

For the third year in a row the National Students Survey shows that students at The Open University are the most likely to be satisfied with their experience.



The Open University

Financial Statements

for the year ended 31 July 2007



2007

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	Year Ended 31 July 2007 £million	Year Ended 31 July 2006 £million
RESULTS, CASH FLOWS, ASSETS AND RESERVES		
Funding council grants	212.1	201.1
Academic & other fees	123.1	115.6
Research grants and contracts	12.6	10.5
Other operating income	19.5	18.8
Interest receivable	8.5	6.7
TOTAL INCOME	375.8	352.7
SURPLUS FOR THE YEAR	12.1	9.4
Net cash flow from operating activities	27.7	(1.4)
Net returns on investments and servicing of finance	2.7	2.9
NET CASH FLOW BEFORE INVESTING ACTIVITIES	30.4	1.5
Fixed assets	159.1	140.4
Net current assets	72.3	64.8
TOTAL ASSETS LESS CURRENT LIABILITIES	231.4	205.2
TOTAL RESERVES	106.6	94.5
OTHER KEY STATISTICS	Number	Number
Number of full-time equivalent students	75,794	72,843
Total number of students	224,484	217,985
Subject areas assessed for teaching quality	25	25
Subject areas deemed 'excellent' in teaching	18	18
Percentage of subject areas deemed 'excellent' in teaching	72%	72%

Teaching quality assessments were undertaken by the Quality Assurance Agency.

In September 2007 the third National Student Survey was published, in which The Open University was ranked top in respect of overall satisfaction by its students for the third time.

Scope of the Financial Statements

The financial statements comprise the consolidated results of the University and its trading subsidiary undertakings, together the 'Group'. The most significant of these subsidiaries are Open University Student Budget Accounts Limited (OUSBA) and Open University Worldwide Limited (OUW). The subsidiaries donate the bulk of their taxable profits to the University.

OUSBA provides credit facilities to students to enable them to pay fees due to the University. OUW undertakes activities that, for legal and commercial reasons, are most appropriately channelled through a limited liability company: these relate mainly to the commercial exploitation of the University's course materials and its rights therein throughout the world.

Operating Review

The Open University has a distinctive place in UK higher education. It promotes educational opportunity and social justice by providing high-quality university education to all who wish to realise their ambitions and fulfil their potential, whatever their previous academic attainments. Through academic research, pedagogic innovation and collaborative partnership it seeks to be a world leader in the design, content and delivery of supported open and distance learning. The Open University is:

- open as to people – making university study available to an increasingly large and diverse student body and providing learning opportunities that meet individuals' lifelong needs;
- open as to places – providing learning opportunities in the home, workplace and community throughout the UK and selectively elsewhere, and serving an increasingly mobile population;
- open as to methods – using and developing the most effective media and technologies for learning, teaching and assessment, whilst attaching central importance to the personal academic support given to students, and working collaboratively with others to extend and enrich lifelong learning;
- open as to ideas – developing a vibrant academic community that reflects and supports the diversity of intellectual interests of all students and staff and that is dedicated to the advancement and sharing of knowledge through research and scholarship.

The Open University is committed to creating a curriculum that is fully attuned to student needs and aspirations, that reaches out to new groups of potential learners who seek career and personal advancement and that enables them to achieve success. It strives to provide the best possible learning experience for students, and so it is particularly pleasing that the first three National Student Surveys ranked The Open University top in respect of the overall satisfaction of its students.

The Open University has no formal entrance requirements for admission to its undergraduate degree and diploma programmes. As students are not studying at a conventional university campus but are reliant on the resources available, or delivered to them, at home or their workplace, The Open University faces unique challenges in retaining students in study and helping them to progress to further courses. It owes its success in this regard to its Supported Open Learning methodology. It has been reported previously that over the past few years 18 out of the 25 subject areas assessed for teaching quality have been deemed excellent, a proportion bettered by few conventional universities.

The key statistics on page 2 show that over the year student numbers grew by 6,499 or 3% to 224,484 and full-time equivalents by 2,951 or 4% to 75,794. Over the nine years since 1998, the increase in full-time equivalents was 7,707 or 11% and in individual students 59,195 or 36%. The faster growth in individual students reflects an increase in the proportion of students choosing to study shorter courses, coupled with a significant increase in the number of students validated by the University. In terms of full-time equivalents, 35% of all part-time undergraduates in UK higher education institutions study with The Open University.

In October 2006, the University launched OpenLearn, a major new open content initiative to make a selection of learning materials and on-line learning tools available to learners and educators free of charge on the internet under a Creative Commons licence. The philosophy of open content is entirely commensurate with the University's founding principles of widening access to high quality educational opportunities. In February 2006, the University secured a grant of US\$4.5 million (£2.5 million) from The William and Flora Hewlett Foundation towards OpenLearn's estimated £5.7 million costs; in June 2007 the University was awarded a further US\$4.5 million from the Foundation. The initiative is being undertaken as a two-year pilot, during which the University is exploring its technical and business impacts, as well as its longer-term sustainability.

Results for the Year

The Group's results are summarised in the Financial Highlights on page 2.

Total income increased by £23.1 million or 7% to £375.8 million.

Funding council grants increased by £11.0 million or 5% to £212.1 million. The recurrent grant from the Higher Education Funding Council for England (HEFCE) was £172.9 million and represents 87% of all recurrent grants from the various funding councils. It increased by £12.2 million or 8% from the total of £160.7 million in 2005/06, although that total had been inflated by an additional grant of £4.2 million for that year announced and paid in October 2006; thus the underlying increase in HEFCE recurrent grant was £16.4 million. £12.0 million of the increase represented the significant increase in widening participation funding to recognise the additional costs of recruiting and supporting students from under-represented groups, with the balance due largely to inflation. The recurrent grants from other funding councils kept pace with inflation. Specific grants from HEFCE fell by £3.2 million to £7.8 million as a result of the completion of work funded by HEFCE to meet the costs of complying with the Disability Discrimination Act.

Fee income increased by £7.5 million or 6% to £123.1 million. The bulk of the increase was in respect of fees paid by students, or on their behalf by their employers, in the United Kingdom, which increased by £7.2 million to £105.4 million. The overall increase can be ascribed to the 4% increase in full-time equivalent students, together with the net effect of price increases and changes in the subject mix studied by students.

Income from research grants and contracts increased by £2.1 million or 20% to £12.6 million, due largely to increased income from sources other than Research Councils. Interest receivable increased by £1.8 million or 27% to £8.5 million as a result of higher cash balances and the significant increases in market interest rates over the past year, with the base rate increasing from 4.5% on 1 August 2006 to 5.75% on 31 July 2007. Other income increased by £0.7 million or 4% to £19.5 million.

Expenditure increased by £20.5 million or 6% to £363.7 million.

Total staff costs increased by £15.5 million or 7% to £225.3 million. £7.2 million of this increase resulted from the nationally negotiated pay awards, and £1.3 million from the progression of staff up incremental pay scales, staff promotions and merit increases. The balance of £7.0 million arose from the increase in full-time equivalent staff.

Other (non-pay) operating expenses, excluding depreciation and interest, increased by £3.8 million or 3% to £125.6 million. The University spent £3.4 million providing financial assistance to students in addition to the £8.3 million of funding councils' access funds and bursaries disbursed to eligible students.

The net result was a surplus for the year of £12.1 million compared to a surplus of £9.4 million last year.

The surplus for the last two years has exceeded the target of 2% expressed in the University's financial strategy, the first period since 1999 that this has been achieved. The first years of this decade were years of investment in international, curriculum and technological developments and, whilst these continue, strong control over recurrent costs has allowed them now to be funded out of recurrent income. The result for 2005/06 was boosted by additional grant of £4.2 million for that year, announced and paid by HEFCE in October 2006; without that the target surplus would not have been achieved. For 2006/07 the University set its expenditure budget to deliver the target surplus of 2% or £7.5 million at a time when the national negotiations over pay were subject to industrial action. The three year national pay deal that was agreed increased cumulative scale rates over the period in line with the levels assumed by the University but the staging of the implementation of the award meant that the actual cost experienced by the University was around £3.3 million lower than budgeted. The balance of £1.3 million of the increase in the surplus over target to £12.1 million reflects a mixture of cost efficiencies and increases in some elements of income achieved over the year.

Cash Flow

The Financial Highlights on page 2 show that the Group generated a net cash inflow of £30.4 million before investing activities, a very large increase of £28.9 million compared to the previous year. The increase was due mainly to three factors: an increase in creditors this year of £9.6 million compared to a reduction last year of £9.2 million due to a combination of several reasons, the most significant of which was related to the increase in student recruitment this year compared to the small reduction last year and the consequent increase in fees in advance and deferred income this year of £3.0 million compared with a similar reduction last year; a reduction in debtors this year of £4.9 million, most of which is accounted for by the additional HEFCE grant of £4.2 million announced and paid in October 2006; and, the increase in surplus and depreciation for the year.

Capital Projects

Additions to freehold land and buildings during the year totalled £25.0 million, of which £15.7 million was financed by new deferred capital grants. £13.6 million of the additions comprised the costs of major refurbishments of several buildings on the Walton Hall campus. During the year a new building to house The Open University in Wales's regional centre in Cardiff was purchased for £4.2 million, since its acquisition provided benefits in terms of flexibility and value for money. The balance of the additions, £7.2 million, related to the construction of a new building that will incorporate a facility for research into ambient and ubiquitous technologies, which will be completed in early 2008.

Long-Term Borrowing Facility

The University has a fully drawn down 25 year long-term borrowing facility with Royal Bank of Scotland for £60.0 million to finance a significant proportion of its recent and current building programme. The facility is structured to provide maximum flexibility at minimum cost over its whole life, which is determined at the option of the University, and will be repaid in equal annual instalments from 2009. The facility is secured on a part of the University's Walton Hall campus in Milton Keynes.

Royal Bank of Scotland also provides a loan of £3.0 million to one of the University's subsidiaries on similar terms.

Financial Strategy

The University's financial strategy is designed to maintain sufficient financial flexibility at all times. It is expressed through three parameters:

- to maintain net current assets at a minimum of 30 days' expenditure;
- to at least balance normal recurring income with normal recurring expenditure, taking one year with another, over the medium term and to aim for a surplus of 2% of income;
- to restrict the maximum level of borrowings to the value of total fixed assets less deferred capital grants.

