65			17.19	17.95	
Major Group 6:		23.12	18.91	23.19	23.08			21.74	21.73	
Major Group 7:		19.71	20.31	20.76	15.03			20.26	18.70	
Major Group 8:		12.42	12.81	10.19	8.51			11.80	10.50	
Major Group 9:		14.44	14.04	17.21	21.86			15.23	17.70	
All Employees		25.89	26.24	25.84	27.61			25.99	26.56	
New Earnings Survey										
Major Group 1:	25.20	24.17	25.05	25.12	27.10	27.63	24.81	24.78	25.76	26.62
Major Group 2:	24.92	22.70	27.68	27.16	26.40	24.50	25.10	25.85	27.08	26.02
Major Group 3:	41.02	38.06	37.83	34.23	34.20	33.33	38.97	36.71	35.42	33.92
Major Group 4:	29.61	28.23	26.64	26.02	27.84	26.85	28.16	26.96	26.83	26.90
Major Group 5:	13.64	14.34	15.59	16.12	17.12	16.44	14.52	15.35	16.27	16.56
Major Group 6:	18.85	18.29	17.80	18.73	20.44	16.83	18.31	18.28	18.99	18.67
Major Group 7:	22.04	20.63	20.91	17.09	16.05	12.74	21.19	19.54	18.02	15.30
Major Group 8:	11.45	12.65	12.54	13.07	14.75	16.18	12.21	12.75	13.45	14.67
Major Group 9:	16.35	15.88	15.32	14.09	13.90	12.77	15.85	15.10	14.43	13.59
All Employees	25.63	24.02	24.60	23.85	25.61	25.03	24.75	24.15	24.69	24.83

be slightly higher at 26-28%. Both data sources indicate that the largest compensating differentials are received by those employed within Major Group 3: Associate Professional and Technical Occupations. Estimates from both the LFS and NES indicate that employees in this occupational group receive compensating differentials of approximately 35%.

Estimates based upon both the NES and LFS suggest that the lowest SSWDs are estimated for those employed within Major Group 8: Plant and Machine Operatives. Estimates based upon the LFS suggest that those from this occupational group who are employed in London receive a compensating differential of 11-12%. Analysis of the NES for this occupational group indicate a slightly higher compensating differential of 12-13% compared to those employed elsewhere. Both data source also indicate that those employed in Major Group 5: Craft and Related Occupations and Major Group 9: Other Occupations also receive relatively low compensating differentials for working within London.

It is observed that there is a high degree of consistency in the size of the estimated SSWDs when comparing estimates based upon the LFS with those based upon the NES. For each of the Major Groups of SOC, estimates of SSWDs based upon these two data sources do not generally differ by more than 1 or 2 percentage points. The exception to this observation is in the case of SSWDs based upon those who are employed within Major Group 4: Clerical and Secretarial Occupations. The moving averages from the LFS point to a compensating differential for this occupational group of 31-34%. This is in contrast to the NES where the moving averages point to a compensating differential for this occupational group of approximately 27%. For this occupational group, the SSWDs based upon the NES data could be considered as preferable given their high degree of uniformity exhibited by the annual estimates.

5.4 Analysis by Educational Attainment

It can be seen that there is considerable variation in the size of SSWDs estimated across different Major Groups of SOC. The main finding to emerge from the analysis by occupation was that the size of compensating differentials were estimated to be larger for those occupations that can be characterised by higher levels of educational attainment or experience. For example, entry into an occupation within Major Group 2 of SOC will typically require a degree or equivalent qualification, with some occupations requiring a post graduate qualification and/or a formal period of experience related training. Similarly, entry into an occupation located within Major Group 3 of SOC will generally require a high level vocational qualification. This general gradient in the size of the SSWD across occupational groups can be considered to be intuitive with the idea of compensating differentials. It appears that it is those individuals who have the highest level of education attainment and who therefore have the widest choice of employment opportunities have to be compensated more to work within London.

Table 5.2: Standardised Spatial Wage Differentials for Greater London: By Education

	Annual Estimates				Three Year Averages	
	1997	1998	1999	2000	1997/99	1998/00
NVQ Level 5	26.93	21.04	21.66	28.60	23.21	23.77
NVQ Level 4	26.77	30.27	28.82	29.45	28.62	29.52
NVQ Level 3	28.75	28.33	26.38	26.58	27.82	27.09
NVQ Level 2	24.77	25.71	27.42	30.30	25.97	27.81
NVQ Level 1	29.47	23.92	26.77	25.67	26.72	25.45
No Qualifications	14.38	18.60	12.94	18.57	15.31	16.70
All Employees	25.89	26.24	25.84	27.61	25.99	26.56

The importance of educational attainment for the size of compensating differentials is considered explicitly in Table 5.2. As noted above, analysis based upon educational attainment is only possible utilising data from the Labour Force Survey. As with the analysis by occupation, for ease of exposition the compensating differentials presented Table 5.2 refer to whole of Greater London. Separate estimates by educational attainment that utilise more detailed geographical disaggregations for Greater London are presented in Annex C.

It can be seen from Table 5.2 that the differences observed in the size of compensating differentials by levels of educational attainment are not as significant as the differences observed between occupational groups in Table 5.1. The clearest difference observed in the size of the estimated SSWDs by level of educational attainment is that those employees in the private sector with no qualifications receive a significantly lower compensating differential compared to those with higher levels of educational attainment. The compensating differential indicates that private sector employees with no qualifications who work in Greater London earn approximately 15-17% more than those who work outside Greater London. This is compared to an all employee compensating differential of 26-27% based upon Labour Force Survey estimates.

A slight gradient is observed in the size of the compensating differentials estimated for those with higher levels of educational attainment. For example, those employees qualified at NVQ level 4 or equivalent, which will include those who possess a degree, receive a compensating differential of approximately 29% for working within Greater London. The size of this compensating differential declines by approximately 1% for each lower level of education attainment down to NVQ level 1. Finally, the result for those who possess qualifications at NVQ level 5 or equivalent is of interest. This group consists of those employees who possess an NVQ at level 5 or a higher degree (e.g. a Masters or PhD). It can be seen that with the exception of those who possess no qualifications, these employees receive a lower compensating differential than all other levels of educational attainment. This may be indicative of the very specialist occupations that these most highly qualified individuals perform and the subsequent lack of choice regarding geographical location.

Section 6: Conclusions and Summary

In providing an overview of the material presented in this report, it is not possible to give a single definition measure of the size of the compensating differential received by private sector employees working within Greater London. Estimates were presented based upon two different data sources and encompassing data covering a number of years. However, the main results can be summarised as follows:

- Considering the area of Greater London as a whole, estimates based upon the New Earnings Survey indicate that hourly earnings are approximately 24-25% higher amongst employees in the private sector who work within Greater London compared to employees in the rest of England. Comparable estimates based upon the Labour Force Survey indicate that hourly earnings are approximately 26-27% higher for amongst employees in the private sector who work within Greater London compared to employees in the rest of England.

- Disaggregation of Greater London into more detailed geographical areas indicates that average compensating differentials for the whole of Greater London disguise important variations that exist between Inner London and Outer London. Estimates based upon the New Earnings Survey indicate that hourly earnings are approximately 36% higher amongst employees in the private sector who work within Inner London compared to employees in the rest of England. The size of the compensating differential declines to approximately 11% for those who work within Outer London. Estimates based upon the Labour Force Survey also indicate that hourly earnings are approximately 36% higher amongst employees in the private sector who work within Inner London compared to employees in the rest of England. The size of the compensating differential for Outer London is estimated to be approximately 15%

- Potential inaccuracies that may arise due to proxy response within the Labour Force Survey were not shown to have a significant effect on the estimated size of compensating differentials. In considering the relative merits of these two data sources, proxy response within the Labour Force Survey is not a significant issue.

- Compensating differentials received by employees in the public sector are significantly lower than those received by employees in the private sector. Combining employees from the private and public sector in the estimation process therefore has a dampening effect upon the size of compensating differentials estimated for Greater London. Whilst this observation is interesting from a descriptive point of view and highlights the relative disadvantages faced by public sector employees working within Greater London, setting allowances for public sector workers should only be based upon an analysis of private sector employees.

- Significant differences were observed in the size of compensating differentials estimated across different Major Groups of the 1990 Standard Occupation Classification. Estimates based upon data from both the New Earnings Survey and the Labour Force Survey indicate that private sector employee within Major Group 1: Managers and Administrators, Major Group 2: Professional Occupations, and Major Group 3: Associate Professional and Technical Occupations receive the highest compensating differentials for working within Greater London. Employees within the Major Groups of SOC that are generally characterised by low levels of education and training were shown to receive lower compensating differentials for working within Greater London.

∉# These occupational differences were also reflected in analyses conducted by levels of educational attainment. Estimates based upon analysis of the Labour Force Survey indicate that employees in the private sector who possess no qualification receive the lowest compensating differential for working within Greater London. However, the size of the compensating differentials did not vary by educational attainment to the degree that may have been expected given the differences that were observed by occupation.

Annex A: London Geographies and NES Areas

London Geographies	NES Areas
Central London	Camden City of London Islington Lambeth Southwark Tower Hamlets City of Westminster
Inner London (excluding Central London)	Kensington and Chelsea Lewisham Newham Harringey Wandsworth Hackney Hammersmith
Outer London	Barking and Dagenham Barnet Bexley Brent Bromley Croydon Ealing Enfield Greenwich Harrow Havering Hillingdon Hounslow Kingston upon Thames Merton Redbridge Richmond Upon Thames Sutton Waltham Forest

Annex B: Standardised Spatial Wage Differentials by Occupation

Table B.1: Standardised Spatial Wage Differentials for London: Major Group 1: Managers and Administrators

	Annual Estimates						Three Year Averages			
	1996	1997	1998	1999	2000	2001	1996/98	1997/99	1998/00	1999/01
Labour Force Survey										
Central London		43.18	38.57	44.50	43.00			42.09	42.02	
Inner London (excl. Central London)		25.11	17.89	31.49	29.28			24.83	26.22	
Outer London		13.89	16.65	13.83	15.46			14.79	15.31	
Inner London		36.26	31.10	40.02	38.15			35.79	36.42	
Outer London		13.85	16.64	13.85	15.45			14.78	15.31	
Greater London		27.04	24.98	28.52	28.78			26.85	27.43	
New Earnings Survey										
Central London	37.53	39.18	41.13	40.56	41.32	42.96	39.28	40.29	41.00	41.61
Inner London (excl. Central London)	20.62	18.81	15.05	16.92	18.70	19.41	18.16	16.93	16.89	18.35
Outer London	10.46	8.71	9.99	9.34	11.85	12.46	9.72	9.34	10.39	11.21
Inner London	34.47	34.95	35.57	36.23	37.41	38.23	35.00	35.59	36.40	37.29
Outer London	10.47	8.70	9.98	9.34	11.86	12.44	9.71	9.34	10.39	11.21
Greater London	25.20	24.17	25.05	25.12	27.10	27.63	24.81	24.78	25.76	26.62

Table B.2: Standardised Spatial Wage Differentials for London: Major Group 2: Professional Occupations

	Annual Estimates						Three Year Averages			
	1996	1997	1998	1999	2000	2001	1996/98	1997/99	1998/00	1999/01
Labour Force Survey										
Central London		38.71	48.95	36.34	43.38			41.34	42.89	
Inner London (excl. Central London)		18.73	20.48	18.50	22.46			19.24	20.48	
Outer London		17.26	15.05	17.21	8.03			16.51	13.43	
Inner London		33.15	40.48	30.48	37.07			34.70	36.01	
Outer London		17.24	15.21	17.23	8.04			16.56	13.49	
Greater London		27.59	30.57	25.67	26.93			27.95	27.73	
New Earnings Survey										
Central London	34.70	35.18	39.37	44.36	41.29	39.94	36.42	39.64	41.67	41.86
Inner London (excl. Central London)	21.63	20.11	25.43	17.05	15.15	16.85	22.39	20.86	19.21	16.35
Outer London	12.11	5.55	9.59	4.35	6.05	2.77	9.08	6.50	6.66	4.39
Inner London	32.69	32.60	37.05	39.45	37.39	36.62	34.11	36.37	37.96	37.82
Outer London	12.10	5.54	9.60	4.36	6.09	2.80	9.08	6.50	6.69	4.42
Greater London	24.92	22.70	27.68	27.16	26.40	24.50	25.10	25.85	27.08	26.02

Table B.3: Standardised Spatial Wage Differentials for London: Major Group 3: Associate Professional and Technical Occupations

	Annual Estimates						Three Year Averages			
	1996	1997	1998	1999	2000	2001	1996/98	1997/99	1998/00	1999/01
Labour Force Survey										
Central London		54.29	55.15	48.27	47.41			52.57	50.28	
Inner London (excl. Central London)		30.54	31.32	27.72	34.13			29.86	31.06	
Outer London		11.18	17.77	18.31	16.88			15.76	17.65	
Inner London		46.33	47.38	42.39	43.08			45.36	44.28	
Outer London		11.31	17.82	18.35	16.87			15.83	17.68	
Greater London		34.42	37.03	34.37	34.40			35.27	35.27	
New Earnings Survey										
Central London	52.51	50.05	50.20	48.22	48.08	48.69	50.92	49.49	48.83	48.33
Inner London (excl. Central London)	47.00	45.54	53.64	44.99	28.54	35.07	48.73	48.06	42.39	36.20
Outer London	15.42	12.19	10.22	7.84	11.56	7.96	12.61	10.08	9.87	9.12
Inner London	51.85	49.47	50.61	47.83	45.50	46.89	50.64	49.30	47.98	46.74
Outer London	15.42	12.19	10.22	7.84	11.51	7.96	12.61	10.09	9.86	9.10
Greater London	41.02	38.06	37.83	34.23	34.20	33.33	38.97	36.71	35.42	33.92

Table B.4: Standardised Spatial Wage Differentials for London: Major Group 4: Clerical and Secretarial Occupations

	Annual Estimates						Three Year Averages			
	1996	1997	1998	1999	2000	2001	1996/98	1997/99	1998/00	1999/01
Labour Force Survey										
Central London		47.65	49.59	44.33	57.86			47.19	50.60	
Inner London (excl. Central London)		27.22	35.09	33.67	38.84			31.99	35.87	
Outer London		17.45	19.47	17.39	20.27			18.10	19.04	
Inner London		41.18	44.91	40.69	51.37			42.26	45.66	
Outer London		17.45	19.47	17.38	20.30			18.10	19.05	
Greater London		30.55	33.92	30.08	38.04			31.52	34.01	
New Earnings Survey										
Central London	40.44	39.56	38.95	40.46	41.91	40.51	39.65	39.65	40.44	40.96
Inner London (excl. Central London)	27.49	28.36	24.95	21.20	23.42	27.32	26.93	24.84	23.19	23.98
Outer London	17.13	14.98	13.32	12.65	13.47	13.14	15.14	13.65	13.15	13.09
Inner London	38.31	37.57	36.46	36.96	38.81	37.90	37.45	37.00	37.41	37.89
Outer London	17.13	14.98	13.33	12.66	13.49	13.15	15.15	13.66	13.16	13.10
Greater London	29.61	28.23	26.64	26.02	27.84	26.85	28.16	26.96	26.83	26.90

Table B.5: Standardised Spatial Wage Differentials for London: Major Group 5: Craft and Related Occupations

	Annual Estimates						Three Year Averages			
	1996	1997	1998	1999	2000	2001	1996/98	1997/99	1998/00	1999/01
Labour Force Survey										
Central London		29.04	30.77	29.36	28.59			29.72	29.57	
Inner London (excl. Central London)		16.35	16.41	17.60	18.62			16.79	17.54	
Outer London		15.79	13.18	12.17	18.88			13.71	14.74	
Inner London		21.93	22.30	22.20	22.58			22.14	22.36	
Outer London		15.78	13.15	12.15	18.87			13.69	14.72	
Greater London		18.37	16.68	16.51	20.65			17.19	17.95	
New Earnings Survey										
Central London	22.77	19.94	22.30	26.95	23.10	24.04	21.67	23.06	24.11	24.69
Inner London (excl. Central London)	11.04	21.50	15.40	11.99	15.63	15.75	15.98	16.30	14.34	14.46
Outer London	10.57	10.16	12.73	12.12	15.09	13.79	11.15	11.67	13.31	13.67
Inner London	18.42	20.45	20.08	22.52	20.52	21.14	19.65	21.01	21.04	21.39
Outer London	10.55	10.16	12.72	12.10	15.07	13.78	11.14	11.66	13.30	13.65
Greater London	13.64	14.34	15.59	16.12	17.12	16.44	14.52	15.35	16.27	16.56

Table B.6: Standardised Spatial Wage Differentials for London: Major Group 6: Personal and Protective Service Occupations

	Annual Estimates						Three Year Averages			
	1996	1997	1998	1999	2000	2001	1996/98	1997/99	1998/00	1999/01
Labour Force Survey										
Central London		29.74	29.71	33.12	27.76			30.86	30.20	
Inner London (excl. Central London)		33.90	27.44	22.07	31.09			27.81	26.87	
Outer London		11.98	9.75	18.68	16.23			13.47	14.88	
Inner London		32.02	28.50	27.99	29.36			29.50	28.62	
Outer London		11.99	9.75	18.72	16.21			13.49	14.90	
Greater London		23.12	18.91	23.19	23.08			21.74	21.73	
New Earnings Survey										
Central London	25.72	24.24	24.92	25.15	25.63	22.50	24.96	24.77	25.23	24.42
Inner London (excl. Central London)	24.08	14.67	17.20	17.91	24.22	24.37	18.65	16.59	19.78	22.16
Outer London	10.32	12.78	10.69	13.17	14.71	10.56	11.27	12.21	12.86	12.81
Inner London	25.29	21.82	22.89	23.50	25.28	22.90	23.34	22.74	23.89	23.89
Outer London	10.32	12.77	10.68	13.15	14.70	10.56	11.26	12.20	12.84	12.80
Greater London	18.85	18.29	17.80	18.73	20.44	16.83	18.31	18.28	18.99	18.67

Table B.7: Standardised Spatial Wage Differentials for London: Major Group 7: Sales Occupations

	Annual Estimates						Three Year Averages			
	1996	1997	1998	1999	2000	2001	1996/98	1997/99	1998/00	1999/01
Labour Force Survey										
Central London		42.25	37.02	53.91	31.87			44.39	40.93	
Inner London (excl. Central London)		26.89	9.81	17.62	10.90			18.10	12.78	
Outer London		8.25	18.88	11.25	8.23			12.79	12.78	
Inner London		34.82	22.34	32.72	21.62			29.96	25.56	
Outer London		8.24	18.86	11.27	8.27			12.79	12.80	
Greater London		19.71	20.31	20.76	15.03			20.26	18.70	
New Earnings Survey										
Central London	34.23	37.38	33.88	29.84	30.91	19.86	35.16	33.70	31.54	26.87
Inner London (excl. Central London)	16.82	27.94	31.33	29.08	16.88	15.58	25.36	29.45	25.76	20.51
Outer London	16.29	11.34	11.13	8.44	8.99	9.18	12.92	10.30	9.52	8.87
Inner London	28.53	34.11	33.02	29.66	26.80	18.50	31.89	32.26	29.83	24.99
Outer London	16.29	11.33	11.13	8.44	8.97	9.19	12.92	10.30	9.52	8.87
Greater London	22.04	20.63	20.91	17.09	16.05	12.74	21.19	19.54	18.02	15.30

Table B.8: Standardised Spatial Wage Differentials for London: Major Group 8: Plant and Machine Operatives

	Annual Estimates						Three Year Averages			
	1996	1997	1998	1999	2000	2001	1996/98	1997/99	1998/00	1999/01
Labour Force Survey										
Central London		17.06	20.77	29.32	32.20			22.38	27.43	
Inner London (excl. Central London)		15.91	9.30	18.32	1.17			14.51	9.60	
Outer London		10.40	13.16	5.44	8.74			9.67	9.11	
Inner London		16.24	12.16	21.26	7.89			16.55	13.77	
Outer London		10.40	13.16	5.43	8.73			9.67	9.11	
Greater London		12.42	12.81	10.19	8.51			11.80	10.50	
New Earnings Survey										
Central London	29.13	32.05	28.80	31.67	25.55	29.22	29.99	30.84	28.67	28.81
Inner London (excl. Central London)	14.06	17.10	22.05	20.52	22.15	20.34	17.74	19.89	21.57	21.00
Outer London	6.09	6.47	7.15	7.74	10.39	11.89	6.57	7.12	8.42	10.01
Inner London	22.98	26.26	26.19	26.98	24.05	25.21	25.15	26.48	25.74	25.41
Outer London	6.08	6.47	7.14	7.72	10.39	11.89	6.56	7.11	8.42	10.00
Greater London	11.45	12.65	12.54	13.07	14.75	16.18	12.21	12.75	13.45	14.67

Table B.9: Standardised Spatial Wage Differentials for London: Major Group 9: Other Occupations

	Annual Estimates						Three Year Averages			
	1996	1997	1998	1999	2000	2001	1996/98	1997/99	1998/00	1999/01
Labour Force Survey										
Central London		26.82	30.74	23.89	33.14			27.15	29.26	
Inner London (excl. Central London)		5.04	1.78	20.32	24.86			9.05	15.65	
Outer London		13.40	11.01	12.95	15.28			12.46	13.08	
Inner London		15.48	17.40	21.88	28.66			18.25	22.65	
Outer London		13.18	11.00	12.95	15.25			12.38	13.07	
Greater London		14.44	14.04	17.21	21.86			15.23	17.70	
New Earnings Survey										
Central London	16.96	22.30	19.36	16.85	19.75	19.62	19.54	19.50	18.65	18.74
Inner London (excl. Central London)	22.12	10.77	18.21	10.04	13.08	12.83	17.03	13.01	13.78	11.98
Outer London	14.08	12.31	11.83	12.79	10.86	9.25	12.74	12.31	11.83	10.97
Inner London	18.23	18.89	19.00	15.45	17.90	17.61	18.71	17.78	17.45	16.98
Outer London	14.08	12.32	11.83	12.75	10.87	9.27	12.75	12.30	11.82	10.96
Greater London	16.35	15.88	15.32	14.09	13.90	12.77	15.85	15.10	14.43	13.59

