Bargaining Support Group

Bargaining on locational and occupational pay supplements

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LOCATIONAL AND OCCUPATIONAL PAY SUPPLEMENTS

How can this guide help me?

This guide is intended to assist negotiators in making the case for a new or improved supplement to basic pay that recognises the extra costs of living in certain parts of the UK. Such supplements are of course most commonly found in and around London, but the case can be made wherever costs are judged to be significantly above the average. In addition, the guide outlines the case that can be made in support of supplements on occupational grounds, while guarding against changes that violate equal pay arrangements.

The move toward increased homeworking as a result of the Covid-19 pandemic may lead some employers to question locational supplements, so this guide also highlights issues that may assist in their defence.

The contents of the guide are structured as below:

1. Locational supplements

Where a locational pay supplement is already in place, the supplement will frequently be raised in line with the annual increase in basic pay, keeping its relative value to basic pay the same. However, to make the case for a higher increase or to establish a supplement where it is not already in place, three main factors are likely to influence an employer:

- Demonstrating a general problem with turnover rates, relative to the average experienced by similar employers;
- Showing that workers in the travel to work area face higher and growing costs, relative to national or regional averages
- Highlighting that the rates and coverage of any existing supplement is inferior to those available from employers competing for similar types of worker in the labour market

The following sections of the guide examine each of these factors in turn.

1.1 Turnover and vacancy rates

Obtaining figures from an employer on the turnover and / or vacancy rate across the organisation is crucial to demonstrating whether those figures are relatively high compared to national, regional or sector averages.

The turnover rate is calculated by taking the number of staff who have left the organisation over a given period (usually a year) and dividing by the average number of staff employed during that period by headcount.

The last estimate by XpertHR of the median turnover rate across the whole economy was 22.5%[1]. However, if you are looking for more detailed figures by sector, contact the Bargaining Support Group at bsg@unison.co.uk. Turnover rates among employers in the same region can also provide a useful comparator, so it may be worth checking if neighbouring branches have information that can assist.

A slightly more sophisticated version of the turnover rate is the voluntary resignation rate. This figure excludes all those who have left due to factors such as redundancy and retirement, therefore focusing on the most relevant factor - those who are likely to have left as a result of finding a job on better terms. Again, if you want comparator figures for this measure, contact the Bargaining Support Group at bsg@unison.co.uk

The vacancy rate is calculated simply by taking the number of jobs currently vacant and dividing by the number of jobs at the organisation.

The Office for National Statistics indicates that the vacancy rate across the economy is 3.8%. Sector analysis shows that human health and social work retains one of the highest vacancy rates across the economy at 4.8%, while the other sectors most closely aligned with UNISON membership show rates of 2.9% for public administration, 2.8% for education, 4% for electricity and gas and 3.2% for water supply.[2]

In emphasising the costs of higher turnover rates to employers, it is worth noting that average recruitment costs currently stand at £1,500 per job, when in-house resourcing time, advertising, agency and search fees or all taken into account[3].

[1] XpertHR, Labour turnover rates 2023
[2] Office for National Statistics, Labour Market Overview, January 2023
[3] CIPD, Resourcing and Talent Planning Survey 2022

1.2 Differences in living costs across the UK

While many dimensions of living expenses cost the same throughout the UK, certain aspects of expenditure do vary markedly. The dominant factor in those variations is housing costs, but the scale of commuting costs in some areas can also add significantly and certain types of services, such as child care, build in further differentials.

The summary below shows the contrasts, principally in terms of UK averages against London and the South East. However, it also highlights resources for investigating costs in other parts of the UK where available, though regional figures can paint an overly general picture and research may be needed into more local sources on the costs covered.

1.2.1 Housing costs

Across England and Wales, the average house price stood at £380,450 in December 2022[4].

The average house price in Greater London was almost double that figure at £694,408.

In South East England, the average stood at £487,041, 28% higher than the England / Wales average.

In the Eastern region of England, the average stood at £420,079, 10% higher than the England / Wales average.

