



THE AFFORDABILITY CRISIS: OVERVIEW AND RECOMMENDATIONS

June 2018



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1 | CONTEXT



The three biggest costs by far for SMEs in London are staff, rent, and rates. As workspace provision in the capital continues to diversify, a crisis of affordability is making London a challenging place to start and run a small business.

CONTEXT

SMEs are an important driving force in the London economy's success story. They account for 99.8% of all businesses in the capital, generate around half (48%) of all business turnover (over £500m) and sustain approximately 52% of all employment.

The three biggest costs by far for SMEs in London are staff, rent, and rates. As workspace provision in the capital continues to diversify, a crisis of affordability is making London a challenging place to start and run a small business. This is especially so in London's open workspaces which host many of London's start-ups and creative and social micro businesses. These open workspaces have traditionally combined business support and a strong community offer to ensure that there is opportunity for all Londoners.

The rise of open workspaces has provided SMEs with much needed flexibility and appropriate styles of space, but this is not reflected in the way business rates work across the capital. Collectively London's open workspaces' business rates liability has almost doubled since the 2016/7 revaluation. 30% of small open workspace providers have dropped off the London Growth Hub's map since August 2016. No data is available on how many have opened in this period. London needs to remain open to shared workspace providers so that its diverse mix of SMEs, critical employers in the capital, can survive and thrive.

This document summarises extensive research into the impacts of the 2016 Business Rates Revaluation on London's open workspaces. It draws upon a linked examination of the potential to introduce a voluntary accreditation system for workspaces with community and social impact which would raise standards and allow local authorities and micro businesses and local communities to understand better the value of open workspaces and how to support them. We have connected with a wide range of local authorities and workspace providers and conducted desk research and cost benefit analyses in order to identify five key recommendations which will help the London Economic Action Partnership (LEAP) and Greater London Authority (GLA) to Keep London's workspaces open.

This work has been commissioned by the LEAP, overseen by officers at the 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.

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FOUR KEY RECOMMENDATIONS

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| # | RECOMMENDATION | SUMMARY | OUTCOMES |
|---|--|---|---|
| 1 | Pilot Workspace Accreditation | Deliver a 2 yr pilot of the 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. | <ul style="list-style-type: none"> • Test accreditation programme with 10 open workspaces and roll out to 40 open workspaces • Champion good practice and support / recognise workspaces with high levels of community impact and added value |
| 2 | Support Rates Relief Training in London | <p>Deliver capacity building / training sessions on business rates and rates relief for open workspace providers and local authorities.</p> <p>Signpost beyond these through information, guidance notes, and communication to workspace providers.</p> | <ul style="list-style-type: none"> • Increase capacity of London's open workspace to understand business rates and relief options • Improve consistency of approach to business rates and open workspaces across London • Reduce cost burden on SMEs as far as possible within existing rates regime |
| 3 | Coordinate open Workspace Strategy for London and improve intelligence | <p>Create an enhanced forum for policy, research and action - bringing new members and a secretariat to the Workspace Providers Board.</p> <p>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.</p> <p>Ensure that there are structured and systematic processes for collecting key information and insights related to the role of workspaces and communicate it effectively.</p> | <ul style="list-style-type: none"> • Improve evidence-based policy and transparency and greater coordination across the capital. • Ensure research and policy work is informed by close understanding of the market • Improved understanding and ability to measure impact of workspaces |

FOUR KEY RECOMMENDATIONS

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| 4 | Lead Change at London and UK Level | <p>Whilst some of the barriers to keeping workspaces open can be managed at the London and borough level, there are national changes required that 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, have already done considerable work in this area, which we support. We believe the following options should be progressed in the short term:</p> <ul style="list-style-type: none"> • Update of Section 730 - 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 coworking spaces and workspaces with private offices. • New Rates Relief for Open Workspaces - a mandatory relief for 'Open Workspaces' offering community impact and gaining workspace accreditation. • 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). • 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%. | <ul style="list-style-type: none"> • Achieve change at national level by sharing existing and evolving evidence base in London • Develop and deliver collective national campaign on need for intervention and proposed solutions • Create impetus and relationships needed to deliver change |
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Based on our cost-benefit work we have established that the economic benefit of applying these measures greatly outweighs the impact of loss of income, in terms of affordability of workspace and potential for job creation.

The sections below set out more detail on our recommendation, evidence base 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.

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RECOMMENDATION 1

PILOT WORKSPACE ACCREDITATION

PILOT WORKSPACE ACCREDITATION

Summary of Evidence

- Open workspace providers engaged in driving London's SME community are supportive of a voluntary workspace accreditation scheme which will recognise and reward community impact.
- Such a standard would be useful for policy makers, practitioners and grant givers and would contribute to the keeping London's workspace open and affordable for all Londoners.
- The accreditation would address market failure and provide benefit in return for community good.

Detail of recommendation

- Pilot the voluntary workspace accreditation scheme with 10 providers (year 1) and roll out to a further 30 (year 2).
- Develop a clear statement of what 'best practice' looks like with accompanying examples and tools.
- Fund Workspace Accreditation Officer Role 3 years FT, 2 years PT.
- Include data collection within accreditation to improve cost benefit and impact intelligence with marketing and network building to create a feeling that Workspace Providers should want to choose part of this - it should be a badge of honour.
- Mayor, WPB and GLA to commit to a lead role in championing wider recommendations for SMEs diversity and inclusion in London.

RECOMMENDATION 2

SUPPORT RATES RELIEF TRAINING IN LONDON

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

RECOMMENDATION 3

COORDINATE WORKSPACE STRATEGY FOR LONDON AND IMPROVED INTELLIGENCE

COORDINATE WORKSPACE STRATEGY FOR LONDON AND IMPROVED 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

RECOMMENDATION 4

LEAD CHANGE AT THE UK LEVEL

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.

7 | SUPPORTING EVIDENCE

SUPPORTING EVIDENCE

This report gives an overview of the findings of work on two detailed research papers on Business Rates and Workspace Accreditation conducted by Capital Enterprise, WorkWILD, Nordicity and Original Futures.. The work was commissioned and funded by LEAP (London Economic Action Partnership) with input from the GLA Regeneration, Economic Business Policy and Culture teams and the Mayor's Workspace providers Board. The audience for this work is members of the LEAP, GLA and London Boroughs, Workspace Providers in London, and the Mayor of London.

The Workspace Accreditation report was based on interviews and research with providers and boroughs. The emerging ideas were tested and developed by members of the Mayor's Workspace Providers Board. The full document including high level summary, key findings and supporting evidence can be found [here](#).

The Business Rates report was based on case studies with providers and boroughs, research and cost benefit studies. The findings and solutions were tested and developed by members of the Mayor's Workspace Providers Board. The full document including high level summary, key findings and supporting evidence can be found at [here](#).

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