These parameters are considered in the development and implementation of the Group's treasury policy, its normal planning, budgeting and medium-term forecasting cycle, and in the planning and execution of its capital building programme.

The University's Finance Committee reviewed the financial strategy during the course of the year and the University's Council accepted the recommendation that it should continue unchanged.

Treasury Management

The financing and liquidity of the Group and its exposure to financial risk are managed through the central treasury function of the Finance Division. The Group's formal financial strategy, discussed above, sets minimum liquidity levels in order to ensure that sufficient financial flexibility is retained. Each year, as part of its normal planning processes, rolling five year financial forecasts are prepared: this process incorporates a review of capital expenditure and cash generation and so should enable any necessary future borrowing requirements to be negotiated well in advance of need.

The Group's foreign currency earnings form a very small proportion of total income and hence the overall exposure to exchange rate risk is small. It is therefore not appropriate to adopt particular strategies to reduce this risk, although this policy is kept under review.

The Group is potentially vulnerable to changing interest rates on its cash balances, which are all held in the form of interest bearing deposits with financial institutions. Interest income is however a small proportion of total income and borrowings represent only approximately half the value of total deposits and cash balances. The cornerstone of the Group's treasury policy remains the minimisation of risk: it limits and monitors the level of funds that may be placed in fixed rate deposits or invested in financial instruments that mature after one year and up to five years. Policies, incorporating clearly defined controls and reporting requirements, are in place to monitor credit and market risk, as well as to maintain the operating financial flexibility of the Group. Overall, the Group has low vulnerability to changing interest rates.

The University's Finance Committee reviewed the Group's treasury policy during the course of the year and the University's Council accepted the recommendation that it should remain unchanged.

Accounting Policies

The Group financial statements have been prepared in accordance with the Statement of Principal Accounting Policies set out on pages 20 to 23. In accordance with Financial Reporting Standard 18, *Accounting Policies*, the University's Finance Committee has reviewed the Group's accounting policies and considers them to be the most appropriate to the Group's operations.

Pensions

The University has only one defined benefit pension scheme available to its UK based staff, the national Universities Superannuation Scheme (USS).

The disclosures in Note 24 on pages 40 to 42 in respect of USS refer to the latest actuarial valuation, as at 31 March 2005, and an estimate of the funding position as at 31 March 2007. The funding level has increased from 77% at 31 March 2005 to 91% at 31 March 2007, whilst on the basis set out in Financial Reporting Standard 17 *Retired Benefits* the funding level has improved from approximately 90% to above 109%. The next valuation, as at 31 March 2008, will not be published until early 2009.

Risk and Risk Management

In common with all UK universities, a significant proportion of income is dependent upon government policy, which is discussed in more detail in the section on future developments. The risks associated with this dependency, together with those associated with recruiting students in a competitive market and then delivering materials to those students and supporting them throughout their studies, are monitored and actively managed. A description of the key elements of the University's system of risk identification and management appears on page 17.

Creditor Payment Policy

It is the Group's policy to abide by terms of payment agreed with suppliers. Unless special terms apply, payment is made within 30 days of receipt of a valid invoice or after acceptance of the goods or services, whichever is the later.

Diversity and the Employment of Disabled Persons

One of the University's current strategic priorities is to diversify and develop its staff base. Employee recruitment and grading processes, together with programmes for employee involvement, communication and training are all designed to promote equal opportunity to all irrespective of sex, race, religion, colour or sexual orientation.

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. If existing employees become disabled, every effort is made to continue their employment with the University and arrange appropriate training. It is the University's policy that the training, career development and promotion of disabled persons should, as far as possible, be identical with that of other employees.

Employee Involvement and Training

The University places considerable value on the involvement of its employees and on good communication with them. Staff are informed through regular meetings, the extensive University intranet, open fora, staff newsletters, staff magazines and other means. Staff are encouraged to participate in formal and informal consultation at University and Unit level, through membership of formal Committees and informal working groups. The University has an Organisational Development and Change Unit that is responsible for providing technical and general training to all levels of staff and to help build leadership capacity.

Constitution, Governance and Regulation

The Open University was incorporated by Royal Charter on 30 May 1969. It is registered at Companies House under number RC 000391 and its registered address is Walton Hall, Milton Keynes, MK7 6AA. Certain parts of the Charter, and the Statutes appended thereto, have been amended by the Privy Council, the last of which amendments were made in December 2005.

The Council of the University is, subject to the provisions of the Charter and Statutes, the executive governing body of the University and is responsible for the administration and management of the revenue and the property of the University. The University's corporate governance arrangements are described on pages 10 to 15 and the members of the University Council during the year ended 31 July 2007 are listed on page 11.

The University is an exempt charity within the meaning of the Charities Act applying in England and Wales. As a charity registered in Scotland, the University is registered with the Office of the Scottish Charity Regulator under number SC 038302.

The University is regulated principally by HEFCE under a Financial Memorandum. The University complies with conditions of grant set out in funding agreements with the relevant grantor.

The University's principal advisors are listed on page 43.

Future Developments

Last year's report referred to two pieces of good news for the part-time higher education sector in general and The Open University in particular. The first related to an increase of more than a quarter in the funding for statutory fee support for the poorest part-time students coupled with a quadrupling of the Access to Learning Fund allocation for part-time students, which universities have been able to use either as an additional fee support on top of the statutory fee support or to increase help to students facing financial hardship. The second related to the decision of HEFCE to allocate an additional £40.0 million for 2006/07 and 2007/08 to ensure that students from disadvantaged backgrounds are not deterred from studying part-time. This additional funding has formed part of HEFCE's overall widening participation funding to recognise the additional costs of recruiting and supporting students from under-represented groups. As a result of this funding, The Open University's HEFCE grant for widening participation increased from £17.4 million in 2005/06 to £29.4 million in 2006/07 and has remained at this level for 2007/08. These two initiatives have helped the University increase the proportion of students from the lowest socio-economic groups and so it is important that this funding continues into the future.

On a less welcome note the Government announced on 7 September 2007 that from 2008/09, it will phase out funding for the majority of students in England who are studying for a qualification that is equivalent to, or lower than, a qualification they have already been awarded. Funding for students studying in Scotland and Wales is not affected by this decision. HEFCE has been charged with implementing this new policy and issued on 27 September 2007 a consultation paper with a deadline for responses of 7 December 2007. On 11 October 2007 HEFCE released the results of its own modelling of the impact of this change on universities, which indicated that, over time, the University could lose some £30 million of its main teaching grant, albeit that the current cash level of that grant would be maintained at the current level of around £140 million per annum for at least the next three years. This modelling shows that the effect on part-time students is ten times the effect on full-time students. The precise impact of this new policy will not be known until March 2008 when grants to universities for 2008/09 are announced. The Open University believes that the Government's decision to withdraw funding from most aspects of graduate development is damaging in three respects: it runs counter to the Leitch agenda on skills and life-long learning; it penalises universities that have worked successfully to support lifelong learning; and, it further exacerbates the under-funding of part-time provision, which has not been able to benefit to the extent that the full-time sector has from increases in student fees. The Open University will engage with both the Government and HEFCE to ensure that the impact on both students and the University's ability to support them is minimised.

On 4 October 2007 the University signed a business transfer agreement and a collaboration agreement with the Royal College of Nursing (RCN) for the transfer of the latter's distance education arm to the former. Although this transfer will not immediately result in a significant increase in income (currently the turnover of this activity is less than £2.0 million per annum), the curriculum and key staff transferring to the University will add breadth to the University's offering in the health and social care arena and the strategic alliance with RCN should help grow student numbers in the future. HEFCE has recognised the importance of this initiative by awarding the University a grant of £1.4 million to fund the transition costs and an increase in funded student numbers for future years.

Against the uncertainties resulting from changes in Government policy are balanced the University's considerable strengths. It is the leader in the UK part-time higher education market and is the only university that can operate at scale throughout the UK, thus having the capability of fulfilling a national role. With its open access policy, it promotes fair access for all who want to study higher education courses and so has a substantial and unique contribution to make to widening participation in the UK. The Open University has earned a world-wide reputation for the quality of its teaching, where it is rated amongst the best in the UK for the excellence of its materials and for its approach to supported open learning, which uses methods and technologies that are appropriate to the students and their learning needs. This has been confirmed by the University's top place for its students' overall satisfaction in the National Student Survey for three years in succession.

The University is also monitoring the spread of new technologies and the scope they provide for pedagogic innovation to the benefit of students. Some of the University's courses are already delivered wholly on-line and its current learning and teaching strategy aims to ensure that all courses will have an on-line component by the end of 2007. The University's development of a virtual learning environment for phased implementation over the next two years will provide a consistent and enhanced learning experience for students.

On the international front, the University has maintained its direct teaching activities in Europe and its partnership activities in Eastern Europe and the rest of the world. Through these activities some 45,000 students across 30 countries benefit from the University's materials and pedagogy. At the same time the University has boosted its involvement in teaching in Africa and Asia by working with a variety of public and private organisations. To this end, in 2008, the University is launching a degree in computer studies for students in several countries in partnership with a large Indian corporation.

The aim of the University's research strategy is to focus both research support and effort more tightly around themes of excellence in order to increase the University's research standing as well as improve its ability to attract external funding. This is particularly important at a time when the funding of research in UK universities is under review and so subject to some uncertainty, and in the lead up to the national Research Assessment Exercise in 2008. Opportunities are being developed for partnering with commercial organisations, national charities and other universities, in order to secure new routes for the development, dissemination and exploitation of the University's research base and its associated enterprise agenda. In this regard it was very pleasing that in September 2007 the Wellcome Trust awarded the University a grant of £1.3 million in partnership with the London School of Hygiene and Tropical Medicine for the development of diagnostic equipment for the detection of tuberculosis as a by-product of work done for the University's extensive space research programme.

Conclusion

Through prudent financial management and systematic review of strategy, values and processes, the University continues to operate effectively in an increasingly challenging environment. It has re-affirmed its strong commitment to widening participation and to delivering high quality services, receiving additional funding for the former and continued national recognition for the latter. The University's record of continuous improvement and innovation in relation to student support, learning, teaching, assessment, curriculum and research should maintain its unique position in the higher education sector.

