

	PAPER NO: AC.12(12)
Committee:	Audit Committee
Date:	9 February 2012
Subject:	Enterprise Centre Impairment Review
Author:	Natalie Ferer, Financial Controller
Executive sponsor:	Richard Flatman, Executive Director of Finance
Recommendation by the Executive:	That no impairment of the Enterprise Centre is expected and LSBU will be able to justify the carrying value at estimated cost of £16.4m. (including £2.9m costs stabilisation costs already spent) Future impairment review will only be necessary if there is some indication that impairment has occurred.

Executive summary

1.

	Board/Committee	Date
Matter previously considered by:	External Auditors Executive	Jan 2012
Further approval required?	No	N/A

Communications – who should be made aware of the decision?	N/A
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Enterprise Centre project

1. The University is developing an Enterprise Centre by renovating and extending the Grade 2 listed terraces and the Duke of Clarence public house facing onto St George's Circus. The Enterprise Centre is a critical part of the University's plan to meet the strategic goal of becoming London's Enterprising University. The Enterprise Centre project will create one of three anchors of the Southwark campus and provide a sustainable opportunity to bring the buildings back into use to create long-term strategic value to the University.

Capital cost

2. The Capital cost of the planned development is £13.5m. In accordance with the University's accounting policies, this asset is likely to be treated as a mixture of land and buildings and refurbishment and depreciated over either 50 or 15 years. An assumed 15 year life for the purpose of Net Present Value (NPV) calculations has been used. The project generates a positive NPV with a small increase in student numbers as a result of this investment.
3. Other than the £13.5m noted above, The University has undertaken stabilisation works of £2.9m to the listed terraces at St Georges Circus. This will be included in the capital cost of the site in the accounts and comprises part of the overall cost to be considered in any impairment review.

The purpose of an impairment review

4. FRS11 deals with the impairment of fixed assets. The purpose of any impairment 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. However, the Enterprise centre will have a significant value in use, as demonstrated by the business case and the positive NPV underlying the case.
6. Furthermore, we need to recognise that FRS11 has been written with commercial entities in mind. The relevant SORP for charities has 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 normally the present value of the future cashflows obtainable as a result of an assets continued use. The SORP 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 service potential is often more relevant, such as the intrinsic worth of the service delivery.

Assessment of value in use.

8. A detailed NPV has been carried out, contained in the business case, and shows a positive NPV of £3.9m over 15 years. A discount rate of 6% has been used. For this NPV calculation it assumed that the recruitment will increase by 1% and overall student numbers will increase by 100. This demonstrates that the cost of the Enterprise Centre is expected to be a reasonable measure of its value in use and therefore value in use could be used to justify an estimated carrying value of £16.4m in the University's accounts. Initial advice from the University's auditors, Grant Thornton, on this has been sought and they will do a more detailed review of our assessment of value in use as part of their 2012/13 year end work.
9. Whilst not necessary to use the Charities SORP argument, it is important to note that the Enterprise Centre also has an intrinsic value to the University. Renovating the Georgian terraces to create an Enterprise Centre provides the high quality space necessary to support the improvements the University wishes to achieve in its engagement with businesses and employers. As an open gateway to the University, the reception and gallery will provide an ideal and high quality venue for stakeholders, business and University events.
10. Importantly, the Enterprise Centre will also have an important role to play in promoting an enterprise culture internally within the University. A prominent Enterprise Centre will promote cultural change and provide a focus for academic engagement in enterprise, building pride amongst both staff and students. The importance of the Enterprise Centre to the future success of the University therefore cannot be underestimated and would support the building cost and asset carrying value of £16.3m even in the event that financial objectives were not met.