Annex C: Standardised Spatial Wage Differentials by Educational Attainment (Labour Force Survey)

Table C.0: Standardised Spatial Wage Differentials for London: No Qualifications

	Annual Estimates				Three Year Averages	
	1997	1998	1999	2000	1997/99	1998/00
Central London	35.58	37.91	32.56	30.22	35.35	33.57
Inner London (excl. Central London)	7.29	22.91	11.69	13.81	13.96	16.13
Outer London	10.92	11.21	7.02	17.08	9.72	11.77
Inner London	18.83	30.39	21.19	20.72	23.47	24.10
Outer London	10.88	11.17	6.94	17.09	9.66	11.73
Greater London	14.38	18.60	12.94	18.57	15.31	16.70

Table C.1: Standardised Spatial Wage Differentials for London: NVQ Level 1

	Annual Estimates				Three Year Averages	
	1997	1998	1999	2000	1997/99	1998/00
Central London	49.31	44.74	50.47	47.75	48.18	47.65
Inner London (excl. Central London)	31.25	23.79	26.66	25.07	27.23	25.18
Outer London	17.95	13.11	15.44	13.16	15.50	13.90
Inner London	41.14	35.51	39.36	38.22	38.67	37.70
Outer London	17.88	13.02	15.38	13.11	15.43	13.84
Greater London	29.47	23.92	26.77	25.67	26.72	25.45

Table C.3: Standardised Spatial Wage Differentials for London: NVQ Level 2

	Annual Estimates				Three Year Averages	
	1997	1998	1999	2000	1997/99	1998/00
Central London	43.91	46.06	46.64	51.44	45.54	48.05
Inner London (excl. Central London)	24.07	19.90	27.79	23.53	23.92	23.74
Outer London	12.66	17.27	15.44	17.80	15.12	16.84
Inner London	35.70	34.35	39.41	40.04	36.48	37.93
Outer London	12.63	17.26	15.41	17.75	15.10	16.80
Greater London	24.77	25.71	27.42	30.30	25.97	27.81

Table C.3: Standardised Spatial Wage Differentials for London: NVQ Level 3

	Annual Estimates				Three Year Averages	
	1997	1998	1999	2000	1997/99	1998/00
Central London	53.97	46.69	39.18	39.01	46.61	41.63
Inner London (excl. Central London)	33.10	27.73	36.57	32.20	32.47	32.17
Outer London	12.40	16.87	14.27	15.78	14.51	15.64
Inner London	45.56	38.90	38.17	36.25	40.88	37.77
Outer London	12.37	16.89	14.27	15.77	14.51	15.64
Greater London	28.75	28.33	26.38	26.58	27.82	27.09

Table C.4: Standardised Spatial Wage Differentials for London: NVQ Level 4

	Annual Estimates				Three Year Averages	
	1997	1998	1999	2000	1997/99	1998/00
Central London	41.13	43.20	43.63	46.01	42.65	44.28
Inner London (excl. Central London)	19.79	22.55	23.62	29.91	21.99	25.36
Outer London	13.29	19.42	15.05	9.71	15.92	14.73
Inner London	34.05	36.66	36.92	40.54	35.88	38.04
Outer London	13.28	19.46	15.10	9.72	15.95	14.76
Greater London	26.77	30.27	28.82	29.45	28.62	29.52

Table C.5: Standardised Spatial Wage Differentials for London: NVQ Level 5

	Annual Estimates				Three Year Averages	
	1997	1998	1999	2000	1997/99	1998/00
Central London	36.04	34.54	33.69	32.95	34.76	33.73
Inner London (excl. Central London)	14.41	1.73	15.90	35.45	10.68	17.69
Outer London	17.60	13.27	9.46	20.02	13.44	14.25
Inner London	30.05	24.47	27.86	33.75	27.46	28.69
Outer London	17.33	13.30	9.65	19.98	13.42	14.31
Greater London	26.93	21.04	21.66	28.60	23.21	23.77

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Appendix 8

Teachers' pay from 1 April 2002

		London area allowances		
	National £pa	Fringe area £pa	Outer London £pa	Inner London £pa
Allowances	–	792	2,043	3,105
Salaries including allowances				
Teacher (age 22) (newly qualified entrant, spine pt. 2)	17,628	18,420	19,671	20,733
Teacher (age 30) (spine point 9)	25,746	26,538	27,789	28,851
Teacher (age 40) (pt.1 of upper spine with 2management responsibility points)	31,113	31,905	33,156	34,218
Deputy head teacher (age 40) (leadership scale point L4)	32,913	33,705	34,956	36,018

Assumptions

The newly qualified teacher is assumed to be a recent graduate with a second class honours degree or better, who would be recruited on point 2 of the pay scale.

The 30 year old teacher is assumed to have started as a newly qualified graduate and to have moved up the pay scale by annual increments reaching the top of the main scale, but not yet having crossed the pay threshold to the upper pay scale.

The first of the 40 year old teachers is assumed to have crossed the pay threshold to be at point 1 on the upper spine (£27,894) and to have taken on additional responsibilities which pay an allowance of 2 management points (£3,219).

The second of the 40 year old teachers is assumed to be a deputy head teacher at point L4 on the leadership pay scale. According to the STRB Teachers' Pay Survey 2001, the largest concentration of deputy heads are ranged between spine points L3 (£32,112) and L7 (£35,511) of the leadership scale.

Inner London allowances are paid in the former inner London Education Authority area plus the Boroughs of Barking, Brent, Ealing, Haringey, Merton and Newham.

The outer London area covers the remaining London Boroughs as follows: Barnet, Bexley, Bromley, Croydon, Enfield, Harrow, Havering, Hillingdon, Hounslow, Kingston-upon-Thames, Redbridge, Richmond, Sutton, Waltham Forest.

The fringe area covers (1) Berkshire: Bracknell, Slough, Windsor and Maidenhead Districts; (2) Bucks: Beaconsfield and Chiltern Districts; (3) Essex: Basildon, Brentwood, Epping Forest, Harlow and Thurrock Districts; (4) Herts: Broxborne, Dacorum, East Herts, Hertsmere, St Albans, Three Rivers, Watford and Welwyn Hatfield Districts; (5) Kent: Dartford and Sevenoaks; (6) the whole county of Surrey; (7) Crawley in West Sussex.

There is also a discretionary supplement of £822 paid to some teachers in inner London who were in post on 1 September 1994.

Police constables' pay from 1 September 2001

	National (basic salary) £pa	Combined London allowances 1* £pa	Combined London allowances 2* £pa	South East allowance 1** £pa	South East allowance 2** £pa
Allowances	–	2,784 (1,773 plus 1,011)	6,111 (1,773 plus 4,338)	2,000	1,000
Salaries including allowances					
Constable, age 20 (on completion of training)	19,842	–	25,953	21,842	20,842
Constable, age 30	25,911	28,695	32,022	27,911	26,911
Constable, age 40	28,062***	30,846	34,173	30,062	29,062

*London weighting is pensionable and currently worth £1,773, having been increased by 3.5 per cent from 1 July 2001. It is separate from the non-pensionable London allowance, which is currently worth £4,338, having been increased from £1,011 in 2000 by the Home Secretary in recognition of the Met's recruitment and retention difficulties. Those in post before 1 September 1994 receive the lower level of the London allowance and London weighting (1). They also receive a housing allowance worth up to £5,126. Those recruited since 1 September 1994, from which date the housing allowance was ended for new recruits, receive the combined London allowances (2).

**Officers in the five forces immediately bordering London – Essex, Hertfordshire, Kent, Surrey and Thames Valley – receive an extra £2,000, and officers in the surrounding forces – Bedfordshire, Hampshire and Sussex – receive £1,000.

***This is the current maximum of the constables' pay scale, reached after 14 years' service.

Assumptions

Initial training for the Metropolitan Police Service (MPS) is 18 weeks (31 weeks for other forces).

The 30-year old constable is assumed to have completed 10 years with the MPS. The incremental pay structure for constables provides for pay rises after 2, 3, 4, 5, 6, 7, 8, 10, 12 and 14 years.

After 14 years' service has been completed, there are no further incremental pay rises. The 40 year-old constable is therefore assumed to have completed at least 14 years' service.

Because nobody currently aged 20 could have been in post in 1994, there is no entry for 20-year old constables in receipt of the lower rate of the combined London allowances (1).

The combined London allowances (1 and 2) are paid to all officers inside the Metropolitan Police boundary.

Nurses' pay from 1 April 2002

	National £pa	Fringe area £pa	Outer London £pa	Inner London £pa
Allowances	–	706	2,522	3,228
Cost-of-living supplement (COLS)*	*	2.5% of salary, maximum £600	4% of salary, maximum £1,000	4% of salary, maximum £1,000
Salaries including allowances				
Nurse (age 21) (newly qualified, min point of grade D)	16,005	17,111	19,167	19,873
Nurse (age 30) (maximum point of grade E)	20,655	21,877	24,003	24,709
Nurse (age 40) (maximum of grade F, excluding discretionary increments)	23,250	24,537	26,702	27,408

*The higher COLS (4% of salary, maximum £1,000) is payable to staff working in Health Authority areas in London, and the lower amount (2.5%, maximum £600) is payable in designated Health Authority areas covering most of the South of England outside London.

Assumptions

Under NHS nurses' clinical grading structure, there are nine grades – A to I. Staff progress through each grade by annual service-related increments. In the senior grades, F to I, the two increments at the top the grades are discretionary, and the majority of staff eligible to receive them do not do so.

We have assumed the minimum point of grade D (the grade for a newly- qualified nurse) as being the typical pay for a 21-year old nurse.

We have assumed the maximum point of Grade E (the grade for experienced staff nurses) as the being the typical pay for a 30-year old nurse.

We have given as a 40-year old nurse's pay, the maximum point of Grade F (excluding any discretionary incremental points). Overall, a third of qualified NHS nurses are on grade F and above.

Nurses' grades D, E and F

	Incremental points £pa		Incremental points £pa
Grade D (newly qualified nurse)	16,005	Grade F (senior nurse)	18,970
	16,545		19,810
	17,105		20,655
	17,670		21,520
Grade E (experienced staff nurse)	17,105		22,385
	17,670		23,250
	18,295		23,690
	18,970	Discretionary point	24,125
	19,810	Discretionary point	24,565
	20,655		

Civil service clerical grades: 2001

Customs & Excise	National £pa	Outer London £pa	Intermediate London £pa	Inner London £pa
Administrative assistant – entry	10,570	12,217	12,511	13,316
Administrative assistant – maximum	13,002	14,855	15,149	15,954
Administrative officer – maximum	14,487	16,504	16,798	17,603
Employment Service				
Administrative assistant – entry	9,270	11,140	11,140	12,140
Administrative assistant – maximum	11,940	13,880	13,880	14,880
Administrative officer – maximum	11,020	12,920	12,920	13,920
Personal secretary – minimum	14,770	16,480	16,480	17,480
Personal secretary – maximum	18,970	21,240	21,240	22,240

Assumptions

Administrative assistant is the lowest grade in both pay structures, and administrative officer the grade above, to which staff can be promoted or directed recruited. In both organisations, staff receive annual performance-related pay increases, so progress up the pay band (which is uprated annually) will be faster for higher performers. From 2002, good performers at Customs & Excise will be guaranteed to reach the maximum after, at most, ten years in the grade.

Local authority clerical workers' pay from 1 April 2001					
	National £pa	Outer London £pa	Inner London £pa	Outer fringe £pa*	Inner fringe £pa**
Clerical assistant aged 20	9,267	11,214	11,931	9,711	9,906
Clerical officer, secretary aged 30	12,618	14,025	15,264	13,062	13,257
Clerical officer, secretary aged 40	13,500	14,907	16,146	13,944	14,139

*National salary plus outer fringe area allowance of £444. Outer fringe area covers the following authorities: Bracknell, Windsor and Maidenhead, Chiltern, Basildon, Brentwood, Harlow, Thurrock, Dacorum, East Herts, St Albans, Welwyn Hatfield, Sevenoaks, Guildford, Mole Valley, Runnymede, Surrey Heath, Tandridge, Waverley, Woking, Crawley.

** National salary plus inner fringe area allowance of £639. Inner fringe area covers the following authorities: Slough, South Bucks, Epping Forest, Broxbourne, Hertsmere, Three Rivers, Watford, Dartford, Elmbridge, Epsom and Ewell, Reigate and Banstead, Spelthorne.

Assumptions

The information in the table assumes that the employing councils follow nationally agreed (NJC) pay and conditions. Under the NJC's general grading scheme, clerical assistants normally start on scale 1 (spine points 4 to 11 on the national spinal column). Increments are normally paid on 1 April each year. Scale 2 (spine points 11 to 13) includes the higher grade of clerical assistants. Clerical officers start at scale 3 (spine points 14 to 17). This scale includes the higher grade of secretary, who normally start on scale 2.

The rates shown for age 20 are based on the assumption that the employee has only recently joined the council: £9,267 is the lowest rate payable, at age 18.

Salaries shown for age 30 assume that an employee has completed 10 years' satisfactory service, was promoted to scale 2 on reaching the top of scale 1 and then was promoted to scale 3 (clerical officer) on reaching the top of scale 2. The rates shown for age 30 are the lowest points on scale 3 under the national and London provisions.

The rates shown for age 40 are based on the assumption that the employee has reached the top of scale 3 which, with normal satisfactory service, would be reached after 13 years.

The Greater London Provincial Council (comprising the London boroughs and the local authority trade unions) recently reached agreement on new pay scales for inner and outer London. It did this by consolidating the former three main levels of the London allowance into the national scales. These superseded the national agreement's inner and outer London allowances. However the national agreement continues to set fringe area allowances since these are not covered by the GLPC agreement. The inner London scales apply in Camden, Hackney, Hammersmith and Fulham, Islington, Kensington and Chelsea, Lambeth, Southwark, Tower Hamlets, Wandsworth and Westminster. The outer London scales are payable in the remaining London boroughs.

Appendix 9

London weighting – a history

A report by Incomes Data Services
to the Greater London Authority
London Weighting Advisory Panel

March 2002

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Chapter 1: London weighting prior to 1974

The practice of paying more to employees working in London than to those working elsewhere in Britain is a long-standing one. Statistics on pay levels in a number of trades from the first half of the nineteenth century onwards indicate that by that time employees in London already had higher rates of pay than those prevailing in the rest of Britain. For example, among compositors in the printing industry in 1830, those working in London had weekly wage rates some 10 per cent or more above the levels of compositors working in other major cities (see table 1). Pay levels continued to be higher in London, by fluctuating amounts, in subsequent decades.

Development of the civil service scheme

The concept of a London allowance or weighting as a separately defined payment, however, has a rather shorter history. The civil service is sometimes quoted as an organisation where London allowances have applied for many decades, but in reality their evolution in the service has been rather complicated. When a national pay system for civil servants was first developed in 1920, the assumption was that civil servants worked in central London. Relatively few were located outside London. As a result, standard salaries for most civil servants were set at what were considered to be London levels, with deductions applied to these salaries for those staff outside London. In effect, this was a reverse scheme of London allowances. This system of 'provincial differentiation' involved deductions of up to 5 per cent for civil servants based in Edinburgh and Dublin (classified as 'intermediate' areas, southern Ireland at that time of course still being part of the UK) and larger deductions of up to 10 per cent in the rest of the country.

The system was overhauled in the 1930s, though the principle of provincial differentiation was maintained. The Tomlin Commission recommended that a number of cities and large towns should be added to the intermediate area list and that the deductions from salaries for provincial staff should be changed from a percentage basis to a series of flat cash deductions linked to salary level. The changes took effect in 1935. There were further minor changes during the 1940s, and in 1951 the London area was redefined. The area within which full London salaries applied for civil servants was set at a 12-mile radius from Charing Cross (measured from the King Charles statue) while all offices beyond the 12-mile radius but within a 16-mile radius were classified as in the intermediate area.

The system was not popular. According to evidence submitted by civil service unions to the Priestley Commission in the 1950s, 'no other feature of civil service pay attracted such violent and persistent criticism' as the deductions from salary involved in the provincial differentiation scheme. The Commission concluded that the system should be stood on its head: there should be national salary scales with additions paid to those in London and perhaps other high-cost areas. It felt that a scheme of enhancements would be more palatable than one of deductions. The Priestley Commission took the view that it was right that there should be some form of pay difference between salaries in London and those elsewhere: 'It would be wholly contrary to what we regard as a fundamental principle if the differences in rates of pay as between London and the rest of the country which are found almost universally outside the Service were in no way reflected' (para 304). According to the Commission, by this time it was common practice for major organisations to operate a two-tier system, made up of national pay rates with London allowances in addition for employees in the capital. Only when these recommendations were implemented from 1955 onwards did the civil service gain a recognisable London allowance scheme. It continued to take the form, however, of a stepped series of allowances varying according to salary level.

Table 1: Weekly rates of wages for compositors in the printing industry in selected years 1830–1965

	London		Manchester		Birmingham		Leeds		Glasgow		Cardiff	
	s.	d.	s.	d.	s.	d.	s.	d.	s.	d.	s.	d.
1830	33	0	30	0			26	0				
1840	33	0	30	0	24	0	26	0	25	0		
1850	33	0	30	0	24	0	26	0	25	0	21	0
1860	33	0	30	0	24	0	28	0	25	0	21	0
1870	36	0	30	0	27	0	30	0	27	6	24	0
1880	36	0	35	0	30	0	32	0	32	6	29	0
1890	36	0	35	0	30	0	32	0	32	6	30	0
1900	38	0	35	0	34	6	34	0	34	0	30	0
1920	85	0	82	6	79	6	79	6	82	6	79	6
1930	89	0	77	6	74	6	74	6	77	6	74	6
1945	106	6	95	0	93	6	93	6	95	0	93	6
1955	186	0	174	6	174	6	174	6	174	6	174	6
1965	297	0	281	0	281	0	281	0	281	0	281	0

Source: British Labour Statistics, Historical Abstract 1886 – 1968, HMSO

The landmark NBPI report

The key development on London allowances in the 1960s was the publication of a report on London weighting by the National Board for Prices and Incomes (NBPI) in 1967*. Again this stemmed from controversy over pay arrangements in the civil service. In asking the NBPI to investigate the matter for this group, however, the Government stated that it 'would expect that similar principles might well, where appropriate, thereafter be adopted by other organisations employing, both in London and elsewhere, large numbers of comparable staff'. The NBPI report is of particular significance both because of this aim of setting a broader model of practice for employers and because, for the first time, there was a move to base London weighting on a formula linked to measurable cost differences.

By the time of the NBPI investigation the inner London allowance applied to civil servants within a 4-mile radius of Charing Cross while the outer London allowance applied to staff in offices between 4 and 16 miles from Charing Cross (the former intermediate area list of other large towns was scrapped in 1958). The value of the allowances varied in steps according to salary, ranging from £60 to £85 a year in inner London and from £30 to £65 in outer London. These payments were equivalent to anything between roughly 6 and 13 per cent of salary in inner London and around the 4 to 6 per cent mark in outer London. Research by the NBPI found much higher levels of London allowances being paid by the private sector and that these mostly took the form of flat-rate additions not linked to salary (commonly around the £150 a year in inner London and £80 in outer London).

*The National Board for Prices and Incomes was set up in 1965 by the then Labour Government to advise on issues referred to it. Subsequently it was also given responsibility for administering the statutory prices and incomes policy of the late 1960s. The NBPI was abolished by the Conservative government elected in 1970.

One of the key issues that the NBPI confronted was what should be the purpose of London weighting. Should it be aimed at solving labour supply difficulties or should it be designed to compensate for higher living costs? The NBPI concluded that London weighting was too blunt an instrument to be used to address shortages of particular types of staff, and it would be too complex to pay different and fluctuating levels of London allowance to different groups at different times according to the state of the recruitment market. It concluded 'we think that it is the cost of living which should be the determining factor in setting the level of London weighting' (para 16). It took this line in part because it would be possible to measure some of the elements making up the difference in the cost of living: 'It is thus practicable to set a standard which has some degree of objectivity and can be applied to all people who work in similar situations. This standard, if generally adopted, could obviate the tendency for private employers in London pointlessly to outbid the public authorities or one another.'

The NBPI recommended a flat-rate cash allowance for those working in inner London (£125 a year) and a lower level in outer London (£75 a year). It based these recommendations on calculation of the differences in travel and housing costs between London and the provinces. It went on to recommend that these levels of weighting should be reviewed at intervals of three years. The basis for review should be a new Ministry of Labour annual index of movements in public transport fares and housing costs (details of the basis for the index are reproduced in Annexe 1).

The NBPI urged other employers paying London allowances to follow its principles. It seems to have achieved some success in this as the 1974 Pay Board report commented on the NBPI's 1967 report that 'its recommendations were subsequently adopted by other employers, especially in the public sector, as the basis for calculating their own London weighting'. But, while widely adopted, the NBPI formula was not without its problems. In particular, the view emerged that, as house prices and rents rose sharply in the early 1970s, the housing element of the index, and hence of allowances, did not adequately reflect the differences in housing costs in London by comparison with the rest of the country. Dissatisfaction with the system led in due course to a further review under the auspices of the Pay Board.

