

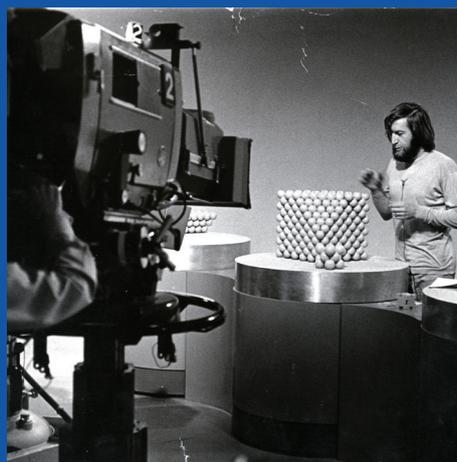
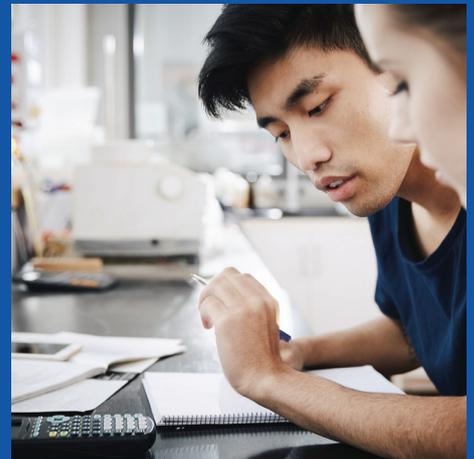


The Open
University

50
YEARS

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 JULY 2019



Contents	Page
Highlights	2
Strategic Report	4
Corporate Governance Statement	29
Responsibilities of the University's Council	38
Independent Auditors' Report	40
Statement of Principal Accounting Policies	43
Critical Accounting Estimates and Judgements	48
Statements of Comprehensive Income	50
Statements of Changes in Reserves	51
Statements of Financial Position	52
Consolidated Statement of Cash Flows	53
Notes to the Financial Statements	54
Glossary	79
Principal Advisors	80

The Open University Financial Statements 2019

Highlights

The financial results for the year show the underlying financial health of the University to be strong, with a return to operational surplus. This is the second year of our strategic change programme, with investment in systems and process change to enhance our services and support to current and future students, and to continue to deliver them an excellent and value for money learning experience.

Results, Assets and Reserves	Year Ended 31 July 2019 £m	Year Ended 31 July 2018 £m
Total Income	449.2	424.1
Tuition fees and education contracts	301.2	271.0
Funding body grants	95.0	101.1
Research grants and contracts	13.6	14.3
Income from other sources	39.4	37.7
Total Expenditure	560.2	449.9
Expenditure before USS revaluation deficit provision	449.1	452.0
USS Provision	111.1	(2.1)
(Deficit) for the Year After Taxation	(112.1)	(17.8)
Gain on Deemed Disposal of Controlling Interest in FutureLearn	24.0	0.0
Adjusted Surplus / (Deficit) from Operating Activities	2.2	(5.2)
Net Current Assets	311.3	319.5
Total Reserves	351.3	439.4

Other Key Statistics

Total number of students	168,115	174,898
Directly taught students	129,611	125,719
Validated students	38,504	49,179
Number of full-time equivalent students (Directly taught only)	68,204	64,914
Percentage of UK undergraduate students receiving at least some financial support for their tuition fees	81	76
Percentage of students satisfied with the quality of their course (from the respondents to the National Student Survey)	87	87

The Open University Financial Statements 2019

Highlights

The Open University celebrated the 50th anniversary of being granted its Royal Charter on 23 April 2019; 50 years of inspiring learning and creating higher educational opportunities with no barriers to entry.

Key highlights of the year included:



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 students.

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. We are ranked first in Northern Ireland, second in Scotland and Wales and joint 17th in England.



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

In February 2019, we successfully registered with the Office for Students.

We have excelled in all our professional programme reaccreditations and quality assurance assessments including that from the British Psychological Society.

Our excellent research informs our cutting-edge curriculum and is recognised by numerous external funding grants. Highlights include prestigious new awards from Research England to support Astrobiology research, 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.



Securing external investment for FutureLearn

We secured possibly the largest ed-Tech investment in Europe to date to enable us to grow internationally our educational offerings to students and businesses offered through FutureLearn Limited. Our joint venture with SEEK provides both financial investment and business insight.



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.

