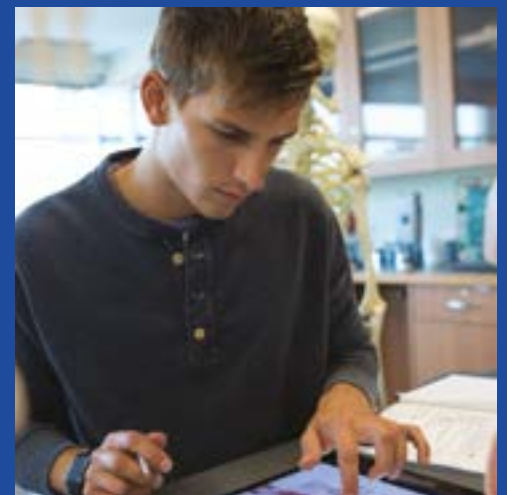




The Open  
University

# FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 JULY 2020









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## HIGHLIGHTS

The financial results for the year show an accounting surplus reflecting the continuing large accounting adjustments related to the valuation of the University's pension scheme, the Universities Superannuation Scheme (USS). Our strategic change programme continues with investment in systems, process and staff to enhance our services and support to current and future students. We have exceeded our operating surplus target of 2% due to increased student numbers but also reflecting some deferral of spend as a result of the pandemic. The underlying financial health of the University remains strong, with substantial cash balances and healthy reserves.

Results, Assets and Reserves	Year Ended	Year Ended
	31 July 2020	31 July 2019
	£m	£m
 <b>Total Income</b> <ul style="list-style-type: none"> <li>Tuition fees and education contracts</li> <li>Funding body grants</li> <li>Research grants and contracts</li> <li>Income from other sources</li> </ul>	<b>474.1</b>	<b>449.2</b>
 <b>Total Expenditure</b> <ul style="list-style-type: none"> <li>Expenditure before USS pension provision adjustment</li> <li>USS pension provision adjustment</li> </ul>	<b>420.6</b>	<b>560.2</b>
 <b>Surplus/(Deficit) for the Year After Taxation</b>	<b>46.6</b>	<b>(112.1)</b>
 <b>Adjusted Surplus from Operating Activities</b>	<b>21.6</b>	<b>2.2</b>
 <b>Net Current Assets</b>	<b>298.2</b>	<b>311.3</b>
 <b>Total Reserves</b>	<b>397.9</b>	<b>351.3</b>

### Other Key Statistics

 <ul style="list-style-type: none"> <li>Total number of students</li> <li>Directly taught students</li> <li>Validated students</li> </ul>	<b>175,719</b>	<b>168,115</b>
<ul style="list-style-type: none"> <li>Number of Full-Time Equivalent (FTE) students (Directly taught only)</li> </ul>	<b>73,167</b>	<b>68,204</b>
<ul style="list-style-type: none"> <li>Percentage of UK undergraduate students receiving at least some financial support for their tuition fees</li> </ul>	<b>83%</b>	<b>81%</b>

The Open University was granted its Royal Charter on 23 April 1969. With over 50 years of inspiring learning and creating higher educational opportunities with no barriers to entry, we continue to adapt and innovate to meet the needs of our current and future students.

### Key highlights of the year included:



#### Responding to the challenges of the Covid-19 pandemic

We remained 'open' to our students throughout the pandemic. We adapted rapidly to changes in tuition and assessment delivery, ensuring that the majority of our students were not disadvantaged by cancellation of face-to-face activities and examinations and ensured that over 110,000 students received their results on time.

We supported our staff to work from home.

We shared our distance learning expertise with colleagues within the higher education sector and worked with governments across the four nations to make available free resources to support skills development for furloughed employees and the unemployed.



#### Growing our attractiveness to students

We continue to increase the numbers of students directly studying with us, and these students are studying at a higher intensity, as shown by the increase in Full-Time Equivalent (FTE) students. Student numbers are also being strengthened as a result of more students succeeding at a modular level, enabling them to continue their studies.

Through the results of the National Students Survey we continue to rank as one of the top universities in respect of the overall satisfaction of our students. In 2020 we ranked first in Northern Ireland and second in Scotland. Whilst we are unable to publish data for England and Wales, results of internal surveys indicate good levels of student satisfaction (see page 22).



#### Gaining external endorsement of the excellence of our teaching, learning and research

We continue to succeed in all our professional programme reaccreditations and quality assurance assessments.

Our excellent research informs our cutting-edge curriculum and is recognised by numerous external funding grants. Highlights include prestigious new awards through the Future Leaders Fellowship programme, and from the UK Space Agency to engage with the Athena mission. We have received external funding for postgraduate research students as part of three Doctoral Training Partnerships.



#### Extending our reach

We remain the largest university in the UK and one of the largest universities in Europe in terms of student numbers, the majority of whom are part-time and study at a distance.

During 2019/20 we delivered 11 Apprenticeship qualifications across England, Scotland and Wales. We are one of the largest higher education providers offering Higher and Degree level Apprenticeships.

We continued to increase take-up on our Badged Open Courses for learners who want to develop their study skills whilst wanting recognition, with more than 577,000 enrolments by July 2020, an increase of 369,000 from July 2019.



#### Enhancing our multiple media channels

Our commissioned television and radio programmes continue to be highly regarded. The Open University branded content won a number of awards and achieved significant recognition. 2019/20 commissions included *Cornwall: This Fishing Life*, *The Detectives*, *Hospital*, *Springwatch*, *Child of Our Time: Turning 20*, *How to Make...*, *BBC ideas*, *Green Originals* and *The Bottom Line*.

Use of our multiple media channels continues to grow. Total downloads from The Open University iTunes U service reached 73.8 million, video views of Open University content on YouTube reached 53.4 million, total Amazon kindle downloads for Open University books reached 1.7 million and visits to the University's open educational resource website, OpenLearn, reached 80.8 million.



## FOREWORD BY PROFESSOR TIM BLACKMAN, VICE-CHANCELLOR



2019/20 was a landmark year for The Open University. We marked our 50th anniversary with a year-long campaign celebrating the University's mission of higher education for all. Over two million students have studied with us since we were founded in 1969. Our model of open supported learning using digital media, expert course design and small group tuition enabled over 160,000 students in 2019/20 to study with us while working, bringing up children or serving in the armed forces, including 23,000 students with a disability.

The cut in teaching grant that forced undergraduate student fees in England to treble in 2012 had a devastating effect on the number of adults choosing part-time higher education, leading to several years

of decline in the University's student numbers. But more generous grant support for part-time study and continuing growth in Scotland, Northern Ireland and especially Wales helped sustain overall numbers and in 2018/19 the University returned to growth across the UK. In terms of Full-Time Equivalent (FTE) student numbers, in 2020/21 we will be the largest the Open University has ever been, with nearly 80,000 FTEs, and expect to continue growing.

The cost of part-time study in England, however, is still a barrier to many people's aspirations and ambitions to learn and improve their career prospects. We continue to press our case with the UK government that maintenance loans should be extended to online learners, who are currently denied the same support as students who study face-to-face. We know from the University's own research that two-thirds of adults in England who would like to undertake part-time higher education do not do so because of the absence of help with their living costs.

The crisis caused by the Covid-19 pandemic has shown how important online study is when face-to-face tuition is not possible. The Open University has certainly been a university for our times but it is also a university for our future. We use digital media not just because it is a flexible way to learn that suits our thousands of students, but because technology-enhanced learning is a very effective way to learn when done as well as the Open University does it, and it is a low carbon model too. We even teach practical subjects online using our award-winning [OpenSTEM Labs](#), which enable students to learn how to use technical equipment at a distance without needing to travel to labs or workshops.

The Open University also continues to pioneer new ways to learn online. Nearly eight years ago we launched [FutureLearn](#), a social learning platform to transform access to education. In 2019, FutureLearn attracted a £50m investment from the Australian company SEEK Ltd, Europe's largest private sector educational technology investment. This is funding a huge expansion of paid-for short courses and microcredentials, provided by a wide range of universities and other organisations, and aimed at meeting the global demand for new knowledge and skills that can be studied in a few weeks or months, rather than committing to a full qualification.

As the UK's largest and only university based in all four nations of the UK, with students in every parliamentary constituency, and with a unique Charter commitment to 'promote the educational well-being of the community generally', we had an obligation to step up to the Covid crisis given the resilience of our model and the resources and expertise we could make available to help others. Traffic to the free courses on our [OpenLearn](#) website surged during the pandemic, reaching 13.5 million unique visitors in the year to July 2020. Some 2% of all UK adults started an OpenLearn course following the outbreak, and 3% started a FutureLearn course. We also made OpenLearn content available on the platforms that were set up by the four UK governments to provide free access to learning new skills for workers on furlough or facing unemployment.

The Open University's success is built on the expertise and dedication of our 8,000 employees and the quality and reliability of our technology. That success has enabled us to keep investing in our people and our systems. 2019/20 saw continuing work on planning for the transfer of our 4,000 Associate Lecturers from casual contracts to permanent professional roles in our Faculties from autumn 2021, with improved terms and conditions negotiated with the University and College Union (UCU). We also completed the second year of the four-year £80m programme to replace the University's core people services, finance and student data systems, which will create new capabilities to enhance users' digital experience and to further digitally enable our processes and services.

Our ability to invest in innovation and improvements, as well as cope with unexpected events, depends on meeting or exceeding our surplus targets. For 2019/20, we exceeded our planned accounting surplus and our operating surplus target of 2% due significantly to increased student numbers but also reflecting some deferral of spend due to the pandemic. As set out in the financial review on page 12, the financial impact of Covid-19 during the year was limited but we faced a series of operational challenges. Our Covid-19 student help centre had over 250,000 visitors. The student support teams responded to thousands of students using web chat, with the busiest week seeing chats with over 3,000 students, and we released over 110,000 module results to students on time while working remotely.

The year's accounting surplus reflects the continuing large accounting adjustments related to the valuation of the University's pension scheme, the Universities Superannuation Scheme (USS). The large deficit in this scheme is a sector-wide issue, with severe pressure on contribution levels necessary to maintain members' benefits. The financial impact of the periodic USS valuations is covered in detail in the financial statements, but the volatility of valuations and the impact these have on the University's financial results are a major issue. At the time of writing, we are in a consultation period for the next valuation, and indications are that this will continue to dominate financial disclosures.

Despite the current uncertainties about the cost of the pension scheme, the University is committed to continuing to provide all staff with the offer of an excellent pension as part of our aim to be an employer of choice. As we look to the year ahead, we will be building on the success of the past year and starting work on a new University Strategy 2022–2027. There will be significant continuity with current strategic aims, including for example the Access, Participation and Success Strategy agreed this year by the Council. This aims to remove inequalities in access and outcomes for undergraduate students from under-represented and disadvantaged backgrounds, providing a framework for nation-specific priorities. But there are also opportunities and changes that we will need to plan for over future years as we work to meet the changing needs of our students, ensure that our research keeps us at the leading edge of knowledge and methods, provide a growing diversity of pathways into and through higher education, and strive to meet stretching goals for environmental sustainability and equality, diversity and inclusion.

This is an exciting time for The Open University as we plan for growth and new ways to achieve our mission. But it has also been a difficult and challenging time for our staff and students, whose well-being continues to be front and centre in our plans. Whatever difficulties and challenges we face, passion for the University's mission shines through in the day-to-day work of thousands of colleagues, in the dedication and achievements of our students and the ongoing loyalty of our alumni.

I would especially like to acknowledge the support and guidance of the Council and the Senate through this, my first year as Vice-Chancellor of this wonderful institution, and to thank the Open University Students Association for how they have represented and supported our students throughout the pandemic.

**Professor Tim Blackman**  
Vice-Chancellor

# STRATEGIC REPORT

## Introduction

This Strategic Report has been prepared under the narrative disclosure requirements of the higher education Statement of Recommended Practice (SORP), Accounting for Further and Higher Education Institutions. The financial review discussed within this Report has been presented in line with the accounting requirements of Financial Reporting Standard (FRS) 102.

The Strategic Report gives an overview of the strategy and operating context for the University and reports on achievements and performance during 2019/20. It sets out our distinctive mission and how we deliver this through our strategic objectives and provide public benefit. The financial review describes the financial outturn for 2019/20 and performance aligned to the financial strategy. The Report then describes operational performance in regard to students, research activities, diversity, risk management and other reportable activities. And finally, we look to the future as we consider the external environment and the opportunities and challenges posed by regulatory, economic, social and political change.

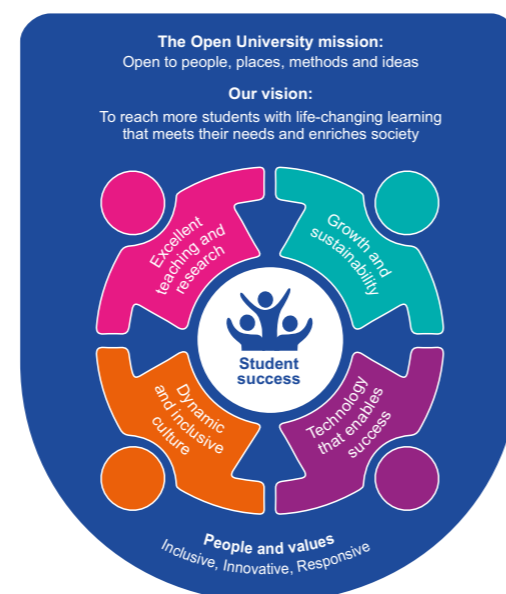
## Our Mission

The Open University is open to people, places, methods and ideas.

We promote educational opportunity and social justice by providing high-quality university education to all who wish to realise their ambitions and fulfil their potential.

Through academic research, pedagogic innovation and collaborative partnership we seek to be a world leader in the design, content and delivery of supported open learning.

The Open University's strategic objectives are the means by which we will continue transforming lives through education, building on our success and delivering our mission in a changing world.



## Strategic Plan

The Open University launched its Strategic Plan in May 2016 with a vision “to reach more students with life-changing learning that meets their needs and enriches society”, building on a strong track record of delivering genuine social and economic benefit for students, employers and society across the UK and beyond. In March 2019 the Council approved a refreshed Strategic Plan covering the three-year period to 2021/22, re-affirming the University's commitment to its distinctive Mission and core values of being inclusive, innovative and responsive. The refreshed strategy maintained the original Vision, set a clear direction for the University and provided a sense of momentum as the University appointed a new Vice-Chancellor.

The Strategic Plan confirms student success as our continued key strategic priority, as it is through our scale, reach and our ability to support students to succeed that we are able to achieve our positive impact on society and the economy. It articulates our focus on:

understanding our students' study goals and ensuring they get onto the right study path at the right level

- supporting our students to successfully progress through and complete their chosen module(s) or qualification(s)

- delivering a high quality and flexible student experience with high levels of student satisfaction
- supporting students to achieve positive career and personal development outcomes.

This is underpinned by four related strategic objectives, which together achieve the overall vision:

- delivering **excellent teaching and research** to enhance our distinctiveness, reputation and, above all, student success
- enhancing our **future growth and sustainability** by diversifying our reach and sources of income and managing and challenging our costs, to ensure our financial sustainability
- investing in **technology that enables success** – both student-facing technology and our own internal systems
- fostering a **dynamic and inclusive culture** by investing in staff to recognise and maximise their contribution to our success.

Each of these objectives has key success measures and underpinning performance indicators. Performance against these is scrutinised on a monthly basis by the Vice-Chancellor's Executive and quarterly by the University Council and the Senate.

Whilst the Strategic Plan frames the overall objectives for the period to 2021/22, we have adopted a phased approach to realising the benefits, prioritising:

- Student success – through a programme of initiatives to further enhance our students' experience of studying with us and enable the best study outcomes
- Core Systems Replacement (CSR) – delivery of benefits associated with the launch of the technology solution to replace our core administrative and student-facing computer systems
- Implementation of a new Associate Lecturer employment contract – through which we will deliver sustainable enhancements to tuition, assessment and student support as enablers of our students' success
- We have continued to make progress during 2019/20 as measured against our strategic success measures. We have maintained our high overall student satisfaction and have seen positive improvements in the proportion of students who succeed in their studies. Our undergraduate student numbers increased during 2019/20, with the University attracting growth in both new and continuing students.

The University has procured a technology solution to replace its core administration information technology systems, and a programme of work to implement both the systems and associated process changes to deliver it is in place.

In addition, we continue to invest in our people and teams and have seen positive improvements in the measures associated with our Dynamic and Inclusive Culture strategic objective.

Underpinning our approach is delivery of financial sustainability through a programme of strategic change spanning several years, with benefits being progressively delivered and accumulated, thereby building a platform for future growth, and ensuring we remain responsive to our students' needs while allowing the headroom to continue to innovate.

We are beginning work to develop our next Strategic Plan for the period 2022–2027. It will be an evolution of our current strategy with a continued commitment to our enduring mission. The focus will be on bringing our mission to life; responding to the needs, opportunities and challenges of the rapidly changing post-Covid world, so that we continue to extend the positive economic and social impact that The Open University and our students deliver.

The development of the new strategy will be an iterative process, informed by the learning from our current strategy. Following a significant period of stakeholder engagement with staff, students and external stakeholders from January to April 2021, the final version of the strategy will be developed for approval by the University Council in September 2021.



## Public Value and Sources of Funding

As an exempt charity within the meaning of the Charities Act 2011, we set out how our activities are of benefit to the public.

### CHARITABLE AIMS

The University's Royal Charter describes these as: "...the advancement and dissemination of learning and knowledge by teaching and research by a diversity of means such as broadcasting and technological devices appropriate to higher education, by correspondence tuition, residential courses and seminars and in other relevant ways, and to provide education of University and professional standards for its students and to promote the educational well-being of the community generally". This falls within the Charities Act 2011 charitable purpose of the advancement of education.

The charitable aims are encompassed in the University's mission statement on page 6.

The University's Council has taken into account the Charity Commission's guidance in exercising their powers and duties and in reporting of how the University operates for the public benefit.

### PUBLIC BENEFIT

The main direct beneficiaries of the University's activities are our undergraduate and postgraduate students, our apprenticeship students and their employers and the recipients of our research.

Providing educational opportunity to all those who wish to realise their ambitions and fulfil their potential is core to our mission. Our open entry policy means that it is potential that matters and most of our courses have no entry requirements. Our distance learning model means that the opportunity to benefit from our activities is not restricted by geography. Details of the numbers of students that benefit from our activities and their reported satisfaction of their experience, as well as our work on widening access and participation are set out on pages 22 and 23.

Information on research activities are set out on page 24.

Our activities also have wider public benefit and impact deriving from the intrinsic value of education and the development of knowledge and understanding supported by the significant amount of learning materials freely available through the Open University iTunes U services, YouTube, kindle books through Amazon, and the University's OpenLearn platform, as well as through FutureLearn Limited, our joint venture investment.

During 2019/20 we have worked with governments across the four UK nations to provide access for furloughed workers to free courses on the OpenLearn platform. From March to July 2020, over 100,000 visitors accessed OpenLearn via one of these schemes.

In Scotland, we worked with Skills Development Scotland to launch the 'My World of Work' portal in response to the Covid-19 pandemic, to connect people with free-to-access online learning materials.

In Northern Ireland, in close partnership with the Department for the Economy, we produced an initial suite of free online courses for furloughed workers and others who have lost their jobs as a result of the pandemic. Courses cover digital skills, cybersecurity, employability and essential skills.

### PUBLIC BENEFIT (CONTINUED)

In England, OpenLearn courses are available to furloughed workers through the government's Skills Toolkit website. As well as existing courses in Beginners' Maths, Cyber Security and Learning to Code, new courses in entry-level Bookkeeping and Advanced Computer Networking were developed.

In Wales, through the Working Wales website we provided new elearning for furloughed workers aimed at helping them to improve their knowledge levels across a broad range of topics, and supporting their mental well-being.

A number of our research projects provide wider public outreach, engagement and benefit, and examples include:

**Nquire:** The University has, in partnership with the BBC, developed a platform that allows the public to contribute to 'big questions' (missions) that are set by University academics or in partnership with other organisations. For example, missions have included Gardenwatch in conjunction with the BBC's Springwatch programme and how 'Covid-19 is impacting daily life' in conjunction with the Young Foundation.

The Open University in Wales' OpenTalks series saw seven large public engagement events hosted in five locations across Wales between January 2019 and March 2020. The series was commissioned to make a distinct contribution to the enrichment and development of Welsh cultural and civic life, and to make The Open University's academic research accessible to the wider public.

The results of the vast majority of the research carried out by the University is published in the public domain and freely available through Open Research Online – the University's Open Access repository of research publications and research outputs.

### FEES AND FUNDING

The University is a fee-charging charity and the majority of our undergraduate students study part-time. As a result of our significant presence in the UK nations, we receive grant funding from each of the four nations' funding bodies in line with their devolved decisions on funding and financial support available to part-time students. This grant funding determines the fees we charge to students resident in each UK nation.

In England, although tuition fees are subject to statutory regulation, our fees are set lower than the regulatory cap. The majority of our students are liable for annual tuition fees of £6,024 per Full-Time Equivalent, equating to £18,072 for an undergraduate degree.

Our students in Scotland, Wales and Northern Ireland are liable for annual tuition fees of £2,016 per Full-Time Equivalent, or £6,048 to complete an undergraduate degree.

Other UK universities charge higher fees to overseas students who study in the UK, whereas our overseas students are taught in the countries in which they are resident, either directly or in partnership with a range of educational and commercial organisations, at fee levels that are similar to England.

## Financial Support for Students

Students may be able to access support with tuition fees and living costs through government-backed loans and grants through the Student Loans Company (SLC) or Student Awards Agency Scotland (SAAS) based on the UK nation in which they reside, as set out below.

There are also sources of financial assistance that are available across the UK with some nation variations which include:

- Disabled Student Allowances are available to UK residents to assist with the extra study costs associated with their disability, and can help pay for specialist equipment and software, a study support helper and other extra costs. This is administered by SLC/SAAS. The University also provides additional services for students with disabilities, long-term health conditions, mental health difficulties or specific learning difficulties.
- The University offers a number of access modules as an ideal starting point to develop study skills and build confidence prior to embarking on an undergraduate qualification. Some students in the UK on low incomes may be eligible to study an access module for free if they meet certain criteria.
- The University's wholly owned subsidiary, Open University Student Budget Accounts Limited, provides students with a deferred payment facility at a lower than market rate of interest. This offers an option for deferred payment for those not eligible, or not wanting, to use the Student Loans Company.
- The University's Study Support Scheme provides students with low incomes with funding towards a range of study costs.

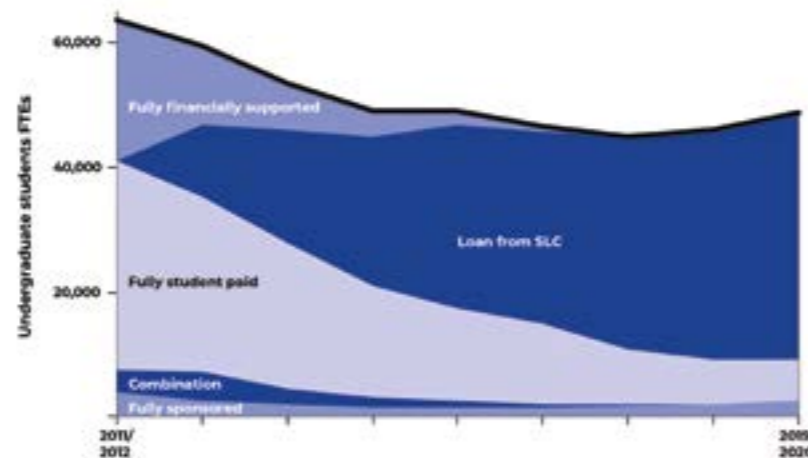
### England

Loans for tuition fees are available from the SLC for undergraduate students in England who have not studied at an equivalent or higher level before (apart from a few exempted subjects).