References

Report of the Royal Commission on the Civil Service 1929–31 (The Tomlin Report), Cmd. 3909, HMSO, 1931

Report of the Royal Commission on the Civil Service 1953–55 (The Priestley Report), Cmd. 9613, HMSO, 1955

London Weighing in the Non-Industrial Civil Service, National Board for Prices and Incomes, Cmnd. 3436, HMSO, 1967

London Weighting: Pay Board Advisory Report 4, Cmnd. 5660, HMSO, 1974

Annexe: National Board for Prices and Incomes

Extract from proposals for periodic reviews of London weighting

Civil service

The report recommends (paragraph 39) that the levels of London weighting in the civil service should be reviewed every three years to take account of the movements of travel and housing costs in London and the provinces. Moreover, when adjusting the inner London rate, equal weight should be given to the movements in travel and housing costs, ie one half of the whole rate should be adjusted in accordance with the movements in travel costs and one half in accordance with the movements in housing costs. So far as outer London is concerned, the whole rate should be adjusted in accordance with the movements in housing costs.

2. To this end, the Ministry of Labour has agreed to publish annually the following four indices based on 1967=100:

A. Index of rents and other housing costs in the Greater London Council area;

B. Index of rents and other housing costs in the rest of the country;

C. Index of fares charged by London Transport and the London lines of British Rail;

D. Index of public transport fares in the rest of the country.

The definitions of the items mentioned will be the same as in the Retail Prices Index. The index is not at present split geographically.

3. It will be necessary to construct, from the Ministry of Labour's four indices, two further indices to be used for adjusting the levels of London weighting in inner London and in outer London. Comparing civil servants in inner London with civil servants in the provinces, average travel costs are, in round figures, in the ratio of 2:1 and average housing costs in the ratio of 3:2. Comparing outer London with the provinces, average housing costs are broadly in the ratio of 3:2.

4. So, for inner London, the combined index to be used for adjusting the level of London weighting, based on the indices in paragraph 2 above, would be:

½ (3 × Index A *minus* 2 × Index B *plus* 2 × Index C *minus* 1 × Index D).

For outer London, the combined index to be used for adjusting the level of London weighting would be:

3 × Index A *minus* 2 × Index B.

5. The patterns of housing and travel circumstances of civil servants are not likely to alter much except over a long period. The enquiry that we made to establish these patterns (as well as the relative costs) would not therefore need to be repeated except at long intervals.

Other employers

6. As the indices in paragraph 4 above are constructed in broad terms we would expect them to be suitable for a wide range of employers who pay London weighting.

Source: Report No 44, London Weighting In The Non-Industrial Civil Service, HMSO, Cmnd 3436, November 1967.

Chapter 2: The 1974 Pay Board Inquiry

During the 1960s the population of London declined as inhabitants decamped to the suburbs and beyond. The result was that between 1961 and 1971, total employment in London fell by around 8½ per cent. The fall in employment was unevenly distributed: while employment in manufacturing fell, the numbers working in insurance, banking, finance, professional and technical services, public administration and defence rose. The aggregate picture was of a city in which there were 'pockets of persistent unemployment' while, on the other hand, employers were finding it difficult to fill skilled vacancies in building and engineering, and there were also problems staffing public services, including London Transport, the police and schools.

At the same time, the GLC reported that despite the decline in population, there were serious housing problems. While the number of one-person households had increased, there was also an imbalance between dwelling size and household size, leading to overcrowding on the one hand and under-occupation on the other. The GLC said that 'for low and middle income families there is a marked lack of accommodation anywhere in the London area at a price they can afford…Public housing has generally not been available for incomers, who have had to go to the bottom of the housing lists' (Pay Board Advisory Report 4, 'London Weighting', para 15).

Against this background, in October 1973 the Government requested the Pay Board[1] to review the approach to London weighting that had been established by the NBPI. There was growing dissatisfaction with the operation of London Weighting. In addition to housing problems and the difficulties associated with a decline in population, inflation was rising: the year-on-year increase in the retail price index would reach 17.1 per cent by the time the Board published its report (see table below).

The economic boom of 1970–74 produced the highest real rate of increase in house prices for the past 30 years. During the term of office of the Heath Government, house prices increased by an average of over 11 per cent a year. Criticisms of the NBPI recommendations centred on the view that the housing element of the existing London allowances did not reflect the recent sharper rises in housing costs in the capital than the rest of the country. This was partly a matter of perception, since house prices in other regions rose by as much (the West Midlands) or by more (East, East Midlands, Yorks/Humberside, South West) than in the capital. Nevertheless, prices in London were rising rapidly – they equalled the average for the UK as a whole – and they did start from a much higher average base than every other region apart from the South East.

1. The Pay Board was established in 1973 under the then Conservative Government's 'Programme for Controlling Inflation'. Along with a Price Commission, the Board was given powers to regulate prices, pay, dividends and rents. It was abolished by the Labour Government in 1974 after the statutory incomes policy was brought to an end. In his introduction, the Chairman of the Pay Board, Sir Frank Figgures, said that the Board had made its recommendations while conscious that the statutory policy was about to be terminated. Nevertheless, the Secretary of State for Employment, Michael Foot, endorsed the report 'as affording guidance by which negotiations on London weighting can now sensibly proceed'.

Retail price inflation, July 1972 to July 1974			
		All items	
(January 1962=100)		Index	% increase
1972	July	164.2	5.8
	August	165.5	6.6
	September	166.4	7.0
	October	168.7	7.9
	November	169.3	7.6
	December	170.2	7.7
1973	January	171.3	7.7
	February	172.4	7.9
	March	173.4	8.2
	April	176.7	9.2
	May	178.0	9.5
	June	178.9	9.3
	July	179.7	9.4
	August	180.2	8.9
	September	181.8	9.3
	October	185.4	9.9
	November	186.8	10.3
	December	188.2	10.6
1974	January	191.8	12.0
	February	195.1	13.2
	March	196.8	13.5
	April	203.5	15.2
	May	206.4	16.0
	June	208.5	16.5
	July	210.4	17.1

On top of this, employers began to report employees' 'disenchantment' with work in London and consequent recruitment and retention difficulties. The NBPI report had rejected such difficulties as a basis for determining London weighting. It took housing and travel costs as the main determinants of payments, on the basis that there were no significant differences in other costs between London and the rest of the country. As a result, the terms of reference given to the Pay Board by the Government were much broader than those given to the NBPI. In particular, the Government asked the Board:

(a) 'to consider whether the approach in the NBPI Report No. 44 which governs London Weighting is still valid, and, if not, what principle should replace it;

(b) to review the present weightings and geographical boundaries used in applying the 1967 formula;

(c) to examine the methods used to keep the weightings up to date;

(d) to consider whether it would be desirable and practicable to set common rates of weighting, boundaries and dates of implementation or increases for all those in public sector employment who benefit from London Weighting'.

Average house prices by region, 1970–1974

Region	Average house price Q2 1970, £	Average house price Q2 1974, £	% increase	Real price increase (taking inflation into account) %
Greater London	6,000	13,400	123	51
South East	6,000	13,800	130	55
South West	4,700	11,300	140	63
East	4,500	10,500	133	58
West Midlands	4,400	9,800	122	51
East Midlands	3,700	9,000	143	64
North West	3,900	8,400	115	46
Yorks/ Humberside	3,500	7,900	125	53
North	3,800	7,900	107	41
Scotland	4,900	9,600	95	32
Wales	4,100	8,400	104	39
Northern Ireland	4,400	8,300	88	28
UK	4,800	10,700	122	51

Source: Halifax, '30 Years of Housing in the UK', 2 November 2000 (www.halifax.co.uk)

The Board was asked to consider the implications of its recommendations in relation to employees in both the public and private sectors, and to 'assess the magnitude of the increases which might flow from [its] recommendations' (Pay Board Advisory Report 4, 'London Weighting', Terms of Reference).

In carrying out its remit, the Board undertook a survey into the housing and travel to work costs borne by representative groups of manual and non-manual public sector employees. In addition, the survey covered private sector groups in banking and finance, and elsewhere. The Board also undertook a major survey of current practice on London weighting, in both the public and private sectors. The survey's coverage of public sector practice was 'virtually complete'. It indicated that 95 per cent, or just over 900,000 employees in the public sector received some form of London weighting payment. Sampling practices in the private sector proved more difficult, however, and the Board opted for a selected sample of 250 private sector employers, constructed to cover both large and small employers and to reflect the distribution of employment in London by industry and size of firm. The Board received replies from 172 private sector employers.

The table on page 11 shows examples of current (public sector) practice at that time:

Examples of public sector London weightings 1974

Organisation	Areas of payment	Nos of staff in London	Employee groups	London Weighting
Civil service	Inner 4 mile radius of Charing Cross	100,662	Non-industrial	£228pa
	Outer 16 mile radius of Charing Cross plus Dartford and Watford, Caterham and Warlingham and part of Uxbridge	42,761		£110pa
	18 mile radius of Charing Cross	16,000	Industrial	Male £1.96pw; female £1.86pw
NHS	Metropolitan Police District and City of London and Dartford Rural District	61,000	Administrative and clerical staff, nurses and midwives, professional and technical, opticians and pharmacists	£126pa
	Greater London and selected surrounding areas including Epping, Harlow, Rickmansworth, Staines	30,000	All manuals except craftsmen and labourers	£2.40pw
		4,000	Craftsmen and labourers	£126pa
London boroughs	Inner – 8 inner boroughs	53,700	APT&C staff	£144pa
	Outer – 24 outer boroughs			£105pa
	GLC area and other authorities wholly within MPD	136,361	Manual workers	£2.30pw
	Authorities partly within the MPD	Not known	Manual workers	£2.05pw
		15,119	Building craftsmen	£1.00pw
		3,015	Engineering craftsmen	£2.30pw
London Fire Brigade	GLC area	4,900	Firemen and officers	£160pa
Inner London Education Authority	Camden, Hackney, Islington, Lambeth, Kensington and Chelsea, Southwark, Tower Hamlets, Wandsworth, Westminster, Lewisham, Hammersmith, Greenwich and City of London	22,052	School teachers	£118pa
Outer London boroughs	Remaining 20 London boroughs	37,067	School teachers	£118pa

Source: Pay Board Report

In the private sector, the responses were anonymous but the Board found that two-thirds of the employees covered by their survey received London weighting at between £50 and £149 a year. Half of the employees covered received less than £100 a year.

Amounts of London weighting paid in the private sector		
£pa	No of employees	%
Under £50	2,916	5
£50 – 99	24,366	45
£100 – 149	11,687	22
£150 – 199	8,492	16
£200 – 249	1,818	3
£250 – 299	2,686	5
£300 – 350	2,225	4
Total	54,190	100

Source: Pay Board Report

Board recommends £400

The Board published its findings in July 1974. It recommended that London allowances should be paid at the same rate throughout the public sector for all manual and non-manual workers. It said the rates should be based on four elements – housing costs, travelling costs, consumer costs and 'the extra wear and tear connected with the journey to work and the lower standard of housing in London compared with elsewhere' – and should (except for the last factor) be adjusted to take account of income tax. The recommended rates, grossed up for tax, were as follows:

Element	**Inner London £pa**	**Outer London £pa**
Housing	141	80
Travel to work	73	15
Other consumer costs	81	81
Wear and tear and housing standards	105	24
Total	400	200

Calculating the allowances – the cost compensation principle

In its report, the Pay Board said that London weighting could conceivably be used for three purposes: (1) equalisation of real earnings for work in London with comparable work elsewhere; (2) alleviating labour shortages in the capital; (3) to reward jobs that are more demanding in London.

The Pay Board found, however, that the main principle on which London weighting should be based was that of compensating employees for the extra costs associated with working in the capital. The Board considered, and rejected, arguments that London weighting should be used specifically to deal with labour shortages. However it did accept that an increase in weighting payments could play a role in alleviating recruitment and retention problems, albeit subsidiary to those measures taken by employers themselves. The Board also recognised that assistance with accommodation would help alleviate labour shortages.

The report stated: 'We consider that the basic justification for London Weighting is to ensure comparability of real earnings for working in London and elsewhere. We feel it will also have the secondary, but important effect of helping to ease London's labour shortage problems. …Any remaining problems of labour supply are mainly specific and must be the concern of individual employers and trade unions, either to pay for additional responsibilities, to consider improved manpower utilisation, or to provide special assistance to meet the London differential in capital payments in first time house purchase' (Pay Board Advisory Report 4, 'London Weighting', para 72).

On the third point, while the Board agreed that a good case could be made that jobs such as teachers and police officers were more onerous in the capital, it thought that this should be dealt with by the overall salary structures for these jobs. This was regarded as the proper means of rewarding extra responsibility and effort. The Board noted, for example, that the salary scales of senior police officers were higher in London than elsewhere in recognition of differences in job content.

The elements of the cost-compensation allowance

The allowances recommended by the Pay Board consisted of four elements: housing costs, travel to work costs, other consumer costs, and 'wear and tear and housing standards'.

Housing: as pointed out earlier, the main criticism of the existing allowances was that the housing element did not reflect the recent sharp rise in house prices or mortgage interest rates. Regarding house prices, the report said: 'We do not consider that it would be right in principle to base the house purchase element in any London weighting allowance on current house prices. This would be extremely costly and inequitable between London and the rest of the country since it would greatly over-compensate all but the most recent house buyers.' The Pay Board did however recommend that public authorities should be able to help employees to buy their first homes: 'Employers facing acute labour shortage problems should consider the possibility of introducing schemes of capital assistance for first-time buyers in London based on the differential purchase costs between London and elsewhere.'

The NBPI approach was to assess the housing element of London weighting in terms of prices falling half-way between the prices originally paid and current prices. The Pay Board rejected this approach, on the basis that the cost-compensation principle of equalising the real value of remuneration for comparable work in London and elsewhere would be inconsistent with the NBPI compromise (between differences in actual expenditure and notional differences in expenditure).

As a result of this view, the Pay Board decided to take the actual housing expenditures recorded by their survey as the basis for calculating the housing element. However, allowable housing expenditure for owner-occupiers was restricted to the interest element of their costs, adjusted to take account of tax relief on ordinary mortgages. The reason for this was that with the rising trend in house prices, mortgage repayments could be more properly regarded as savings rather than expenditure. Therefore the real expenditure is the cost of raising the finance to make the purchase in the first place, and this is represented by interest payments on the mortgage. Housing expenditures for London (where there is a lower proportion of owner-occupiers than elsewhere) were adjusted to the same proportions of ownership and renting as for the rest of the country.

Travel to work: compensation was to be based on differences in patterns of expenditure, in view of the longer distances travelled to work in London. The Board thought it was important to place a monetary value on travel by car, because of the more extensive use of cars in outer London and the rest of the country than in inner London. The final report used a valuation of 2.7p a mile, which at that time was the rate usually paid in the public sector to employees who use their cars on their employer's business.

Other consumer costs: the Board's survey showed that four-fifths of those working in the public sector in the capital lived within the Greater London area (old GLC boundary). In addition, the survey found that a basket of items (based on national consumption patterns) cost 4.4 per cent more in London than elsewhere. The Board felt that this difference was significant enough to merit inclusion in London weighting as a separate element.

Wear and tear and housing standards: one part of this element was based on people's very different experiences of travelling to work in inner London compared with the rest of the country. Here, the Board found that the average distance travelled to work in inner London was twice as far as anywhere else and the incidence of changes of vehicle was about nine times as frequent (the figure for outer London was three times as frequent). In outer London travel-to-work distances are only slightly longer than in the rest of the country. The Board also thought it was important to take the lower standards of housing in London (eg more sharing of facilities, fewer detached houses etc) into account.

Accounting for taxation

London Weighting, as part of pay, was and is taxable. However, the NBPI formula contained only a marginal allowance for taxation. This approach was criticised on the basis that the adjustment was insufficient to produce adequate London Weighting payments, net of tax. The Pay Board largely accepted these criticisms: 'It seems entirely logical to us that if London allowances are to compensate adequately for higher costs borne by those who work in London then the allowances should produce sufficient additional net income to do so.' In line with this, the Board grossed up – at the then current basic rate of 33 per cent – the first three elements (the cost differentials) of London weighting.

Boundaries and zones

The Board's expenditure survey showed that as well as differences in costs between London and the rest of the country, there were also differences between inner London and the rest of the capital. In line with this, the report established an inner London zone with a boundary four miles from Charing Cross, and an outer London zone covering the remainder of the Greater London area (using the old Greater London Council boundary). However, the Board saw no point in standardising boundaries for the payment of London Weighting. The report said that its recommended boundaries may be adjusted provided the outer boundary 'does not greatly depart from the GLC area'. It also regarded both the Metropolitan Police District boundary and the civil service outer London boundary, 16 miles from the centre of London, as acceptable. As far as other boundaries were concerned the report stated:

> 'Although we accept that organisations need to have some flexibility in determining their own boundaries, this is no reason for paying more in total London Weighting than would be available if our boundaries and zones were used. This applies equally to groups who have adopted slightly different boundaries, or have decided to have only one zone or more than two. Where there are such variations, consistency with our recommendations can be secured by calculating a 'kitty' based on entitlement on our boundaries which is averaged out over all the employees, whatever their entitlement' (Pay Board Advisory Report 4, 'London Weighting', para 130).

Scope and cost estimates

While the report's recommendations were aimed primarily at the public sector, the Government's terms of reference requested the Pay Board to also consider the implications of their recommendations for the private sector. The Board regarded its recommendations as applicable only to those private sector companies with national wage and salary structures, such as the banks.

The Board recommended that London weighting be excluded from the calculation of premium payments for overtime and shift working, and bonus and incentive payments, on the basis that the amount of London allowance should not vary with the number or pattern of hours worked, or with the type of payment system in use.

On including London weighting for the purpose of pension calculations, the Board made no recommendation, though it did note that it was universal practice in the public sector to include London Weighting in the pay on which pension entitlement was based. The Board considered that part of London weighting could be regarded as already having been used to secure entitlement to a pension higher than would otherwise be the case.

At the time, the Pay Board estimated that its recommendations would increase the cost of London weighting in the public sector by £154½ million per annum, bringing the total cost of London weighting to £289 million per annum. It estimated that this would add 6½ per cent to the current London pay bill, and 1.44 per cent to the total pay bill of public sector employers who have employees both in and outside London. The Board also estimated that its recommendations would add 0.38 per cent to the total national pay bill.

Recommendations for updating

The Pay Board recommended that London weighting should be reviewed annually. Following this, each year the Department of Employment published indices to monitor relative changes between the cost of living in London and the rest of the country (see below). These were updated annually until the Conservative Government discontinued them in 1982. The Board also recommended that a major review of its approach should take place within five years. The indices used in the updating had as their base April 1974 = 100. The Board recommended the following pairs of indices for Greater London (1) and the rest of the country (2):

A1 and 2	Indices of the average mortgage costs (interest only, net of tax relief) of all owner occupiers
B1 and 2	Indices of rates net of rebates
C1 and 2	Indices of local government rents net of rebates
D1 and 2	Indices of private rents net of rebates
E1 and 2	Indices of rail and underground fares
F1 and 2	Indices of bus and other public transport fares
G1 and 2	Indices of the running costs of private motor vehicles excluding overheads
H1 and 2	Indices of the cost of other items of expenditure.

These indices could be used to update the Pay Board's recommended figures for housing, travel to work, and other costs. The figure for wear and tear and housing standards should be updated by the change in the RPI. All the indices are designed to relate to April, and public sector London weighting should be updated annually with effect from 1 July each year.

The Board said: 'The weights of items and the mix of products within each set of items for which indices are recommended may change between major reviews as national expenditure patterns change. However, updating should be on the basis of the expenditure patterns between these sets of items revealed by the Board's enquiries and should not be changed until the first major review' (Pay Board Advisory Report 4, 'London Weighting', Appendix VI, para 2).

The report made recommendations on the methods of uprating the various elements of London weighting. For example, the recommended element for housing expenditure was £141 in inner London and £80 in outer London. These represent differences in average expenditure by public sector employees between inner and outer London respectively and the rest of the country outside the GLC area. The table below gives the composition of the different types of housing expenditure, averaged over all employees, represented by these figures.

Composition of expenditure on housing April 1974

Item	Expenditure*		
	Inner London £	Outer London £	Rest of country £
Owner occupiers' mortgage costs (interest only, net of tax relief)	106	85	67
Rates and ground rent**	78	69	56
Local government rent	27	31	28
Private and other rents including rental equivalent for boarders	78	63	43
Total housing	289	248	194

*Standardised expenditure for pay level, gender and occupancy.
**Includes ground rent £2 in inner London, £1 in outer London and £2 in the rest of the country.

For updating, the Board said that each expenditure item in both inner and outer London should be multiplied by the appropriate index for the GLC area (A1 to D1) divided by 100. From the resulting figures, the amounts for each item in the rest of the country multiplied similarly by its appropriate index (A2 to D2) divided by 100, should be subtracted. The updated allowance would be the sum of these differences grossed for income tax at the basic rate at the time of updating.

The Board recommended the sums of £73 in inner London and £15 in outer London as an element in London weighting to compensate for the higher costs of travelling to work in the capital. The composition of the different items that made up this element are shown in the table below. The recommended method for updating these was the same as for housing, using the appropriate travel to work indices E1 to G1 for London and E2 to G2 for the rest of the country, to give the updated allowance for travel to work.

Composition of expenditure on travel to work, averaged over all public sector employees by area, April 1974

	Inner London, £	Outer London, £	Rest of country, £
Rail and underground fares	70	11	2
Bus and other public transport fares	15	14	13
Running costs	19	37	39
Total travel to work	104	62	54

The recommended element for other items of expenditure was £81. This amount represented the difference (£54) between expenditure of £1,223 in the rest of the country and £1,277 in Greater London, grossed up for income tax at the basic rate of 33 per cent. The updated difference would be £1,277 multiplied by index H1 divided by 100, less £1,223 multiplied by index H2 divided by 100. The result would then have to be grossed up for tax at the prevailing basic rate.

