

	PAPER NO: PC.01(12)
Committee:	Property Committee
Date:	29 February 2012
Subject:	Enterprise Centre – The Strategic Case
Author:	Tim Gebbels, Director of Enterprise
Executive sponsor:	Bev Jullien, Pro-Vice Chancellor (External)
Recommendation by the Executive:	That the Property Committee endorse the proposal to create a gateway to the University which positions LSBU as London’s enterprising university, by renovating the Grade 2 listed terrace houses and public house at St George’s Circus for use as an Enterprise Centre. The ground floor will become a meeting place, with an open public reception space, gallery, café, retail units and meeting rooms and there will be incubation space for students, staff and alumni on the upper floors.

Executive summary

This paper makes the strategic case for creating an open gateway to the campus consisting of an Enterprise Centre, incubation space, retail units and meeting rooms and an open public reception space, gallery and café by the development of the grade 2 listed Georgian buildings at St Georges Circus

The prominence of the site means that the building will itself become the physical manifestation of the University’s commitment to becoming London’s Enterprising University.

The paper demonstrates that this addresses the key strategic challenges set out in *Student Success*, the University Corporate Plan 2011-14, while also providing a long term, sustainable use for buildings which are currently empty and run down. Moreover, the paper assesses a number of possible alternative options to test that the preferred option delivers the optimal strategic value.

Central to the recommended proposition is the need for the University to demonstrate tangibly the credibility of its ambition to be London’s Enterprising University and to

maintain its competitive edge in student recruitment. Without this investment in its estate, the University risks undermining its own position and losing out to its competitors in the market.

The economic case for the preferred option quantifies both the financial benefit and the costs of the project. The greatest financial benefit is assessed to come from the increased student recruitment that can be achieved as a result of the project enhancing the positioning of the University in a way which is complementary to the Student Centre. There is a smaller, but still significant increase in Enterprise income projected for the preferred case and some direct income.

For comparison, a base case is also evaluated on the basis that the project does not proceed at all and expenditure is limited to the minimum necessary to maintain the buildings in their current condition. In this scenario, the Enterprise team continues to operate out of Technopark. The primary financial consequence of the base case is that the blight that is created by the run-down buildings, both to the campus and to the image of the University, damages future student recruitment. The ongoing cost of maintenance is also significant.

Net present value calculations of the two cases, based on a 15 year project life and a 6% discount rate, demonstrate the following:

Case	Description	Project Cost	Break-even	NPV¹
Preferred case	Develop University Gateway and Enterprise Centre illustrated in Annex 1	£ 12.8m ²	Year 13	£ 3.9m
Base case	Minimum investment required to maintain listed buildings in current state	£ 2.2m	N/A	£ (9.9m)

Sensitivity analysis undertaken for both the preferred case and the base case demonstrates that the strength of the case is robust to variations in the assumptions used to evaluate them.

¹ This is calculated over a 15 year period, representing a realistic lifespan for a renovation project of this nature, and using the University standard discount rate of 6%.

² This is the project cost of the renovation and development of the Enterprise Centre (excluding £740k already spent on the project). Additional post-completion running costs of £11.1m are included in the NPV calculation.

To break even, the University needs to increase recruitment by 0.8% each year for the period (i.e. an extra 28 students in the first year).

	Board/Committee	Date
Matter previously considered by:	Executive	8 February 2012
Further approval required?	Property Committee	25 April 2012
	Board of Governors	24 May 2012

Communications – who should be made aware of the decision?	N/A
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The Strategic Case

1. *Student Success*, the University Corporate Plan 2011-14, clearly sets out the University's ambition become London's Enterprising University – not only through direct enterprise activities, but in all that it does through a pervasive culture of enterprise. This, in turn, represents a key element of the University's approach to attracting and retaining students and to delivering student success – the Enterprising University is a central element of the University's marketing offer. The Enterprise Centre reinforces the strength of this offer both because it is a tangible physical demonstration of the University's commitment to enterprise and because it provides the facility through which the enterprise promise can be delivered.
2. The Enterprise Centre can also support University research by providing a growing base of commercial contract research to support and maintain research teams, providing income to replace, in part, declining traditional research funding.
3. This strategic case is set out in three sections showing how the Enterprise Centre delivers value to the University against each of the three central challenges set out in the Corporate Plan: Student Choice; Student Success; and London's Enterprising University. Specifically, it illustrates how the Centre contributes both to the University's marketing offer and to our enterprise offer.