Maintenance loans are not currently available to part-time students studying at a distance.

Postgraduate loans are available to those studying for an eligible masters qualification.

The chart shows how the funding in England has changed since 2011/12. In 2019/20 approximately 81% of undergraduate Full-Time Equivalent students (FTEs) in England were funded by the SLC.



### Scotland

The cost of teaching part-time students is met largely by the direct teaching grant to universities from the Scottish Funding Council, but also through fees payable either by students or their employers. Part-time students can qualify for the Part-time Fee Grant towards the cost of their tuition fees from SAAS if their personal income is £25,000 or less, or they receive certain benefits.

69% of Open University undergraduate FTE students in Scotland benefited in 2019/20 from the Part-time Fee Grant to pay their module tuition fees.

Part-time students on postgraduate masters and diploma courses are eligible for tuition fee loans of up to £5,500, spread over two or three years, from SAAS.

### Wales

Loans for tuition fees are available from the SLC to students from Wales studying at an intensity of at least 25% of the Full-Time Equivalent and who have not studied at an equivalent or higher level before, apart from a few exempted subjects.

75% of the Open University's undergraduate FTEs in Wales were funded by the SLC in 2019/20.

Students in Wales are eligible to apply for support for living costs. The amount and type of support available depends both on household income and when the student commenced their studies.

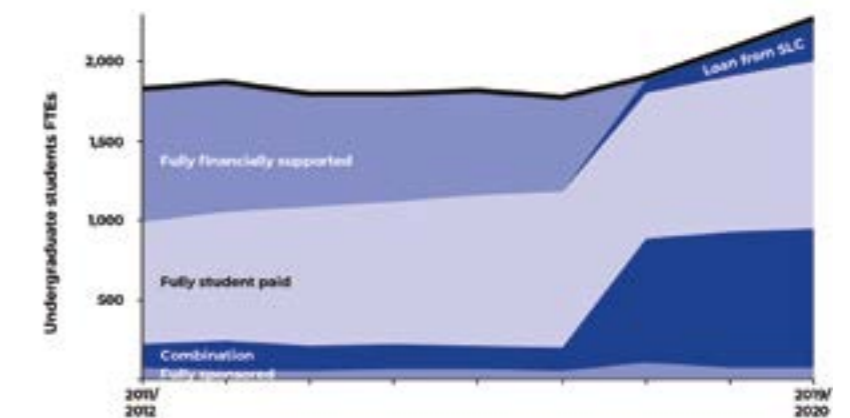
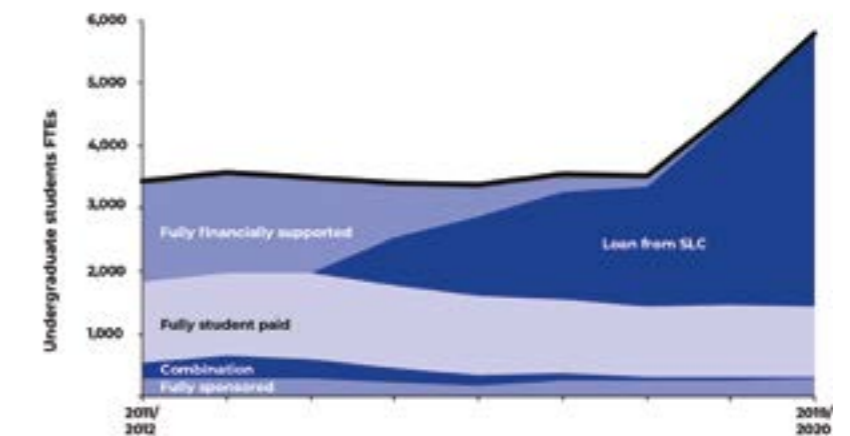
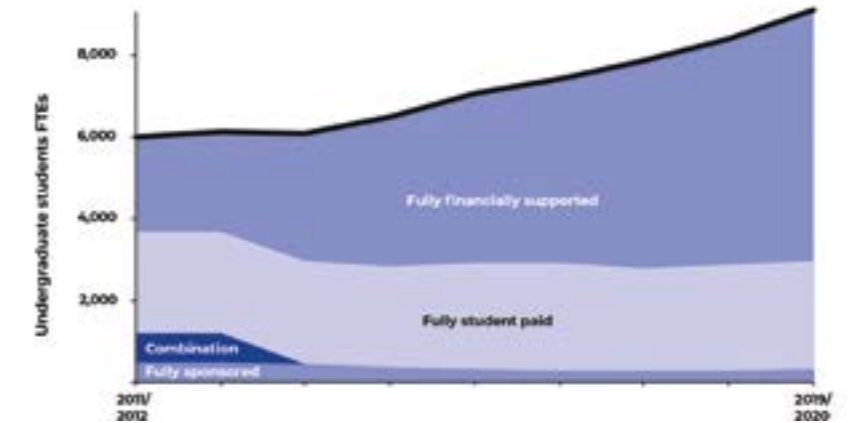
Financial support is now available for new part-time postgraduate students in Wales. As with undergraduate support, this comprises a mixture of grants and loans determined by household income.

### Northern Ireland

Fee grants and loans are available through the Student Finance Northern Ireland for part-time undergraduate students from Northern Ireland and for postgraduate study.

Students may also be eligible for course grants of between £50 and £265 for other study-related costs. The fee grant of £820 is taken up by about 39% of students.

Since the Student Finance Northern Ireland loan scheme was introduced in 2016, the proportion of students paying for their study this way has been increasing and now stands at 11% for 2019/20.



## Financial Review

### Scope of the Financial Statements

The financial statements comprise the consolidated results of the University and its trading subsidiary undertakings, the 'Group'. The subsidiaries are: Open University Student Budget Accounts Limited (OUSBA), and Open University Worldwide Limited (OUW) and until 29 April 2019, FutureLearn Limited. From 29 April 2019 FutureLearn is reported as a joint venture.

### Financial Highlights and Results

#### The 2019/20 financial headlines for the Group are as follows:

- An accounting surplus for the year after taxation of £46.6 million and an adjusted operating surplus for the year, which reflects the underlying financial performance, of £21.6 million. Further analysis of the adjusted operating surplus position is provided on page 13.
- Like all higher educational institutions that are members of the Universities Superannuation Scheme (USS), the financial results continue to be dominated by the accounting impact of the latest applicable actuarial valuation of the USS. For 2019/20 this is the valuation as at 31 March 2018. The USS pension provision adjustment is a reverse charge of £60.8 million representing the adjustment to the Group's share of the USS deficit recovery plan which reduces the £167.8 million provision reported last year to £107.0 million. The first consultations for the 2020 valuation are progressing and whilst it is early days in the process, the emerging implications provide for continued uncertainty both from the impact on reserves and the recurring costs from the levels of contributions required.
- Excluding the USS pension provision adjustments, this financial position is driven by strong growth in new and continuing student numbers as set out on pages 13 and 14 and unrealised gains on financial investments. Whilst total expenditure also increased as a result of strategic change activities we saw reduced operational expenditure in the later months of the financial year as a result of the Covid-19 pandemic.
- The University is in the third year of a significant programme of strategic change to ensure the University's business readiness for the future and to secure its long-term financial sustainability. During 2019/20 there was significant expenditure, both revenue and capital, on the development of the new core administrative systems. There was also provision for voluntary severance through an employee-led scheme for our Associate Lecturers in preparation for a move to new contract arrangements during 2021.
- The reported Net Cash Outflow from Operating Activities (financial statements definition) was £29.1 million, which includes the increased revenue expenditure on strategic change activities. After taking into account the Group's ongoing capital investment in new administrative systems, reduction in holdings of gilts, equities and fixed-term deposits and cash flows from financing activities, total cash balances as at 31 July 2020 were £179.1 million, £15.6 million higher than last year.
- Total net assets at 31 July 2020 were £397.9 million, an increase of £46.6 million from the previous year due principally to the USS pension reverse charge.

These headlines are explored in more detail in the following sections.

In the early months of the Covid-19 pandemic there has been limited financial impact to the University. The University and its subsidiaries remained 'open for business' and whilst there was a significant operational impact on staff, most were supported to work from home and continued to deliver services to our students. A small number of students, notably key workers, requested a pause or deferral of study, however the financial impact was not significant. Certain income-generating activities and some research projects were deferred as activity could not be progressed. Through the University's response to the Covid-19 pandemic there was some additional unplanned expenditure, including provision

of equipment to enable staff to work from home, additional financial support to impacted students including students with tuition fee loans through OUSBA and an increase in the costs of annual leave carried into 2020/21. However total operating expenditure was lower than planned due to deferral or cancellation of events and other scheduled activities. The ongoing impact of the pandemic is considered as part of our forward look.

As set out in the table below, the adjusted operating surplus for the year, which reflects the underlying operational financial performance of the Group, is £21.6 million. This is a continuation of the improvement seen last year. The adjustments exclude items not influencing the day-to-day operations of the Group.

	Consolidated		University	
	Year Ended 31 July 2020	Year Ended 31 July 2019	Year Ended 31 July 2020	Year Ended 31 July 2019
	£m	£m	£m	£m
Surplus/(deficit) for the year	46.6	(112.1)	48.9	(106.8)
Restructuring and strategic change	39.2	14.3	39.2	14.3
USS deficit provision adjustments	60.8	111.1	(59.7)	109.3
Share of deficit of joint venture	6.8	1.4	0.0	0.0
Other operating and asset adjustments including unrealised investment gains	(10.2)	(12.5)	(10.2)	(11.1)
<b>Adjusted Surplus from Operating Activities</b>	<b>21.6</b>	2.2	<b>18.2</b>	5.7

The movement from a £2.2 million adjusted operating surplus in 2018/19 to an adjusted operating surplus of £21.6 million in 2019/20 is explained below:

	Year Ended 31 July 2020
	£m
Adjusted Operating Surplus – 2018/19	2.2
Increase in Tuition Fee Income	29.5
Increase in Funding Body Grants	6.3
Decrease in Research Grants, Other Income and Donations	(8.5)
Increase in Operating Staff Costs	(17.9)
Decrease in Operating Expenses	10.0
<b>Adjusted Operating Surplus – 2019/20</b>	<b>21.6</b>

The adjusted operating surplus in 2019/20 was due mainly to:

- an overall increase in income from growth in student numbers by 7,030 (5.4%) compared to 2018/19, and whilst this was partly offset by an increase in teaching costs, the net impact on operating surplus was £22.1 million.
- an increase in staff costs, which reflects the costs of teaching higher numbers of students, an increase in the cost of annual leave carried into 2020/21 as a result of the pandemic and the impact of increased employer pension contributions.
- a decrease in operating and other expenses compared to the previous year partly as a result of some deferred activities as a result of the Covid-19 pandemic.



## Income

**In 2019/20 the Group's Income from all sources increased by £24.9 million (5.5%) to £474.1 million**

### TUITION FEE INCOME

Page 22 and Page 63

Tuition fee income increased by £29.5 million (9.8%) to £330.7 million. Directly taught student numbers grew by 7,030 (5.4%). The majority of the increase was for fees paid in respect of students in England, which increased by £21.4 million (8.8%) to £264.6 million.

### FUNDING BODY GRANTS

Page 63

The University received grant funding from the four UK nations' higher education funding bodies and from Research England for Quality-related Research (QR). The changes in grant funding set out in Note 2 to the financial statements reflected each nation's funding priorities for higher education. The increase in funding body grants of £1.6 million (1.7%) included £1.7 million of a UK Research Partnership Investment Fund (UKRPIF) grant where the element funded by Research England was disclosed as funding body grants.

### RESEARCH GRANTS AND CONTRACTS

Page 64

In addition to the Research England QR and UKRPIF grants included in funding body grants, the University's academics submit grant applications to UKRI and European Research Councils as well as other charitable and commercial bodies, to fund specific research projects. In 2019/20 income from research grants and contracts reduced by £1.7 million to £11.9 million, reflecting a challenging bidding environment and the impact of the pandemic in undertaking the income-generating research activities.

### OTHER INCOME

Page 64

In 2018/19 other income included the final payment from the VAT settlement in 2018/19 and income generated by FutureLearn as a subsidiary entity. In 2019/20 FutureLearn was accounted for as a joint venture and its net results are shown as a separate line item. As a result, in 2019/20 other income is £11.0 million lower.

### INVESTMENT INCOME

Page 64

Investment income increased by £6.6 million to £13.7 million, largely due to the year-on-year movement in market value of investments in equity funds by £7.6 million to £11.6 million.

### DONATIONS AND ENDOWMENTS

Page 65

Income from donations and endowments decreased by £0.1 million (3%) to £3.2 million.

## Expenditure

**Total Group Expenditure from all sources decreased by £139.6 million. Excluding the changes to the USS pension provision, total expenditure from all sources increased by £32.3 million (7.2%) to £481.4 million**

### STAFF COSTS

Page 65

Total staff costs decreased by £143.7 million to £272.4 million, mainly due to the net impact of USS pension provision adjustments. Excluding these USS pension adjustments, underlying staff costs have increased by £29.7 million (9.7%), including the impact of higher student numbers on tuition costs, increased employer pension contributions, an increase in the voluntary severance provision through the Associate Lecturer employee-led scheme, an increase in the annual leave accrual as a result of the pandemic and increased costs as a result of strategic change activities.

### NON-STAFF COSTS

Page 70 and Page 71

Other (non-pay) operating expenses, depreciation and interest payable increased by a combined total of £2.7 million (1.9%), reflecting the impact of higher student numbers and additional costs related to strategic change expenditure offset by a reduction in planned activity as a result of the Covid-19 pandemic.

## Group financial performance: five-year view

### Income

The chart shows our total income for the last five years.

The high income reported in 2015/16 was due to a significant one-off VAT refund.

The adjusted operating income, which excludes transactions not part of day-to-day operations (see

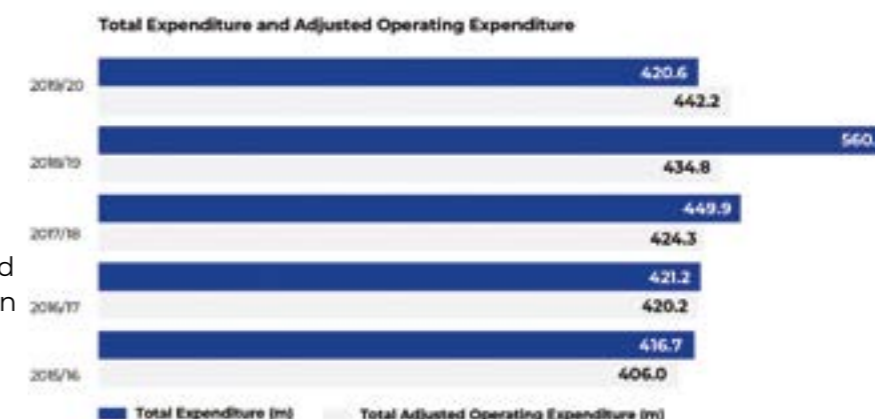
page 13) including unrealised gains on investments and the VAT refund, shows an emerging favourable trend, largely reflecting increases in tuition fee income from growth in student numbers since 2017/18.



### Expenditure

Our total expenditure for the last five years has been impacted by changes to the USS pension provision in 2019/20 and 2018/19, and from 2017/18 we have been incurring costs through strategic change.

The adjusted operating expenditure excludes transactions not part of day-to-day operations including valuation changes in the USS pension provision, expenditure on time-limited strategic change activities and the University's share of the results from its joint venture. The adjusted operating expenditure shows that action to hold our underlying costs flat has been reasonably successful over a number of years. However, we will continue to seek efficiencies and cost reductions through our ongoing strategic change programme.

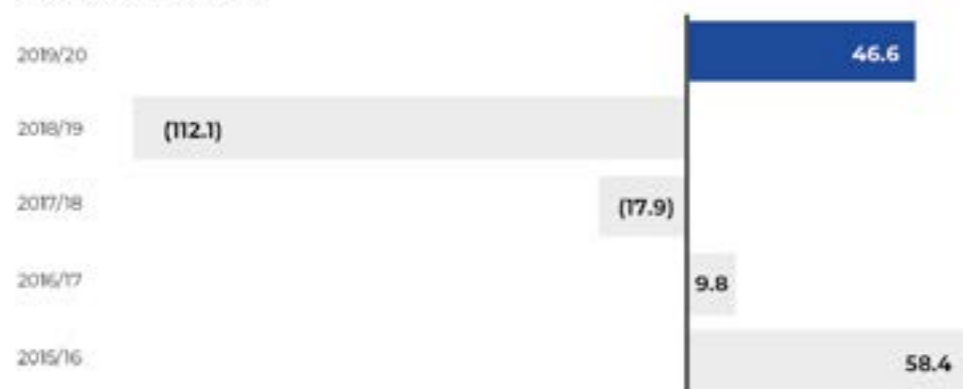


## Group Financial Outturn

A surplus after tax of £46.6 million which includes the adjustment for the USS provision, compares to a deficit of £112.1 million last year.

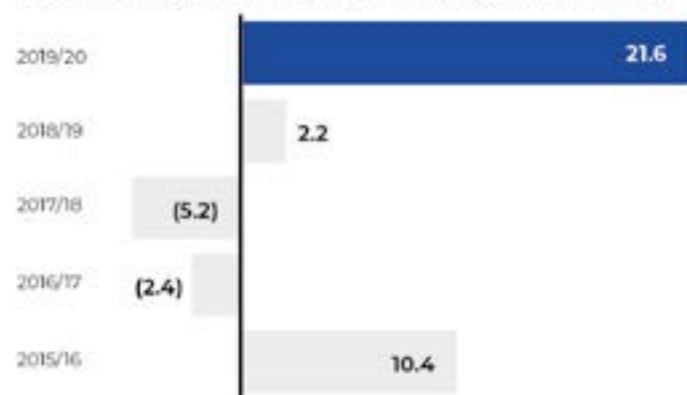
Surpluses/(deficits) over the last five years in the first chart represent the reported outturn position. Year-on-year fluctuations are principally due to time-limited and non-operating income and expenditure, such as the USS provision adjustments, the costs of strategic change activities and the successful outcome of the VAT refund case.

Surplus/(Deficit) (£m)



The second chart shows the adjusted surplus/(deficit) from operating activities, eliminating the main non-operational items across the years (see page 13). This is a better measure of underlying financial performance and is therefore one of the University's financial strategy measures. The driver of underlying financial performance largely reflects student numbers. The significant movement between 2015/16 and 2016/17 was as a result of the introduction of the Apprenticeships levy.

Adjusted Surplus/(Deficit) from Operating Activities (£m)



### CASH FLOWS - Page 62

Total cash balances as at 31 July 2020 were £179.1 million, £15.6 million higher than at 31 July 2019.

The Group reported Net Cash Outflow from Operating Activities (financial statements definition) of £29.1 million was mainly due to planned expenditure on strategic change and an increase in debtor balances with the Student Loans Company arising from operational challenges due to the Covid-19 pandemic.

Net cash inflows from investing activities of £45.0 million reflect the maturity of gilts offset by capital expenditure as discussed on page 17.

## Group Assets and Liabilities

In 2019/20 Net Assets increased by £46.6 million (13%) to £397.9 million

### TOTAL NON-CURRENT ASSETS

Page 61, Pages 72 to 75

Total non-current assets increased by £2.1 million to £271.4 million.

Intangible assets increased to £19.9 million. This is due to the capitalised costs of purchased software to deliver the new core administrative systems, part of our strategic change programme. These assets are recognised as Assets under Construction, and not amortised prior to release into use by the business.

Tangible assets totalled £235.7 million at 31 July 2020; the net decrease of £5.9 million compared to 2018/19 was mainly due to the depreciation charge for the year. The additions to land and buildings in the year of £0.2 million were in respect of minor improvements (2018/19, £0.2 million).

The non-current investment of £15.8 million is the carrying value of the investment in the joint venture, FutureLearn Limited. In the Group financial statements the investment is calculated using the equity method and the reduction in valuation is our share of FutureLearn's deficit for 2019/20.

### NET CURRENT ASSETS

Page 61, Pages 75 to 77

Net current assets reduced by £13.1 million to £298.2 million.

Gilts, equities and term deposits totalled £167.9 million at 31 July 2020, a net decrease of £35.9 million since 31 July 2019 due to the maturity of tradeable treasury gilts reported within the net increase of £15.6 million in cash and cash equivalents. In the year, additional investment of £20 million was placed in equity-based funds.

The University recognises liabilities on the balance sheet in respect of student tuition fee income for curriculum modules partially completed at 31 July (£26.1 million as shown in Note 18) and modules not starting until the following financial year (£22.7 million as shown in Note 18).

Some tuition fees in England, Northern Ireland and Wales are payable by students via the SLC and the amount outstanding from the SLC at 31 July 2020 was £12.4 million (an increase of £6.1 million since 2018/19), as shown in Note 16.

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. There are no matters to disclose under the Late Payment of Commercial Debts (Interest) Act 1998.

### PROVISIONS

Page 79

Provisions reduced by £57.6 million to £111.2 million.

The provision for the University's estimated share in the deficit in the Universities Superannuation Scheme (USS) pension scheme based on the 2018 valuation, discussed on page 21 and in Notes 21 and 27, decreased by £60.8 million to £107.0 million at 31 July 2020.

The University has a provision at 31 July 2020 of £4.2 million in respect of the continuing activities for the strategic change programme. The balance of this provision has increased from £1.0 million at 31 July 2019 as a result of the employee-led voluntary severance scheme for Associate Lecturers as part of the preparations for moving to the new Associate Lecturer contract later in 2021.

## Treasury and Investment Management

The University's Finance Committee, as advised by the Investment Committee, reviews the investment strategy, ensuring that exposure to financial risk is mitigated through appropriate treasury and investment policies providing for diversification and capital protection of our cash assets after taking into account changing economic conditions.

The Finance and Business Services central treasury function manages the daily cash flows, ensuring sufficient liquidity whilst providing appropriate interest returns and minimising counterparty risk.

### The University manages its cash assets on two bases:

#### SHORT-TERM FUND

This fund is operated on the basis of ensuring capital protection and availability of liquid funds for immediate and medium-term requirements.

It is invested in bank deposits with the largest UK banks and building societies, UK gilt-edged stocks ('gilts') having a maturity within five years of the acquisition date, and money market liquidity and sterling government funds, which are split between three fund managers.

The University is potentially vulnerable to changing interest rates on its short-term fund. However, interest income is a small proportion of total income and the relative impact of changing interest rates on the University's overall financial results is low.

#### EQUITY-BASED LONG-TERM FUND

This fund targets an investment return of three percentage points above the UK Retail Price Index over the long term, with short-term capital volatility being accepted.

The equity-based long-term fund is managed between two investment managers selected for their contrasting approaches. This split is designed to provide a measure of capital protection in different market conditions whilst providing an above-inflation return. Both managers invest on behalf of a wide range of charitable clients and have well-developed mechanisms to invest in a socially responsible manner and support strong and responsible corporate governance in the companies in which they invest.

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

The University does not directly invest in offshore funds, and the appropriateness of the environmental, social and governance policies of the two equity-based funds managed on behalf of the University is agreed by the Finance and Investment committees.