The Board recommended that the amounts for wear and tear and housing standards (£105 in inner London; £24 in outer London) should be updated by the change in the Retail Price Index from April 1974 (and each April thereafter) at the same time as the other elements are updated.

The updated total of London weighting for inner and outer London would be the sum of the updated figures resulting from each of the calculations described above.

Chapter 3: The impact of the Pay Board Report

While the Pay Board Report was welcomed in some sectors as breaking away from the 'totally inadequate' NBPI formula, many trade unions were critical (IDS Report 188, July 1974, p.8). For example, at the time the report was published, staff in local government had imposed an overtime ban in a dispute with their employers over London weighting payments. The local government officers' union NALGO protested that the amounts recommended by the Pay Board were lower than the employers' interim offer of £360 and £291.

In the civil service, the CPSA had claimed allowances of £550 and £350 (IDS Report 179, p.6), and this union also greeted the recommendations as disappointing. London teachers – represented by the NUT – were also involved in industrial action over London weighting prior to publication of the Pay Board's report, with walkouts at a number of schools. Their London allowance had been £118 since November 1970 and they were seeking an increase to £350. The NUT felt that the Pay Board's recommendations would do little to solve the problem of teacher shortages in London schools.

Following the publication of the Pay Board's report, the TUC called a meeting of affiliated unions to discuss the question of London allowances. The meeting called for clarification of the Government's attitude to the report and its status in negotiations. The reason for this was that while the Secretary of State for Employment, Michael Foot, had led unions to believe that negotiations on increased allowances could be open-ended, there were doubts over this after teachers' unions had been told by the Secretary of State for Education to keep within the Pay Board's recommendations.

In response to the TUC, Mr Foot wrote: '…the position of the Government is that the Pay Board report is not a straightjacket and negotiators will have full responsibility for the settlements that they conclude… Insofar as the case for London weighting is compensation for additional costs, the Board's conclusions need to be taken into account if increases in London weighting are not to favour Londoners at the expense of the rest of the country. But may I again emphasise that the Government intend that negotiators, both unions and employers, should be free to negotiate and not be rigidly bound by the Pay Board's recommendations…[This] applies in exactly the same way where the Government or any other public sector employer is negotiating on London weighting. Public sector employers will therefore not be negotiating exclusively on the Pay Board's recommendations but will be responding to claims in negotiation in the light of their particular circumstances' (IDS Report 189, July 1974, p.4).

Negotiating London Weighting

The outcome of most of the negotiations in the public sector was that the parties agreed changes to London weighting arrangements which generally improved upon those recommended by the Pay Board. However in most cases there was a small trade-off between the amounts agreed for inner and outer London, with the latter tending to exceed the Pay Board recommendations by some way and the former just below the recommendations.

An exception was the first large group to settle new London allowances after the publication of the Pay Board report, employees at British Airways and British Caledonian (both still in the public sector at the time). Around 18,000 white-collar staff, who had previously received a London allowance of £115 a year, got £200 or £400 depending on whether they worked at Heathrow or within four miles of Charing Cross (including staff at the West London Air terminal near Earl's Court). The deal also extended payments to 23,000 engineering, maintenance and ground service workers who had not previously received a London allowance (IDS Report 190, p.4).

Elsewhere, local authority workers accepted inner London allowances of £381 and outer London allowances of £261. This settlement exceeded the Pay Board's recommendations by some £5 million. This was because under the Board's proposals for a 'kitty' system (see above) the outer London allowance could only be raised above the £200 limit if the inner London allowance were reduced so as to average out the entitlement (IDS Report 190, p.4). Shortly afterwards, agreement was reached on 'fringe' payments for staff in councils outside the 32 London boroughs. The payments were worth £180 in the 'inner fringe' area covering specified district councils such as Epping Forest, Epsom, Slough and Watford, and £120 in the 'outer fringe', for example Basildon, Bracknell, Dartford and Harlow (IDS Report 191, p.3). This was despite the Pay Board's position that 'We do not consider there is any case for special allowances in areas bordering these outer boundaries [the 16-mile limit or GLC boundary]' (Pay Board Advisory Report 4, 'London Weighting', para 159).

In education, a new three-tier system of London allowances was introduced, covering around 100,000 teachers. Staff in inner London and eight 'special areas' received £351 a year; teachers in schools throughout the rest of the GLC area received £267, and teachers in the 'fringe' bordering the GLC area received £141 (IDS Report 193, p.6). Non-industrial staff in the electricity supply industry received greatly increased London allowances of £390 (inner) and £276 (outer).

The arrangements in the civil service, which were influential on the practice of a number of large private sector companies, were altered around the same time. Previously, civil servants received an inner London allowance of £228 (within a radius four miles from Charing Cross) and an outer London allowance of £110 at distances of four to 16 miles from the centre. The new agreement provided for an inner London allowance of £410 up to five miles from Charing Cross and an outer London allowance of £260 for staff in an area between five and 18 miles from the centre. The 18-mile limit had previously applied to civil service industrial workers only.

Clearing banks' allowances

In the private sector, the main clearing banks raised their inner London allowance to £402 from 1 August 1974 (it had previously been increased to £391 in November 1973 but following the Pay Board report levels were raised again). The other allowances were increased as follows:

Clearing banks' allowances

Distance from Charing Cross	1.8.74 £pa
0 – 3 miles	402
3 – 6 miles	345
6 – 10 miles	231
10 – 16 miles	186
16 – 22 miles	117
Large towns	105

Other private sector organisations tended to adopt the Pay Board recommendations more straightforwardly, with £400 (or thereabouts) becoming the norm for inner London. For example, ICI replaced separate provincial and London salary scales with just one basic scale plus London allowances of £402 for staff within four miles of Charing Cross and £201 for those elsewhere in London. Shell UK increased the London allowance for its 4,300 staff in inner London from £165 to £402 (IDS Report 192, p.7).

Labour shortages revisited

The Pay Board's position with regard to recruitment and retention difficulties was that London allowances could not be used to deal specifically with these problems, though some alleviation might be expected as a secondary effect. Unsurprisingly, labour shortages in the public sector remained a live issue and a study was commissioned to look at this. The 1975 Manning of Public Services study (a joint study conducted by the Department of the Environment, the Department of Employment, the Greater London Council and the London Boroughs Association) noted the serious staffing difficulties of London employers, especially in the public services. The study made a number of recommendations. The most important were as follows:

- Public service employers should try to maintain their rates of pay and allowances in relation to those offered by the private sector, but should avoid forcing up pay levels in an inflationary tug of war for labour. They should try to avoid bidding up within the public sector.
- Improved labour utilisation, better facilities for employing women and part-time workers, streamlined recruitment procedures and improved personnel management.
- Action to ease the housing problems of essential public sector workers and of Londoners generally, including 'consideration of local housing authorities in consultation with public employers of measures that would give some preference to essential workers in areas of special labour supply difficulty.'
- There were a number of recommendations relating to means of improving the information on manpower problems available to employers.

However, the study group also recommended that London weighting payments 'should not be extended beyond the areas or categories of worker for which they are genuinely justified.' This was on the basis that any 'increase in the relative pay advantage of London over the rest of the country would mean extending the purpose of London Weighting which is, at present, simply to compensate for the higher cost of living for those working in the capital' (Department of the Environment, 'The Manning of Public Services in London', 7.2.3).

Rather pessimistically, the study concluded that shortages of public sector workers were more severe in London than in most of the rest of the country and that the situation was likely to get worse. However, '[T]he numbers of employees in the public sector in London…is so great, and the nature of their employment so disparate, that shortages cannot be solved…solely on the basis of the obvious remedies of pay and housing. Individual employers in the public sector will have to reconcile themselves to giving over much more management effort to staffing problems and manpower planning than is normal in the rest of the country. But above all in a situation in which the population of London and its resident labour supply is likely to continue falling while demand for public services may still grow, employers in the public sector must increasingly look for major economies in their use of labour, not only because of the need to contain the continuing growth of public expenditure, but because the men and women will not be available to fill a larger number of posts' (ibid, 9.12).

Chapter 4: The operation of London Weighting, 1974 to 1982

The Department of Employment agreed to adopt the Pay Board's method of updating London allowances. On 6 March 1975, Mr Foot announced: 'My Department has for some years published index numbers of rents and other housing costs and fares in the Greater London area and in the rest of the UK. These will now be discontinued and replaced by the more extensive price index numbers needed to recalculate the London weighting allowances established last year. These new price index numbers will be published in June each year, relating to the preceding April.'

The first indices were published in the June 1975 issue of the Department of Employment's Gazette. The eight pairs of indices showed how costs had changed for three of the four elements of London Weighting – housing, travel to work, and other consumer costs. The fourth element of London weighting – wear and tear and housing standards – was based on movements in the Retail Price Index and therefore, taking April 1974=100 as the base, the index figure for April 1975 was 121.7. On the basis that April 1974=100, the April 1975 indices were as follows:

Description of index		Greater London	Rest of UK
A	Average mortgage costs (interest only, net of tax relief) for all owner-occupiers	109	111
B	Rates net of rebates	145	139
C	Local government rents net of rebates	102	110
D	Private rents net of rebates	102	106
E	Rail and underground fares	132	127
F	Bus and other public transport fares	123	128
G	Running costs of private motor vehicles excluding overheads	128	129
H	Cost of other items of expenditure	122.8	122.8

The changes in additional costs for inner and outer London, using the Pay Board's system of costs and weighted by their methods, and based on April 1974 = 100, were as follows:

	Inner London		Outer London	
	Weight	Index	Weight	Index
Housing	35.5	112.8	40.6	111.1
Travel	18.3	131.4	6.8	121.0
Other costs	20.1	122.8	40.6	122.8
Wear and tear	26.1	121.7	12.0	121.7
	100.0	120.5	100.0	117.8

The Department confined itself to publishing the updating indices and never gave monetary amounts for London Weighting. However, IDS calculated that the 1975 indices gave the following increases in the Pay Board's recommended allowances:

	Inner London		Outer London	
	April 1974 £pa	April 1975 £pa	April 1974 £pa	April 1975 £pa
Housing	141	159	80	89
Travel	73	96	15	18
Other costs	81	99	81	99
Wear and tear	105	128	24	29
Total	400	482	200	235

The way the calculations worked was that expenditure differences were multiplied by the new index and grossed up for income tax at the prevailing rate. For example, inner London housing: 95 x 112.8% = 107.2. Grossed up for income tax at the prevailing rate, this came to £159.

Part of the reason the Department of Employment never published monetary amounts was related to the fact that, as was pointed out in the original Gazette article, 'the negotiated allowances did not follow a uniform pattern, being related to the circumstances of particular groups, with difference of coverage and in some cases giving different weights to particular costs (for example, where free or subsidised accommodation is provided)'.

The Department suggested therefore that the combined index would 'provide a general guide to changes in additional costs for the convenience of most groups, while the basic elements can of course be combined using different weights or making such other adjustments as may be desired to meet the circumstances of particular groups' (IDS Report 212, July 1975, p.9).

The indices were published annually until the Conservative Government ended their publication in 1982 (see below). The resulting changes in London allowances, as calculated by IDS and grossed up for income tax at the basic rate (though not grossed up for national insurance), are shown in the following table:

London weighting 1974 to 1982

Year	Inner London £pa	Outer London £pa
1974	400	200
1975	482	235
1976	567	254
1977	652	281
1978	696	289
1979	789	332
1980	1,017	431
1981	1,142	486
1982	1,333	552

Employers' practice

How closely did organisations follow the Pay Board's recommendations, as updated by the Department for Employment's indices, over the period 1974 to 1982? An IDS Study on clerical pay in London in 1979 (Study 197, July 1979) found that the inner London allowances paid to public sector clerical staff were well behind those paid in the private sector. However in outer London the public sector still led the private sector. At the time, the capital was experiencing a chronic shortage of skilled white-collar workers, one explanation for which was the escalating cost of commuting at the time. Many clerical staff decided that the costs involved in commuting from the suburbs were too high in both financial and social terms.

The table below shows the London allowances paid by the companies which appeared in this IDS study, along with a selection of London allowances in public sector organisations. At the time the study was written the recommended amounts for London weighting were £696 (inner London) and £289 (outer London). The three leading private sector organisations are Securicor, the TSBs and the Prudential. The public sector inner London allowances at the time fell well behind those in the private sector. One reason for this is that the period was one of statutory pay controls, which tended to have their greatest impact in the public sector (private sector employers and employees found ways around them). Public sector workers in outer London fared better however, with the highest outer London allowances paid by the Post Office and Electricity Supply. This was in line with the pattern established with the first settlements on London weighting reached in the immediate aftermath of the Pay Board Report in 1974.

London weighting payments in 1979

Organisation	Inner London £pa	Outer London £pa
Automobile Association	602	288
Thomas Cook	591	274
Eagle Star	600	252
General Accident	660	279
Guardian Royal Exchange	650	300
Prudential Assurance	697	289
Securicor	728	312
Public sector organisations		
British Transport Docks	480	240
Civil service	524	275
British Steel Corporation	524	308
Electricity Supply (clerical staff)	460	320
Local authorities	435	285
National Water Council	535	311
Post Office	572	363
Universities	465	275
		London £pa
Imperial Tobacco		696
Kodak		400
London Brick		442
Oxford University Press		250
Pearl Assurance		593
Shell		645
Thomson Travel		450
Trustee Savings Banks		702 (0–3 miles) 496 (3–6) 333 (6–10) 268 (10–16) 169 (16–22)
Public sector organisations		
BBC		450
GLC		472
London Transport (clericals)		350

Source: IDS Study 197, 'Clerical pay in London', July 1979.

Conservatives end publication of the indices

The decision to cease publication of the index was announced abruptly, with minimal consultation, on 19 October 1982 by the then Employment Secretary, Mr Norman Tebbit. In a parliamentary answer he said:

'London differentials are a matter for employers and employees to determine according to the circumstances of each firm or industry. But in the Government's view the indices encourage negotiators to place too much emphasis on the need to compensate employees for the additional cost of working in London and too little on the need to set rates of pay which the employer can afford, and which are sufficient to recruit, retain and motivate employees in London. Moreover the indices are based on expenditure patterns which are now out of date. I therefore have decided to discontinue publication of the indices.'

At the time, the Department of Employment felt that it was under no obligation to publish an index which it probably regarded as 'inflationary'. However the Department's other complaint about the figures, that expenditure patterns had changed since 1974, was less convincing. The Retail Price Index was and is regularly revised to take account of changed expenditure patterns. A similar exercise could have been carried out for the London weighting indicators, though it might, of course, have shown much higher levels of expenditure on some items, for example travel.

What the Employment Secretary did not state was the Government's concern that the published indices set a benchmark for its own employees and other public sector groups. Increases in London allowances in the public sector had been held down in some cases over the previous two years, but the number receiving the allowances was very large – around one million employees. This was what lay behind the view that the employer's ability to pay was more important than cost compensation.

That said, most employees in London, whether in the public or private sectors, received some sort of differential recognising higher living costs, or recruitment and retention difficulties, or both. And as IDS research showed, many private companies paid as much – or more – than the public sector (IDS Study 258, 'London Weighting', January 1982). The Government's decision to end publication of the indices left these organisations without a useful benchmark. This was a paradox, since Mr Tebbit's statement indicated a concern with recruitment and retention. However without a guide to updating London allowances, employers would find pay comparisons more difficult. As a result of these concerns, IDS decided to publish its own regular revisions to the existing indices.

The picture in 1982

In 1982, as in 1979, private firms led the public sector on London weighting. This was partly because in the public sector the effect of cash limits on pay negotiations meant that revision of London allowances had tended to become delayed so that in many instances current rates were a year or more out of date. Effective from April 1982, the indices suggested an inner London allowance of £1,333 and an outer London allowance of £552, increases of 16.7 and 13.6 per cent respectively on the amounts for the previous year. Most public sector allowances were below this level.

Examples of London allowances in the private sector, 1982	
Organisation	Allowance (inner London unless stated otherwise)
Clearing banks	£1,594 (0 – 3 miles); £1,131 to £387 (3 – 22 miles)
Glaxo	£1,250
Guardian Royal Exchange	£1,240
Imperial Tobacco	£1,333
Michelin	£1,332
Phoenix Assurance	£1,380
Examples of London allowances in the public sector, 1982	
BBC	£930
British Telecom	£1,215 (at 1 June 1981)
Civil Service	£1,087 (at 1 April 1981)
Local authorities	£14.10pw (manual workers, central London)
NHS	£722 (doctors, dentists and nurses); £932 (admin, professional and technical staff)
Teachers	£834 (inner); £549 (outer)
Universities	£1,035 (lecturers)

Chapter 5: The IDS experience of producing the indices 1982 to 1987

The responses to the Government's decision in October 1982 to discontinue calculation of the London weighting indices were varied. Trade unions saw the decision as part of the general move to deregulate the labour market and fragment collective bargaining. They were therefore keen to retain some mechanism for cost compensation.

Conversely, some employers thought the index was an anachronism and that any payments should be left entirely to market forces. This was, however, far from a universal view among employers, some of whom had found the index a useful means of taking the heat out of arguments about the cost of living in London.

It was in response to this that IDS took the decision to produce its own figures, which were to be based as far as possible on the official Department of Employment (DE) methods. This exercise was carried out with two explicit provisos. First, it was acknowledged that the index was outdated and needed major revisions – the Pay Board had recommended a review, which ought to have been carried out in 1979. Secondly, IDS did not 'recommend' its index, recognising that its construction could not be identical to the DE's without detailed access to confidential Retail Price Index information.

The data produced (for details see Methodology and Tables below) was checked against the DE's published figures for 1980–1982, and where the information allowed, back to April 1975. In retrospect calculating these indices was an onerous and very costly exercise, requiring many weeks of a statistician's time.

Initially two sets of figures were published: cash amounts grossed up for tax, and grossed up for tax and national insurance. However in response to requests from negotiators, it was then decided to publish the index figures themselves. The reason this was not originally done was because of concerns that the indices would not be applied as the Pay Board intended. In the finance sector, for example, negotiators had applied a set formula to apply the indices which did not take account of the reduction in the basic tax rate from 33 to 30 per cent in 1979.

Unlike the official index, IDS figures were published twice yearly – in April and October. This was intended to reflect the fact that price changes have an immediate rather than an annual impact on consumers, but it was also done for the purposes of publicity.

In the event the decision to publish twice a year meant that IDS was able to show that the amounts needed to compensate staff working in London could fall as well as rise, an ironic verdict on the Government's opinion that the official index was 'inflationary'.

Basic details of how the indices changed are as follows:

London weightings grossed up for tax 1982-1987 (IDS calculations)

	Inner London £pa	Outer London £pa
April 1982	1,317	518
October 1982	1,296	511
April 1983	1,342	542
October 1983	1,271	519
April 1984	1,313	536
October 1984	1,384	571
April 1985	1,464	598
October 1985	1,448	583
April 1986	1,432	524
October 1986	1,441	529
April 1987	1,503	548

The impact of the IDS indices

IDS was not the only organisation to produce a London weighting index during this period. The Labour Research Department also published a set of figures along similar lines, while Reward Regional Surveys published data based on its own cost-of-living estimates. The IDS figures were, however, the ones quoted by negotiators. Companies using the IDS figures included Imperial Tobacco, Pearl Assurance, Gallaher, Nationwide Building Society and Legal & General. The independent television companies also used the IDS figures in fixing their allowances. Other organisations used the indices as a reference point, but tended to uprate their payments by the same percentage as their general pay increase, or in a few cases in line with the RPI. A small minority paid allowances as a percentage of basic salary. London allowances in the main stayed as additional unconsolidated payments during this period. The main barrier to the consolidation of allowances was the knock-on effect on pensions, and also on shift and overtime payments.

Problems with using the indices

Few problems were reported with using the indices. One touchy issue for negotiators was that the suggested amounts actually fell on several occasions – for example between April 1983 and 1984. Most organisations left their allowances unchanged in these circumstances, although Imperial Tobacco did reduce their payments for certain staff: the company's agreement with the unions stipulated that the absolute fall in the IDS index money equivalents had to be at least £50 before any reduction could take place.

Another problem concerned the differential impact of changes to London Transport fares. The fares reductions introduced from May 1983 were greater on the underground than on the buses. This meant that the cuts had less of an impact in the outer London and fringe areas and consequently the fall in the suggested amounts for London weighting did not correspond to employees' experiences. As IDS noted at the time 'this is one of the flaws in using any sort of index as a guide to allowances: real life is not measured by indices'.

Cost-of-living supplement or market premium?

One significant event during this period was the decision by a Central Arbitration Committee panel in 1985 to uphold the payment of special allowances to local authority staff employed in inner and outer 'fringe' areas of London ranging from Slough to Thurrock and Hatfield to Sevenoaks. The employers argued that circumstances had changed sufficiently in the ten years since the allowances were established to justify their removal. A key element in their case was that market forces had changed. The rise in unemployment meant that general recruitment and retention difficulties had disappeared. The union argued by contrast that the payments were a cost-of-living supplement and should be restored to their 1979 level as a percentage of the outer London allowance.

In the event the panel took a middle course. It rejected the argument for abolition and recommended that the inner fringe allowance should continue to be adjusted in line with London weighting. However it also concluded that allowances in the outer fringe zone should return to the more flexible system of different allowances in different circumstances, as existed prior to 1974.

IDS index methodology

In 1974 the Pay Board recommended that the Department of Employment (DE) should construct pairs of indices for the GLC and the 'rest of the UK' showing price changes for the eight items of expenditure making up the London allowances, and that the remaining element – 'wear and tear' – should be updated by the RPI. Each pair of indices should be applied to the average annual net expenditure on the item as found by the Pay Board. The 'new' expenditure for the rest of the country should be subtracted from the 'new' expenditures in inner and outer London to define the extra net expenditure for the two areas. The amounts should then be grossed up to allow for tax at the basic rate, to provide the components for a new allowance.