Student Choice

4. Students increasingly feel empowered to exercise choice over the university they attend. With the introduction of full fees in 2012, they will need to believe the university they are choosing offers the best return on their very considerable investment. For London South Bank University to be attractive enough to maintain and grow its student numbers in future, it needs to be able to present a compelling proposition in the face of stiff competition.
5. A successful London South Bank University will therefore need to demonstrate a powerful offer for student success post-qualification, and this will increasingly be built around employability in general and enterprise in particular. The new Enterprise Centre, prominently positioned as a gateway to the University, will provide a striking and powerful physical manifestation of the University's commitment to delivering the Enterprise promise. The prominence of the site means that the development will be highly visible, raising the University's profile locally and strengthening local perceptions about us. More importantly, it

will also become a key marketing tool to support the wider repositioning of the University as an Enterprising University, and this is a central part of the University's long-term plan to grow student numbers.

6. Internally, too, the new facilities will provide important and high quality new marketing possibilities to showcase the University to potential student recruits. For example, the ground floor exhibition space will showcase activities and achievements of students and staff, the cafe and meeting area will be a place where staff and students can meet with members of the community and external stakeholders, and the entrance will form an inviting way into the campus for visitors, during Open Days for instance.
7. Moreover, the ground floor space can be offered to schools and further education colleges partners to host their events, it can be used to host, for example, Youth Enterprise for the South East of England, and can also be offered to key community organisations for their events or exhibitions. Such uses will greatly strengthen University links with and outreach to a range of groups, raising the profile of the University for both young and mature students, for undergraduate or postgraduate study. Some of these opportunities, such as those with Youth Enterprise, allow us to reach new audiences beyond those we have traditionally had access to, widening further the potential pool of student recruits.
8. At many of these events, the gallery can be put to creative use showcasing the history and strength of the University, the work of the academic staff or students, successful products, designs or companies created through or with support from the University, or otherwise to highlight student success.

Student Success

9. The Enterprise Centre will provide an effective means to enhance the experience of students during their time at London South Bank University. It will be the hub of the University's student enterprise and entrepreneurship activities, opening a range of new enterprise opportunities to students and allowing us to further strengthen existing programmes.
10. The ground floor exhibition space will enable the achievements of students to be showcased, creating opportunities for them to interact with and profile themselves to prospective employers, investors or buyers. It can also provide high quality events space, including reception or networking space used in conjunction with other University facilities (for example, at prize giving events).

11. In addition, the retail spaces give the flexibility to create “pop-up” (temporary) shops to test-market, showcase or launch student products and businesses. They could also house social enterprises which enable students to gain experience whilst providing a service to the community, in social services, for example, or elsewhere, following the example of the Law Centre. The building itself provides the opportunity to monitor the energy efficiency of a creatively renovated listed building in the heart of a city.
12. In addition, the incubation spaces on the upper floors create the opportunity for our students or alumni to develop their business ideas in a supportive environment.
13. All students and staff will benefit from having a prominent entrance to their institution of which they can be proud – and a building to which they can invite family, friends or contacts, either for an informal chat and coffee – without having to clear security – or to attend an exhibition or function.
14. Each of these opportunities to support student success can and must become part of the core marketing offer of the University

London's Enterprising University

15. Enterprise is at the heart of the University's plans to create student success. A truly enterprising University has a pervasive culture of enterprise underpinned by business engagement at all levels across the University. Academics that are involved with business through their research, consultancy or CPD activity are better able to enrich course content and more credible in the lecture theatre. Enterprise activity can create opportunities for students, too, for example to support the delivery of consultancy or commercial research or through placements.
16. Renovating the Georgian terraces to create an Enterprise Centre provides a clear physical statement of the University's commitment to enterprise and it provides the high quality space necessary to support the improvements we wish to achieve in our engagement with businesses and employers. As an open gateway to the University, the reception and gallery provide an ideal and high quality venue for stakeholder or business events or to host more focused business meetings with our enterprise partners. It also provides a welcoming reception for events being held across the University.
17. For example, throughout the year, the Centre can host sector specific focus days for key industry sectors at which the skills within the University can be showcased. They would provide “one-stop-shops” which present to the sector both the strength of the University's offer as a provider of consultancy, applied research and CPD and the strength and suitability of

current students for work-placements, project work, or as prospective employees.

