



THE AFFORDABILITY CRISIS: BUSINESS RATES ARE NOT WORKING FOR LONDON'S OPEN WORKSPACES

June 2018



CONTENT

| | |
|---------------------------|----|
| EXECUTIVE SUMMARY | 1 |
| BACKGROUND & INTRODUCTION | 5 |
| FINDINGS | 7 |
| PROPOSED SOLUTIONS | 37 |
| SUPPORTING EVIDENCE | 43 |



1 | EXECUTIVE SUMMARY



This report explores the impact of the 2016/7 business rates revaluation on London's open workspaces and presents some examples of the complexities and inconsistencies in the current system.

The average increase at Pop Brixton was 255%, with the highest increase at 504%.

The Mayor is committed to ensuring that all Londoners have access to affordable workspace. The increase in business rates has a direct knock-on effect on affordability.

This report offers some solutions which would - at least in the short term - alleviate the situation. Long term, structural reform is needed.

EXECUTIVE SUMMARY

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London's SMEs account for almost half the jobs in the capital¹. Open workspaces are rapidly becoming vital to the survival of early-stage SMEs in London. Almost a third of SMEs founded between 2009 and 2011 used an incubator, accelerator, or coworking space². London is home to over 800,000 small and medium sized enterprises (SMEs), including micro-businesses, that account for 99.8% of businesses and nearly half the capital's jobs. Such SMEs contain much of London's future innovation, enterprise and growth.

For these micro and small enterprises, the top 3 costs they face are rent, rates and staff. These 3 costs are closely related. Open workspace providers want to provide the right space, for the right people, in the right place at the right price. They need to make their spaces work for all Londoners. Recent rises in rents and rates have significantly affected both open workspace provision as well as micros and small businesses in the capital. This paper isn't about how best to tax small businesses or even how to provide affordable workspaces. Rather, it explores the unintended consequences of recent changes to business rates and how they affect London's open workspaces.

This work has been commissioned by the London Enterprise Action Partnership (LEAP), overseen by officers at the Greater London Authority (GLA) and backed by the Mayor's Workspace Providers Board (WPB). It has been delivered by a team from Capital Enterprise, WorkWILD, Nordicity and Original Futures. It is independent from the Mayor's views.



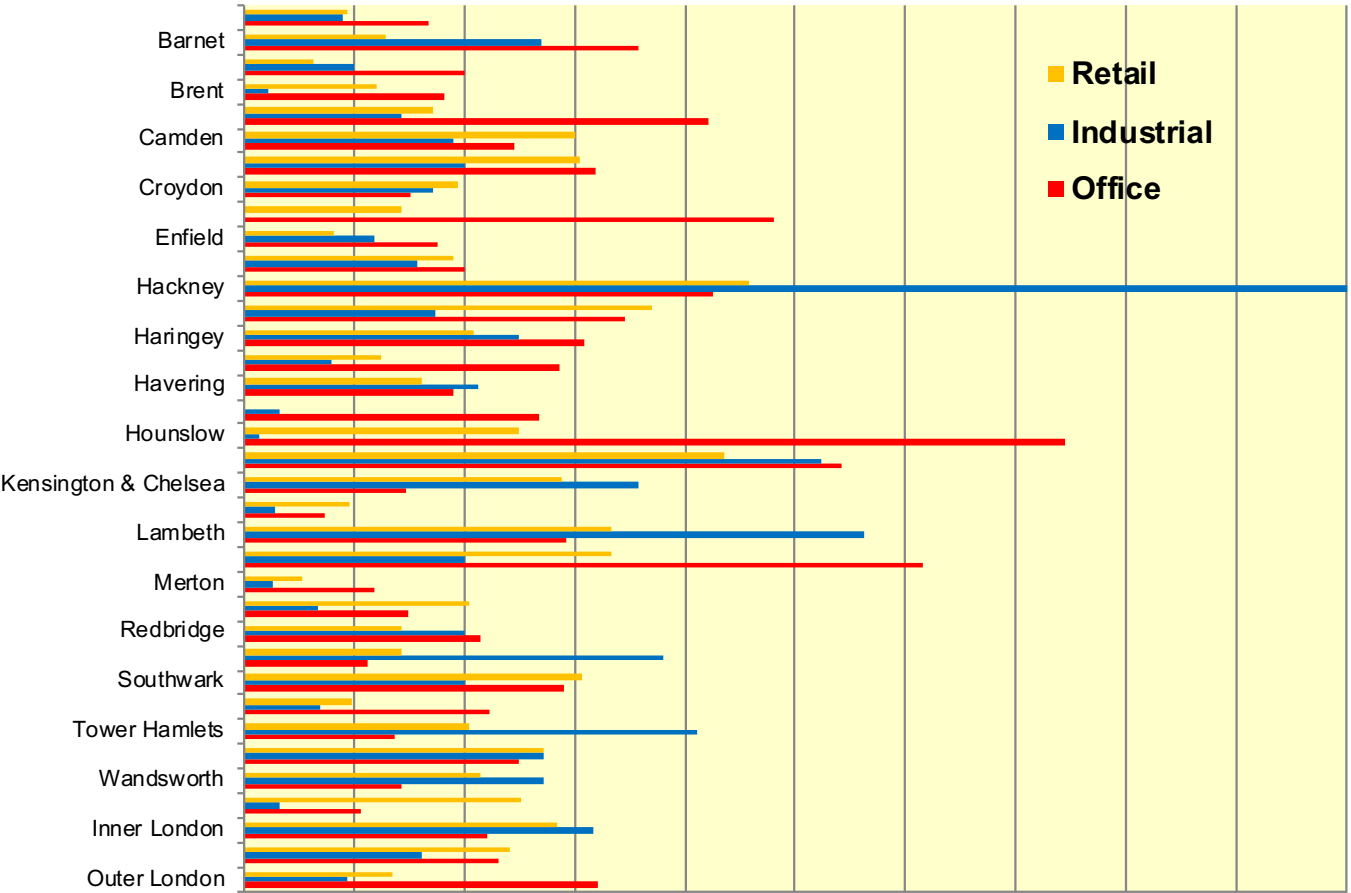
¹https://lep.london/content_page/london-open-workspaces

²https://www.ippr.org/files/publications/pdf/start-me-up-final-report_Dec2016.pdf

Ramidus's [research](#) (2017) supported by Camden Collective and the Federation of Small Businesses set out the key facts of how significant business rates increases had been in percentage terms across all of London's boroughs.

FIGURE 1
CHANGE IN AVERAGE RV, BY BOROUGH AND SECTOR 2010-2017

Source: VOA data, Ramidus Consulting (2017)



This work attracted a great deal of attention, which this work builds on. It explores in more detail the misalignment between the current business rates system and London's open workspaces. It then focuses on how significantly this misalignment affects open workspaces, the SMEs they house and thus London's economy.

Most importantly, this paper highlights the pain felt in the open workspace sector, proposes solutions, and summarises the potential costs and benefits of several scenarios. It recognises that, long term, structural changes are needed to fix what is effectively a broken business taxation system and sets out some short-term emergency measures which will enable open workspaces to survive and thrive within the limits of the current system.

Long term the solutions will be cost neutral to the public sector, and beneficial to the economy. As a result of this research, we recommend that the GLA / LEAP:

- Deliver a 2-year pilot of a voluntary workspace accreditation scheme, a review and market testing to allow rollout in year two and create a plan to rollout across London in three years following the pilot;
- Deliver capacity building / training sessions on business rates and rates relief for open workspace providers and local authorities; Signpost beyond these through information, guidance notes, and communication to workspace providers;
- Create an enhanced forum for policy, research and action - bringing new members and a secretariat to the Workspace Providers Board;
- Create a formal link with the GLA and the LEAP with dedicated staffing and resource for further research and pilot studies and engagement activities with the wider Open Workspaces Network and London Boroughs;
- Lead change at UK level - Whilst some of the barriers to keeping workspaces open can be managed at the London and borough level, there are national changes required. We recommend the GLA and the LEAP take a leadership role in convening national government and bodies to discuss and find solutions, with support from the WPB as required. The Federation of Small Businesses and others are already campaigning for long-term change. London government needs to drive this.
- Ensure that there are structured and systematic processes for collecting key information and insights related to the role of workspaces and communicate it effectively.

We hope that by setting these issues out in a clear, evidence-based manner, and with radical yet implementable solutions, we can keep London open for all those who use open workspaces.



BACKGROUND & INTRODUCTION



Workspaces including incubators, accelerators, co-working spaces, artists' studios, and maker spaces, play an important role in the continued success of London's economy.

"When we give Londoners with skills and talent the space they need to fulfill their potential, we pave the way for the great businesses of tomorrow", Sadiq Kahn, launching his Workspace Providers Board in December 2016."

The Mayor is committed to ensuring that all Londoners have access to affordable workspace. The 2016/7 business rates revaluation has almost doubled the amount paid by London's open workspaces. This has a knock-on effect on affordability. At the same time, there are in fact a number of ways that open workspace providers can reduce their business rates liability within the current system. This would make workspace more affordable for all Londoners.

BACKGROUND & INTRODUCTION

Workspaces including incubators, accelerators, co-working spaces, artists' studios, and maker spaces, play an important role in the continued success of London's economy. However, many workspace providers are facing financial difficulties due to the high cost of business rates. As such, the ability for workspace providers to be financially viable and deliver business support and discounted rent or membership fees is adversely affected by business rates.

Capital Enterprise has been commissioned to coordinate some research into the impact of the 2016/17 business rates revaluation on co working spaces and, linked to this, to explore a voluntary workspace accreditation. The findings on the workspace accreditation are presented in a separate, linked, report.

This work has been commissioned by the London Enterprise Action Partnership (LEAP), overseen by officers at the Greater London Authority (GLA) and backed by the Mayor's Workspace Providers Board (WPB). It has been delivered by a team from Capital Enterprise, WorkWILD, Nordicity and Original Futures.

This paper:

- Reviews how the business rates system works in general and in the workspace context (summarised in Section 3 with a detailed review in Appendix 1).
- Provides case studies to highlight some of the challenges faced by different workspace providers from across London (Section 3).
- Offers analysis and commentary and sets out options for how the issues can be addressed (section 4).
- Outlines our recommendations and next steps regarding addressing the issues covered (Section 4).
- Provides background information from which recommendations are drawn for the GLA, the LEAP and the Workspace Providers' Board.

The rise in business rates has a knock-on effect on affordability. At the same time, there are in fact a number of ways that open workspace providers can reduce their business rates liability within the current system. This would make workspace more affordable for all Londoners.

3 | FINDINGS

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If a small business is eligible for small business rates relief when renting a small office unit, then surely it raises the question as to why they shouldn't be entitled to that same relief should they choose to work in an open plan environment?

FINDINGS

THE OPEN WORKSPACE AND BUSINESS RATES LANDSCAPE IS RAPIDLY EVOLVING

Business rates are clearly an issue affecting the financial viability of many workspace providers in London. In short:

Business rates are not working for London's open workspaces

If a small business is eligible for small business rates relief when renting a small office unit, then surely it raises the question as to why they shouldn't be entitled to that same relief should they choose to work in an open plan environment.

Choosing open plan, co-working environments is a growing preference of many small businesses, particularly start-ups. However, many businesses also want to use co-working space as part of their start-up phase ahead of taking private office space. This can be for a number of commercially advantageous reasons such as being part of a business community, cross fertilisation of ideas, mentoring and other business support, and flexible lease or membership terms.

Various approaches can be taken by workspace providers to reduce their business rates liability at their current and future sites, as outlined above within the current system.

Open Workspaces are relevant to all sectors, and support the wider London economy

It is clear that, by reducing costs and risks to members and tenants, they enable more new businesses to survive and thrive. They contribute to growth and employment in general and enrich an already creative and entrepreneurial London ecosystem. They also have an important role to play in the city's cultural and creative make-up, in placemaking and increasingly offer co-located services.

Through this work we have reviewed the data behind the open workspace map and found around 30% of open workspaces have ceased operation in the period since 2016. Due to the difficulties gathering robust data in a rapidly evolving landscape, no data is available on the number, location or type of open workspaces which have opened in the same period.

FINDINGS

A total of 338 workspace providers from the open workspace map were analysed. These included:

- 117 co-working spaces (City of London 9, Inner London 94, Outer London, 14)
- 157 Artist Studios (0 City of London, 128 Inner London, 29 Outer London)
- 44 Makerspaces (0 City of London, 36 Inner London, 8 Outer London)
- 13 Incubators (0 City of London, 11 Inner London, 2 Outer London)
- 7 Accelerators (0 City of London, 7 Inner London, 0 Outer London).

So, of the 338 workspace providers analysed, 276 were in Inner London (82%), 53 were in Outer London (16%), and 9 were in the City of London (3%). Approximately 107 (32%) were charities.

- An estimated 78 (23%) have an eligible exemption from business rates (Rateable Value below £12,000),
- 10 (3%) are eligible to receive Small Business Rates Relief (Rateable Value between £12,000-15,000),
- 112 (33%) apply the Small Business Multiplier (Rateable Value of £15,000-51,000), and
- 138 (41%) apply the standard multiplier (Rateable Value over £51,000).

Having cleaned the existing data we have compared addresses to rateable values at the Valuations Office and added rateable values to the database. This has enabled us to calculate that **the overall business rates bill for the 340 open workspaces in the GLA database has almost doubled (from £5.58m to £10.59m).**). In practice these increases will be phased in under the Government’s transitional relief scheme which predominantly benefits ratepayers of properties with a rateable value below £100,000.

At the same time, business rates are implemented in a way that is neither simple nor uniform across London or even within individual boroughs. There is a great deal of misunderstanding over their operation, and there is a real need for clarity and transparency.

The way that business rates work - and particularly how they work in open workspaces - is summarised below. More detailed is included in Appendix 1.



Business Rates

How do they work?

What are Business Rates?

A tax on non-residential properties, paid monthly



THIRD biggest outgoing for London's businesses

How are business rates calculated?