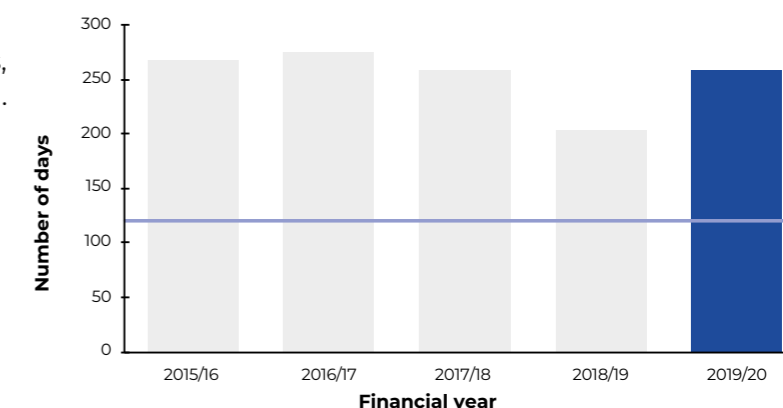
The profile of the University's gilts, equity-based investment funds, and term deposits as at 31 July 2020 is set out in Note 17.

## Financial Strategy

The financial strategy is designed to maintain financial sustainability and flexibility at all times. The financial strategy was refreshed during 2019/20 to ensure that available financial resources are used to best effect to achieve the University's objectives and that the measures will support the University's short- and long-term goals.

### NET CURRENT ASSETS To maintain net current assets at a minimum of 120 days expenditure

Previously this target was set at 180 days and has, in recent years, been consistently over-delivered. The target has been reduced to represent the required level of expenditure cover based on consideration of financial risk. The history of the University's financial performance against its revised target to maintain net current assets at a minimum of 120 days expenditure is summarised in this graph. For the purposes of this parameter, committed bank facilities are included as being equivalent to net current assets.

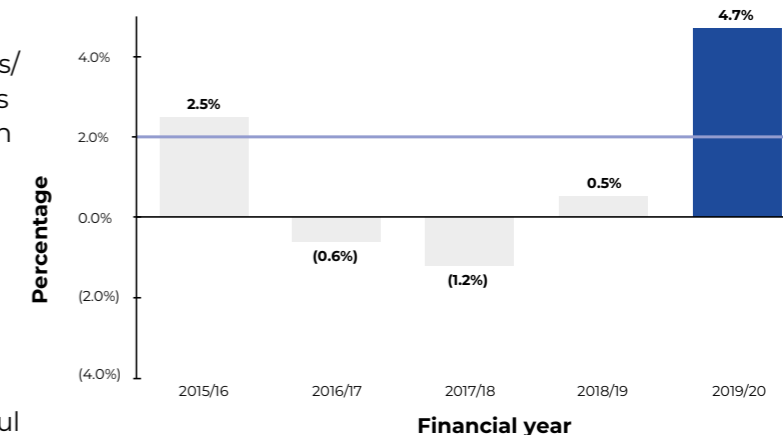


At 31 July 2020, net current assets were £298.2 million, a decrease of £13.1 million (4%) from the previous year's figure of £311.3 million. The 2020 figure represented 259 days of expenditure.

### INCOME AND 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 an adjusted surplus from operating activities of 2% of income.

This target has not changed. The history of the adjusted surplus/ (deficit) from operating activities is shown in the graph, along with the financial strategy target of 2%. The adjusted surplus from operating activities for 2019/20 was £21.6 million (see page 13), which equates to 4.7% of income. This compares to the 2018/19 figure of 0.5%.



The measure provides a meaningful year-on-year comparison of results and is discussed on pages 13 and 16. Following changes in higher education fees and funding in England in 2012, the University experienced an underlying trend of operating deficits, although its current strategic change programme has now started to move back into an operating surplus position.



**RESERVES**

To maintain reserves at a level that provides for financial sustainability through consideration of liquidity, functional assets and risk revenue in accordance with Charity Commission guidance (CC19).

This is a new financial strategy performance indicator and replaces the previous measure that restricted the maximum level of borrowings to £62 million. There are no requirements identified in the University's current strategic plans to increase borrowings further. Council considered that any constraint around borrowings should be determined by risk and return rather than an absolute ceiling.

The new measure, aligned to that defined by the Charity Commission, determines the target level of reserves that are required to deliver plans for maintaining essential services for our students and demonstrates financial resilience. By considering the purposes for which reserves may be needed and based on current five-year planning assumptions, financial protection of assets required for maintaining business operations, required working capital and assessment of financial risk, we have identified the level of required unrestricted reserves. For 2019/20 our unrestricted reserves are £393.6 million, which is in excess of the required reserves.

**Pensions**

The University and its wholly owned subsidiaries have one defined benefit pension scheme available to their UK-based staff, the national Universities Superannuation Scheme (USS), which also includes a defined contribution element. USS is completely independent of the Group, which has no control over its policies or decisions. A full actuarial valuation of the USS is normally undertaken every three years, with interim estimates being carried out in the other two years.

Whilst the triennial review was conducted as at 31 March 2017, a further review was undertaken as at 31 March 2018. The 2018 position, agreed by the USS Trustee in September 2019, has been incorporated within these financial statements as the agreed valuation in place as at 31 July 2020.

**2018 ACTUARIAL VALUATION**

The actuarial valuation as at 31 March 2018 was completed on 16 September 2019. This valuation reported a scheme deficit of £3.6 billion and a funding level of 95%. This valuation resulted in revisions to the deficit recovery plan agreed as a result of the 2017 valuation. With an aim to eliminate the deficit by 2028, member and employer contribution rates increased from 1 October 2019 to 9.6% and 21.1% respectively, and from 1 October 2021 onwards contributions will increase to 11% and 23.7% respectively.

As a result of this revised recovery plan the provision to fund the deficit reduced from £167.8 million at 31 July 2019 to £107.0 million at 31 July 2020, a decrease of £60.8 million.

**2017 ACTUARIAL VALUATION**

The 2018/19 results report the impact of the actuarial valuation as at 31 March 2017. The scheme deficit was £7.5 billion, an increase of £2.2 billion since the last full valuation in 2014 (although the funding level of 89% remained unchanged).

A revised deficit recovery plan was implemented with the aim of eliminating the deficit by 2034. The plan increased member contributions to 8.8% and employer contributions to 19.5% from April 2019. Further increases were planned, although these have been superseded by the outcomes of the 2018 valuation.

The changes to the deficit recovery plan resulted in a significant increase in the liability recognised by the University Group in respect of commitment to the USS deficit recovery plan reported in 2018/19. At 31 July 2019 the liability was £167.8 million, an increase of £111.1 million on the previous year.

A small number of employees are members of defined contribution pension schemes. Details are provided in Note 27 on page 83.

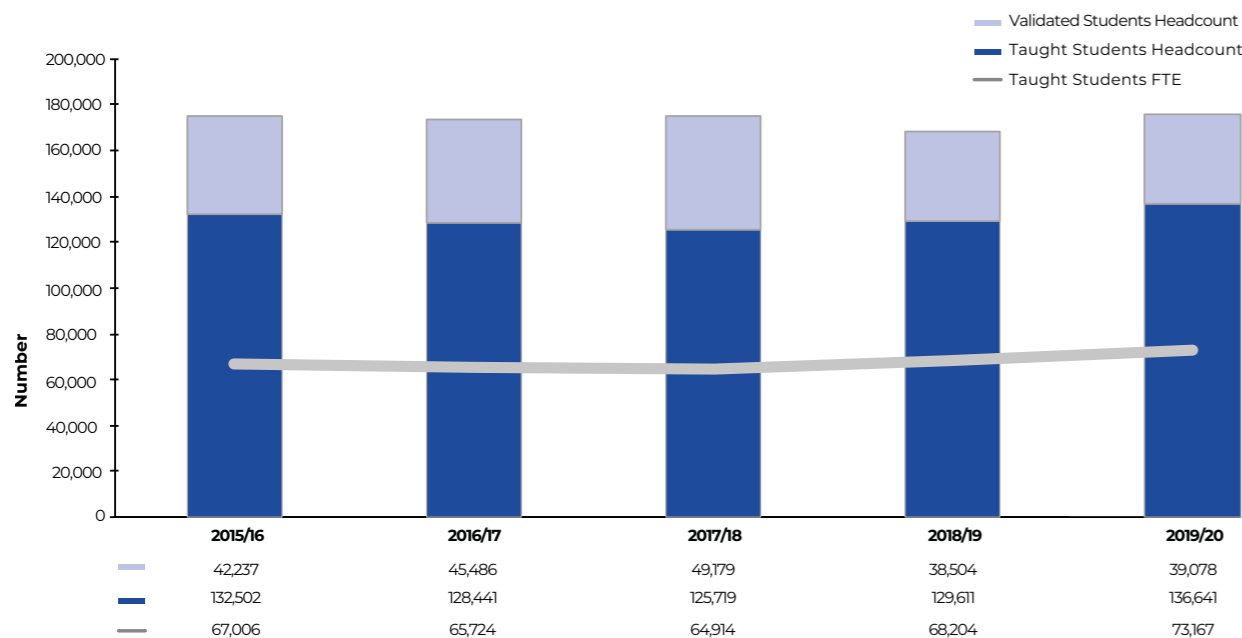
## Student Numbers

In 2019/20 our directly taught student numbers of 136,641 have increased by 7,030 or 5.4% compared to 2018/19. The average intensity of student study, expressed in Full-Time Equivalents, has increased by 4,963 or 7.3% to 73,167. This has contributed to the growth in tuition fee income of £29.5 million reported on page 14. This is in line with our expectation that student numbers would stabilise and then grow, in part as outcomes of our strategic priorities. Student number growth reflects both increases in new student registrations and increases in module pass rates which are enabling more students to continue their studies towards qualification completion.

The period of stabilisation and then growth since 2015/16 reflects the University's response to the reductions, which were almost entirely attributable to students in England as an expected result of the significant changes to the English funding regime.

The latest available data from the Higher Education Statistics Agency shows that The Open University maintained its position as the provider with the most enrolments. The University's share of the UK part-time undergraduate market in 2018/19 increased by 2% to 44% compared to the previous year.

In 2019/20 we had 944 postgraduate research students, an increase of 35 on the previous year.



## Student Satisfaction

The Open University has been working on making continuous improvements to the student experience, with our data showing improvement in student satisfaction. Around 90% of our students are overall satisfied with the quality of their study experience, and over 90% would recommend Open University study to others. High levels of student satisfaction with tutor support, assessment and feedback show the strength of our flexible distance learning model. Our data reveals that:

- 89% of students felt that they could get in touch with their tutor when necessary and their tutor used a friendly/personal tone in feedback on assessed tasks.
- 88% of students agreed that tutors' feedback on assessed tasks explained the mark received.
- 87% agreed that sufficient opportunities were provided to check understanding on the module, for example by completing assignments, and 84% felt that it was obvious how the module materials related to the assessed tasks on a module.

Satisfaction of students who feel part of a community increased by 4 percentage points to 56%. This can be challenging for an organisation such as The Open University that mostly does its teaching online. We have student success at the heart of our strategy and will continue to seek feedback, listen and respond to our students to ensure the best experience possible.

## Access, Participation and Success

The University's Access, Participation and Success Strategy provides the strategic framework to deliver our ambition to remove inequalities in access and outcomes for students from under-represented and disadvantaged backgrounds. The Strategy is four-nation by design, providing flexibility to respond to the requirements of nation funding bodies across our six strategic priority areas:

- Curriculum choices
- Fees and funding
- Enabling access through partnerships
- Identity and belonging through inclusive design
- Proactive student support
- Personal and professional outcomes

Each nation responds to priorities as set out by their funding body and related to their own national context. Although disparities occur in access and outcomes for students within the lowest Index of Multiple Deprivation backgrounds, students from black, Asian and minority ethnic (BAME) and disabled students appear to be common across the four nations.

### THE ACCESS AND PARTICIPATION PLAN – ENGLAND

The Access and Participation Plan (APP) is the agreement that the University has with the Office for Students. It is a condition of our registration, and delivering the commitments within the APP is strategically important to our mission to promote educational opportunity and social justice. Our plan covers the period 2020/21 –2024/25 and was approved by the Office for Students in April 2020 and sets out targets for reduction of gaps between the most and least represented groups of students with regard to recruitment, continuation of studies and pass rates within the five years of the plan.

In order to achieve these ambitions the University is investing approximately 26% of its higher fee income (fee income above the basic part-time fee of £4,500) from its England students. Only spend on access, financial support and research and evaluation activities is required to be reported within the APP, which equates to 20.3% of this higher fee income (see Note 24). The remaining expenditure is planned for activities addressing gaps in progression and attainment for these students.

### THE WIDENING ACCESS AND PARTICIPATION PLAN – NORTHERN IRELAND

The Open University in Northern Ireland (NI) submits an annual Widening Access and Participation Plan to the Department for the Economy (DfE), addressing the DfE's 2012 Access to Success strategic aims and targets for increased participation in HE.

The DfE 2011 NI Skills Strategy is currently under review and is likely to incorporate the Access to Success strategy.

### OUTCOME AGREEMENT – SCOTLAND

All Scotland's universities and colleges, including The Open University in Scotland, are required to agree an annual Outcome Agreement with the Scottish Funding Council in order to access public funding. The Outcome Agreement sets out the University's commitment to a range of imperatives, and includes a series of student access and success measures reflecting Scottish Government aspirations around reducing unequal access and outcomes for students from the most deprived SIMD (Scottish Index of Multiple Deprivation) quintiles and care-experienced students among others. The Outcome Agreement also includes a range of commitments including the development and implementation of a Gender Action Plan, Corporate Parenting Plan and British Sign Language Plan.

### HEFCW MONITORING – WALES

The Higher Education Funding Council for Wales (HEFCW) monitors both Higher Education Institutions (HEIs) and Further Education Institutions (FEIs) in Wales on a range of national measures relating to both sector and individual institutional performance. These include: widening access and participation from students in the bottom two quintiles of the Wales Index of Multiple Deprivation (WIMD), student retention & progression and the proportion of part-time students.

Welsh Language Standards is a legal framework giving individuals in Wales the right to receive certain services through the medium of Welsh. They replace our previous Welsh Language Scheme and are a legal requirement which applies to the whole institution.

## Research Outputs

The Open University is distinctive among UK universities in combining a mission to widen access to higher education with research excellence. Research and knowledge exchange is an important element of our founding principle: to be 'open to people, places, methods and ideas'.

The University's five-year Research and Enterprise Plan sets out five aims:

- to achieve success in the next Research Excellence Framework exercise (REF2021);
- build capacity to engage with the public and stakeholders on a national and international scale;
- develop the number of large-scale external research and doctoral training partnerships;
- improve the links between research, curriculum and teaching; and
- increase the sustainability of the University's research activity.

We are progressing our preparations for REF2021. Our submission will seek to optimise our performance across disciplines, submitting all eligible staff who have significant responsibility for research (as defined in the University's REF2021 Code of Practice).

Income from external research grants and contracts for 2019/20 was £11.9 million, a reduction of £1.7 million from 2018/19. In addition to externally funded research grants and contracts, an additional £1.7 million income was received through a UK Research Partnership Investment Fund (UKRPIF) grant which, as received from Research England was disclosed as a funding body grant. Taken together, income from research grant activity has remained unchanged from 2018/19 as a result of the efforts across the University to improve external research income against a backdrop of the ongoing challenges of constraints on, and competition for, public funding for research, including the uncertainty around Brexit. We had anticipated an increase in 2019/20 income, however, the consequence of the Covid-19 pandemic delayed funding cycles, new award start dates and research activity levels during the final five months of the year, with some deferral of external research grant and contracts income as a result.

We anticipate that competition for research funding in UK universities will intensify further in the years ahead and will continue our focus on taking forward measures to increase and diversify external research income, improve cost recovery on our research activity and effectively manage our internal research cost base.

### Notable award achievements in 2019/20 include:

- £2.0 million European Research Council Advanced Grant (REDEFINE) to examine what China's rise means for how we understand global development and, specifically, Europe's place in it.
- £1.2 million from the Arts and Humanities Research Council for peace-building and education (Decolonising peace education in Africa).
- £2.5 million from the Science and Technology Facilities Council for Planetary Science.
- £1.0 million from the UK Space Agency for continued involvement in an instrument consortium developing the Soft X-ray Imager for the SMILE spacecraft.
- A £1.2 million Future Leaders Fellowship (the University's first) looking at 'English as a Medium of Instruction in European Higher Education'.
- £0.6 million secured for activity during the Covid-19 pandemic, including using Artificial Intelligence to identify misinformation, waste management during the crisis and supporting social and emotional resilience for lonely populations.

## Development Activities

In accordance with the Charities (Protection and Social Investment) Act 2016, the University is required to provide information about its fundraising activities. The primary responsibility for fundraising at the University is managed through the Open University Development Office which leads, facilitates and supports donor cultivation, solicitation and stewardship across the University.

A team of professional fundraisers is employed to raise funds through a variety of methods:

1. major gift fundraising from individuals, trusts and foundations, and commercial and charitable organisations, and
2. fundraising from alumni of the University via direct mail, telephone, or crowdfunding to encourage regular, planned and legacy gifts.

In the last year, over 9,000 Open University alumni, supporters, trusts and corporate partners have supported the University's Mission and Vision to reach more students with life-changing learning that meets their needs and enriches society through access to high-quality education, open to everyone with the determination to succeed.

The pandemic has led to several funders delaying their decision making, moving timelines to 2020/21, and led to a pause in certain fundraising activities like telephone fundraising and mailings. The latter have resumed over the summer, with fundraising calling starting again in September.

All our alumni and supporters are treated fairly and without discrimination. We adhere to the recommendations from the Institute of Fundraising, particularly in the protection of vulnerable supporters and other members of the public from persistent approaches or placing undue pressure on a person to give money or property. The University regularly monitors its fundraising activities to protect vulnerable people and others from unreasonable intrusion.

The University provides regular opportunities for all alumni and supporters being solicited to opt out of all or some approaches. These preferences are accurately recorded on the central database and are reflected in data selections for specific appeals.

All contactable alumni, regardless of age, receive generic communications from the University, updating them about the University's activities and progress, including the impact of donations.

We do not employ third-party fundraisers or external call centres and do not use commission-based incentives for our team. We use third-party design and print agencies for our direct mail appeals, for which we have clear systems and processes in place. The Development Office is responsible for protecting the reputation of the University and as such has rigorous due diligence protocols in place with regard to potential philanthropic partnerships.

Activities carried out by our fundraisers are monitored through regular management oversight and through the University's Performance and Development Reviews.

The University is registered with the Fundraising Regulator and has signed up to its code of fundraising practice. One complaint in relation to fundraising activities including administrative practices or procedures was assessed and resolved in the year in line with The Open University's fundraising complaints policy. The University received no allegations or investigations from regulatory bodies on our fundraising practices.



## Diversity and Equal Opportunities

The Open University has always held social justice and equality of opportunity as core to its Mission.

The year 2020 was a significant milestone for the University in terms of Equality, Diversity and Inclusion (EDI) and the approval of the Access and Participation Plan (APP) as discussed on page 23.

### Key milestones in 2019/20 academic year include:

- The start of the recruitment process for the new position of Dean, Equality, Diversity and Inclusion.
- Achievement of Level 1 (Disability Confident Committed) status in the Disability Confident Scheme, demonstrating our commitment to taking action to improve how we recruit, retain and provide development opportunities for people with disabilities. We aim to achieve Level 2 (Disability Confident Employer) in the 2020/21 academic year.
- A gap analysis to review the Open University's EDI practices to identify key priority areas from both a student and staff perspective to further develop the University as a fair, equal-opportunity workplace.
- The launch of the People Services Inclusion and Belonging Working Group to champion and role-model Equality, Diversity and Inclusion across People Services, which will contribute to the Institution's EDI strategy and cross-unit initiatives.
- Support for the work of the equality-focused staff networks to enable inclusive, meaningful staff engagement.
- In Northern Ireland, The Open University is deemed a public authority and must promote equality of opportunity and good relations across the protected groups identified under Section 75 of the 1998 Northern Act 1998. The new Programme for Government for the restored Northern Ireland Executive will bring forward new standards and duties with respect to Irish and Ulster Scots language and culture in the coming year.
- The Open University in Wales has been selected as a finalist in the Womenspire Awards 2020 and has achieved the Silver Award in the Fairplay Employer Survey.
- In Scotland, the Scottish Funding Council signed a Memorandum of Understanding with the Equality and Human Rights Commission in March 2020 to help Scotland's colleges and universities to improve their performance in meeting the Public Sector Equality Duty. The Open University in Scotland is currently required to publish an Institutional Gender Action Plan, Corporate Parenting Plan and British Sign Language Action Plan.
- The Open University in Scotland has joined fellow Scottish universities and colleges to support a public declaration against racism: "Racism exists on our campuses and in our society. Call it what it is and reject it in all its forms. We stand united against racism."

### Ongoing areas of work for 2020:

- Gender equality and the advancement, representation, progression and success of women at The Open University is evidenced in the Athena Swan Charter Bronze Status application, to be submitted November 2020.
- As we continue to address barriers to Black, Asian and Minority Ethnic (BAME) staff and student progression and success, a key focus for the 2021–2022 academic year will be preparation for the Race Equality Charter (REC) Bronze status.
- The Open University has a clear ambition to increase its diversity to ensure our staff and governance members are as reflective as the students and communities we support. People Services (Resourcing) are currently developing a five-year strategy to enable us to find, attract and hire more diverse people into The Open University. Immediate positive action aims to increase diversity within the University Council.

Further information is available on the University's equality and diversity website: [www.open.ac.uk/equality-diversity/](http://www.open.ac.uk/equality-diversity/).

At 31 July 2020, the gender, ethnicity and disability breakdown of Council members, senior managers (comprising the members of the Vice-Chancellor's Executive), and of staff were as follows:

Gender	Employees		External		Total	
	Male	Female	Male	Female	Male	Female
Council Members	6	2	7	6	13	8
Senior Managers (excluding Council)	8	5	0	0	8	5
<b>All Other Employees</b>	<b>3,449</b>	<b>5,472</b>	<b>0</b>	<b>0</b>	<b>3,449</b>	<b>5,472</b>

Ethnicity	Employees				External		TOTAL
	BAME*	White**	Refused	Unknown	White**		
Council Members	0	8	0	0	13		21
Senior Managers (excluding Council)	1	12	0	0	0		13
<b>All Other Employees</b>	<b>848</b>	<b>7,774</b>	<b>225</b>	<b>74</b>	<b>0</b>		<b>8,921</b>

\* does not include 'White-Other'

\*\* includes 'White-Other'

Disability	Employees			External		Total
	Disabled	Non-Disabled	Unknown	Disabled	Non-Disabled	
Council Members	1	7	0	1	12	21
Senior Managers (excluding Council)	0	13	0	0	0	13
<b>All Other Employees</b>	<b>696</b>	<b>8,136</b>	<b>89</b>	<b>0</b>	<b>0</b>	<b>8,921</b>

The staff numbers above are based on staff in-post as at 31 July 2020, whereas the staff numbers in Note 8 are the average FTE over the entire financial year.

## Public Interest Disclosure

The University ensures that its Whistleblowing Policy and associated procedures are embedded and understood throughout the organisation through internal and external communication, including training that is proportionate to the risk it faces. The Policy is reviewed annually by the Audit Committee on behalf of Council to ensure fitness for purpose.

The Policy and procedures were reviewed to ensure accessibility and consistency with other student-facing policies, and were approved by the Audit Committee in October 2020. One new disclosure was made to the Whistleblowing mailbox in the period to 31 July 2020 and a further complaint was reviewed under the Whistleblowing policy. Both disclosures were investigated; one was referred to the Students Complaints process, and second has resulted in a range of actions agreed with a third party, which are being progressed for completion by September 2020. In addition, the formal investigation into a complaint raised in 2018/19 was concluded and appropriate action is being progressed.