To determine their pairs of indices, the DE used price information normally collected for use in the RPI – not available to other organisations. The IDS figures relied on alternative sources (see below) and the increases thus derived were linked back to the DE indices over the previous years to check for accuracy and to avoid compounding any discrepancies.

Rail and Underground fares

Information from the British Railways Board provided information on rail fares outside London. Information for London came from the London Transport Executive and that implied from the RPI.

Bus fares

Information on bus fares for London was supplied by the LTE: data for the rest of the country was based on RPI information, which relied on data from about 90 regional operators as well as the LTE to compile the 'road transport index'.

Running costs of private motor vehicles

Regional petrol price information came from Petroleum Times (this has ceased publication but there are modern web-based equivalents such as 'Catalist'). Information on car maintenance costs came from the RPI (RPI data was based on manufacturers with agents operating a standard charge scheme, meaning regional differences were unlikely). Petrol price and maintenance cost increases were combined using the weights for these items in the RPI each year.

Owner occupiers' mortgage interest payments

House price increases were based on the same sources and methods as those used for the RPI. Mortgage payments were represented by a weighted average of house prices over the past 25 years. House price information came from the Department of Environment and the Building Societies Association.

Local government rents

Sources on local government rents were the Department of Environment, Scottish Development Department and the Chartered Institute of Public Finance and Accountancy (CIPFA). Average council rents net of rebates were derived for the GLC area and the rest of the country. Average rebated rents were weighted according to the numbers of council homes in each area.

Rent of unfurnished tenancies

Figures for rent were derived from the average increases in registered rents as supplied on a regional basis by the DoE and the SDD. Information on rebates was unavailable.

Rates

Regional information on rates was supplied by the DoE, SDD and CIPFA. Information on rate rebates was unavailable.

Wear and tear

In line with official practice the wear and tear element was simply increased in line with the RPI.

Other costs

Figures for other costs represent average price increases in food; alcohol and tobacco; durable household goods; clothing and footwear; fuel and light; meals out; housing maintenance and repair; motor insurance and licences; transport (apart from travel to work); services; and miscellaneous goods. Based on RPI figures an index was constructed for these items for the UK as a whole. Increases for the GLC area and the rest of the UK were the same or similar over the eight-year period that the official index was published. It was noted, however, that the average expenditures on these items were large, and that therefore relatively small percentage differences in the level of increase between London and the rest of the UK might have a significant impact in cash terms.

Explanatory notes

1 The official – DE – indices were published in the June 1982 DE Gazette. The IDS indices for April 1982 were linked to the DE figures for 1982. The IDS indices for October 1982 and April 1983 were linked to DE figures for April 1982. At the time figures were published for October and April each year: figures for October 1982 have been reproduced to show the linkage with DE indices.

2 The figures for housing incorporated indices for unfurnished accommodation based on data published six months in arrears; these figures also did not reflect changes in rent rebates in Scotland as there was no up-to-date information available.

3 The figures for April 1987 incorporate revised weights for the house price index as recommended by the Retail Price Index Advisory Committee.

4 Wear and tear was grossed up for tax at 33 per cent.

IDS London Weighting Indices 1982–1987

Inner London	April 1982 DE £pa	April 1982 IDS £pa	Oct 1982 IDS £pa	April 1983 IDS £pa	April 1984 IDS £pa	April 1985 IDS £pa	April 1986 IDS £pa	April 1987 IDS £pa
London weighting grossed-up for tax								
Housing	282.8	289.7	267.9	284.8	312.1	399.9	309.1	357.7
Travel	482.0	483.0	476.0	491.5	407.3	433.3	475.9	483.1
Other costs	252.7	229.3	232.7	238.4	249.6	262.6	267.6	266.8
Wear and tear	314.8	314.8	319.5	327.4	344.3	368.2	379.4	395.2
Total	1,333	1,317	1,296	1,342	1,313	1,464	1,432	1,503
Outer London								
Housing	109.3	110.0	101.6	123.5	134.5	169.6	84.8	106.3
Travel	105.7	106.1	103.1	104.8	72.8	81.9	84.8	84.2
Other costs	252.7	229.3	232.7	238.4	249.6	262.6	267.6	266.8
Wear and tear	72.0	72.0	73.0	74.8	78.7	84.2	86.7	90.3
Total	540	518	511	542	536	598	524	548
London weighting grossed-up for tax and National Insurance								
Inner London								
Housing	323.2	331.1	306.2	326.7	358.2	458.9	354.0	408.0
Travel	550.9	552.0	544.0	564.0	467.4	497.2	545.0	551.1
Other costs	288.8	262.0	265.9	273.6	286.4	301.3	306.5	304.4
Wear and tear	362.1	362.1	367.5	378.3	397.8	425.3	438.2	456.7
Total	1,525	1,507	1,484	1,543	1,510	1,683	1,644	1,720
Outer London								
Housing	124.9	125.7	116.1	141.8	154.3	194.6	97.1	121.3
Travel	120.8	121.3	117.8	120.2	83.6	93.9	97.1	96.1
Other costs	288.8	262.0	265.9	273.6	286.4	301.3	306.5	304.4
Wear and tear	82.8	82.8	84.0	86.4	90.9	97.2	100.2	104.4
Total	617	592	584	622	615	687	601	626
Net index figures for London allowances								
Inner London								
Housing	208.6	213.5	197.4	209.8	230.0	294.6	231.1	274.8
Travel	688.6	690.0	680.0	702.0	581.8	619.0	689.6	719.8
Other costs	327.6	297.2	301.6	309.1	323.5	340.4	351.9	360.7
Wear and tear	301.3	301.3	305.8	313.4	329.6	352.4	363.1	378.4
Total	344.6	340.4	334.9	346.9	339.2	378.2	373.7	400.6
Outer London								
Housing	142.2	142.6	131.7	160.2	174.3	219.8	111.5	143.7
Travel	818.6	825.2	801.9	814.4	566.7	636.7	668.9	683.3
Other costs	327.6	297.2	301.6	309.1	323.5	340.4	351.9	360.7
Wear and tear	301.3	301.3	305.8	313.4	329.6	352.4	363.1	378.4
Total	282.4	270.7	266.5	283.3	280.1	312.9	277.0	296.5

Chapter 6: The decision to cease publication of the IDS index

In December 1987 IDS announced that it had ceased publication of its London weighting index. It said that without a complete overhaul of the 1974 expenditure patterns on which the index was based, IDS could no longer produce a reliable guide to cost compensation.

IDS wrote: 'When, in 1982, the Department of Employment ceased publication of its London Weighting index we produced our own, based on the same method and expenditure patterns outlined by the Pay Board in 1974. It is not known in detail how expenditure of employees in London on housing, travel etc have changed over the past 13 years, but it is reasonable to assume that patterns have changed considerably. We decided this year to see whether a new survey – necessarily on a large scale – would be feasible in order to rebase the index. But when we approached a range of major employers for support and co-operation in the project, we found that all of them felt that the labour market is now overwhelmingly more important than cost factors.' (IDS Report 510, p.1, December 1987)

Earlier, in July 1987 the IDS London weighting index for April 1987 was published which turned out to be for the last time, showing a significant increase for the first time in 18 months.

The new allowances, grossed up for tax, were:

	April 1987	Increase on April 1986	
Inner London	£1,503	£71	5.0%
Outer London	£ 548	£24	4.6%

The largest increase was in housing costs, largely because of tax changes affecting mortgage repayments. Overall the housing element increased over the year to April 1987 by 18.9 per cent in inner London and 28.9 per cent in outer London. Higher British Rail and London Underground fares effective in January were offset to some extent by lower rises in bus fares in London than in the rest of the country. Also, petrol prices fell more quickly in London than in the rest of the UK.

By the spring of 1987 actual London allowances in payment were moving substantially ahead of the allowances indicated by the IDS London weighting indices. The labour market was changing rapidly:

- House prices were rising quickly. The Nationwide Building Society estimated that in the first quarter of 1987 a terraced house in Greater London cost an average of £69,000; in the outer Metropolitan area £55,800; in Scotland £32,000; the West Midlands £22,500; and in the North West £20,600. The Society also estimated that the respective annual average increase in property prices in those areas was: 27 per cent; 26 per cent; 5 per cent; 11 per cent; and 8 per cent.
- Staff shortages in certain areas were becoming acute. The Greater London Employers' Secretariat produced a report based on responses from 21 London authorities (IDS Report 496, p.7). It said: 'The recruitment and retention of employees in London local government is a short-term crisis and a long-term problem.' It found:
  - shortages of professionally qualified staff
  - difficulties in recruiting middle managers

- high rates of labour turnover
- diminishing competitiveness in the labour market
- increased poaching between authorities
- accelerating housing prices creating problems for recruiting.

A number of local authorities in the South East were offering special packages for teachers. Some teachers were being given priority in housing allocations. Some new recruits were being offered work for two weeks in July before the end of term so that they could be paid for two months before taking up their post on 1 September.

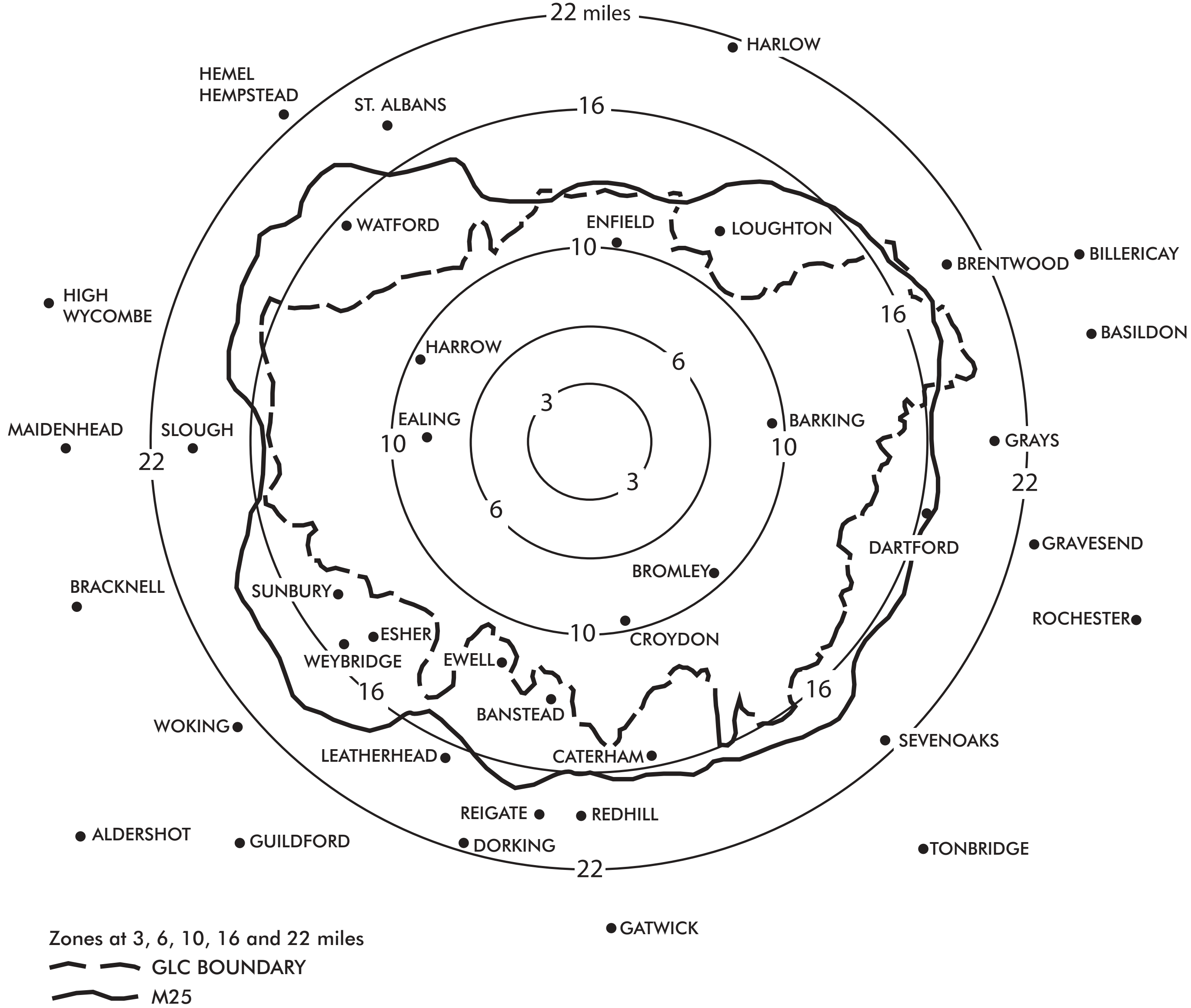
The Bank of Scotland was forced to introduce a new payment in an attempt to curb what it saw as an ‘intolerable’ level of staff turnover in London. As an interim measure, the bank introduced a non-pensionable supplement worth £1,000 from 16 May 1987 paid on top of its inner London allowance of £2,000. The total allowance of £3,000 was the first at this level.

By the spring of 1987 in the finance sector, Barclays, National Westminster and Lloyds were paying £2,000 in inner London (0 – 3 miles from Charing Cross), Abbey National and the Halifax were paying £1,950, while Eagle Star paid £1,800.

Inner London allowances in the public sector were: BBC, £1,080; Local authority APT&C, £1,395; school teachers, £1,110; NHS admin and clerical, £1,201.

Unemployment was falling quite quickly in London and the South East and there was a growing concern about recruitment problems which were expected to be exacerbated by the ‘demographic timebomb’ identified by Sir Norman Fowler who talked up the decline in the number of school leavers expected by 1990.

London allowances zones used by the London clearing banks 1987



Chapter 7: The market takes over: 1987

The impact of the Bank of Scotland's decision to pay a combined London allowance of £3,000 was immense. It had intended that the £1,000 supplement paid on top of the £2,000 inner London allowance would be a temporary measure, pending the outcome of a staffing and labour market survey. The Bank had re-located a substantial number of staff to London but had been unable to retain them when they arrived, particularly those who were professionally qualified. Following the liberalisation of the financial markets (dubbed Big Bang), demand for experienced staff had exceeded supply and companies were offering enhanced benefit packages to recruit the staff they needed.

The Bank of Scotland's move to pay £3,000 put intense pressure on the London-based clearing banks. At that time pay negotiations were conducted through an industry agreement with the employers side making up the Federation of London Clearing Bank Employers which then included the National Westminster Bank, Barclays and Lloyds Bank. The Midland Bank (now the HSBC) had left the Federation in January 1986 to pursue separate negotiations with BIFU and ASTMS.

The tensions surrounding the arguments over what to do about London allowances were so strong that the Clearing Banks Federation broke up and industry collective bargaining effectively ended that summer. In talks between the Federation and BIFU and the CBU, the employers' organisation had offered to increase the inner London allowance (0 – 3 miles) by 37.5 per cent, from £2,000 to £2,750 a year. However, the National Westminster Bank announced at the end of July 1987 that it was leaving the Federation and would in future negotiate the pay and conditions for its 83,000 staff separately with BIFU and the NatWest Staff Association. It promptly offered to pay £3,000 in inner London and this was accepted. Barclays Bank quickly followed suit and the Federation was no more.

ROSEland emerges

London allowances had been paid in decreasing amounts in concentric circles measured from the centre at Charing Cross. Until 1987 the outer band was that of 16 to 22 miles from Charing Cross. Staff recruitment and retention problems were beginning to build up further afield, down the M4 corridor and generally across the west and south west of London. The clearing banks were proposing to pay an allowance of £600 in some of these areas beyond the boundaries of London. However the Halifax Building Society upped the stakes and decided to extend its outer London allowance of £1,000 to the M25 and to pay an allowance of £750 across the Rest Of the South East outside London. IDS dubbed the allowance the Roseland allowance and the name stuck.

Following the NatWest's withdrawal from the Federation it matched the Halifax's £750 and subsequently the other banks followed suit. The banks were now paying this allowance right across their branch networks while others adopted the approach of paying it in nominated branches or offices where there were difficulties in keeping staff. The Cornhill, for example, decided to include offices in Guildford and Woking as outer London and Chelmsford and Luton were put in a special zone.

The introduction of the South East allowances now meant that outer London allowances paid by the banks had to be raised so that they were in proportion to the new inner and Roseland amounts. The table shows the extent of the changes.

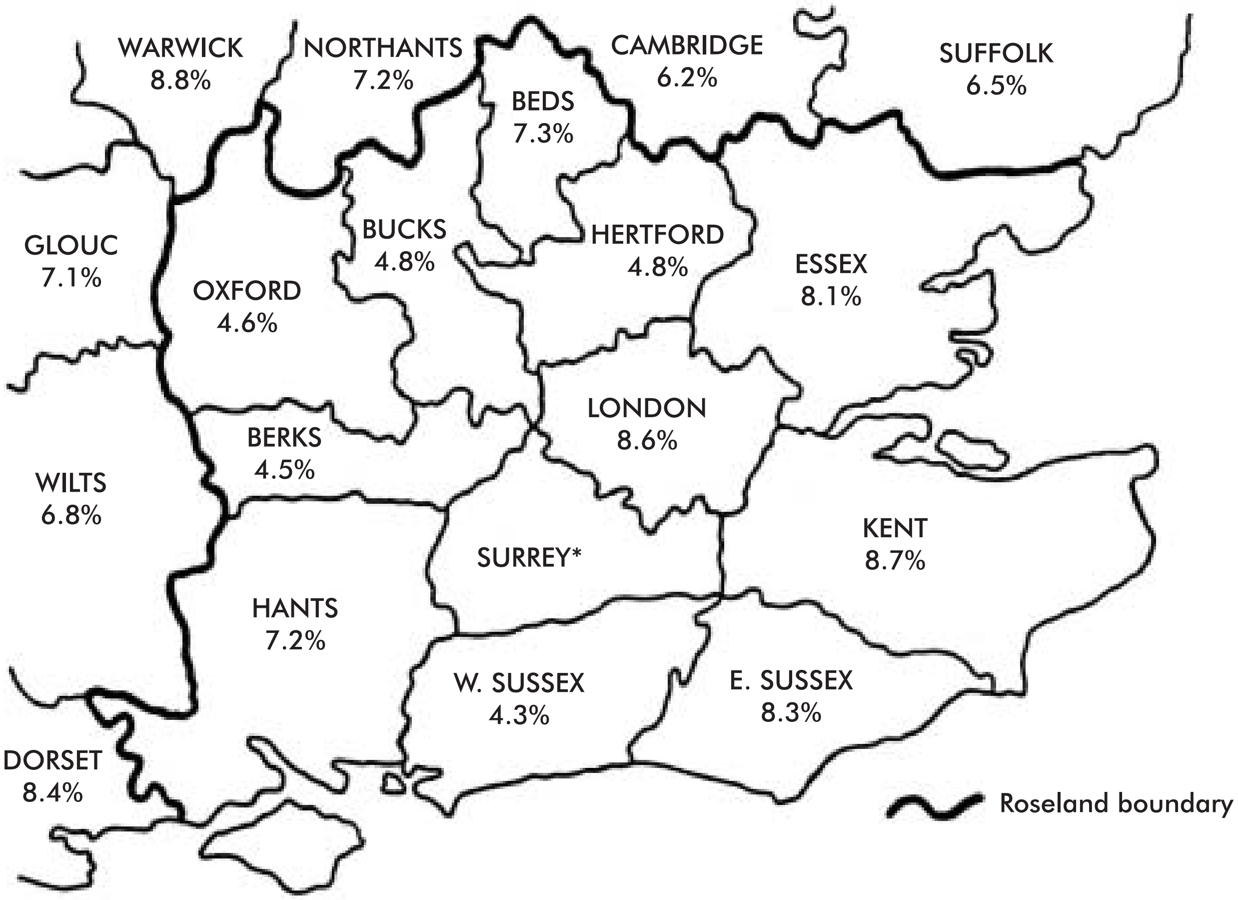
Although the new Roseland allowances were accepted by the relevant trade unions, concern was immediately expressed about the boundaries, specifically

Allowances paid by the clearing banks, August 1987

Miles	Zone £pa	Previous allowance £pa	New allowance Increase %
0-3	2,000	3,000	50.0
3-6	1,420	2,500	76.1
6-10	950	2,000	110.5
10-16	760	1,500	97.4
16-22	485	1,250	157.7
Roseland	–	750	–

the exclusion of Cambridge, Northamptonshire and around the Poole/ Bournemouth area where Hampshire meets Dorset. Some companies with smaller branch networks or particular local difficulties changed the boundaries. The Royal Bank of Scotland decided to pay the £750 allowance to staff in Poole while the Scottish Provident paid £500 in Cambridge.

Claimant unemployment rates in South-East counties (December 1987)



*Unemployment rate was not given for Surrey as it did not meet the self-containment criteria for a local labour market used to define travel-to-work areas.

Source: DE

London allowances go service-related

A new twist to the London allowance story came in October 1987. Such was the concern at the National and Provincial Building Society over the retention of experienced staff that it moved to introduce service-related allowances, effective from 1 October 1987. Allowances were increased by 33 per cent for employees with two years' experience and by 50 per cent for those with five years' experience, as follows:

National and Provincial Building Society London allowances

	On entry £pa	After 2 years £pa	After 5 years £pa
Inner London	2,300	3,067	3,450
Intermediate London	1,300	1,733	1,950
Outer London (to the M25)	1,000	1,333	1,500

The next building society to introduce service-related payments was the Alliance and Leicester which, from February 1988, introduced 'loyalty' supplements worth between £285 and £1,325, depending on service, payable on top of London allowances. It meant that someone with five years' service in inner London (0 to 4 miles) would receive £2,275 as the London allowance plus £1,325 as a supplement, giving a total weighting of £3,600.