Notes: The rateable value is typically the annual market rent value of the property

The rateable value of the property, set by the Valuations Office Agency (VOA)

x

The multiplier set by Central Government, reviewed every 5 years

+

The rates supplement in London is the Cross Rail Levy = additional 2p per pound of rateable value

Some areas have Business Improvement Districts which result in a levy of 1p – 4p per pound of rateable value

+

Any rate relief schemes you are eligible for, which are applied by local council. (e.g. the revaluation transitional rate relief scheme)



Planning use class affects rateable value:

B1 & A1/A3 (office/retail) – the net internal area is measured to calculate the rateable value

B2-B7 (industrial) – the gross internal area is measured



Rates Revaluations

Revaluations occur every 5 years, likely to become every 3 years as of 2022.



City of London have a slightly higher rates multiplier to provide additional funding for local services

Where do business rates go?

Local authorities collect rates, keep a percentage, pass a percentage to GLA and the remainder to Govt for national distribution.

Long term intent is for 100% of rates to be retained locally



Inflation is applied to annual rates bill is RPI linked, but will soon be CPI linked from April 2018

Types of business rates relief



Charitable Relief

80% mandatory relief for charities and community clubs. Charities can contact their local authority to check if they can receive 100% top up relief.



Discretionary Relief

This is at the discretion of the local authority. Applies to non profit, voluntary and private organisations



Small Business Relief

If you occupy one property or several where the aggregate value does not exceed £27,999 (£15k max for main property), you can receive a % reduction



Unoccupied Property Relief

Rates are not payable for first 3 months. After, rates are payable in full



Partly Unoccupied Relief

If a property is partly unoccupied, the local authority has discretion to award relief in respect of the unoccupied period



Other Relief

Hardship Relief, Enterprise Relief, Rural Rate Relief, Local Disruption Relief

Business Rates

How do they work in open workspaces?

How do they affect open workspaces?

The massive increase in 2017/8 is affecting the financial viability of many open workspaces



Should open workspaces be entitled to small business rates relief?



Are they eligible for rate relief?

Small business rates relief can be used to reduce premises costs for workspaces with separate rateable hereditaments e.g. studios and private offices.



Listing areas in a workspace as separate hereditaments is at the discretion of the local officer. Therefore, by doing so – workspaces increase the chance of obtaining small business rates relief. The issue with this, is the administrative burden it has created for workspace operators and, in turn, local authorities.



Listing areas within open plan offices as separate hereditaments is yet to become commonplace, so the total premises costs for small businesses in open plan offices is higher due to having to pay full business rates. It could be argued that these spaces should be entitled to small business rates relief.



In 2015 a supreme court case resulted in the 'Staircase tax' ruling. If a workspace has multiple hereditaments separated by communal spaces, rates bills were given for each hereditament even if multiple hereditament were leased by the same business. The tax resulted in higher rates bills that could be backdated to April 2010 for many businesses with multiple hereditaments in the same property.

VOA Guidance



Notes that whether or not a serviced office should be separately assessed should be taken on the basis of rating law and practice. If a business rates officer were to grant different parts of an open plan co-working space as separate rateable hereditaments for the purposes of enabling mandatory small business rates relief, the small business occupier and the workspace provider would need to demonstrate that the occupation of the small business occupier is:

Exclusive in nature: With the member licensee or tenant having paramount control rather than the landlord. This can be demonstrated with the license to occupy or lease agreement from the member showing:

- Can reasonably expect to be able to carry out their business during normal business hours without interference
- Has control over the main gate of having duplicate set of keys to the units
- Not giving landlord a right to occupy or conduct business in the units.

Permanent in nature: Can be demonstrated with:

- License to occupy agreement or sublease
- Show at time of entering the agreement that there's a longer term nature despite expiry
- Show that most people stay for extended periods such as 2-5 years

3 | BUSINESS RATES ARE NOT WORKING FOR LONDON'S OPEN WORKSPACES



The Mayor is committed to ensuring that all Londoners have access to affordable workspace. The 2016/7 business rates revaluation has almost doubled the amount paid by London's open workspaces. This has a knock-on effect on affordability.

FINDINGS

Business rates are clearly an issue affecting the financial viability of many workspace providers in London. In short:

Business rates are not working for London's open workspaces

If a small business is eligible for small business rates relief when renting a small office unit, then surely it raises the question as to why they shouldn't be entitled to that same relief should they choose to work in an open plan environment.

Choosing open plan, co-working environments is a growing preference of many small businesses, particularly start-ups. Many businesses use co-working space as part of their start-up phase ahead of taking private office space. This can be for a number of commercially advantageous reasons such as being part of a business community, cross fertilisation of ideas, mentoring and other business support, and flexible lease or membership terms.

The 2016/17 Business Rates revaluation has meant that collectively London's open workspaces liability has doubled. This has a knock-on effect on workspace affordability. At the same time, there are in fact a number of ways that open workspace providers can reduce their business rates liability within the current system. This would make workspace more affordable for all Londoners. There is a clear need for more, better and more consistent information at all levels.

Through our review of the rates system and our discussions with providers and boroughs we have explored the complexities of the system and have identified some major problems:

- There is very little understanding of how business rates work in general and, in particular, of Open workspace providers and their tenants and members are struggling to understand and grapple with the complexities of the system.
- Decisions on discretionary business rate relief for London's open workspaces are not consistent across boroughs or even within boroughs.
- Significant increases in the cost of rates combined with increases in rents compromises the business and impact model for open workspace provision which has a knock-on impact on affordability, diversity and inclusion for London and Londoners.
- Opportunities for providers to apply for and be granted rate relief are lost with a knock-on effect on affordability.
- More, better, more consistent and more accessible information is needed.

¹See <https://www.virginstartup.org/news/business-rates-increase-what-needs-happen-for-an-example-champion-of-this-option>

FINDINGS

To begin to address these high-level issues we have prepared the infographic above to make the rates system clearer for the sector and have developed recommendations for training and capacity building in Section 5.

We have gone on to identify potential technical and structural solutions to address the key technical and structural issues within the current system which are seen to be:

- The Valuation Office Agency has a guidance note on how to treat serviced offices (see Appendix 2), but it stops short of a conclusive treatment of serviced offices, which leaves room for local authorities to have a wide range of approaches to how it treats serviced offices.
- Linked to the above current Business rates approaches do not reflect or cater for the Open Workspace sector clearly which means that there is room for confusion and lack of consistency in how open workspace is treated for rates. In other sectors e.g. retail, there are specific, more responsive approaches to different types - and zones - of usage. This is not available for open workspaces³.
- Small, community focused workspace providers offer community benefit and are being lost due to increasing costs - our research found that 30% of Open Workspaces on the GLA map have been lost since August 2016 and the case studies suggests that increases in rents and rates are the main contributory factors.

By analysing how business rates function and how they apply to workspaces, we developed options that the GLA, LEAP, Workspace Providers Group, and partners could explore with Government to overcome the identified issues.

There is also a clear need for longer term structural change to the business taxation system and significant work is already underway – led by [FSB](#) and others – to achieve this change.

Before exploring the options within the current system in more detail, we first present some examples to highlight the misalignment between the business rates system and the reality of London's open workspace operators.



3.3 | CASE STUDIES



Business rates are clearly an issue affecting the financial viability of many workspace providers in London.

This section provides a suite of case studies to highlight how business rates work in open workspaces and to illustrate some of the dynamics raised above.

CASE STUDIES - THE BUSINESS RATES SYSTEM IS NOT ALIGNED WITH LONDON'S OPEN WORKSPACES

Business rates are clearly an issue affecting the financial viability of many workspace providers in London.

This section provides a suite of case studies to highlight how business rates work in workspaces and to illustrate some of the dynamics raised in section 3. The content of these case studies arose from interviews that covered a number of areas including the impact of the 2017 rates revaluation, the 'staircase tax', and challenges faced by workspaces in relation to business rates. The case studies in this section include:

- Anonymous (Sites across London)
- Bootstrap Company (London Borough of Hackney)
- Bow Arts (Sites across London)
- Camden Collective (London Borough of Camden)
- CENTA (London Borough of Camden)
- Innovation Warehouse (City of London)
- Interim Spaces (City of Westminster)
- Makeshift (Sites in Lambeth and Southwark)

¹See <https://www.virginstartup.org/news/business-rates-increase-what-needs-happen-for-an-example-champion-of-this-option>

CASE STUDY 1 - ANONYMOUS

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This open workspace estimated the likely impact of the new rateable values to be a c.66% increase before Transitional Relief. After Transitional Relief, the Year 1 increase is c.23%.

Within this anonymous space's multi-let buildings there are thousands of individual rating assessments. Where a unit is occupied, the tenant is liable for business rates, not the landlord.

The exact circumstances and rates paying status of the tenants is unknown by the space (for instance, whether they qualify for small business rates relief or charity relief). They have estimated the likely impact of the new rateable values to be a **c.66% increase in the rates liability** before Transitional Relief. After Transitional Relief, the Year 1 increase is c.23%. Increased business rates for the tenants will increase their occupational costs. Therefore, there may be an indirect impact on the rents charged by the space. However, for most of the tenants, occupational costs are a fraction of the overall cost base, with staff costs being by far the biggest cost.

Though the tenants are liable for business rates, as a landlord the workspace dedicates considerable resource to the management and administration of the ratings assessments of their units, particularly where buildings are being refurbished, space reconfigured and assuming rates liabilities on units which become void. This workspace highlights that changes to rateable values always result in an increase in this administration burden, however other changes occurring at the same time have compounded this. **The largest impact for this space is the complexity of the new 'Check Challenge Appeal' ("CCA") process.** This space expects to need to increase in-house resource and instruct external agents more frequently and at a greater cost, as the process for challenging rateable value assessments becomes more onerous.

This workspace has direct experience of the issues with contacting, communicating with the Valuation Office Agency, and have raised a complaint via their Valuation Office Rating Contact scheme regarding a specific issue with the process of "Claiming" a property. They fully expect to be raising more of these as the **Government Gateway webportal, combined with the new CCA system, has made the process of challenging RVs close to impossible.** They share the list of borough workspace officers, so could ask directly, although might be better coming from London Councils



CASE STUDY 2 - THE BOOTSTRAP COMPANY



Bootstrap champions future enablement of small business rates relief for businesses in open plan co-working spaces, the Government's planned retrospective legislation of the staircase tax and the Valuation Office Agency equipping councils with enhanced guidance to better work with modern workspaces

18 Ashwin St, London E8 3DL

www.bootstrapcompany.co.uk

0207 275 0825

Bootstrap champions future enablement of small business rates relief for businesses in open plan co-working spaces, the Government's planned retrospective legislation of the staircase tax and the Valuation Office Agency equipping councils with enhanced guidance to better work with modern workspaces.

Bootstrap operate 60,000 square feet of workspace in Hackney across three sites comprised of studios and desk spaces at the current market rent for creative industry businesses, charities and social enterprises. The tenant group are small and relatively fragile, with limited capacity to swiftly adjust to changes faced by recent changes in business rates.

Bootstrap is established as a charity and use some of their surplus to provide rent subsidies for eligible businesses. **Recent changes to the business rates system is compounding financial challenges Bootstrap is facing with increased competition** from new workspaces, including large mainstream workspace providers who may have a market penetration pricing approach with low prices as they enter local markets. This has meant Bootstrap has lower levels of surplus from higher rates costs and lower fees from clients.

In regards to business rates, over the last year, the biggest impact on Bootstrap was the consequences of the Mazars case, which is referred to as the 'staircase tax'. This resulted in four significant changes for one of their sites.

1. **Bootstrap now have 67 rates bills rather than a single bill** for one of their sites due to it being a multi-occupancy building with a shared entrance.
2. Bootstrap have received retrospective rates bills going back multiple years.
3. Most of Bootstrap's client base aren't eligible for small business rates relief. However, this has been exasperated follow's Mazars case due to shared areas resulting in different rooms being split up into separate rateable hereditaments. **So businesses in some of Bootstrap's space who had multiple rooms that were previously eligible for small business rates relief now aren't able to claim as much relief**, if any.
4. Bootstrap lost mandatory charity rates relief for the one their site, which has also led to higher premises costs for businesses.

The Government has now introduced legislation 'the Rating (Property in Common Occupation) and Council Tax (Empty Dwellings) Bill 2017-2019' which. Subject to ratepayers submitting an application, will reverse the adjustments made to bills already due to the staircase tax. However, Bootstrap are continuing to manage the staircase tax implications. The higher premises costs for businesses is causing some to face hardship. Bootstrap have spent substantial staff time (2 days a week labour of senior management) on helping their tenants with understanding the changes and managing paying the rates bills. Whilst they are exploring the possibility of some of their tenants securing small business rates relief, Bootstrap have offered to pay the business rates for their tenants for 2017-18 who are not in receipt of transitional relief.

In addition, to address higher business rates from the 2017 revaluation, Bootstrap changed their business model to accommodate higher rates. However, the Mazars case was unexpected, and even with retrospectively legislation, it is unclear whether mandatory charitable rate relief will be re-awarded for the said site and if the rates bills will be a single bill or separate bills. That said, **the Mazars case has had a bigger impact on Bootstrap than the rates revaluation.**

The experience of the local authority in the sudden changes in business rates has been challenging for Bootstrap, with considerable additional paperwork, rigidity in being able to discuss rates with the council on behalf, and courts summons. It has also required a steep learning curve for the Bootstrap management. Bootstrap also acknowledge that the local authority has been overstretched due to changes in the rates system.

Bootstrap recognised that the Valuation Office Agency were aware of the higher administrative burden of the implications following the Mazars case for councils and workspace providers. **Local authorities are obliged to fulfil the requirements of the so-called staircase tax, however they have limited capacity due to focussing on the 2017 rates revaluation and preparing for the rates devolution.** This has meant it's been difficult for the local authority to enable its implementation to be smooth, considered and fair.

Bootstrap are disappointed that the business rates revaluation was postponed from 2015 in 2017, as they understand the rates bills are that much higher due to market rents rising substantially in that period. They are also speculating whether councils will spend business rates once its devolved for supporting the local economy, or will continue as currently with an adjusted core funding stream.

