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# A technical report on the calculation of a minimum London Weighting

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A supplement to:

‘A minimum London Weighting – a revised and updated approach’

# About the report

## About Trust for London

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This report is published alongside '*A minimum London Weighting – a revised and updated approach*' (2022) by Matt Padley.

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# Introduction

This technical report builds on the analysis and methodology set out by Hirsch (2016) in the report [London Weighting and London costs – a fresh approach?](#). This analysis followed the publication of the first [Minimum Income Standard for London](#) (Padley et al, 2015) and used this research as the basis for proposing a new way of calculating a London Weighting. The report positioned the fresh approach in an historical context, reviewed current practice and made recommendations about the level at which a London Weighting could be set.

Much has changed in the intervening six years. The annual updates of the Minimum Income Standard (MIS) for [London](#) have tracked and described changes in public views of decent living standards in the capital over this period, setting out what this means for minimum household earnings as well as charting what proportion of Londoners actually have the income needed to reach this living standard. The broad political and economic context is also different to 2016, with some significant shifts in the social security system and the continued roll out of Universal Credit, as well as changes in costs affecting a minimum budget.

It is in this context that the approach to calculating a minimum London Weighting has been revised and updated. This briefing sets out this approach to calculating a London Weighting, highlighting the assumptions underpinning this and what would be needed in the future to further refine the calculation.

## What is included in the Minimum Income Standard?

The Minimum Income Standard for the UK and for London, specifies the goods and services the public say is needed to meet material needs and to participate in society. Research on what people need for a minimum socially acceptable standard of living, using the MIS approach, was first published in 2008 and has been regularly updated since. MIS London research was first published in 2015 and has been updated every year since. These updates are critically important to ensure that the baskets of goods and services discussed and described by groups of members of the public, reflect and capture changes in norms and expectations within UK society, as well as developments in technology over time. New research with the public is undertaken every two years in both the UK and in London. In intervening years, the minimum budgets for all households are updated using the Consumer Prices Index (CPI) to take account of changes in prices.

The detail of what is needed for a minimum standard of living is regularly reviewed and updated (Davis et al, 2020, 2021; Padley et al, 2021). However, the content of a minimum budget for the household types used in this calculation has not changed dramatically over time: descriptions of, for example, the kinds of furniture, clothing and toiletries needed for a decent standard of living have not transformed over time, but the price of many of these goods has increased substantially. There have been additions and alterations to budgets largely reflecting changes in technology, such as the introduction of Netflix and the removal of DVD players, and the addition of a broadband connection for all households. There have also been

additions to minimum budgets that reflect changes in social norms and expectations – the increased prominence of school ‘proms’, for example, has resulted in groups including an amount for a secondary school age child to enable them to attend this important event. These often small changes in what is included in a minimum budget have not, as yet, resulted in sudden and dramatic increases in the overall budget required for a minimum standard of living. However, rapidly rising inflation over recent months will have an impact on the cost of a minimum budget, and consequently the income needed to afford this.

## Core costs and assumptions within a minimum London Weighting

Since 2015, the Minimum Income Standard research in London has identified differences in the costs of a minimum living standard between the capital and other urban areas of the UK. This research takes account not only of price differences in London, but also captures the different and/or additional minimum needs which result from living in the capital. In this way, the research does not simply focus on different and/or additional costs, but systematically describes – and captures the cost of – what groups of members of the public in London agree is needed in order to meet material needs and participate in society.

Because of this, the MIS London research provides a basis for calculating what a minimum London Weighting would need to be in order to enable households to meet their minimum needs, showing the additional weekly costs for London households compared to households in other urban areas of the UK, which can be used to calculate the additional earnings required to cover this cost.

Housing, transport and childcare are the key areas where variation in costs are often most apparent, but the differences in what is needed for a minimum standard of living are not limited to these three areas. Table 1 shows the proportion of the total additional weekly costs accounted for by each budget category in Inner and Outer London. Higher rents contribute most to the overall additional costs of a weekly budget for all households. For working-age households without children in Inner and Outer London, rent accounts for between 60.6% and 68.4% of the additional weekly costs of a minimum budget. For households with children, rent accounts for up to half (49.9%) of the additional weekly cost. In Outer London, transport costs account for around a third of additional weekly costs for households without children and between 22% and 28.3% for households with children. In Inner London however, transport costs account for a smaller proportion of this additional cost; a larger proportion of additional cost is a consequence of differences in other budget areas.