## Trade Union Facility Time

The University recognises the benefits to both the employer and employees when the University and the Trade Unions work together effectively. There are two Unions which are recognised for the purposes of consultation and negotiation: the UCU (University and College Union) and UNISON. Facility time is time spent by individuals on carrying out their representative duties in respect of their trade union role. In accordance with The Trade Union (Facility Time Publication Requirements) Regulations 2017, the University reported for the period 1 April 2019 to 31 March 2020, as follows (comparators for the period 1 April 2018 to 31 March 2019 are in brackets):

<b>RELEVANT UNION OFFICIALS</b>	There were 57 (2019: 67) individual employees representing 38.5 (2019: 39.7) Full-Time Equivalent (FTE) employees, who were relevant trade union officials during the period.
<b>PERCENTAGE OF TIME SPENT ON FACILITY TIME</b>	Of the 57 (2019: 67) employees, 53 (2019: 64) staff spent less than 50% of their working hours on facility time, and 4 (2019: 3) staff spent 100% of their working hours on facility time during the relevant period.
<b>PERCENTAGE OF PAY BILL SPENT ON FACILITY TIME</b>	The pay amount relating to the total percentage of working hours spent on facility time is 0.1% (2019: 0.1%) of the total staff costs for the University during the relevant period.
<b>PAID TRADE UNION ACTIVITIES</b>	The number of hours spent by employees who were relevant trade union officials on paid trade union activities is 11.9% (2019: 10.5%) of the total paid facility time hours during the relevant period.

## Institutional Quality

The Open University is a registered provider with the Office for Students (OfS) in England. To satisfy the national quality assessment requirements in Wales and Scotland, the University will be subject to a QAA Quality Enhancement Review (QER) scheduled for March 2021.

In early 2020 the University was re-accredited by the USA-based Middle States Commission on Higher Education (MSCHE)\* with positive affirmations and no recommendations for actions. The next re-accreditation will be due in 2028, with a desk-based mid-point review in 2024.

In addition, much of the University's academic provision is accredited or recognised by various Professional, Statutory and Regulatory Bodies (PSRBs). Various PSRBs undertook successful assessments of the University's provision in 2019/20, including the Council of Legal Education (Northern Ireland), the Nursing and Midwifery Council, the Institute of Mathematics and its Applications, the Institute of Engineering and Technology, the Royal Society of Biology, the Association for Project Management and the British Psychological Society.

Meanwhile, the University continues its system of internal periodic and annual quality reviews and makes thorough use of the external examining system.

\*The Open University is accredited by the Middle States Commission on Higher Education, 3624 Market Street, Philadelphia, PA 19104. (267-284-5000) [www.msche.org](http://www.msche.org). The MSCHE is an institutional accrediting agency recognised by the U.S. Secretary of Education and the Council for Higher Education Accreditation (CHEA).

## Risk and Risk Management

The University applies risk management to support the delivery of our Strategic Plan. Governance mechanisms, including the regular reporting on strategic risks, are in place to provide assurance to the Council and Audit Committee that the risk management policy, risk management framework and the University's risk appetite guide are followed and remain fit for purpose. The University's appetite for risk is approved by the Council on an annual basis to ensure it reflects the prevailing internal and external environment within which we operate.

The risk management process is cascaded through the University and informs decision-making at strategic and operational levels. An automated Risk Management System provides for the consistent capture of risk information, the ability to view risks in real time across the University and to produce aggregate data.

The Strategic Risk Register captures the University's principal strategic threats and opportunities and it is regularly discussed at meetings of the Vice-Chancellor's Executive, the Audit Committee, and the Council to support the delivery of strategic objectives and inform planning and decision making.

### Risk Oversight

The Council	Audit Committee	Vice-Chancellor and Vice-Chancellor's Executive
Overall responsibility for risk management, determines risk appetite on an annual basis and sets the tone for risk within the University.	Oversight of the risk policy, framework, processes and risk response actions on behalf of the Council.	The Vice-Chancellor is accountable for implementing the risk management policy and framework. Executive risk owners are assigned by the Vice-Chancellor to manage individual strategic risks.

The University's management of risk focuses on decreasing the impact and/or the likelihood of threats being realised and increasing the likelihood and/or impact of opportunities being realised. Current risks being actively managed through our strategic planning include:

### Strategic risk      Steps being taken to mitigate these risks include:

<b>CYBER/INFORMATION SECURITY</b>	<ul style="list-style-type: none"> <li>• The engagement of third-party cyber incident response specialists.</li> <li>• Evaluation of an enhanced vulnerability scanning capability.</li> <li>• Frequent webinars to increase staff awareness.</li> <li>• Compliance monitoring of mandated security training for all staff.</li> <li>• Rigorous testing of the University's cyber response plan.</li> </ul>
<b>DELIVERY OF CORE SYSTEMS REPLACEMENT (CSR) BENEFITS</b>	<ul style="list-style-type: none"> <li>• Clarification of the minimum viable product solutions and related interdependencies with other key University activities and initiatives.</li> <li>• CSR Delivery Board in place with additional scrutiny provided by internal audit and external reviews.</li> <li>• Oversight of the controls in place and effectiveness of the established governance mechanisms is provided by the Audit and Finance Committees.</li> </ul>

Strategic risk	Steps being taken to mitigate these risks include:
<b>COVID-19 PANDEMIC AND EXTENDED LOCKDOWN</b>	<ul style="list-style-type: none"> <li>Minimising disruption to teaching and providing the necessary support to students and staff.</li> <li>Controlled reopening of Open University sites and planning for the return of staff.</li> <li>Planning for a return to more conventional ways of working.</li> <li>Ongoing review of impact on students including monitoring of deferrals and withdrawals from study.</li> </ul>
<b>CHALLENGES IN EFFECTIVELY IMPLEMENTING THE NEW ASSOCIATE LECTURER CONTRACT</b>	<ul style="list-style-type: none"> <li>Identification of interdependencies with other strategic priorities, including the CSR.</li> <li>Alignment of the IT strand of the Associate Lecturer (AL) Contract Change Programme with the CSR schedule.</li> <li>Ongoing working and negotiations with the University and College Union, which involves ALs and their line managers.</li> <li>Robust communications plan is in place and regular engagement with the AL community.</li> </ul>
<b>QUALITY AND DEVELOPMENT OF THE UNIVERSITY'S RESEARCH AND ENTERPRISE</b>	<ul style="list-style-type: none"> <li>Research Excellence Framework (REF) 2021 implementation plan approved and updated in light of Covid-19.</li> <li>Investment to support Faculty/Unit of Assessment preparations.</li> <li>Knowledge Exchange Group established to support the submission of the University's Knowledge Exchange Framework 2020.</li> <li>Graduate School providing strategic oversight of postgraduate research activity and building a dynamic and inclusive research environment.</li> </ul>
<b>CHANGING REGULATORY OR COMPLIANCE CONDITIONS ACROSS THE FOUR UK NATIONS</b>	<ul style="list-style-type: none"> <li>Completion of the necessary steps to ensure retention of the Office for Students registration.</li> <li>Close working with the OfS and other regulatory bodies in each of the UK nations.</li> <li>Introduction of compliance matrices containing the nation-specific requirements.</li> <li>Developing guidance and escalation processes for reportable events and building/improving awareness.</li> <li>Focus on General Data Protection Regulation (GDPR), Access and Participation Plan (APP), consumer regulations, Welsh language standards, Prevent, Safeguarding, Higher Education Statistics Agency's (HESA's) Data Futures, and UK Visas and Immigration to ensure acceptable levels of compliance and the capture of reportable events.</li> </ul>

Strategic risk	Steps being taken to mitigate these risks include:
<b>INCREASING CHALLENGES IN PROVIDING ACCESSIBLE AND EFFECTIVE STUDY PATHWAYS AND SUPPORT TO A DIVERSE STUDENT COMMUNITY</b>	<ul style="list-style-type: none"> <li>Ensuring an attractive and cost-effective curriculum offering and flexible study options.</li> <li>Delivery of a high-quality and flexible student experience with high levels of student satisfaction.</li> <li>Diversifying our proposition to reach and support a wider range of students.</li> <li>APP actions included within Faculty and Unit business plans.</li> </ul>
<b>ATTRACTING, DEVELOPING, ENSURING THE WELL-BEING AND RETAINING THE RIGHT CALIBRE OF DIVERSE STAFF</b>	<ul style="list-style-type: none"> <li>Developing the University's strategic change capability.</li> <li>Addressing the digital skills capability gap amongst staff.</li> <li>Implementing strategic resource and succession planning.</li> <li>Creating cultural change through management behaviour and practices, including recognition and performance mechanisms.</li> <li>Strengthening AL integration into the University community through the AL Programme.</li> <li>Ensuring close working with the Universities and Colleges Employers Association and Universities UK.</li> </ul>
<b>SCOPE TO GENERATE NEW STREAMS OF INCOME</b>	<ul style="list-style-type: none"> <li>Optimising opportunities through the investment in FutureLearn by SEEK Ltd.</li> <li>Advancing existing partnerships to their full potential and exploring new partnerships.</li> </ul>
<b>SCOPE TO REDUCE COSTS</b>	<ul style="list-style-type: none"> <li>Structured and targeted review of internal processes and bureaucracy.</li> </ul>
The risk presented by the UK's departure from the European Union is being monitored separately from the organisation's key strategic risks.	
<b>UK'S DEPARTURE FROM THE EUROPEAN UNION</b>	The recent departure of the UK from the European Union has created considerable uncertainty. The level of risk to tuition fee income is low, as a relatively small proportion of our income comes from the European Union. However, £3.8 million of funding was received from the European Commission, mostly for research projects. The relative strength of the University's underlying financial position, and the outcomes from our strategic change programme, will help ensure that the University remains well placed to withstand and respond to any adverse impact arising from this change. Support continues to be provided to research students and staff who may be affected through our International Community Support Network and our Employee Assistance Programme.



## Forward look, Going Concern and Long-Term Sustainability

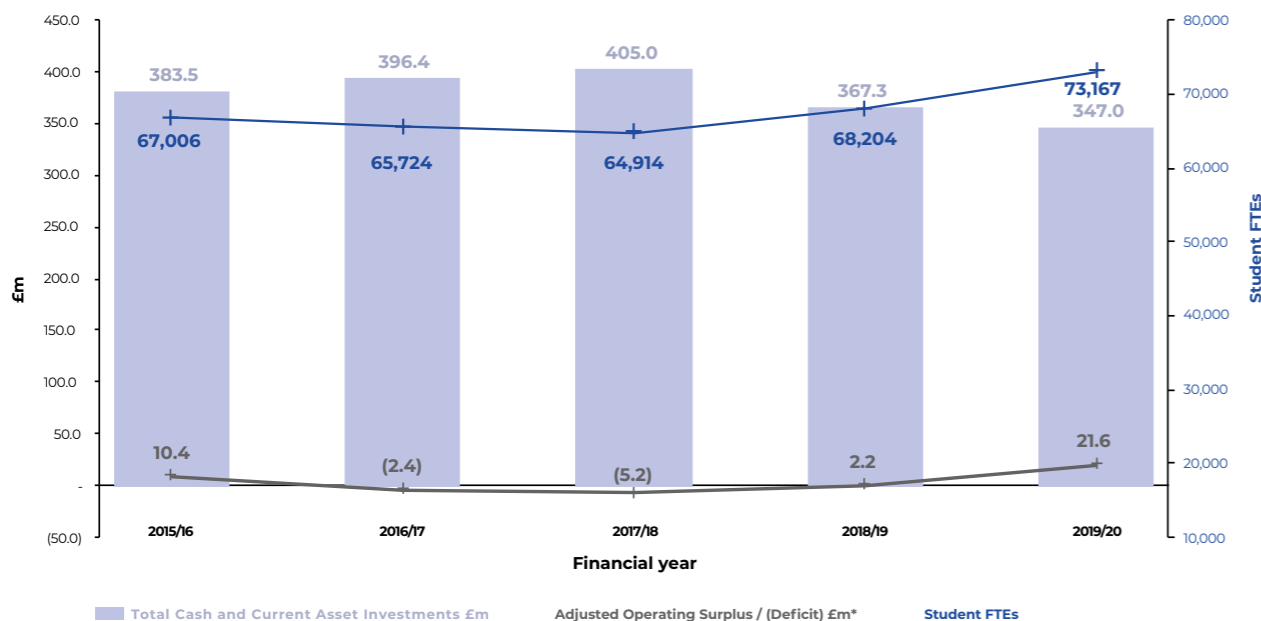
The University regularly reviews its business and financial strategy and related risks. The Council receives regular updates on the financial position and monitors performance against the financial strategy with reference to performance indicators as described on pages 19 and 20. In response to the Covid-19 pandemic, Council received additional financial assessments setting out the immediate impact on the University's financial position for 2019/20. In approving financial budgets for 2020/21 Council considered the financial risks and uncertainty of certain specific income streams as a result of the pandemic, including the apprenticeships market and international partnerships.

An annual accountability return is also prepared for the Office for Students as the University's principal regulator, and presented to Council at the same time as they consider these financial statements. This includes an evaluation of the future financial position of the University over a period of five years. The five-year planning process includes the preparation of income and expenditure statements, cash flows and a summarised balance sheet, which are subjected to sensitivity assessments that flex the main assumptions. We also consider our significant financial risks including changes in government teaching grants and student funding mechanisms and inability to achieve our targets on student recruitment. This forms the basis of assessment of the long-term financial sustainability of the University, informed by consideration of the impact on the financial strategy key performance indicators.

### Financial resilience

The University sector has undergone considerable upheaval in recent years against a backdrop of uncertainties about the wider economy and the future funding of higher education. The Covid-19 pandemic in 2019/20 also provided financial challenge to the sector in regard to maintaining student and staff safety. Throughout this period the University has been able to draw upon strong underlying resources and has put in place measures to manage and respond to external factors and to ensure the ongoing excellence of its teaching and support to its students. These measures provided operational and financial resilience during the immediate impact of the pandemic.

The chart below sets out three metrics of past performance during this period of change that evidence the University's financial resilience and the table on the succeeding page provides further information.



\*Adjusted Operating Surplus/(Deficit) is based on Earnings before Interest, Tax, Depreciation and Amortisation (EBITDA) in 2015/16 and based on adjusting Operating Surplus/(Deficit) in subsequent years.

### TOTAL CASH AND CURRENT ASSET INVESTMENTS

A significant level of cash and gilts, equities and term deposits has been built up in the last few years largely due to increases from non-operating activities. Whilst some of these assets are being used to finance the change programme, these balances currently stand at £347.0 million. This provides a strong basis to support investment in strategic change and to provide short-term financial resilience for unforeseen events.

### ADJUSTED OPERATING SURPLUS/(DEFICIT)

In 2019/20 the University continued its improvements in financial sustainability with a second year of adjusted surplus from operating activities. Work continues to re-align operating expenditure through cost reductions and improved ways of working, resulting from strategic change activities. In 2019/20 this surplus was larger than anticipated due to planned expenditure being deferred or cancelled due to the pandemic. Some of these costs will be incurred during 2020/21. The University is forecasting operating surpluses from 2020/21 onwards.

### STUDENT FTEs

After sharp decreases immediately following changes to funding in 2012/13, noting many of our students take in excess of six years to complete a qualification, the pace of decline in student FTEs has significantly reduced in the later years. In 2019/20 taught student numbers and student FTEs continue the growth reported in the previous year. Student FTEs are predicted to grow in the future through activities to improve student success.

### Long-term financial sustainability

Our key strategic priority continues to be student success as described on page 7, underpinned by a set of related objectives which include: enhancing future student income growth and institutional sustainability through improving student retention and reducing attainment gaps; diversifying our reach and sources of income; and managing and challenging our cost base.

The emerging impact of our strategy on our financial position is evidenced through the growth in both new and continuing undergraduate student numbers. The strategic change programme introduced during 2017/18 is also helping the University to move to a sustained operating surplus. The continuing programme, through implementation of new core administrative systems and enhanced working practices, provides confidence for the longer-term financial and operational sustainability of the University and ensures that the University is business-ready for the future.

However, the external environment continues to be uncertain and volatile. The sector will continue to face some significant challenges as a result of the Covid-19 pandemic, with an expected decline in international students and uncertainty about the study intentions of the UK student market. The key areas of risk and opportunity potentially impacting the University in the near future are discussed on pages 29 to 31, alongside consideration of response actions by the University, but three factors particularly relevant to consideration of going concern and long-term sustainability are highlighted below:

**CONTINUING FINANCIAL RESILIENCE**

The University's business model of provision of good quality supported distance learning has enabled continued support to most of our students throughout the pandemic, and only a very small number of students deferred study as a result of the crisis. We remain optimistic that our current planning assumptions for student growth remain achievable, but continue to monitor levels of student registration and the impact of the wider economy on the appetite for part-time study.

Treasury management is discussed on page 18 and performance against the financial strategy is discussed on page 19. The healthy levels of cash and current asset investments at 31 July 2020 provide substantial resource to facilitate the change programme (including systems replacement) without impacting the day-to-day activities of the University. Council has authorised the University to use some of its reserves to support the expenditure on the strategic change programme, noting that the projected liquidity position at the end of the strategic change programme will remain strong. There are no plans for new external financing or borrowing.

**COST OF PENSION PROVISION**

The impact of decisions relating to the 2018 valuation of the Universities Superannuation Scheme is discussed on page 21. Whilst the financial statements include a reduction in the scheme deficit provision as a result of the 2018 valuation, the 2020 valuation, expected during 2020/21, is likely to result in further adverse movements. In addition, any significant increase of employer contributions over those agreed within the 2018 valuation would pose future operational cost challenges.

Discussion of issues concerning the affordability of the future scheme in terms of cost to members and employers, and of the types of benefit available to members, is likely to continue for some time.

**POLITICAL AND ECONOMIC FACTORS**

The UK's exit from the European Union will undoubtedly introduce uncertainty into aspects of the University's business model, as discussed on page 31.

Outcomes of the Post-18 Education Review initiated by the Government in February 2018 and published in June 2019 are not yet known. Its aims of driving up quality, increasing choice and ensuring value for money, and its response to the decline in the part-time and lifelong learning markets, may present significant opportunities for the University, but the pressures on public funding, exacerbated as a result of the Covid-19 pandemic, and decisions about prioritisation of its use for post-18 education, may also present challenges.

**Going Concern**

The University is reporting a strong financial position which provides a sound base and resilience for unpredicted changes in revenue streams or cost base and is delivering on a strategy that will sustain this financial position. However, with the current economic uncertainties facing not only the UK higher education sector but the global economy, we have extended our risk analysis of our financial forecasts. Whilst there are opportunities through continued student number growth and diversification of income through new learning products, we have focused on the downside risks that are outside our control and that may impact our current planning assumptions. These include:

- Reduction in planned student numbers, both in-year withdrawals and later years recruitment, as a result of economic hardship.
- Reduction in teaching and other specific grants as a result of government response to the comprehensive spending review and post-Covid decisions.

- Reduction of other income streams including investment income and commercial income from continuing downturn in the global economy.
- Increase in employer pension contributions as an outcome of the 2020 USS valuation.

Our scenario planning considers the impact on our financial strategy targets as described on pages 19 and 20 of these downside risks taken individually and together. We have also considered the impact of the more extreme scenarios on our liquidity position month by month. For all scenarios, the strength of our net current asset position allows for sufficient time to respond to the downside risks. Our review of liquidity over the next twelve months provides assurance that even in the most extreme scenario, and without any interventions to reduce expenditure, we have sufficient cash to continue to operate without increasing borrowings.

The University Group's forecasts and projections to 2023/24, taking account of reasonable sensitivities in relation to the key risks, indicate that the Group should be able to operate within its current facilities and available headroom. Accordingly, Council continues to adopt the going concern basis in preparing the Group's financial statements and considers that the Group has adequate resources to continue in operational existence for the next twelve months and to be sustainable in the long term.

**Looking Forward**

The University is focused on delivering our vision "to reach more students with life-changing learning that meets their needs and enriches society" through our key strategic priority activities for student success.

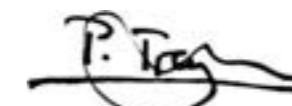
We continue to do this from a position of considerable strength. We remain the leader in the UK part-time higher education market, with a growing market share including increased student numbers across all four UK nations (pages 10 and 11), and we have a substantial share of the new market for Higher Degree Apprenticeships. We are the only university that can operate at scale throughout the UK and fulfil a unique national role. With our open access policy, we continue to promote fair access for all who want to study higher education courses, making a substantial and unique contribution to widening participation in the UK. Through our partnership with SEEK Ltd in our joint venture, FutureLearn, we will build on our world-wide reputation for the quality of our teaching and extend our reach and impact in existing and new parts of the world. And, as reported in these statements, the University is in a good underlying financial position in terms of operating performance and reserves.

The Open University's resilience during the early months of the Covid-19 pandemic and our history of over 50 years of achievement support us going forward confidently for our students into the emerging post-pandemic world.

Approved by Council on 24 November 2020 and signed on its behalf by:



**R W SPEDDING**  
Chair of Audit Committee



**P J TRAYNOR**  
Chief Financial Officer



**T BLACKMAN**  
Vice-Chancellor

## CORPORATE GOVERNANCE STATEMENT

### Constitution, Governance and Regulation

This Corporate Governance Statement covers the period from 1 August 2019 to the date of signing of these financial statements.

The Open University was incorporated by Royal Charter on 23 April 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 amendments being 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 in the following pages, and the members of the University Council during the year ended 31 July 2020, who are the charity trustees, are listed on page 39.

The Open University is regulated principally by the Office for Students (OfS), which defines the conditions under which the University receives public funds. Operating throughout the UK, the University also receives funding from the Higher Education Funding Council for Wales, the Scottish Funding Council and the Department for the Economy, Northern Ireland.

The Open University is required to have robust systems of risk management and internal control, to use public funds only for the purposes for which they were intended, to report in specified ways and to have specified arrangements for audit.

As a condition of OfS funding, the University subscribes to the designated quality body – the Quality Assurance Agency for Higher Education and the designated data body – the Higher Education Statistics Agency.

The OfS is also the principal regulator of those Higher Education Institutions in England that are exempt charities, including The Open University, on behalf of the Charity Commission. As a charity registered in Scotland, the University is registered with the Office of the Scottish Charity Regulator under number SC038302.

The University's principal advisors are listed on page 87.

### Formal Governance Structure

#### Two statutory bodies govern the University: the Council and the Senate.

##### COUNCIL IS THE MAIN GOVERNING BODY

The University's main governing body is the Council, supported by a number of subcommittees. The Council is particularly concerned with strategy, finances, property and staff. It has ultimate authority within the University but must respect the views of the Senate in academic matters.

##### SENATE IS THE ACADEMIC AUTHORITY

The Senate is the academic authority of the University, responsible for promoting the academic work of the University, both in teaching and research. Subject to the powers of the Council, it oversees academic management, including curriculum and all aspects of quality and standards associated with the University as a degree-awarding body. Senate meetings concentrate on major issues of academic strategy, policy, priority and performance.

### Corporate Governance and Accountability Arrangements

The University's Council is committed to achieving high standards of corporate governance in line with accepted best practice, and reviews its performance and effectiveness on a regular basis.

The University's Governance and Nominations Committee reviews external developments in governance, including HE codes of governance, and makes recommendations to the Council as required. The Committee monitors the University's practice in light of the Committee of University Chairs (CUC) Higher Education Code of Governance (2014, revised 2018), the Scottish Code of Good HE Governance (2013, revised 2017), regulatory interventions by OfS, and the requirements of other funding bodies. With respect to both codes, institutions should state that they have had regard to them, and where an institution's practices are not consistent with particular provisions of either code, an explanation should be published in the Corporate Governance Statement of the annual audited financial statements.