We have established and are growing Higher and Degree level Apprenticeships. During 2018/19 we delivered ten 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 208,000 enrolments by July 2019.



Enhancing our multiple media channels

Our commissioned television and radio programmes continue to be highly regarded. The Open University branded series on screen, radio and online, won a number of awards and achieved significant recognition. 2018/19 commissions included The Planets, Our Dementia Choir, Inside the Foreign Office, All in the Mind and A History of Music and Technology.

Use of our multiple media channels continues to grow. Total downloads from The Open University iTunes U service reached 73.4 million, video views of Open University content on YouTube reached 47 million, total Amazon kindle downloads for Open University books since 2013 reached 1.2 million and visits to the University's open educational resource website, OpenLearn, reached 67.2 million.

Introduction from Professor Tim Blackman, Vice-Chancellor



The Open University has been transforming lives for 50 years. Our anniversary this year is a milestone that marks not just the achievement of many thousands of successful graduates but our influence as a movement of millions: learners on our huge variety of courses, the public who take up our calls to action, whether to reduce plastic pollution or survey the wildlife in their gardens, and the donors who we have celebrated with the beautiful Tree of Learning sculpture now in the Betty Boothroyd Library.

We are proud to be the largest university in the UK, serving all four Nations, and with students in over 100 countries around the world. We create access to higher education on an unrivalled scale by combining technology with personalised learning. We undertake ground-breaking research from space science to nursing care, and we work with business and the public services to exchange knowledge and improve performance.

The policy changes made to fees and funding for part-time students in England in 2012 meant we lost a significant number of potential students, in many cases those who had the most to gain from higher education. But our share of part-time students in the sector has continued to increase and we are now seeing growth again in directly registered students, especially among younger learners. In Scotland, Wales and Northern Ireland numbers continue to grow. Wales in particular has shown the effectiveness of policy specifically designed to support part-time learners.

We need to continue to ensure that our costs are aligned with revenues and targets for our operating surplus. We are on track to return to the 2% surplus target that our Council regards as prudent to provide for future needs and uncertainties. Although our accounting deficit reveals the extent of the challenge posed by the Universities Superannuation Scheme (USS) deficit, which is a sector-wide issue, the underlying position reported in the statements reflects the clear improvement in our financial performance.

The focus brought to the University's strategy by the student success priorities agreed by our Council and Senate, especially improving retention, not only means that more students are achieving their study goals but underpins financial sustainability. We also continue to grow our ability to reach new learners through multiple channels and with an increasing choice of pathways through higher education, from higher apprenticeships to micro-credentials. The investment by SEEK Ltd. in FutureLearn is especially significant, going from start-up to a £100m value company in just six years, and demonstrating that FutureLearn is a valuable asset for advancing the University's mission to be open to people, places, methods and ideas.

I am incredibly proud and honoured to be the Vice-Chancellor of The Open University. Whatever challenges and difficulties we face in the sector, passion for the University's mission shines through in the day-to-day work of colleagues and of course the dedication and achievements of our students. I would especially like to pay tribute to my predecessor, Professor Mary Kellett, who led the University through a review and reset of its change programme and, with infectious enthusiasm, through the 50th anniversary celebrations.

I look forward to the years ahead with confidence and optimism for this wonderful institution.