R DELBRIDGE
Treasurer

M S HEDGES
Finance Director

B M GOURLEY
Vice-Chancellor

20 November 2007

Corporate Governance and Accountability Arrangements

The Open University is a body incorporated by Royal Charter. Although the University does not have shareholders and is not a listed company, the University's Council is committed to achieving high standards of corporate governance, in line with accepted best practice. Accordingly, the University's Council believes it is appropriate to report on compliance, as far as is practicable, with the appropriate provisions of the Combined Code issued by the Financial Reporting Council on 23 July 2003.

Throughout the year ended 31 July 2007, the University has been in compliance with all the Code provisions set out in the Combined Code insofar as they relate to universities.

In November 2004 the Committee of University Chairmen issued a Guide for Members of Higher Education Governing Bodies in the UK which incorporates a Governance Code of Practice. This code is voluntary and is intended to reflect good practice in a sector which comprises a large number of very diverse institutions. Institutions should state that they have had regard to the code, and where an institution's practices are not consistent with particular provisions of this code, an explanation should be published in the corporate governance statement of the annual audited financial statements.

In respect of the year ended 31 July 2007, the University's Council can report that there was no element of this Code with which the University's practice was not consistent.

The University Council

The membership of the Council is set out in the University Statutes. There are currently 25 members comprising ex officio and co-opted external members; the Vice-Chancellor; the President of the Open University Students Association (OUSA); employees who are members of Senate, the University's academic governing body, who are elected by the Senate; other employees elected by their respective constituencies; and, a student appointed by OUSA. This is the first year of operation since the Council membership decreased from 35 to 25. The roles of Chairman and Vice-Chairman of the Council are separated from the role of the University's Chief Executive, the Vice-Chancellor.

The University's Council has adopted a statement of primary responsibilities, which is published on the University's Freedom of Information and governance websites. This statement sets out the Council's responsibilities in respect of the proper conduct of public business, strategic planning, monitoring effectiveness and performance, finance, audit, estate management, human resource management, equality and diversity, students' union, health and safety, and the appointment of the University Officers.

The Statement of Responsibilities of the University's Council on pages 16 and 17 describes its responsibilities in respect of maintaining accounting records, preparing financial statements and accountability arrangements. It also summarises the University's system of internal control and its system of risk identification and management.

The Council has the following committees: a Strategic Planning and Resources Committee; a Finance Committee; a Membership Committee; a Remuneration Committee; a Staff Strategy Committee; an Estates Committee; and, an Audit Committee. All of these committees are formally constituted with terms of reference. With the exception of the Strategic Planning and Resources Committee, the Chairman of each committee is an external Council member. The Council, on the recommendation of the Membership Committee, appoints all members of the Council who sit on these committees. The Council also appoints external members co-opted to Council committees. The corporate governance disclosures in respect of these committees follow those in respect of the Council itself.

The Council met five times during the year. The members of the University's Council during the year ended 31 July 2007, and their attendance at the meetings held during their membership, were:

THE OPEN UNIVERSITY

CORPORATE GOVERNANCE STATEMENT (continued)

Ex-officio members who are also officers of the University:

Pro Chancellor & Chairman of Council	Lord Haskins (5/5)
Treasurer	Mr R Delbridge (5/5)
Vice-Chancellor (Employee)	Professor B M Gourley (5/5)

Ex officio members:

President, OU Students Association	Ms R Rosenthal (to 31 March 2007) (3/3) Mr J Orchard (1 April 2007 to June 7 2007) (1/1) Ms L Carson (from 8 June 2007) (0/1)
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Elected members:

Members of Senate (Employees)	Dr R K Hamilton (4/5) Dr C K Lloyd (5/5) Dr S M Northover (5/5) Dr P W Skelton (5/5) Professor A W Tait (4/5)
Associate Lecturers (Employees)	Dr M Hopkins (4/5) Ms E Rankin (5/5)
Open University Students Association	Mr G Macfarlane (5/5)
Non-academic Staff (Employees)	Mrs C A Signorini (4/5)

External members co-opted by Council:

Mr S Barnett (3/5)	Mr A Peck (5/5)
Mr E Briffa (5/5)	Mr M Steen (3/5)
Mr R Dawe – Vice-Chairman (5/5)	Professor L Wagner (3/5)
Dr A Freeling (5/5)	
Mrs C A Ighodaro (4/5)	
Dr A G Limb (3/5)	
Mr H G O'Brien (5/5)	
Ms C McEwen (3/5)	
Mr P Mantle (4/5)	

Officers in attendance at Council meetings:

University Secretary	Mr A F Woodburn
Finance Director	Mr M S Hedges
Director, Students	Mr W S Swann
Pro-Vice-Chancellors	Dr P M Clark
	Professor B R Heywood
	Professor L J C Jones
	Professor D M Vincent

Strategic Planning and Resources Committee

In respect of its strategic and development responsibilities, the Council receives recommendations and advice from the Strategic Planning and Resources Committee, a joint committee of the Council and of the Senate, the body responsible for the University's academic affairs. It recommends to Council the distribution of resources within the University on the basis of its strategic direction and requirements.

The Strategic Planning and Resources Committee met three times during the year. The members during the year ended 31 July 2007, and their attendance at the meetings held during their membership, were:

External members of Council Lord Haskins (2/3)
Mr R Dawe (3/3)
Mr R Delbridge (3/3)
Dr A G Limb (1/3)

Employees Professor B M Gourley – Vice-Chancellor, Chair (3/3)
Professor R Allen – Senate elected member (from 1 September 2006) (3/3)
Professor B R Heywood – Pro-Vice-Chancellor (2/3)
Professor D A Brannan – Dean's representative (to 31 August 2006) (0/0)
Dr P M Clark – Pro-Vice-Chancellor (3/3)
Mr M S Hedges – Finance Director (non-voting) (2/3)
Mr G A Lammie – Senate elected member (2/3)
Professor D Miell – Deans' representative (from 1 September 2006) (3/3)
Professor A De Roeck - Senate elected member (from 1 September 2006) (2/3)
Professor L J C Jones - Pro-Vice-Chancellor (3/3)
Professor R E Moon – Senate elected member (to 31 August 2006) (0/0)
Dr P J Sarre – Senate elected member (to 31 August 2006) (0/0)
Mr W S Swann – Director Students (2/3)
Professor D M Vincent – Pro-Vice-Chancellor, Deputy Chair (3/3)
Mr M A Watkinson – Director, Strategy (non-voting) (3/3)
Mr A F Woodburn – University Secretary (3/3)

Membership Committee

The Membership Committee brings forward recommendations for the appointment or re-appointment of co-opted members of the Council, including recommendations on periods of office. It also makes recommendations to the Council for the appointment of Council members to committees of the Council and committees of the University to which Council members are appointed. Its recommendations to Council take into account the balance of skills, knowledge and experience of Council members and are based on assessment against objective criteria. It also considers issues of succession planning within the Council. It provides the Council with an annual review of attendance at meetings of the Council and its committees and monitors the attendance of members on a regular basis.

The Membership Committee met three times during the year. The members during the year ended 31 July 2007, and their attendance at the meetings held during their membership, were:

External members of Council Lord Haskins - Chair (3/3)
Mr S Barnett (2/3)
Ms C McEwen (from 20 February 2007) (2/2)

Employees Professor B M Gourley – Vice-Chancellor (3/3)
Ms E Rankin (to 31 July 2007) (3/3)
Professor A W Tait (from 6 December 2006) (1/2)

Finance Committee

The Finance Committee reviews and then recommends to Council the University's annual revenue and capital budgets and monitors performance in relation to the approved budgets. It reviews and then recommends to Council the financial regulations and financial policies that are applied by management. It reviews the annual financial statements, including significant matters of judgement arising that require review, and meets with the external auditors to discuss the outcome of their audit; it then recommends the financial statements to Council for approval.

The Finance Committee met six times during the year. The members during the year ended 31 July 2007 (of whom the Chair and two others have recent and relevant financial experience), and their attendance at the meetings held during their membership, were:

<i>External members of Council</i>	Mr R Delbridge – Chair (6/6) Lord Haskins (6/6) Mr H G O'Brien (3/6) Mr M Steen (from 29 September 2006) (4/6)
<i>Other external members</i>	Mr J Tasker (3/6) Mr F Neale (from 29 September 2006) (6/6)
<i>Employee</i>	Professor B M Gourley – Vice-Chancellor (6/6)
<i>Officers in attendance</i>	Mr M S Hedges – Finance Director Professor D M Vincent – Pro-Vice-Chancellor Mr A F Woodburn – University Secretary

Remuneration Committee

The Remuneration Committee determines the annual remuneration of the most senior staff, including the Vice-Chancellor. The cost of living salary increases for all staff are determined by national pay negotiations for all universities.

External members of Council receive no remuneration for their services although expenses incurred in attending meetings are met by the University. Members of Council who are employees of the University receive no additional remuneration for their services to Council although, once again, expenses incurred in attending meetings are met by the University.

The Remuneration Committee met once during the year. The members during the year ended 31 July 2007, and their attendance at the meetings held during their membership, were:

<i>External members of Council</i>	Lord Haskins - Chair (1/1) Mr S Barnett (1/1) Mr R Dawe (1/1) Mr R Delbridge (1/1)
<i>Employee</i>	Professor B M Gourley – Vice-Chancellor (1/1)

Staff Strategy Committee

The Staff Strategy Committee advises the Council, subject to the powers of the Senate in respect of academic staff, on the human resources implications of the strategies of the University. It contributes to the development of the University's policies and strategies relating to human resources and monitors their implementation. It also satisfies itself and provides assurance to the Council of the effectiveness of policies in respect of human resources matters.

The Staff Strategy Committee met twice during the year. The members during the year ended 31 July 2007, and their attendance at the meetings held during their membership, were:

<i>External members of Council</i>	Mr S Barnett – Chair (2/2) Mr A Peck (2/2)
<i>Other external member</i>	Ms A Watts (2/2)
<i>Employees</i>	Mr A Burrell (1/2) Professor B M Gourley – Vice-Chancellor (0/2) Professor B R Heywood - Pro-Vice-Chancellor (2/2) Professor A B Lane (2/2) Dr C K Lloyd (2/2) Mr A F Woodburn – University Secretary (2/2)

Estates Committee

The Estates Committee develops the University's estates strategy for recommendation to Council. It recommends the rolling capital programme and monitors progress and expenditure thereon.