London pressures in the retail sector

During 1987 IDS researchers asked a large number of employers in the retail sector about their staffing problems and what they were doing about pay and allowances. Over half the companies IDS spoke to had either made some adjustment to their London allowances or they were planning to do so. The main pressure points were:

- competition between stores in the West End, putting pressure on allowances.
- 'wealthier' areas with low unemployment. Both the low pay rates and poor status of retail employment combine with a lack of suitable local labour to make recruitment difficult.
- 'Superstores' located on major transport routes rather than in traditional high streets.

Most companies had recruitment and retention difficulties in London and the South East, but the problem was not purely geographical. One company found it easier to recruit in Stratford, East London, than in Stratford-on-Avon. Key problem areas were the M4 corridor and Heathrow and Gatwick.

We found that companies were bending their own rules in order to pay higher rates at key stores. Some admitted to paying London rates outside of their own defined boundaries – in places such as Swindon, Reading and Staines.

In September 1987 Safeways introduced a new intermediate London rate of £100.23 per week, below the inner London rate of 108.81 per week but above the outer London rate of £95.55. It was paid at nominated stores, not on a strictly geographical basis.

This was the beginning of a new trend in London allowances which developed largely in the retail sector. Employers began to move away from the concentric rings approach of tiered allowances to a system of zones so that individual stores could be upgraded to pay higher rates to solve staffing problems.

In August 1987 Argos up-graded 21 of its stores to qualify for higher London allowance payments. Twelve showrooms – including Balham, Chiswick and Stratford – moved from inner London, which attracted an allowance of £10.62

a week, to central London with an allowance of £22.09 a week. A further nine showrooms where pay used to be at the basic provincial rate of £92 were upgraded to outer London with a premium of £6.71. This involved the stores in Crawley, Woking and Guildford 'moving' to outer London.

Littlewoods Stores followed this approach in January 1988. It replaced three allowances based on distances from Charing Cross with four location payments based on nominated stores. The new payments were between 53 and 70 per cent higher than the previous comparable allowances. The new zones were called Location A through to Location D, from central London in A out to Crawley in D.

Public sector reponses

In January 1988 the Health Departments submitted their evidence to the Nurses and Midwives Pay Review Body and addressed the issues of recruitment and retention. They said that 'large across-the-board increases were not the most cost-effective way to solve these problems and that a better targeted approach is essential.' A system of 'geographical pay variations' and supplements were recommended. They argued for a new supplement, on top of London weighting, for nurses in inner London of two or three additional points on the pay spine, with a lower supplement for nurses in outer London. They argued for discretion for a limited number of authorities beyond the London area to award extra points where there was difficulty in recruiting particular groups or competing in local labour markets.

Subsequently, in April 1988, the Nurses and Midwives Review Body recommended a new London supplement to be paid in addition to the existing London allowances. It said that because of the 'exceptional and urgent shortages, particularly of qualified nurses, in and around London', the review body recommends London supplements for all nursing, midwifery and health visiting staff in the London area covered by the three existing London Weighting zones. They were to be based on a percentage of salary rather than flat rate (except for the more senior grades) and took effect from 1 April 1988.

For nursing staff in London in grades 6 and above the supplement was 9 per cent of salary, up to a maximum payment of £958. Employees in grade A and B, students and all staff in outer London were to receive 5 per cent up to a maximum of £532, and in the fringe zone payments were 2.5 per cent or £266.

Meanwhile in local government employers resisted pressures for large increases in London allowance. A report by the Local Authority Conditions of Service Advisory Board (LACSAB), published in September 1987, provided evidence of recruitment and retention problems in London and the South East but argued that these problems were generally confined to certain groups of professional staff (IDS Report 507, p.4). It argued that these professional staff, such as accountants, legal staff, social workers and computer staff, were also hard to recruit outside London. For this reason, LACSAB rejected a cost compensation approach in favour of a labour market approach.

While local government employers resisted the blanket approach to allowances, many in London and the South East started to pay supplements to key groups of staff. In addition to pay measures, some councils enhanced benefit packages, offering creche facilities or playgroups.

High house prices in London and the South East and the high differentials in housing costs with other parts of the country meant that substantial relocation packages became increasingly common in local government. Mortgage subsidy schemes, full removal costs and provision of temporary housing were some of the benefits being offered by local authorities. Hertfordshire County Council advertised a relocation package worth up to £8,500 and the London Borough of Sutton offered re-location help 'in excess of £9,500' for head teachers.

Benchmark London allowances for staff in 1987/88

Organisation	Allowance £pa	Effective
Halifax	3,150	1.8.88 inner London
Clearing banks	3,000	summer 87 inner London
ICI	3,000	1.6.88 inner London
Shell UK Oil	2,750	2.8.87 central London
BP	2,500	1.7.88 inner London
Esso	2,500	1.7.88
Thomas Cook	2,500	1.11.87
Legal & General	2,400	1.4.88
Littlewoods	2,187	1.4.88
Glaxo	1,800	1.1.88
Civil service	1,750	1.7.88
British Telecom	1,610	1.3.88
Local authorities	1,584	1.7.88
Marks & Spencer	1,534	1.4.88
BBC	1,500	1.7.88
School teachers	1,305	1.4.88
NHS clerical	1,267	1.7.88
Woolworth	1,050	24.8.88

Chapter 8: From boom to bust, from blankets to targets

'If 1988 seemed a less dramatic year for London allowances, it was only because 1987 was a hard act to follow' was the opening line of an IDS Study on London allowances published in December 1988 (IDS Study 423). The Study found that the very large increases of 1987 had, nonetheless, been followed by a steady, if less publicised, round of increases.

The banks made no further move in August 1988, but the continuing recruitment and retention difficulties faced by finance sector employers encouraged many others to move all or part of the way towards the level and the scope of the banks' payments. Only one major finance employer – the Halifax Building Society – pushed its inner London allowance for all staff ahead of the banks, to £3,150 a year. Many other building societies and one insurance company (Allied Dunbar) matched the banks' £3,000 payment.

Outside the finance sector there were significant increases in allowances in 1988 for head office staff in the oil and chemicals sector. ICI matched the banks' £3,000 and Shell led the oil companies to set a rate of £2,700, with BP and Esso at £2,500. The retail sector was some way behind. The highest payments in the West End stores touched £2,000 but were more frequently nearer £1,500.

Targeting

It was beginning to dawn on many employers, especially among those paying the highest allowances, such as the banks, that perhaps they had spent a phenomenal amount of money on their pay bills to gain no real competitive advantage, because their competitors had all done the same. At the same time there were those, largely in the public sector, who knew that the money was not there for them to respond in the same way and a different approach was required.

In this context a number of employers began to look more closely at targeting extra payments to particular locations or to particular groups of staff for whom recruitment and retention problems were most severe, rather than applying flat-rate blanket allowances across the board.

By 1990 the NHS, local authorities, the Post Office and the civil service were all operating targeted local pay supplements. In 1990 the Post Office extended its weekly supplements to administration and engineering grades while the civil service froze its across-the-board London allowances for the second year running in favour of paying supplements. IDS observed that the increasing decentralisation of pay bargaining in all these organisations further undermined the notion of a blanket regional differential payable to all employees.

From June 1988, civil service departments had been able to pay local pay additions (LPAs) of up to £600 a year (£700 a year for secretarial grades). The payments were discretionary and had to be paid out of existing budgets and were paid on top of London allowances. The central London allowance was then £1,750. In the London area nearly all the major government departments were paying their secretarial staff a LPA of £700 a year. In 1989 the ceiling on LPAs was raised to £1,000. In addition, white-collar civil servants in London were paid higher salaries than elsewhere as a result of receiving one or occasionally two extra increments.

In local government, local pay variations included the payment of location or market supplements in addition to London weighting and fringe payments.

Examples included those paid by the London Borough of Barnet, ranging from £500 to £5,000, to about 100 professional staff in difficult to fill posts.

In 1990 the NHS uprated its London allowances, but also developed its new system of discretionary pay supplements introduced in the previous year. The inner London allowance for white-collar staff was increased to £1,702 a year while nurses above grade B received a payment made up of £1,500 plus 5 per cent of salary up to a maximum of £620 to give a total maximum of £2,120. Discretionary pay supplements for administrative and clerical staff and for nurses were introduced in 1989 and the new white-collar pay structure allowed for some local interpretation of grading levels.

The Post Office developed innovative formulas to deal with paying targeted supplements on top of London allowances, which looked at local unemployment rates and levels of staff turnover. Early in 1990 it had reached agreement on London allowances of £1,775 for inner London and £975 for outer London (increases of over 20 per cent), which were backdated to August 1989. Pay supplements were then paid in addition within defined geographical areas. The following triggers were used: either a local unemployment rate of less than 5 per cent and a staff wastage rate of more than 15 per cent, or an unemployment rate of less than 6 per cent and a staff wastage rate of more than 12 per cent.

In January 1992 the civil service unions ran a campaign to increase London weighting and there was limited industrial action. However, there was no change in the Government's policy of freezing the general London weighting in favour of targeted local pay additions of up to £1,000 to meet specific recruitment and retention problems.

Assessing the impact of pay additions

In February 1992, the National Audit Office published a report on Local Pay Additions in the Civil Service (National Audit Office, HMSO, February 1992). As well as examining the administrative procedures for LPAs, the NAO was asked to determine whether the payment of LPAs had produced the desired effect on recruitment and retention. The report concluded that LPAs provided a more economical means of addressing recruitment and retention problems than increasing or extending London weighting. It also found that the scheme had been cheaper to deliver.

The report went on to examine the link between LPAs and recruitment and concluded that they had assisted in improving the relative pay position of administrative grade civil servants. However, the impact of LPAs varied between different areas and were least effective in central London.

In terms of retention, the NAO found a much weaker link with LPAs. The report stated that 'it was clear that many other factors beyond pay influenced people's decisions whether to stay or leave'. These were both external influences, such as the local labour market, and internal ones, such as management style.

Reflecting on the period 1988 to 1992

Over the period from 1988 to 1992 the economy went from boom to bust. It is worth reminding ourselves that this was a profound shock to many people because there was a widespread view at the time that the business cycle had been abolished. Indeed it had been the notion that economic growth would now be constant that had fuelled the rush into high London allowances in the finance sector in the first place.

By 1992 the competition for staff in London and the South East was much less intense and there was much less pressure on London allowances. Unemployment had been rising at a faster rate in the South East than in other regions. By December 1992 it stood at 10.4 per cent after having been down at 3.7 per cent in March 1990. In the Greater London area unemployment stood at 11.6 per cent, a total of 470,000 unemployed and claiming benefit. Compared to the recession of the early 1980s, a much greater proportion of those who were unemployed were white-collar workers.

Fewer employers increased their London allowances in 1992 than in 1991, and even fewer were to do so in 1993. Only one third of finance sectors employers, mostly insurance companies, increased their allowances in 1992. Those who did make increases that year did so in line with the general pay settlements, mostly of the order of 3 to 5 per cent.

By that stage around half of all allowances in central London stood at £3,000 a year or more. Of the 123 organisations with inner London locations and allowances in an IDS Study (no. 525) in March 1993, 63 paid £3,000 or more. Almost a quarter paid £3,300 or more and one-in-ten paid £3,500 or more. There were a few instances of service-related or salary-related allowances which exceeded £4,000 for some employees. At the other extreme, 16 per cent of central London allowances were below £2,000.

Why do you pay London allowances?

In the research for IDS Study 525, IDS asked a small but influential sample of employers with London allowances what they then considered to be the purpose of the payments. Most said that allowances were paid to meet recruitment and retention needs and to remain competitive in the labour market. To a lesser extent, some companies still believed that allowances compensated for the higher cost of living in London and were necessary to facilitate the internal transfer of employees to London from the provinces.

When reviewing allowances, companies overwhelmingly looked at comparators in their industrial sector and other competitors in the wider labour market. They said that London costs were also taken into account although rarely through any formal mechanism.

The degree to which firms followed others in their industrial sector was especially observable in IDS research throughout this period. The banks had led the way and the rest of finance had had to follow, firstly the building societies and then the insurance companies. Retailers had not matched what the banks were doing but had watched each other carefully. The public sector had not had the resources to follow the explosion in allowances and had taken a targeted approach to achieve economies of scale.

Examples of Inner London allowances in 1992

	Allowance £pa	Comment
Barclays Bank	£3,450 (0 – 5 miles)	set in August 1990 (not increased)
Co-operative Bank	£3,450 (0 – 3 miles)	set in August 1990 (not increased)
Midland Bank	£3,200 (0 – 3 miles)	set in August 1989 (not increased)
NatWest Bank	£3,600 (0 – 3 miles)	set in April 1991
Alliance & Leicester	£3,520 (0 – 4miles)	set in July 1992
	£4,200	after 2 years' service
	£4,625	after 5 years' service
Halifax	£3,450 (0 – 3 miles)	set in February 1991
Northern Rock	£3,750 (0 – 3 miles)	set in July 1991
Allied Dunbar	£3,900 (0 – 3 miles)	set in May 1992
Eagle Star	£3,000 (central London)	set in January 1991
Norwich Union	£3,340 (West End, City)	set in April 1991
ICI	£3,400 (central London)	set in November 1991
British Rail	£1,415 (0 – 16 miles)	set in July 1990
London Underground	£1,270 (all areas)	set in July 1992
Civil service (staff)	£1,750 (0 – 4 miles)	set in 1988, frozen, LPAs introduced
NHS admin staff	£1,923 (inner London)	set in April 1992, plus special pay supplements
Nurses and Midwives	£1,745 + 5% of salary up to £720 (inner London)	set in April (grade B and above)
School teachers	£1,845 (inner London)	set in April 1992
	Weekly amounts in retail (1992) £pw	
Argos Showrooms	39.38 (West End)	set in April 1992
Foster Menswear	30.77 (inner London)	set in February 1991
Littlewoods (Chain Stores)	53.12 (Oxford Circus, Marble Arch)	set in April 1991
Tesco	17.00 (Met Police district)	set in April 1991, plus market supplements available

Chapter 9: Marking time 1992 to 1998, but sectors develop differing approaches

For most of the 1990s there was not a lot of movement in the levels of London allowances. Indeed, Barclays Bank did not increase its London allowance through most of the decade. It had moved its inner London allowance (0 to 5 miles) to £3,400 in August 1990 and this was the frozen until April 2000 when it raised it to £3,550. Similarly the Halifax had moved its inner London allowance (0 to 3 miles) to £3,450 in February 1991 and it was still at this level in May 2001. Recently the Halifax has been developing a more market-oriented approach to pay and salaries in London are only in part adjusted by the London allowance.

The recessionary pressures of the early 1990s led many organisations to either freeze their allowances at the levels set between 1990 to 1992 or to increase them modestly by the percentage rise of their overall annual review, or to increase them by the more modest rises in inflation that we have seen since 1993.

What distinguishes the 1990s is that we can see how each sector developed its own approach to deal with pay setting in London. These developments include:

- The finance sector had set the highest allowances and had continued to use the model of multiple concentric circles out from Charing Cross. Over the 1990s this continued, although a minority of firms, particularly in insurance, consolidated allowances. Changes in payment systems to broad banding and market-related pay meant that the London allowance was only part of the London pay differential. A majority of allowances in the finance sector remain non-pensionable with a small number of companies making them pensionable.
- Developments in the civil service were quite different. Until 1994 there were three rates of London allowance in the civil service. London weighting was formally abolished in 1994 and replaced by a London recruitment and retention allowance. After pay delegation to departments and agencies, some consolidated the allowances while other retained them. They were pensionable before 1994 and they remain pensionable.
- Developments in retail took another course. In general there are lower allowances than most in the private sector. Whereas other sectors tended to have allowances based on strictly-defined distances from Charing Cross, the retail sector was less formal and favoured paying allowances to nominated stores with recruitment and retention problems. This has developed into zonal systems of allowances whereby firms can respond to difficulties in staffing in a particular store.
- For most of the public sector, outside the civil service, the three-tier system of inner, outer and fringe which existed in the 1970s has continued. This model is not universal and differences have come about logically depending on the type of service. The police have a system which is based on the Metropolitan Area. The fire service pays a single allowance out to the former GLC boundary. Public sector allowances are mostly pensionable.

Finance sector: multiple concentric circles & broad bands

London allowances in the finance sector have been paid in decreasing amounts in concentric circles from Charing Cross for some time. While these payments tend to be higher in the finance sector than any other area of the economy, they appeared to undergo little movement during the 1990s. This was especially so during the first half of the decade when high unemployment in the South East reduced employers' needs to boost recruitment and retention incentives. And when London allowances were raised many companies decided to restrict any increases to staff based in inner or central London. But as labour markets tightened in the latter half of the decade, companies, particularly the insurers, reacted by making adjustments to both inner and outer London allowances and targeting payments to those groups in shortest supply.

Within the finance sector, the building societies tended to pay the highest flat-rate allowances for London weighting. Indeed, as early as 1992, the Norwich and Peterborough were paying an inner London allowance of £4,000 a year, and staff on London salary scales at Birmingham Midshires were paid between £3,926 and £4,089 higher than staff based outside London. Next came the banks where inner LAs ranged from £3,000 at Abbey National to £3,600 at NatWest in 1992. And bringing up the rear were the insurance companies whose LAs had the broadest range in 1992 (from £2,500 to £3,900) but with many companies clustered at the lower end.

This picture remained fairly static from 1992 to 1998, with most banks and building societies making few changes to their LAs over the period. For example, nearly all the banks froze LAs between 1992 and 1996. The only significant movement came from the insurers, many of whom had some catching up to do to maintain competitiveness with rivals in the sector. However, in spite of relatively regular increases, by 1998 the levels of London payments among the insurance companies were still slightly behind the banks and building societies. And when changes were made they were often applied only to staff based in inner or central London. For instance, in 1993, of the insurers, only Provincial raised its location allowances across the board while the others raised only their inner London allowance: Scottish Provident (£3,350), Colonial Mutual (£3,250) and Eagle Star (£3,200).

There was some movement by the banks in 1996, but much of this was again limited to raising inner London allowances. By May 1996 only two of the 16 banks monitored by IDS paid a flat-rate inner London allowance of less than £3,400. With the banking sector swelling as building societies moved away from mutual status, plus a catalogue of mergers, some organisations opted to consolidate LAs into broad bands. At Abbey National, for example, separate national and London salary ranges were introduced from April 1998 with the introduction of a new performance-based pay structure. Similarly, Legal and General introduced market-related salaries in 1998, consolidating London allowances while doing so.

Other organisations were busy harmonising terms and conditions after merging. Following the merger of Lloyds and TSB, the LAs for TSB staff were harmonised at Lloyds' rates. The payment for working within six miles of Charing Cross for Lloyds TSB staff was £3,450 from 1 January 1998. Later in the same year, the company introduced a zonal system with branches and offices allocated to one of four zones on the basis of local labour market pressures and office location. The payments ranged from £1,250 to £3,450, the same as the previous London allowances. Offices can be moved from zone to zone, as needs dictate.

So, on the face of it, LAs in the finance sector appear to have changed very little over the period 1992 to 1998, with most of the banks paying similar flat-rate amounts in 1998 as they were in 1992. But this is misleading. Many organisations see a flat-rate LA as an outmoded mechanism to recruit and retain staff in London and have introduced broadbanded pay structures alongside flat-rate LAs as a more flexible means of responding to labour market pressures. In many cases, the flat-rate LA has remained within pay systems simply because it would be difficult to remove it from collective agreements. A more accurate measure of the overall 'London differential' in the finance sector would therefore now have to include factors such as position in the pay band compared to that of an employee performing similar work outside London. But this picture is, of course, further confused by the number of other reasons that exist for awarding higher positions in pay bands, for example, performance-related pay increases or skills shortages in particular functions. Furthermore, many finance companies pay high 'City' salaries for jobs in London for which there is no equivalent position outside the City.

London allowances in civil service departments and agencies

Until 1994, there were three rates of London weighting in the civil service, at £1,776 (inner London), £1,015 (intermediate) and £736 (outer London). London weighting was formally abolished in 1994 and replaced by a London recruitment and retention allowance, paid more or less on the same basis. After the delegation of pay bargaining to individual departments and agencies by 1996, several different approaches to London allowances emerged. A number of organisations consolidated the old London weighting/recruitment and retention allowance into London pay bands, while others maintained separate London allowances, some in line with the old civil service arrangements, such as at the Home Office, and others not.

For example at the Employment Service, London weighting (by then uprated to between £1,820 and £751) was consolidated into London pay bands in 1998. At the time, the Employment Service said that this was to encourage and support easier movement of staff between different locations and to help address recruitment and retention issues by increasing minimum rates of pay (the lowest recruitment salary for London was increased by nearly 18 per cent). The differential between the lowest salaries currently stands at £1,870. But further to this, there remained an inner London supplement, which has since been increased to £1,000.

The Inland Revenue consolidated London allowances in 1994 (worth £1,750 to £725) before they were frozen across the civil service, and simply increased London pay band maximums to accommodate this. Since then, London pay band minimums have been uprated by more than national pay bands, so the differential has risen from 7 per cent to over 20 per cent (£2,020) for the lowest pay band minimum.

The Ministry of Defence has largely kept the old civil service system. The inner London rate of London weighting and recruitment and retention allowance was increased from £1,776 to £2,000 from 1 August 2001, the first increase since 1993. The intermediate and outer rates (previously at £1,015 and £736) were amalgamated and increased to £1,150. There are no separate London pay bands, with the lowest starting salary at £9,720.