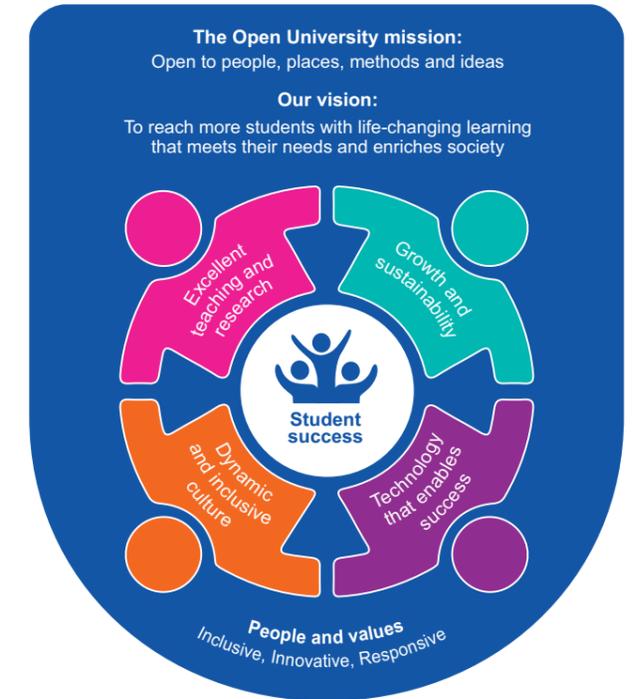
Mission

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 November 2018, we undertook a review of the strategic plan and the associated change programme to deliver it, drawing on widespread engagement with University staff to refocus our approach. A refreshed Strategic Plan to 2021/22 was approved by the Council in March 2019, confirming the University's continued commitment to its distinctive mission and core values of being inclusive, innovative and responsive. Maintaining the vision of the strategy, it sets a clear direction for the University, with the three year timeframe providing a sense of momentum as the University appointed a new Vice-Chancellor, but also ensuring that the new Vice-Chancellor has the opportunity to nuance the strategic approach after a period of time in office.

This refreshed strategic plan confirms student success continues to be our key strategic priority. 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. This includes:

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

Strategic Plan (continued)

Our continued focus on student success is underpinned by four related strategic objectives, which together will 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 is associated with key success measures and a set of underpinning performance indicators. Performance against these is scrutinised on a monthly basis by the Vice-Chancellor's Executive and regularly by the University Council and the Senate.

Whilst the Strategic Plan sets out the overall objectives for the next three years, for the immediate period, three main areas are the particular focus for our attention as part of a phased approach:

- 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) - through the procurement and phased launch of a 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 made significant progress during 2018/19 as measured against our overall strategic success measures. We have maintained overall student satisfaction as measured by the National Student Survey (NSS), while also improving our overall ranking, and have seen positive improvements in module pass and return rates.

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 all of these is delivery of financial sustainability through strategic change, building a platform for future growth and ensuring we remain responsive to our students' needs. This programme of strategic change will run across several years, with benefits being progressively delivered and accumulated.

Public Value and Sources of Funding

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 University's Council has taken into account the Charity Commission's guidance in exercising their powers or duties, and in the reporting of public benefit. The charitable aims are encompassed in the mission statement on page 5.

Beneficiaries 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. The benefit also has wider public 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; and the results of the vast majority of the research carried out by the University being 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 Financial Support The University is a fee-charging charity. The majority of its undergraduate students study part-time and tuition fees are subject to statutory regulation, though fees for study with the University are set lower than the regulatory cap. Our students in England are liable for tuition fees of £5,856 per full-time equivalent, equating to £17,568 for an undergraduate degree, whilst our students in Scotland, Wales and Northern Ireland are liable for tuition fees of £1,968 per full-time equivalent, or £5,904 to complete an undergraduate degree. Other UK universities charge higher fees to overseas students who study in the UK, whereas the University teaches overseas students in the countries in which they are residents, either directly or in partnership with a range of educational and commercial organisations, at fee levels that are similar to England.

As a result of the University's significant presence in all four of the UK nations, we receive grant funding from each of the four nations' funding bodies, in accordance with their devolved decisions about funding and financial support available to our students. Sources of assistance to students that are available across the UK with some nation variations include:

- Disabled Student Allowances are available to UK residents to assist with the extra study costs associated with their disability, and can help to pay for specialist equipment and software, a study support helper, additional travel costs and other extra costs. The University also provides additional services for students with disabilities, long-term health conditions, mental health difficulty or specific learning difficulty.
- 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.

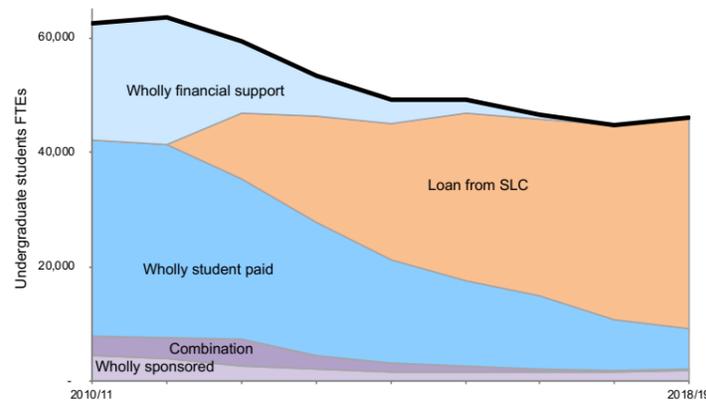
Public Value and Sources of Funding (continued)

- 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.