The Governance and Nominations Committee considered the OfS investigation into DeMontfort University (DMU) and reviewed the University's practices in light of DMU's published action plan. During 2019/20, the Committee agreed the parameters for a review of institutional governance, to be conducted in 2021, continued its monitoring of improvements in governance practices and processes, and recommended a change in the membership and composition of the Council to promote ethnic diversity. The Open University strives to be an exemplar of good governance and currently meets the requirements of the Scottish Code of Good HE Governance on a comply or explain basis as a condition of its SFC grant.

### The University Council

The membership of the Council is set out in the University Statutes. At the date of approval of these financial statements there are 23 members. Since the University is a charity, the Council members are the charity trustees. The roles of Chair and Vice-Chair 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 Open University Charter, the proper conduct of public business, human resources, finance and the law, the University's Mission and strategy, monitoring effectiveness and performance, the appointment of the University Officers and Council members, ensuring the welfare of students and the quality of institutional educational provision, and the Students Association. It also outlines the Council's regulatory powers and its delegation of powers.

The Statement of Responsibilities of the University's Council on pages 45 and 46 describes its responsibilities in respect of maintaining accounting records, and preparing financial statements and accountability arrangements. It also summarises the University's system of internal control and its system of risk identification and management.

At the date of signing these financial statements the Council has the following committees: an Audit Committee; a Finance Committee; a Governance and Nominations Committee; an Investment Committee (a subcommittee of the Finance Committee); a Remuneration Committee; a Shareholder's Representative Group; and a Strategic Planning and Resources Committee (a joint committee with the Senate). All of these committees are formally constituted with terms of reference. The Chair of each committee is an external Council member, with the exception of the Strategic Planning and Resources Committee, which is chaired by the Vice-Chancellor. The Council, on the recommendation of the Governance and Nominations 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.

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.

The following members of Council retired from office during the year ending 31 July 2020: Mr Sandy Begbie, Ms Cath Brown, Mrs Frances Chetwynd, Dr Richard Heffernan, Dr Barbara Tarling, Dr Greg Walker, Professor John Wolffe.

Further information on Council and Committee membership and remit appears in the following pages of this report.

## Performance Evaluation of Council and its Committees

The Council supports ongoing review of the role and performance of governance, and reflects on its effectiveness at the end of each meeting and annually.

The 2019/20 review of the Council and the Audit Committee focused on the year's business against the terms of reference and members' attendance, supplemented by feedback from a member survey. Other Council committees conducted an annual effectiveness review, focused on attendance and the relevance of business to terms of reference. These reviews are considered by the Governance and Nominations Committee, which makes recommendations for change if required. The Council also regularly commits to an external review of its effectiveness.

The Council holds an annual Development Day which focuses on the members' role and responsibilities as a governor of the University. It also provides a refresher and opportunity for further development for longer-serving members.

The 2019 event focused on the current regulatory environment, delivered by an external speaker specialising in constitutional, governance and regulatory advice.

A review of individual members of the Council, based on a short self-assessment questionnaire, is undertaken at the end of each Committee year and each Council member has a biennial appraisal with the Chair or Vice-Chair of Council. Any concerns and recommendations are reported to the Council through the Governance and Nominations Committee.

## Council and Committee Membership and Attendance

The members of the University's Council and Committees during the year ended 31 July 2020, and their attendance at the meetings held during their membership in that year, together with members serving in the period after 31 July 2020 and up to the date on which the financial statements were approved, are shown below.

	Council	Governance & Nominations	Remuneration	SPRC <sup>11</sup>	Finance	Investment	Audit
<b>Council Members</b>							
<b>Officers of the University</b>							
Mr M Sweeting, Chair	9/9	4/4	3/4		4/5	0/0	
Mr R McCracken, Treasurer <sup>1</sup>	8/9		3/4	1/1	5/5	4/4	
Professor M Kellett, Vice-Chancellor <sup>2</sup>	1/1				0/0		
Professor T Blackman, Vice-Chancellor <sup>3</sup>	8/8	4/4		1/1	5/5		
<b>President, Open University Students Association</b>							
Ms C Brown <sup>4</sup>	9/9						
Mrs S Jones <sup>5</sup>	0/0			0/0			
<b>Elected Members: Staff</b>							
Dr J Byford	9/9			1/1			
Mrs F Chetwynd <sup>4</sup>	9/9						
Mr J D'Arcy OBE	9/9	4/4					
Dr R Heffernan <sup>4</sup>	8/9			1/1			
Ms A Henderson	9/9	3/4					
Mr D T Parry <sup>8</sup>	9/9			1/1			
Professor J Wolffe <sup>4</sup>	9/9			1/1			
Dr C M Halliwell <sup>5</sup>	0/0						
Miss C Howells <sup>6</sup>	0/0			0/0			
Professor E Scanlon <sup>6</sup>	0/0			0/0			
Mr R E Parker <sup>9</sup>	0/0			0/0			
<b>Elected Members: Open University Students Association</b>							
Dr B Tarling <sup>4</sup>	9/9	4/4					
Miss D Smith <sup>10</sup>	0/0						
<b>External members Co-Opted by Council</b>							
Mr S Begbie <sup>4</sup>	2/9				0/5		
Professor J Brooks	9/9	3/4	4/4	1/1			
Mrs M E Curnock Cook CBE	9/9				5/5		
Mrs M Galliers	9/9			1/1			3/3
Mrs R Girardet	7/9	3/4					
Mr P Greenwood	7/9						4/5
Mrs R Lock	8/9		3/4				
Mr R W Spedding	9/9						5/5
Dr G Walker <sup>4</sup>	7/9	4/4					1/2
Ms C Doyle <sup>7</sup>	0/0						
Mrs L Patel <sup>7</sup>	0/0						
Mr T Tobun <sup>7</sup>	0/0						
Professor P Gray <sup>7</sup>	0/0						

<sup>1</sup> From 1 August 2019

<sup>2</sup> To 30 September 2019

<sup>3</sup> From 1 October 2019

<sup>4</sup> To 31 July 2020

<sup>5</sup> From 1 August 2020

<sup>6</sup> From 19 August 2020

<sup>7</sup> From 28 August 2020

<sup>8</sup> To 30 September 2020

<sup>9</sup> From 20 October 2020

<sup>10</sup> From 4 November 2020

<sup>11</sup> Strategic Planning and Resources Committee

	Governance & Nominations	SPRC <sup>4</sup>	Finance	Investment	Audit
<b>Non-Council Members</b>					
<b>Vice-Chancellor's Executive membership of committees</b>					
Mr L J Holden, Group Finance Director <sup>1</sup>				0/0	
Mr P Traynor, Chief Financial Officer <sup>2</sup>				4/4	
<b>External membership of committees</b>					
Ms E Lewis					2/5
Mrs C Banzsky				4/4	
Mr B S Larkman				4/4	
Mr M B Moule				4/4	
Mr N Poulter					5/5
Mr P Robert-Tissot			5/5	4/4	
Mr C A Wood				4/4	
Miss K Smith <sup>3</sup>			0/0		
Mr J Mann <sup>3</sup>			0/0		

<sup>1</sup> To 31 October 2019

<sup>2</sup> From 1 November 2019

<sup>3</sup> From 28 August 2020

<sup>4</sup> Strategic Planning and Resources Committee

Further information about the governance structure and the business of each of the committees is available at the internet site: [www.open.ac.uk/about/main/governance-ou/government-structure](http://www.open.ac.uk/about/main/governance-ou/government-structure)

## Committee Remit and Membership

	Members of Council	Other External Members
<b>AUDIT COMMITTEE</b>	Mr R W Spedding (Chair) Ms M Galliers <sup>1</sup> Dr G Walker <sup>2</sup> Mr P Greenwood	Ms E Lewis Mr N Poulter

<sup>1</sup> From 7 November 2019

<sup>2</sup> To 6 November 2019

The Audit Committee comprises wholly external members drawn from both within and outside of the Council, and so has no executive responsibility. Its remit is as follows:

<b>RISK MANAGEMENT</b>	Reviewing the effectiveness of the Group's arrangements for risk management, control and governance.
<b>FINANCIAL STATEMENTS</b>	Reviewing the University's accounting policies and consolidated financial statements and recommending them for approval to Council. Reviewing with the external auditors the scope and nature of their audit of the financial statements, including their report to Audit Committee.
<b>VALUE FOR MONEY AND DATA QUALITY</b>	Satisfying itself and reporting to Council, with advice from the Chief Auditor and other internal and external sources of assurance as appropriate, that satisfactory arrangements are in place to promote economy, efficiency and effectiveness, and the quality of data submitted to the various funding bodies and the SLC.
<b>INTERNAL AUDIT</b>	Reviewing and approving the terms of reference of the Internal Audit function and monitoring its performance and effectiveness.
<b>EXTERNAL AUDIT</b>	Advising the Council on the appointment and remuneration of the external auditors, and monitoring their performance and effectiveness through consideration of their reports and discussion with both management and the auditors.
<b>REGULATORY COMPLIANCE</b>	In addition to seeking assurance on risks associated with non-compliance generally for the University, the Committee also assesses its own compliance with the regulatory framework.

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 University's external audit has normally been tendered every seven years. PricewaterhouseCoopers (PwC) partners responsible for the external audit are rotated regularly in accordance with PwC's own policies and required regulations.

Based on the normal timetable, external audit services are due for tender during 2020. The Audit Committee, during its meeting in June 2020, agreed to defer the process for at least one year to 2021, but by no more than three years to 2023.

The Audit Committee has discussed with management and the external auditors the key financial risks and uncertainties impacting on the preparation of the financial statements and the financial position of the University. These areas have been considered in the audit planning and scoping and they related to:

<b>THE CORE SYSTEMS REPLACEMENT PROGRAMME</b>	Assurance on the core systems replacement programme, including both the technology solution and business change. The governance and controls over the review and re-plan of the implementation timetable.
<b>ASSOCIATE LECTURER CONTRACT CHANGE PROGRAMME</b>	Assurance over the programme to deliver the implementation of the new Associate Lecturer contract, including the employee-led Associate Lecturer voluntary severance scheme.
<b>RESPONSE TO COVID 19</b>	Review of core financial controls and fraud risk exposures as a result of the move of all University staff to home working. Review of the controls and responses to address financial impact on cash flows, going concern and longer-term viability.
<b>CYBER SECURITY ARRANGEMENTS</b>	The policies and controls in place to mitigate the University's primary risk.
<b>USS PENSIONS PROVISION</b>	The accounting treatment adopted for the provision of the costs related to the Group's commitment to fund the deficit in the Universities Superannuation Scheme.
<b>FUTURELEARN</b>	The arrangements for and disclosure of the impairment review of the FutureLearn investment.

The Group financial statements have been prepared in accordance with the Statement of Principal Accounting Policies set out on pages 50 to 58, which are in accordance with applicable United Kingdom accounting standards. The University's Audit Committee has reviewed the Group's accounting policies and considers them to be the most appropriate to the Group's operations.

The Audit Committee has assessed its current practice with the Audit Committee Code of Practice issued by the Committee of University Chairs in June 2020. The Committee considers that in all material respects its operation is in accordance with the Code, however a small number of areas for further refinement have been identified and these will be progressed during 2020/21.

Further information about the governance structure and the business of each of the committees is available at the internet site: [www.open.ac.uk/about/main/governance-ou/government-structure](http://www.open.ac.uk/about/main/governance-ou/government-structure).

## Committee Remit and Membership

	Members of Council	Employees	Other External Members
<b>GOVERNANCE AND NOMINATIONS COMMITTEE</b>	Mr M Sweeting (Chair) Professor J Brooks Ms R Girardet Mr P Greenwood Dr B Tarling <sup>4</sup> Dr G Walker <sup>4</sup>	Prof M Kellett <sup>2</sup> Prof T Blackman <sup>3</sup> Mr J D'Arcy OBE Ms A Henderson	

The Governance and Nominations Committee is responsible for recommending to the Council the appointment of external co-opted members to the Council and the Council's Committees. It also makes recommendations to the Council for the appointment of Council members to committees of the Council and to other committees of the University. It monitors the effectiveness of Council membership and advises the Council on matters relating to the role of Council members. It is also responsible to the Council for assuring the effectiveness of the Council's governance arrangements.

<b>REMUNERATION COMMITTEE</b>	Mrs R Lock (Chair) Mr M Sweeting Professor J Brooks Mr R McCracken
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The Remuneration Committee determines the annual remuneration of, and rewards to, the most senior staff, including the Vice-Chancellor. The cost of living salary increases for all staff are determined by national pay negotiations led by the Universities and Colleges Employers Association (UCEA).

<b>STRATEGIC PLANNING AND RESOURCES COMMITTEE</b>	Mr M Sweeting Ms M Galliers Professor J Brooks Dr B Tarling <sup>4</sup> Mr R McCracken <sup>1</sup> Mrs S Jones <sup>6</sup>	Prof T Blackman <sup>3</sup> (Chair) Prof M Kellett <sup>2</sup> Dr J Byford Dr R Heffernan <sup>4</sup> Mr T Parry <sup>5</sup> Professor J Wolffe <sup>4</sup> Professor E Scanlon <sup>6</sup> Miss C Howells <sup>6</sup> Mr R E Parker <sup>6</sup>
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The Strategic Planning and Resources Committee is a joint committee of the Council and the Senate; it is convened annually to consider and recommend the University's Fee and Financial Support Strategy.

<sup>1</sup> From 1 August 2019

<sup>2</sup> To 30 September 2019

<sup>3</sup> From 1 October 2019

<sup>4</sup> To 31 July 2020

<sup>5</sup> To 30 September 2020

<sup>6</sup> From 27 October 2020

Further information about the governance structure and the business of each of the committees is available at the internet site: [www.open.ac.uk/about/main/governance-ou/government-structure](http://www.open.ac.uk/about/main/governance-ou/government-structure).



	Members of Council	Employees	Other External Members
<b>FINANCE COMMITTEE</b>	Mr R McCracken (Chair) <sup>1</sup> Mr S Begbie <sup>6</sup> Mr M Sweeting Mrs M E Curnock Cook CBE	Prof M Kellett <sup>2</sup> Prof T Blackman <sup>3</sup>	Mr P Robert-Tissot Miss K Smith <sup>7</sup> Mr J Mann <sup>7</sup>

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.

<b>INVESTMENT COMMITTEE</b>	Mr R McCracken (Chair) <sup>5</sup> Mr M Sweeting (Chair) <sup>4</sup> Mr R McCracken <sup>4</sup>	Mr L J Holden <sup>4</sup> Mr P Traynor <sup>5</sup>	Mrs C Banzky Mr B S Larkman Mr M B Moule Mr C A Wood Mr P Robert-Tissot
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The Investment Committee advises the Finance Committee on the University's investment strategy, recommends appropriate funds and investment managers and monitors their performance.

<sup>1</sup> From 1 August 2019    <sup>2</sup> To 30 September 2019    <sup>3</sup> From 1 October 2019    <sup>4</sup> To 31 October 2019  
<sup>5</sup> From 1 November 2019    <sup>6</sup> To 31 July 2020    <sup>7</sup> From 28 August 2020

## 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 each 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. Under the Memorandum of Assurance and Accountability between the Office for Students and the University's Council and the OfS 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. The Council considers that the financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary to understand the University's performance, business model and strategy.

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

<b>ACCOUNTING POLICIES</b>	Are selected and applied consistently.
<b>JUDGEMENTS AND ESTIMATES</b>	Are reasonable and prudent.
<b>ACCOUNTING STANDARDS</b>	Are followed, subject to any material departures disclosed and explained in the financial statements.
<b>GOING CONCERN BASIS</b>	Is used and the financial statements are prepared on the going concern basis unless it is inappropriate to presume that the University will continue in operation. As indicated on pages 18 to 20, 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:

<b>USE FUNDS PROPERLY</b>	Ensure that funds from OfS, the Scottish Funding Council (SFC), the Higher Education Funding Council for Wales (HEFCW), the Department for the Economy (Northern Ireland) (DfE) and UK Research and Investment (UKRI) are used only for the purposes for which they have been given and in accordance with the Memorandum of Assurance and Accountability with OfS and the Funding Agreements with SFC, HEFCW, DfE and UKRI and any other conditions which the five funding bodies may, from time to time, prescribe.
<b>IMPLEMENT CONTROLS</b>	Ensure that there are appropriate financial and management controls in place to safeguard public funds and funds from other sources.
<b>MANAGE RISKS</b>	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.
<b>SAFEGUARD ASSETS</b>	Safeguard the assets of the University and prevent and detect corruption, fraud, bribery and other irregularities.
<b>MANAGE RESOURCES</b>	Secure the economical, efficient and effective management of the University's resources and expenditure.

Further information about the governance structure and the business of each of the committees is available at the internet site: [www.open.ac.uk/about/main/governance-ou/government-structure](http://www.open.ac.uk/about/main/governance-ou/government-structure).

## Risk Management

The approach to the University's system and internal control is risk-based. 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:

<b>LINKS TO OBJECTIVES</b>	Linking the identification and management of risk to the achievement of institutional objectives through the annual planning process.
<b>RISK APPETITE</b>	Defining the University's appetite for risk, setting parameters for acceptable levels of risk-taking in key risk categories.
<b>EVALUATION OF LIKELIHOOD AND IMPACT</b>	Evaluating the likelihood and impact of risks becoming a reality as part of that same process and establishing mitigating controls.
<b>REVIEW OF PROCEDURES</b>	Having review procedures that cover business, operational, compliance and financial risk.
<b>EMBEDDING THE RISK PROCESS</b>	Embedding risk assessment and internal control processes in the ongoing operations of all units.
<b>REPORTING</b>	Reporting regularly to the 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.

## Internal Controls

For the period covered by these financial statements to the date of signing, the key elements of the University's system of internal control, which is designed to discharge the responsibilities set out above, include the following:

<b>DEFINING RESPONSIBILITIES</b>	Definitions of the responsibilities of, and the authority delegated to, heads of academic and administrative units.
<b>MEDIUM AND SHORT-TERM PLANNING</b>	A medium and short-term planning process, supplemented by detailed annual income, expenditure, capital and cash flow budgets.
<b>PERFORMANCE REVIEW</b>	Regular reviews of academic performance and quarterly financial reviews involving variance reporting and updates of forecast outturns.
<b>EXPENDITURE AND INVESTMENT APPRAISAL</b>	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.
<b>FINANCIAL REGULATIONS</b>	Financial regulations, including financial controls and procedures, are approved by the Finance Committee and their application monitored.
<b>AUDIT</b>	A professional internal audit team whose annual programme is approved by the Audit Committee.

Internal controls are reviewed annually by the Chief Auditor and the Audit Committee. 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.

Through the internal audit process, internal control issues have been routinely identified and improvements made by management. During the year there have been no issues identified in this way that have been considered to be significant.

The Chief Auditor reported to the Audit Committee that in his opinion the arrangements for governance, risk management and internal controls, including arrangements for securing value for money, were operating in a satisfactory manner.

## Report on the audit of the financial statements

### Opinion

In our opinion, The Open University's group financial statements and Institution financial statements (the "financial statements"):

- give a true and fair view of the state of the group's and of the Institution's affairs as at 31 July 2020 and of the group's and of the Institution's income and expenditure, gains and losses and changes in reserves and of the group's cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law);
- have been prepared in accordance with the requirements of the Charities and Trustee Investment (Scotland) Act 2005 and regulations 6 and 14 of the Charities Accounts (Scotland) Regulations 2006 (as amended); and
- have been properly prepared in accordance with the requirements of the Office for Students' Accounts Direction (OfS 2019.41).

We have audited the financial statements, included within the Financial Statements (the "Annual Report"), which comprise the Consolidated and Institution Statements of Financial Position as at 31 July 2020; the Consolidated and Institution Statements of Comprehensive Income, the Consolidated and Institution Statements of Changes in Reserves, and the Consolidated Statement of Cash Flows for the year then ended; the Statement of Principal Accounting Policies; and the Notes to the Financial Statements.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Independence

We remained independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

### Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you when:

- the Council's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Council has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's and Institution's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's and Institution's ability to continue as a going concern.

## Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The Council is responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

### Trustees' Report

Under the Charities Accounts (Scotland) Regulations 2006 (as amended) we are required to report to you if, in our opinion, the information given in the Trustees' Annual Report is inconsistent in any material respect with the financial statements. We have no exceptions to report arising from this responsibility.

## Responsibilities for the financial statements and the audit

### Responsibilities of the Council for the financial statements

As explained more fully in the Responsibilities of the University's Council set out on pages 45 and 46, the Council is responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The Council is also responsible for such internal controls as they determine necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Council is responsible for assessing the group's and Institution's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the Council either intends to liquidate the Group and Institution or to cease operations, or has no realistic alternative but to do so.

### Auditors' responsibilities for the audit of the financial statements

We are eligible to act and have been appointed auditors under section 44(1)(c) of the Charities and Trustee Investment (Scotland) Act 2005 and report in accordance with the Act and relevant regulations made or having effect thereunder.

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditors' report.

## Use of this report

This report, including the opinions, has been prepared for and only for the Council as a body in accordance with Section 10 of the Charters and Statutes of the University, section 44(1)(c) of the Charities and Trustee Investment (Scotland) Act 2005 and regulations made under that Act (regulation 10 of the Charities Accounts (Scotland) Regulations 2006 (as amended)), and for no other purpose. We do not, in giving these opinions, 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.

## Other required reporting

### Opinions on other matters prescribed in the Office for Students' Accounts Direction (OfS 2019.41)

In our opinion, in all material respects:

- funds from whatever source administered by the Institution for specific purposes have been properly applied to those purposes and, if relevant, managed in accordance with relevant legislation;
- income has been applied in accordance with the Institution's statutes; and
- funds provided by the Office for Students, UK Research and Innovation (including Research England), have been applied in accordance with the relevant terms and conditions.

Under the Office for Students' Accounts Direction, we are required to report to you, if we have anything to report in respect of the following matters:

- The Institution's grant and fee income, as disclosed in Note 3 to the financial statements, has been materially misstated; or
- The Institution's expenditure on access and participation activities for the financial year, as disclosed in Note 24 to the financial statements, has been materially misstated.

We have no matters to report arising from this responsibility.

### Charities Accounts (Scotland) Regulations 2006 (as amended) exception reporting

Under the Charities Accounts (Scotland) Regulations 2006 we are required to report to you if, in our opinion:

- sufficient accounting records have not been kept by the Institution; or
- the Institution financial statements are not in agreement with the accounting records and returns; or
- we have not received all the information and explanations we require for our audit.

We have no exceptions to report arising from this responsibility.



### PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors  
Milton Keynes  
26 November 2020



## STATEMENT OF PRINCIPAL ACCOUNTING POLICIES

### 1 Basis of Preparation

The financial statements have been prepared on a going concern basis under the historical cost convention as modified by the revaluation of land and buildings, in accordance with Financial Reporting Standard 102 (FRS 102) and the Statement of Recommended Practice, Accounting for Further and Higher Education Institutions, (SORP 2019 edition) published in October 2018. The University is a public benefit entity and therefore has applied the relevant public benefit requirement of the applicable accounting standards. These accounting policies were approved by the Audit Committee on 16 June 2020 and have been applied consistently throughout the year.

### 2 Basis of Consolidation

The consolidated financial statements incorporate the financial statements of the University and its subsidiary undertakings, together with a share of the results of joint ventures, for the financial year ended 31 July 2020.

