

WARWICK INSTITUTE *for*
EMPLOYMENT RESEARCH



APPLYING THE LONDON PREMIUM

A report prepared by

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Summary of Findings

- Recruitment and retention of public sector workers continues to be a major problem in London and it is widely acknowledged that the high cost of living and working in the capital is an important contributory factor.
- The *Report of the London Weighting Advisory Panel*, commissioned by the London Assembly and issued by the London Weighting Advisory Panel in June 2002, recommended that London weighting in the public sector should be set by private sector comparison, since negotiation and pay-setting in the private sector produces the premium needed to attract and retain employees of the right quality in London. This study investigates the implications of applying the private sector London premium to public sector employees in London.
- Private sector workers enjoy a premium for working in London compared with similar private sector workers in the rest of the country. This premium is estimated to be around 33% for those employed in inner London (excluding the City) and 11% for those working in outer London. The existing public sector premiums for working in London are estimated to be 24% for inner London and 15% for outer London.
- The consequences of applying the London private sector premium for individual employees and for the aggregate salary bill are evaluated for three exemplar groups of London public sector employees – Local Government (General Services) workers, the Metropolitan Police Service civilian employees and staff in the Prison Service. A number of different estimation and payment systems, including flat-rate payments and percentage increments, are considered.
- For our preferred methodology, the findings suggest:
 - Allowances for public sector employees in inner London would be around 50% greater than those currently being paid to the employees considered in this study
 - In aggregate, the new allowances would increase the inner London salary bill by just over 7%
 - For outer London public sector employees, the evidence suggests that the London allowances currently paid in the public sector produce a London premium at least as great as that received by workers in the private sector.

APPLYING THE LONDON PREMIUM

Table of Contents

Summary of Findings.....	i
1. Introduction.....	1
2. Background.....	2
3. Methodological approaches.....	9
3.1 Method.....	10
3.2 Alternative allocation and distribution method.....	12
4. Applying the London premium.....	14
4.1 London Local Government (LG) workers.....	14
4.1.1 Pay and employment.....	14
4.1.2 London LG individual level analysis.....	17
4.1.3 London LG aggregate level analysis.....	19
4.1.4 London LG summary.....	20
4.2 Metropolitan Police Service (MPS) civilian staff.....	20
4.2.1 Pay and employment.....	21
4.2.2 MPS individual level analysis.....	23
4.2.3 MPS aggregate level analysis.....	24
4.2.4 MPS summary.....	25
4.3 Prison Service (PS) employees.....	25
4.3.1 Pay and employment.....	26
4.3.2 PS individual level analysis.....	30
4.3.3 PS aggregate level analysis.....	31
4.3.4 PS summary.....	32
5. Conclusions.....	33
6. References.....	35

List of Tables and Figures

Tables

Table 2.1	Standardised private sector spatial wage differentials.....	5
Table 3.1	Standardised public sector spatial wage differentials.....	11
Table 4.1.1	Pay distribution of London LG workers: summary statistics.....	16
Table 4.1.2	London LG workers: individual analysis.....	17
Table 4.1.3	London LG workers: aggregate analysis.....	19
Table 4.1.4	London LG workers: summary analysis.....	20
Table 4.2.1	Pay distribution of MPS civilian staff: summary statistics.....	22
Table 4.2.2	MPS civilian staff: individual analysis.....	23
Table 4.2.3	MPS civilian staff: aggregate analysis.....	24
Table 4.2.4	MPS civilian staff: summary analysis.....	25
Table 4.3.1	Pay distribution of PS employees: summary statistics.....	29
Table 4.3.2	PS employees: individual analysis.....	30
Table 4.3.3	PS employees: aggregate analysis.....	31
Table 4.3.4	PS employees: summary analysis.....	32
Table 5.1	Summary analysis for inner London median employees.....	33

Figures

Figure 4.1.1	Pay distribution of inner London LG workers.....	15
Figure 4.2.1	Pay distribution of inner London MPS civilian staff.....	21
Figure 4.3.1	Pay distribution of inner London PS employees.....	28

APPLYING THE LONDON PREMIUM

1. Introduction

In the face of increasing difficulties in recruiting public sector employees in London, the *Report of the London Weighting Advisory Panel on London Weighting* (London Weighting Advisory Panel, 2002) is the first major review of the system of London weighting for almost 30 years. Based on its wide ranging analysis of historic and current practice in both the public and private sectors, it proposes a radical change to the way in which London weighting in the public sector is paid. Its central recommendation is that public sector London allowances should be set by direct comparison with the London premium that is paid in the private sector.

This report applies that recommendation to three groups of public sector workers in London:

- Local Government (General Services) workers;
- The Metropolitan Police Service civilian staff; and
- Prison Service employees.

The implications both for individuals' salaries, and for the aggregate salary bill, are considered. A number of different payment systems are considered, including flat-rate payments based on salary levels (such as are typically paid today) and also percentage increments.

The remainder of this report is structured as follows: Section 2 discusses some background information and presents estimates of the existing private sector London premiums. Section 3 details the methodological approach used to implement comparable premiums in the public sector, as recommended by the London Weighting Advisory Panel (2002). Section 4 reports the consequences of applying the London premium methodology to the three groups of public sector workers considered in this report. Finally, some brief conclusions are presented in section 5.

2. Background

The *Report of the London Weighting Advisory Panel (2002)* was the first comprehensive review of London allowances since the 1974 Pay Board. The Pay Board established that those living and working in London should receive comparable earnings with workers elsewhere in the UK, and formally recognised that this necessitated an additional allowance for the extra costs associated with living in the capital – the so-called direct cost compensation approach.¹ From 1974 onwards, cost of living indices for London were produced each year to enable the allowances to be appropriately updated. Even when an approach based on companies' ability to pay, rather than their geographical location, was advocated by the Government, Income Data Services (IDS) continued to produce this index and did so until 1987. By this time the original expenditure-based weighting system was rather out of date. Moreover, as IDS recognised, by the late 1980s, cost compensation had been largely replaced by recruitment considerations in employers' assessment of the additional pay needed to recruit and retain workers in the capital. A comprehensive historical review of London weighting produced by IDS was published as Appendix 9 in *London Weighting Advisory Panel (2002)*.

Regular reviews of the current status of London allowances are produced by IDS. IDS (2001, 2002) records the range of systems in place together with the allowances paid for a wide variety of employers in the private, voluntary and public sectors:

- Some private sector employers have separate pay scales for London, but most – around 70 to 80% – still pay flat-rate London allowances;
- The most frequent scheme is a dual system of allowances which distinguishes between inner London and outer London;
- However, some employers have several tiers of allowances for London which differ by distance (usually from Charing Cross) and/or according to local labour market conditions;
- Location allowances frequently extend beyond London to include other areas of labour market pressures in the rest of the South East (RoSEland) and beyond;
- Some employers also have lower standard working hours for workers employed in the capital as well as other inducements, such as free travel;
- Some employers pay different allowances according to pay band, or to those with longer tenure;

¹ Although such allowances were paid to those who worked rather than necessarily lived in the capital.

- Some allowances are pensionable and/or enhanceable;²
- Recruitment and retention allowances also exist for some specific public sector workers in London (e.g. teachers); and
- On average, London allowances are higher in the private sector than in the public sector, although the gap has been narrowing in recent years mainly due to the private sector not increasing its allowances.

In general, there is little evidence of a logical or systematic approach to the payment of London allowances in either public or private sectors. Even apparently closely competing private sector firms within the same industry and location can have quite different schemes in place, which can result in significant salary differences for workers in very similar or identical jobs. There is also considerable variation within the public sector. Part of this is a legacy of the Pay Board direct cost compensation system still being implemented for some groups, although it has been upgraded over time (though not in any methodical fashion), while others have seen considerable change in the structure and levels at which London allowances are paid.