To check the latest average house prices and growth rate in England, Scotland or Wales, click on this link

http://www.acadata.co.uk/services/house-price-index/

This link will also provide more detailed figures, giving average prices and growth within specific local authorities, as well as data over a longer timeframe than the last year, click on this link

http://www.acadata.co.uk/

To check the latest average house prices in any Northern Ireland county, click on this link https://www.finance-ni.gov.uk/articles/northern-ireland-house-price-index [5]

Since the basis on which locational supplements were originally agreed can be left unexamined for many years, taking a longer-term perspective on changes to housing costs can assist in making a case. For assistance in finding relevant data and using that data to calculate relevant figures, contact the Bargaining Support Group via bsg@unison.co.uk

A similar pattern is seen in rental costs. Average monthly rent payable for a new tenancy across the UK stands at £1,172, which represents a 10.2% increase on the previous year[6].

In contrast, the average rent in Greater London has grown 13% to £1,989, which puts London more than double the UK average of £977 outside of London.

Similarly, the average rent in the South East is £1,228, putting the region 20% higher than the UK average outside of London.

The average rent in the East of England is £1,112, putting the region 14% higher than the UK average .

To check the latest average rental prices by region, go to https://homelet.co.uk/homelet-rental-index

[4] e.surv Acadata House Price Index, December 2022

[5] Please note that the Northern Ireland figures on this link are calculated using a different statistical technique to those for the rest of UK. Therefore, they cannot be compared to the England/ Wales average, but they do display differentials within Northern Ireland.

[6] HomeLet Rental Index, January 2023

1.2.2 Travel costs

While the Office for National Statistics collects data on household transport costs, the information does not offer detail specifically on commuting transport costs for employees.

The information that is available includes a 2015 survey of commuting costs, which suggests that the average UK employee spends £146 a month commuting.

In London, that figure is estimated at £305[7]. Therefore, as in the case of housing costs, the figure is around double that of the UK average.

A further survey conducted in 2019 suggested that average monthly commuting costs remain at around the £146 level[8].

Where employers raise concerns about existing locational supplements in response to a shift of working patterns toward homeworking, it can be highlighted that commuting costs represent a significantly smaller proportion of most employee's expenditure than housing costs. For instance, in London the monthly commuting costs estimated above are around 15% of monthly new rental costs.

1.2.3 Childcare costs

The average price for a part time nursery place for a child aged under two stood at £139 per week, or over £7,247 per year, based on 25 hours of care every week, across Great Britain in 2022[9].

The cost for the same amount of care in inner London stood at £184 a week (£9,646 a year), for outer London £155 a week (£8,082 a year), for the East of England £153 a week (£7,977 a year), and for the South East £147 a week (£7,665 a year).

That meant the cost premium was 33% for inner London, 12% for outer London, 10% for the East of England and 6% for the South East.

Similarly, 25 hours of childminder care for a child aged under two across Great Britain in 2022 stood at £124 per week or £6,465 a year. For inner London the rate was £172 a week (£8,968 a year) and for outer London £149 a week (£7,769 a year) and £130 for the East of England (£6,778 a year)

That meant the cost premium was 39% for inner London, 20% for outer London and 5% for the East of England

1.2.4 Living Wage measurement of total costs

The Living Wage set annually by the Living Wage Foundation takes account of the different cost of living in the capital to arrive at a UK wide rate and a London rate. The UK rate is currently set at £10.90, while the London date is set at £11.95, implying that an income of around 9.6% higher is needed to sustain the same basic standard of living.

[7] https://www.totaljobs.com/media-centre/uk-commuters-will-spend-over-135000-by-the-time-they-retire
[8] http://hrnews.co.uk/survey-reveals-full-time-brits-spend-one-week-a-year-commuting-at-a-cost-of-1738/
[9] Family and Childcare Trust, Childcare Survey 2022, March 2022

1.3 Comparators for rates and coverage of supplements

1.3.1 Public sector coverage

In London, supplements frequently vary according to whether an employer is based in inner London, outer London or on the fringe of London.