The Estates Committee met three times during the year. The members during the year ended 31 July 2007, and their attendance at the meetings held during their membership, were:

<i>External member of Council</i>	Mr P Mantle – Chair (3/3)
<i>Other external members</i>	Mr R Booker (2/3) Mr R J Chenery (2/3)
<i>Employees</i>	Professor J Fleck (2/3) Mr M S Hedges – Finance Director (3/3) Professor B R Heywood – Pro-Vice-Chancellor (0/3) Ms A L Howells (3/3) Dr R J Matela (2/3) Mr B J Palmer (3/3) Mrs N Whitsed (3/3) Mr A F Woodburn – University Secretary (3/3)

Audit Committee

The Audit Committee comprises wholly external members, drawn from both within and outwith the Council, and so has no executive responsibility.

The Audit Committee met three times during the year. The members during the year ended 31 July 2007 (of whom the Chair and two others have recent and relevant financial experience), and their attendance at the meetings held during their membership, were:

<i>External members of Council</i>	Mrs C A Ighodaro – Chair (3/3) Mr A Peck (3/3) Professor L Wagner (from 20 February 2007) (1/2)
<i>Other external members</i>	Mr G Wilkinson (2/3) Ms J Seeley (from 30 March 2007) (2/2)

The Audit Committee relies substantially on the work of the internal and external auditors, on the information provided by management and on the response of management to the questions it raises.

The remit of Audit Committee includes:

- reviewing the effectiveness of the Group's arrangements for risk management, control, and governance;
- satisfying itself and assuring Council, with advice from the Chief Auditor, that satisfactory arrangements are in place to promote economy, efficiency and effectiveness;
- reviewing and approving the terms of reference of the internal audit function and monitoring its performance and effectiveness;
- advising the Council, as necessary, on the appointment and remuneration of the external auditors, and monitoring their performance and effectiveness;
- reviewing with the external auditors the scope and nature of the audit, including the report to Audit Committee written by the external auditors;
- assessing compliance with the regulatory framework relating to audit issues.

The external auditors have a standing arrangement to meet the Audit Committee members regularly without staff present. The auditors also attend meetings with staff to consider the items listed above and to review plans for the audit process.

The University's internal audit function is responsible for providing an objective and independent appraisal and assurance on all the University's activities, financial and otherwise. In particular, assurance on the arrangements for risk management, control, governance and value for money is delivered to the Council and the Vice-Chancellor, through the Audit Committee. All reviews undertaken by internal audit are considered with the management in the relevant operational unit. The reviews are also considered by the Vice-Chancellor, University Secretary and Finance Director and appropriate action confirmed to the Audit Committee. The Chief Auditor has unfettered access to the Audit Committee.

The internal audit work programme is drawn down from a risk-focused Audit Plan, which remains dynamic and is updated regularly to reflect changes in the University's risk profile. Internal audit monitors the progress made by units in implementing recommendations to ensure that they are addressed in a timely and effective manner, and reports regularly thereon to the Audit Committee.

The Audit Committee also keeps under review the independence and objectivity of the external auditors. In 2006 the decision was taken to segregate audit related services from non-audit services in order to further enhance the independence of the external auditors. Following a tender exercise PricewaterhouseCoopers LLP were re-appointed as external auditors and KMPG LLP were appointed as taxation advisers with effect from 1 January 2007. The fees paid to PricewaterhouseCoopers LLP for taxation services during the year ended 31 July 2007 are in respect of services provided either prior to 1 January 2007, in respect of finalising corporation taxation returns for the previous financial year, or services in other countries where the transfer of work has had to be staged.

THE OPEN UNIVERSITY

RESPONSIBILITIES OF THE UNIVERSITY'S COUNCIL

In accordance with the University's Charter and Statutes, the Council is responsible for the administration and management of the University's affairs and is required to present audited financial statements for each financial year.

The Council is responsible for ensuring that proper accounting records are kept that disclose with reasonable accuracy at any time the financial position of the University and enable the financial statements to be prepared in accordance with the University's Charter and Statutes, the Statement of Recommended Practice on Accounting for Further and Higher Education Institutions and other relevant accounting standards. In addition, within the terms and conditions of the Financial Memorandum between the Higher Education Funding Council for England (HEFCE) and the University's Council and the HEFCE Accounts Direction, the Council, through its designated office holder, is required to prepare financial statements for each financial year that give a true and fair view of the University's state of affairs and the surplus or deficit and cash flows for that year.

In causing the financial statements to be prepared, the Council has ensured that:

- suitable accounting policies are selected and applied consistently;
- judgements and estimates are made that are reasonable and prudent;
- applicable accounting standards are followed, subject to any material departures disclosed and explained in the financial statements;
- financial statements are prepared on the going concern basis unless it is inappropriate to presume that the University will continue in operation. The Council is satisfied that it has adequate resources to continue in operation for the foreseeable future: for this reason, the going concern basis continues to be adopted in the preparation of the financial statements.

The Council has taken reasonable steps to:

- ensure that funds from HEFCE, the Scottish Funding Council (SFC), the Higher Education Funding Council for Wales (HEFCW) and the Training and Development Agency for Schools (TDA) are used only for the purposes for which they have been given and in accordance with the Financial Memorandum with HEFCE and the Funding Agreements with SFC, HEFCW and TDA and any other conditions which the Funding Councils or Agency may from time to time prescribe;
- ensure that there are appropriate financial and management controls in place to safeguard public funds and funds from other sources;
- ensure that there are effective systems of risk identification and management that cover all risks, produce a balanced portfolio of risk exposure, are based on a clearly articulated policy and approach, are monitored and reviewed regularly, are integrated into normal business processes and aligned to the University's strategic objectives and are managed by heads of units and senior managers;
- safeguard the assets of the University and prevent and detect fraud;
- secure the economical, efficient and effective management of the University's resources and expenditure.

RESPONSIBILITIES OF THE UNIVERSITY'S COUNCIL (continued)

The key elements of the University's system of internal control, which is designed to discharge the responsibilities set out above, include the following:

- definitions of the responsibilities of, and the authority delegated to, heads of academic and administrative units;
- a medium and short-term planning process, supplemented by detailed annual income, expenditure, capital and cash flow budgets;
- regular reviews of academic performance and quarterly financial reviews involving variance reporting and updates of forecast outturns;
- defined and formalised requirements for approval and control of expenditure, with investment decisions involving capital or revenue expenditure being subject to formal detailed appraisal and review according to approval levels set by Council;
- Financial Regulations, including financial controls and procedures, approved by Finance Committee;
- a professional Internal Audit team whose annual programme is approved by Audit Committee.

The key elements of the University's system of risk identification and management, which is designed to discharge the responsibilities set out above, include the following:

- linking the identification and management of risk to the achievement of institutional objectives through the annual planning process;
- evaluating the likelihood and impact of risks becoming a reality as part of that same process and establishing mitigating controls;
- having review procedures that cover business, operational, compliance and financial risk;
- embedding risk assessment and internal control processes in the ongoing operations of all units;
- reporting regularly to Audit Committee, and then to Council, on internal control and risk;
- reporting annually to Council the principal results of risk identification, evaluation and management review.

Any system of internal control or risk management is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable, but not absolute, assurance against material misstatement or loss.

In relation to the University's financial statements published on its website, the University's management is responsible to Council for the maintenance and integrity of The Open University website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

We have audited the financial statements on pages 20 to 42, which comprise the Consolidated Income and Expenditure Account, the Balance Sheet, the Consolidated Cash Flow Statement and the related Notes to the Accounts, which have been prepared under the historical cost convention (as modified by the revaluation of certain fixed assets) and in accordance with the accounting policies set out in the Statement of Accounting Policies on pages 20 to 23.

Respective Responsibilities of the University's Council and Auditors

As described in the Statement of Responsibilities of the University's Council on pages 16 and 17, the University's Council is responsible for preparing the financial statements in accordance with the Accounts Direction issued by the Higher Education Funding Council for England, the Statement of Recommended Practice on Accounting for Further and Higher Education Institutions and applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Our responsibility is to audit the financial statements in accordance with the relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the Council of The Open University in accordance with the Charter and Statutes of the University. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Statement of Recommended Practice on Accounting for Further and Higher Education Institutions. We also report to you whether, in our opinion, income from funding bodies, grants and income for specific purposes and from other restricted funds administered by the University have been properly applied in all material respects for the purposes for which they were received and whether income has been applied in all material respects in accordance with the University's Charter and Statutes and, where appropriate, with the Financial Memorandum with the Higher Education Funding Council for England and with the Funding Agreements with the Scottish Funding Council, the Higher Education Funding Council for Wales and the Training and Development Agency for Schools. We also report to you if, in our opinion, the University has not kept proper accounting records, the accounting records do not agree with the financial statements or if we have not received all the information and explanations we require for our audit.

We read the other information contained in the financial statements and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the Financial Highlights, the Operating and Financial Review, the Corporate Governance Statement and the Statement of the Responsibilities of the University's Council.

We also review the statement of internal control contained within the Statement of the Responsibilities of the University's Council and comment if the statement is inconsistent with our knowledge of the University. We are not required to consider whether the statement of internal control covers all risks and controls, or to form an opinion on the effectiveness of the University's corporate governance procedures or its risk and control procedures. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of Opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board and the Audit Code of Practice issued by the Higher Education Funding Council for England. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the University's Council in the preparation of the financial statements and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations that we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or by error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- a. the financial statements give a true and fair view of the state of affairs of the University and the Group at 31 July 2007 and of the surplus of income over expenditure and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Statement of Recommended Practice *Accounting for Further and Higher Education Institutions*;
- b. in all material respects, income from the Higher Education Funding Council for England, the Scottish Funding Council, the Higher Education Funding Council for Wales and the Training and Development Agency for Schools, grants and income for specific purposes and from other restricted funds administered by the University have been applied only for the purposes for which they were received;
- c. in all material respects, income has been applied in accordance with the University's Charter and Statutes and, where appropriate, with the Financial Memorandum dated July 2006 with the Higher Education Funding Council for England, with the Funding Agreement dated July 2006 with the Scottish Funding Council, with the Funding Letter dated April 2006 with the Higher Education Funding Council for Wales and with the Funding Agreement dated May 2007 with the Training and Development Agency for Schools.