The key recommendation of the London Weighting Advisory Panel is to set public sector London weighting by comparison with the private sector in which labour market conditions are considered to be the primary motivation for the London differential. However, given the range of London allowance systems in place in the private sector, coupled with the different salary scales between private sector employers, some kind of 'average' or typical private sector London premium has to be computed. This needs to take account of salary scale differences as well as London allowances between workers in London and those elsewhere in Britain. It should also account for the fact that the workers, and the jobs that they do, may differ systematically between London and the rest of Britain.

² 'Enhanceable' means that it is considered as part of basic pay when calculating overtime or shift premium payments.

Both Blanchflower *et al* (2002) and Davies and Wilson (2002) have computed the magnitude of the private sector London premium. Both use New Earnings Survey (NES) and Labour Force Survey (LFS) data to estimate the pay differential for a representative private sector employee working in different geographical areas of London.³ That is, they produce estimates of the additional pay that an otherwise identical (in terms of age, qualification, gender, ethnicity, occupation, industry et c.) private sector worker receives working in London compared with working outside London.

The two datasets employed in both studies – NES and LFS – each have their advantages and disadvantages. The NES is an administrative dataset based on individuals' earnings records while the LFS is a household survey dataset.⁴ The LFS thus provides a rather smaller sample size and so, for example, it is not possible to separate the City of London from the rest of central London.⁵ The finer geographical disaggregation which is possible with the NES reveals that the City of London pays a rather higher premium than the rest of inner London, perhaps reflecting the particular and peculiar nature of the jobs located there, which are almost exclusively in the private sector.

However, because the LFS is a detailed survey, it is possible to take into account a wider range of factors which influence pay when calculating the London premium than is possible with the NES. In particular, it is possible to control for differences in qualifications between workers. Arguably, this gives the estimates derived from LFS greater credibility since they more accurately reflect like-for-like comparisons.⁶

One potential weakness with the LFS data on earnings is the fact that the information is likely to be imperfect because of the number of proxy respondents (which represent around 30% of total responses). However, the analysis in Davies and Wilson (2002) reveals that excluding these proxy respondents makes almost no difference to the estimated premiums. Thus it would appear that proxy response within the LFS is not a significant issue.

³ Identical analysis to that in Blanchflower *et al* (2002) using LFS data only, undertaken for the Learning and Skills Council (LSC), has recently been reported by Frontier Economics (2003).

⁴ Note that the London premiums calculated from the LFS are based on the 'region of work' variable. Thus, despite the LFS being a household survey, the London premiums are calculated for the location of the job rather than the location of the household.

⁵ Central London is defined as the area within the bounds of the main London train termini.

⁶ Despite this, in similar work undertaken for the NHS, Wilson *et al* (2002) find the estimated premiums are little different when this extra information is excluded from the calculations.

Despite the factors described above, and additional differences in the coverage of the two datasets (e.g. the NES excludes workers that do not pay NI contributions, and thus under-represents those on low pay), the calculated London premiums from the two datasets are very similar. An important finding is that the different regions outside London pay rather similar rates of pay for a representative worker and thus the only substantive differences are between central and inner London, outer London and, according to Blanchflower *et al* (2002), a small premium accruing to workers in the rest of the South East – sometimes labelled ‘RoSEland’.

Table 2.1 summarises the London private sector premiums calculated by Davies and Wilson (2002) and published as Appendix 7 in London Weighting Advisory Panel (2002):

Table 2.1 Standardised private sector spatial wage differentials

	sectoral coverage:	all private sector	all private sector	private sector excluding City
	data source:	LFS	NES	NES
Central London		44%	41%	37%
Inner London excluding central		25%	21%	21%
Inner London including central		36%	37%	33%
Outer London		15%	11%	11%
Greater London		27%	25%	22%

Source: Davies and Wilson (2002), Table 4.1, Table 4.3, Table 4.4.
 Notes: Comparison is with the private sector in the rest of England.
 3 year averages taken from NES: 1999/01; LFS 1998/00.

Thus the first line in the table reveals that in order to match the London premiums area-by-area to those in the private sector requires that a public sector worker in central London should be paid around 37% to 44% more than public sector workers elsewhere in England, et c. As shown in both Blanchflower *et al* (2002) and Davies and Wilson (2002), these premiums are typically greater than those that are currently paid in the public sector.

There are a number of issues for consideration.

First, it should be noted that the premiums do not imply matching pay *levels* in the public and private sectors. There are a number of reasons for salary differences between the public and private sectors. Some are due to non-pecuniary differences such as job security and job satisfaction, while others are due to pecuniary but unmeasured differences such as pension entitlements. Together these can account for at least part of the difference between public and private sector salaries. However, conditional on the sector of employment, pay differentials reflect the relative opportunity costs and benefits of working in different geographical locations, as well as the relative supply and demand for talent, and these are identical for both private and public sector employees. The implication of this argument is that, proportionately, the pay differentials should be the same too. Thus the premium for the public sector should match that in the private sector, since the latter reflects salaries determined in the 'market' (unlike pay in the public sector).

Secondly, in theory, the public sector London premium could be made to match that in the private sector at zero net exchequer cost by simultaneously decreasing salaries of public sector workers elsewhere in England while increasing the salaries of those in London. However, even if such readjustments were practicable, they would be likely to have adverse spill-over effects in the private sector outside London. This would become relatively more attractive to the lower paid public sector workers, thus reducing the private sector wages outside London and further increasing the London private sector premium. Therefore, throughout the remainder of this project, the presumption is that public sector salaries for workers outside London are currently set at the appropriate levels necessary to recruit and retain workers of sufficient quality.⁷ Hence, the adjustment is to be made to salaries for London-based employees. That is, we neglect consideration of any potential spill-over effects from the private sector to the public sector (or vice versa), or from outside London to the London labour market, which might follow from the introduction of a London premium payment scheme as advocated in London Weighting Advisory Panel (2002).

⁷ Average hourly wages in the public sector are greater than in private sector in every region and country in the UK, with the exception of central/inner London where this pattern is reversed.

Thirdly, any knock-on effects from increasing London public sector premiums to match those in the private sector are also disregarded in what follows. These so-called general equilibrium effects include such factors as house-price - and more general - inflation, especially in London, as well as the taxation implications (arising from the costs of financing the increases and the higher exchequer revenues from direct and indirect taxes on the enhanced salaries). Thus, the estimates presented here are a first-order approximation to the final salary payments that may be required to equalise the private and public sector London premiums.

Fourthly, the regional specificity of the premium needs to be determined. Taking the NES figures in the final column of Table 2.1 (i.e. excluding workers in the City of London who are regarded as being occupationally segregated and thus not a relevant comparison group for the public sector), there are (at least) four possible choices:

- A single London premium – that is, the greater London premium of 22%;
- A two-tier premium system – that is, inner London at 33% and outer London at 11%;
- A three-tier premium system – that is, central London at 37%, inner London excluding central London at 21% and outer London at 11%; or
- A four-tier premium system – as in the three-tier premium system, but with an additional premium paid to workers in the rest of the South East ('RoSEland').

The choice between the different numbers of premiums is a trade-off between simplicity – which would perhaps favour a single London premium – and potential boundary or 'cliff-edge' problems – which are lessened if there is a gradual scale of premiums. Data requirements are also an important consideration, in that separate employment statistics for central London and the rest of inner London are not available for any of the employee groups considered in the analysis presented in this report. Certainly, the public sector employees considered below do not currently differentiate their current London weighting/allowance schemes between central and the rest of inner London. Hence the analysis examines the consequences of applying a two-tier premium system – inner London (excluding City) at 33% and outer London at 11%.