The Greater London area covers the boroughs set out in the diagram below.

Among those boroughs, the 1963 Local Government Act defined inner and outer London as below.

Council area definition		
Inner London	**Outer London**	
Camden Greenwich Hackney Hammersmith and Fulham Islington Kensington and Chelsea Lambeth Lewisham Southwark Tower Hamlets Wandsworth Westminster	Barking and Dagenham Barnet Bexley Brent Bromley Croydon Ealing Enfield Haringey Harrow	Havering Hillingdon Hounslow Kingston upon Thames Merton Newham Redbridge Richmond upon Thames Sutton Waltham Forest

However, the definition of inner and outer London can vary from this arrangement and the examples below show where some boroughs have been successfully classified as inner London. For example, Barking and Dagenham, Brent, Ealing, Merton and Newham attract an inner London allowance in some cases.

Equally, some make no distinction between inner and outer London, preferring to pay a general Greater London rate.

Without a strict legal definition of the London fringe, the councils where this is payable vary even more widely. The examples below show where parts of Berkshire, Buckinghamshire, Essex, Hertfordshire, Kent, Surrey and Sussex have been classified as qualifying for a fringe payment.

1.3.2 Public sector rates

The best terms achieved for minimum public sector supplements across the UNISON sectors where rates are nationally set are those below .

Inner London	Outer London	Greater London	London Fringe
£4,888	£4,108	£4,006	£1,147

Most employers apply a flat rate for supplements rather than a percentage of basic salary. This approach is generally advantageous to the lower paid as a flat rate represents a higher percentage of their salary than for the higher paid.

Supplements are usually pensionable, but it is less common for them to be used in the calculation of any form of premium pay, such as unsocial hours and overtime, or of sick pay.

1.3.3 Private sector practice

Research into private sector practices has found the following tendencies in the payment of locational supplements[10]:

- Inner London, outer London and the South East remain the most common basis for grading supplements;
- The private sector commonly bases its judgements on comparing their payments against averages within their industry and then against large local employers;
- The private sector seems to show a greater tendency than the public sector to pay supplements in the UK's largest cities outside of London;
- Companies within certain sectors also pay supplements where there is a concentration of their sector's activity. For example, Co-Op Bank pays a supplement in Brighton, Chatham, Chichester, Oxford, Portsmouth, Reading and Southampton;
- Some private sector employers divide the London fringe into an inner and outer zone, as well as using the M25 as a dividing line for supplements.

[10] IDS, Case Studies on Geographically Differentiated Pay, June 2012

1.3.4 National public sector agreements

National Health Service – Agenda for Change			
Date when rate last agreed	High Cost Area Supplements		
	Inner London	Outer London	London Fringe
01/04/22	20% salary (minimum payment of £4,888 and maximum of £7,377)	15% salary (minimum payment of £4,108 and maximum of £5,177)	5% salary (minimum payment of £1,136 and maximum of £1,915)

Primary Care Trust area definition		
Inner London	**Outer London**	
Camden	Barking & Dagenham	Harrow
City & Hackney	Barnet	Hillingdon
Hammersmith & Fulham	Bexley	Hounslow
Islington	Brent	Havering
Kensington & Chelsea	Bromley	Kingston
Lambeth	Croydon	Newham
Lewisham	Ealing	Redbridge
Southwark	Enfield	Richmond & Twickenham
Tower Hamlets	Greenwich	Sutton & Merton
Wandsworth	Haringey	Waltham Forrest
Westminster		

London Fringe	
Bedfordshire & Hertfordshire SHA	**Kent & Medway SHA**
Dacorum	Dartford, Gravesham & Swanley
Hertsmere	**Thames Valley SHA**
Royston, Buntingford & Bishop Stortford	Bracknell Forrest
South East Hertfordshire	Slough
St Albans & Harpendon	Windsor, Ascot & Maidenhead
Watford & Three Rivers	Wokingham
Welwyn, Hatfield	**Surrey & Sussex SHA**
Essex SHA	East Elmbridge & Mid Surrey
Basildon	East Surrey
Billericay, Brentwood & Wickford	Guildford & Waverley
Epping Forrest	North Surrey
Harlow	Surrey Heath and Woking
Thurrock	