PricewaterhouseCoopers LLP

Chartered Accountants and Registered Auditors
Milton Keynes

20 November 2007

1 Basis of preparation

The financial statements have been prepared under the historical cost convention as modified by the revaluation of land and buildings, in accordance with the Statement of Recommended Practice, *Accounting for Further and Higher Education Institutions*, and in accordance with applicable Accounting Standards.

2 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the University and its subsidiary undertakings for the financial year to 31 July.

The consolidated financial statements do not include those of the Open University Students Association, as the University has no control or significant influence over policy decisions.

3 Recognition of income

- a. Fee income is credited to the income and expenditure account over the period in which the students are studying. This is achieved by using a time apportionment basis over the period of the relevant course.

Fee income is stated gross; financial assistance to students, other fee waivers and provision for bad debts are included in other operating expenses.

Where students have registered, which is when the liability to pay the fees is created, for courses that begin in a future financial year, the income is included in creditors as income in advance. Where these fees have not been paid wholly or partly in advance by the end of the financial year in which registration takes place or if payment will become due in a future financial year under an instalment credit agreement, the amount not received at the end of the financial year is included in debtors.

- b. Recurrent grants from Funding Councils are accounted for in the University's financial statements in the period to which they relate.
- c. Non-recurrent grants received in respect of the acquisition or construction of fixed assets are treated as deferred capital grants and amortised in line with depreciation over the life of the assets.
- d. Income for specific purposes, such purposes being designated by the grant-making body or donor under a specific agreement or contract, and which can only be applied for those specific purposes, is credited to the income and expenditure account over the life of the agreement or contract when the conditions attaching to its receipt have been met, such as incurring the appropriate expenditure, including expenditure on indirect costs.
- e. Income from the sale of goods or services is credited to the income and expenditure account when the goods or services are supplied to the external customers against the orders received or the terms of the contract have been satisfied.
- f. Interest receivable is credited to the income and expenditure account on a daily basis.

4 Recognition of expenditure

- a. Expenditure is recognised in respect of goods and services received when supplied in accordance with contractual terms.
- b. Provision is made when an obligation exists for a future liability in respect of a past event and where the amount of the obligation can be reliably estimated.
- c. Restructuring costs are recognised in respect of the direct expenditure of a reorganisation where plans are sufficiently detailed and well advanced, and where appropriate communication to those affected has been undertaken at the balance sheet date.
- d. Course development costs are charged to the income and expenditure account as they are incurred.
- e. The University has a maintenance plan designed to keep its estate in a constant state of good repair. The cost of maintenance is charged to the income and expenditure account in the period in which it is incurred.
- f. Loan interest is charged to the income and expenditure account on a daily basis.

5 Foreign currencies

Transactions denominated in foreign currencies are recorded at the rate of exchange ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into sterling either at year end rates or, where there are related forward foreign exchange contracts, at contract rates. The resulting exchange differences are dealt with in the determination of income and expenditure for the financial year.

6 Pension schemes

In the United Kingdom the University participates in two schemes to provide retirement and death benefits for its employees, namely, the Universities Superannuation Scheme (USS) and the Federated Superannuation System of Universities (FSSU). In the Republic of Ireland a small number of employees are members of the defined contribution Open University Retirement Solution Plan (OURSP). A small number of overseas based employees are members of defined contribution schemes.

a. *Defined benefit scheme (USS)*

The assets of the scheme are held in a separate trustee-administered fund. The University is unable to identify its share of the underlying assets and liabilities in USS on a reasonable and consistent basis and therefore, as required by Financial Reporting Standard 17 *Retirement Benefits*, the University accounts as if USS were a defined contribution scheme. As a result the amount charged to the income and expenditure account represents the contributions payable to USS in respect of the accounting period.

b. *Defined contribution schemes (FSSU, OURSP and others)*

The amount charged to the income and expenditure account represents the contributions payable to the scheme in respect of the accounting period.

7 Leasing costs

Rental costs under operating leases are charged to expenditure in equal annual amounts over the period of the lease.

8 Stocks of finished goods

- a. Stocks of course materials are valued at the lower of cost and net realisable value. Provision is made for obsolete or surplus course materials.
- b. Stocks of materials for use at residential schools are written off when purchased.

9 Investments

- a. Investments in subsidiaries are shown at cost.
- b. Current asset investments comprise funds held on deposit. Interest is accrued on a daily basis.

10 Land and buildings

Land and buildings held at 31 July 1998 are shown in the balance sheet at the valuation on that date; land and buildings acquired after 31 July 1998 are shown at cost. The revaluation at 31 July 1998 was undertaken in accordance with the appraisal and valuation manual prepared by the Royal Institution of Chartered Surveyors. The Walton Hall campus was valued on the basis of depreciated replacement cost and all other buildings on the basis of existing use value. The valuation was conducted by Chesterton plc, International Property Consultants.

On adoption of Financial Reporting Standard 15, *Tangible Fixed Assets*, the Group adopted the transitional provisions to retain the book value of land and buildings, many of which were last revalued in 1998, and has not adopted a policy of annual revaluations for the future. However, these values are subject to impairment reviews as set out in Financial Reporting Standard 11, *Impairment of Fixed Assets and Goodwill*.

Freehold land is not depreciated as it is considered to have an indefinite useful life. Buildings are depreciated over their expected useful lives of 40 years. Where buildings have a major refurbishment to adapt them for another use or extend their original useful life, the refurbishment cost is depreciated over their revised expected useful lives, which is a maximum of 40 years from date of the adaptation. Minor refurbishments to buildings are depreciated over the remaining expected useful lives of the buildings, with a maximum period of 10 years.

Where buildings are acquired with the aid of specific grants, they are capitalised and depreciated as above. The related grants are treated as deferred capital grants and released to income over the expected useful life of the buildings.

11 Equipment

Equipment, including computers and software, costing less than £30,000 per individual item or group of related items is written off in the year of acquisition. All other equipment is capitalised.

Capitalised equipment is stated at cost and depreciated over its expected useful life as follows:

Telephone equipment	5 years
Motor vehicles	4 years
Computing equipment	3 years
Other equipment	3 years

Where equipment is acquired with the aid of specific grants, it is capitalised and depreciated as above. The related grants are treated as deferred capital grants and released to income over the expected useful life of the equipment, which is the period of the grant in respect of equipment acquired for specific research projects.

12 Taxation status

The University is an exempt charity within the meaning of Schedule 2 of the Charities Act 1993 and as such is a charity within the meaning of Section 506(1) of the Taxes Act 1988. Accordingly, the University is potentially exempt from taxation in respect of income or capital gains received within categories covered by Section 505 of the Taxes Act 1988 or Section 256 of the Taxation of Chargeable Gains Act 1992 to the extent that such income or gains are applied to exclusively charitable purposes. The University receives no similar exemption in respect of Value Added Tax.

CONSOLIDATED INCOME AND EXPENDITURE ACCOUNT for the Year Ended 31 July 2007

	<i>NOTES</i>	Year Ended 31 July 2007 £m	Year Ended 31 July 2006 £m
INCOME			
Funding council grants	1	212.1	201.1
Academic & other fees	2	123.1	115.6
Research grants and contracts	3	12.6	10.5
Other operating income	4	19.5	18.8
Interest receivable	5	8.5	6.7
Total income		375.8	352.7
EXPENDITURE			
Staff costs	6	225.3	209.8
Depreciation		9.4	8.5
Other operating expenses	7	125.6	121.8
Interest payable	8	3.4	3.1
Total expenditure		363.7	343.2
Surplus after depreciation of assets at valuation and before tax		12.1	9.5
Less: Taxation	9	0.0	0.1
Surplus after tax		12.1	9.4
NOTE OF HISTORICAL COST SURPLUS			
Surplus after depreciation of assets at valuation and tax		12.1	9.4
Difference between an historical cost depreciation charge and the actual depreciation charge for the year	17	1.1	1.1
Historical cost surplus after tax		13.2	10.5

The income and expenditure account has been prepared on an historical basis as modified by the revaluation of land and buildings and is solely in respect of continuing activities.

The surplus after tax represents the total recognised gains for the year; accordingly, no separate statement of total recognised gains and losses has been prepared.

The accounting policies on pages 20 to 23 and the notes on pages 27 to 42 form an integral part of these financial statements.

THE OPEN UNIVERSITY

BALANCE SHEET as at 31 July 2007

	NOTES	CONSOLIDATED		UNIVERSITY	
		As At 31 July 2007 £m	As At 31 July 2006 £m	As At 31 July 2007 £m	As At 31 July 2006 £m
FIXED ASSETS					
Tangible assets	10	159.1	140.4	147.5	129.9
Investments	11	0.0	0.0	10.7	10.7
		159.1	140.4	158.2	140.6
CURRENT ASSETS					
Stocks of finished goods		4.8	5.5	4.8	5.6
Debtors - due within one year	12	38.7	42.6	22.2	25.3
- due after one year		0.0	0.0	63.2	62.9
Fixed term deposits	13	121.0	92.8	121.0	92.8
Cash at bank and in hand		21.7	26.2	18.3	22.3
		186.2	167.1	229.5	208.9
LESS CREDITORS: amounts falling due within one year	14	113.9	102.3	158.5	145.4
NET CURRENT ASSETS		72.3	64.8	71.0	63.5
TOTAL ASSETS LESS CURRENT LIABILITIES		231.4	205.2	229.2	204.1
LESS CREDITORS: amounts falling due after more than one year	15	62.5	62.7	60.0	60.0
TOTAL NET ASSETS		168.9	142.5	169.2	144.1
DEFERRED CAPITAL GRANTS	16	62.3	48.0	62.3	48.0
RESERVES	17				
Revaluation reserve		7.9	9.0	7.9	9.0
General funds		98.7	85.5	99.0	87.1
TOTAL RESERVES		106.6	94.5	106.9	96.1
		168.9	142.5	169.2	144.1

The accounting policies on pages 20 to 23 and the notes on pages 27 to 42 form an integral part of these financial statements, which were approved by Council on 20 November 2007 and signed on its behalf by:

R DELBRIDGE
Treasurer

M S HEDGES
Finance Director

B M GOURLEY
Vice-Chancellor

THE OPEN UNIVERSITY

CONSOLIDATED CASH FLOW STATEMENT for the Year Ended 31 July 2007

	NOTES	Year Ended 31 July 2007 £m	Year Ended 31 July 2006 £m
NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES	18	<u>27.7</u>	<u>(1.4)</u>
RETURN ON INVESTMENTS AND SERVICING OF FINANCE			
Interest received		6.5	5.9
Interest paid		<u>(3.8)</u>	<u>(3.0)</u>
NET CASH INFLOW FROM RETURNS ON INVESTMENT AND SERVICING OF FINANCE		<u>2.7</u>	<u>2.9</u>
TAX PAID		<u>0.0</u>	<u>(0.1)</u>
CAPITAL EXPENDITURE			
Payments to acquire tangible assets		(24.6)	(23.9)
Deferred capital grants received		<u>18.1</u>	<u>11.0</u>
NET CASH OUTFLOW FROM CAPITAL EXPENDITURE		<u>(6.5)</u>	<u>(12.9)</u>
CASH INFLOW/(OUTFLOW) BEFORE MANAGEMENT OF LIQUID RESOURCES		23.9	(11.5)
MANAGEMENT OF LIQUID RESOURCES			
Cash transferred (to)/from term deposits		(28.2)	23.2
FINANCING			
Bank loan drawn down in year		0.0	0.0
Loan repayment in the year		<u>(0.2)</u>	<u>(0.1)</u>
(DECREASE)/INCREASE IN CASH IN THE YEAR	19,20	<u>(4.5)</u>	<u>11.6</u>

The accounting policies on pages 20 to 23 and the notes on pages 27 to 42 form an integral part of these financial statements.