Finally, the averages presented in Table 2.1 disguise some variation by occupation. For example, as shown in Davies and Wilson (2002, p.151 *et seq*), the private sector London pay premium is higher for managers and professionals than for plant and machine operatives and, in general, is higher for those towards the top of the pay distribution and lower for those nearer the bottom. Once again, the choice between a single premium and a range of occupationally-based premiums is a trade-off between the simplicity and transparency of having a single premium irrespective of occupation and having a range of premiums to reflect more accurately the private sector differentials which do vary somewhat by occupation. Blanchflower *et al* (2002) argue that the broad patterns by occupation are sufficiently similar to advocate the simplicity of a single premium, especially given the difficulty of finding matching occupational groups in the private and public sectors to provide relevant comparisons. A second advantage of simply using a single premium is that applying the estimated occupationally-based premiums would serve to widen the distribution of pay still further, leading to even greater increases in pay inequality.

3. Methodological approaches

The basic methodological approach to applying the London premium is to subtract any existing premium from London public sector salaries and then to inflate the resultant salaries by the appropriate private sector premium. This method is supplemented by an additional distribution scheme based on allocating the median employee monetary outcome – the difference in pay implied by the London premium for the employee ranked in the middle of the pay distribution – to all other workers. This will produce a flat-rate allowance similar to the majority of London allowance schemes currently in operation.

The individual employee level analysis illustrates the implications of the method for each of three representative workers' salaries. These workers are evenly spaced at the quartiles of the pay distribution.⁸ In order to gain some understanding of the magnitude of the salary differences that each scheme implies, the equivalent London allowance payment is calculated. This can then be easily compared with the existing London weighting or allowance.

The aggregate analysis presents the implications of the two schemes for the total salary bill. Note that the aggregate salary bill computations do not include adjustments to employer costs associated with National Insurance (NI) and pension contributions resulting from any changes in salaries. Any fully-costed scheme would, of course, need to take these into account. However, such adjustments are of a smaller order of magnitude than the increases resulting from applying the premium. Given the near-linearity of employer NI contributions in the range of salaries under investigation, the *percentage* increments to employer salary costs will be the same as those calculated for employee salaries.⁹ Similarly, consideration of the different pension schemes and entitlements for the various employees, together with the associated employer costs, would add considerably to the complexity of the analysis, and thus these too are disregarded in the following analysis. But again, the percentage increase in employer salary costs (employee salary plus pension contributions) will be very similar to the percentage increase in employee salaries.

⁸ Thus, one-quarter of employees earn less and three-quarters of employees earn more than the first illustrative worker. The second representative worker is ranked exactly in the middle of the pay distribution. Finally, one quarter of employees earn more and three-quarters of employees earn less than the third illustrative worker.

⁹ Employer NI contributions are of the order of 7% of salary costs in the range of salaries of the three groups under investigation and are approximately proportional to salary. Thus, a 10% increase in an employee's salary would also imply a 10% increase in employer basic salary costs (employee salary plus employer NI contributions) and the magnitude of the monetary increment for the employer would be just 7% greater than the monetary increment that the employee receives.

3.1 Method

The methodological approach attempts to take account of grade drift, accelerated promotion, piecemeal payments et c. as well as the official London weighting before applying the London premium. This is undoubtedly difficult. Grade drift is used to recruit and retain public sector workers in the capital and thus provides an unofficial means by which public sector employers already enhance the official London weighting. The clearest indication of this 'unofficial' London weighting payment is that there are already relatively large public sector differentials for London-based workers despite the preponderance of national pay setting formulae in the public sector as a whole (see Davies and Wilson, 2002). These differentials are much greater than the existing official London weighting payment systems would imply. Hence it is important to take account of the drift and other payments that are currently paid to public sector workers in London. This is the approach recommended by the London Weighting Advisory Panel (2002).

In order to provide a good indication of the extent of the official and unofficial London weighting, we utilise information on the existing London wage premium for public sector workers. Conditional on other differences between London-based and non-London-based employees such as age, qualifications and experience, the calculated wage premium can be interpreted as reflecting the combined incremental payments to London-based public sector employees, including the official weighting. Estimates of these public sector London premiums are presented in Davies and Wilson (2002) and are summarised in Table 3.1 below. Thus, using the NES figures for comparability with the selected private sector premiums, we see that public sector workers in inner London (including central London) currently earn around 24% more than their equivalent non-London-based counterparts, while those in outer London earn approximately 15% more. Part of this differential is due to the official London weighting payments, whilst the remainder can be interpreted as reflecting the unofficial London weighting derived from grade drift, accelerated promotion, piecemeal payments et c.

It should be noted that the method assumes that, in estimating the public sector premium, all differences between London-based and non-London-based public sector employees are taken into account in the regression estimates and thus we are comparing like-with-like. Only if the London-based employees are in some sense better in some *unmeasured* characteristic such as ability or endeavour and which merits higher pay, or their jobs are notably different in some unmeasured way from those outside London and that merits higher pay, that some of the differences in pay will not be accounted for in the methodology adopted here.¹⁰

Table 3.1 Standardised public sector spatial wage differentials

sectoral coverage:	all public sector	all public sector
data source:	NES	LFS
Central London	26%	26%
Inner London excluding central	19%	21%
Inner London including central	24%	23%
Outer London	15%	13%
Greater London	20%	19%

Source: Davies and Wilson (2002), Table 4.1, Table 4.3.
 Notes: Comparison is with the public sector in the rest of England.
 3 year averages taken from: NES - 1999/01; LFS - 1998/00.

Our method uses these estimated premiums to approximate the combined official and unofficial London weighting payments. This can then be deducted from London-based public sector employees’ salaries and their net salaries (i.e. equivalent to those of similar non-London-based public sector employees) can then be incrementally increased by the private sector London premium (as described above).

Since both adjustments (subtracting an estimate of the drift on top of London weighting in the public sector and adding the private sector London premium) are in percentage terms, the net proportional impact will be the same for all workers:

- For inner London employees, the combined impact of removing the allowance and drift of 24% and applying the London premium of 33% will be to *increase* salaries by 7.3%; and
- For outer London employees, the combined impact of removing the allowance plus drift of 15% and applying the London premium of 11% will be to *decrease* salaries by 3.5%.¹¹

¹⁰ Details of the variables included in the regression and therefore accounted for satisfactorily in the estimation of the premiums are provided in Davies and Wilson (2002). They include age and gender, qualifications, industry and occupation.

¹¹ This is calculated as $(\frac{1.33}{1.24} - 1) \times 100\% = 7.3\%$ and $(\frac{1.11}{1.15} - 1) \times 100\% = -3.5\%$ for inner London and outer London respectively.

That is, the method applied to outer London public sector workers will always result in a net fall in salary since, on average, they are already earning a slightly higher London premium (15%) than their counterparts in the private sector (11%). Given that the London Weighting Advisory Panel (2002) recommends that in applying the London premium 'no employee should be worse off than at present' (London Weighting Advisory Panel, 2002, paragraph xxxi), we do not consider outer London workers, but rather concentrate solely on the application of the method to workers in inner London. This is presented in the analysis below.

An illustrative example of the application of the method is shown in the box below.

An example of applying the method

Suppose that an 'average' London-based teacher earns £25,000 per annum and the public sector London premium is 25%. This implies that the equivalent non-London-based teacher earns $(25,000/1.25=)$ £20,000; some £5,000 less. If the official London weighting for teachers is £3,000, then the remaining £2,000 difference can be attributed to unofficial payments made to London-based teachers such as grade drift.

If the private sector London premium is 35%, say, and this is to be applied to teachers' salaries, then the consequences for a London-based teacher are calculated as follows.