Local Government - NJC
For NJC conditioned local authority staff, as part of the London Agreement in 2000, the London Weighting Allowance was incorporated into the GLPC London pay spine. The London pay spine has been increased by the national pay settlement ever since. The spine is split into separate inner and outer London rates. The GLPC states that for organisations that continue to use a separate London Allowance or need to identify an allowance separately for payroll purposes, the London allowances were as follows from April 2022 - Inner London Allowance at £3,931 and Outer London Allowance at £2,094 for administrative, professional, technical and clerical roles and a Greater London rate of £2,873 for manual grades

Borough area definition		
Inner London	**Outer London**	
Camden Greenwich Hackney Hammersmith and Fulham Islington Kensington and Chelsea Lambeth Lewisham Southwark Tower Hamlets Wandsworth Westminster	Barking and Dagenham Barnet Bexley Brent Bromley Croydon Ealing Enfield Haringey Harrow	Havering Hillingdon Hounslow Kingston upon Thames Merton Newham Redbridge Richmond upon Thames Sutton Waltham Forest

Youth and Community Workers			
Date when rate last agreed	Inner London	Outer London	London Fringe
01/09/22	£3,385	£2,224	£867

Council area definition	
Inner London	**Outer London**
Barking and Dagenham Brent Camden Ealing Greenwich Hackney, Hammersmith and Fulham Haringey Islington Kensington and Chelsea Lambeth Lewisham Merton Newham Southwark Tower Hamlets Wandsworth Westminster	Barnet Bexley Bromley Croydon Ealing Enfield Harrow Havering Hillingdon Hounslow Kingston upon Thames Redbridge Richmond upon Thames Sutton Waltham Forest
London Fringe	
Berkshire Bracknell Forest Slough Windsor and Maidenhead **Buckinghamshire** Chiltern South Buckinghamshire **Essex** Basildon Brentwood Epping Forest Harlow Thurrock **Kent** Dartford Sevenoaks **West Sussex** Crawley	**Hertfordshire** Broxbourne Dacorum Hertsmere St Albans Three Rivers Watford Welwyn Hatfield **Surrey** Elmbridge Epsom and Ewell Guildford Mole Valley Reigate and Banstead Runnymede Spelthorne Surrey Heath Tandridge Waverley Woking

Sixth Form Colleges			
Date when rate last agreed	Inner London	Outer London	London Fringe
01/09/22	£4,343	£2,894	£1,147

Council area definition	
Inner London	**Outer London**
Camden Hackney Hammersmith and Fulham Islington Kensington and Chelsea Lambeth Lewisham Southwark Tower Hamlets Wandsworth Westminster	Barking and Dagenham Barnet Bexley Brent Bromley Croydon Ealing Enfield Greenwich Haringey Harrow Havering Hillingdon Hounslow Kingston-upon-Thames Merton Newham Redbridge Richmond-upon-Thames Sutton Waltham Forest.
London Fringe	
Berkshire Bracknell Forest Slough Windsor and Maidenhead **Buckinghamshire** Chiltern South Bucks. **Essex** Basildon Brentwood Epping Forest Harlow Thurrock **Hertfordshire** Broxbourne Dacorum East Herts Hertsmere St Albans Three Rivers	Watford Welwyn Hatfield **Kent** Dartford Sevenoaks **Surrey** Elmbridge Epsom and Ewell Guildford Mole Valley Reigate and Banstead Runnymede Spelthorne Surrey Heath Tandridge Waverley Woking **West Sussex** Crawley

Education		
Organisation	Effective Date	Rate applying in area covered by universities listed below
SOAS University of London	01/08/19	Between £4,185 and £3,906 according to grade

Police & Probation Service		
Organisation	Effective Date	Rate
Metropolitan police support staff	01/08/22	Greater London - £1,721
National Probation Service	01/04/22	Greater London - £4,006

Utilities		
Organisation	Effective Date	Rate
Environment Agency	July 2022	Inner London - £3,889 Outer London and Fringe - £1,929

The public authority rates above can be used as a benchmark in dealing with private and community contractors operating in the relevant sector. However, both public and private employers may seek to focus on the total income package in judging the competiveness of wages. UNISON has access to a pay benchmark database that can provide broad averages of salaries for generic occupations by region. Contact Bargaining Support at bsg@unison.co.uk for more details.

