

	<b>PAPER NO: AC.13(12)</b>
<b>Committee:</b>	<b>Audit Committee</b>
<b>Date:</b>	<b>9 February 2012</b>
<b>Subject:</b>	<b>Student Centre Impairment Review</b>
<b>Author:</b>	<b>Natalie Ferer, Financial Controller</b>
<b>Executive sponsor:</b>	<b>Richard Flatman, Executive Director of Finance</b>
<b>Recommendation by the Executive:</b>	No impairment of the Student Centre will be required and LSBU can justify the carrying value at cost of £7.4m

**Executive summary**

1.

	<b>Board/Committee</b>	<b>Date</b>
Matter previously considered by:	External Auditors Executive	Jan 2012
Further approval required?		

Communications – who should be made aware of the decision?	N/A
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## **Student Centre Project**

1. The University is developing a new Student Centre in the undercroft of the existing Tower Block on Borough Road. The project will also improve the public realm at the base of the tower block. Investment in a Student Centre will bring together all non academic support and advice services into one location and provide a permanent space for the Student's Union to operate from.

## **Capital cost**

2. The capital cost of the planned development is £7.4m. In accordance with the University's accounting policies the asset will be treated mainly as a refurbishment and will be depreciated over 15 years. This is consistent with the assumed 15 year life for the purpose of Net Present Value (NPV) calculations. The project generates a positive NPV with only small increases in student numbers as a result of this investment.
3. No other Costs are required to be taken into account for the impairment review.

## **The purpose of an impairment review**

4. FRS11 deals with the impairment of fixed assets. The purpose of the review is to ensure that fixed assets are recorded in the University's financial statements at no more than their recoverable amount. For this purpose, recoverable amount is treated as the higher of:
  - Market value by selling the assets, and
  - Value in use
5. The proceeds from selling the student centre would clearly be difficult to ascertain given the proposal to develop in the undercroft of the tower block. However, the centre will certainly have a significant value in use, demonstrated by the business case and the positive NPV underlying the case.
6. Furthermore, FRS11 has been written with commercial entities in mind. The relevant SORPs for HE and for charities have adapted this to ensure that the charitable aims of the entities applying them can be taken into account in impairment reviews.
7. 'Value in use' is calculated as the present value of the future cashflows obtainable as a result of an assets continued use. The SORP also recognises that many charities have fixed assets that are not held for the main purpose of

generating cash flows either by themselves or in conjunction with other assets. In these cases an alternative measure of its service potential is be more relevant, such as the intrinsic worth of the service delivery.

### **Assessment of in value use**

8. A detailed NPV has been carried out, contained in the business case, and shows a positive NPV of £10.4m over 15 years. A discount rate of 6% has been used. For this NPV calculation it is assumed that student retention will increase by 1% and overall student numbers will increase by 100. If the increase in retention is lower, at 0.4%, and the increase in student numbers just 40, the project will still return a small NPV. The calculation also assumes that a modest amount of income will be generated in catering and other takings if the centre is used by 1% of students (160 students). This demonstrates that the cost of the Student Centre is a reasonable measure of its value in use and therefore value in use could be used to justify the carrying value of £7.4m in the University's accounts. Initial advice on this matter has been sought from Grant Thornton, the University's auditors. They will do a more detailed review of our assessment of value in use as part of their pre year end work.
9. The Student Centre also has an intrinsic value to the University. The centre will become a First Stop Shop for students, housing all non-academic student support from both the University and the Students' Union. Provision of the Student Centre will provide a vital focus for student activity within the University, bringing together student recreation, support and guidance in one location, bringing students together in a supportive and attractive environment which enhances opportunities for social learning and peer support. This is a much needed facility, which will have a real impact upon the quality of the student, raise student retention rates and increase employability.
10. It would be difficult to argue that LSBU can operate, particularly in the new fees landscape, without a student centre. The importance of the Student Centre in the future success of the University cannot be underestimated. Provided the non financial objectives are met, the building will have been deemed a success and hence fit for purpose, thereby justifying the carrying cost of £7.4m.