1 FUNDING COUNCIL GRANTS

	Year Ended 31 July 2007 £m	Year Ended 31 July 2006 £m
Recurrent grants		
Higher Education Funding Council for England (HEFCE)	172.9	160.7
Scottish Funding Council (SFC)	16.7	16.2
Higher Education Funding Council for Wales (HEFCW)	7.0	6.8
Training and Development Agency for Schools (TDA)	2.7	2.5
Department of Employment and Learning (Northern Ireland) (DELNI)	0.2	0.2
	199.5	186.4
Specific grants		
Higher Education Funding Council for England	7.8	11.0
Scottish Funding Council	0.9	0.7
Higher Education Funding Council for Wales	0.2	0.2
	8.9	11.9
Deferred capital grants released in year		
Higher Education Funding Council for England (see also Note 16)		
Buildings	2.4	2.1
Equipment	1.3	0.7
	3.7	2.8
	212.1	201.1

2 ACADEMIC & OTHER FEES

	Year Ended 31 July 2007 £m	Year Ended 31 July 2006 £m
Student fees		
United Kingdom	105.4	98.2
Overseas	17.5	16.9
Learning material sales	0.2	0.5
Research training support grants	0.0	0.0
	123.1	115.6

3 RESEARCH GRANTS & CONTRACTS

	Year Ended 31 July 2007 £m	Year Ended 31 July 2006 £m
Research Councils	5.9	5.3
Other sources, including industrial companies	6.7	5.2
	12.6	10.5

4 OTHER OPERATING INCOME

	Year Ended 31 July 2007 £m	Year Ended 31 July 2006 £m
Other grants and contracts	8.4	7.1
Royalties received	0.4	0.2
External computer services	0.2	0.2
Sub-tenants' rental and services	0.6	0.5
Validation fees	2.5	2.8
Released from deferred capital grant	0.0	0.0
Other income	7.4	8.0
	<u>19.5</u>	<u>18.8</u>

5 INTEREST RECEIVABLE

	Year Ended 31 July 2007 £m	Year Ended 31 July 2006 £m
Interest on student loans	0.8	0.9
Other interest receivable	7.7	5.8
	<u>8.5</u>	<u>6.7</u>

6 STAFF

	Year Ended 31 July 2007 £m	Year Ended 31 July 2006 £m
Staff costs		
Salaries and other payments to employees	189.8	176.6
Social security costs	13.7	14.1
Pension costs	21.8	19.1
	<u>225.3</u>	<u>209.8</u>
Staff costs by category		
Full-time staff categories	173.5	160.4
Associate lecturers, residential school staff and examination marking fees	44.7	43.0
Other staff costs, including casual staff	4.6	5.2
Early retirement and voluntary severance	2.5	1.2
	<u>225.3</u>	<u>209.8</u>

6 STAFF (continued)

REMUNERATION OF HIGHER PAID EMPLOYEES

The emoluments of Professor Brenda Gourley, the Vice-Chancellor, included in the above costs are £217,000 (year ended 31 July 2006, £199,000). These emoluments are shown on the same basis as for higher paid staff. The University's pension contributions to the Universities Superannuation Scheme in respect of the Vice-Chancellor are paid at the same rates as for other academic staff and amounted to £30,000 (year ended 31 July 2006, £28,000). The aggregate of these sums is £247,000 (year ended 31 July 2006, £227,000).

Compensation for loss of office paid to UK based employees earning in excess of £70,000 and funded from general income was £Nil (year ended 31 July 2006, £Nil).

The remuneration of other higher paid employees, excluding the University's pension contributions, was:

	Staff Numbers 31 July 2007	Staff Numbers 31 July 2006
£70,000 - £79,999	38	34
£80,000 - £89,999	13	9
£90,000 - £99,999	5	5
£100,000 - £109,999	1	1
£110,000 - £119,999	1	0
£120,000 - £129,999	1	1
£130,000 - £139,999	1	0
	<hr/>	<hr/>

AVERAGE STAFF NUMBERS

Full-time and part-time staff at Milton Keynes, Wellingborough and regional centres	4,863	4,648
Associate lecturers and residential school staff	6,285	6,639
	<hr/>	<hr/>
	11,148	11,287

7 OTHER OPERATING EXPENSES

	Year Ended 31 July 2007 £m	Year Ended 31 July 2006 £m
Consumables and staff support	42.2	40.9
Course materials and residential schools	19.0	18.3
Student publications and recruitment	14.4	13.2
Financial assistance to students	3.4	3.0
Books and periodicals	1.3	1.2
Audio visual production	8.0	7.4
Heat, light, water and power	2.6	2.0
Repairs, general maintenance and equipment	14.3	18.0
Rents and rates	8.3	8.4
Students' association grant	0.8	0.7
Auditors' remuneration		
Audit fees - Group	0.1	0.1
Audit fees - Other regulatory audits	0.0	0.0
Fees for UK taxation advice	0.0	0.0
Fees for overseas taxation advice	0.1	0.1
Other expenses	<u>11.1</u>	<u>8.5</u>
	<u>125.6</u>	<u>121.8</u>

Included in the above are audit fees in respect of the University only of £0.1 million (year ended 31 July 2006, £0.1 million).

8 INTEREST PAYABLE

	Year Ended 31 July 2007 £m	Year Ended 31 July 2006 £m
On bank loans, overdrafts and other loans:		
Repayable wholly or partly in more than 5 years	<u>3.4</u>	<u>3.1</u>

9 TAXATION

	Year Ended 31 July 2007 £m	Year Ended 31 July 2006 £m
Foreign taxes	<u>0.0</u>	<u>0.1</u>

The foreign tax is withholding tax on royalty income received by Open University Worldwide Limited.

10 TANGIBLE ASSETS

CONSOLIDATED

	Freehold Land and Buildings £m	Buildings in the Course of Construction £m	Equipment £m	Total £m
Cost and valuation				
At 1 August 2006	166.5	4.2	15.4	186.1
Additions	12.2	12.8	3.1	28.1
Transfers	2.7	(2.7)	0.0	0.0
Disposals	0.0	0.0	(0.2)	(0.2)
At 31 July 2007	181.4	14.3	18.3	214.0
Depreciation				
At 1 August 2006	31.8	0.0	13.9	45.7
Charge for year	7.3	0.0	2.1	9.4
Disposals	0.0	0.0	(0.2)	(0.2)
At 31 July 2007	39.1	0.0	15.8	54.9
Net book amount				
At 31 July 2007	142.3	14.3	2.5	159.1
At 31 July 2006	134.7	4.2	1.5	140.4
Financed by capital grants	50.0	10.5	1.8	62.3
Financed from other sources	92.3	3.8	0.7	96.8
Net book amount				
At 31 July 2007	142.3	14.3	2.5	159.1

One building has been partially funded with the aid of a grant of £0.3 million from the Wolfson Foundation. Land and buildings which have been funded from Treasury sources amount to £83.5 million. In the event that these were to be sold, the University would either have to surrender the proceeds to the Treasury or use them in accordance with the Financial Memorandum with HEFCE.

There is £24.5 million of future capital expenditure for which contracts had been placed at 31 July 2007 (year ended 31 July 2006, £9.3 million).

If the land and buildings held at 31 July 1998 had not been revalued, the total value of land and buildings, including buildings in the course of construction, would have been included at the following amounts:

	Year Ended 31 July 2007 £m	Year Ended 31 July 2006 £m
Cost	189.6	164.7
Aggregate depreciation	40.9	34.8
Net book amount	148.7	129.9

10 TANGIBLE ASSETS (continued)

UNIVERSITY

	Freehold Land and Buildings £m	Buildings in the Course of Construction £m	Equipment £m	Total £m
Cost and valuation				
At 1 August 2006	154.4	4.2	15.3	173.9
Additions	10.6	12.8	3.1	26.5
Transfers	2.7	(2.7)	0.0	0.0
Disposals	0.0	0.0	(0.2)	(0.2)
At 31 July 2007	167.7	14.3	18.2	200.2
Depreciation				
At 1 August 2006	30.3	0.0	13.7	44.0
Charge for year	6.8	0.0	2.1	8.9
Disposals	0.0	0.0	(0.2)	(0.2)
At 31 July 2007	37.1	0.0	15.6	52.7
Net book amount				
At 31 July 2007	130.6	14.3	2.6	147.5
At 31 July 2006	124.1	4.2	1.6	129.9
Financed by capital grants	50.0	10.5	1.8	62.3
Financed from other sources	80.6	3.8	0.8	85.2
Net book amount				
At 31 July 2007	130.6	14.3	2.6	147.5

11 INVESTMENTS

	UNIVERSITY	
	As At 31 July 2007 £m	As At 31 July 2006 £m
Shares in wholly owned subsidiary companies:		
Open University Student Budget Accounts Limited	0.5	0.5
Open University Worldwide Limited	0.3	0.3
Open University Business School Limited	0.0	0.0
Open University Properties (Walton Drive) Limited	9.7	9.7
Long term loans:		
Open University Student Budget Accounts Limited	0.0	0.0
Open University Worldwide Limited	0.2	0.2
	10.7	10.7

Open University Student Budget Accounts Limited is registered in England and Wales and was established to provide students with a deferred payment facility. Around 27% of the students use this facility. The company operates under the Consumer Credit Act.

