BCLP. Client Intelligent

Insights

RATING CASE NOTE - THE SOCIO-ECONOMIC VALUE OF MUSEUMS

Aug 24, 2022

Question

I am the FD of a public sector body. We run a museum which does not charge for admission and operates at a deficit, however its contribution to local culture and ability to attract visitors to the area make it worth operating for socio-economic reasons. Whilst we could afford to pay a rent for the premises, we would not do so because we have many more pressing demands upon our limited budgets. The museum has not attracted any business rates liability for some time, however recently the Valuation Officer (VO) said that our rates should increase to reflect the socio-economic value. Is that correct?

Answer

- Normally, the rateable value of a museum is determined on the basis of the "receipts and expenditure" method, whereby expenditure is deducted from the museum's receipts/income, and any surplus is hypothetically apportioned between the tenant (who is assumed to need a return on its investment) and any residual balance is treated as rent for the hypothetical landlord. This method of assessment would usually produce a nominal rateable value (there wouldn't normally be any residual value left apportionable to "rent"), and consequently little or no business rates liability for the museum.

- Your VO has now argued that the receipts and expenditure method without more does not represent the rateable value of the museum because it is premised only on its pure commercial potential, and does not take account of its socio economic value (its contribution to local culture and ability to attract visitors to the area). The VO says that this socio economic value would result in you – the local authority – hypothetically making a rental "overbid" for the museum, which would produce a positive rateable value.

- Our assessment is as follows:

- First, here are two difficulties with using socio-economic value to calculate the rateable value of a museum:

(a) This assessment of value uses a methodology that seeks to capture as much value as is possible. It is not concerned with a specific value of a museum to its local authority.

(b) There is no methodology to convert the socio-economic value to the local authority into a willingness to pay any rent at all let alone how much on the part of the local authority.

- Second, you could afford to pay a rent, however, given the pressures on your resources it does not follow that you or a hypothetical tenant in your position would agree to do so. An argument about affordability where there is only one potential tenant is that it rules out unaffordable rents. If a rent is unaffordable, it is ruled out because the hypothetical tenant could not pay it. But if rent is affordable, that also does not mean that the hypothetical tenant would pay.

Accordingly, socio-economic value should not feature in the assessment of the rateable value in your case.

Source: Allen (VO) v Tyne & Wear Archives and Museums – [2022] UKUT 206 (LC)

This insight was originally authored by Roger Cohen.

RELATED CAPABILITIES

- Real Estate
- Real Estate Disputes

MEET THE TEAM

Rebecca Campbell

Partner, London

rebecca.campbell@bclplaw.com
+44 (0) 20 3400 4791