In regards to the rates appeal system, they have experienced a relatively quick process for one of their appeals, which incorrectly rated storage space as office space. However, they acknowledge the more involved process required for rates revaluations including timeframe and administrative burden. They said this new process could cause challenges in the future, as workspaces relatively frequently need to change the size of its studios and private offices, so would need to gain rates revaluations frequently.

In relation to addressing the issue, of business rates, **Bootstrap champions the idea of a change to the business rates system to enable eligible businesses with desks in shared open plan environments being able to claim small business rates relief.**

Bootstrap are unsure if a potential discretionary rate relief for accredited open workspaces would be sufficient. They are also concerned that it might not be viable, as councils are likely to consider the initiative as taking money away from the council.

Bootstrap recognised that councils are administrators of the rates system, albeit they can define the criteria for discretionary rate relief. They consider working with the Valuation Office Agency as important.

Bootstrap also raised the point that communal community space (break out space) is not something that the Valuation Office Agency has a way of dealing with. For instance, its rateable value is the same as other parts of shared workspace, such as in private offices or studios.



CASE STUDY 3 - BOW ARTS



Bow Arts champion the continuation of charitable rate relief and discretionary rate relief for workspaces that are helping local areas to improve.

183 Bow Rd, London E3 2SJ

www.bowarts.org

0208 980 7774

Bow Arts champion the continuation of charitable rate relief and discretionary rate relief for workspaces that are helping local areas to improve.

Bow Arts is a charity that provide affordable workspace across 13 sites across London for over 500 artists. They are established as a charity. Bow Arts use some of the surplus from renting studio space as match funding alongside funding from schools to deliver a substantial schools arts education programme.

Historically Bow Arts received charitable rate relief and the remaining balance of 20% of rates payable as discretionary rate relief by clearly demonstrating to the council data on the charitable activities of the organisation, including the provision of studio space in support of artists.

The London Borough of Tower Hamlets for instance have used Bow Arts data set, data management and activities delivered as a benchmark for assessing other rates relief applications from arts organisations in the borough.

However, over the last year they were notified that for some of their sites they would lose the mandatory charitable rate relief and the discretionary rate relief. Outer London boroughs are more willing to offer charitable rate relief and discretionary rate relief than inner London boroughs, although discussions with rates officers are proving challenging. **The discretionary rate relief by nature is discretionary, so is insecure.**

Whilst losses of rate relief are being appealed against for relevant sites, this change in the rates system is causing Bow Arts to consider how it may change its business model. Specifically, Bow Arts are now considering the tenants paying business rates and gaining small rates relief. This will be a substantial administration cost to Bow Arts (about 15% of its staff costs) if it offers to administer the relief applications.

Bow Arts has had to increase its rent charged to tenants to enable the sites to be financially viable, and that is part of the reason for why Bow Arts is expanding relatively swiftly to generate more surplus.

Bow Arts believe the rates system in terms of valuation and relief should take into account what is being carried out by the workspace provider in terms of its value to the local area. They suggest an index could be created for this. Bow Arts believe **local councils should see charitable and discretionary rate relief initiatives not about loss of rates income, but as investing in specialist, cost effective partnership deliver with local third sector organisations for the improvement of the borough.**

Bow Arts like the idea of a kitemark badge to articulate what the workspace is delivering and that they are worth gaining the relief.

CASE STUDY 4 - CAMDEN COLLECTIVE

“

Camden Collective champion a continuation of charitable rate relief for eligible workspace providers and fostering a good working relationship with the local authority.

Auction Rooms, 5-7 Buck Street, Camden Town, London NW1 8NJ

www.camdencollective.co.uk

0207 380 8260

Camden Collective champion a continuation of charitable rate relief for eligible workspace providers and fostering a good working relationship with the local authority.

Camden Collective operate affordable workspace in multiple sites across Camden. They provide some of the space free of charge, and some for a fee, but at below market rent. Their standard approach is to lease vacant space on a peppercorn rent for a temporary 'meanwhile' basis and license the use of the space to small businesses.

As a charity, Camden Collective obtain 80% mandatory charitable rate relief, and pay the remaining 20%, as they haven't been able to secure further discretionary rate relief due to competition for discretionary rates relief from others in the borough. Camden Collective is dependent on receiving this mandatory rate relief for its business model to work. To this end, they view **the relationship with the local authority as important**. In one site, Camden Collective were being challenged over their eligibility for the mandatory rate relief, so spent a lot of effort in encouraging the council to visit the site, prove that the activity was charitable and lobbying the council the importance to Camden Collective of receiving charitable rate relief.

Now that the relationship between Camden Collective and the rates team at the local council is established, Camden Collective are finding it easier to obtain 80% mandatory charitable relief for new sites.

Camden Collective have been marginally affected by the rate revaluation for the 20% of business rates that they do pay. They haven't found there to be an increase in administrative work following the Mazars case and are keen to look after the administrative elements of business rates rather than pass this task onto users of their space. Camden Collective recognises that it can be a shock for tenants in relation to rates payable and administering rates bills when they move to rent space on the open market.

Camden Collective have followed the process for challenging the rateable value, but has found that it takes a long time and the financial advantage in doing so has been limited.

Camden Collective consider one option for addressing business rates challenges is for business rates to be linked to the profit of the occupier not the market rent. They also considered in general that there could be benefits to the charging of business rates to land owners rather than occupiers.



CASE STUDY 5- CENTA



CENTA champion passing on rates bills to tenants in private offices and workshops who often can gain small business rates relief, and securing discretionary rate relief where possible to generate more funds for delivering business support.

Argyle House, 29-31 Euston Rd, Kings Cross, London NW1 2SD

www.centa.co.uk

0870 765 7602

CENTA champion passing on rates bills to tenants in private offices and workshops who often can gain small business rates relief, and securing discretionary rate relief where possible to generate more funds for delivering business support.

CENTA provides business support, access to finance and affordable workspace in three locations in Kings Cross, and light industrial units at Hatton Gardens.

CENTA doesn't offer co-working, but rather private offices and workshops. They used to pay the membership fees charged to clients as a part of an all inclusive fee for the small private offices and workshops, but changed this so that all tenants pay for and administer business rates on top of membership fees. Approximately 90% of their tenants are eligible for small business rates relief. Having rates bills in the name of tenants is something the Valuation Office Agency instructed. This change has reduced the administrative burden for CENTA by passing on the administration of rates to their tenants, and was a saving to CENTA.

Rates bills for CENTA's larger spaces have risen tremendously following the 2017 rates revaluation, and whilst this has resulted in higher costs for tenants, it has not had any other specific impact. However, on the whole, the recent changes in business rates hasn't made too much of a difference to tenants.

Following the Mazars case, certain parts of CENTA's sites were required to be split into separate hereditaments. However, this hasn't caused any notable hardship.

CENTA have found that effort is required for telling the local council who the new rates payers are for respective units, but once this has been completed, the process of working with rates officers has been positive.

CENTA used to be in receipt of substantial discretionary rates relief but lost that following public sector budget cuts six years ago. In general this has reduced the surplus generated from renting office space, and as such there is less funding to use as match funding for public sector grants for business support activities. As such, the size of business support grants reduced. When CENTA first lost the discretionary rates relief they relied on the landlord for flexibility whilst they reconfigured the business model.

CENTA has benefited from s106 planning obligations that have generated lower headline rents.

CASE STUDY 6 - INNOVATION WARE- HOUSE



Innovation Warehouse champions discretionary rate relief and would support a widespread standardised approach to discretionary rate relief for co-working spaces.

1st Floor, 1 E Poultry Ave, Clerkenwell, London EC1A 9PT

www.innovationwarehouse.org

0207 248 0199

Innovation Warehouse champions discretionary rate relief and would support a widespread standardised approach to discretionary rate relief for co-working spaces.

Innovation Warehouse is a 10,000 square feet workspace in the City of London comprised of open plan permanent desks and hot desks, private offices and meeting rooms. Approximately 200 people use the space, which is focussed on digital high-growth businesses.

In relation to benefit to the local area, many of the businesses at Innovation Warehouse create local job opportunities. Innovation Warehouse understand that they have contributed to the success of the local area through incubating a pipeline of tenant opportunities for local property companies. This demand has resulted in a rise in local rents by a multiple of 3 to 4 times since 2010, which is one measure of success for the local economy. Innovation Warehouse have also facilitated equity investment for local businesses using their workspace.

Business rates are viewed as a high cost to the workspace, which is exasperated with the financial challenges of bad debt and low margins from serving volatile early stage businesses on affordable and flexible terms. Unlike many other workspace providers, Innovation Warehouse is established as a social enterprise and so alongside affordable subsidised rents and flexible payment terms for start-ups, they allocate substantial resource to business support.

That said, Innovation Warehouse have received discretionary rate relief on the basis of the workspace being constituted as a Community Interest Company. However, they have been informed that they may lose this discretionary rate relief. A reason has not been provided for why the discretionary rate relief may be discontinued, and Innovation Warehouse are keen to sensitively understand the City of London's thinking in regards to this.

Innovation Warehouse understand that they are not alone in terms of being able to get significant discretionary rates relief. They note a precedence in terms of co-working spaces managing to gain relief in the order of 80%. Innovation Warehouse are of the view that **a similar more widespread approach to discretionary rate relief for co-working spaces should be sought.**



CASE STUDY 7 - INTERIM SPACES

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For organisations involved in the charitable occupation of otherwise disused buildings, being subject to business rates means that providing a competitive vacant property solution comes at far greater cost.

136 George St, Marylebone, London W1H 5LD

www.interimspaces.co.uk

0755 299 6028

Interim spaces deliver workspace at-cost to emerging and low-income talent. Their aim is to provide high quality spaces at the lowest possible price, free wherever possible, for qualifying individuals or groups. As such, the greater the overhead, the harder it is to deliver on their remit. As providing truly affordable space is the basis for the organisation, the cost burden of business rates, even after charitable relief, consumes around 40% of our income. This means less money to pay staff, grow the charity, and invest in much needed equipment and materials.

As meanwhile use providers, one of the keys to success in securing project space is their ability to compete against other firms offering vacant property protection. These solutions - most commonly involving the placement of property guardians - largely rely on the firm's ability to entice clients by offering substantial reductions in their business rates liability. Meanwhile use charities operate in a similar manner but take a greater hit than these for-profit schemes, that offer up to 100% rates mitigation through an 'understanding' with the VOA and by charging live-in guardians near market rental rates in often less than suitable conditions.

For organisations involved in the charitable occupation of otherwise disused buildings, being subject to business rates means that providing a competitive vacant property solution comes at far greater cost.

Business rates are reflected and included in their hire fees for end users, and are approximately 35% of the fee. For office hire, Interim Spaces' rates are £18 PSF all included. If they were not subject to business rates, their hire fees would be £14 PSF making them able to reach potential users in greater need as well as enjoying a slight uptake in revenue. As it is, they are one of the most affordable workspace providers in London.



CASE STUDY 8 - MAKE SHIFT



The average increase at Pop Brixton was 255%, with the highest increase at 504%.

Unit 407, Bon Marche Centre 241-251, Ferndale Rd, Brixton London, SW9 8BJ

www.makeshift.org

Make Shift run 2 sites in SW London, one in Brixton called Pop Brixton (LB of Lambeth) and one in Peckham called Peckham Levels (LB of Southwark). The purpose of Make Shift is to transform derelict areas and empty buildings into new communal spaces that offer lasting opportunities to small businesses and local people, creating affordable and inspiring space to work, make and sell.

Each unit is rented directly to Make Shift's members is individually rated, therefore their members are directly responsible for business rates. The key change experienced is the 2017 revaluation that has been a disaster in applying unsustainable percentage increase on their members rateable values. This has particularly been the case on the supported spaces offered by Make Shift which are reduced rent units to help local people get started. These units now carry more business rates liability than rent as the VOA can not accept what they've described being a commercial decision (supporting rents) and not a reflexion of the local market, i.e if those units were on the open market they could be rented for more money, therefore the rateable value should reflect this and not existing rent. This is impacting badly on Make Shift's ability to provide affordable workspace in central London.

The average increase at Pop Brixton was 255%, with the highest increase at 504%. Peckham Levels has not been rated yet. This has been a huge burden, mostly because Pop Brixton was a newly created site with no existing rateable values. The process to get the units rated took over 16 months! Once rated there was massive confusion with the billing authority where Lambeth sent us all the units rates bills in the company name rather than in the names of members. That alone took another 3 months to sort out.

This is compounded by the fact that the original rateable values (2010 list) were also, in Make Shift's opinion, far too high and it took another 6 months to bring in VOA surveyors to discuss those as the rates had been assessed without visiting our site and trying to understand its complexity or uniqueness (Make Shift operate upcycled shipping containers as business units). The units uses were all mixed up and not reflective at all of comparable local listings. There was 3 more months of negotiation before a more sensible arrangement was reached.

At this point Make Shift suggested that it would be helpful and perhaps save time to discuss the upcoming 2017 re evaluation with the VOA at the same time however this was refused point blank and has resulted in further administration burden in appeals. A further 6 months administration burden was caused this year when once again, Lambeth sent all the members bills directly to Make Shift along with an associated demand for payments and threat to pursue legal routes to recover the debt.

Make Shift's summary of the problem they face and how it can be resolved is:

- The inability to sit down and discuss valuations with a local VOA team has created unfair valuations without any nuances
- The treasury has to stop thinking of London as a cash cow with unlimited access to funds and should consider it has higher than average living and working costs and need to stay a place you can create and grow businesses if it is to keep generating a £25 Billion tax surplus annually.
- **The VOA needs resourcing and bring back local valuation teams or transfer valuations to local authorities (with adequate resources)**
- A fair, more transparent appraisal and appeal system

PROPOSED SOLUTIONS

Considering rapidly changing work patterns in the UK, and the drive for more flexible workspace, it makes sense for organisations such as the London Economic Action Partnership (LEAP), Greater London Authority (GLA), the Workspace Providers Board (WPB) and its partners to explore options with Government to develop solutions.