When grade drift et c. as well as the official London weighting are stripped out, the net salary is estimated as being £20,000 as shown above. Applying the 35% premium to this would take the salary to $(20,000 \times 1.35=)$ £27,000, which would require an increase of $(27,000 - 25,000=)$ £2,000 on the current salary.

This is equivalent to an increase in the London weighting from £3,000 to £5,000 and corresponds to an increase in the current wage bill of $(2,000/25,000=)$ 8%.

3.2 Alternative allocation and distribution method

The alternative allocation and distribution method is based on applying the monetary salary increment that the median worker receives to all other workers. Once again, both the individual and aggregate consequences are calculated.

This variant serves a number of purposes. First, as shown above, the method applied to workers in inner London will imply a net salary increase of 7.3%. This will serve to increase pay inequality since it will generate a greater monetary increment for those further up the pay distribution. Paying all workers an equal monetary amount will have the opposite effect in that it will reduce pay inequality since a flat-rate payment will represent a greater proportionate increase in salary for those nearer the bottom of the pay distribution. It also accords with the standard system of paying London allowance which typically awards all workers the same monetary amount.¹²

The aggregate implications for the salary bill for both schemes – the same percentage pay adjustment of 7.3% or the same monetary pay adjustment for all workers – are also shown in the analysis presented below. The equivalent average per capita payment – that is, the aggregate wage bill increment shared equally (averaged) across all workers – is also presented for comparison.¹³

¹² However, a flat-rate payment does not conform to the principle that the premium should be the same *proportionate* payment that the private sector pays in order to recruit workers to jobs in London.

¹³ It is interesting to note the similarity between the London premium methodology to be implemented in this report and the high cost area supplements for inner and outer London under the new 'Agenda for Change' proposals for pay in the NHS. These stipulate a 20% premium on basic pay for inner London employees, with a minimum of £3,000 and a maximum of £5,000. For outer London employees, the increment is 15% of basic pay, with a minimum of £2,500 and a maximum of £3,500. Clearly this system also involves moving away from the typical flat-rate London allowance system.

4. Applying the London premium

4.1 London Local Government (LG) workers

The Association of London Government (ALG) was formed in April 2000 from a merger of the London-wide agencies not explicitly incorporated into the Greater London Authority (GLA). It works closely with the Local Government Association as well as with private, voluntary and public sector organisations. Its main functions are to:

- Provide a single voice for its member authorities where possible;
- Lobby for adequate resources for the capital;
- Lead on policy formulation and debate on key issues for London;
- Act as the employers' organisation for the boroughs;
- Provide specialist housing advice;
- Allocate grants to voluntary organisations serving more than one borough; and
- Provide and manage certain London-wide transport and traffic services.¹⁴

The data on London Local Government workers are for pay and allowance rates from 1st April 2003.¹⁵

4.1.1 Pay and employment

There are generally no national grades in Local Government (LG), only a national spinal column point (SCP) scale to which authorities can allocate grades according to local circumstances. The national SCP range is from point 4 (£10,356) to point 49 (£35,934), while for London it ranges from point 2 (£9,681 excluding London allowance) to point 70 (£54,459 excluding London allowance). Points 2 and 3 are used in inner London only for 'manual workers: assimilation and appointment'. London allowances are currently £2,847 and £1,515 for inner and outer London respectively with the exception of those on SCP 4 to SCP 10 in outer London who receive £2,082 rather than £1,515. This latter group represents around one quarter of outer London employees, but, for simplicity, their differential allowance is disregarded in the analysis presented below.

¹⁴ Association of London Government (2003).

¹⁵ We would like to thank the ALG for making the data available.

Total London LG employment is just over 120,000 full-time equivalent (FTEs) workers (April 2003), with 44% employed in inner London and 56% in outer London.¹⁶ These figures include 4,200 workers (3.5% of employment) on local scales. Except for the relatively few employees between SCP 50 and SCP 70 (less than 1,800 employees comprising 1.5% of those employed and which are spread fairly evenly between inner and outer London), the complete distribution of FTE employment by SCP split between inner and outer London is available for analysis in this report and enables a comprehensive data exercise to be undertaken.

The pay distribution of the inner London LG workers included in the analysis is presented in Figure 4.1.1.

Figure 4.1.1 Pay distribution of inner London LG workers



Source: ALG data, basic pay excluding London allowance.

¹⁶ Inner London boroughs are Camden, Hackney, Hammersmith, Haringey, Islington, Kensington and Chelsea, Lambeth, Lewisham, Newham, Southwark, Tower Hamlets, Wandsworth, and Westminster, while outer London boroughs are Barking and Dagenham, Barnet, Bexley, Brent, Bromley, Croydon, Ealing, Enfield, Greenwich, Harrow, Havering, Hillingdon, Hounslow, Kingston, Merton, Redbridge, Richmond, Sutton and Waltham Forest. Haringey and Newham are regarded as outer London boroughs for the pay of ‘general services’ employees.

Even though those with the highest salaries (above SCP 49) are excluded, the distribution is still positively skewed (skewed to the right). Summary statistics for all London LG workers, analysed separately for inner and outer London employees, are shown in Table 4.1.1.

Table 4.1.1 Pay distribution of London LG workers: summary statistics

	all London-based workers		inner London		outer London	
	basic pay	SCP	basic pay	SCP	basic pay	SCP
lower quartile (LQ)	£12,717	11	£12,990	12	£11,706	9
median	£16,941	22	£18,582	25	£15,933	20
upper quartile (UQ)	£23,355	32	£24,726	34	£22,686	31
mean	£18,341	c.25	£19,211	c.26	£17,667	c.24
number of FTE employees	114,653		50,030		64,623	

Source: ALG data, basic pay excluding London allowance.

Notes: Employment is measured in terms of full-time equivalents (FTEs).

The basic salaries of the three representative inner London workers are taken at each quartile of the pay distribution. These correspond to SCP 12, SCP 25 and SCP 34 respectively and are also shown in Figure 4.1.1. As can be seen from Table 4.1.1, there is some evidence of grade drift even *within* London – the median employee in inner London is at SCP 25 in contrast to the median employee in outer London at SCP 20.

The London Local Government Employers' Organisation (EO) and the ALG have undertaken some independent analysis of the extent to which there is evidence of 'drift' in the salaries of London employees compared with their counterparts in authorities outside London. Based on a survey undertaken in 2002, their findings are summarised in paragraph 42 of the ALG submission to the on-going Local Government Pay Commission (<http://www.lgpay.org.uk/>) which is due to report later this year. They find that:

- The average rate of basic pay (excluding London allowances) in London is £2,334 (15%) higher than that in the rest of England and Wales;
- Including London Allowances, average basic salaries (excluding bonus and overtime) in 2002 are £21,511 in inner London, £18,492 in outer London and £19,526 for greater London. The average for England and Wales (excluding London) is £15,471;¹⁷ and

¹⁷ These figures have been provided by the ALG and are slight revisions of those in the written submission.

- The median basic salary in London is between SCPs 21 and 22 and in the rest of England and Wales it is between SCPs 14 and 15.

These statistics are broadly consistent with the evidence reported above - the median grade for London is precisely that reported in the table.¹⁸ It should be noted that the 15% differential quoted is the basic pay differential and does not take account of the differences between individuals or the jobs that they do. As the EO and the ALG acknowledge (paragraph 44 of the ALG submission to the on-going Local Government Pay Commission), the difference is therefore not entirely due to grade drift. In contrast, the premiums calculated in Davies and Wilson (2002), and used in the analysis presented below, explicitly take into account such differences, as well as the existing London allowances, in computing the average London public sector premiums.