Open University Worldwide Limited is registered in England and Wales and is engaged in the commercial exploitation of the University's intellectual property assets through collaboration with partners overseas or direct sales of course materials. The company is also engaged in other trading activities and is partly financed by a long-term loan that carries interest at a fixed rate of 10% per annum.

Open University Business School Limited is registered in England and Wales and is dormant.

OU Properties (Walton Drive) Limited is registered in England and Wales and owns a specific office building which is occupied by the University and Open University Worldwide Limited. The purchase of the building was financed by a share issue.

In addition the University has the following subsidiaries that do not have share capital or loans disclosed above but whose results, assets and liabilities are included in the consolidated group financial statements:

OU Properties (Bristol) Limited is registered in England and Wales and owns a specific office building which is leased to the University. It is financed through a specific bank facility.

Bookhire Limited is registered in England and Wales, is limited by guarantee and has no share capital. It provides library services to the University, including the provision of books and premises.

12 DEBTORS

	CONSOLIDATED		UNIVERSITY	
	As At 31 July 2007 £m	As At 31 July 2006 £m	As At 31 July 2007 £m	As At 31 July 2006 £m
DEBTORS				
Students' loan accounts	17.1	18.1	0.0	0.0
Fee debtors	0.5	0.7	0.5	0.7
Amounts due from subsidiaries	0.0	0.0	2.8	2.9
Other debtors	14.3	17.8	12.7	16.0
	<u>31.9</u>	<u>36.6</u>	<u>16.0</u>	<u>19.6</u>
PREPAYMENTS AND ACCRUED INCOME	6.8	6.0	6.2	5.7
	<u>38.7</u>	<u>42.6</u>	<u>22.2</u>	<u>25.3</u>
Amounts due from subsidiaries after one year	<u>0.0</u>	<u>0.0</u>	<u>63.2</u>	<u>62.9</u>

Students' loan accounts represent amounts due from students paying instalments under credit terms with The Open University's subsidiary company, Open University Student Budget Accounts Limited.

The University finances its two main operating subsidiaries, Open University Student Budget Accounts Limited and Open University Worldwide Limited, through long-term loans that are due for repayment or review in 2016. The former subsidiary has borrowed £60.0 million at an interest rate equal to base rate. The latter subsidiary has borrowed £3.2 million at an interest rate equal to 1% over base rate. Under the loan agreement between the University and each subsidiary the subsidiaries are required to lend back to the University at the same interest rate: any surplus funds are disclosed in Note 14.

There are no material debtors and prepayments denominated in currencies other than sterling.

13 FIXED TERM DEPOSITS

	CONSOLIDATED		UNIVERSITY	
	As At 31 July 2007 £m	As At 31 July 2006 £m	As At 31 July 2007 £m	As At 31 July 2006 £m
Deposits maturing:				
In one year or less	82.5	75.8	82.5	75.8
Between one and two years	38.5	17.0	38.5	17.0
	<u>121.0</u>	<u>92.8</u>	<u>121.0</u>	<u>92.8</u>

Fixed term deposits are held with banks and building societies operating in the London market and licensed by the Financial Services Authority with more than 24 hours maturity at the balance sheet date. The interest rates for these deposits are fixed for the duration of the deposit at time of placement.

At 31 July 2007 the weighted average interest rate of these fixed rate deposits was 5.53% per annum and the remaining weighted average period for which the interest rate is fixed on these deposits was 265 days. The fair value of these deposits was not materially different from the book value.

14 CREDITORS: amounts falling due within one year

	CONSOLIDATED		UNIVERSITY	
	As At 31 July 2007 £m	As At 31 July 2006 £m	As At 31 July 2007 £m	As At 31 July 2006 £m
Trade creditors	7.9	6.9	7.8	6.8
Other creditors and accruals	50.5	43.0	51.6	43.8
Income in advance	15.2	15.1	15.2	15.1
Deferred income	40.3	37.3	39.1	36.6
Amounts due to subsidiaries	0.0	0.0	44.8	43.1
	113.9	102.3	158.5	145.4

A provision for fee debts of £1.5 million (year ended 31 July 2006, £1.4 million) in respect of student loans in the accounts of Open University Student Budget Accounts Limited is included as a creditor in the University's balance sheet, as the University bears the ultimate liability for the company's bad debts. Debtors in the consolidated balance sheet are shown net of the provision for bad debts.

Amounts due to subsidiaries represent surplus funds lent by the subsidiaries to the University under the terms of the loan agreements referred to in Note 12.

There are no material creditors denominated in currencies other than sterling.

15 CREDITORS: amounts falling due after more than one year

	CONSOLIDATED		UNIVERSITY	
	As At 31 July 2007 £m	As At 31 July 2006 £m	As At 31 July 2007 £m	As At 31 July 2006 £m
Long term loans	62.5	62.7	60.0	60.0

The Group has two long-term loan facilities.

A bank loan to the University of £60.0 million (31 July 2006, £60.0 million) is secured on a portfolio of buildings within the Walton Hall campus in Milton Keynes, denominated in sterling and repayable in 20 annual instalments commencing on 31 July 2009 and ending on 31 July 2028. The loan carries interest at a pre-agreed margin over LIBOR.

A bank loan to OU Properties (Bristol) Limited of £2.7 million, including £0.2 million due within one year and included in other creditors and accruals in Note 14 above, (31 July 2006, £2.8 million, including £0.1 million due within one year) is secured on a single office building, denominated in sterling and repayable in 80 quarterly instalments commencing on 1 October 2005 and ending on 1 July 2025. The rate of interest is fixed to the lenders base rate.

At 31 July 2007 the weighted average interest rate of these loans was 6.13% per annum. The interest rate on the £60.0 million loan was fixed for a further 31 days at 31 July 2007.

16 DEFERRED CAPITAL GRANTS

	CONSOLIDATED AND UNIVERSITY		
	Funding Councils	Other	Total
	£m	£m	£m
At 1 August 2006			
Buildings	46.9	0.3	47.2
Equipment	0.6	0.2	0.8
Total	47.5	0.5	48.0
Cash Receivable			
Buildings	15.7	0.0	15.7
Equipment	2.5	0.0	2.5
Total	18.2	0.0	18.2
Released to Income and Expenditure			
Buildings	(2.4)	0.0	(2.4)
Equipment	(1.3)	(0.2)	(1.5)
Total	(3.7)	(0.2)	(3.9)
At 31 July 2007			
Buildings	60.2	0.3	60.5
Equipment	1.8	0.0	1.8
Total	62.0	0.3	62.3

17 RESERVES

	CONSOLIDATED	UNIVERSITY
	£m	£m
REVALUATION RESERVE		
At 1 August 2006	9.0	9.0
Transfer to General Funds		
Contributions to depreciation released in the year	(1.1)	(1.1)
At 31 July 2007	7.9	7.9
GENERAL FUNDS		
At 1 August 2006	85.5	87.1
Surplus for the year	12.1	10.8
Transfer from revaluation reserve	1.1	1.1
At 31 July 2007	98.7	99.0

**18 RECONCILIATION OF SURPLUS BEFORE TAX
TO NET CASH INFLOW FROM OPERATING ACTIVITIES**

	Year Ended 31 July 2007 £m	Year Ended 31 July 2006 £m
Surplus for the year before tax	12.1	9.5
Depreciation	9.4	8.5
Deferred capital grant released to income	(3.9)	(3.2)
Investment income	(8.5)	(6.7)
Interest payable	3.4	3.1
Decrease in stock	0.7	0.3
Decrease/(Increase) in debtors	4.9	(3.7)
Increase/(Decrease) in creditors	9.6	(9.2)
	<u>27.7</u>	<u>(1.4)</u>

19 RECONCILIATION TO NET FUNDS

	Year Ended 31 July 2007 £m	Year Ended 31 July 2006 £m
(Decrease)/Increase in cash in the year	(4.5)	11.6
Cash outflow/(inflow) from movement from liquid resources	28.2	(23.2)
Loan repayment in year	0.2	0.1
	<u>23.9</u>	<u>(11.5)</u>
Change in net funds		
Net funds at 1 August	56.3	67.8
Net funds at 31 July	<u>80.2</u>	<u>56.3</u>

20 ANALYSIS OF CHANGES IN NET FUNDS

	At 1 August 2006 £m	Cash Flows £m	At 31 July 2007 £m
Cash at bank and in hand	26.2	(4.5)	21.7
Fixed term deposits	92.8	28.2	121.0
Bank loans	(62.7)	0.2	(62.5)
	<u>56.3</u>	<u>23.9</u>	<u>80.2</u>
Total			

21 COMMITMENTS

LEASEHOLD PROPERTIES

During the year ended 31 July 2007 the Group paid £4.2 million (year ended 31 July 2006, £4.5 million), in respect of operating leases for long leasehold properties.

The Group has obligations for annual payments under non-cancellable operating leases in respect of long-leasehold properties as follows:

	Year Ended 31 July 2007 £m	Year Ended 31 July 2006 £m
Expiring:		
within 1 year	0.2	0.4
between 2 and 5 years	0.3	0.4
over 5 years	3.5	3.5
	<hr/>	<hr/>
Total	4.0	4.3
	<hr/>	<hr/>

A number of the property leases are subject to periodic rent reviews.

OTHER COMMITMENTS

The University had provided a loan facility of £10.0 million to U M Association (Special Risks) Limited (UMA(SR)L) for the period 1 August 2005 to 31 July 2007, which was renewed for a further two year period to 31 July 2009. The facility can be drawn down by UMA(SR)L on giving not less than six months notice: no such notice has been received in this regard. Any loan drawn down by UMA(SR)L would be repayable, with interest at an agreed margin over base rate, in quarterly instalments over a maximum of seven years. UMA(SR)L provides discretionary indemnities on a mutual basis for UK universities and its financial commitments are supported by the joint and several liability of all its members.

22 AMOUNTS DISBURSED AS AGENT

The Funding Council and TDA grants and bursaries set out below are available solely for students: the University acts only as paying agent. The grants and bursaries and related disbursements are therefore excluded from the Income and Expenditure Account; the balances carried forward are included in both current assets and in creditors falling due within one year and so there is no effect on net current assets. The separate HEFCE, SFC, HEFCW and TDA grants for the costs of administering the above items are included in the Income and Expenditure Account.