The options presented include:

- More signposting / rates relief training in London
- Update of Section 730
- New Rates Relief for Open Workspaces
- New Zoning Rates Relief for Workspaces in General
- New London Rates Multiplier for Open Workspaces

Considering rapidly changing work patterns in the UK, and the drive for more flexible workspace, it makes sense for organisations such as the London Economic Action Partnership (LEAP), Greater London Authority (GLA), the Workspace Providers Board (WPB) and its partners to explore options with Government to develop solutions.

For example, they could develop the guidance note on serviced offices to enable clearer details on how to establish multiple hereditaments (separate units in the same workspace) or could explore a zoning concept similar to that applied in retail. This could recognise that some types or zones of space are more valuable than others. For example, a break-out zone might have a lower rateable value than the open plan desk 'zone', that in turn could have a lower rateable value than the private offices or studios. Likewise, gallery 'zones', workshop 'zones' in artist spaces and maker spaces could have a lower valuation as a light industrial use has a lower rateable value. Some providers are also keen to explore a blanket business rates discount for all open workspace provision.

4.1. Identifying Potential Solutions

Taking into consideration the clear misalignment and multiple inconsistencies within the way that business rates are applied to London's open workspaces, a long-list of potential short term, solutions has emerged. Longer term there is a clear need for structural change to the business rates system as a whole.

The potential shorter-term solutions are set out below:

Solutions which are achievable at London level:

1. Signposting - Create a guidance note for local authority rates officers and a guidance note for workspace providers to ensure all applicable existing relief is applied for and to encourage rates officers to grant separate hereditaments for workspaces with private offices and for desks and areas in co-working spaces. This would enable a greater amount of small business rates relief to be claimed for. The note would also encourage local authorities to use its discretionary funds for 'Open Workspaces'. The note could be supplemented with training and capacity building for open workspace operators and local authorities alike.
2. New Rates Relief for Open Workspaces - Propose a mandatory relief for 'Open Workspaces' which are workspaces that can demonstrate a superior level of local contribution, for example to local people and/or the arts. Workspaces gaining the workspace accreditation would qualify for this relief. This solution would require close collaboration with London Councils.

Solutions requiring national change:

3. Update of Section 730 - Propose and lobby for new wording for the Valuation Office Agency guidance note (Section 730) for serviced offices to be more emphatic over the granting of separate hereditaments in co-working spaces and workspaces with private offices. This would involve liaising with DCLG, BEIS and The Treasury.
4. New Zoning Rates Relief for Workspaces in General - This would mirror relief provided in shops such that it recognises some parts of shared workspaces as more valuable (e.g. private offices) than others (e.g. breakout space).

5. New London Rates Multiplier for Open Workspaces - This would be similar to the higher rates multiplier in the City of London, but in this case would be a lower multiplier for Open Workspaces as defined above, e.g. 25%. This would require primary legislation as only the Government through parliament has the power to vary the multiplier.

4.2. Assessing cost benefit of these potential solutions

Typically cost benefit analysis is done through an assessment of direct, indirect and induced costs and benefits. Detailed and consistent data and metrics are required to measure impact in a consistent way. Though some metrics have been proposed (notably through the impact matrix within IPPR's 'Start Me Up' Report), these haven't been widely adopted and so data is poor and inconsistent. So, an alternative way to assess cost and benefit was needed.

Usually 'cost' would refer to revenue or capital investment of cash. However, in this case the 'cost' is actually a loss of income to the GLA, Treasury and London Boroughs. This is further complicated by the plan to devolve business rates in 2020 which means that the split across these three groups will change and exactly how it will change is not known.

So, we have had to find alternative ways to assess both the cost and the potential benefit. We worked with Nordicity to develop and apply a methodology to explore cost and benefit. Their findings and information on the methodology used can be found in the technical appendix

Essentially, we have assessed what benefit would be needed to 'offset' the cost (i.e. the loss of revenue from business rates to government). Based on research published by the Joseph Rowntree Foundation, we estimate that for each out-of-work benefits claimant that is moved into a full-time job at the London living wage, £17,511 in additional annual direct gross value added (GVA) is generated for the UK economy.

We compared this job-creation benefit to the fiscal cost (in terms of foregone business rates revenue) associated with each option outlined above to estimate the number of full-time jobs that would have to accompany each option in order for it to achieve economic breakeven.

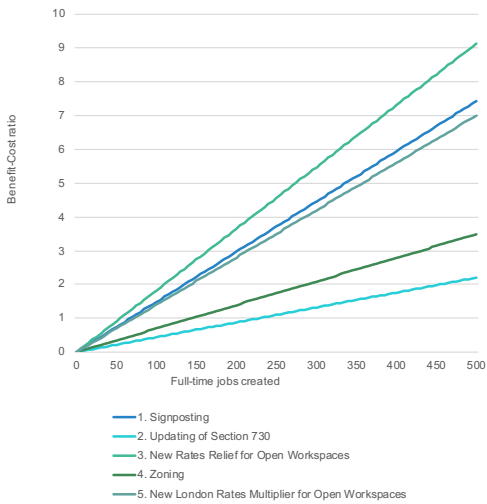
The underlying theory is that the savings in business rates can either be invested by workspace providers or by tenant businesses themselves in innovation-enhancing activities that can ultimately promote business growth.

We are then able to show – for each option – the absolute number of annual full-time jobs that would have to be created to break even.

| Option | business rates (£m) | Decrease in business rates (vs 2017 baseline) (£m) | No. Jobs required to breakeven |
|--|---------------------|--|--------------------------------|
| Historical (2010) Baseline post revaluation (2017) | £5.6 £10.6 | | |
| 1. Signposting | £9.4 | £1.2 | 67.3 |
| 2. Updating of Section 730 | £6.6 | £4.0 | 226.8 |
| 3. New Rates Relief for open workspaces | £9.6 | £1.0 | 54.7 |
| 4. Zoning | £8.1 | £2.5 | 143.4 |
| 5. New London rates multiplier for open workspaces | £9.3 | £1.3 | 71.4 |

In summary we have found that the benefit needed to offset the loss of income is marginal and therefore all solutions proposed are considered reasonable. More detail is available in Appendix 3.

Whilst the precise number of jobs that each option would generate is unknown, the chart below indicates how the benefit-cost ratio of each option would increase in relation to number of jobs.



This work clearly reinforces the case for improved metrics and systematic data collection in the sector. This will be needed to inform evidence-based policy in future.

It clearly shows that all the solutions could be achieved without adverse impact on the economy as a whole and indeed that there is potential for significant economic benefit. Clearly all of the solutions could be combined.

4.3. Recommendations

This section sets our recommendations and identified actions needed by the GLA, London Boroughs, Workspace Providers Board and London's Open Workspaces. Where collaboration and influencing beyond London is needed, key bodies to be engaged are set out and who in London should lead this work is also recommended.

a) Support Rates Relief Training in London

Summary of Findings

- Decisions on discretionary business rate relief for London's open workspaces are not consistent.
- Open workspace providers are struggling to understand and grapple with the complexities of the system.
- Opportunities for providers to apply for and be granted rate relief are lost with a knock-on effect on affordability
- More, better, more consistent and more accessible information is needed.

Recommended actions

- Deliver capacity building workshops to workspace providers and local authorities
- Progress signposting
- Guidance notes for local authorities (on business rates for open / shared workspaces)
- Guidance notes for workspace providers (on business rates)
- Series of workshops/training with GLA Officers
- Communicate and promote information to workspace providers, rates officers in local boroughs and also regeneration and economic development teams

b) Coordinate Workspace Strategy for London and improve intelligence

Summary of Findings

- There is a lack of evidence and understanding of the contribution that open / shared workspace makes to London's economy
- The Mayor's Open Workspace Board has limited opportunity to influence policy and provision
- This is a fast-evolving landscape and nearly 30% of open workspaces have ceased operation since the GLA launched its map of open workspace providers in 2016.
- There is no central data on how many - and what sort of - new open workspaces have opened in this period.

Recommended actions

- Support coordination amongst workspace providers including 'giving back'
- Link findings with strategy for follow on and meanwhile space
- Tell the innovation story - how will savings drive/promote innovative activities?
- Better articulate and promote the importance of workspaces
- Consider how to ensure that London's diversity is reflected in its workspace strategy and provision
- Develop taxonomies (definitions for all type of workspaces (authoritative)
- Fund more detailed research into cost/benefit and R&I - links to Creative Enterprise Zones and Section 106
- Undertake borough level analysis of job creation, with an emphasis away from central London
- Maintain up to date data on the sector, e.g. the workspace map

c) Lead Change at the UK level

Summary of Findings

- Many of the possible options and solutions e.g. changes to business rates multipliers require primary legislation.
- London is in a unique position to lead positive change at national level.

Recommended actions

- Lead on the establishment of a task force/roundtable including: GLA, London Borough Rates Officers, Valuation Office Agency (VOA), HM Treasury, Department for Business, Innovation, and Skills, Department for Communities and Local Government and relevant external stakeholders such as FSB, London Chambers.
- Present work and recommendations from this, and linked, research, and host discussions to explore how best to unblock and resolve national-level issues.
- Revise Valuation Office Agency guidance on open workspace in order to support borough teams to implement across London in as fair and consistent manner as possible.

We firmly believe that, taken together, delivering these actions will contribute to keeping London's open workspaces open for all Londoners.

SUPPORTING EVIDENCE

Appendix 1 – Paper on how business rates work and how they work in open workspaces

Appendix 2 - Excerpt from the Valuation Office Agency: Valuation practice in multi-occupancy Section 730: Offices

Appendix 3 – More detail on open workspaces and on cost – benefit work undertaken

APPENDIX 1 - HOW BUSINESS RATES WORK

A) How business rates work in general

Business rates ("rates") are tax on non-residential properties. They contribute to pay for local services. Rates bills are issued annually in February or March for the following fiscal year and are paid monthly - normally on a 10-month cycle, but can be paid over 12-months. Rates can be paid via direct debit, bank transfer, credit or debit card payments over the phone or online, and cheque.

The 'rateable value' is typically what the annual market rent value of the space. For uses classes B1 and A1/A3 (office and retail premises), the net internal area is measured for calculating the rateable value, where for use classes B2-B7 ('industrial' premises such as factories and warehouses), the gross internal area is measured. For some categories of rating assessment different valuation methodologies are used which take into account factors such as potential revenue generation rather than purely using rental values linked to floor space.

Revaluations of the rateable value typically take place once every five years albeit the most recent 2017 revaluation took place seven years after the previous one in 2010. The government announced in the 2017 Autumn Budget that after 2022 it was its intention that revaluations will take place once every three years and it would consult on this in Spring 2018. The rates revaluation in 2017 calculates the rateable value as of April 2015 – this is known as the antecedent date.

The tax payable is determined by multiplying the rateable value by the relevant business rates multiplier – there being one for properties with a rateable value below £51,000 and a standard multiplier for assessments above this threshold. However, ratepayers seeing large reductions or increases in rates bills at a revaluation see these changes phased in with the pace of change dependent on the property's new rateable value. At each revaluation the business rates multiplier is adjusted to ensure the same tax take is achieved in real terms albeit with an allowance made for potential refunds due to business rates appeals.

Certain types of ratepayer or property (e.g. charities, small businesses and for a time limited period empty properties) are eligible for business rates reliefs which can be up to 100% of their bill depending on the relief. Further information on the different types of relief are provided below.

Inflation is applied to update the business rates multipliers on an annual basis. Previously the Retail Price Index (RPI) has been applied to calculate inflation. However, the government has announced in 2017 Autumn Budget that this uprating will switch to the lower Consumer Price Index (CPI) from April 2018.

The rates bill payable before transitional relief is calculated as follows:

The standard multiplier for properties with a rateable value of at least £51,000 is 0.479, in 2017-18 and the small business multiplier for properties with a rateable value below £51,000 is of 0.466. The City of London has a higher standard multiplier of 0.484 and small business multiplier of 0.471 to provide additional funding for local services.

In addition, properties with rateable values above £70,000 – around 15% of all properties – in London are liable to pay the Crossrail business rate supplement (BRS). This is applied at a rate of 2p in the pound of rateable value on the entire rateable value. Reliefs for the BRS are applied at the same rate and on the same basis as for general business rates.

Some areas have Business Improvement Districts (BIDs) which can result in a further BID Levy in the pound of the rateable value, particularly for occupiers of property over a defined rateable value. BIDs are approved by local businesses and the levy policies must be approved by a majority of members by number and rateable value. All BID levies must be applied for the benefit of the BID area.

As an illustration, a business in London, but not in the City of London, that is not eligible for any rates relief or transitional relief, occupying a property with a rateable value of £100,000 in an area with a BID Levy of 3p in the pound, will need to pay $£100,000 \times (a \text{ standard multiplier of } 0.479 \text{ plus } 0.02 \text{ for the Crossrail Levy plus } 0.03 \text{ for a local BID levy}) = £100,000 \times 0.529 = £52,900$ in 2017-18. This would then be likely to be paid over a 10-month period from April to January at £5,290 per month.

Businesses can seek to reduce their rates bills by either challenging the rateable value with their local authority or by seeking relief.

The forms of relief which businesses can apply for from their local authority include:

- **Unoccupied property relief** - Rates are not payable for the first three months that a property is unoccupied. This is extended to six months in the case of certain industrial properties. After this period, rates are payable in full unless there are exceptions, such as an unoccupied property rate of zero for properties with a rateable value below £2,900, listed buildings, and properties occupied by charities or community amateur sports clubs if the property's next use is for charitable purposes or a community amateur sports club.
- **Partly unoccupied property relief** - Where a property is partly occupied for a short time, the local authority has discretion in certain cases to award relief in respect of the unoccupied part.
- **Small business rates relief** - This relief is available for ratepayers who occupy either one property or one main property and other additional properties providing the one property or main property rateable value does not exceed £15,000, any additional properties each have a rateable value which does not exceed £2,899, and the aggregate rateable value of all the properties does not exceed £27,999 in London or £19,999 outside of London. If the sole or main property of a business has a rateable value of £15,000 or less, the ratepayer will receive a percentage reduction in their rates bill for this property. For a property with a rateable value of not more than £12,000, the ratepayer will receive a 100% reduction in their rates bill. For properties with a rateable value of £12,001 to £15,000, the rate of relief will go down gradually from 100% to 0%. The Government also put in place a supporting small business relief in the 2017 March budget to phase in the increases payable to £600 per year for firms which lost their eligible for small business rates relief as their new rateable value from April 2017 exceeded these thresholds.