4.1.2 London LG individual level analysis

Table 4.1.2 London LG workers: individual level analysis

APPLYING THE LONDON PREMIUM

ALG individual analysis	inner London		
	£	£	£
	1st quartile SCP 12	Median SCP 25	3rd quartile SCP 34
Spinal column point (SCP)			
Current salary (basic plus LA)	£15,837	£21,429	£27,573
Current London allowance	£2,847	£2,847	£2,847

METHOD

increment salary net of LA plus drift (24%) by London premium (33%)

Estimated LA+drift	@ 24%			
Basic salary (excluding LA plus drift)		£12,772	£17,281	£22,236
Salary with London premium	@ 33%	£16,986	£22,984	£29,574
Current salary		£15,837	£21,429	£27,573
£ difference		£1,149	£1,555	£2,001
% difference		7.3%	7.3%	7.3%
Equivalent new London allowance		£3,996	£4,402	£4,848

Alternative allocation and distribution method

all receive median £ difference of		£1,555	£1,555	£1,555
Salary with median £ difference		£17,392	£22,984	£29,128
£ difference		£1,555	£1,555	£1,555
% difference		9.8%	7.3%	5.6%
Equivalent new London allowance		£4,402	£4,402	£4,402

¹⁸ The mean salaries in Table 4.1.1 are as at April 2003 and exclude the London allowance, while those in the second bullet point above are as at April 2002 and include the London allowance. This accounts for the differences in the statistics. It should be noted that the ALG figures exclude those above SCP 49.

Table 4.1.2 shows the current rates of basic pay and London allowance for the three representative inner London LG workers and the consequences of implementing the London premium methodology for each worker. Reducing the total salary by the public sector inner London premium of 24%, and then increasing it by the private sector inner London premium of 33%, has a net impact of a salary increase of 7.3% as shown in section 3. These new salaries are highlighted in first part of the second section of the table.

In order to provide some comparison with the current situation, the increase in salary in monetary terms is converted into an equivalent new London allowance. This will now differ between individuals, with those further up the pay scale receiving a greater (monetary) allowance than those lower down the scale. The equivalent new London allowance ranges between £3,996 for the lower quartile worker to £4,848 for the upper quartile worker as shown in the second part of the second section of the table.

Finally, the consequences of applying the alternative allocation and distribution method of awarding all workers the monetary increase awarded to the median worker - £1,555 - is shown in the final section of the table. This produces a new flat-rate inner London allowance of £4,402 compared to the existing inner London allowance of £2,847. This represents an increase in the inner London allowance of 55%.

4.1.3 London LG aggregate level analysis

Table 4.1.3 London LG workers: aggregate analysis

APPLYING THE LONDON PREMIUM

ALG aggregate analysis	Inner London
Current salary bill (£millions)	£1,103.6 m
Current London allowance	£2,847 per person

METHOD

increment salary net of LA plus drift (24%) by London premium (33%)

Salary bill with London premium (£millions)	£1,183.7 m
difference (£millions)	£80.1 m
difference (%)	7.3%
which could be paid at a flat-rate of	£1,601 per person
Equivalent new London allowance	£4,448 per person

Alternative allocation and distribution method

all receive median £ difference of	£1,555
difference (£millions)	£77.8 m
difference (%)	6.6%
which could be paid at a flat rate of	£1,555 per person
Equivalent new London allowance	£4,402 per person

Table 4.1.3 shows the aggregate salary bill implications of applying the London premium to inner London LG workers together with the average salary increments that this implies and their equivalent in terms of London allowance payments. Applying the London premium methodology results in all workers receiving a net salary increase of 7.3% and hence the aggregate employee salary bill also increases by 7.3%. This is £80.1 million across all inner London LG workers or an average of £1,601 per inner London LG employee. Thus, if this increase was equally divided amongst all employees, the flat-rate equivalent new London allowance would be (£2,847 + £1,601 =) £4,448 per employee as shown in the second section of the table.

Under the alternative allocation and distribution method which awards all workers the monetary increase awarded to the median worker - £1,555 in this case – the aggregate employee salary bill would increase by £77.8 million or 6.6%. This is an average of £1,555 per employee and hence the flat-rate equivalent new London allowance could be (£2,847 + £1,555 =) £4,402 per employee as shown in the final section of the table.

4.1.4 London LG summary

Table 4.1.4 London LG workers: summary analysis

	Inner London: apply London premium at 33%			
	Individual salary increment		Aggregate salary increment	
	£	%	£million	%
Median worker	£1,555	7.3%		
Equivalent new LA	£4,402			
Total for all workers			£80.1m	7.3%
all receive median £ difference			£77.8m	6.6%

At the individual level, the London premium methodology generates a new London allowance of £4,402 for the median employee. The cost of applying this methodology for all employees would increase the inner London salary bill by £80.1m (or £77.8m if all employees received the median monetary difference of £1,555).

4.2 Metropolitan Police Service (MPS) civilian staff

Two-thirds of civil staff employed by the MPS work in Zone 1 (inner London) and one-third in Zone 2 (outer London).¹⁹ They have a relatively new pay structure which was implemented on 1st August 2001. There are seven main pay bands (A to G) each consisting of between four and eight incremental steps, with progression by annual increments until the top of the pay band is reached.

Employment data are for March 2003, while London allowances are the rates in place from 31st July 2003.²⁰

¹⁹ Zone 1 (inner) is defined as: Camden, Hackney, Hammersmith and Fulham, Islington, Kensington and Chelsea, Lambeth, Lewisham, Southwark, Tower Hamlets, Wandsworth and Westminster. Zone 2 (outer) covers the remaining London boroughs, namely Barking and Dagenham, Barnet, Bexley, Brent, Bromley, Croydon, Ealing, Enfield, Greenwich, Harrow, Havering, Hillingdon, Hounslow, Kingston, Merton, Newham, Redbridge, Richmond, Sutton and Waltham Forest.

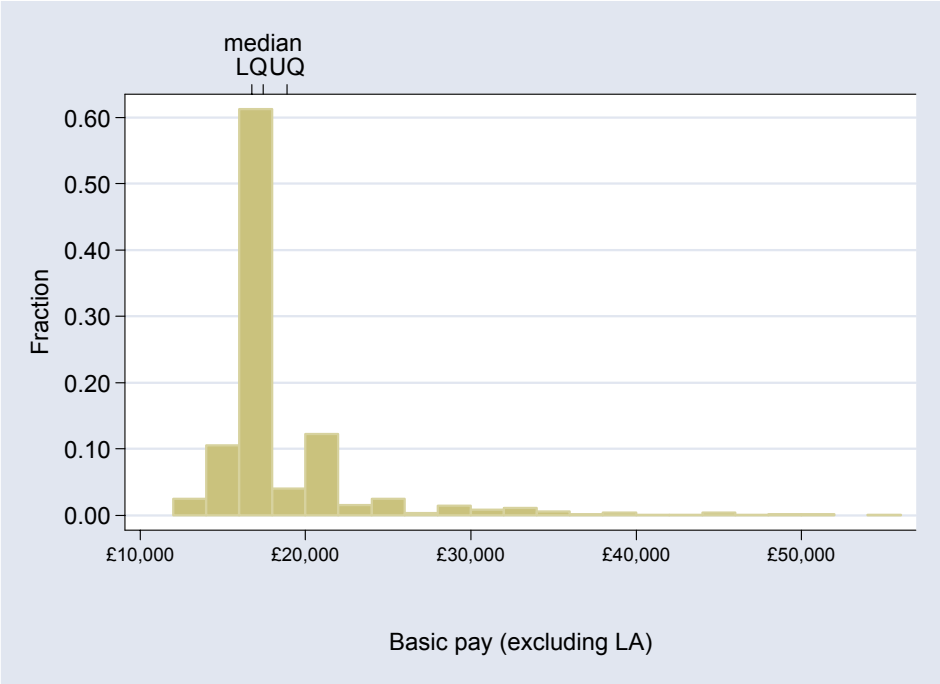
²⁰ We would like to thank the Metropolitan Police Service for making the data available.