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

1.4 Arrangements for proposing changes to supplements

The benchmark figures set out above generally relate to national agreements where the coverage and rates are specified. Other areas of the public sector, such as further education colleges, leave the matter entirely for local bargaining.

Where national agreement are prescriptive, they sometimes carry a procedure for amending rates or coverage.

In the NHS, the level and coverage of supplements is reviewed annually by the NHS Pay Review Body (NHSPRB).

However, the Agenda for Change agreement also specifies that employers and unions can propose to the NHSPRB an increase in the existing supplement or introduction of a new supplement where:

- There is evidence that costs for the majority of staff living in the travel to work area, covered by the proposed new or higher supplement, are greater than for the majority of staff living in the travel to work area of neighbouring employers and that this is reflected in comparative recruitment problems;
- There is agreement amongst all the NHS employers in that area;
- There is agreement with trades unions/staff organisations.

In local government, London pay rates that incorporate a London supplement are agreed annually by the Greater London Provincial Council, while any supplements outside Greater London are left as a matter for agreement by local councils.

In the National Probation Service, it is open to a divisional area employer and/or trade unions to make an application to the National Negotiating Council (NNC) to change or introduce a supplement. Following authorisation by the NNC, supplements are reviewed at least annually and a business case has to be submitted every three years to justify the continued payment of a supplement.

1.5 Defence against employer attacks

The Covid-19 pandemic has driven a major increase in homeworking and many expect homeworking to form a much more common working arrangement even after pandemic measures formally end.

This may encourage some employers to question locational pay supplements, as the costs of commuting for staff may fall. However, such attacks on supplements can utilise the following arguments in defence of staff income:

- Many key workers in public services have attended their workplace throughout the pandemic because their work cannot be carried out at home. For those who have been working at home extensively throughout the pandemic, the post pandemic environment is liable to be characterised by a "hybrid" system that involves a combination of work in the office and at home.
- As already noted, housing costs are usually the dominant difference in costs between regions, with commuting costs playing a lesser role. For instance, average London commuting costs are around a fifth of new rental costs. The extra rental cost in London stands at around £800 above the UK average, while the extra commuting cost averages around £150. Each individual's experience will plainly be different and the further a worker is based outside of London, the more the relative extra costs of housing and commuting will push up the importance of the latter. However, the average figures offer a strong basis for defending locational allowances.
- A move to homeworking does not come without extra costs for employees, particularly in terms of utility bills. UNISON's Working From Home and Hybrid Working covers the costs in greater detail, but the broad picture is that HMRC estimate average costs to run at £26 a month and therefore allow tax relief on payments up to that level. In some circumstances, those costs may run even higher.
- It should also be emphasised that commuting costs will frequently not fall directly in line with the number of days worked, as discounts for long-term forms of payment such as annual season tickets will usually mean that short-term forms of payment such as day tickets or weekly tickets involve a higher daily cost.

2. Occupational supplements

2.1 Features to consider in whether to support a supplement

Occupational supplements represent an addition to pay that is implemented as a way of dealing with recruitment and retention problems (sometimes referred to as “market factors”) for a specific section of the workforce.

The union may support such a supplement as a way of improving pay, but in contrast to locational supplements, it applies to just a section of the workforce. Therefore, it can be potentially divisive among the workforce and consideration will need to be given as to whether efforts are better focused on improving an across-the-board pay rise.