**Table 1: Proportion of additional weekly costs by budget area**

Household type	Single working-age sharer	Single working-age not sharing	Couple working-age	Couple with two young children (pre-school and primary)	Couple with two older children (both secondary, 13 and 16)
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Inner London

Total additional weekly cost	£149.07	£160.20	£272.07	£125.02	£106.20
Rent	63.9%	65.3%	60.6%	42.4%	49.9%
Transport	12.7%	11.9%	14.0%	6.3%	14.7%
Childcare	0.0%	0.0%	0.0%	30.9%	0.0%
Other	23.4%	22.9%	25.5%	20.4%	35.4%

Outer London

Total additional weekly cost	£76.48	£79.02	£142.75	£152.32	£119.34
Rent	67.3%	68.4%	63.0%	34.8%	44.4%
Transport	34.0%	32.9%	33.1%	22.0%	28.3%
Childcare	0.0%	0.0%	0.0%	28.9%	0.0%
Other	-1.3%	-1.3%	3.9%	14.3%	27.3%

The ‘other’ category here captures additional weekly costs outside of rent, transport or childcare costs. Additional costs in this category vary considerably. In Inner London, the other category accounts for between one fifth and one third of additional costs, while for some households in Outer London the ‘other’ category is lower than in urban areas outside London.

What exactly makes up this ‘other’ category? For single and couple working-age adults in Inner London, the additional cost is mainly a result of higher amounts included for eating out, social and cultural participation, and hairdressing. These additional costs in Inner London are not replicated in Outer London, and so the other category does not make a significant contribution to the overall additional weekly cost.

For households with children, key differences in the ‘other’ category are a consequence of an increased budget included by groups for social activities for both adults and primary and secondary school age children in Inner and Outer London. As with working-age households without children in Inner London, the amount included to cover the cost of hairdressing is higher in London compared to urban UK – groups in Inner London included more to cover this cost than those in Outer London.

The calculation of a minimum London Weighting reflects the different and/or additional costs identified through the MIS research as well as assumptions about rent, transport and childcare informed by the research.

## Rent

Housing costs play a critical role in the additional weekly cost of a minimum in London compared to other urban areas of the UK. There is significant variation in housing costs within London and across the UK, and discussions with groups of members of the public about minimum needs do not focus on agreeing an ‘acceptable rent’ for each household type. MIS research in urban UK and in London instead establishes what size and sort of accommodation is required by different household types as part of a decent living standard. Table 2 shows the housing models used to calculate rents within the UK and London MIS budgets for the household types being used here. These housing assumptions are also used to calculate the cost of domestic fuel, contents insurance, water and council tax rates.

**Table 2: Housing assumptions in UK and London MIS**

Household Type	Accommodation in UK MIS	Accommodation in MIS London
Single working-age person without children (living alone)	One bedroom flat (Private Rented Sector, (PRS))	Studio flat (PRS)
Single working-age person without children (living in shared accommodation)	Three bedroom house (PRS)	Three bedroom flat (PRS)
Working-age couple without children	One bedroom flat (PRS)	One bedroom flat (PRS)
Couple parents plus two children	Three bedroom house (social housing)	Three bedroom flat (social housing)

These housing models are the basis for calculating weekly rents for households living in urban UK outside London and in London, which can then be compared to identify the additional weekly cost of rent in the capital.