4.2.1 Pay and employment

March 2003 records show 1,412 (12%) part-time and 10,521 full-time employees out of a total of 11,933 civil staff. A part-time employee could be working anything from a 4 hour to a 35 hour week. In terms of FTEs, the 1,412 part-timers are the equivalent of 913 full-timers so that they work, on average, $(913/1,412=)$ 65% of a full-time load. In total, therefore, the 11,933 civil staff represent $(10,521+913=)$ 11,434 FTE. In the absence of any further information on the distribution of part-time staff by location and/or grade, and given that FTE numbers are around 96% of total staff, we make no attempt to adjust employment for part-time working.

We have data on 9,576 MPS civilian staff. We have assumed that the 2:1 split of employees between inner and outer London applies equally to all bands and hence the representative workers are at the same grade points in Zone 1 (inner London) and Zone 2 (outer London). The pay distribution of the inner London employees is illustrated in Figure 4.2.1 below.

Figure 4.2.1 Pay distribution of inner London MPS employees



Source: MPS data.

This distribution reflects the major pay and grade restructuring which took place in August 2001. Staff in the old Grade 12 (administrative officer, communications officer, property officer) were located in new bands E or F depending on how their post was evaluated. The band E minimum rate was higher than the old Grade 12 maximum so the vast majority of old Grade 12 staff who went into band E were placed on the minimum point of band E as that was the nearest higher new pay step to their old rate of pay. One year on, these staff are now on the second point off the bottom of band E. The large ‘spike’ between £16,000 and £18,000 includes all such employees, together with those on the top of band F (F6) and the bottom of band E (E1) which both pay a basic salary of £16,768. This produces a very concentrated pay distribution for the majority of workers. Summary statistics are presented in Table 4.2.1.

Table 4.2.1 Pay distribution of MPS employees: summary statistics

	all London-based workers		Zone 1 (inner)		Zone 2 (outer)	
	basic pay	band	basic pay	band	basic pay	band
lower quartile (LQ)	£16,768	E1/F6	£16,768	E1/F6	£16,768	E1/F6
median	£17,449	E2	£17,449	E2	£17,449	E2
upper quartile (UQ)	£18,895	E5	£18,895	E5	£18,895	E5
mean	£18,607	c.E4	£18,607	c.E4	£18,607	c.E4
number of employees	9,576		6,384		3,192	

Source: MPS data.

Notes: Employment is defined as number of employees with no adjustment for hours of work.

4.2.2 MPS individual level analysis

Table 4.2.2 MPS civilian staff: individual analysis

APPLYING THE LONDON PREMIUM

MPS individual analysis	Zone 1 (inner)		
	£	£	£
	1st quartile	Median	3rd quartile
Salary band	E1/F6	E2	E5
Current salary (basic plus LA)	£19,542	£20,223	£21,669
Current London allowance	£2,774	£2,774	£2,774
METHOD			
increment salary net of LA plus drift (24%) by London premium (33%)			
Estimated LA+drift	@ 24%		
Basic salary (excluding LA plus drift)	£15,760	£16,309	£17,475
Salary with London premium	@ 33%	£20,960	£21,691
			£23,242
Current salary	£19,542	£20,223	£21,669
£ difference	£1,418	£1,468	£1,573
% difference	7.3%	7.3%	7.3%
Equivalent new London allowance	£4,192	£4,242	£4,347
Alternative allocation and distribution method			
all receive median £ difference of	£1,468	£1,468	£1,468
Salary with median £ difference	£21,010	£21,691	£23,137
£ difference	£1,468	£1,468	£1,468
% difference	7.5%	7.3%	6.8%
Equivalent new London allowance	£4,242	£4,242	£4,242

Table 4.2.2 shows the current rates of basic pay and London allowance for the three representative inner London MPS civilian staff and the consequences of implementing the London premium methodology for each worker. Reducing the total salary by the public sector inner London premium of 24%, and then increasing it by the private sector inner London premium of 33%, has a net impact of increasing their salary by 7.3% as shown in section 3. These new salaries are highlighted in first part of the second section of the table.

In order to provide some comparison with the current situation, the increase in salary in monetary terms is converted into an equivalent new London allowance. This will now differ between individuals, with those further up the pay scale receiving a greater (monetary) allowance than those lower down the scale. The equivalent new London allowance ranges between £4,192 for the lower quartile worker to £4,347 for the upper quartile worker as shown in the second part of the second section of the table.

Finally, the consequences of applying the alternative allocation and distribution method of awarding all workers the monetary increase awarded to the median worker - £1,468 - is shown in the final section of the table. This produces a new flat-rate inner London allowance of £4,242 compared to the existing inner London allowance of £2,774. This represents an increase in the inner London allowance of 53%.

4.2.3 MPS aggregate level analysis

Table 4.2.3 MPS civilian staff: aggregate analysis

APPLYING THE LONDON PREMIUM	
MPS aggregate analysis	Zone 1 (Inner)
Current salary bill (£millions)	£136.4 m
Current London allowance	£2,774 per person
METHOD	
increment salary net of LA plus drift (24%) by London premium (33%)	
Salary bill with London premium (£millions)	£146.3 m
difference (£millions)	£9.9 m
difference (%)	7.3%
which could be paid at a flat-rate of	£1,552 per person
Equivalent new London allowance	£4,326 per person
Alternative allocation and distribution method	
all receive median £ difference of	£1,468
difference (£millions)	£9.4 m
difference (%)	6.9%
which could be paid at a flat rate of	£1,468 per person
Equivalent new London allowance	£4,242 per person

Table 4.2.3 shows the aggregate salary bill implications of applying the London premium to inner London MPS employees together with the average salary increments that this implies and their equivalent in terms of London allowance payments. Applying the London premium methodology results in all workers receiving a net salary increase of 7.3% and hence the aggregate employee salary bill also increases by 7.3%. This is £9.9 million across all inner London MPS workers or an average of £1,552 per inner London MPS employee. Thus, if this increase was equally divided amongst all employees, the flat-rate equivalent new London allowance would be (£2,774 + £1,552 =) £4,326 per employee as shown in the second section of the table.

Under the alternative allocation and distribution method which awards all workers the monetary increase awarded to the median worker - £1,468 in this case – the aggregate employee salary bill would increase by £9.4 million or 6.9%. This is an average of £1,468 per employee and hence the flat-rate equivalent new London allowance could be (£2,774 + £1,468 =) £4,242 per employee as shown in the final section of the table.

4.2.4 MPS summary

Table 4.2.4 MPS civilian staff: summary analysis

	Zone 1 (inner) apply London premium at 33%			
	Individual salary increment		Aggregate salary increment	
	£	%	£million	%
Median worker	£1,468	7.3%		
Equivalent new LA	£4,242			
Total for all workers			£9.9m	7.3%
all receive median £ difference			£9.4m	6.9%

At the individual level, the London premium methodology generates a new London allowance of £4,242 for the median employee. The cost of applying this methodology for all employees would increase the inner London salary bill by £9.9m (or £9.4m if all employees received the median monetary difference of £1,468).

4.3 Prison Service (PS) employees

The PS has recently established a Prison Service Pay Review Body (PSPRB) which recommends pay and allowances for the 30,000 or so staff in the England and Wales Prison Service. It first reported in January 2002 (PSPRB, 2002), while its second and latest report was published in February 2003 (PSPRB, 2003). The rates of pay and ‘locality allowances’ are those recommended in the second report from 1st April 2003 (PSPRB, 2003, Appendix H and Appendix J respectively). Employment by grade for each PS establishment which pays a locality payment is available and is used in the analysis presented below.²¹

²¹ We would like to thank the Prison Service for making the data available.