The other major dimension that needs to be considered is the potential impact on job evaluation procedures that have been followed to ensure a pay scale delivers equal pay for work of equal value. By raising the pay of certain occupations on the basis of recruitment and retention problems, this can lead to unequal pay for work of equal value and if the occupations being raised are dominated by one gender it can violate equal pay legislation.

Such pay arrangements can only be justified where the recruitment and retention considerations are sufficiently significant to be regarded as a “market forces” material factor. Therefore, organisations will usually have a rigorous procedure for authorising an occupational supplement and monitoring its continued use, examples of which are shown below.

If it is decided to press for an occupational supplement then the starting point is the gathering of evidence that an organisation is having problems attracting and holding on to workers fulfilling a particular occupation (see section 1.1 of this guide for advice on comparator figures).

Recruitment and retention difficulties can be induced by neighbouring public authorities offering an occupational supplement, so it’s useful to keep abreast of where local and sectoral supplements are being paid and creating a domino effect as other employers are effectively forced to fall in line.

UNISON holds some information on where occupational pay supplements are in force within local government. For details contact Bargaining Support at bsg@unison.co.uk

2.2 Examples of procedures for establishing and maintaining supplements

The local government NJC specifies that “market supplements” must:

- Be based on clearly evidenced recruitment and/or retention problems;
- Have clear, transparent and fair criteria for the application of market supplements;
- Ensure that market salary testing uses appropriate market comparators for the particular post(s);
- Apply to existing as well as newly recruited postholders in the same job;
- Ensure that the 'job evaluated' grade and any additional market supplement are clearly identified, shown as a separate allowance to the pay/grade determined by job evaluation, and understood by employees in receipt;
- Ensure that the contractual terms of future payments are sufficiently clear to enable the payments to be withdrawn if the 'market' changes.

Its policy also demands that employers “undertake regular equalities monitoring with the trade unions of the outcomes of the application of market supplements, for example, gender monitoring for jobs in receipt of the payments.”

And where market supplements are applied, they “should be reviewed regularly to ensure that they are consistent with these criteria above. If current payments cannot be justified by reference to these criteria, these should be discontinued.”

In the NHS, Agenda for Change arrangements specify that recruitment and retention premia can be awarded on a national basis to particular groups of staff on the recommendation of the NHS Pay Review Body after gathering evidence from employers and unions.

However, local trusts can also establish their own recruitment and retention premia, provided:

- Where there have been no suitable applicants for an advertised role, they consider non pay improvements, using different advertising media and / or awaiting improvement in the supply of staff before moving toward establishing a supplement;
- Consultation takes place with neighbouring employers and the unions before applying the supplement
- Once established, supplements are regularly reviewed by HR alongside relevant service/department heads and union reps.

The combined value of any nationally awarded and any locally awarded recruitment and retention premium for a given post is not normally allowed to exceed 30 per cent of basic salary.

Both national and regional premia can be awarded on a short-term or long-term basis.

If premia are short-term, the agreement specifies that they:

- May be awarded on a one-off basis or for a fixed-term;
- Will be regularly reviewed;
- May be withdrawn or have the value adjusted, subject to a notice period of six months;
- Will not be pensionable or count for purposes of overtime, unsocial hours payments or any other payments linked to basic pay.

If premia are long-term, the agreement specifies that they:

- Will have their values regularly reviewed;
- Will be pensionable, and will count for the purposes of overtime, unsocial hours payments and any other payments linked to basic pay.

The examples above show nationally agreed procedures for two of the largest public sector workforces. However, where the issue is left to local arrangements, a procedure will still generally be specified by the local public authority. For example, University College London sets out the following steps and conditions for supplements.

- Evidence of a recruitment and retention problem must be demonstrated by:
    - Two unsuccessful recruitment attempts in the previous six months;
    - Skilled staff leaving UCL, or being approached, for similar jobs with a high level of pay elsewhere;
    - “Tangible” market information on the salary being paid for similar posts in other organisations.
- This evidence must be set out in a written case submitted to the HR policy team for assessment;
- A two-year time limit applies to all supplements;
- If agreed, all staff carrying out the duties of the post must receive the same supplement on the same conditions