- For **households with children**, the comparison here is between UK social rent average for a three bedroom property and an all-London social rent average for a three bedroom property. This comparison results in an additional weekly cost of £53 for couples with children living in Inner or Outer London. Many households with children are not able to access housing in the social rented sector – both in urban UK and London – and so will face substantial additional costs associated with renting in the private sector. *Further analysis of London and UK housing costs could usefully enhance the calculation and capture the diversity of household costs for families with children.*
- For **working-age households without children**, the comparisons here are between private rents in urban UK and London. The average private rents used here for urban UK outside London are calculated on a different basis to those used within the annual MIS calculations; the rents here for urban UK are an all-UK average (excluding London) while in annual MIS calculations an average of East Midlands rents is used. The basis of the comparison is different so as to attempt to capture the significant variation in private rents across the country. The point of comparison for rents in the private sector can have a significant impact on the level of additional weekly costs, particularly given that rent makes up the largest proportion of additional costs for households assumed to be in the PRS. Comparing Inner and Outer London rents with East Midlands rents risks exaggerating the additional cost of housing within the calculation. With this in mind:
- **Single working-age adults living in shared accommodation** are assumed here to be paying one third of a lower quartile rent for a three bedroom property: in urban UK outside London, this is a UK-wide average (excluding London) April 2020 to March 2021<sup>1</sup>, while in London, this is an Inner London average and an Outer London average for the same period. This gives an additional weekly cost for single sharers of £95.27 in Inner and £51.49 in Outer London.
- Rents for **single working-age adults living on their own** in urban UK are based on lower quartile UK-wide average (excluding London) April 2020 to March 2021 for a one bedroom property, while in London rents are averages of Inner London and Outer London lower quartile private rents for a studio flat. This means an additional weekly cost of £104.56 in Inner and £54.08 in Outer London.
- For **working-age couples** the comparison is between a UK-wide average (excluding London) April 2020 to March 2021 median rent for a one bedroom property (recognising that this level of rent would enable couples to access a wider range of properties than singles) and averages of Inner London and Outer London lower quartile rents for a one bedroom property. This means couples face an additional weekly cost of £164.82 in Inner and £89.95 in Outer London.



## Transport

There is agreement across the UK – including within London – that working-age adults without children can meet the majority of their transport needs using public transport. The differences in transport costs between urban UK and London for these households are a result of the more expensive public transport within the capital. In urban areas of the UK outside London, working-age adults without children specify a monthly bus pass as well as some additional resource for taxis and rail/coach travel each year. In Inner London, working-age adults have said that a pre-paid monthly travel card covering Zones 1-4 would be needed in order to access both employment and social participation opportunities (including being able to access work outside Inner London). In Outer London, a monthly travel card covering Zones 1-6 is needed for the same reasons. This means the additional weekly cost of transport is £18.99 for singles and £37.99 for couples in Inner London, and £25.97 for singles and £47.28 for couples in Outer London.

For households with children in urban areas of the UK outside London, a car is included as a key element of a minimum budget, but in London a car is not seen as essential. As for working-age adults without children, parents need a monthly travel card covering Zones 1-4 in Inner London, and Zones 1-6 in Outer London. Across London, groups have also stated that more resource is needed for travel outside of London, via rail or coach, because a car is not included in a minimum budget. The results of the different specification of minimum transport needs vary across Inner and Outer London: for a couple with two young children in Inner London, the additional weekly cost of transport is £7.89 while the same household in Outer London has an additional weekly cost of £33.52.

## Childcare

In all MIS research, groups of members of the public have stated that households with children should be able to access childcare, to enable adults to work. For pre-school aged children, this is the cost of 50 hours a week in a nursery. For primary school age children, childcare is afterschool club during term time (equivalent to 15 hours a week, 39 weeks a year) and holiday club during school holidays (50 hours a week for 9 weeks a year, leaving 4 weeks when parents are assumed to take annual leave). While the model of childcare provision described by groups is the same in and outside of London, households face very different costs. The costs included here are based on the Coram Family and Childcare annual survey of childcare costs<sup>2</sup>. In Inner London, this results in an additional weekly cost of £38.67 for a couple with two young children, while in Outer London the additional weekly cost is £33.52.