18. The Centre can also become a hub locally for events for business or stakeholder groups in the community – for example, offering Business Breakfast meetings on topical issues for local SMEs.
19. University enterprise activity will include a growing volume of commercial research work. This will build on and exploit commercially the excellence developed through academic research. Through the revenue this work will generate, the University will have a new and growing source of income to maintain and support research teams even as traditional research funding is diminishing.
20. Importantly, the Enterprise Centre will also have a leading role to play in promoting an enterprise culture internally within the University. A prominent Enterprise Centre will promote cultural change by demonstrating to all staff that the University means business. It can provide a focus of and venue for academic engagement in enterprise, and it can begin to build pride among both staff and students in an institution that sees an important role for itself in the future of its local community, its city and its students and for the country, and which is prepared to invest to achieve its vision.

The Importance of the Site

21. The site of the proposed Enterprise Centre, facing onto St Georges Circus, is the most prominent external façade on the campus and the buildings, once renovated, have the potential to become among the most attractive in the University. The prominence of the site, which is the first part of the University seen by visitors approaching from either Westminster or The City, means that it has a very significant impact on the public perception of the University. In their current state, the run down, unoccupied buildings blight the most prominent corner of the campus and create a powerful negative impression to the community.
22. Once renovated and brought back into use, however, the Enterprise Centre can become a significant anchor for, and gateway to, the campus, providing a powerful and tangible demonstration of the university's strength, dynamism and professionalism and its commitment to enterprise. Situated on the major thoroughfare between the South Bank, Waterloo Station and on the main bus route leading to the Elephant and Castle, the Terraces can become a "living advertisement" for the University and an important element in the University's ability to market itself domestically and abroad.

23. On the other hand, if they remain un-renovated even as the redevelopment of the Elephant and Castle and other development activity takes place around it, the site will blight the University, increasingly putting us at a competitive disadvantage against our peers who continue to invest in their estates.
24. The importance of the St George's Circus site is recognised in the University's Estates Strategy, approved by the Board of Governors in June 2010, which establishes a long-term vision for the Southwark Estate and sets out the long term capital programme to grow student numbers. This strategy proposes to use the site as one of three main anchors at the corners of the University to create a unique and competitive "Campus within inner London". The Enterprise Centre fully realizes the strategic vision on this site and its development will provide the next stage in delivery of this estates vision, following on from the creation of the new Student Centre in the north east of the campus.

The Proposition – A Gateway and Enterprise Centre

25. The proposed project is to renovate the 17 grade 2 listed Georgian terraces and the Duke of Clarence public house at St George's Circus to create a new, open gateway to the University campus and to house an Enterprise Centre to support the University's strategic goal of becoming London's Enterprising University. The position of the buildings at the north-west perimeter of the University quarter provides a prominent visual and physical connection outwards to the local area and to both Westminster and the City of London.
26. The gateway will be a vibrant, welcoming and high quality facility, with a community fostered by shared internal and external spaces. It will be both outward and inward facing and, uniquely in the University, will allow people to move freely from the street, through the building and into the courtyard beyond without having to pass through security barriers. Within the building, the public space will include a reception and gallery, a public café and a suite of three meeting rooms. Together or separately these will provide considerable flexibility for public facing functions, including corporate entertaining.
27. The Enterprise Centre will also include a total of 156 workspaces of differing character, size and connectivity, with a common fit-out specification. They will enjoy a dual aspect with excellent levels of natural light. The accommodation includes four individual retail units, each with separate street access, and a range of flexible internal units that can be used as business incubator space or serviced office space, for either tenants or student enterprise associates. Centrally, at the top of the

former public house, office space will accommodate the University Enterprise team.