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 of the Association.

The results of subsidiaries acquired or disposed of during the period are included in the consolidated statement of comprehensive income from the date of acquisition or up to the date of disposal or loss of controlling interest. Intra-Group transactions are eliminated on consolidation.

Balances between the University and its joint ventures are not eliminated. Normal trading transactions that are not settled at the balance sheet date are included as current assets or liabilities.

Joint ventures are determined where control over an entity is jointly shared with a third party. Associates are determined where there is significant influence but not joint or overall control. Joint ventures and Associates are accounted for using the equity method.

### 3 Recognition of Income

#### Tuition Fees and Education Contracts

- a. Fee income is credited to income over the period in which the students are studying. This is achieved by using an apportionment basis over the period of the relevant module, or in the case of Apprenticeships the full period of study. Any fee income carried forward to a future financial year is included in creditors as deferred income.

Any refunds and discounts to tuition fees are applied to the fee that is receivable. This fee is recognised as income; any further financial assistance to students, other fee waivers and provision for bad debts are included in other operating expenses.

Where students have registered for modules that begin in a future financial year and have already paid or intend to pay using an instalment credit agreement from the University's subsidiary, Open University Student Budget Accounts Limited, the income is included in creditors as student fee 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, the amount not received at the end of the financial year is included in trade receivables.

Where students are intending to pay for their study using part-time tuition fee loans from the Student Loans Company their liability for the fee is created when their attendance is confirmed.

#### Funding Body Grants

- b. Recurrent grants from funding bodies are credited to income in the period in which they are receivable.
- c. Non-recurrent grants and donations are recognised when they are receivable and when performance conditions have been met. Income received in advance of performance conditions being met is included in creditors as deferred income. Where there are no performance conditions, income is recognised when it is receivable.

#### Research Grants and Contracts

- d. Research and Development Expenditure Credits are included in Research Grants and Contracts.

#### Other Income

- e. Income from the sale of goods or services is credited to income when the goods or services are supplied to the external customers against the orders received or the terms of the contract have been satisfied. Non-cash sales are recognised at the fair value of the goods or services exchanged.

#### Investment Income

- f. Interest receivable is credited to income on a daily basis.

#### Donations and Endowments

- g. Donations and endowments with donor-imposed restrictions are recognised in accordance with accounting policy 3c. Income is retained within the restricted reserve until such time that it is utilised in line with such restrictions, at which point the income is released to general reserves through a reserve transfer.

#### Amounts Received as Agent

- h. Where the University acts solely as paying agent to disburse bursaries and grants on behalf of a third party, the grants and bursaries received and the disbursements made are 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.

### 4 Recognition of Expenditure

- a. Expenditure is recognised in respect of goods and services received when supplied in accordance with contractual terms.
- b. Module development costs are charged to expenditure as they are incurred.
- c. 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 expenditure in the period in which it is incurred.
- d. Loan interest and/or facility fees are charged to expenditure on a daily basis.

### 5 Liabilities and Provisions

- a. Provision is made when a present obligation exists for a future liability in respect of a past event, it is probable that a transfer of economic benefits will be required to settle the obligation and where the amount of the obligation can be reliably estimated.
- b. 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.

## 6 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 at year-end rates. The resulting exchange differences are dealt with in the determination of income and expenditure for the financial year.

## 7 Leasing Costs

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

## 8 Taxation Status

The University is potentially exempt from taxation on income or capital gains 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 and any tax incurred is either expensed or capitalised according to the nature of the underlying expenditure.

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is provided in full on timing differences that exist at the balance sheet date and that result in an obligation to pay more tax, or a right to pay less tax in the future. The deferred tax is measured at the rate expected to apply in the periods in which the timing differences are expected to reverse, based on the tax rates and laws that are enacted or substantively enacted at the balance sheet date. Unrelieved tax losses and other deferred tax assets are recognised only to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits. Deferred tax assets and liabilities are not discounted.

## 9 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 for a small number of staff the Federated Superannuation System of Universities (FSSU), a defined contribution scheme. In the Republic of Ireland a small number of employees are members of the defined contribution Open University Retirement Solution Plan (OURSP).

### Defined benefit scheme (USS)

The assets of the scheme are held in a separate trustee-administered fund. Because of the mutual nature of the scheme, the scheme's assets are not attributed to individual institutions and a scheme-wide contribution rate is set. The University is therefore exposed to actuarial risks associated with other institutions' employees and 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 102, the University accounts for the scheme as if it were a defined contribution scheme. The University also makes a provision for its estimated share of any deficit in the USS; changes in the provision are reflected in the income and expenditure account. 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, along with changes in the level of the deficit provision.

The costs of the USS deficit recovery plan have been estimated based on a model devised by the USS and the British Universities Finance Directors Group (BUFDG). The model uses the additional costs included in the deficit recovery plan and discounts based on corporate bond levels having a maturity similar to the length of the recovery plan (8 years as at 31 July 2020). The scheme actuary reviews the funding of the USS every year and normally undertakes a formal actuarial valuation every three years, at which time the deficit recovery plan may be amended.

### Defined contribution schemes

The cost charged to the expenditure account is equal to the total of contributions payable in the year.

## 10 Intangible Assets

The Group capitalises costs relating to the purchase and implementation of software packages as intangible assets. Software development costs, in-house or outsourced, are charged to expenditure as incurred. Intangible assets purchased are initially recognised at cost. Subsequent to initial recognition, intangible assets are stated at cost less accumulated amortisation and accumulated impairment.

Intangible assets are amortised on a straight line basis over their estimated useful lives. The useful economic lives of intangible assets are as follows:

Software packages	<b>5 years</b>
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Assets under construction are not amortised until they are ready for use and are represented as costs incurred to date.

If there are indicators that the residual value or useful life of an intangible asset has changed since the most recent annual reporting period, previous estimates shall be reviewed and, if current expectations differ the residual value, amortisation method or useful life shall be amended. Changes in the expected useful life or the expected pattern of consumption of benefit shall be accounted for as a change in accounting estimate.

## 11 Land and Buildings

Land and buildings held at 31 July 2014 are shown in the balance sheet at the valuation on that date less accumulated depreciation and accumulated impairment losses; land and buildings acquired after 31 July 2014 are shown at cost less accumulated depreciation and accumulated impairment losses. The revaluation at 31 July 2014 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 Gerald Eve LLP, a regulated firm of Chartered Surveyors.

On adoption of FRS 102 the Group adopted the transitional provisions to measure land and buildings at fair value on the date of transition, and to use that fair value as its deemed cost.

Freehold land is not depreciated as it is considered to have an indefinite useful life. Buildings are depreciated on a straight-line basis 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 life of the building, with a maximum period of 10 years; repairs and maintenance are expensed immediately.

## 12 Equipment

Equipment (including computers and software packages) costing less than £50,000 per individual item or group of related items is written off in the year of acquisition. All other equipment and software packages are capitalised.

Capitalised equipment is stated at cost. The equipment is depreciated on a straight-line basis over its expected useful life as follows:

Telephone equipment	<b>5 years</b>
Motor vehicles	<b>4 years</b>
Computing equipment	<b>3 years</b>
Other equipment	<b>3 years</b>

Assets under construction are not depreciated until they are ready for use and are represented as costs incurred to date.

Where equipment or software is acquired with the aid of specific grants, it is capitalised and depreciated as above. The related grants are recognised in accordance with accounting policy 3 (recognition of income).

## 13 Heritage Assets

Heritage assets costing or valued at over £50,000 are capitalised at cost or value on acquisition, where such a valuation is reasonably obtainable. Such assets are not depreciated. Other heritage assets are not capitalised. All costs incurred in relation to preservation and conservation of heritage assets are expensed as incurred.

The University library holds in its archives a small collection of personal and public papers and documents bequeathed to it by persons connected to the University, and a collection of historical documents related to the University. These items are not included in the financial statements since the University considers that it would not be practical to obtain a meaningful valuation.

## 14 Investments

- Investments in subsidiaries are shown at cost.
- Investments in jointly controlled entities are accounted for at cost less impairment in the University's financial statements.

## 15 Stocks of Finished Goods

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

## 16 Cash, Cash Equivalents and Liquid Resources

Cash includes cash in hand, cash at bank, and deposits repayable on demand. Deposits are repayable on demand if they are available within twenty-four hours without penalty. Cash equivalents are highly liquid investments that are repayable within three months and are subject to insignificant risk of changes in value; they can include term deposits at banks or investments in gilts. Liquid resources comprise assets held as a readily disposable store of value. They include term deposits with maturities of greater than three months and other instruments held as part of the University's treasury management activities and are included within gilts, equities and term deposits.

## 17 Financial Instruments

The Group has elected to adopt Sections 11 and 12 of FRS 102 in respect of the recognition, measurement and disclosure of financial instruments. Financial assets and liabilities are recognised when the Group becomes party to the contractual provision of the instrument, and they are classified according to the substance of the contractual arrangements entered into.

A financial asset and a financial liability are offset only when there is a legally enforceable right to set off the recognised amounts and an intention either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

### Financial Assets

Basic financial assets include trade and other receivables, cash and cash equivalents, and investments in commercial paper (i.e. deposits and bonds). These assets are initially recognised at transaction price unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest. Such assets are subsequently carried at amortised cost using the effective interest rate method. Financial assets are assessed for indicators of impairment at each reporting date. If there is objective evidence of impairment, an impairment loss is recognised in the statement of comprehensive income.

Other financial assets, including investments in equity instruments which are not subsidiaries, associates, or joint ventures are initially measured at fair value, which is typically the transaction price. These assets are subsequently carried at fair value and changes in fair value at the reporting date are recognised in the statement of comprehensive income. Where the investment in equity instruments are not publicly traded and where the fair value cannot be reliably measured the assets are measured at cost less impairment.

Financial assets are de-recognised when the contractual rights to the cash flows from the asset expire or are settled or substantially all of the risks and rewards of the ownership of the asset are transferred to another party.

### Financial Liabilities

Basic financial liabilities include student fee income received in advance or for study partially complete, trade and other payables, bank loans, and intra-Group loans. These liabilities are initially recognised at transaction price unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future payments discounted at a market rate of interest. Debt instruments are subsequently carried at amortised cost using the effective interest rate method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down.



Trade creditors are obligations to pay for goods and services that have been acquired in the ordinary course of business from suppliers. They are classified as current liabilities if payment is due within one year or less. If not, they are presented as 'creditors: amounts falling due after more than one year'. Trade creditors are recognised initially at transaction price and subsequently measured at amortised cost using the effective interest rate method.

Derivatives, including forward foreign exchange contracts, are not basic financial instruments. Derivatives are initially recognised at fair value on the date the derivative contract is entered into and are subsequently re-measured at their fair value at the reporting date. Changes in the fair value of derivatives are recognised in the statement of comprehensive income in finance costs or finance income as appropriate, unless they are included in a hedging arrangement. The Group does not apply hedge accounting in respect of forward foreign exchange contracts held to manage cash flow exposures of forecast transactions denominated in foreign currencies.

Financial liabilities are de-recognised when the liability is discharged, cancelled or expires.

## 18 Accounting for Donations and Endowments

### a. Donations

Donations are recognised in the financial statements when the donation has been received or if, before receipt, there is sufficient evidence to provide necessary certainty that the donation will be received and the value of the incoming resource can be measured with sufficient reliability.

Where a donor has specified that a donation must be used for a particular objective it is classified as a restricted donation. Income is retained within the restricted reserve until such time that it is utilised in line with the restrictions, at which time it is released to general reserves.

### b. Endowments

Where donations are to be retained to the benefit of the University for more than five years for purposes specified by the donors, other than the purchase or construction of tangible fixed assets, they are accounted for as endowments. Income is retained in the endowment reserve until such time that it is utilised in line with the terms of the endowment, at which time it is released to general reserves.

Where the University has the power to use the capital portion of an endowment it is categorised as an expendable endowment; where the capital portion must be retained indefinitely it is categorised as a permanent endowment.

## Critical Accounting Estimates and Judgements

The University prepares its consolidated financial statements in accordance with FRS 102 as issued by the UK Financial Reporting Council, the application of which often requires judgements to be made by management. Under FRS 102, management is required to adopt those accounting policies most appropriate to the circumstances for the purpose of presenting fairly the Group's financial position, financial performance and cash flows. These judgements, estimates and associated assumptions are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. It may later be determined that a different choice would have been more appropriate.

Management has discussed its critical accounting estimates, judgements and associated disclosures with its external auditors, its Finance Committee and its Audit Committee.

### Accounting Estimates

#### Retirement benefit obligations

The costs of the USS defined benefit pension plans are determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and the long-term nature of these plans, such estimates are subject to significant uncertainty. Further details are given in Note 27.

Management is satisfied that Universities Superannuation Scheme meets the definition of a multi-employer scheme and has therefore recognised the discounted fair value of the contractual contributions under the funding plan in existence at the date of approving the financial statements.

As the University is contractually bound to make deficit recovery payments to the USS, this is recognised as a liability on the balance sheet. The provision is currently based on the USS deficit recovery plan agreed after the 2018 actuarial valuation, which defines the deficit payment required as a percentage of future salaries until 2028. These contributions will be reassessed within each triennial valuation of the scheme.

The provision is based on management's estimate of expected future salary inflations, changes in staff numbers and the prevailing rate of discount based on corporate bond levels having a maturity of a similar length to the recovery plan. Further details are set out in Note 27.

Any change in the quantum of the provision is charged to staff costs. A sensitivity analysis of the approximate effects of changes in future staffing levels and changes in the discount rate has been carried out as follows:

#### USS deficit sensitivity analysis:

	Effect on total provision at 31 July 2020	Effect on expenditure in year ended 31 July 2020	Notes
<b>FOR EVERY 1% INCREASE IN STAFF COSTS</b>	Increase by £1.1m	Increase staff cost by £1.5m	The effect is reversed if staff costs decrease, and diminishes the further in the future the change occurs.
<b>FOR EVERY 0.1% INCREASE IN DISCOUNT RATE</b>	Decrease by £0.5m	Decrease staff cost by £0.5m	The effect is reversed if discount rates decrease.

### Access and Participation expenditure

As a requirement of the Office for Students Accounts Direction we are required to disclose in a note to the financial statements certain expenditure aligned to our 2019/20 Access and Participation Plan which covers English students. Further information is provided in Note 24.

As a four-nation University many of the costs relating to access, disabled student support and research and evaluation are incurred across all our operations and cannot be directly attributed to England students. Management considers that the costs of attracting and supporting widening participation students, that can not be directly attributed to a nation, are the same across the four nations and therefore the basis of calculation of relevant expenditure in England is determined as a pro rata of England students as a percentage of total students. For 2019/20 this is 74.1% of relevant expenditure.

### Access and participation expenditure sensitivity analysis:

	Effect on APP expenditure in year ended 31 July 2020	Notes
<b>FOR EVERY 1% INCREASE IN PROPORTION OF SPEND ALLOCATED TO ENGLAND</b>	Increase APP expenditure by £0.2m	The effect is reversed if England share of spend decreases.

## Accounting Judgements

### Revenue

Revenue received in respect of tuition fees forms the largest category of revenue for the University. The time period over which the modules are taught varies from twelve weeks for modules of 10 credit points to over sixty weeks for some postgraduate modules. The University considers that the costs of the services delivered to support the modules are spread reasonably evenly over the life of the module. Whilst there may be peaks and troughs in activities over the life of any module, and differences in activity between modules, the time-apportion methodology has been used for many years as a practical methodology for recognising tuition fee revenue.

### Impairment of assets

At each reporting date the valuation of land and buildings and fixed asset investments are reviewed to determine whether there is any indication that those assets have suffered an impairment loss. If there is an indication of impairment, the recoverable amount of any affected asset is estimated and compared with its carrying amount.

The University's investment in its joint venture, FutureLearn Ltd, is held at cost. However, in the consolidated Statement of Financial Position the investment is valued on an equity basis and therefore includes the University's share of losses incurred by the joint venture as a result of the expenditure incurred to deliver future growth.

In reviewing the carrying value of the joint venture in the University's Statement of Financial Position management have considered a number of sources of evidence and data points. These include:

- the value of the investment in FutureLearn made by our partners in the joint venture, SEEK Ltd in April 2019, and the development and progression of the revised growth strategy for FutureLearn as an outcome of that business transaction;
- expectations of FutureLearn's future cash flows;
- the observable market buoyancy as evidenced by recent significant investment transactions in the EdTech sector, and
- an independent valuation of FutureLearn's shares which considered a number of alternative valuation methodologies including valuations of comparable companies and recent comparable transactions in the EdTech sector.

Based on a review of the available current evidence, no indications of any impairment of assets has been identified.

## STATEMENTS OF COMPREHENSIVE INCOME

	Note	Consolidated		Institution	
		Year Ended 31 July 2020	Year Ended 31 July 2019	Year Ended 31 July 2020	Year Ended 31 July 2019
		£m	£m	£m	£m
<b>Income</b>					
Tuition fees and education contracts	1	330.7	301.2	330.7	301.2
Funding body grants	2	96.6	95.0	96.6	95.0
Research grants and contracts	4	11.9	13.6	11.9	13.6
Other income	5	18.0	29.0	16.6	23.0
Investment income	6	13.7	7.1	15.3	7.0
Donations and endowments	7	3.2	3.3	3.2	3.3
<b>Total income</b>		<b>474.1</b>	<b>449.2</b>	<b>474.3</b>	<b>443.1</b>
<b>Expenditure</b>					
Staff costs	8	272.4	416.1	268.2	403.4
Other operating expenses	9	138.7	135.6	147.7	138.0
Depreciation		6.5	6.7	6.5	6.7
Interest and other finance costs	10	3.0	1.8	3.0	1.8
<b>Total expenditure</b>		<b>420.6</b>	<b>560.2</b>	<b>425.4</b>	<b>549.9</b>
<b>Surplus/(Deficit) before other gains and losses</b>		<b>53.5</b>	<b>(111.0)</b>	<b>48.9</b>	<b>(106.8)</b>
Share of deficit of joint venture		(6.8)	(1.4)	0.0	0.0
<b>Surplus/(Deficit) for the year before taxation</b>		<b>46.7</b>	<b>(112.4)</b>	<b>48.9</b>	<b>(106.8)</b>
Taxation	11	(0.1)	0.3	0.0	0.0
<b>Surplus/(Deficit) for the year</b>		<b>46.6</b>	<b>(112.1)</b>	<b>48.9</b>	<b>(106.8)</b>
<b>Other Comprehensive Income:</b>					
Gain on deemed disposal of controlling interest in subsidiary	12	0.0	24.0	0.0	0.0
<b>Total comprehensive expense for the year</b>		<b>46.6</b>	<b>(88.1)</b>	<b>48.9</b>	<b>(106.8)</b>
<b>Represented by:</b>					
Endowment comprehensive income for the year		(0.1)	(0.3)	(0.1)	(0.3)
Restricted comprehensive income for the year		1.1	1.2	1.1	1.2
Unrestricted comprehensive expense for the year		45.6	(89.0)	47.9	(107.7)
<b>Total comprehensive expense for the year</b>		<b>46.6</b>	<b>(88.1)</b>	<b>48.9</b>	<b>(106.8)</b>

All amounts relate to continuing operations.

The accounting policies on pages 50 to 58 and the Notes on pages 63 to 85 form an integral part of these financial statements.

**STATEMENTS OF CHANGES IN RESERVES****Income and Expenditure Reserve**

	Endowment	Restricted	Unrestricted	Total
	£m	£m	£m	£m

**Consolidated**

<b>Balance at 1 August 2018</b>	2.3	0.1	437.0	439.4
(Deficit)/Surplus for the year	(0.3)	1.2	(113.0)	(112.1)
Other Comprehensive Income	0.0	0.0	24.0	24.0
<b>Total Comprehensive Income for the year</b>	<b>(0.3)</b>	<b>1.2</b>	<b>(89.0)</b>	<b>(88.1)</b>
<b>Balance at 1 August 2019</b>	2.0	1.3	348.0	351.3
(Deficit)/Surplus for the year	(0.1)	1.1	45.6	46.6
<b>Balance at 31 July 2020</b>	<b>1.9</b>	<b>2.4</b>	<b>393.6</b>	<b>397.9</b>

**Income and Expenditure Reserve**

	Endowment	Restricted	Unrestricted	Total
	£m	£m	£m	£m

**Institution**

<b>Balance at 1 August 2018</b>	2.3	0.1	461.7	464.1
(Deficit)/Surplus for the year	(0.3)	1.2	(107.7)	(106.8)
<b>Balance at 1 August 2019</b>	2.0	1.3	354.0	357.3
(Deficit)/Surplus for the year	(0.1)	1.1	47.9	48.9
<b>Balance at 31 July 2020</b>	<b>1.9</b>	<b>2.4</b>	<b>401.9</b>	<b>406.2</b>

The accounting policies on pages 50 to 58 and the Notes on pages 63 to 85 form an integral part of these financial statements.

**STATEMENTS OF FINANCIAL POSITION****Consolidated****Institution**

	Note	As At 31 July 2020 £m	As At 31 July 2019 £m	As At 31 July 2020 £m	As At 31 July 2019 £m
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**Non-current assets**

Intangible assets	13	19.9	5.1	19.9	5.1
Tangible assets	14	235.7	241.6	235.7	241.6
Investments	15	15.8	22.6	31.5	31.5
<b>Total Non-current Assets</b>		<b>271.4</b>	<b>269.3</b>	<b>287.1</b>	<b>278.2</b>

**Current Assets**

Stock		2.8	2.8	2.8	2.8
Trade and other receivables due within one year	16	46.6	42.1	39.8	31.7
Trade and other receivables due after one year	16	0.1	0.0	8.2	8.5
Gilts, equities and term deposits	17	167.9	203.8	167.9	203.8
Cash and cash equivalents		179.1	163.5	170.6	161.3
<b>Total Current Assets</b>		<b>396.5</b>	<b>412.2</b>	<b>389.3</b>	<b>408.1</b>
Less Creditors: amounts falling due within one year	18	98.3	100.9	99.9	102.2
<b>Net Current Assets</b>		<b>298.2</b>	<b>311.3</b>	<b>289.4</b>	<b>305.9</b>
<b>Total Assets Less Current Liabilities</b>		<b>569.6</b>	<b>580.6</b>	<b>576.5</b>	<b>584.1</b>
Less Creditors: amounts falling due after more than one year	19	60.5	60.5	60.5	60.5
Less provisions for liabilities	21	111.2	168.8	109.8	166.3
<b>Total Net Assets</b>		<b>397.9</b>	<b>351.3</b>	<b>406.2</b>	<b>357.3</b>

**Restricted Reserves**

Income and expenditure reserve – endowments		1.9	2.0	1.9	2.0
Income and expenditure reserve – donations		2.4	1.3	2.4	1.3

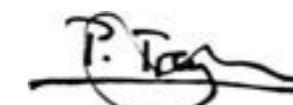
**Unrestricted Reserves**

Income and expenditure reserve – unrestricted		393.6	348.0	401.9	354.0
<b>Total Reserves</b>		<b>397.9</b>	<b>351.3</b>	<b>406.2</b>	<b>357.3</b>

The accounting policies on pages 50 to 58 and the Notes on pages 63 to 85 form an integral part of these financial statements, which were approved by Council on 24 November 2020 and signed on its behalf by:



**R W SPEDDING**  
Chair of Audit Committee



**P J TRAYNOR**  
Chief Financial Officer



**T BLACKMAN**  
Vice-Chancellor



## CONSOLIDATED STATEMENT OF CASH FLOWS

	Year Ended 31 July 2020	Year Ended 31 July 2019
	£m	£m
<b>Cash flows from operating activities</b>		
Surplus/(Deficit) for the year before tax	46.7	(112.4)
<b>Adjustment for non-cash items</b>		
Depreciation	6.5	6.7
(Increase) in stock	0.0	(0.3)
(Increase) in debtors	(8.3)	(6.7)
(Decrease) in creditors	(5.9)	(24.3)
(Decrease)/Increase in provisions	(60.3)	100.1
Share of deficit of joint venture	6.8	1.4
<b>Adjustments for investing or financing activities</b>		
Investment income	(13.7)	(7.1)
Interest payable	3.0	1.8
Endowment income	(0.1)	(0.2)
Capital grant income	(3.7)	(3.2)
<b>Cash outflows from operating activities</b>	(29.0)	(44.2)
Taxation	(0.1)	0.3
<b>Net Cash Outflow from Operating Activities</b>	(29.1)	(43.9)
<b>Cash flows from investing activities</b>		
Capital grants receipts	6.9	3.9
Investment income receipts	3.1	4.1
Payments made to acquire tangible assets	(0.6)	(0.5)
Payments made to acquire intangible assets	(11.4)	(3.9)
Sale/(Acquisition) of gilts, equities and fixed-term deposits	47.0	(31.4)
<b>Net cash inflow/(outflow) from investing activities</b>	45.0	(27.8)
<b>Cash flows from Financing Activities</b>		
Interest paid	(0.4)	(0.6)
Endowment cash received	0.1	0.2
<b>Net cash (outflow) from financing activities</b>	(0.3)	(0.4)
<b>Increase/(Decrease) in cash and cash equivalents in the year</b>	23	(72.1)
Cash and cash equivalents at beginning of the year	163.5	235.6
Cash and cash equivalents at end of the year	179.1	163.5

The accounting policies on pages 50 to 58 and the Notes on pages 63 to 85 form an integral part of these financial statements.