HEFCE TRANSITIONAL FUNDING/ACCESS FOR LEARNING

	Year Ended 31 July 2007 £m	Year Ended 31 July 2006 £m
Balance brought forward	0.8	2.7
Funding Council Grants	5.3	(0.6)
Disbursed to Students	(5.4)	(1.3)
	<hr/>	<hr/>
Balance carried forward	0.7	0.8
	<hr/>	<hr/>

22 AMOUNTS DISBURSED AS AGENT (continued)

SFC ACCESS FUNDS

	Year Ended 31 July 2007 £m	Year Ended 31 July 2006 £m
Balance brought forward	(0.1)	(0.1)
Funding Council Grants	1.7	1.4
Disbursed to Students	(1.7)	(1.4)
	<hr/>	<hr/>
Balance carried forward	(0.1)	(0.1)

HEFCW ACCESS FUNDS

	Year Ended 31 July 2007 £m	Year Ended 31 July 2006 £m
Balance brought forward	0.0	0.0
Funding Council Grants	0.1	0.1
Disbursed to Students	0.0	(0.1)
	<hr/>	<hr/>
Balance carried forward	0.1	0.0

TDA TRAINING BURSARIES

	Year Ended 31 July 2007 £m	Year Ended 31 July 2006 £m
Balance brought forward	0.3	0.6
TDA Grants	1.1	0.8
Disbursed to Students	(1.2)	(1.1)
	<hr/>	<hr/>
Balance carried forward	0.2	0.3

TDA SPECIALIST SHORTAGE SUBJECT SCHEME GRANTS

	Year Ended 31 July 2007 £m	Year Ended 31 July 2006 £m
Balance brought forward	0.1	0.1
Grant Income refunded	(0.1)	0.1
Disbursed to Students	0.0	(0.1)
	<hr/>	<hr/>
Balance carried forward	0.0	0.1

23 RELATED PARTY TRANSACTIONS

Due to the nature of the University's operations and the composition of the Council (being drawn from both public and private sector organisations) it is inevitable that transactions will take place with organisations in which a member of Council may have an interest. All transactions in which a member of Council may have an interest are conducted at arm's length and in accordance with the University's financial regulations and normal procurement procedures.

Mr M S Hedges, Finance Director, is a director of U M Association (Special Risks) Limited and commitments in respect of this company are disclosed in Note 21.

24 PENSION SCHEMES

In the United Kingdom, the University participates in a national multi-employer defined benefit pension scheme, the Universities Superannuation Scheme (USS), and in a defined contribution pension scheme, the Federated Superannuation System for Universities (FSSU). A small number of overseas employees are also members of defined contribution schemes.

Defined Contribution Schemes

A small number of employees are members of the FSSU, which is administered by trustees and has assets independent of the University.

A small number of employees in the Republic of Ireland are members of The Open University Retirement Solution Plan. It is established under irrevocable trusts, of which the University is a co-trustee.

A small number of overseas based employees are members of defined contribution schemes in the countries in which they are employed.

The total pension cost for all these defined contribution schemes was £0.1m (year ended 31 July 2006, £0.1m).

Defined Benefit Pension Scheme

Universities Superannuation Scheme

The University participates in the Universities Superannuation Scheme (USS), a defined benefit scheme which is externally funded and contracted out of the State Second Pension (S2P). The assets of the scheme are held in a separate fund administered by the trustee, Universities Superannuation Scheme Limited. The appointment of directors to the board of the trustee is determined by the company's Articles of Association. Four of the directors are appointed by Universities UK; three are appointed by the University and College Union, of whom at least one must be a USS pensioner member; one is appointed by the Higher Education Funding Councils; and a minimum of two and a maximum of four are co-opted directors appointed by the management committee. Under the scheme trust deed and rules, the employer contribution rate is determined by the trustee, acting on actuarial advice.

The University is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis and therefore, as required by FRS 17 *Retirement Benefits*, accounts for the scheme as if it were a defined contribution scheme. As a result, the amount charged to the income and expenditure account represents the contributions payable to the scheme in respect of the accounting period.

24 PENSION SCHEMES (continued)

The latest actuarial valuation of the scheme was at 31 March 2005. The valuation was carried out using the projected unit method. The assumptions which have the most significant effect on the result of the valuation are those relating to the rate of return on investments (i.e. the valuation rate of interest), the rates of increase in salary and pensions and the assumed rates of mortality. In relation to the past service liabilities the financial assumptions were derived from market yields prevailing at the valuation date. It was assumed that the valuation rate of interest would be 4.5% per annum, salary increases would be 3.9% per annum (plus an additional allowance for increases in salaries due to age and promotion and a further amount of £800m of liabilities to reflect recent experience) and pensions would increase by 2.9% per annum. In relation to the future service liabilities it was assumed that the valuation rate of interest would be 6.2% per annum, including an additional investment return assumption of 1.7% per annum, salary increases would be 3.9% per annum (also plus an allowance for increases in salaries due to age and promotion) and pensions would increase by 2.9% per annum.

Standard mortality tables were used as follows:

Pre-retirement mortality	PA92 rated down 3 years
Post-retirement mortality	PA92 (c=2020) for all retired and non-retired members

Use of these mortality tables reasonably reflects the actual USS experience but also provides an element of conservatism to allow for further small improvements in mortality rates. The assumed life expectations on retirement at age 65 are:

Males	19.8 years
Females	22.8 years

At the valuation date, the value of the assets of the scheme was £21,740 million and the value of the past service liabilities was £28,308 million indicating a deficit of £6,568 million. The assets therefore were sufficient to cover 77% of the benefits which had accrued to members after allowing for expected future increases in earnings.

The actuary also valued the scheme on a number of other bases as at the valuation date of 31 March 2005. Using the Minimum Funding Requirement prescribed assumptions introduced by the Pensions Act 1995, the scheme was 126% funded at that date; under the Pension Protection Fund regulations introduced by the Pensions Act 2004 it was 110% funded; on a buy-out basis (i.e. assuming the Scheme had discontinued on the valuation date) the assets would have been approximately 74% of the amount necessary to secure all the USS benefits with an insurance company; and using the FRS17 formula as if USS was a single employer scheme, the actuary estimated that the funding level would have been approximately 90%.

Since 31 March 2005 the financial security of the scheme has improved and the actuary has estimated that the funding level has increased from 77% at 31 March 2005 to 91% at 31 March 2007. This improvement in the scheme's financial security is due primarily to the investment return on the scheme's assets since 31 March 2005 being higher than allowed for in the funding assumptions. On the FRS17 basis, the actuary estimated that the funding level at 31 March 2007 was above 109% and on a buy-out basis was approximately 84%.

The institution contribution rate required for future service benefits alone at the date of the valuation was 14.3% of pensionable salaries but the trustee company, on the advice of the actuary, decided to maintain the institution contribution rate at 14% of pensionable salaries.

24 PENSION SCHEMES (continued)

Surpluses or deficits which arise at future valuations may impact on the University's future contribution commitment. The sensitivities regarding the principal assumptions used to measure the scheme liabilities are set out below:

<i>Assumption</i>	<i>Change in Assumption</i>	<i>Impact on scheme liabilities</i>
Valuation rate of interest	Increase/decrease by 0.5%	Decrease/increase by £2.2 billion
Rate of pension increases	Increase/decrease by 0.5%	Increase/decrease by £1.7 billion
Rate of salary growth	Increase/decrease by 0.5%	Increase/decrease by £0.5 billion
Rate of mortality	More prudent assumption (Mortality used at last actuarial valuation, rated down by a further year)	Increase by £0.8 billion

USS is a "last man standing" scheme so that in the event of the insolvency of any of the participating employers in USS, the amount of any pension funding shortfall (which cannot otherwise be recovered) in respect of that employer will be spread across the remaining participant employers and reflected in the next actuarial valuation of the scheme.

The trustee believes that, over the long-term, equity investment and investment in selected alternative asset classes will provide superior returns to other investment classes. The management structure and targets set are designed to give the fund a bias towards equities through portfolios that are diversified both geographically and by sector. The trustee recognises that it would be possible to select investments producing income flows broadly similar to the estimated liability cash flows. However, in order to meet the long-term funding objective within a level of contributions that it considers the employers would be willing to make, the trustee has agreed to take on a degree of investment risk relative to the liabilities. This taking of investment risk seeks to target a greater return than the matching assets would provide whilst maintaining a prudent approach to meeting the fund's liabilities. Before deciding to take investment risk relative to the liabilities, the trustee receives advice from its investment consultant and the scheme actuary, and considers the views of the employers. The strong positive cash flow of the scheme means that it is not necessary to realise investments to meet liabilities. The trustee believes that this, together with the ongoing flow of new entrants into the scheme and the strength of covenant of the employers enables it to take a long-term view of its investments. Short-term volatility of returns can be tolerated and need not feed through directly to the contribution rate. The actuary has confirmed that the scheme's cash flow is likely to remain positive for the next ten years or more.

The next formal triennial actuarial valuation is due as at 31 March 2008. The contribution rate will be reviewed as part of each valuation.

The total pension cost for the University was £21.8 million (year ended 31 July 2006, £19.1 million). This includes £1.6 million outstanding contributions as at 31 July 2007 (year ended 31 July 2006, £1.5 million). Of the total pension cost, £1.5 million (year ended 31 July 2006, £0.4 million) related to costs in respect of early retirement.

Auditors **PricewaterhouseCoopers LLP**
Central Business Exchange
Midsummer Boulevard
Central Milton Keynes
Bucks
MK9 2DF

Bankers **Royal Bank of Scotland Plc**
Conqueror House
Vision Park
Histon
Cambridge
CB4 9BY

Solicitors **Eversheds LLP**
Senator House
85 Queen Victoria Street
London
EC4V 4JL

Shoosmiths
1st Floor
Witan Gate House
500-600 Witan Gate West
Milton Keynes
MK9 1SH

Travers Smith
10 Snow Hill
London
EC1A 2AL

Taxation Advisors **KPMG LLP**
2 Cornwall Street
Birmingham
B3 2DL

Financial Statements 2007

The Open University

Walton Hall

Milton Keynes

MK7 6AA

www.open.ac.uk