28. The proposed development has a total floor area of 2,917m² gross internal area which includes 748m² as new build construction. The design team has engaged creatively with the constraints and opportunities presented by the existing building to maximise its flexibility and to retain its heritage features as far as practical. Environmental sustainability has been intrinsic to the design from the outset. The use of energy has been minimised and, where ever possible, the building is to be naturally ventilated. The new build parts of the development are to have a green roof. Sustainability benchmarks have been set, against which the performance of the completed project will be assessed.
29. Consultation with Southwark Council planners, English Heritage, The Georgian Group and other local groups has now been completed and a detailed planning application lodged with the Local Authority.
30. Images and example floor plans for the proposed scheme are enclosed at Annex 1.

Alternative options

31. The Executive has looked at a range of alternative options to support the positioning of London's Enterprising University, and to address the operational issue of the dilapidated Terraces, and these are each described below. A summary of the options and the extent to which they address the challenges identified is presented in Table 1.

Do nothing at all

32. This option initially costs nothing to deliver in excess of current revenue budget allocations, simply allowing continuing dilapidation to the terraces, it but fails to deliver the strategic vision. This option is not considered viable. The University's competitive position would be eroded over time due to the poor public image created by the run-down buildings and there is a high risk of reactive expenditure to address issues such as public safety or occupation of the buildings (e.g. squatters). This option also gives rise to the risk of early enforcement notices from Southwark Council or English Heritage seeking to protect the grade 2 listed buildings. There is a high risk of reputational damage in the community and among community stakeholders, especially Southwark Council, if the current planning application is withdrawn or not acted upon, and this would be very likely to affect future planning applications for the University Estate.

Sell site for development

33. This option does not address the three strategic challenges identified at all or deliver the approved Estates Strategy for the creation of a campus in inner London. However, if sold, the University would be free of the need to find a use for the listed buildings – this obligation would fall to the buyer (freeholder). Unfortunately, the buildings are of very little commercial value in the current market. Moreover, this option sees the University giving up control of a prominent and strategically valuable part of the campus. Furthermore, under this option, the cost of the stabilisation works completed in 2007 (~£2.9m) would need to be written off in the financial accounts.

Do minimum

34. This option involves continuing spend to maintain the terraces in their current condition as vacant, unused buildings and to provide additional physical security measures to secure them from damage or squatters in the medium term (up to 5 years). The Enterprise team would remain in the second floor of TechnoPark. As in option 1, this fails to deliver the strategic vision and instead causes the University to lose its competitive position both for student choice and in delivering student success. The Enterprise team could continue to operate but would not be able to drive the degree of culture change or the extent of revenue growth projected for the new Enterprise Centre.

35. This case has been fully evaluated in the NPV appraisal as the base case against which the preferred case can be compared.

Knock down the Terraces and build a new Centre

36. A new state of the art Enterprise Centre could be built on a brown-field site to fully address all the strategic challenges identified. Demolition and new-build may even be cheaper than renovation of the terraces. Unfortunately, because the terraces are grade 2 listed buildings, demolition will not be permitted by English Heritage or Southwark Council.

Only renovate the façade

37. It would be possible to renovate the façade only and demolish the remainder of the terraces. This would address the most visible issue of appearance of the site from the road, but would not fully meet any of the challenges identified unless a new-build Enterprise Centre was constructed behind the façade. However, the listing of the terraces covers the whole of the existing buildings, so neither the demolition behind the

façade nor the subsequent new-build would be permitted by English Heritage or Southwark Council.

Partially renovate the Terraces

38. It would theoretically be cheaper to create an Enterprise Centre from only a subset of the listed terrace buildings and to continue to maintain the remainder in their current state, reducing the physical area for refurbishment/conversion. However, this option does not address the strategic vision, or create space from which meaningful use can be created. It also does not meet local authority or heritage requirements, leaving some of the listed terraces in their current, unoccupied condition

Renovate but for alternative use

39. Alternative uses may be possible for the renovated terraces. However, the constraints of the listing mean that the internal space, which must retain the original layout of rooms and most of the building partitions, is impractical for most purposes besides general office space – of which there is already an adequate supply in the University. It is impractical for teaching or for laboratories and workshops. It is similarly unsuitable for student accommodation. There is also no need for further student social facilities given the development of the Student Centre, now underway.