- **Charitable rate relief** - Up to 80% mandatory relief for charities and community amateur sports clubs. In relation to charities, the relief is conditional on a property being used for charitable purposes by the charity, and is wholly or mainly used for the charitable purposes of the charity (or of that and other charities). Charities need to contact their local authority to check if they're eligible and see if the local authority can top up the discount to 100% with 'discretionary relief' (see below).
- **Discretionary rate relief** - This is relief is at the discretion of the local authority for non-profit and voluntary organisations as well as any private sector body. It is often used to top up the charitable rate relief to give charities and community amateur sports clubs rates relief. Councils generally have a fixed discretionary rate budget each year, so if one organisation is awarded it, there will be less relief to award other organisations. Discretionary relief cannot be awarded to local authorities.
- **Hardship ('localism') relief** - In England, local authorities can provide hardship relief to businesses that satisfy their local authority that they would be in financial difficulty without the hardship relief and that giving hardship relief to the business applying for relief is in the interests of local people. In 2017-18, the government has awarded councils a finite hardship relief fund to help businesses affected by the 2017 rates revaluation. Local authorities are free to set their priorities on who gains the relief. An example is Lambeth Council which is offering relief for the additional rates payable plus a 2% inflation on previous years' rents, less any reliefs.
- **Enterprise zone relief** - Enterprise zones provide up to £55,000 relief per year for business in 48 enterprise zones across the country. There is one enterprise zone in London, which is at Royal Docks in Newham. . The relief is for a five year period for ratepayers who moved into a zone before 1 April 2018 only. £55,000 is the estimate EU state aid limit – the maximum that can be granted to any one firm.
- **Other relief** - Other relief worth noting includes rural rate relief, temporary local disruption relief and relief for pubs. Rural rate relief of up to 100% is available for small village shops, post offices, petrol stations and pubs. Local disruption relief is available from the VOA for businesses affected by severe local conditions such as flooding, building or road works, on the basis that it affects the property's value. Relief for pub of £1,000 per year is new and is available pubs in England with a rateable value below £100,000 in both 2017-18 and 2018-19. The Government also announced a £300m local relief scheme in the March 2017 budget to phase in the impact of the 2017 revaluation which is payable over four years from 2017-18 to 2020-21 with decisions on its allocation a matter for local authorities.

It is worth noting that discretionary rate relief is considered state aid, so is limited by state aid thresholds. Classifying the aid as de minimis is normal practice, and so there is a maximum of 200,000 Euros per organisation within any 36-month period. This correlates to an average discount of 66,667 Euros per year. De minimis aid takes into account any aid received by the group of companies if the recipient organisation is in a group of companies. Other state aid options are available such as General Block Exemption Regulations (GBER), which anecdotally, local authorities don't tend to use or consider. Some of the articles can have higher thresholds of aid provided.

Local authorities receive business rates. Before April 2013, all business income collected by councils formed a single, national pot, which was then distributed by government to councils in the form of formula grant. From April 2013 onwards, through the Local Government Finance Act 2012, and regulations that followed, the Government gave local authorities the power to keep up to half of business rate income in their area by splitting business rate revenue into the 'local share' and the 'central share'. The central share is redistributed to councils in the form of revenue support grant (in the same way as the previous formula grant) and in other grants. The local share is kept by local government, but is also partly redistributed. In October 2015, the government committed that, by 2020, local government should retain all taxes raised locally, including 100% of locally collected business rates, to support the generation of growth in terms of development and the economy. Following the 2017 general election this remains the Government's long-term intention although 100% retention will require primary legislation first. In the meantime, some areas including London are piloting 100% retention in 2017-18 and 2018-19.

In relation to a local authority introducing a new discretionary rate relief, the process is for rates officers to formally recommend to councillors a change in the discretionary rates relief policy to allow discretionary relief for certain types of organisations. Rates officers are more likely to do this if the Mayor of London requests it (such as in the London Plan), if other council departments are in support of it (such as the economic and regeneration teams, or planners), and if it is in-line with the council's wider policies. Discretionary rate relief policies can be recommended to have decisions over the relief as a delegated authority to officers rather than decisions via a rates panel which would comprise of councillors. Automatic discretionary rate relief is another feature that can be recommended by in the new policy updates. It should be noted that an obvious objection to a new discretionary rate relief would be organisations seeking to avoid or evade rates by seeking the discretionary rate relief. Therefore, a clear independent test, such as an accreditation, would help mitigate this risk. It is also worth noting that for a new discretionary rate relief, the eligible recipients must be able to prove some benefit to the local community. A new discretionary rate relief is more likely to be accepted as a recommendation to councillors if the recipient is not for profit and can demonstrate alignment with local authority's priorities, such as addressing long-term unemployment.

In London there is the London Revenues Group which meets regularly and is comprised of rates officers. Presenting to this group would be worthwhile if a London wide discretionary rates relief programme is ever under consideration.

Finally, councils within London have an agreement with London Councils that rates lobbying with Government should be done via London Councils. It's a relatively tightly controlled set of processes. To this end, engaging with and working through London Councils for lobbying Government on any national rates changes is considered vital.

B) How business rates work in workspaces

Many workspaces offer private offices and private artists' studios, which are often listed as separate hereditaments (rateable areas). In this case, many tenants can demonstrate eligibility for mandatory small business rates relief.

In terms of managing the small business rates relief process it has been known to be done either by the tenant paying the rates and seeking relief directly from the local authority; or, by the workspace provider which manages the relationship with the local authority rates officer, seeking relief where relevant and charges on the service charge to its tenants or members. The latter is the approach illustrated in Section 730: Offices treatment of serviced offices within the VOA Rating Manual Volume 5 (which is enclosed in Appendix A). Some workspace providers have cited that the VOA guidance is not clear enough for the treatment of workspaces, so the decisions in relation to relief is often down to the discretion of individuals in local authorities including councillors and rates officers.

Despite what some workspace providers assume, even if the tenant pays an all-inclusive management or membership fee to the workspace provider rather than a rent, it shouldn't necessarily limit the workspace provider from seeking small business rates relief. Listing areas of the space as separate hereditaments with the local authority will increase workspace providers' and their tenants' chances of facilitating or obtaining small business rates relief.

The Supreme Court case 'Mazars vs Woolway' in 2015 resulted in the so-called 'staircase tax'. The judgement in July 2015⁴ determined that each floor occupied by a firm should be treated as its own separate hereditament as the firm had to leave its occupied area and use communal lifts or stairs to access the rest of their office space. As a result, the total rateable value would increase as landlords generally offered quantum or bulk discounts off rents where a firm occupied multiple floors. These quantum discounts or end allowances would therefore no longer be applied by the VOA in assessing valuations. This had significant implications in London with a large number of offices affected, and required some rating agents to withdraw and resubmit appeals to reflect the impact of the judgement. Since the judgement, the VOA has been working through cases for properties affected and revising valuations where appropriate.

The government announced in the 2017 Autumn Budget that it will legislate retrospectively the staircase tax by reinstating previous valuation practice for multi-occupancy buildings. Local authorities will not be compensated for the reduction in revenues as a result of this legislative change.

⁴<https://www.supremecourt.uk/cases/uksc-2013-0117.html>

Under staircase tax rules (in so far as they affect workspaces), if a workspace property has multiple hereditaments separated by communal spaces, rates bills were given for each hereditament even if multiple hereditaments were leased by the same business. The staircase tax resulted in higher rate bills that could be backdated to April 2010 for many businesses with multiple hereditaments in the same property.

Whilst the staircase tax is going to be retrospectively legislated, a new implication arose which may or may not be addressed in the legislation. That is in the case of workspaces operated by charities, typically for artist studios. Many charities that delivered workspace used to be able to have a single rates bill and claim mandatory charitable relief for their entire space on the basis that providing space to their tenants was a fulfilment of their charitable objects. Following the Supreme Court case, such workspace operators were given business rates bills for each of the hereditaments, with many of the tenants no longer benefiting from the charitable relief. Whilst small business rates relief is available, the administrative burden for workspace operators increased significantly, particularly in larger sites. If the workspace provider manages the rates assessments process and small business rates relief they need permission from the tenant to act on their behalf.

Many small businesses are choosing to work in such open plan environments rather than a private office. Typically, the workspace provider charges an all-inclusive management fee for the use of workstations. However, it is not standard practice for local authority business rates officers to grant small business rates relief for businesses sharing an open plan co-working space, and is almost unheard of.

VOA guidance says decisions on whether or not a serviced office should be separately assessed should be taken on the basis of rating law and practice and not what may, or may not, suit a particular landlord.

If a business rates officer were to grant different parts of an open plan co-working space, such as set of workstations, as separate rateable hereditaments for the purposes of enabling mandatory small business rates relief, the small business occupier and the workspace provider would need to demonstrate to the valuation officer that the occupation of the small business occupier is:

- **Exclusive in nature** - with the member (licensee) or tenant having paramount control rather than the landlord rather than the which can be demonstrated with the license to occupy or lease agreement by showing that the member or tenant (a) can reasonably expect to be able to carry out their business during normal business hours without interference or interruption by the landlords, (b) has control over the main gate or having a duplicate set of keys to the units in order to enter for a variety of purposes and (c) not giving landlord a right to occupy or conduct business in the units. Full time designation of a desk or area for a member or tenant could help justify this.
- **Permanent in nature** - which can be demonstrated with: (a) the license to occupy agreement (often referred to as a 'membership agreement') or sublease; (b) showing that at the time of entering the agreement there was an understanding of a longer term nature even if the license to occupy was for a standard maximum of 6-months; (c) that most people stay for extended periods, such as 2-5 years. The point to make is the difference between a *wayfarer or transient business occupier and a settler*.

The VOA have expressed concern in Section 730 about a workspace provider charging higher rents if a greater amount of small business rates relief in workspaces is enabled. To this end, workspace providers demonstrating that the small business tenant will be receiving the relief directly or via a discount to their membership fees is an important consideration.

Section 730 also recommends that valuation officers should consider setting up informal, but close, arrangements with the workspace providers for notification of changes and for the Valuation Officers to swiftly act on the notification.

All of this indicates that there could be potential for valuation officers to accept clearly demarcated areas of co-working spaces as separate hereditaments, even if they are not demarkated by walls and lockable doors. Anecdotally, one borough reported that one workspace provider marked out a defined area for each business with lines on the floor. To this end, they were able to gain small business rates relief for the eligible members.

The 2017 rates revaluation resulted in many small units being above the small business rates relief threshold, and whilst there's a cap for existing tenants pre-2017, there are issues of higher costs for new tenants. It is also resulting in workspace providers exploring reducing the size of some of their units to take it below the small business rates relief threshold.

There are four existing common ways in which workspace providers seek to reduce their business rates bills:

- Reducing the footprint to manage cash flow, submitting a Section 44(A) partly occupied property relief, and hosting a visit by the rates officer from the local authority.
- Selecting workspaces that have or seek a lower rateable value through uses classes, such as B1(b) and B1(c), or even D1, use classes as opposed to B1(a).
- Reducing the amount of co-working space and increasing the amount of private offices or studios, and enabling tenants to seek small business rates relief.
- Challenging the rateable value.

However, anecdotally, some workspace providers have reported the recent changes to the Government Gateway Portal and the Check Challenge Appeal (CCA) processes, with additional complexities and timelines (up to 12 months for an initial verdict, and up to a further 22 months for a challenge and appeal), have made challenging rateable values extremely difficult. For many workspace providers, this results in additional staff time and the use of external agencies to support challenge of rateable value. This increase resource is compounded with time and effort required to manage assessing the new rateable value when sizes and quantum of private offices and studios change within workspaces.

This situation is also exasperated with an anecdotal trend in rates officers in councils having less capacity. This means workspace providers are less able to swiftly liaise and build relationships with rates officers in some London boroughs. Likewise, some workspace providers have noticed an increased rigidity and unwillingness to hear the case of the workspace provider applying for relief, which might be explained with the squeeze on rates officers time due to recent rates changes.

Discretionary rate relief is discretionary in nature, and there has been a recent trend for workspaces that were in receipt of the relief to lose it. Anecdotally, outer London boroughs appear to be more open to awarding discretionary rate relief to workspaces than inner London boroughs.

Likewise, anecdotally, a number of workspaces operated by charities have lost their mandatory charitable rate relief. As such, they are having to reconfigure their business model, as there are less margins. Less margins results in less match funding available for grant funded business support activity.

Unlike rating of retail units, the rateable value of offices do not factor in lower rateable values for breakout spaces when compared with office desk areas.

Other important considerations for workspace providers in relation to business rates are as follows:

- Ensuring the valuation officer measures the correct parts of the demise such that it's not including some of what should be included in gross internal area calculations rather than the net internal areas.
- Exploring whether charitable relief could be a viable and lawful approach, and even having a workspace or arts and culture focussed charitable organisation take the head lease and sublet it a workspace provider to reduce business rate liabilities.
- Evaluating if the staircase tax retrospective legislation will also bring back the lower administrative burden of charity operated workspaces delivering a single hereditament space to multiple sub-tenants and members.
- Exploring discretionary rate relief for non-profit workspaces, although the chances of gaining it is considered relatively low as workspaces are competing against charitable and community organisations. However local authorities using their powers under s47 of the 1988 Local government finance act have to satisfy conditions before granting such targeted relief to ratepayers and it would be for each borough to decide its own scheme. The Mayor has no power to introduce business rates reliefs – although s/he can agree to compensate boroughs for their lost revenues arising from granting them.
- Exploring applying for hardship rate relief in 2017-18 subject to their eligibility.