Customs and Excise has separate London pay bands, around 9 per cent higher (£898) at the bottom end. The additional London recruitment and retention payment was replaced in 2000 with 'office premia' which can be the subject of negotiations using wider criteria and which can be extended on a office-by-office basis. The former inner, intermediate and outer London allowances were increased to £1,848, 1,043 and £749 respectively. In addition, having reviewed recent resignation rates across the department, a new office premium of £200 was introduced for staff based in Maidenhead, and the premium paid to staff in Redhill and Uxbridge was increased by £200 to £949.

One of the largest London premiums is paid at the National Audit Office, which employs 750 staff, many of whom are qualified auditors, in London, Cardiff, Blackpool and Newcastle. There are separate London and national pay bands, with a fixed differential between them of £4,225, or 11 per cent, whichever is the greater. This makes London salaries up to 40 per cent higher for the lowest paid staff, administrative assistants.

Novel developments in the Prison Service

Some of the biggest changes in central government in London pay have been at the Prison Service. The former system of London weighting and London supplements was replaced with a single local pay allowance from 1 January 2001. The previous allowances were increased by between 28 and 85 per cent and a new fringe zone introduced to include nine establishments around the fringes of London. These changes were made because the existing payments were felt to be too low, to include new establishments, and to introduce common flat-rate payments across grades, where previously different grades of staff at the same establishment received different allowances. The introduction of local pay was intended to assist hard-pressed establishments in high cost-of-living areas with the recruitment and retention of staff. The scheme increased spending on locality payments by 45 per cent, from £15.7 to £22.8 million in 2001.

Local management or trade unions can apply annually for sites to be included or existing rates varied, which will be considered with reference to available data about the establishment. Unlike for London weighting and supplements, the new payments are not kept when staff voluntarily transfer elsewhere. The values of local pay and which sites receive them were arrived at by examining a range of data about cost of living (including housing costs), unemployment, regional earnings, staff turnover and by talking to trade unions and senior managers. Those sites chosen were situated in areas with high living costs and/or low unemployment and which consequently suffered from various recruitment and retention difficulties. Other sites that have a demonstrable case may be included in the future.

These allowances were increased by a further 17 and 21 per cent by the new Prison Service pay review body in January 2002. A number of prisons were moved to higher locality payments or were brought under the coverage of the payments for the first time. Feltham was promoted from the middle to the top rate. Huntercombe was promoted from the lower to the top rate. Send, The Mount, Coldingley and Aylesbury were promoted from the lower rate to the middle rate. And Bedford, Bullwood Hall and Chelmsford were brought onto the lower rate.

Location allowances for prison officers

	Old rate 1.4.00 £pa	New rate 1.1.01 £pa	New rate 1.1.02 £pa	Establishments covered
Top rate (inner London)	2,350	3,000	3,500	HQ Westminster, Brixton, Feltham, Holloway, Huntercombe, Pentonville, Wandsworth, Wormwood Scrubs
Middle rate (intermediate London, outer London)	1,383 1,027	1,900	2,300	HQ Croydon, Aylesbury, Belmarsh, Coldingley, Downview, Highdown, Latchmere House, Send, The Mount
Lower rate (fringe zone)	-	800	1,000	Bedford, Bullwood Hall, Chelmsford, Reading, Woodhill, Bullingdon, Grendon/Spring Hill

Developments in London allowances in retailing

Compared with most other sectors that operate with London allowances, the retail sector has developed rather different approaches over the past decade or so. In general, retailers paid lower levels of London allowance, well behind those paid in finance, and frequently expressed the money in weekly rather than as annual amounts. Whereas the banking sector had clearly-defined allowances based on distance from Charing Cross, allowances in the retail sector were less formally drawn and even as early as 1987 to 1990 it was clear that retailers favoured paying allowances to nominated stores rather than on a blanket basis within strict geographical zones.

By 1990, Woolworths, for example, had three levels of location allowances, which it had introduced in August 1987, and stores were allocated to them on the basis of recruitment and retention criteria. Thus staff in stores in Basingstoke and London's Edgware Road were paid the top allowance of £1,050 a year (location 1), while stores in Bethnal Green and Chichester both attracted an allowance of £572 (location 2).

Nonetheless, there was a fairly structured core system around which such flexible zoning was developing. At the centre of this was the West End stores, then central London and then either outer London or Greater London. Beyond either the Greater London boundary or the Metropolitan Police area boundary there were then allowances paid in nominated towns or stores. At its pay review in March 1990, Sainsbury's increased its London differential from 25p to 27p an hour. On top of this staff working in the inner London area received a store premium payment of 36p an hour, while staff in selected outer London stores received an extra 14p an hour.

West End allowances in 1990 and 2001

Company	1990	2001
Argos	£34.56pw	£50.78pw
Bhs	£28.70pw	£70.59pw
Boots The Chemists	£1,736pa	£2,568pa

Development of the zonal system

In the recession of the early 1990s there was less pressure on allowances in the retail sector and the amounts paid grew very slowly. By the second half of the 1990s we began to see more use of the zonal system which a small number of firms, including Argos, Littlewoods and Woolworths, had begun to develop in the 1980s.

Essentially this system starts from the original basis of the concentric circles out from the heart of London, but then abandons the terminology of geography (inner, outer and fringe) and uses categories A to E or 1 to 5 on the basis of the difficulty in recruitment and retention. It means that most stores in zone A are in inner London but that stores in other zones can be upgraded to zone A if their level of staff turnover suggests a higher level of pay would alleviate their problems. For example, in April 2001 Safeway, which operates a pay structure with five separate pay zones, moved its stores in Bracknell, Reading and Milton Keynes from zone 1a (mainly outer London) to zone 1 (mainly inner London).

In 1999 Tesco announced that its payment of London rates would no longer be confined to stores within the Metropolitan Police boundary. It also set up a working party to look into revising its system of location allowances. In August of that year the company introduced a new pay structure consisting of five pay zones. The rates in zones 1 and 2 were set at the same level as the former provincial rates. Zone 3 covers provincial areas, such as Oxford and Swindon, in which recruitment and retention problems were being experienced, and areas of London, such as Romford and Woodford Green, where the company felt the was no need to pay the full London rate. Zone 4 covers the former London area of the old structure and includes 'hot spots' such as Reading and Gatwick airport. And zone 5 covers mainly central London.

Tesco customer service assistant old and new pay structures

	Provincial £ph		London £ph	
1 July 1999	4.87		5.45	
	Bands 1 & 2 £ph	Band 3 £ph	Band 4 £ph	Band 5 £ph
1 July 2001	5.20	5.65	5.88	6.18

Convenience store group, Alldays, introduced a new pay structure from 1 November 2001 covering its network of stores around the country. It divided the structure into three zones, A (lowest) to C (highest). In devising these zones the company looked at a number of influences on pay. In addition to looking at general cost of living factors, such as housing and transport, the company also analysed national statistics on labour 'pools' and unemployment figures throughout the country, and regional statistics on average gross weekly/hourly earnings in the retail sector. Stores were banded according to the county they were in and placed in the appropriate zone. To set the rates in each zone at a competitive level they were benchmarked against those paid at other convenience store chains, such as TM Stores and T&S Stores. Once the structure was in place some fine-tuning was required to move 'exception stores' to a higher pay zone.

But different pay pressures can also apply to staff within the same location. Alldays allows its store managers to pay certain staff up to 10 per cent on top of their spot rates in 'special circumstances'. Also shortages of suitable staff for specific positions can cause companies to pay additional premiums. For example, in its pay review in 1999 House of Fraser introduced an additional pay zone for its stores in London's West End, but it applied solely to its sales staff. Also, in April 2000 Harrods felt compelled to award its sales staff a pay increase of 34 per cent, while its support staff received much lower increases. The demand for suitable sales staff in central London is also in evidence at Boots The Chemists which pays a recruitment supplement to these employees of £567 a year.

But such pressures are not confined to sales staff. In some areas of London retailers pay their administrative staff a supplement to their basic pay to attract the right calibre of staff. For example, Sainsbury's pays its clerical and managerial staff in central London a 'market premium payment' which in 2000 was set at £2,750 a year. At the same review the premium at its Streatham office was set at £1,350 a year and at its business centres in Bromley and Uxbridge at £750 a year.

Public sector: three tiers

Between 1992 and 1998 the general trend of paying three rates of London allowance continued in the public sector with payments determined by location in inner, outer and fringe zones, in line with the recommendations set out in the 1974 Pay Board report. These three tiers were maintained in most parts of the public sector during the 1990s with the exception of the civil service, the police and fire service.

As we have already seen, the civil service developed several approaches to London weighting, varying by department and agency. And until 1994, policemen and women in the Met received a housing allowance, in addition to a London weighting (which reached £1,662 in July 1999). This was lower than most London weightings because there was no housing cost element. Unusually, there was also a separate London allowance worth £1,011 a year, which was uprated in 2001 for the first time since 1981. This allowance was originally known as the 'undermanning' allowance and was introduced as a recruitment and retention payment in the 1970s. Staff employed by the fire service receive a single London allowance which applies to all who work within the former GLC boundary. The allowance was £2,793 in 1997.

The structure of paying LAs in three tiers was used in education, teachers in schools and sixth form colleges and university lecturers. In 1997, lecturers received London allowances of £2,051, £1,347 and £528 in inner, outer and fringe locations.

Local authorities and the NHS have operated with a slightly different structure since the mid-70s. Both use the same basic three-tiered system but divide fringe payments into two zones – inner and outer fringe. Local authorities introduced an inner and outer fringe in 1974, with the inner fringe applying to councils such as Slough, Epping Forest, Epsom and Watford and the outer fringe covering councils like Bracknell, Harlow, Dartford and Basildon.

Unlike parts of the private sector, most public sector groups received annual rises to their London allowances throughout 1992 to 1998 since LAs were usually uprated in line with the general pay increase for the staff group concerned. However, many of these increases have been very small as a result of spending restraints imposed by Government. For instance, in 1993 most LAs in the public sector were raised in line with the imposed public sector pay limit of 1.5 per cent. By 1997/98 this restraint left many public sector groups with LAs that were much lower than those in many parts of the private sector, despite the relatively regular increases – a sign of how far behind they were in 1992.

The 1995 Review Body Report on nurses and midwives made no recommendations on the level of London allowances, but suggested that these and other allowances were the subject of local negotiations within NHS Trusts. Consequently, the second half of the 1990s saw no change to London weighting at national level as revisions were left to individual trusts. But the Pay Review Body's 1998 report stated that, in the light of budgetary restraints, there had been a strong tendency among local employers not to increase any allowances, even though the report considered that there appeared to be a case for increases in London weighting on recruitment and retention grounds.

Unlike other NHS employees, there is no provision for local negotiations for most medical and dental staff. The NHS Executive therefore reached agreement with the British Medical Association to increase the London allowance by 5.8 per cent from 1 April 1997 and a further 1.4 per cent from 1 December 1997. However, even after these increases, at £1,654, the London allowance was lower than the payments received by nurses and ambulance staff in inner London, even though these had not changed since 1995.

Combined allowance of £6,000 for Metropolitan Police

On 23 June 2000, the Home Secretary Mr Jack Straw announced a rise in the combined London allowance to £6,000 a year, payable from 1 July 2000, applying to all Metropolitan Police officers and the City of London Police recruited since 1 September 1994. Those in post before that date still receive a housing allowance and will continue to receive the lower level of London weighting and London allowance (together amounting to £2,673). The increase amounts to a rise of £3,327 in the total London allowance. Mr Straw told the House of Commons that he 'recognised that the Metropolitan Police has been experiencing difficulties in recruiting and retaining officers, not least because of the cost of living in London.'

Starting salary of £22,635

Mr Straw said: 'This increase in London allowance, payable from 1 July, will bring the starting salary of a constable up to £22,635, and for those with five years' service to £27,609, encouraging more officers to come in and stay in the police service in London. There is overtime, which on average amounts to between £4,000 and £5,000 a year for London constables, although that can vary between one constable and another. This compares well with the starting pay for example of new teachers in Inner London with a good honours degree, who now receive £20,001 per annum, and many other comparable salaries. The new payment will build on other recruitment initiatives already provided, such as the funds being made available through the Crime Fighting Fund to enable the recruitment of 1,113 police officers over and above the Commissioner's current plans, and a national recruitment advertising campaign to be launched later this year.'

Complex history

Unlike most organisations, the issue of the London allowance in the Metropolitan Police is not straightforward. Until 1994, policemen and women in the Met received a housing allowance. In addition, there was a London weighting, which reached £1,662 in July 1999, which was lower than most London weightings because there was no housing cost element. Unusually, there was also a separate London allowance worth £1,011 a year, which had not been uprated since 1981. It is this allowance which has been increased by £3,327, taking it to £4,338 a year. It is not pensionable. This allowance was originally known as the 'undermanning' allowance and was introduced as a recruitment and retention payment in the 1970s.

Sheehy made key changes

The 'Inquiry into Police Responsibilities and Rewards', under Sir Patrick Sheehy in 1993, recommended that housing allowances should end for new recruits and be frozen for those in receipt, and this was implemented from 1 September 1994. Sheehy also recommended that the existing London weighting and London allowance, which together amounted to £2,355 (in 1993) should be subsumed into a new London payment of £4,000, which was to be non-pensionable. It was to recognise 'particular policing difficulties and travelling costs associated with London as well as to ensure that pay levels in the MPS (the Met) are in line with the market' (Sheehy, page 90). This recommendation was not implemented.

Arbitration

Since then the issue of the level of the London allowance has been in dispute, and finally ended up at the Police Arbitration Tribunal. Prompted by the particular difficulties experienced in recruiting and retaining officers in London, the official side of the Police Negotiating Board, an independent negotiating forum, proposed to the Police Arbitration Tribunal an increase in the combined London allowances of £3,327 (124 per cent), taking it to £6,000 a year. Following the decision of the Tribunal, the Home Secretary approved the award on 23 June 2000.

Clarification

The combined £6,000 allowance applies to all those in post recruited since September 1994. All those in post before that date continue to receive a housing allowance as well as the London weighting allowance of £1,662, which is pensionable, and the London allowance of £1,011, which is non-pensionable. The full housing allowance in the Met is worth £5,100, with the half rate set at £2,550 and these levels are those for officers who joined between 1990 and 1994. These rates are red circled. There are different rates for those who joined before 1990, which are also red circled. Roughly speaking, approximately one quarter of the Met police force receive the new £6,000 allowance.

This history is extracted from IDS Report 813, p.4. The combined allowance now stands at £6,111.

Chapter 10: The labour market tightens, 1999 to 2002

Labour markets began to tighten significantly in 1999, with recruitment and retention difficulties over a wide area of the economy. The (belated) response in the public sector was a plethora of initiatives aimed at addressing serious recruitment and retention problems among key staff. There have been new market or cost-of-living supplements for nurses and midwives payable in areas of high costs and low unemployment, on top of London allowances, and now applicable across almost the whole of the South and South East. There have been significant increases in London allowances for the police, for school teachers and for firefighters. And there are 'golden hellos' for teachers in certain shortage subjects, for GPs and for prison officers. There is now a range of pay claims across the public sector seeking higher payments for key workers in London and the South East.

Police allowances

The green light for higher spending on pay to resolve recruitment and retention difficulties came in the summer of 2000 when the Home Office decided to increase the combined London allowances for Metropolitan police officers to £6,000 a year. On 23 June 2000 Jack Straw, the then Home Secretary, said that he 'recognised that the Metropolitan Police has been experiencing difficulties in recruiting and retaining officers, not least because of the cost of living in London'. In this context he said he was approving the Police Arbitration Tribunal decision to increase the combined London allowance for police officers to £6,000, an increase of 124 per cent from the previous level of £2,673. The increase applied to all serving officers not receiving a housing allowance, which meant all those recruited since September 1994 (IDS Report 813, p.4). The increase was aimed at retaining a higher proportion of the approximately 6,300 officers with five years or less service and at recruiting more than 1,000 new policemen and women.

How the labour market tightened between 1999 and 2001

The labour market grew stronger in the late 1990s as unemployment fell. In 1997, the claimant count stood at 1,584,500. By 1999 it stood at 1,248,100. The claimant count dropped below the significant one million level in February 2001 to stand at 996,700 and continued towards 950,000. In the latter months of 2001 as the economy slowed the claimant unemployment rate rose slightly and then fell again in January 2002.

In London, the claimant unemployment rate was 4.3 per cent in December 1999 and had fallen to 3.3 per cent by December 2001. In key travel-to-work areas around London the unemployment rate had fallen below the level of 2 per cent in the last few years, intensifying pressures on recruitment and retention throughout the South East. Examples for December 2001 include:

Travel-to-work area	Unemployment rate %
Basingstoke	0.9
Crawley	0.8
Guildford & Aldershot	0.8
Newbury	0.8
Oxford	1.0
Reading	1.2
Swindon	1.7

Following the raising of the combined London allowance from 1 July 2000, concerns were expressed by police chiefs in the areas surrounding London about the loss of officers and potential recruits to the Met. Consequently, following talks in the Police Negotiating Board, agreement was reached to introduce extra allowances in eight designated forces in the South East outside London. So with effect from 1 April 2001 a new allowance of £2,000 became payable in the five forces immediately bordering London – Essex, Hertfordshire, Kent, Surrey and Thames Valley. Outside of this immediate circle round London, an allowance of £1,000 a year became payable in Bedfordshire, Hampshire and Sussex. In all cases these allowances apply to officers recruited since September 1994 who do not receive housing allowances (IDS Report 830, p.16).

Moves in the NHS

On 10 November 2000, the Prime Minister, Tony Blair, announced that extra pay supplements were to be made available to nurses and other key NHS staff in areas with full or near full employment. He said that some places in Britain were reporting a reduction in the number of nursing vacancies, but that there were still areas with significant staffing shortages. He said: 'The nurse shortages are not uniform across the country. They are most severe where there is full or near full employment and the cost of living is highest' (IDS Report 822, p.2).

Later the Health Secretary, Alan Milburn, announced that the extra pay supplements would cover an estimated 100,000 nurses and professions allied to medicine, effective from 1 April 2001. They were to be worth a minimum of £600, over and above London weighting, for nurses throughout London, and up to £1,000 for senior nurses in the capital. In areas outside London, where unemployment was 2 per cent or below, such as Surrey, Wiltshire, Cambridgeshire, Avon and Buckinghamshire, nurses were to receive between £400 and £600 each.

Market or cost of living?

Initially these extra payments were called 'market supplements' but the staff-side unions were critical of this terminology as it reminded them of the attempt in the mid-1990s to go to local pay bargaining. So the terminology changed over a period of months so that the payments became known as 'cost-of-living supplements' which was deemed to be acceptable, even though this meant that in London there were now two separate cost of living payments, the London allowance and the cost of living allowance.

Ironically, this change in terminology meant that the union argument, that all NHS staff in the areas where the new supplements were being paid should receive the payments, gained more validity. Surely, they said, the higher cost of living applies to all staff including clerical and ancillary staff. Indeed the view that paying the supplements only to the nursing and professional staff was raised by the employers' body, the NHS Confederation, in its evidence to the review bodies in the autumn of 2001. The Confederation said: 'There is no doubt that the high cost of living in London and the South East affected unqualified staff, and indeed non-review body staff, as much as qualified staff. Also, the inclusion of some but not all areas of the South East caused problems. There was resentment from other areas of the country that felt they had high costs of living.'

The NHS Confederation also said: 'The perceived unfair allocation of the cost-of-living supplements affected the morale of both lower grade staff and other specialities that did not receive the benefit,' and 'if the supplements are to be retained as a cost-of-living allowance it should logically be payable to all staff in the designated high cost area. Alternatively it could actually be turned into a recruitment and retention payment that trusts could use in a targeted way for particular staff groups.'

When the supplements were first introduced, certain parts of the South East were not included. However, the Health Secretary announced an extension to the scheme in November 2001. Following representation from MPs and health authorities in areas where the supplements were not yet available, Alan Milburn decided to extend the scheme from 1 April 2002 to cover East and West Kent, North and South Essex, East Sussex, Brighton and Hove and Northamptonshire. The move means around 20,000 staff will qualify for the supplement (IDS Report 849, p.4).

Separately, the Government announced after the 2001 Budget special measures to aid the recruitment and retention of GPs. This involved the introduction of 'golden hellos' of £5,000 for every new GP who joins the NHS (and £5,000 for every GP who returns to NHS work), a further £5,000 for newly-qualified GPs who go to work in deprived areas, and bonds worth £10,000 each for GPs who continue to work between the ages of 60 and 65. Further to this the Government accepted the 2002 Doctors' and Dentists Review Body recommendation that the starting salaries for trainee GPs should be uplifted by 19.5 per cent from April 2002.

Recruitment and retention in teaching

The School Teachers' Review Body for England and Wales recommended an additional higher recruitment and retention allowance of £5,805 from 1 April 2001. At the time there were four recruitment and retention allowances or bonuses, which schools may award to teachers in posts that are difficult to fill. They were worth £942, £1,848, £2,802 and £3,903 at 1 April 2001. The allowances are paid at the discretion of head teachers and school governing bodies and are in addition to London allowances.

The London area allowances for teachers were raised by 30 per cent from April 2001, giving a new inner London allowance of £3,000 a year and an outer London allowance of £1,974. This raised the starting salary for a newly-qualified teacher with a good honours degree in an inner London school to £20,001, excluding any recruitment or retention points.

Other measures aimed at teachers included £4,000 'golden hellos' to attract teachers of shortage subjects such as maths, foreign languages or science. There is also a teacher Recruitment and Retention Fund worth £33 million which is distributed direct to schools in areas with the highest vacancies, and is aimed at local initiatives such as housing and childcare costs or abnormal travel costs. There is also a scheme designed to pay off teachers' student loans, over a set period of time, for those who enter and remain in state education.

Other moves

In the fire service, the London allowance was raised by 10 per cent, to £3,072 from 1 July 2000. The rise, which was the result of independent arbitration, was the first increase since 1997, when the employers imposed a capped rise of 2 per cent.