## NOTES TO THE FINANCIAL STATEMENTS

	Year Ended 31 July 2020	Year Ended 31 July 2019
	£m	£m
<b>1 Tuition Fees and Education Contracts: Consolidated and Institution</b>		
<b>Student fees – United Kingdom</b>		
Taught Degrees:		
England	264.6	243.2
Scotland	20.8	18.2
Wales	12.1	8.9
Northern Ireland	6.8	6.1
Research Degrees	2.4	2.6
<b>Total Student Fees – United Kingdom</b>	306.7	279.0
Student Fees – Overseas	22.7	20.9
Research training support grants	1.3	1.3
<b>Total Tuition Fees and Education Contracts</b>	330.7	301.2
<b>2 Funding Body Grants: Consolidated and Institution</b>		
	Year Ended 31 July 2020	Year Ended 31 July 2019
	£m	£m
<b>Recurrent grants</b>		
Office for Students/UK Research & Innovation	46.9	51.4
Scottish Funding Council	22.4	22.5
Higher Education Funding Council for Wales	10.4	7.5
Department for the Economy (Northern Ireland)	5.5	5.4
<b>Total Recurrent grants</b>	85.2	86.8
<b>Specific grants</b>		
Office for Students/UK Research & Innovation	6.9	4.8
Scottish Funding Council	2.0	1.7
Higher Education Funding Council for Wales	2.5	1.7
<b>Total Specific Grants</b>	11.4	8.2
<b>Total Funding Body Grants</b>	96.6	95.0

3 Details of Grant and Fee Income: Consolidated and Institution	Year Ended	Year Ended
	31 July 2020	31 July 2019
	£m	£m
Grant income from the OfS	42.0	45.4
Grant income from other bodies	54.6	49.6
Fee income for taught awards (exclusive of VAT)	326.6	296.9
Fee income for research awards (exclusive of VAT)	2.4	2.6
Fee income from non-qualifying courses (exclusive of VAT)	1.7	1.7
<b>Total Grant and Fee Income</b>	<b>427.3</b>	<b>396.2</b>

4 Research Grants and Contracts: Consolidated and Institution	Year Ended	Year Ended
	31 July 2020	31 July 2019
	£m	£m
Research Councils	3.9	4.0
Other sources, including industrial companies	8.0	9.6
<b>Total Research Grants and Contracts</b>	<b>11.9</b>	<b>13.6</b>

5 Other Income	Consolidated		Institution	
	Year Ended	Year Ended	Year Ended	Year Ended
	31 July 2020	31 July 2019	31 July 2020	31 July 2019
	£m	£m	£m	£m
Other grants and contracts	9.8	9.9	6.7	7.0
Validation fees	3.6	3.9	3.6	3.9
Other learning services	1.5	5.0	0.9	1.1
Other income	3.1	10.2	5.4	11.0
<b>Total Other Income</b>	<b>18.0</b>	<b>29.0</b>	<b>16.6</b>	<b>23.0</b>

6 Investment Income	Consolidated		Institution	
	Year Ended	Year Ended	Year Ended	Year Ended
	31 July 2020	31 July 2019	31 July 2020	31 July 2019
	£m	£m	£m	£m
Change in value of equity-based funds	11.6	4.0	11.6	4.0
Interest receivable on gilts, bank deposits and money market funds	1.9	2.8	3.7	3.0
Interest on student loans	0.2	0.3	0.0	0.0
<b>Total Investment Income</b>	<b>13.7</b>	<b>7.1</b>	<b>15.3</b>	<b>7.0</b>

The change in value of equity-based funds comprises £1.4m of realised gains due to dividends received and reinvested in the fund, and £10.2m of unrealised gains which is the net movement in fair value of the funds during the year.

7 Donations and Endowments: Consolidated and Institution	Year Ended	Year Ended
	31 July 2020	31 July 2019
	£m	£m
Unrestricted donations	1.9	1.8
New endowments	0.1	0.2
Restricted donations	1.2	1.3
<b>Total Donations and Endowments</b>	<b>3.2</b>	<b>3.3</b>

All endowments are held as cash.

8 Staff Costs	Consolidated		Institution	
	Year Ended	Year Ended	Year Ended	Year Ended
	31 July 2020	31 July 2019	31 July 2020	31 July 2019
	£m	£m	£m	£m
<b>Staff costs</b>				
Salaries and other payments to employees	267.2	245.6	263.0	236.6
Social security costs	22.7	22.2	22.2	21.1
Pension costs	46.0	38.4	45.3	37.6
Movement on USS provision – see Note 27	(63.5)	109.9	(62.3)	108.1
	<b>272.4</b>	<b>416.1</b>	<b>268.2</b>	<b>403.4</b>
<b>Staff costs analysed by category of staff</b>				
Core staff categories	196.4	319.5	192.3	306.8
Associate Lecturers, residential school staff and examination marking fees	60.2	86.4	60.1	86.4
Other staff costs, including casual staff	9.5	8.5	9.5	8.5
Early retirement and voluntary severance	6.3	1.7	6.3	1.7
	<b>272.4</b>	<b>416.1</b>	<b>268.2</b>	<b>403.4</b>
<b>Total Staff Costs</b>	<b>272.4</b>	<b>416.1</b>	<b>268.2</b>	<b>403.4</b>

Staff numbers expressed as monthly average Full-Time Equivalents (FTEs) during the year (including higher paid staff)	Year Ended	Year Ended	Year Ended	Year Ended
	31 July 2020	31 July 2019	31 July 2020	31 July 2019
Full-time and part-time staff at Milton Keynes, Wellingborough, national and regional centres	4,484	4,269	4,406	4,202
Associate Lecturers and residential school staff	1,149	1,049	1,149	1,049
	<b>5,633</b>	<b>5,318</b>	<b>5,555</b>	<b>5,251</b>

## Remuneration of Higher Paid Employees

### The Vice-Chancellor

During the financial year, there was a change of Head of Institution. The former Vice-Chancellor, Professor Mary Kellett, retired from the University at the end of September 2019 and the incumbent Vice-Chancellor, Professor Tim Blackman, was appointed to the role beginning 1 October 2019.

Remuneration of the Vice-Chancellor	Year Ended 31 July 2020		Year Ended 31 July 2019
	Vice-Chancellor Professor T Blackman 1/10/19 - 31/7/20	Vice-Chancellor Professor M Kellett 1/8/19 - 30/9/19	Vice-Chancellor Professor M Kellett
Basic salary	£225,000	£45,000	£225,000
Acting allowance	0	0	£45,000
Accommodation allowance	0	4,500	£27,000
Pension contributions (on substantive role only)	0	9,000	42,000
Pension allowance	30,600	0	0
Taxable benefit (use of premises - Wednesden House) <sup>1</sup>	58,700	0	0
Other: Life assurance premium	2,300	0	0
<b>Total</b>	<b>316,600</b>	<b>58,500</b>	339,000

Pay multiple – based on Full-Time Equivalent multiple of median for all staff

Basic salary	<b>6.7</b>	<b>6.7</b>	6.8 <sup>2</sup>
Total remuneration	<b>8.5</b>	<b>8.0</b>	8.1 <sup>2</sup>

<sup>1</sup> Wednesden House is a property used as residence by former Vice-Chancellors. The former Vice-Chancellor did not live at Wednesden House during her tenure but received a housing allowance to rent locally. As part of assisting the current Vice-Chancellor with relocation, Wednesden House was made available for occupation as a licensee for a year to 1 October 2020. HMRC rules require this to be treated as an employee benefit and its value is calculated using a formula mainly based on the market value of the house. This is subject to tax and national insurance, which the University paid to HMRC. The total of the benefit in kind including the tax and national insurance paid to HMRC, for the financial year to 31 July 2020, was £58,700. The Vice-Chancellor was personally responsible for utility bills and cleaning costs.

<sup>2</sup> On clarification by the Office for Students of the basis of calculation for the pay multiple, this calculation now excludes temporary employees. The comparator for 2018/19 has been restated. In the 2018/19 financial statements the pay multiple based on basic pay was the same at 6.8, whilst the total remuneration was reported as 8.3.

### Vice-Chancellor Pay Justification

	Professor T Blackman	Professor M Kellett
<b>Annual salary</b>	£270,000	£270,000
<b>Performance-related pay</b>	Eligible to be considered for discretionary merit award (based on previous year's performance) - currently suspended	Eligible to be considered for discretionary merit award (based on previous year's performance)
<b>Benefits</b>	£36,720 pension allowance. Not in current pension scheme £58,700 Relocation accommodation (Benefit in kind amount) £2,300 Life Assurance Premium	£56,250 Pension employer contribution. Annual accommodation allowance of £27,000
<b>Salary benchmark against UCEA<sup>1</sup> data +£400m revenue higher education provider</b>	Lower quartile	Lower quartile
<b>Salary benchmark against CUC<sup>2</sup> data +£400m revenue higher education provider</b>	Lower quartile	Lower quartile
<b>Context</b>	Start date October 2019	Retired end of September 2019

### Process for judging performance

Consideration is given to a number of factors in determining the Vice-Chancellor's pay. This includes the following:

- Pro-Chancellor's report – summary of performance against agreed objectives. Pro-Chancellor seeks feedback from Council and Vice-Chancellor Executive (VCE) members against delivery of personal objectives and institutional performance.
- Institutional performance report – institutional performance based on key performance indicators and metrics agreed by the Council is the second performance-related factor considered in reviewing the pay of the Vice-Chancellor annually. There are twelve headline measures, aligned to the University's five key strategic objectives:
  - a. Student success
  - b. Excellent teaching and research
  - c. Growth and sustainability
  - d. Technology that enable success
  - e. Dynamic and inclusive culture.
- Comparative pay and market data – including pay multiples.
- External market conditions.

<sup>1</sup> UCEA: Universities and Colleges Employers Association

<sup>2</sup> CUC: Committee of University Chairs



The Remuneration Committee reviews performance outcome and considers overall institutional performance:

- Universities need to show that they are benchmarking against appropriate comparators. Given the distinct nature of The Open University, identifying appropriate comparators is not straightforward; the approach taken is to utilise the UCEA data for large institutions as this most accurately reflects the scale, complexity and reach of the Institution.
- The Open University in Milton Keynes operates within a competitive local employment market with fierce competition from local high-quality employers as well as its close proximity to the London labour market. In this context, the University's ability to attract and retain talented individuals in professional and commercial roles can prove challenging, but all remuneration packages where the salary is recommended above £100k are scrutinised by the Remuneration Committee to ensure that market data and internal comparators are fully taken into account before approval is given.

#### Key management personnel

Key management personnel are those persons having authority and responsibility for planning, directing, and controlling the activities of the University. This comprises the 14 members of the Vice-Chancellor's Executive (year ended 31 July 2019, 13 members). The total compensation for key management personnel for the year ended 31 July 2020 (including any severance payments and employers' pension contributions) was £2.4 million (year ended 31 July 2019, £2.3 million).

#### Compensation for loss of office

The total amount of compensation for loss of office payable across the University was £6.3 million for 634 staff. This includes a provision of £3.7 million for future restructuring commitments through voluntary severance schemes.

#### Higher paid employees\*

The number of staff with a Full-Time Equivalent basic annual salary of over £100,000 per annum, including the Vice-Chancellor, who received salary in a full year broken down into bands of £5,000, for the Group and the Institution, were:

	Consolidated		Institution	
	Year Ended 31 July 2020 Number	Year Ended 31 July 2019 Number	Year Ended 31 July 2020 Number	Year Ended 31 July 2019 Number
£100,000 – £104,999	7	3	6	3
£105,000 – £109,999	2	1	2	1
£110,000 – £114,999	5	3	5	3
£120,000 – £124,999	1	1	1	1
£125,000 – £129,999	0	2	0	1
£130,000 – £134,999	1	1	1	1
£135,000 – £139,999	3	2	3	2
£140,000 – £144,999	0	2	0	2
£145,000 – £149,999	1	0	1	0
£150,000 – £154,999	1	0	1	0
£165,000 – £169,999	0	1	0	1
£200,000 – £204,999	1	1	1	1
£270,000 – £274,999	1	1	1	1
	23	18	22	17

\*The Full-Time Equivalent staff numbers above are based on the current OFS disclosure guidance for Full-Time Equivalent basic salary for staff employed for the full year.

## 9 Other Operating Expenses

	Consolidated		Institution	
	Year Ended	Restated	Year Ended	Restated
	31 July 2020	Year Ended 31 July 2019	31 July 2020	Year Ended 31 July 2019
	£m	£m	£m	£m
Teaching materials and expenses	14.5	17.0	14.4	15.5
Student recruitment	20.3	20.4	20.2	19.9
Financial assistance, bursaries and prizes	10.8	10.6	10.8	10.6
Grants to Open University Students Association	1.9	1.7	1.9	1.7
Provision for bad debts	0.0	0.0	0.0	0.0
<b>Total Student-Related Other Operating Expenses</b>	<b>47.5</b>	<b>49.7</b>	<b>47.3</b>	<b>47.7</b>
Staff support and consumables	54.2	48.6	53.5	47.0
Equipment purchase, rental and lease	12.9	10.8	12.9	10.7
Repairs and maintenance	5.4	6.7	5.4	6.7
Academic resources and subscriptions	7.2	7.1	7.2	7.1
Estate utilities and services	5.0	5.4	5.0	5.4
Rent and rates	2.3	2.2	2.3	2.2
Broadcast media production	3.1	3.5	3.1	3.5
Auditors' remuneration – Group audit fees	0.2	0.2	0.2	0.1
Other expenses	0.9	1.4	10.8	7.6
<b>Total Non-Student-Related Other Operating Expenses</b>	<b>91.2</b>	<b>85.9</b>	<b>100.4</b>	<b>90.3</b>
<b>Total Other Operating Expenses</b>	<b>138.7</b>	<b>135.6</b>	<b>147.7</b>	<b>138.0</b>

Included in the above are audit fees in respect of the University only of £0.2 million (year ended 31 July 2019, £0.1 million) and its subsidiaries of an aggregate of £0.03 million (year ended 31 July 2019, £0.02 million). Fees paid to the auditors for non-audit services totalled £nil (year ended 31 July 2019, £nil).

The total expenses paid to or on behalf of the members of Council in the year was £0.02 million (year ended 31 July 2019, £0.01 million). This represents travel and subsistence expenses incurred in attending meetings in their official capacity and reflects the UK-wide distribution of the University's activities and distribution of its Council members. No payments or other benefits for being a member of Council were paid to, or waived by, Council members. Eight members of staff served on Council; the expenses paid to these staff specifically for serving on Council are included in the figure above. No other supplementary payment was made to these staff in their capacity as members of Council.

Operating lease rentals included above are £1.7 million (year ended 31 July 2019, £1.6 million), comprising £1.4 million property leases (year ended 31 July 2019, £1.3 million) and £0.3 million plant and machinery (year ended 31 July 2019, £0.3 million).

Expenditure on some categories of expenditure have been reduced through the impact of the Covid-19 pandemic including repairs and maintenance, certain teaching expenses relating to face-to-face tuition and other expenses.

For the year ended 31 July 2019, £5.1 million relating to Equipment purchase, rental and lease was incorrectly reported as Staff support and consumables for both Consolidated and Institution. This has been adjusted in the Note above. Expenditure on Staff support and consumables for the year ended 31 July 2019 is £5.1 million lower than previously reported and expenditure on Equipment purchase, rental and lease is £5.1 million higher than previously reported. There is no impact on the financial result for the year.

## 10 Interest Payable and Other Finance Costs

	Consolidated		Institution	
	Year Ended	Year Ended	Year Ended	Year Ended
	31 July 2020	31 July 2019	31 July 2020	31 July 2019
	£m	£m	£m	£m
Finance charge on USS deficit provision (Note 21)	2.7	1.2	2.6	1.2
On loans not wholly repayable within 5 years	0.3	0.6	0.4	0.6
<b>Total Interest Payable and Other Finance Costs</b>	<b>3.0</b>	<b>1.8</b>	<b>3.0</b>	<b>1.8</b>

## 11 Taxation

	Consolidated		Institution	
	Year Ended	Year Ended	Year Ended	Year Ended
	31 July 2020	31 July 2019	31 July 2020	31 July 2019
	£m	£m	£m	£m
Foreign taxes	0.0	0.0	0.0	0.0
Deferred tax	0.1	(0.3)	0.0	0.0
<b>Total Taxation charge/(credit)</b>	<b>0.1</b>	<b>(0.3)</b>	<b>0.0</b>	<b>0.0</b>

The University is an exempt charity within the meaning of Schedule 3 of the Charities Act 2011. It is also a charity within the meaning of the Charities and Trustee Investment (Scotland) Act 2005 and is recorded on the index of charities maintained by the Office of the Scottish Charity Regulator (charity no. SC038302). Therefore, the University is a charity within the meaning of Paragraph 1 of Schedule 6 to the Finance Act 2010. Accordingly, the University is potentially exempt from taxation in respect of income or capital gains received within categories covered by Section 287 of the Corporation Tax Act 2009 (CTA 2009) and Sections 471, and 478-488 of the CTA 2010 (formerly enacted in Section 505 of the Income and Corporation Taxes Act 1988 (ICTA)), 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 and VAT incurred is either expensed or capitalised according to the nature of the underlying expenditure.

	Consolidated		Institution	
	Year Ended	Year Ended	Year Ended	Year Ended
	31 July 2020	31 July 2019	31 July 2020	31 July 2019
	£m	£m	£m	£m
<b>Tax Reconciliation</b>				
Surplus/(Deficit) before taxation	46.7	(112.4)	48.9	(106.8)
Taxation at 19% (2019: 19%)	8.9	(21.4)	9.3	(20.3)
Surplus/(Deficit) falling within charitable exemption	(8.9)	21.4	(9.3)	20.3
Deferred tax movement	0.1	(0.3)	0.0	0.0
Unrelieved overseas taxation	0.0	0.0	0.0	0.0
<b>Tax charge/(credit) for the year</b>	<b>0.1</b>	<b>(0.3)</b>	<b>0.0</b>	<b>0.0</b>

## 12 Gain on Deemed Disposal of Controlling Interest in Subsidiary (Consolidated)

	Year Ended 31 July 2020	Year Ended 31 July 2019
	£m	£m
Book value of investment (net assets of Subsidiary at deemed disposal)	0.0	0.0
Additional cash subscribed:		
Partner investment less expenses relating to the issue of equity	0.0	48.0
<b>Total value of enhanced assets post deemed disposal of controlling interest</b>	<b>0.0</b>	<b>48.0</b>
<b>50% share of enhanced assets post deemed disposal of controlling interest</b>	<b>0.0</b>	<b>24.0</b>
Less book value at disposal	0.0	0.0
<b>Gain on Deemed Disposal of Controlling Interest in Subsidiary</b>	<b>0.0</b>	<b>24.0</b>

On 29 April 2019 the University secured co-investment in FutureLearn Ltd. As a result there was a deemed disposal of the controlling interest in the subsidiary reported in last year's consolidated financial statements. SEEK Ltd invested £50 million for a 50% share of FutureLearn and joint control with the University. This transaction generated an unrealised gain of £24.0 million.

There was no gain reported within the University in 2018/19 as the investment in FutureLearn was held at cost less impairment.

As at 31 July 2019, management determined that the valuation placed on FutureLearn as at 29 April was evidence that there was no impairment in the investment valuation.

## 13 Intangible Assets: Consolidated and Institution

	Year Ended 31 July 2020	Year Ended 31 July 2019
	£m	£m
<b>Assets under construction</b>		
Cost at 1 August	5.1	0.0
Additions	14.8	5.1
<b>at 31 July</b>	<b>19.9</b>	<b>5.1</b>

Intangible assets represent costs incurred in relation to the core system replacement programme, which is delivering finance, people services, payroll and student processes through a cloud-based system. No amortisation has been charged in the year as the system remains in the build phase.

## 14 Tangible Assets: Consolidated and Institution

	Land and Buildings	Equipment	Asset under Construction	Total
	£m	£m	£m	£m
<b>Cost and valuation</b>				
At 1 August 2019	272.1	15.4	0.1	287.6
Additions	0.2	0.2	0.2	0.6
Transfers	0.0	0.1	(0.1)	0.0
Disposals	0.0	0.0	0.0	0.0
<b>At 31 July 2020</b>	<b>272.3</b>	<b>15.7</b>	<b>0.2</b>	<b>288.2</b>
<b>Accumulated depreciation</b>				
At 1 August 2019	30.8	15.2	0.0	46.0
Charge for the year	6.3	0.2	0.0	6.5
Disposals	0.0	0.0	0.0	0.0
<b>At 31 July 2020</b>	<b>37.1</b>	<b>15.4</b>	<b>0.0</b>	<b>52.5</b>
Net book amount				
<b>At 31 July 2020</b>	<b>235.2</b>	<b>0.3</b>	<b>0.2</b>	<b>235.7</b>
At 31 July 2019	241.3	0.2	0.1	241.6

At 31 July 2020 land and buildings included £39.7 million (31 July 2019, £39.7 million) in respect of freehold land which is not depreciated.

The unamortised value of Office for Students capital grants amounted to £42.2 million (31 July 2019, £48.1 million). In the event that the related assets were either to be sold or ceased to be used for the provision of publicly funded higher education, the University would either have to surrender the proceeds to OfS or use them in accordance with the terms and conditions of funding for Higher Education Institutions issued by OfS.