APPENDIX 2 - VALUATION OFFICE AGENCY¹: VALUATION PRACTICE IN MULTI-OCCUPANCY SECTION 730: OFFICES

1. Co-ordination

This is a Group Class. Co-ordination responsibilities are set out in [Rating Manual Section 6 Part 1](#). GVOs should ensure that within the range of available rental evidence the approach to valuation provides a correct relationship between the values adopted for offices within their Group and that similar levels of rent result in similar levels of assessment.

Close liaison should be maintained with adjoining Groups via cluster meetings to ensure uniformity of interpretation and application of rental evidence.

2. Description

This section deals with the broad principles to be followed in the valuation of hereditaments which wholly or mainly comprise offices. Different considerations may, however, apply to offices forming a part of a larger hereditament and computer centres. The valuation of purpose built computer centres is detailed in [RM Section 6 Part 3: Section 281](#).

3. Survey Requirements

3.1 Basis of measurement

The method of measurement of offices will vary between different valuation areas for historical reasons. It may also vary between offices of different ages and types within the same area.

It is recommended that offices should be measured to Net Internal Area (NIA) having regard to the definition in the VO Code of Measuring Practice.

In addition, hereditaments classed as B1 under the Town and Country Planning (Use Classes) Order 1987 should also be measured to GIA as they are likely to be compared with Industrial/Warehouse hereditaments. Class B1 - Business encompasses a wide range of uses including offices, light industrial and assembly, research and development. DoE Circular 13/87 expressly states that this business class covers high-tech uses, making the point that, for example, micro-engineering and pharmaceutical research, development and manufacture may be either in offices or light-industrial premises, whichever is more suitable. (See also Rating manual - Section 6 Part 3 - Section 380: Part: 7: High Tech)

¹ Source:

<http://app.voa.gov.uk/corporate/publications/Manuals/RatingManual/RatingManualVolume5/sect730/b-rat-man-vol5-s730.html>

The following sets out some general guidelines to the application of the Code of Measuring Practice and illustrates some of the difficulties which may arise if surveys are not consistent.

1. Have measurements been taken to walls or skirtings?
- The Code recommends that all measurements are taken to the internal wall finish, ignoring skirting boards, and this practice should be followed in all cases, unless continuous heating apparatus intervenes (see (e) below).
1. Are toilets, kitchens, PBX rooms, plant rooms, etc included in floor areas or “reflected” in the unit rate adopted?
2. The Code recommends exclusion from measurement of toilets, toilet lobbies, and plant rooms, other than those of a process nature. Kitchens and PBX rooms are not excluded under the Code.
- For this purpose it should be taken that it is normal plant rooms for heating and air conditioning plant and lift motor rooms, etc, which are to be excluded. Where there are plant areas which serve the particular needs of the occupier as opposed to the general provision of services to the building those areas will normally be included. This situation might arise, for example, in the case of plant areas serving computer suites.
1. Have structural columns been deducted?
- Internal structural walls, columns, piers, chimney breasts and vertical ducts are excluded under the Code.
1. How have corridors, entrance lobbies and reception areas been treated in single occupation/multiple let buildings?
- The Code recommends exclusion from measurement of corridors used in common with other occupiers or those of a permanent essential nature, like fire corridors. Parts of entrance halls used in common or for the purpose of essential access are also excluded.

Special care will however be required in the case of fire corridors separated from the offices by non-structural partitions.

For the purpose of this exclusion it will normally be only fire corridors which are set aside exclusively for fire escape purposes that will be left out of account. Corridors within a suite of offices in single occupation will usually serve a dual purpose. Their main function will be that of providing access to the separate offices within the suite, the provision of a means of escape in the event of fire being subsidiary and not justifying their exclusion from the floor area, even though occupiers of other suites in the block may have rights to use them as a means of escape.

1. Is floor space occupied by heating or air conditioning ducts included in the floor area?
- The Code recommends exclusion from measurement of any areas rendered substantially unusable by the presence of continuous ducting (various examples are given with diagrams).

1. Where lifts open directly into the office area is it practice to assume a notional lift lobby?
- The Code specifies those areas which are to be excluded from the NIA. As notional lift lobbies are not mentioned such areas are properly to be included in NIA.

It is emphasised that the Code of Measuring Practice refers only to the inclusion or exclusion of areas for survey purposes. It may be considered necessary to divide areas up into smaller parts for valuation (e.g. adopting different values for offices, stores, kitchens etc).

Provided that a common approach is adopted in the analysis of rental evidence, and in the valuation, of all offices in the same category no difficulties should be experienced. If it is necessary to compare offices within one category with those in another careful attention should be paid to any differences between the categories in the calculation of floor areas.

3.2 Survey details to be recorded

Whilst carrying out the survey special attention should be given to the following features: -

External General description, construction, age, type (e.g. purpose built, hi-tech, converted) location, access, transport facilities etc.

Car Parking, allocated/communal, open/covered, number of spaces
Internal

| | | |
|-----|----------|---|
| 1. | Entrance | sole/shared, standard/prestige |
| 2. | Walls | structural/non-structural, finish |
| 3. | Floors | solid/timber, raised/channelled |
| 4. | Ceilings | finish, suspended, floor to ceiling height |
| 5. | Windows | construction (eg steel, pvc etc) glazing (eg single, double, tinted etc) |
| 6. | Heating | type of fuel, type of system (eg radiators, ducts, underfloor), extent |
| 7. | Air | type (eg VAV, fan coil etc) provides (eg Conditioning cleaning, cooling, humidification etc) extent |
| 8. | Fire | sprinklers, smoke detectors Precautions |
| 9. | Lighting | natural/artificial, quality |
| 10. | Toilets | extent, quality |
| 11. | Lifts | type (eg manual/automatic), goods/passenger, capacity, floors served. |
| 12. | Security | type (eg closed circuit TV, entry phone) |

3.3 Plant and Machinery

Common items of rateable plant and machinery such as heating and ventilating equipment, sprinkler systems, passenger lifts, etc should be regarded as enhancing the value of the hereditament which they serve and should not be separately valued.

Because the quality of these items of P&M vary considerably it is nevertheless important to ensure that full details of such plant are recorded in order that they may be properly reflected in the valuation of the hereditament.

3.4 Heating and Air Conditioning

The extent and effectiveness of heating and air-conditioning systems will vary significantly according to the type of system installed. This is particularly true of airconditioning systems which vary in terms of the range of facilities offered, their performance, and the degree of environmental control offered. Consideration should therefore be given to the extent to which demand, and hence rental values, would be influenced by variations in heating and air-conditioning systems.

A basic air conditioning system will usually incorporate facilities for heating, cooling and ventilating. More complex systems will also control humidity, monitor the through-flow of air, filter, purify and deodorise the re-circulated air, and offer localised control in different parts of the premises and even in different parts of an open plan floor.

The use of microcomputers, word processors and other information technology in offices can create considerable problems for traditional systems because of localised heat generation and this has created a demand for more sophisticated systems.

Some computer suites have especially complex systems to control the environment to very fine tolerances of temperature, humidity and cleanliness. The cost of such systems will be many times that of standard heating and ventilating plant and this is a factor which may influence negotiations between the hypothetical landlord and tenant.

3.5 Computer Suites

Reference has been made above to the increased sophistication of air conditioning systems in computer suites. Other special features often found in computer suites will include raised access floors and flexible trunking systems carrying essential services. These features may also be found in modern office accommodation where there is a need for special flexibility. The installation of such systems together with suspended ceilings, with ducting installed above, creates a need for greater inter-floor heights. These are factors which will influence relative demand for and hence rents of older office buildings when compared with modern ones.

4. Basis of Valuation

4.1 Rental Evidence

- Sufficient rental evidence will usually be available for the rental basis ([see RM Section 4: Part 1](#)). Rental evidence or category of use in office accommodation may reason to suppose that the occupier would pay a rent indication of that, failing the existence of a rent paid for another hereditament in the same mode or which happens to be at office levels. (See John Eric R 74 – Truro College occupation of a centrally located property for educational purposes, case detailed at 4.3 below).

Offices may be broadly divided into the following categories: -

1. Purpose built blocks, either singly occupied, or let out in suites.
 - This category should be valued by reference to the actual rent, other rents within the same block, rents from comparable blocks and settlements determining the tone of the Rating List agreed with professional representatives.
2. Banks, Insurance Offices and other offices situated in shopping streets.
 - These offices will usually fall within Class A2 of the Town and Country Planning (Use Classes) Order 1987 and may be comparable with shops. ([See also RM Section 6 Part 3: Section 920](#)).
3. Offices over shops
 - In valuing separately assessed offices above shops evidence should be drawn from rents of separately let upper parts. The evidence derived from devaluation of rents for shops and upper parts let together as a single unit should only be considered in the absence of any direct evidence.
4. Miscellaneous (e.g. converted houses)
 - It will usually be possible to derive a basis for hereditaments of this type directly from the available rental evidence.
 - If, however, evidence is scarce it may need to be supplemented by consideration of rents of similar premises occupied for commercial or quasi-commercial purposes.
5. Offices outside traditional locations
 - Developments in computers and high technology industries have resulted in the creation of Business and Science "Parks" where offices, research facilities, and production areas may exist side by side, possibly with little or no differentiation in style, quality or rental value.

- The need to provide for flexibility between office, research and production uses may mean that traditional relativities between the values of those various parts are considerably modified. (See also RM Vol 5: Section 380 Parts 6 & 7)
- Where hereditaments in this category are purpose built or specially adapted to suit the needs of the particular occupiers care should be taken that any special features are properly reflected in their assessments.

4.2 Rental Adjustment and Analysis

Advice in respect of the adjustment and analysis of rental evidence is given in [\(RM Section 4: Part 1\)](#).

4.3 Evidence of Value

The value of evidence in any particular case will depend on the similarity between the subject hereditament and the comparisons used. For example, headquarter office buildings, or other substantial buildings in single occupation, will be in a different market from small suites in multi-let buildings and may have different levels of value. See: -

- Caltex Trading and Transport Co Ltd v Cane (VO) LT (1962) 2 RVR 175
- B L Cars v Andrews (VO) LT (1980) 254 EG 1103

Where offices over bank premises are let out special factors may influence the rents paid. In *Afford, Earnshaw & Co v Harrison (VO)* and *Lyon, Griffiths & Co v Harrison (VO)* LT (1958) 5 1RIT 542 it was held that the depression of rental values, because of the bank's policy of only letting to professional firms, should be disregarded. If the evidence indicates that the rents of such offices are below those which might reasonably be expected between the hypothetical landlord and tenant, under the rating hypothesis, the actual rents may be adjusted to eliminate the effect of the depression.

In some circumstances the value of a hereditament as offices may be influenced by rents paid for premises in other uses. For example an occupier who has a particular need to be located in a central location with access from the High Street (eg Insurance Companies, Local Government Departments, and others requiring convenient locations for the collection of money) may be influenced by rents paid for other High Street premises.

In *Commercial Union v Burne (VO)*, LT 1978 RA 173, the Tribunal, whilst finding that the appeal premises were offices and would let in an office market, upheld the VO's approach of valuing them by comparison with banks, making allowance for poorer access, quality and layout. The appeal premises were the only offices in the locality with direct access from the High Street and were situated on basement to third floors with access via a 4 metre wide entrance between shops. The Tribunal found, as a fact, that there would be competition from other occupiers requiring a High Street location and that prospective tenants would look to High Street values as a guide in making their rental bids.

The use of established office tones for users in a different mode or category of occupation eg: educational can be justified if there is rental evidence from other educational users. Before office tone can be used, there has to be some evidence that the actual use is as valuable, to the user, as would be office use to other potential office bidders. In *John Eric Reeves (VO)* LT 2005 RA 74, the Tribunal found that the appeal premises, an office block in Truro town centre occupied by Truro College, should be valued with reference to the rent paid for the appeal property and evidence of rental value for other educational users in the locality.

If in another case such evidence was lacking then, however central or office-like the building, to adopt office tone would transgress the "mode or category of use" limb of rebus unless there is a reason to suppose that the occupier would pay a rent at a similar level. The best indication of this, failing the existence of a rent paid for the subject premises, is a rent paid for another hereditament in the same mode or category of occupation which happens to be at office levels. Failing that, office rental levels may be supported, provided that the users likely alternative would be to take an office building and adapt it, rather than construct a substitute from scratch. The latter approach suggests that rather than taking the subject hereditament, the occupier would be equally content to rent the other hereditament and pay the rent passing on that other hereditament, and that this therefore fixes the occupiers rental bid for the subject hereditament. This would not contravene the second limb of rebus.

5. Valuation Considerations

5.1 Unit of Assessment

The general principles concerning what constitutes a single rateable hereditament are set out in RM Section 3: Part 1. It is not uncommon for a single tenant to occupy different suites of offices in the same building which are not contiguous. The general rule for dealing with cases of this type is set out in the judgement of Denning LJ in *Gilbert (VO) v S Hickinbottom & Sons Ltd*, CA (1956) 49 RIT 231 where he said, "where the two properties are in the same occupation but are not within the same curtilage nor contiguous to one another, each of the properties must as a general rule be treated as a separate hereditament for rating purposes: and this is the case even though they are used by the occupier for the purposes of his one whole business".

Rights of way over common parts are incorporeal rights which are not rateable per se and therefore in themselves are not capable of linking two or more separately rateable parts such as to make them a single hereditament. Therefore suites that are not contiguous either vertically or horizontally will usually comprise separate hereditaments.

What comprises a hereditament in any particular case is largely a matter of fact and degree. Giving judgement in the *Hickinbottom* case Morris LJ said "In the borderline cases, where difficulty arises, it is better to employ a commonsense assessment of the features of the case than to seek to have recourse to some standard formula".

the separate parts and the degree of separation between them in reaching their conclusions. Clearly it would offend commonsense to place a separate assessment on a small part of a much larger occupation merely because it is divided from the remainder by common parts.