4.3.1 Pay and employment

As from 1st April 2003, there are four tiers of locality payment in force within the PS. These four rates – classified as top, higher, middle and lower – and the establishments to which they apply were recommended in PSPRB (2003). The rates apply to a number of institutions both in London, and elsewhere in the south-east, and cover 10,310 PS employees in total. The table below lists the establishments in each of the four tiers of locality payment together with their locality rates:

Prison Service establishments receiving locality payments

rate: per annum:	Locality payment rate:				inner/ outer London
	Top £3,800	Higher £2,900	Middle £2,500	Lower £1,100	
<i>Aylesbury Prison</i>			√		
<i>Bedford Prison</i>			√		
Belmarsh Prison		√			outer
Brixton Prison	√				inner
<i>Bullingdon Prison</i>			√		
<i>Bullwood Hall YOI</i>			√		
<i>Chelmsford Prison</i>			√		
<i>Coldingley Prison</i>		√			
Downview Prison		√			outer
Feltham YCC	√				inner
<i>Grendon Prison</i>			√		
HQ Croydon			√		
HQ Westminster	√				inner
High Down Prison		√			outer
Holloway Prison	√				inner
<i>Huntercombe YOI</i>	√				
Latchmere House RC		√			outer
<i>Lewes Prison</i>				√	
<i>Mount Prison</i>		√			
Pentonville Prison	√				inner
<i>Reading Prison</i>			√		
<i>Send Prison</i>		√			
Wandsworth Prison	√				inner
<i>Winchester Prison</i>				√	
<i>Woodhill Prison</i>			√		
Wormwood Scrubs Prison	√				inner
Total employment	4,690	2,224	2,706	690	

Source: PS data.

Notes: Establishments in italics receive locality payments but are outside London.

All of the establishments which have a locality payment element in their pay structures are located in the south-east of England, but clearly not all are in London – those that are outside London are shown in *italics* in the above table. Of the eight establishments which pay the top rate of locality payment at £3,800 per annum, all except Huntercombe YOI (Henley-upon-Thames, Oxon) are in London. Moreover, the seven London establishments are all in inner London with the exception of Feltham (Middlesex) which would be classified geographically as outer London. Thus, we have classified the top rate locality payment of £3,800 per annum as being the equivalent to an inner London allowance for PS employees, with inner London employment restricted to the seven establishments in London which pay this rate, namely Brixton Prison, Feltham YOI, Holloway Prison/YOI, HQ Westminster, Pentonville Prison, Wandsworth Prison and Wormwood Scrubs Prison.²² These are indicated as inner London in the final column of the table.

There are seven establishments which currently receive the higher rate of locality payment of £2,900. Coldingley Prison (Woking, Surrey), Mount Prison (Hemel Hempstead, Herts) and Send Prison (Woking, Surrey) are (just) outside London, while the remainder are all located in outer London. Thus we define the outer London allowance for PS employees as the higher rate locality payment of £2,900 per annum, with outer London employment calculated as those employed in Belmarsh Prison, Downview Prison, High Down Prison and Latchmere House as shown in the final column of the table above.²³ The only other prison establishment which is in London is the Croydon HQ where staff receive the middle rate payment of £2,500 per annum. This is excluded from the analysis, given its differential locality payment rate, but the similarity in locality payment between the middle and the higher rates (£2,500 cf. £2,900) means that the findings reported below will be comparable for these employees too.²⁴

In the absence of further information on the distribution between part-time and full-time employment, all employees are treated as full-time in the analysis presented below. Thus the results would need to be applied pro rata for those working less than full-time.

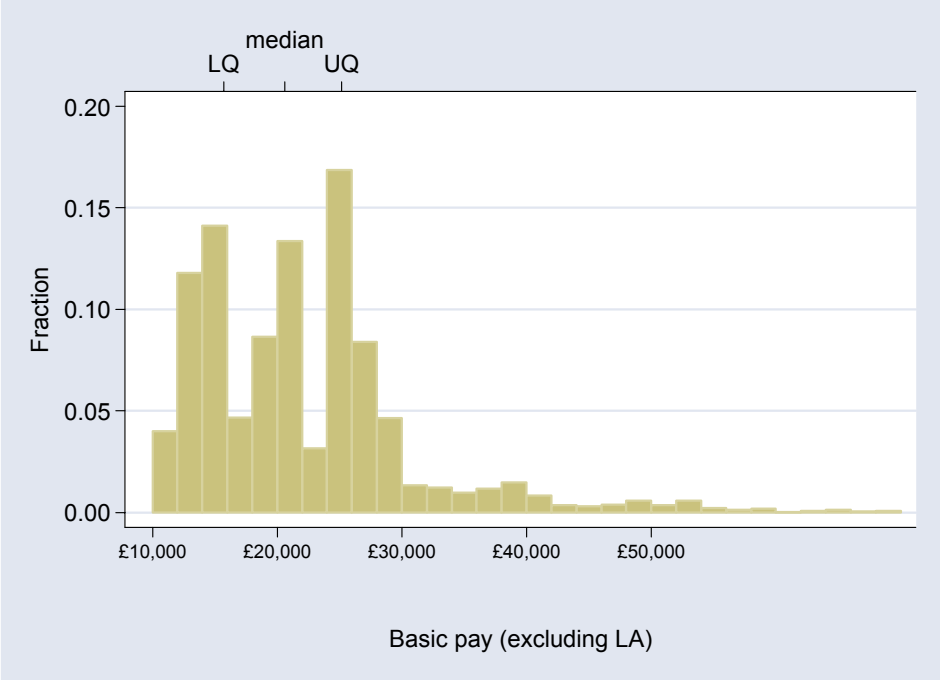
²² In total, these seven establishments employ 4,413 of the 4,690 employees who receive the top rate. Thus, applying the London premium to all those currently in receipt of the top rate (i.e. including those at Huntercombe YOI) would only increase the numbers covered by 6%.

²³ These 4 inner London establishments employ 1,577 of the 2,224 employees (71%) currently in receipt of the higher rate locality payment.

²⁴ Croydon HQ would add only another 136 employees, or 9%, to the total staff level of 1,577 in the four outer London establishments listed.

The pay distribution of the inner London-based PS employees is shown in Figure 4.3.1.

Figure 4.3.1 Pay distribution of inner London PS employees



Source: PS data.

The ‘bunching’ at certain points reflects groups of employees who have reached the top of their grade. For example, the peak between £24,000 and £26,000 includes Prison Officers who have reached the top of the scale, together with those who have reached this maximum level and have also been awarded long service increments. Similarly, the peak between £14,000 and £16,000 includes those in the Operational Support Grade (OSG) who have reached the top of that scale.

Summary statistics for all employees, and separately for inner and outer London employees are shown in Table 4.3.1.

Table 4.3.1 Pay distribution of PS employees: summary statistics

	all London-based workers		Top rate (inner)		Higher rate (outer)	
	basic pay	grade	basic pay	grade	basic pay	grade
lower quartile (LQ)	£15,353	OSG 7	£15,741	OSG 8	£15,263	c.OSG 7
median	£20,623	OO 5	£20,623	OO 5	£20,136	OO 4
upper quartile (UQ)	£25,183	OO 12	£25,183	OO 12	£24,692	OO 11
mean	£21,617	c.OO 7	£22,103	c.OO 8	£20,258	c.OO 4
number of employees	5,990		4,413		1,577	

Source: PS data.

Key: OSG - Operational support grade; OO – Operational officer (i.e. Prison Officer).