A new system of location allowances for prison officers in London and the South East was introduced from 1 January 2001. New allowances were introduced for inner, intermediate and outer areas, with existing rates increased by between 28 and 85 per cent, to take the inner London allowance to £3,000 a year. A new fringe zone payment of £800 was also introduced.

In an unusual move, the London transport authority, TfL, introduced a subsidy in April 2001 to bus companies in the capital in order to pay a bonus of £4 a shift (£20 a week) for drivers and conductors on London buses. The subsidy is aimed at easing recruitment and retention pressures, with TfL estimating a shortfall of between 1,500 and 2,000 bus drivers in London last year (IDS Report 831, p.6).

The Post Office Network introduced a 'hot spot' recruitment allowance of £600 from October 2000, payable to branch offices facing proven recruitment difficulties. The criteria for receiving this allowance include: a lack of response from previous recruitment campaigns; other companies paying a location allowance; and low unemployment in the area.

At Railtrack, an entirely new London Area Operations Supplement has been introduced for signalling and supervisory staff and electrical control room operators in response to ongoing recruitment and retention difficulties in the capital. Staff in inner London (within 16 miles of Charing Cross) receive a supplement of £1,200 a year; those in outer London (16-40 miles from Charing Cross) receive £600. These supplements are on top of existing London allowances of £2,000 for inner London and £1,100 for outer London but do not apply for either station staff or for clerical and administrative grades employed in group support.

In the private sector

IDS Study 708 (May 2001) details the flat-rate inner or central London allowances of 110 organisations. The median payment at these employers was £3,100 a year. The Study found that nearly 30 per cent of these employers now pay a central London allowance of £3,500 or more. The Study also described how private sector organisations were increasingly paying part of their London differential through broad banded salaries combined with allowances so it is not always the case that the London allowance is an exact proxy for the London premium. In fact, analysis of London allowances underestimates what is paid as a London differential.

In the banking sector, London allowances at most banks have remained unchanged, in several instances for as long as ten years. However, inner London location payments remain ahead of those in most other sectors. Nearly all the banks pay a free-standing allowance of £3,450 or more. Alliance & Leicester continues to offer the highest allowance of £4,625 (after five years' service). At Abbey National, the anchor point for core customer administration staff in inner London is £15,070, compared with £11,125 nationally, a differential of just over 35 per cent.

HSBC, Barclays and Bradford & Bingley are the only banks to increase their free-standing inner London allowances over the past two years, though cash differentials at Abbey National also rose with annual increases to national and London salary ranges. HSBC increased its inner London payment from £3,700 to £4,000 from 1 April 2001. The inner London allowance at Bradford & Bingley went up by 1.4 per cent to £3,500 from the same date. Barclays' inner London allowance rose from £3,400 to £3,550 from 1 April 2000.

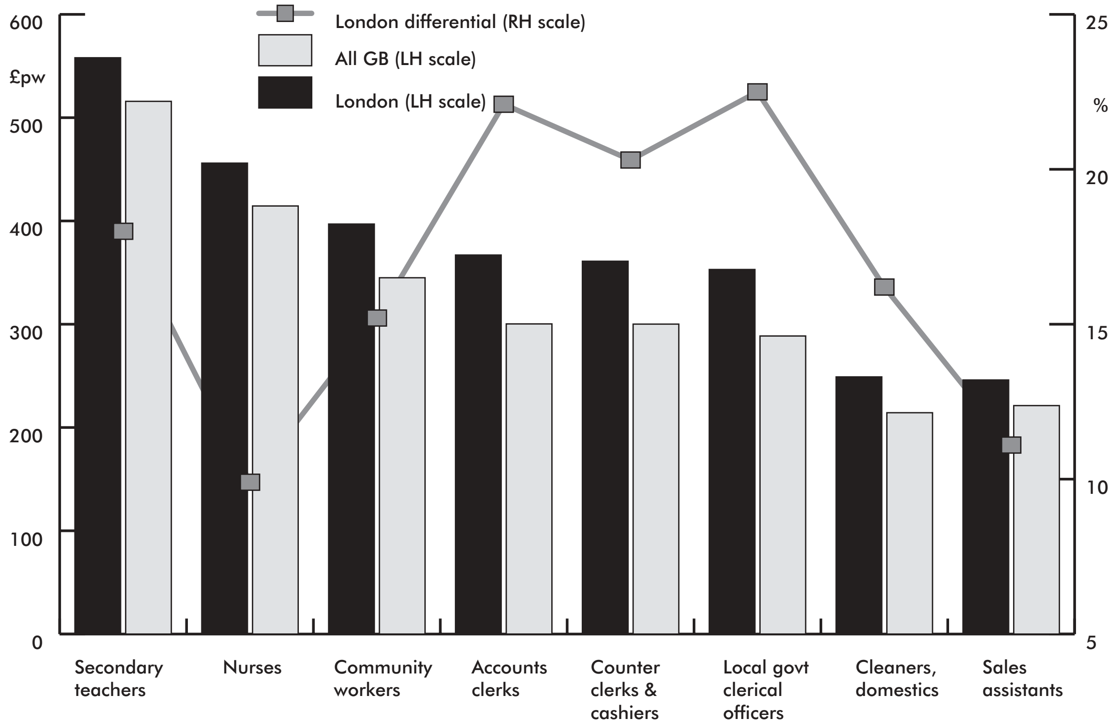
There has been some recent rationalisation of the zonal systems at a number of banks. Location allowances paid in a number of towns (£2,000 for Luton and Reading, £750 for Brighton and Southampton and the £298 payment for 'English large towns') were consolidated into basic pay at the Bank of Scotland on 1 June 2000. At HSBC, three bands covering an area six to 22 miles from Charing Cross were merged into a single zone from 1 April 2001, with the payment being raised to £3,000.

Comparing London with the rest of the country

Analysis of the New Earnings Survey for April 2000 shows that average full-time earnings in London were £561.7 a week, while outside London they were £394.1 a week. These crude averages show London earnings 42.5 per cent higher than in the rest of the country, over £8,000 a year at average earnings. But the London premium is not so simply defined, as a large part of this earnings differential comes from the different occupational structure of London, with its dominance by the high-paying City of London. And average earnings in some parts of outer London, such as Havering or Bromley are no higher than elsewhere in the country.

A distinct London premium cannot be identified until earnings for similar jobs can be compared across different regions. The NES can provide this information, although it is only published at an aggregated level, with broad occupational categories. A more detailed occupational breakdown by region is available from the ONS, although the number of occupations available for comparison is limited by small sample sizes. The chart shows some of these occupational differences, with average London wages for the occupations shown 10 to 23 per cent higher than the national average (including London). There is no particular pattern of this premium being higher or lower in public or private sector occupations.

London and average GB earnings for selected occupations: April 2000



Examples of current levels of London allowances in the private sector, March 2002		
Organisation	Allowance, £pa	Description/comments
Alliance & Leicester	4,625 (0 – 4 miles) 3,570 (4 – 7 miles) 2,465 (7 – 16 miles) 1,315 (16 – 22 miles)	Payable after five years' satisfactory service
BT	2,600 (0 – 4 miles) 1,128 (4 – 18 miles)	Non-management grades
Boots the Chemists	2,568 (West End, City) 1,092 (inner London) 741 (outer London)	These differentials are applied on a store-by-store basis. In central London, sales assistants receive a recruitment supplement of £567 in addition to the London salary and store managers receive a supplement of £1,234.
British Gas Services	2,500 (within M25) 3,290 (0 – 4 miles) 1,802 (4 – 16 miles) 656 (outer Metropolitan area)	Industrials Staff
HSBC	4,000 (0 – 3 miles) 3,000 (3 – 6 miles) 2,000 (6 – 22 miles) 1,000 (designated South East towns)	
Tesco*	5,000 max (Band 5) 3,500 max (Band 4) 1,500 max (Band 3) 800 (Band 2) 98pph (Band 5) 68pph (Band 4) 30pph (Band 3)	Section managers – differential over Band 1 stores Staff

*Bands include the following locations:

Band 5 – City of London; Band 4 – London, Thames Valley stores (including Reading) and certain other South East locations including Guildford; Band 3 – around M25 with variations along M3 and M4 corridor; Band 2 – South East and selected other stores.

Examples of London allowances in the public sector, March 2002		
Organisation	Allowance	Description
Employment Service	Inner London supplement £1,000 (increased from £850, 1.7.01)	Separate national and London pay bands; London bands worth between £1,710 and £3,690 more at the minimum, and between £1,530 and £3,810 more at the maximum.
Fire service	£3,072	London weighting for around 7,000 firefighters and associated staff.
Local government	Inner and outer London pay scales; also inner fringe, £639 and outer fringe, £444.	The effective differential between the inner London pay scale and the national scale is approximately £2,650; the differential between the outer London scale and the national scale ranges from around £1,950 (at the lower end) to £1,400.
Ministry of Defence	London recruitment and retention allowance – inner London £2,000 Intermediate and outer London £1,150	Increased by between 12.6 and 56.3 per cent in August 2001 (first increase since 1993).
NHS (nurses)	Inner London £2,365 plus 5% of salary up to a £750 maximum, ie up to £3,115 Outer London £1,684 plus 5% of salary up to a £750 maximum, ie up to £2,434 Fringe £306 plus 2.5% of salary up to a £375 maximum, ie up to £681	In addition, all qualified nurses in London at grade C and above receive a cost of living supplement worth 4% of basic salary, excluding London weighting and any other allowances, and with a minimum value of £600 and a maximum value of £1,000.
Police officers (Met)	London weighting £1,773 (pensionable) London allowance £4,338 (non-pensionable) (Combined £6,111)	The London allowance is paid in addition to London weighting for staff in post after 1 September 1994. Those in post before then still receive a housing allowance (worth up to £5,126 for Met officers). Met officers also receive free rail travel within 70 miles of London.
Police support staff (Met)	Inner London £1,784 Intermediate £911 Outer London £592	London allowances for 11,000 Metropolitan Police civilian support staff, eg communications and electronics officers, fingerprint technicians, scene of crime officers.
Post Office (Royal Mail)	Inner London £50.38pw Outer London £27.58pw	Postal grades – differential over national scales at 2.10.00. Postal workers also receive recruitment and retention incentive scheme (RRIS) supplements worth £13.87pw in inner London and £16.31pw in outer London.
Prison Service	Inner London £3,000 Intermediate and outer London £1,900 Fringe area £800	Differential over national pay scale. Former civil service London weighting and prison service supplement consolidated into basic pay.
Probation Service	Inner London £2,652 Outer London £1,410	Effective from 1 November 2001.
Teachers	Inner London £3,000 Outer London £1,974 Fringe area £765	Inner London allowances are paid in the former Inner London Education Authority area plus the boroughs of Barking and Dagenham, Brent, Ealing, Haringey, Merton and Newham. Plus a discretionary supplement of £822 paid to some teachers in inner London who were in post on 1.9.94.

Appendix

The table below shows rates of London weighting paid from 1974 to 2000/01 in a selection of public and private sector organisations. Where pay boundaries have changed over this period, these changes are detailed in the box where they first apply, and the entries for subsequent years follow the amended pattern. For example, Barclays widened the boundaries it used for allocating LAs in 1990, broadening its inner London zone from 0–3 miles to 0–5 miles from Charing Cross, and paid an allowance for this zone of £3,550 in 2000.

London weighting 1974–2001

	1974 £pa (effective date)	1979 £pa (effective date)	1984 £pa (effective date)	1988 £pa (effective date)	1992 £pa (effective date)	1998 £pa (effective date)	2000/01 £pa (effective date)
Barclays – (English Clearing Banks until 1987)	0–3 402 3–6 345 6–10 231 10–16 186 18–22 117 (1.8.74)	1,023 746 501 397 254 (1.8.79)	1,725 1,223 821 654 418 (1.8.84)	3,000 2,500 2,000 1,500 1,250 (1.8.87)	0–5 3,400 5–10 2,450 10–M25 1,600 M25–22 1,325 (1.8.90)	3,400 2,450 1,600 1,325 (1.8.90)	3,550 2,550 1,670 1,375 (1.4.00)
Halifax	Information not available	Information not available	0–3 1,500 3–6 910 6–16 550 (1.8.84)	3,150 2,650 6–M25 2,000 M25–40 1,000 (1.8.88)	3,450 2,950 2,250 1,200 (1.2.91)	3,450 2,950 2,250 1,200 (1.2.91)	3,450 2,950 2,250 1,200 (1.2.91)
WH Smith	Information not available	Information not available	Inner, 1,095 Outer, 483 (1.2.84)	Oxford St, 2,018 0–4m, 1,576 Brent Cross, 867 4m–M25, 646 (1.10.87)****	2,800 2,500 Inner fringe, 2,000 Outer fringe, 1,500 Within M25, 1,200 (1.6.90)	2,800 2,500 2,000 1,500 1,200 (1.6.90)	2,800 2,500 2,000 1,500 1,200 (1.6.90)
Inland Revenue (Civil service non-industrial staff until 1988)	Inner, 410 Outer, 260 (1.4.74)	780 325 (1.4.79)	Inner, 1,300 Intermediate, 730 Outer 520	1,750 1,000 725 (1.7.88)	1,750* 1,000 725 (1.7.88)	1,650 to 5,000** (1.8.97)	1,950 to 6,190** (1.8.00)
Local Government APT&C staff	Inner, 381 Outer, 261 Inner fringe, 180 Outer fringe, 120 (6.8.74)	726 390 237 159 (7.8.79)	1,191 627 282 192 (1.7.83)	1,584 837 378 258 (1.7.88)	2,085 1,107 501 345 (1.7.92)	2,409 1,281 582 405 (1.4.98)	2,643 to 2,674 (Inner)*** 1,404 to 1,947 (Outer)*** (1.4.01)
NHS nurses	Information not available	Inner, 398 Outer, 141 (1.8.79)	807 149 (1.7.83)	Inner, 981 + 5% of salary, up to max of £532 Outer, 981 + 5%, up to max of £532 (1.4.88)	1,745 +5% (720) 1,275 +5% (720) Fringe, 230 +2.5% (360) (1.4.92)	1,910 +5% (750) 1,360 +5% (750) 245 +2.5% (375) (1.4.98)	2,365 +5% (750) 1,684 +5% (375) 306 +2.5% (375) (1.4.01)
ICI	Inner, 402 Outer, 201 (1.7.74)	442 221 (4.6.79)	1,584 792 1.7.84)	3,000 1,500 (1.7.88)	Inner, 3,400 (1.11.90)	3,600 (1.11.97)	3,600 (1.11.97)

* differential between London and provincial salaries.
** London weighting frozen and targeted allowances introduced. Non-industrial civil servants in London receive extra spine points and, in addition local pay additions of up to £1,000 may be made.
*** differentials between London (inner/outer) and national scales.
**** zonal system introduced.

Appendix 10
Glossary

Central London
Central London comprises the boroughs of Camden, City, Islington, Lambeth, Southwark, Tower Hamlets and Westminster.

Centre for Economic & Business Research
An independent economics and business research consultancy providing analysis, forecasts and advice. For more information, see www.cebr.com

Cost of London expenditure at provincial prices
The weekly amount people in London would spend on different categories of goods and services, if paying the prices people living in the provinces pay. Examples of categories and London expenditure are given in Chapter 4 of this report (Figure 4.5). For more information see www.statistics.gov.uk.

Cost of Provincial expenditure at London prices
The weekly amount people in the provinces would spend on different categories of goods and services, if paying the prices people living in London pay. Examples of categories and London expenditure are given in Chapter 4 of this report (Figure 4.5). For more information see www.statistics.gov.uk.

Direct cost compensation
Compensating for differential costs between London and elsewhere by measuring them and making payments to compensate for them.

Employers' Organisation for Local Government
The Employers' Organisation supports local authorities in their role as employers, to promote employment practice and employee partnership and improve service provision. For more information, see www.lg-employers.gov.uk.

Greater London
The region comprising the Greater London Authority area, made up of the thirty-two London boroughs and the City of London.

Incomes Data Services
An independent research organisation providing research and analysis on pay, benefits and related employment policies. For more information, see www.incomesdata.co.uk.

Inner London
Inner London comprises the boroughs in Central London plus the boroughs of Kensington and Chelsea, Lewisham, Newham, Haringey, Wandsworth, Hackney and Hammersmith.

Labour Force Survey
A quarterly household survey covering a sample of approximately 60,000 households. For more information, see www.statistics.gov.uk.

Labour Research Department
An independent trade union based research organisation. For more information see www.lrd.org.uk.

London expenditure
The weekly amount spent on different categories of goods and services in London. Examples of categories and London expenditure are given in Chapter 4 of this report (Figure 4.5). For more information see www.statistics.gov.uk.

London Premium
Extra pay for working in London, by whatever name called.

New Earnings Survey
An annual survey of pay conducted in the United Kingdom with data on approximately 160,000 employees. For information, see www.statistics.gov.uk.

National Board for Prices and Incomes
A body set up the Labour Government in 1965 to advise on issues referred to it. Subsequently it was responsible for administering the statutory prices and incomes policy of the late 1960s. For information, see Appendix 9.

National Economic Research Associates
An international economic consultancy. For more information, please see www.nera.com.

Office for National Statistics
The ONS produces statistics on the United Kingdom's economy and society. For more information see www.statistics.gov.uk.

Outer London
Outer London comprises the boroughs of Barking and Dagenham, Barnet, Bexley, Brent, Bromley, Croydon, Ealing, Enfield, Greenwich, Harrow, Havering, Hillingdon, Hounslow,Kingston upon Thames, Merton, Redbridge, Richmond upon Thames, Sutton, Waltham Forest.

Pay Board
The Pay Board was set up in 1973 to regulate prices, pay, dividends and rents. In October 1973 it was asked to review the approach to London Weighting which the National Board for Prices and Incomes had established in 1967.

Provincial expenditure
The weekly amount spent on different categories of goods and services in the provinces, (excluding London). Examples of categories are given in Chapter 4 of this report. For more information see www.statistics.gov.uk.

Roseland
Used to describe the areas bordering London, the rest of the south east. For more information see www.incomesdata.co.uk.

Starter Homes Initiative
A government initiative aimed at addressing the shortage of affordable housing in London and other identified 'property hot spot' areas in England for some public sector workers. For more information see www.housing.dtlr.gov.uk

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ਜੇ ਤੁਸੀਂ ਜਾਂ ਕੋਈ ਤੁਹਾਡਾ ਜਾਣ-ਪਛਾਣ ਵਾਲਾ ਇਸ ਰਿਪੋਰਟ ਦਾ ਅਗਜ਼ੈਕਟਿਵ ਖੁਲਾਸਾ ਅਤੇ ਸੁਝਾਵਾਂ ਦੀ ਨਕਲ ਵੱਡੇ ਅੱਖਰਾਂ ਵਿਚ, ਬ੍ਰੇਅਲ ਵਿਚ ਜਾਂ ਆਪਣੀ ਭਾਸ਼ਾ ਵਿਚ ਮੁਫ਼ਤ ਪ੍ਰਪਤ ਕਰਨਾ ਚਹੁੰਦਾ ਹੈ ਤਾਂ ਕ੍ਰਿਪਾ ਕਰਕੇ ਸਾਡੇ ਨਾਲ 020 7983 4100 ਤੇ ਟੈਲੀਫੋਨ ਰਾਹੀਂ ਸੰਪਰਕ ਕਰੋ ਜਾਂ assembly.translations@london.gov.uk ਤੇ ਸਾਨੂੰ ਈ-ਮੇਲ ਕਰੋ।

Si usted, o algún conocido, quiere recibir copia del resúmen ejecutivo y las recomendaciones relativos a este informe en forma de Braille, en su propia idioma, y gratis, no duden en ponerse en contacto con nosostros marcando 020 7983 4100 o por correo electrónico:
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اگر آپ یا' آپ کا کوئی جاننے والا' اس ایگزیکٹوسمری اور اس رپورٹ میں سے سفارشات کی ایک کاپی بڑے پرنٹ میں یا بریل پر' یا اپنی زبان میں بلامعاوضہ حاصل کرنا چاہیں تو' براہ کرم ہم سے فون 020 7983 4100 پر رابطہ کریں' یا assembly.translations@london.gov.uk پر ای میل کریں۔

Ta ba ri enikeni ti o ba ni ife lati ni eda ewe nla ti igbimo awon asoju tabi papa julo ni ede ti abinibi won, ki o kansiwa lori ero ibanisoro. Nomba wa ni 020 7983 4100 tabi ki e kan si wa lori ero assembly.translations@london.gov.uk. Ako ni gbowo lowo yin fun eto yi.

Haddii adiga, ama qof aad taqaanid, uu doonaayo inuu ku helo koobi ah warbixinta oo kooban iyo talooyinka far waaweyn ama farta qofka indhaha la' loogu talagalay, ama luuqadooda, oo bilaash u ah, fadlan nagala soo xiriir telefoonkan 020 7983 4100 ama email-ka cinwaanku yahay assembly.translations@london.gov.uk

Assembly Scrutiny principles

The powers of the London Assembly include power to investigate and report on decisions and actions of the Mayor, or on matters relating to the principal purposes of the Greater London Authority, and on any other matters which the Assembly considers to be of importance to Londoners. In the conduct of scrutiny and investigation the Assembly abides by a number of principles.

Scrutinies:

- aim to recommend action to achieve improvements;
- are conducted with objectivity and independence;
- examine all aspects of the Mayor's strategies;
- consult widely, having regard to issues of timeliness and cost;
- are conducted in a constructive and positive manner; and
- are conducted with an awareness of the need to spend taxpayers money wisely and well.

More information about scrutiny work of the London Assembly, including published reports, details of committee meetings and contact information, can be found on the GLA website at www.london.gov.uk/assembly.

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