Identification of the unit of assessment is always a question of fact. If the property is vacant the pattern of assessment when occupied should only be disturbed if there is a positive act to justify the change. If there is no change in the occupational pattern, there needs to be some physical change to the property, an overt act, that suggests when next occupied the pattern of occupation would differ from that implicit in the current pattern of assessment in order to justify it being revised. See [RM: Section 3 Part 1 and RM: Section 3 Part 4: Valuing vacant property](#)

5.2 Mode and category of occupation – vacant offices

When considering the ‘mode or category of occupation’ of a hereditament the first question for the valuer is ‘what is it used for?’ The answer to this question, for an unoccupied property, would be that it is not used for anything; it is unoccupied. Therefore, by definition, it does not have an actual ‘mode or category of occupation’ against which other alternative uses can be judged and consideration should be given to either the previous use, or the most likely future use.

Support for this position was given by the Lands Tribunal in *LTE v Croydon LBC and Phillips (VO)* [1974] RA 225; after considering the explanation of the law as set out in *Fir Mill*, the Member said ‘*in our view the only exception to the rule that one does not take into account another mode of use is where no beneficial use is being made of the property.*’

5.3 Demountable Partitioning

Offices constructed with “open plan” floors will usually be divided up by the use of partitions, some of which can readily be dismantled and moved to other situations as the requirements of the occupier dictate.

Partitions are not a named item in The Valuation for Rating (Plant and Machinery) Regulations and, if they constitute plant, they will not be rateable. It is therefore necessary to consider whether the partitions, in any particular case are plant, or whether they are part of the rateable hereditament.

The question of whether demountable partitions were plant was considered in the income tax case of *Jarrold (Inspector of Taxes) v John Good & Sons Ltd*, CA (1962) 9 3 RVR 25. The question for consideration was whether the partitions were part of the premises in which the business was carried on, or part of the plant with which the business was carried on.

In that case a large open floor space had been divided by movable partitions consisting of metal ribs, with hardboard and door and window insets, which were screwed to floor and ceiling to form rooms of any desired size.

On the facts of the case it was held, and confirmed by the Court of Appeal, that the partitions were plant, being used by the occupier to cope with the vicissitudes of a fluctuating business by the provision of flexible accommodation as a commercial necessity.

The “Jarrold” case was later considered in the rating case of *British Bakeries v Gudgion (VO)* and *Croydon LBC* LT 1969 RA 465 and was distinguished on the facts. The full height partitions in “British Bakeries” were constructed of aluminium sections with PVC faced panels, partially glazed, which were assembled on site and firmly screwed to walls, floor and ceiling. Removal was effected merely by undoing a number of screws. On the facts it was held that the function of the partitioning was to make offices for staff, to provide places in which the business was carried on, movability being a matter of commercial convenience and not a commercial necessity. The partitions were held rateable as constituting the internal walls of the building and therefore part of the hereditament.

Half height and three-quarter height partitioning was held not to be rateable in “British Bakeries” “because its function was that of a low screen, breaking up open space without affording privacy and being easily moved, and as it was furniture and part of the plant with which the business was carried on, like desks, filing cabinets etc”.

The full height partitions in the “Jarrold” and “British Bakeries” cases were physically similar, it being their function which led to the distinction between them. It is considered that the facts will generally lead to the conclusion that full height partitions are part of the rateable hereditament, as in the “British Bakeries” case. The treatment of partitions in rental analysis and valuation may vary between valuation areas. Insofar as they affect rental value they may be either stripped out in the rental analysis and valued as a separate item or their value may be reflected in the unit rate for the offices. VOs should ensure that a common approach is adopted within their districts and that analysis and valuation is carried out on a consistent basis.

It might be argued that, because the partitions are part of the rateable hereditament, any disability resulting from their layout ought to be reflected in the assessment of the hereditament *rebus sic stantibus*. The possibility of making variations in the layout without offending the doctrine of *rebus sic stantibus* should not, however, be overlooked. In the case of *Fir Mill v Royton UDC and Jones (VO)* LT (1960) 53 RIT 389 the Lands Tribunal found that it was correct to have regard to the possibility of making minor, non structural, alterations which might be expected to be in the mind of an incoming tenant who will occupy in the same general mode and category. *R F Williams (VO) v Scottish & Newcastle Retail Ltd and Allied Domecq Retailing Ltd* 2000 LT RA 119, 2001 CA RA 41 decision held the Lands Tribunal’s formulation of ‘mode or category of occupation’ in *Fir Mill Ltd v Royton UDC and Jones (VO)* [1960] 7 RRC 171 (the ‘*Fir Mill*’ case) (i.e. “a shop as a shop but not as any particular kind of shop; a factory as a factory, but not as any particular kind of factory”) should be regarded as recognised by Parliament (in the Local Government Act 1966, General Rate Act 1967 and Local Government Finance Act 1988) as “on the right lines, even if its precise scope has to be worked out on a case by case basis”.

5.4 Car Parking Spaces

It will be necessary to consider whether the car parking spaces, in any particular case, should be included with the offices or be the subject of a separate assessment. Where the entire block is in single occupation there will usually be no problem. However, difficulties may arise where office blocks are occupied in suites and the following guidelines are given to assist in these cases: -

1. If the landlord has paramount control of the car park and he charges, or could charge, a fee for parking, a separate assessment should be raised, in the occupation of the landlord.
- See: City of London Real Property Co Ltd v Stewart (VO) LT (1960) 53 RIT 329.
2. Where the landlord exercises no control and spaces are available for use by the tenants as a right on a “first come first served” basis and the use by the tenants exhausts the value of the car parking, a separate assessment should not be raised. In these circumstances the benefit of the car parking should be brought into account when determining the assessment of each suite of offices.
- See: Re the Appeals of Scott (VO) LT (1982) 22 RVR 34.
3. If defined spaces are allocated to individual tenants for their exclusive use they will be in the rateable occupation of the respective tenants and occasional unauthorised use by other parties would not justify departure from this general rule. Unless the parking areas are contiguous with offices occupied by the same tenant the offices and parking areas will form separate hereditaments. General guidance concerning the unit of assessment is given in (RM Volume 4: Section2).
- See: Coxhead (VO) v Brentwood UDC LT 1972 RA 12.
- Emery v Cooke (VO) LT 1971 RA 141.

In congested areas the availability of adequate, on-site, parking may be an important factor in rental negotiations. Where it is necessary to make use of rental evidence from offices which have adequate parking space to assist in the valuation of those which do not care should be taken to ensure that adequate adjustments are made.

5.5 Common Parts

The value of common parts, such as toilets, corridors, lift shafts etc should be regarded as reflected in the rental value of the various offices in the block.

6. Serviced Offices

6.1 Introduction

This advice applies to Serviced Offices and Small Offices. Any difficulty in terms of interpretation should be addressed to the local Technical Adviser. Although the principles are likely to be similar, this guidance should not be applied to other classes of property, such as self-storage or workshop units, without bringing it to the attention of NSU via the TA.

The unit of assessment approach for serviced offices / small offices is of course, no different from any other class of hereditament. This section mainly deals with the particular issues that relate to serviced offices, however the principles should equally apply to small office takes, which are occupied independently from any service provider.

Serviced offices typically are purpose built or converted buildings where the landlord makes individual rooms or suites of rooms available for use as offices. A high degree of service is provided and this may extend beyond heating, lighting to secretarial services and access to photocopiers. An office may be taken for use for as little as a day or a person or company may stay for a number of years.

In the past landlords have not always wanted separate assessment of the individual office because:

- of complications of rate collection and numerous rate bills, and
- the aggregate RV for the small takes usually significantly exceeded the RV of the single assessment due to quantum

This view was not universally held because separate assessment did make it easier for landlords to secure void rating on unoccupied units.

However since serviced offices have gained in popularity landlords, in many cases, seem to prefer separate assessment. The introduction of the small business rate relief means the individual occupiers are often entitled to this in some form. This currently applies up to £6,000 RV and thereafter on a decreasing scale up to £12,000 RV. Whilst in theory this makes the units cheaper to the individual office users it is likely the reduction in rates actually increases the landlords' income as he or she is able to charge a higher rent.

VOs need to be impartial in their decisions and ensure correct assessments relating to the legally correct number of hereditaments are inserted in rating lists. Decisions on whether or not a serviced office should be separately assessed should be taken on the basis of rating law and practice and not what may, or may not, suit a particular landlord.

6.2 Rateable Occupation

Usually the individual units will be capable of being hereditaments, providing the facts of occupation show that the individual units are in the rateable occupation of the office users. A useful case on a similar situation, though it actually concerned workshop starter units is *Re the Appeal of Heilbuth (VO) 1999 RA 109*. This was an appeal by the VO against a VT decision that 55 starter workshop units in Enfield, converted from a 1930s factory, should be assessed as a single hereditament.

The Lands Tribunal had to decide, whether the individual licensees were in rateable occupation or whether the whole centre was in the landlord's occupation. There was no dispute that the licensees were in actual occupation and it was of benefit to them. The question was over the other two ingredients of rateable occupation, i.e. whether the occupation was exclusive and not too transient. The Tribunal reviewed the previous precedents and set out what it considered to be the main tests in these situations. In terms of transience, the Tribunal found that the length of occupation was not a conclusive test and each situation had to be viewed against its own facts and circumstances.

Essentially the need is to distinguish between the "transient" or "wayfarer" and the settler, and this judgement should be made in terms of the intention or expectation at the time occupation is first taken. The Tribunal decided on the question of transience in the case, by having regard to the standard licence terms governing occupation and the evidence of the actual periods of occupation over the previous years at the business centre. The terms of the licence suggested an expectation of continuing occupation on a monthly basis and set out 6 monthly pattern of review. In conjunction with this, the actual pattern of occupation showed that over half the units were occupied for periods of between 1 and 5 years. Having regard to this evidence the Tribunal member was satisfied that the requirement of sufficient permanence was in place.

The other issue of exclusive occupation needed to be resolved in terms of who was in paramount control; the landlord or the licensee. On exclusive occupation the Tribunal considered the licensees, from their agreements, could reasonably expect to be able to carry out their business during normal business hours without interference or interruption by the landlords. It did not find the exclusivity affected by the landlords retaining control over the main gate or having a duplicate set of keys to the units in order to enter for a variety of purposes. This did not give the landlord's a right to occupy or conduct business in the units or give them paramount control.

6.3 Approach

VOs will need to judge in each case whether the landlord retains such control over the units that it is not possible to regard the office users as being in control of their own units. In the *Westminster* case (*Westminster CC v. Southern Railway 1936*) the critical question was whose purpose was most being achieved, the owner or licensee? Perhaps the best way of considering this is to ask whether the office user is availing him or herself of a service or is actually occupying the individual unit. A man who stays in a hotel room is availing himself of a service: a person who rents a furnished flat is taking occupation. The degree to which the landlord can interfere with the office user's use of the room or rooms is relevant. If the landlord is only providing a desk or room but not a designated room this will indicate the landlord is in control. If the landlord retains the right to move the office user to a different office unit at will but in practice rarely or never does so this will not defeat the facts showing the office user has de facto occupation.

In *Heilbuth*, the landlord retained keys and control to the main gate. This was held not to show control. A landlord of a shopping mall will retain such control as a matter of good management. Again, in *Heilbuth* the landlord had keys to the individual units so he could easily check on matters such as electrical safety etc. The Lands Tribunal held this did not affect the paramount control resting with the licensees, because this did not give the right to the landlord to conduct business in the units. It was the licensees who had the real use and control of the units.

The greater the service offered the less likely the individual units are separate hereditaments.

Length of occupation also goes to indicating paramount control as well as showing the occupation is not too transient. The test of transience applied to existing hereditaments looks at likely occupation as well as what actually occurs.

In both the *Heilbuth* case and *Brook v Greggs Plc (1991) RA 61*, concerning a market in Manchester, the Tribunal took an overall view of the property and appeared not to distinguish between individual units in terms of the pattern of previous occupation. In order to properly consider this aspect regard should be had to both the previous patterns of occupation and also the standard form of agreement.

Each unit should be considered individually though the occasional short period of occupation would probably not upset separate rateability. If a unit has let for say 18 months, then 9 months, then a year, the fact that the last let only lasted 1 month would not mean it should lose separate assessment if the expectation was that the office user would normally have been expected to stay for at least 6 months. Before a view can be taken on transience information on the occupancy of each unit over a period of at least 3 years or from the date the centre first opened will probably be needed. In the event that a new enterprise is being considered, without a previous record of occupancy, then greater emphasis should be placed on the licence arrangements, and whether a continued occupation is anticipated, and possibly to the pattern of occupation and unit of assessment at the operator's other centres.

6.4 Residual hereditament

Within some business centres, there may be accommodation that is used on a more informal flexible and possibly daily basis, this should be excluded from the consideration outlined above and dealt with as part of the landlord's residual hereditament.

The residual hereditament will consist of all the property that is retained under the control of the landlord. It will normally include space which will have value; such as separately charged meeting rooms or offices retained by the landlord's business, space used for break out areas, kitchens, photo copying etc. There may be one or more residual hereditament; the usual unit of assessment tests will apply. Areas of no specific value in themselves, will still contribute in terms of providing contiguity.

Space used as reception areas will require separate consideration. They will need to be viewed in the context of the local market / valuation scheme. Circumstances relating to each property will vary according to lay out and configuration etc. Most large multi-let buildings will have a reception area on the ground floor, which is provided by the landlord and funded from the service charge.

From a valuation perspective these areas (within reason) are normally not separately assessed and their value is presumed to be reflected in the main space price. Occupiers of multi-let buildings will often provide their own reception at the entrance to their own individual occupation. These reception areas should be valued at full main space rate. It is important that reception areas for serviced offices are considered and valued in the same way as the other offices in the same location.

Where frequent revisions need to be made, because office users take more or less rooms and they are judged to be in occupation, VOs should consider setting up informal but close arrangements with the landlord for notification of changes and for the VO to swiftly act on the notification.

6.5 Inspection of Serviced Offices

The main difference between conventional offices and serviced offices will be the size range of the serviced suites and the residual parts i.e. reception, meeting rooms, breakout areas, communication rooms etc. In practice these remain in the paramount control of the “landlord” (serviced office provider) and should be measured and recorded to enable valuation as individual hereditaments or as part of the serviced office provider’s residual hereditament.