Notes: Employment is defined as number of employees with no adjustment for hours of work.

The basic salaries are again recorded for a representative employee at each quartile of the pay distribution. Once again, there is some evidence of grade drift even within London. Each quartile is about one point higher on the pay scale in inner London compared with outer London and those in inner London earn, on average, around 9% more than those in outer London. In part, this difference is because of the proportion of relatively high paid employees in Westminster HQ which inflates the inner London statistics. However, even excluding these employees (26% of the inner London total), those in inner London earn slightly more than those in outer London.

The representative employee grades for the lower quartile and upper quartile are at or near the top of the relevant scales and reflect the ‘bunching’ shown in Figure 4.3.1 as discussed above. Thus, OSG 8 is the top of the operational support grade and OO 12 is the top of the Prison Officer scale after the second long service increment.

4.3.2 PS individual level analysis

Table 4.3.2 PS employees: individual analysis

APPLYING THE LONDON PREMIUM

PS individual analysis	Top rate (inner)		
	£	£	£
	1st quartile	Median	3rd quartile
Salary grade	OSG 8	OO 5	OO 12
Current salary (basic plus LA)	£19,541	£24,423	£28,983
Current London allowance	£3,800	£3,800	£3,800
METHOD			
increment salary net of LA plus drift (24%) by London premium (33%)			
Estimated LA+drift	@ 24%		
Basic salary (excluding LA plus drift)	£15,759	£19,696	£23,373
Salary with London premium	@ 33%	£20,959	£26,196
Current salary	£19,541	£24,423	£28,983
£ difference	£1,418	£1,773	£2,104
% difference	7.3%	7.3%	7.3%
Equivalent new London allowance	£5,218	£5,573	£5,904
Alternative allocation and distribution method			
all receive median £ difference of	£1,773	£1,773	£1,773
Salary with median £ difference	£21,314	£26,196	£30,756
£ difference	£1,773	£1,773	£1,773
% difference	9.1%	7.3%	6.1%
Equivalent new London allowance	£5,573	£5,573	£5,573

Table 4.3.2 shows the current rates of basic pay and London allowance for the three representative inner London PS employees, and the consequences of implementing the London premium methodology for each worker. Reducing the total salary by the public sector inner London premium of 24%, and then increasing it by the private sector inner London premium of 33%, has a net impact of a salary increase of 7.3% as shown in section 3. These new salaries are highlighted in first part of the second section of the table.

In order to provide some comparison with the current situation, the increase in salary in monetary terms is converted into an equivalent new London allowance. This will now differ between individuals, with those further up the pay scale receiving a greater (monetary) allowance than those lower down the scale. The equivalent new London allowance ranges between £5,218 for the lower quartile employee to £5,904 for the upper quartile employee as shown in the second part of the second section of the table.

Finally, the consequences of applying the alternative allocation and distribution method of awarding all workers the monetary increase awarded to the median worker - £1,773 – is shown in the final section of the table. This produces a new flat-rate inner London allowance of £5,573 compared with the existing inner London allowance of £3,800. This represents an increase in the inner London allowance of 47%.

4.3.3 PS aggregate level analysis

Table 4.3.3 PS employees: aggregate analysis

APPLYING THE LONDON PREMIUM	
PS aggregate analysis	Top rate (Inner)
Current salary bill (£millions)	£114.3 m
Current London allowance	£3,800 per person
METHOD	
increment salary net of LA plus drift (24%) by London premium (33%)	
Salary bill with London premium (£millions)	£122.6 m
difference (£millions)	£8.3 m
difference (%)	7.3%
which could be paid at a flat-rate of	£1,880 per person
Equivalent new London allowance	£5,680 per person
Alternative allocation and distribution method	
all receive median £ difference of	£1,773
difference (£millions)	£7.8 m
difference (%)	6.8%
which could be paid at a flat-rate of	£1,773 per person
Equivalent new London allowance	£5,573 per person

Table 4.3.3 shows the aggregate salary bill implications of applying the London premium to inner London PS employees together with the average salary increments that this implies and their equivalent in terms of London allowance payments. Applying the London premium methodology results in all workers receiving a net salary increase of 7.3% and hence the aggregate employee salary bill also increases by 7.3%. This is £8.3 million across all inner London PS workers or an average of £1,880 per inner London PS employee. Thus, if this increase was equally divided amongst all employees, the flat-rate equivalent new London allowance would be (£3,800 + £1,880 =) £5,680 per employee as shown in the second section of the table.

Under the alternative allocation and distribution method which awards all workers the monetary increase awarded to the median worker - £1,773 in this case – the aggregate employee salary bill would increase by £7.8 million or 6.8%. This is an average of £1,773 per employee and hence the flat-rate equivalent new London allowance could be (£3,800 + £1,773 =) £5,573 per employee as shown in the final section of the table.

4.3.4 PS summary

Table 4.3.4 PS employees: summary analysis

	Top rate (inner) apply London premium at 33%			
	Individual salary increment		Aggregate salary increment	
	£	%	£million	%
Median worker	£1,773	7.3%		
Equivalent new LA	£5,573			
Total for all workers			£8.3m	7.3%
all receive median £ difference			£7.8m	6.8%

At the individual level, the London premium methodology generates a new London allowance of £5,573 for the median employee. The cost of applying this methodology for all employees would increase the inner London salary bill by £8.3m (or £7.8m if all employees received the median monetary difference of £1,773).

5. Conclusions

This project has involved calculating a range of estimates of the incremental costs of implementing the London premium for inner London workers in three occupational groups – Local Government workers, civilian employees in the Metropolitan Police Service and Prison Service staff. The indicative costs presented provide a contribution to the debate on the appropriate levels of resources required for public sector service recruitment and retention in London.

The results of applying the average private sector inner London premium to the three exemplar inner London-based public sector worker groups can be summarised as follows:

Table 5.1 Summary analysis for inner London median employees

	LG	MPS	PS
Basic salary (excluding LA)	£16,944	£17,449	£20,623
Inner London:			
Current London allowance	£2,847	£2,774	£3,800
London premium: equivalent new LA	£4,402	£4,242	£5,573
% increase/decrease	+55%	+53%	+47%

Source: ALC, MPS and PS data and Tables 4.1.2, 4.2.2 and 4.3.2.

The method assumes that public sector salary differentials in London are affected by grade drift, accelerated promotion and piecemeal payments and uses the adjustment factors computed by Davies and Wilson (2002) to adjust salaries accordingly. There is clear evidence of grade drift et c. even between inner and outer London in the data analysed in this study. The evidence for grade drift is even more evident when salaries of workers in London and the rest of the country are compared. This existing differential is explicitly taken into account when applying the premium in that it is subtracted from public sector salaries before the private sector premium is applied.

For inner London employees, the method produces new London allowances of between £4,200 and £5,600 depending on current basic salaries and extant London allowances; some 50% higher than currently being paid. These new allowances result in total public sector salaries that are 7.3% higher than currently received.

For outer London employees, all groups would receive less than their current allowance after applying the same methodology. This is because it is estimated that outer London public sector workers currently receive a premium of around 15% over their non-London-based colleagues, whereas outer London private sector employees only have an 11% advantage over their equivalents outside London. Based on the principle of not reducing salaries, London Weighting Advisory Panel (2002) would not recommend any change for public sector workers in outer London.

Thus, in conclusion, a London allowance of around £4,000 to £6,000 for the typical inner London public sector employee considered in this study would give them a similar premium as London workers in the private sector currently enjoy. Such allowances would be around 50% greater than those that are currently being paid. For outer London public sector employees, the evidence suggests that the allowances currently paid in the public sector produce a London premium at least as great as workers in the private sector are paid.

6. References

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