A new build behind the existing terraces

40. It would be possible to add a separate new build behind, and in addition to, the proposed renovation scheme, especially once the existing temporary building housing the Student Union has been removed. This additional space could be used, for example, to house more administration staff, enabling closure of TechnoPark for possible redevelopment. This option would address the four challenges identified but is significantly more expensive than the preferred option. There is no immediate need for the additional space created in this option, so there is little value in doing it now. However, it is part of proposed future phases of the Estates Strategy, currently unfunded, and the preferred option for this project is designed to allow such further development in the future, should the need arise.

Locate the Enterprise Centre off-site

41. It would be possible to develop the Enterprise Centre off site as a new build or refurbished external space, eliminating the excess costs associated with renovation of listed buildings (circa £2m).

42. This would give a visible sign of the increased emphasis on enterprise activity, but would not meet the strategic vision: firstly, the University's public image would still be blighted by the image of the run-down Terraces in a prominent location, and secondly, it would not address the wider "enterprising university" agenda because it would lose the connectivity and integration with wider University activities. The "gateway" opportunity would be missed.
43. In addition, the site chosen would have to be acquired through purchase or lease, adding to the costs of the project.

Locate the Enterprise Centre in the Chapel Building

44. The Chapel building is another historic, grade 2 listed building in University ownership. This building could also be developed as an Enterprise Centre but estimates indicate that build costs would be higher (circa £18m). This option trades a solution for the use of the St Georges Circus building for a solution to the Chapel building and so is assessed as partly addressing this challenge. However, the two sites offer very different propositions in terms of prominence, the gateway to the University, and the reputational value of the scheme. On these criteria, the terraces offer far greater benefits to the University than the Chapel.

Table 1: Overview of development options considered and the benefits provided by each

Option	Brief Description	Strategic Challenge 1 Student Choice: Positions LSBU to attract and retain students	Strategic Challenge 2 Student Success: Enhances opportunities and prospects for students	Strategic Challenge 3 London's Enterprising University: Supports creation of a pervasive culture of enterprise	Operational Challenge 4 Reuse of Buildings: Provides a sustainable solution for unoccupied grade 2 listed buildings	Conclusion
Do nothing at all	No further investment, continuing delapidation	X	X	X	X	Rejected
Sell site for development	Dispose of site on open market	X	X	X	✓	Rejected
Do minimum (Base Case)	Minimum to sustain unoccupied buildings	X	X	X	X	Comparator. C/F to appraisal
Renovate to create Enterprise Centre (Preferred	Full renovation and conversion of terraces	✓	✓	✓	✓	Preferred option. C/F to appraisal

Case)						
New Centre on terraces site	Demolish terraces and build new Centre.	✓	✓	✓	X	Rejected. Not possible due to grade 2 listing
Part renovate	Façade or partial site renovation.	Part ✓	Part ✓	Part ✓	X	Rejected. Not possible due to grade 2 listing
Renovate but alternative use	Use for, say, offices, teaching, student accommodation or other	X	X	X	✓	Rejected
A new build behind the existing Terraces	Additional new build behind refurbished Terraces	✓	✓	✓	✓	Rejected. Significant extra cost - can be done later
Locate Centre off-site	Secure another site + do minimum to terraces	Part ✓	Part ✓	Part ✓	X	Rejected
Relocate the Centre	Use Chapel building + do minimum to terraces	Limited	Part ✓	Part ✓	Part ✓	Rejected

The Financial Case

45. A full financial appraisal has been undertaken both for the preferred case and for the base case including a detailed NPV analysis. In addition, a sensitivity analysis on the primary assumptions in both cases has been included. These analyses, and the assumptions that underpin them, are described for each case, below.

The Preferred Case

46. The income potential of the Gateway and Enterprise Centre is based on three principal sources: 1) Increased student recruitment; 2) incremental Enterprise income; and, 3) direct income. The assessment of each is set out in the following paragraphs.