# Calculating a minimum London Weighting in 2021

Central to the calculation of a minimum London Weighting is the comparison of minimum weekly budgets for selected household types in urban UK, Inner London and Outer London, produced through ongoing MIS research. The detail of these comparisons is set out in Tables 3 and 4. Having identified additional weekly costs and/or savings, it is possible to calculate the additional earnings each adult requires to meet this additional cost in London, taking into account additional tax, National Insurance and pension contributions. Workplace pension contributions are included here, as through the MIS research the public agreed that as a minimum, people should be able to save for their futures in this way. The introduction of auto-enrolment in 2021 has 'normalised' pension contributions, with 88% of eligible employees participating in a workplace pension in 2020, up from 55% in 2012 (DWP, 2021).

The calculation of a minimum London Weighting remains sensitive to:

- Household composition
- The number of working adults within a household
- Assumptions about housing tenure
- Whether or not households need childcare
- Payments into a pension through auto-enrolment
- The interaction of earnings and benefits

In calculating a minimum London weighting it is not feasible – or necessarily helpful – to attempt to capture all possible combinations of these different factors. Instead, the calculations shown in Tables 3 and 4 set out the extra earnings that would be needed to cover minimum additional costs for a range of household types, reflecting a range of different circumstances, within the working age population of the capital. As previously, it then weights these results using census data from 2011 to produce a single average minimum London Weighting for Inner and Outer London. This is an element of the calculation that would be greatly improved by the use of data from the latest census in 2021, and would allow a potentially wider range of household types to be included.

Tables 3 and 4 below show Inner and Outer London minimum weightings for single sharers, singles living on their own, and couples with and without children.

**Single sharers:** While there are cost-savings that come with sharing accommodation rather than living alone, sharers in London face substantially higher housing costs than single sharers in urban UK. Combined with expensive public transport and, in Inner London, the additional costs of social participation and eating out, this means a single person needs to earn an additional £12,145 in Inner London and £6,231 in Outer London to cover minimum costs.

**Single and couple working-age, living independently:** As with sharers in the capital, singles and couples face far higher rental costs in London than outside the capital. This is particularly the case in Inner London. Added to the additional cost of public transport, and the additional costs of social participation and eating out in Inner London, a minimum London weighting for singles living on their own is £13,052 in Inner and £6,438 in Outer London; for couples, each adult needs to earn £11,083 in Inner and £5,815 in Outer London to cover minimum costs.

**Households with children:** Although social housing in the capital is more costly than in other urban areas of the UK, households with children do not face such substantial additional rental costs as households in the PRS. In Inner London, the additional cost of transport is relatively small, but in Outer London this brings a substantial additional cost. Higher childcare costs in both Inner and Outer London contribute to additional weekly costs where families need this. Tables 3 and 4 make calculations for two household types, in recognition that not all families with children need childcare – a couple with two younger children who do require childcare and a couple with older children who do not. These two cases are given equal weight in the calculation here, but this is an element of the calculation that could be refined through the use of more detailed and up to date population data. The additional earnings needed to cover minimum costs are per full-time working adult – where households have different combinations of working patterns this would impact the required salary additions. Tables 3 and 4 show that the supplement needed is lower for households with older children, and higher in Outer compared to Inner London, the opposite of working-age adults without children. In Inner London, each adult in the couple with younger children needs an additional £6,357, and £4,326 where children are older. In Outer London, each adult in the couple with younger children needs an additional £9,362, and £4,861 with older children.

Combining the calculations in Tables 3 and 4 gives an average minimum London Weighting of £9,600 in Inner London and £6,549 in Outer London. The difference between these two figures is a product of where people live and the costs and norms associated with living in either Inner or Outer London. In both cases, a minimum budget includes the cost of travel across London – including through Zone 1 – and on this basis it is reasonable to argue that **the Outer London minimum London Weighting should serve as the baseline**, because it allows workers to access employment anywhere in the capital. The minimum London Weighting then is what is needed to meet the additional costs of both living **and** working in London, but not the generally higher costs of a minimum living standard in Inner London.

