

	PAPER NO: PC.02(12)
Committee:	Property Committee
Date:	29 February 2012
Subject:	Enterprise Centre Impairment Review
Author:	Natalie Ferer, Financial Controller
Executive sponsor:	Richard Flatman, Executive Director of Finance
Recommendation by the Executive:	<p>It is recommended that the Property Committee note the principles underlying impairment reviews and the Executive opinion that no impairment will be required in respect of the Enterprise Centre. Property Committee should further note that approval on the basis of agreed service criteria will be required by the board.</p> <p>While the Enterprise Centre continues to deliver to agree service levels, no impairment 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)</p>

Executive summary

1. Please see paper.

	Board/Committee	Date
Matter previously considered by:	Executive External Auditors	January 2012
Further approval required?	Board of Governors	May 2012

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 Georges 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. The Enterprise Centre will serve to support the improvements the University wishes to achieve in its engagement with businesses and employers. 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.

Investment appraisal

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. The business case includes an NPV calculation over 15 years to support the proposal to proceed with the development. The project generates a positive NPV assuming only a small increase in student numbers as a result of this investment.
3. Other than the £13.5m noted above, The University has previously undertaken stabilisation works of £2.9m to the listed terraces at St Georges Circus. This has already been capitalised and will be included in the capital cost of the site in the University's accounts and comprises part of the overall cost to be considered in any impairment review.

Consideration of impairment

4. FRS11 deals with the impairment of fixed assets. For commercial entities the purpose of an impairment review is to ensure that fixed assets are recorded in the organisation's financial statements at no more than their recoverable amount, i.e. higher of the market value or value in use of the asset. However, market value is of no relevance unless the organisation is planning on selling or where there is no other way of valuing the asset.

5. Where the asset's main purpose is not the generation of revenue flows, as with the Enterprise centre, impairment is assessed according to the service potential of the asset. Paragraph 20 of FRS11 states:

If a fixed asset is not held for the purpose of generating cash flows, for example certain fixed assets held for charitable purposes, it is not appropriate to measure the asset at an amount based on expected future cash flows. In such cases it may not be appropriate to write down the fixed asset to its recoverable amount – an alternative measure of its service potential may be more relevant.

6. The service criteria for the project will need to be approved by the board but will include:

- provision of an important marketing component especially to recruit domestic and international students by providing a physical presence to show the University to be a dynamic, forward-looking and enterprising institution
- Provision of a high quality space necessary to support the improvements the University wishes to achieve in its engagement with businesses and employers.
- to provide an effective means to enhance the experience of students during their time at London South Bank University, being a hub of the University's student enterprise and entrepreneurship activities and opening an range of new enterprise opportunities to students.
- to provide a high profile "Gateway" to the campus, allowing us to welcome students, businesses, the community, students and potential students onto our campus, raising the university's profile locally and strengthening local perceptions about us.
- Provision of a place to showcase the University's enterprise credentials through the exhibition and gallery space, through the incubator space for start-up or spin-out businesses, through public, business or community events and as a reception for more university wide events.

Future impairment review

7. It is anticipated that the costs and associated revenues of the Enterprise Centre will turn out as planned in the NPV supporting the business case. But it is the service that the Centre will deliver that will be used to assess if impairment has

occurred in the future and not cashflows. Provided the building continues to meet the agreed service criteria, no impairment will be required.

8. Advice from the University's auditors, Grant Thornton, has been sought and they agree with the approach described above. As part of their 2012/13 year end work and in future years, they will assess if the Enterprise Centre is delivering the service (as agreed by the Board at the outset) and if it is, no impairment will be deemed to have occurred and therefore it will not be necessary to write down the value of the asset.

Approval by Board

9. It is recommended that when approving the Enterprise Centre project, the board should state that approval is on the basis of agreed service criteria as listed in section 3 above (which may be subject to future review and amendment before reporting to the Board in March). It will be for the board, on the advice of the Executive, to decide if these services are being delivered and therefore if it can support the carrying value of the asset, which is expected to be £16.4. This includes £2.9m stabilisation costs already incurred which is included in the total cost of the new asset in the accounts.