47. As described in the Strategic Case, above, the Enterprise Centre is primarily seen as a project to support the University's competitive position, providing a key marketing asset that will support significant growth in recruitment of undergraduate, post graduate and international students. The most likely case assumed in the model for NPV is that recruitment can be increased in the aggregate across all student sources by 1% per year above current recruitment levels (i.e. 36 incremental students in the first year, rising to 574 additional students in Year 15). Average income of £7,450pa per student is assumed and a conservative gross margin of only 33% is applied. This yields an overall contribution to the NPV of £17.3m.

48. The second most significant component of the income potential is from incremental Enterprise income. Existing targets require Enterprise income to grow by £8m over 5 years. There is no doubt that the Centre will facilitate this growth, and it is assumed that up to 10% of the growth can reasonably be attributed directly to the value added by having Enterprise Centre itself to support our enterprise activity. The NPV model assumes linear headline revenue growth to £8m additional income over the next 5 years followed by 5% nominal growth thereafter, and 10% of this incremental growth is assumed to be attributable to the Centre. It is further assumed that a 40% margin can be achieved on this income. This incremental revenue contributes £2.7m to the overall NPV.

49. The final component of income considered is the direct income that can be achieved from the facilities of the Enterprise Centre itself, including the retail outlets, incubation space, gallery and meeting rooms, and the Café. Many of these facilities will be used for University-centred events or to support student entrepreneurs and so are not primarily aimed at revenue generation. Their contribution is therefore likely to be modest. Overall, they add £2.9m to the overall NPV, of which nearly £2.3m arises from the rental of incubator and desk space.

50. Expenditure consists of two elements: 1) The initial cost of the renovation and development of the buildings; and then, 2) the ongoing running costs of the Centre once completed. The costs of development have been assessed through a detailed (Stage F) design process and independently quantified. Total costs are expected to be £12.8m through to project completion in April 2013 and these have an NPV of £(12.2m). Ongoing running costs, including long term maintenance of the buildings once completed, have been modelled using the standard University model for estate costs. On this basis, running costs of £720k per annum have been applied in the NPV analysis, resulting in an overall NPV contribution of £(6.9m).

51. The overall NPV analysis for the preferred case is summarised in the table below:

Project Element	NPV
Income	
Incremental Student Recruitment	£ 17.3m
Incremental Enterprise Income	£ 2.7m
Direct Income	£ 2.9m
Expenditure	
Construction Costs	£ (12.2m)
Ongoing running and maintenance costs	£ (6.9m)
Overall NPV	£ 3.9m¹

The Base Case

52. The base case consists of the minimum investment necessary to maintain the buildings in their current state and prevent them from degrading further. This will require ongoing structural maintenance but it will also require permanent security arrangements to prevent occupation (e.g. by squatters). The cost of this used in the NPV model is based on the recent experience of maintaining the buildings but recognises the recent investment made by the University to secure the structural integrity of the buildings as they now stand. An annual cost of £120k has been allowed for maintenance and security in this base case, resulting in an NPV of £(1.4m).

53. Much more significant to the financial analysis, however, is the impact of the blight on the reputation and image of the University from such a prominent set of unoccupied buildings on the campus. As other universities continue to invest in

¹ Totals may not sum due to rounding.

their campuses, and in their Enterprise infrastructure in particular, London South Bank University will begin to fall behind in the eyes of prospective students, and this will be reflected in declining recruitment. The NPV calculation has assumed that this reputational damage will result in a 0.5% decline in student recruitment every year cumulatively for 15 years, half the upside increment in student numbers in the preferred case. The consequence is an NPV contribution of £(8.5m).

54. Declining recruitment represents a negative impact on income (rather than an expense). In consequence, income and expenditure do not offset each other (as in the preferred case) but sum to a total NPV of £(9.9m). The substantial asymmetry in total NPV between the base case and the preferred case is largely a result of the build cost of the Enterprise Centre.

55. The overall NPV analysis for the base case is summarised in the table below:

Project Element	NPV
Income	
Declining recruitment	£ (8.5m)
Expenditure	
Ongoing maintenance and security costs	£ (1.4m)
Overall NPV	£ (9.9m)¹

Sensitivity Analysis

56. A sensitivity analysis has been performed to determine the robustness of the model to the key assumptions. It is clear, however, that the case for the project depends overwhelmingly on the assumptions made about student recruitment in both the preferred case and the base case. The sensitivity analysis has therefore focused on this. Other assumptions are either much more accurately known (e.g. project costs, direct income), otherwise relatively much less significant or both.