Table 3: Inner London (April 2021 prices)

Household type	Single working-age sharer	Single working-age not sharing	Couple working-age	Couple with two young children (pre-school and primary)	Couple with two older children (both secondary)
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1) Additional weekly costs

Rent	£95.27	£104.56	£164.82	£53.00	£53.00
Transport	£18.99	£18.99	£37.99	£7.89	£15.58
Childcare	£0.00	£0.00	£0.00	£38.67	£0.00
Other	£34.81	£36.65	£69.26	£25.46	£37.62
<b>Total</b>	<b>£149.07</b>	<b>£160.20</b>	<b>£272.07</b>	<b>£125.02</b>	<b>£106.20</b>

2) Additional earnings required, per adult

to cover additional costs	£7,773	£8,353	£7,093	£3,259	£2,769
additional tax, NI and pension contribution	£4,373	£4,699	£3,990	£2,289	£1,558
loss of universal credit	0	0	0	£809	£0
<b>Total: London weighting needed</b>	<b>£12,145</b>	<b>£13,052</b>	<b>£11,083</b>	<b>£6,357</b>	<b>£4,326</b>
Weighting given to this household type	0.25	0.22	0.15	0.19	0.19
Weighted London weighting	£3,036.25	£2,871.44	£1,662.45	£1,207.83	£821.85
<b>TOTAL WEIGHTED AVERAGE</b>	<b>£9,600</b>				

Table 4: Outer London (April 2021 prices)

Household type	Single working-age sharer	Single working-age not sharing	Couple working-age	Couple with two young children (pre-school and primary)	Couple with two older children (both secondary)
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1) Additional weekly costs

Rent	£51.49	£54.08	£89.95	£53.00	£53.00
Transport	£25.97	£25.97	£47.28	£33.52	£33.77
Childcare	£0.00	£0.00	£0.00	£43.95	£0.00
Other	-£0.98	-£1.03	£5.52	£21.85	£32.57
Total	£76.48	£79.02	£142.75	£152.32	£119.34

2) Additional earnings required, per adult

to cover additional costs	£3,988	£4,120	£3,722	£3,971	£3,111
additional tax, NI and pension contribution	£2,245	£2,060	£2,093	£3,371	£1,750
loss of universal credit	0	0	0	£2,021.1	£0
Total: London weighting needed	£6,231	£6,438	£5,815	£9,362	£4,861
Weighting given to this household type	0.25	0.22	0.15	0.19	0.19
Weighted London weighting	£1,557.75	£1,416.36	£872.25	£1,778.78	£923.59
<b>TOTAL WEIGHTED AVERAGE</b>	<b>£6,549</b>				

# Recommendations

The calculation of a minimum London Weighting shows that a minimum London Weighting of £6,549 a year would begin to help to cover the essential costs that come with living in London. These additional essential costs are felt most acutely by those in the lowest paid jobs, but a minimum London Weighting should not just help those on low pay in the capital. It should also support low- to middle-income workers in London towards reaching a minimum living standard (those earning up to £40,000 per annum, including minimum London Weighting). Workers in higher paid jobs are more likely to reach a minimum living standard without a minimum London Weighting than those on lower pay.

It is important to emphasise that the minimum London Weighting set out here provides a baseline for employers with workers doing similar jobs in and outside of London, while the London Living Wage sets out a minimum for all employees living and working in the capital.

It is the recommendation that the minimum London Weighting is updated on an annual basis, although this is not allied to any assumption that employers would necessarily adjust any London Weighting they pay on an annual basis. Having an annually updated figure would, however, provide evidence to inform ongoing discussion and debate about London pay. Such an update would incorporate any changes in what is needed for a minimum living standard in London as well as capturing changing costs both relating to the core basket and to rent, transport and childcare.

An annual update should also build in a review of the central assumptions informed by ongoing MIS research, relevant policy change and the availability of new data, setting out clearly each year the impact of any changes on a minimum London Weighting. There are already some obvious ways in which this calculation can be developed and refined over time – incorporating the 2021 census data as the basis for weighting household types in Inner and Outer London is the clearest of these, but there is also scope for further analysis of, for example, housing costs in London and how these are best reflected in this calculation.

# References

1 Private Rental Market data from: <https://www.ons.gov.uk/peoplepopulationandcommunity/housing/datasets/privaterentalmarketsummarystatisticsinengland>

2 <https://data.london.gov.uk/dataset/average-childcare-costs-in-london>

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