## 15 Investments

	Consolidated		Institution	
	Year Ended 31 July 2020	Year Ended 31 July 2019	Year Ended 31 July 2020	Year Ended 31 July 2019
	£m	£m	£m	£m
Investments in Subsidiaries (a)	0.0	0.0	1.5	1.5
Investment in Joint Venture (b)	15.8	22.6	30.0	30.0
<b>Total Investments</b>	<b>15.8</b>	<b>22.6</b>	<b>31.5</b>	<b>31.5</b>
			<b>As At 31 July 2020</b>	<b>As At 31 July 2019</b>
			£m	£m
<b>(a) Investments in Subsidiaries</b>				
Open University Student Budget Accounts Limited			1.0	1.0
Open University Worldwide Limited			0.3	0.3
<b>Total ordinary shares in wholly owned subsidiary companies</b>			<b>1.3</b>	<b>1.3</b>
<b>Long-term loans</b>				
Open University Worldwide Limited			0.2	0.2
<b>Total long-term loans</b>			<b>0.2</b>	<b>0.2</b>
<b>Total Investments in Subsidiaries</b>			<b>1.5</b>	<b>1.5</b>

The University's investments are for its subsidiaries and joint venture.

The University's subsidiaries are: Open University Student Budget Accounts Limited (OUSBA) and Open University Worldwide Limited (OUW).

Open University Student Budget Accounts Limited is registered in England and Wales and was established to provide students with a deferred payment facility. Around 3.2% of tuition fees are funded in this way. 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.

The carrying value of the investments is supported by the subsidiaries' net assets and/or business plans.

	Consolidated		Institution	
	Year Ended 31 July 2020	Year Ended 31 July 2019	Year Ended 31 July 2020	Year Ended 31 July 2019
	£m	£m	£m	£m
<b>(b) Investment in Joint Venture</b>				
at 1 August	22.6	0.0	30.0	0.0
Valuation at initial recognition of joint venture (previous year)	0.0	24.0	0.0	30.0
Share of deficit of joint venture	(6.8)	(1.4)	0.0	0.0
<b>Investment in Joint Venture at 31 July</b>	<b>15.8</b>	<b>22.6</b>	<b>30.0</b>	<b>30.0</b>

On 29 April 2019, The Open University signed a deal with SEEK Ltd resulting in joint ownership of FutureLearn Ltd, the University's previously wholly owned subsidiary. Following the deal, the University's investment in FutureLearn has been accounted for as a joint venture. In the University's financial statements this is shown at cost less impairment and in the consolidated financial statements this is accounted for using the equity method.

FutureLearn Limited, which is registered in England and Wales, provides a multi-institutional platform for short courses, microcredentials and online degrees on behalf of a number of leading international universities, including The Open University. The Open University's partnership with SEEK will take our mission to make education open for all into new parts of the world.

There is no impairment in the valuation of FutureLearn in the University accounts based on consideration of future expected cashflows and an independent valuation of the company's shares.

The Group accounts include the University's share of the net assets of FutureLearn, which reflect the investment to deliver future growth.

	Consolidated		Institution	
	As at 31 July 2020	As at 31 July 2019	As at 31 July 2020	As at 31 July 2019
	£m	£m	£m	£m
<b>16 Trade and Other Receivables</b>				
<b>Amounts falling due within one year</b>				
Student Loans Company	12.4	6.3	12.4	6.3
Students' loan accounts with Open University Student Budget Accounts Limited	5.9	6.5	0.0	0.0
Fee debtors	6.7	3.5	6.7	3.5
Amounts due from subsidiaries	0.0	0.0	0.8	0.5
Amounts due from joint venture	0.0	0.8	0.0	0.8
Other debtors and accrued income	11.4	16.7	9.8	12.4
Prepayments	10.2	8.3	10.1	8.2
<b>Total due within one year</b>	<b>46.6</b>	<b>42.1</b>	<b>39.8</b>	<b>31.7</b>
<b>Amounts falling due after one year</b>				
Amounts due from subsidiaries	0.0	0.0	8.1	8.5
Other debtors	0.1	0.0	0.1	0.0
<b>Total falling due after one year</b>	<b>0.1</b>	<b>0.0</b>	<b>8.2</b>	<b>8.5</b>

The Student Loans Company debtor reflects tuition fee income due to the University for students who have studied during 2019/20. This amount is higher than previous years, reflecting operational challenges in attending students as a result of the Covid-19 pandemic.

## 17 Gilts, Equities and Term Deposits: Consolidated and Institution

	As at 31 July 2020	As at 31 July 2019
	£m	£m
Equity-based funds	119.0	87.4
UK gilt-edged stock	8.9	41.4
Fixed-term deposits maturing in one year or less	40.0	75.0
<b>Total Gilts, Equities and Term Deposits</b>	<b>167.9</b>	<b>203.8</b>

The market value of the equity-based investments at 31 July 2020 was £119.0 million (31 July 2019, £87.4 million), an increase of £31.6 million. This increase represents additional investment of £20.0 million, an increase in book cost of £1.4 million as a result of dividends received and £10.2 million net increase in fair value determined with reference to the quoted market price at 31 July 2020. The increase in value from reinvested dividends and market valuation is included in the income and expenditure account, and shown in Note 6. The University's Fund Managers continue to generate good value for the University investments and as at 30 September 2020 the market value of the equity-based investments was £123.9 million.

The University holds tradeable Treasury gilts to maturity with a redemption date of less than five years. During the financial year, three gilt holdings matured, with a maturity value of £32 million. At 31 July 2020 the weighted average redemption yield was 0.61% (year ended 31 July 2019, 1.33%) and the weighted average period to maturity was 403 days (year ended 31 July 2019, 313 days).

Fixed-term deposits with more than three months to maturity at inception are held with banks and building societies operating in the London market and licensed by the Prudential Regulation Authority. The interest rates for these deposits are fixed for the duration of the deposit at time of placement. At 31 July 2020 the weighted average interest rate of these fixed-rate deposits was 0.45% per annum (31 July 2019, 0.97% per annum) and the remaining weighted average period for which the interest rate is fixed on these deposits was 95 days (31 July 2019, 94 days). The fair value of these deposits and gilts is not materially different from the book value.

Fixed-term deposits of three months or less to maturity at inception are recognised as 'Cash or Cash Equivalents' on the balance sheet.

The deposits shown in this Note exclude accrued interest, which is included in accrued income in Note 16.

18 Creditors: amounts falling due within one year	Consolidated		Institution	
	As at 31 July 2020	As at 31 July 2019	As at 31 July 2020	As at 31 July 2019
	£m	£m	£m	£m
Student fee income in advance	22.7	24.7	22.7	24.7
Student fee income deferred	26.1	27.0	25.7	26.5
Grants and other contracts in advance	8.3	6.9	8.3	6.9
Trade creditors	2.1	4.9	2.1	4.9
Other creditors and accruals	39.1	37.4	39.5	37.6
Amounts due to subsidiaries and joint venture	0.0	0.0	1.6	1.6
<b>Total amounts falling due within one year</b>	<b>98.3</b>	<b>100.9</b>	<b>99.9</b>	<b>102.2</b>

Student fee income deferred refers to tuition fees for curriculum modules partially completed at 31 July.

A provision for fee debts of £0.6 million (31 July 2019, £0.5 million) in respect of student loans in the financial statements of Open University Student Budget Accounts Limited is included in other creditors and accruals 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 includes surplus funds lent by Open University Worldwide Limited to the University under the terms of the loan agreements referred to in Note 15.

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

19 Creditors: amounts falling due after more than one year: Consolidated and Institution	As at 31 July 2020	As at 31 July 2019
	£m	£m
Long-term loans	60.0	60.0
Salix revolving green fund	0.5	0.5
<b>Total amounts falling due after more than one year</b>	<b>60.5</b>	<b>60.5</b>

The Group has one long-term loan facility: A bank loan to the University of £60.0 million (31 July 2019, £60.0 million). This loan is secured on a part of the University's Walton Hall campus, denominated in sterling and repayable in October 2033. The interest margin of 0.2% over the London Inter-Bank Offered Rate is fixed over the life of the loan. At 31 July 2020 the interest rate on this loan was 0.27% per annum.

The Salix revolving green fund is an Office for Students-backed fund to encourage investment in energy-saving projects in the higher education sector. Funds will be repaid to Salix at the point when there are no more suitable eligible projects in which to invest.

## 20 Financial Instruments

The carrying values of the Group's and University's financial assets and liabilities are summarised by category below:

	Note	Consolidated		Institution	
		As at 31 July 2020 £m	As at 31 July 2019 £m	As at 31 July 2020 £m	As at 31 July 2019 £m
<b>Financial Assets</b>					
<b>Financial Assets at fair value through Statement of Comprehensive Income</b>					
Gilts, equities and term deposits	17	167.9	203.8	167.9	203.8
<b>Financial Assets measured at cost less impairment</b>					
Investments in subsidiaries	15	0.0	0.0	1.5	1.5
<b>Financial Assets measured at undiscounted amount receivable</b>					
Cash and cash equivalents		179.1	163.5	170.6	161.3
Long-term loans receivable	16	0.1	0.0	8.2	8.5
Trade and other receivables	16	36.4	33.8	29.7	23.5
<b>Financial Liabilities</b>					
<b>Financial Liabilities measured at undiscounted amount payable</b>					
Loans	19	60.5	60.5	60.5	60.5
Trade and other creditors	18	34.6	36.9	36.8	38.9

## 21 Provisions for Liabilities

	Obligation to fund USS deficit £m	Restructuring £m	Total £m
<b>Consolidated</b>			
At 1 August 2019	167.8	1.0	168.8
(Reversal)/Increase in provision	(59.7)	3.7	(56.0)
Unwind of finance charge	2.7	0.0	2.7
Utilised in year	(3.8)	(0.5)	(4.3)
Release of provision	0.0	0.0	0.0
<b>At 31 July 2020</b>	<b>107.0</b>	<b>4.2</b>	<b>111.2</b>
<b>Institution</b>			
At 1 August 2019	165.3	1.0	166.3
(Reversal)/Increase in provision	(58.6)	3.7	(54.9)
Unwind of finance charge	2.6	0.0	2.6
Utilised in year	(3.7)	(0.5)	(4.2)
Release of provision	0.0	0.0	0.0
<b>At 31 July 2020</b>	<b>105.6</b>	<b>4.2</b>	<b>109.8</b>

The obligation to fund the past deficit on the Universities Superannuation Scheme (USS) arises from the contractual obligation with USS to meet deficit payments in accordance with the deficit recovery plan. The provision has been calculated by estimating future employer pension payments and applying the deficit recovery contributions outlined in the USS deficit recovery plan published in September 2019. The weighted average discount factor that has been applied over the remainder of the deficit recovery plan is 0.73% (31 July 2019, 1.58%).

The restructuring provision of £4.2 million comprises £3.7 million new provision for approved agreements through the Associate Lecturer employee-led voluntary severance scheme and £0.5 million from last year's provision due to contract extensions of staff on the voluntary severance scheme. Of the total provision, the majority will be utilised by 31 July 2021, and £0.7 million is anticipated to be fully utilised by 31 July 2022.



## 22 Endowment Funds: Consolidated and Institution

	Restricted Permanent	Restricted Expendable	2020 Total	2019 Total
	£m	£m	£m	£m
<b>At 1 August</b>				
Capital	0.1	2.2	2.3	1.6
Accumulated income	0.0	(0.3)	(0.3)	0.7
<b>Total balance at 1 August 2019</b>	<b>0.1</b>	<b>1.9</b>	<b>2.0</b>	<b>2.3</b>
Additions	0.0	0.1	0.1	0.2
Expenditure	0.0	(0.2)	(0.2)	(0.5)
	<b>0.0</b>	<b>(0.1)</b>	<b>(0.1)</b>	<b>(0.3)</b>
<b>At 31 July</b>	<b>0.1</b>	<b>1.8</b>	<b>1.9</b>	<b>2.0</b>
<b>Balance at 31 July represented by:</b>				
Capital	0.1	2.3	2.4	2.3
Accumulated income	0.0	(0.5)	(0.5)	(0.3)
<b>Total</b>	<b>0.1</b>	<b>1.8</b>	<b>1.9</b>	<b>2.0</b>

## 23 Reconciliation of Cash Flow to Statement of Financial Position: Consolidated

	At 1 August 2019	Cash Flows	Non-cash Movements	At 31 July 2020
	£m	£m	£m	£m
Cash at bank and in hand	163.5	15.6	0.0	179.1
Gilts, fixed-term deposits and equities	203.8	(47.0)	11.1	167.9
Loans	(60.5)	0.0	0.0	(60.5)
<b>Total</b>	<b>306.8</b>	<b>(31.4)</b>	<b>11.1</b>	<b>286.5</b>

Non-cash movements comprise the increase in value of equity investments of £11.6 million (Note 6), offset by the adjustment for the amortisation of gilt holdings of £0.5 million.

## 24 Access and Participation

This note is in response to the Office of Students Accounts Direction and sets out expenditure on activities that support the ambitions as set out in our 2019/20 Access and Participation Plan for England approved by the Office for Students. This document is available at [Access and Participation Plan 2019/20](#). We are required to disclose expenditure on access activities; financial support provided to under-represented and disadvantaged groups of students; support for disabled students including the disabled students' premium; and the expenditure on research and evaluation related to access and participation activities in the financial year. Expenditure on our success and progression activities for these under-represented and disadvantaged groups is not included in this note. During 2020 a new five-year Access and Participation Strategy was agreed with the Office of Students, covering the period from 1 August 2020 to 31 July 2025. Further information is on page 23.

	Year Ended 31 July 2020
	£m
Access investment	12.0
Financial support provided to students in the financial year	2.9
Support for disabled students in the financial year	2.5
Research and evaluation related to access and participation activities in the year	0.2
<b>Total Access and Participation Expenditure</b>	<b>17.6</b>

2019/20 is the first year of this requirement and no comparatives are required.

£3.8 million of these costs are included in the overall staff costs figures included in the financial statements within Note 8 and the remaining costs are included as Other Operating Expenses (Note 9).

As a four-nation University, certain of this expenditure is an attribution based on an estimate of England expenditure which is pro-rated by the numbers of England students meeting the criteria of widening participation as a percentage of total England students. For 2019/20 this is 58%.

The definition used to identify students meeting widening participation criteria includes:

- students from the most deprived areas in England based on Index of Multiple Deprivation IMD 0-20% data: 43.4% of new and continuing students.
- students from POLAR4 (Participation of Local Areas) AHE Q1 (adults in areas with low higher education qualifications) and YPR Q1 (postcode areas with low likelihood of young students entering higher education), identifying a further 9.3% of new and continuing students.
- additional groups of BAME (students with a known ethnicity that is not 'White') and Care Experienced, adding a further 5.3% of new and continuing students.

The 2019/20 Access and Participation Plan forecasted expenditure of £13.6 million for access and financial support activities but did not include expenditure on disabled students support. As part of the discussions with the Office for Students in developing our new plan we have revised the widening access definitions and, in reporting expenditure above, we have used this new definition and included expenditure on disabled students to facilitate comparison in future years. The change in definition has the impact of increasing reported expenditure on access and participation by £4.0 million above the forecasted expenditure in the 2019/20 plan.

## 25 Lease Obligations

During the year ended 31 July 2020, the Group recognised £1.7 million (year ended 31 July 2019, £1.6 million) in respect of operating leases on lease payments made during the year.

The Group has obligations for total lease payments due to end of lease under non-cancellable operating leases as follows:

	Year Ended 31 July 2020	Year Ended 31 July 2019
	£m	£m
<b>Payable during the year</b>	1.7	1.6
<b>Future minimum lease payments due:</b>		
Not later than one year	1.3	1.4
Later than one year and not later than five years	4.6	4.7
Later than five years	2.0	3.2
<b>Total lease payments due</b>	<b>7.9</b>	<b>9.3</b>

## 26 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, in accordance with the University's financial regulations and normal procurement procedures, and are not material to either party.

The Standing Orders of the University's Council specify that one member shall be drawn from the Open University Student's Association (OUSA), a charity independent from the University that supports the University's students, in addition to the President of OUSA. The University provides funding to OUSA, which is shown in Note 9.

No other material transactions have taken place.

During the year the Group entered into transactions in the ordinary course of business with other related parties. Transactions entered into and balances outstanding at 31 July 2020 are as follows:

	Income from related party	Expenditure to related party	Balance due from related party	Balance due to related party
	£m	£m	£m	£m
FutureLearn Ltd	1.8	0.1	0.0	0.0
<b>Total</b>	<b>1.8</b>	<b>0.1</b>	<b>0.0</b>	<b>0.0</b>

The Institution has taken advantage of the exemption within FRS 102 and has not disclosed transactions with other Group entities where it holds 100% of the voting rights.

## 27 Pension Schemes

The Universities Superannuation Scheme (USS) is the main scheme covering most of the University's staff and provides benefits based on final pensionable salary. The USS is a multi-employer-defined benefit scheme which is contracted out of the State Second Pension (S2P). A small number of employees are members of defined contribution schemes.

### Defined Contribution Schemes

A small number of employees are members of the Federated Superannuation System for Universities (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.

Following the implementation of the auto-enrolment pension scheme, a small number of employees are members of the National Employment Savings Trust (NEST).

The total pension cost for all these defined contribution schemes was £0.3 million (year ended 31 July 2019, £0.3 million).

### Defined Benefit Scheme

The University participates in the externally managed USS, a defined benefit scheme with a defined contribution element for earnings above a salary threshold (£58,589 in 2019/20). 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; and a minimum of three and a maximum of five are independent directors appointed by the board. Under the scheme trust deed and rules, the employer contribution rate is determined by the trustee, acting on actuarial advice.

The trustee's role is to set risk and return parameters that reflect the strength of the sponsoring employers and the nature of the scheme's liabilities. These parameters are informed by advice from its internal investment team, its investment consultant and the scheme actuary, as well as an independent assessment of the support available from the sponsoring employers. The trustee remains confident that it can continue to take a long-term view of scheme funding, backed as it is by a robust higher education sector.

The fund is invested in a wide range of asset classes, both publicly traded (including equities and fixed income) and private (including private equity, infrastructure, property and timberland). A diversified portfolio helps to spread investment risk across different asset classes and boost the level of confidence in maintaining sufficient investment returns from the funds as a whole.

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 102, accounts for the scheme as if it were a defined contribution scheme. As a result, the amount charged to the expenditure account represents the contributions payable to the scheme in respect of the accounting period, along with the adjustment for the provision for the scheme deficit as discussed below.

The total pension cost for the University was (£17.0) million (year ended 31 July 2019, £145.7 million). This includes £3.7 million outstanding contributions as at 31 July 2020 (year ended 31 July 2019, £3.2 million). The total pension cost is after a £62.3 million reverse charge related to adjustments to the USS deficit provision (year ended 31 July 2019, a charge of £108.1 million).

**USS actuarial valuation**

The latest available complete actuarial valuation that is included in the Statement of Financial Position is as at 31 March 2018, which was carried out using the projected unit method. This is the fifth valuation for USS under the new scheme-specific funding regime introduced by the Pensions Act 2004, which requires schemes to adopt a statutory funding objective, which is to have sufficient and appropriate assets to cover their technical provisions. The value of the assets of the scheme as at 31 March 2018 (the valuation date) was £63.7 billion and the value of the scheme's technical provisions was £67.3 billion, indicating a deficit of £3.6 billion and a funding level of 95%.

The level of the scheme deficit has led to changes in the deficit recovery plan agreed after the 2017 valuation, and this in turn affects the provision shown in the Financial Statements.

	2017 Valuation	2018 Valuation
<b>Entire USS Scheme</b>		
Total Assets	£60.0 billion	£63.7 billion
Total Liabilities	£67.5 billion	£67.3 billion
Scheme Deficit	£7.5 billion	£3.6 billion
Funding Level	89%	95%
<b>Open University Group</b>		
Provision	£167.8 million	£107.0 million

The Open University's share of the deficit has been modelled based on additional contribution rates along with an estimate of future staff costs, and a discount factor based on high-quality corporate bonds. The discount factor used to calculate the provision at 31 July 2020 was 0.73% (31 July 2019, 1.58%), and the total provision at 31 July 2020 was £107.0 million (31 July 2019, £167.8 million). The provision for the deficit is shown in Note 21.

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 key financial assumptions used in the 2018 valuation are described below:**

<b>Valuation rate of interest (discount rate)</b>	Years 1-10: CPI + 0.14% reducing linearly to CPI – 0.73% Years 11-20: CPI + 2.52% reducing linearly to CPI + 1.55% by year 21 Years 21 +: CPI + 1.55%
<b>Pension increases</b>	Term-dependent rates in line with the difference between the Fixed Interest and Index Linked yield curves, less 1.3% p.a.
<b>Life expectancy at age 65 (currently aged 65)</b>	Male: 24.4 years (2017 valuation 24.6 years) Female: 25.9 years (2017 valuation 26.1 years)
<b>Life expectancy at age 65 (currently aged 45)</b>	Male: 26.3 years (2017 valuation 26.6 years) Female: 27.7 years (2017 valuation 27.9 years)

**Employer and Employee contributions**

As part of the 2018 valuation, the trustees determined, after consultation with employers, a revision to the existing recovery plan to pay off the revised shortfall by 31 March 2028; the previous (2017 valuation) recovery plan was for recovery by 30 June 2034. The changes required to fund both the deficit and ongoing future costs are collected through increased employer and employee contributions.

The contributions following the 2018 valuation are as follows:

Period	Employers	Employees
To 30 September 2019	19.5%	8.8%
1 October 2019 to 30 September 2021	21.1%	9.6%
1 October 2021 onwards	23.7%	11.0%

**GLOSSARY****Acronyms used in the Financial Statements**

<b>APP</b>	Access and Participation Plan
<b>BAME</b>	Black, Asian and Minority Ethnic
<b>BUFDG</b>	British Universities Finance Directors Group
<b>CPI</b>	Consumer Price Index
<b>CUC</b>	Committee of University Chairs
<b>DfE</b>	Department for the Economy (Northern Ireland)
<b>EBITDA</b>	Earnings Before Interest, Tax, Depreciation and Amortisation
<b>EDI</b>	Equality, Diversity and Inclusion
<b>FRS</b>	Financial Reporting Standard
<b>FSSU</b>	Federated Superannuation System of Universities
<b>FTE</b>	Full-Time Equivalent
<b>OfS</b>	Office for Students
<b>HEFCW</b>	Higher Education Funding Council for Wales
<b>HEI</b>	Higher Education Institution
<b>HMRC</b>	Her Majesty's Revenue and Customs
<b>IMD</b>	Index of Multiple Deprivation
<b>MSCHE</b>	Middle States Commission on Higher Education
<b>NEST</b>	National Employment Savings Trust
<b>OURSP</b>	Open University Retirement Solution Plan
<b>OUSA</b>	Open University Students Association
<b>OUSBA</b>	Open University Student Budget Accounts Limited
<b>OUW</b>	Open University Worldwide Limited
<b>POLAR</b>	Participation of Local Areas
<b>PSRB</b>	Professional, Statutory and Regulatory Bodies
<b>QAA</b>	Quality Assurance Agency
<b>QER</b>	Quality Enhancement Review
<b>QR</b>	Quality-related Research
<b>REC</b>	Race Equality Charter
<b>REDEFINE</b>	Refugee Emergency: Defining and Implementing Novel Evidence-based psychological interventions
<b>REF</b>	Research Excellence Framework
<b>SAAS</b>	Student Awards Agency Scotland
<b>SFC</b>	Scottish Funding Council
<b>SLC</b>	Student Loans Company
<b>SMILE</b>	Solar wind Magnetosphere Ionosphere Link Explorer
<b>SORP</b>	Statement of Recommended Practice
<b>SPRC</b>	Strategic Planning and Resources Committee
<b>UCEA</b>	Universities and Colleges Employers Association
<b>UCU</b>	University and College Union
<b>UKRPIF</b>	UK Research Partnership Investment Fund
<b>USS</b>	Universities Superannuation Scheme

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