57. Reflecting the uncertainty in the assumptions made regarding student recruitment, the sensitivity analysis assessed the impact on the preferred case of halving the assumed growth rate from 1% pa to 0.5%, and of doubling it to 2%. In the base case, sensitivity analysis assessed the impact of assuming no decrement in student numbers and a doubling and quadrupling of the decline (to 1% and 2% pa respectively). Further, the analysis tested what growth rate was required for the preferred case to break-even (NPV=0) in Year 15 and, for the base case, showed the NPV if there was no net decline in student numbers.

58. The results of the sensitivity analysis are set out in the following table.

Sensitivity option	Absolute incremental student numbers ¹		NPV
	Year 1	Year 15	
Preferred Case			
0.5% incremental recruitment per year	18	277	£ (5.0m)
0.8% incremental recruitment per year	28	443	£ 0m
1% incremental recruitment per year	36	574	£ 3.9m
2% incremental recruitment per year	71	1,233	£ 22.8m
Base Case			
0% decremental recruitment per year	0	0	£ (1.4m)
0.5% decremental recruitment per year	-18	-277	£ (9.9m)
1% decremental recruitment per year	-36	-574	£ (18.8m)
2% decremental recruitment per year	-71	-1,233	£ (37.7m)

Assuming the most likely scenario (1% per annum growth in recruitment), the preferred case breaks even (NPV=0) in Year 13.

Summary

59. This paper makes the strategic case for the creation of a Gateway to the University which establishes LSBU as London's Enterprising University by the development of the grade 2 listed Georgian buildings at St Georges Circus into an Enterprise Centre.

60. The paper demonstrates that the proposed option addresses the key strategic challenges set out in *Student Success*, the University Corporate Plan 2011-14, while also providing a long term, sustainable use for buildings which are currently empty and run down. Moreover, the paper assesses a number of possible

¹ The basis for comparison is the current recruitment numbers across domestic undergraduate, post-graduate and international recruits.

alternative options to test that the preferred option delivers optimal strategic value.

61. Central to the recommended proposition is the need for the University to demonstrate tangibly the credibility of its ambition to be London's Enterprising University and to maintain its competitive edge in student recruitment. Without this investment in its estate, the University risks undermining its own position and losing out to its competitors in the market.
62. The economic case for the preferred option quantifies both the financial benefit and the costs of the project. The greatest financial benefit is assessed to come from the increased student recruitment that can be achieved as a result of the project as an essential component of the University's overall capital programme. There is a smaller, but still significant increase in Enterprise income projected for the preferred case and some direct income.
63. For comparison, a base case is also evaluated on the basis that the project does not proceed at all and expenditure is limited to the minimum necessary to maintain the buildings in their current condition. The primary financial consequence of the base case is that the blight that is created by the run-down buildings, both to the campus and to the image of the University, damages future student recruitment. The ongoing cost of maintenance is also significant.
64. Net present value calculations of the two cases, based on a 15 year project life and a 6% discount rate, demonstrate the following:

Case	Description	Project Cost	Break-even	NPV¹
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Base case	Minimum investment required to maintain listed buildings in current state	£ 2.2m	N/A	£ (9.9m)

65. Sensitivity analysis undertaken for both the preferred case and the base case demonstrates that the strength of the case is robust to variations in the assumptions used to evaluate them. To break even, the University needs to increase recruitment by 0.8% each year for the period (i.e. an extra 28 students in the first year).

¹ This is calculated over a 15 year period, representing a realistic lifespan for a renovation project of this nature, and using the University standard discount rate of 6%.

² This is the project cost of the renovation and development of the Enterprise Centre (excluding £740k already spent on the project). Additional post-completion running costs of £11.1m are included in the NPV calculation.

Annex 1 – The Enterprise Centre Scheme

The frontage to St George's Circus



The rear courtyard



The ground floor layout



Typical upper floor layout