Upon inspection the facts of occupation need to be determined. Usually the individual serviced suites or offices will be capable of being a separate rateable hereditament, providing that the individual units are in the rateable occupation of the office users. The facts can be established by either internet enquiry, speaking directly with the receptionist or serviced office manager on site. Questions to be asked as follows:-

Establish that the hereditaments are serviced offices

- Level of services provided
- Rents charged are normally quoted in terms of price per workstation per month
- Periods of stay within the serviced offices
- Range of accommodation offered i.e. workstations or multiples of workstations, meeting rooms, “rent-a-desk” etc.
- Can a copy of a typical licence be provided
- Any residual hereditament will include all property which is retained by the service office provider including rooms let on a more informal flexible and possibly daily basis - this could include meeting rooms, breakout areas, receptions, rent-a-desk, stationery stores, communications rooms, photocopying rooms etc. Dependent on layout and configuration this can result in a single or multiple residual hereditaments.
- Car Parking
- Serviced offices should be measured to Net Internal Area having regard to the definition in the VO Code of Measuring Practice.
- Survey Details to be recorded in addition to detail pertinent to the serviced offices above include general description, construction, age, type (e.g. purpose built, hitech, converted) location, access, transport facilities etc.

6.6 Valuation Approach

6.6.1 Serviced Office Market

In order to decide on the most effective valuation approach to employ for this class of property, consideration is required on the typical business model of how the serviced office market operates. The majority of serviced offices will have been acquired by the serviced office operator through conventional leases, where an open market rent is payable although some may be held freehold. The serviced office operators business will involve converting the existing office space into a suitable serviced office layout, which will suit the needs of potential serviced office tenants. The aim of the business will be to let the resultant space out, to ensure that the total fees collected exceed the fixed costs by enough, to realise a profit for the operator. Where held on a head lease, the largest fixed cost incurred is likely to be the head rent paid by the operator. This implies that in order for these businesses to continue operating at a profit the fees collected will have to exceed the head rent and other fixed costs.

The rent that is charged to serviced office occupiers is often a fully inclusive charge that will normally include rent, property taxes, furnishings, maintenance, heating, air conditioning, lighting, cleaning, security etc. In addition there are often two very significant extras provided free of charge – full time receptionist and telephone answering services. In most cases the only additional costs are for telephone and internet charges, meeting room charges and secretarial services. Rent may be charged per person or per work station, per month.

For rating purposes the task is to value the OMRV of each individual occupation, vacant and to let. There are often little or no comparable market rents for this size of property. The rate per workstation charge is of little use, because it is inclusive of all of the costs associated with the occupation and is far removed from the definition of Rateable Value. Further difficulties arise because the ‘model’ for operating serviced offices can vary significantly from provider to provider and as a consequence, levels of service can also vary significantly.

An important factor to be considered is the ‘serviced environment’ these units are located in. The potential rent paid by the serviced office occupiers will reflect the fact that there are a range of services available such as meeting rooms, photo copying, secretarial, kitchens and t-points etc, located close by. When comparing with conventional unserviced offices it must be considered whether the fact that the serviced office assessments have access to a range of ‘services’ nearby, is a factor that needs reflecting.

6.6.2 Review of any rental evidence

As stated the majority of serviced offices are held leasehold by the operators. In order for the serviced office business to survive it will need to make a profit. Therefore the amount the operator charges the serviced occupiers will have to be an 16 amount, which will cover the existing head rent, plus all other associated costs and the operator's profit.

Given the many factors that can be reflected in a serviced office licence fee which do not accord with the statutory definition of Rateable Value, it is recommended any traditional adjustment and analysis of such rents should be avoided. There are obvious pitfalls with this approach as often it is unclear what the rent may or may not include. Comparison of individual serviced office buildings with one another can also be difficult given the variety of services provided can vary greatly from building to building.

There may be occasions when an operator can provide an apportionment of passing rents quoting a breakdown of 'services' and 'rent'. There may also be offices where the level of servicing is minimal and the rent may more easily be adjusted into the definition of Rateable Value. However these scenarios should also be treated with caution and any such evidence not considered in isolation.

An analysis of any gross all inclusive rents may give at least an indication of any quantum offered by the landlord. It is also essential that rental evidence and tone levels of value of comparable similar sized offices and comparable serviced office assessments in the locality are considere.

6.6.3 Valuation factors to consider

Consistency: Particular care needs to be taken where serviced office operators take up space on a phased basis in the same building, or where serviced offices exist in a multi-let building also housing conventional office hereditaments. If this is the case then the resultant £/m2 applied must be consistent across all floors, not withstanding any quantum (see below). A situation where property of a similar location, quality, size and specification is valued at different rates must be avoided.

Size / Quantum: Typically operators will offer a quantum discount for larger takes or conversely charge / demand more for smaller takes. This needs to be considered and built into the valuation matrix. A good source of evidence as to where these break points fall can come from the prices charged by the landlord. A typical example is that taken from the VT Decision in the Wellingborough case (281523004215/541N10).

0 – 50m2 £80 pm2
50 – 100m2 £70 pm2
100 – 300m2 £60 pm2
300 m² -500m2 £50 pm2

However it should be borne in mind that the above is only an example and quantum/size bands can often start at levels approx 25 m2 or lower i.e. if only single rooms are let.

It is recommended and considered good practice to apply small size bands to all standard office size based valuation schemes, even if at the point of creation no 17 assessments exist in these size bands. This should ensure that if new assessments are created in these lower size bands, that they are all treated consistently.

The Head Lease: Another important factor to be considered is the operator's head lease. The rent paid is evidence of what the market is willing to pay for a larger floor space within the same building. From a valuation perspective it must be considered that the RV £/m2 applied for much smaller office assessments, fairly reflects the difference in size. Generally speaking in the office rental market it is usual to see an increase in the rent per m2 paid for smaller sized occupations. One reason smaller occupations command higher rents in part relates to the landlord needing to be able to recoup its increased costs from managing such areas. These costs may relate to any increase in voids, loss of office space caused by an increase in circulation space, an increase in administration costs and professional fees, associated with multiple lettings etc. This in part will relate to what is stated above in 6.6.1 in that it is difficult to see these type of operations surviving, unless the operator / landlord is able to recoup more than their fixed costs, in order to make a profit. This infers that it is unlikely that the combined rents of the smaller offices would ever be below that of the head lease.

The VO will need to take a **stand back and look** at the market as a whole. The valuer will be required to ensure the resultant £/m2, is consistent with other similar assessments across a wider area. This will include other serviced offices and standard offices of a comparable size

Appendix 3 - Cost Benefit Work

Summary of the Options: Change in cost to workspace providers

Estimated change in cost of Business Rates to workspace providers under the five options

| | Co-working | Artist studios | Makerspace | Sum |
|---|-------------|----------------|------------|-------------|
| (Baseline 2017 post-revaluation) | £ - | £ - | £ - | £ - |
| Option 1: Signposting | -£232,000 | -£883,000 | -£63,000 | -£1,178,000 |
| Option 2: Update of Section 730 | -£2,062,000 | -£1,501,000 | -£408,000 | -£3,972,000 |
| Option 3: New Rates Relief for Open Workspaces | -£564,000 | -£285,000 | -£109,000 | -£959,000 |
| Option 4: New Zoning Rates Relief for Workspaces in General | -£1,237,000 | -£1,001,000 | -£272,000 | -£2,511,000 |
| Option 5: New London Rates Multiplier for Open Workspaces | -£582,000 | -£526,000 | -£143,000 | -£1,251,000 |

Cost of options to Central government, GLA and Local authorities

| | Central Govt 36% | GLA 29% | Local authorities 35% | 100% |
|---|------------------|-------------|-----------------------|-------------|
| Option 1: Signposting | £ 424,000 | £ 342,000 | £ 412,000 | £ 1,178,000 |
| Option 2: Update of Section 730 | £ 1,430,000 | £ 1,152,000 | £ 1,390,000 | £ 3,972,000 |
| Option 3: New Rates Relief for Open Workspaces | £ 345,000 | £ 278,000 | £ 336,000 | £ 959,000 |
| Option 4: New Zoning Rates Relief for Workspaces in General | £ 904,000 | £ 728,000 | £ 879,000 | £ 2,511,000 |
| Option 5: New London Rates Multiplier for Open Workspaces | £ 450,000 | £ 363,000 | £ 438,000 | £ 1,251,000 |

Benefit and breakeven

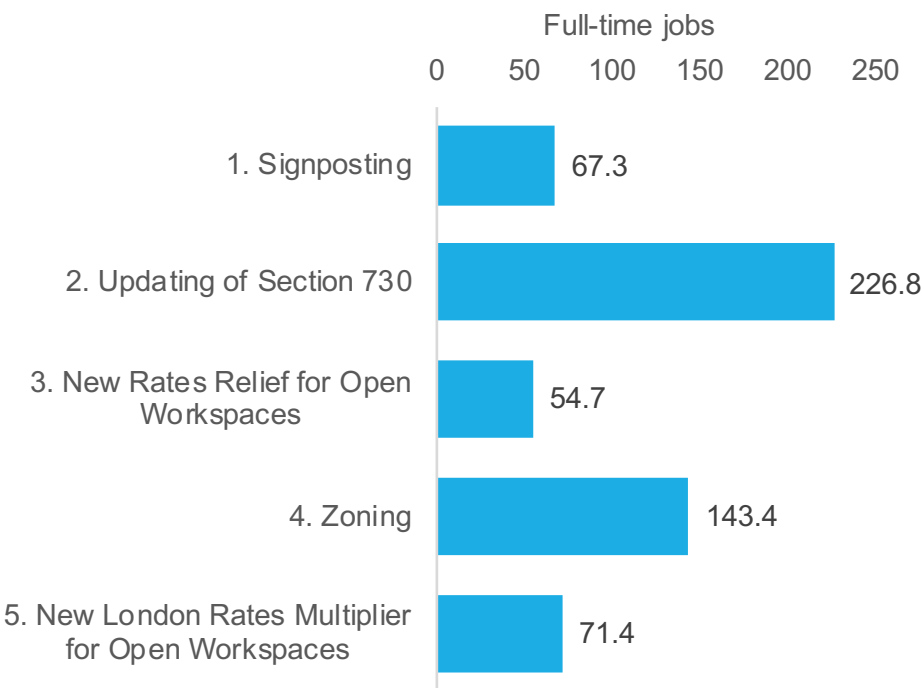
Economic breakeven

Based on research published by the Joseph Rowntree Foundation¹⁵, Nordicity estimates that for each out-of-work benefits claimant that is moved into a full-time job at the London living wage, **£17,511** in **additional annual direct gross value added (GVA)** is generated for the UK economy.

This job-creation benefit was compared to the fiscal cost (in terms of foregone business rates revenue) associated with each option to estimate the number of full-time jobs that would have to accompany each option in order for it to achieve economic breakeven.

The underlying theory is that the savings in business rates can either be invested by workspace providers or by tenant businesses themselves in innovation-enhancing activities that can ultimately promote business growth.

The results indicate the absolute number of annual full-time jobs that would have to be created to break even).

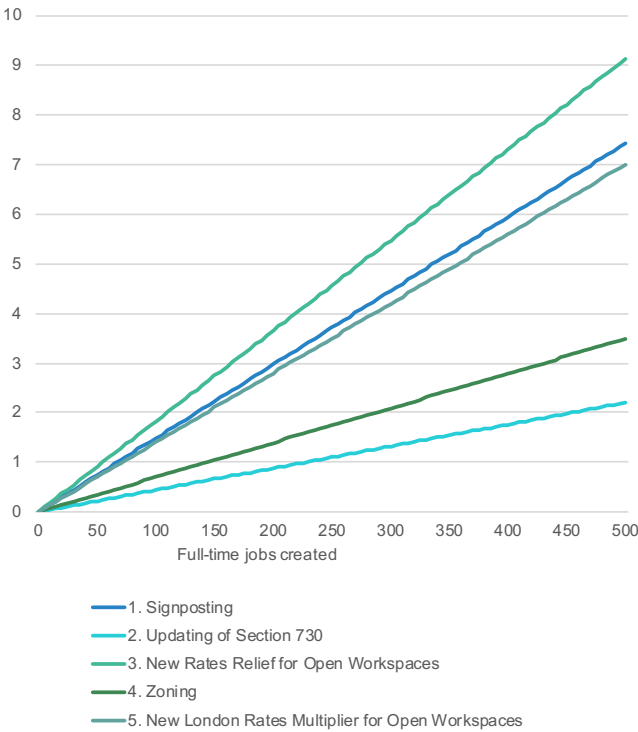


¹⁵Bivand, Paul and Dave Simmonds (2014), *The Benefits of Tackling Worklessness and Low Pay*, Joseph Rowntree Foundation.

| | Total business rates (£ million) | Decrease in business rates (vs Baseline 2017) (£) | Breakeven jobs |
|---|----------------------------------|---|----------------|
| Historical (2010) | £5.6 | - | - |
| Do nothing (Baseline 2017 post-revaluation) | £10.6 | - | - |
| Option 1: Signposting | £9.4 | £ (1,178,000) | 67.3 |
| Option 2: Update of Section 730 | £6.6 | £ (3,972,000) | 226.8 |
| Option 3: New Rates Relief for Open Workspaces | £9.6 | £ (959,000) | 54.7 |
| Option 4: New Zoning Rates Relief for Workspaces in General | £8.1 | £ (2,510,000) | 143.4 |
| Option 5: New London Rates Multiplier for Open Workspaces | £9.3 | £ (1,251,000) | 71.4 |

Benefit-cost ratio (BCR)

Whilst the number of jobs that each option would generate is unknown, the chart below indicates how the BCR of each option would increase.



This work has been commissioned by the London Enterprise Action Partnership (LEAP), overseen by officers at the Greater London Authority (GLA) and backed by the Mayor's Workspace Providers Board (WPB). It has been delivered by a team from Capital Enterprise, WorkWILD, Nordicity and Original Futures. This report is independent from the Mayor's views.