Fee Funding for Students in each of the UK Nations

England

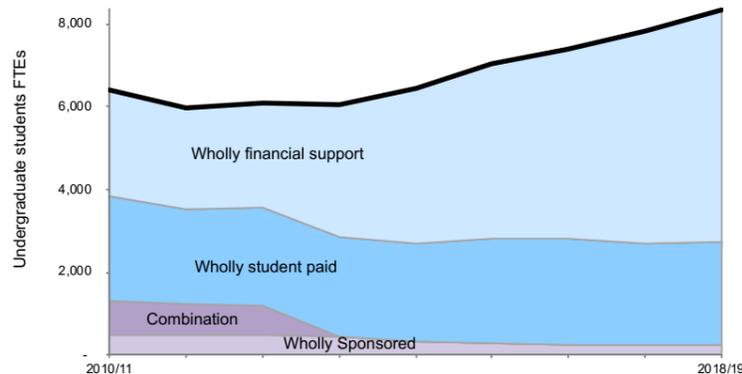
Loans for tuition fees are available to the University's undergraduate students in England who have not studied at an equivalent or higher level before (apart from a few exempted subjects). Financial support for study-related costs is available to those earning less than £25,725 or those on benefits. Maintenance loans are not currently available to part-time students studying at a distance. Maintenance loans for Postgraduate students are available to those studying for an eligible masters qualification.



The chart shows how the funding in England has changed since 2010/11. In 2018/19 approximately 80% of undergraduate full-time equivalent students (FTEs) in England were funded by the Student Loans Company (SLC).

Scotland

Higher education remains free for full-time undergraduate students from Scotland and other European Union countries outside the UK. The Scottish Government has confirmed it will meet the cost of tuition fees for eligible EU students starting their course in 2019-20 and 2020-21, for the duration of their course.



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 Student Awards Agency Scotland (SAAS) if their personal income is £25,000 or less, or they receive certain benefits.

72% of Open University new undergraduate FTE entrants in Scotland benefited in 2018/19 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.

Fee Funding for Students in each of the UK Nations (continued)

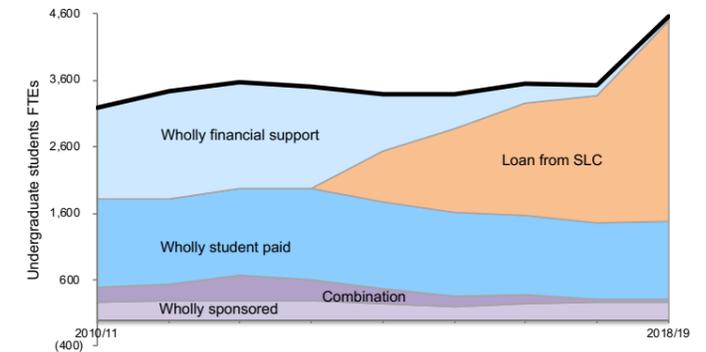
Wales

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.

66% of the Open University's undergraduate FTEs in Wales were funded by the SLC in 2018/19.

New students studying from 2018/19 are eligible to apply for support for living costs dependant on household income. Students may also be eligible for a Course Grant if their household income is below £28,180.

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.

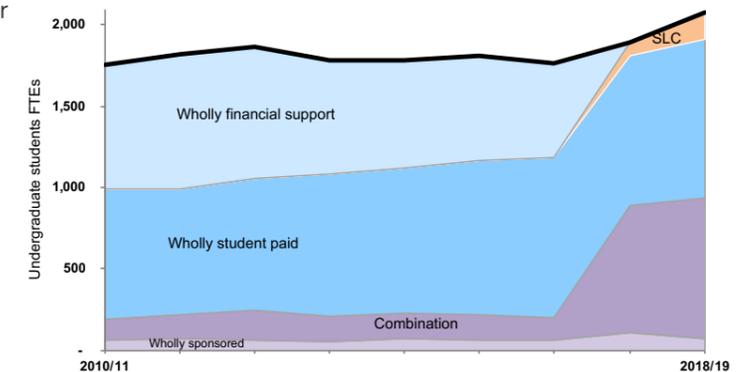


Northern Ireland

Fee grants and loans are available 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.

As the loan scheme is relatively new, only 8% of the Open University's undergraduate FTEs in Northern Ireland were funded by the SLC in 2018/19.



Financial Review

Scope of the Financial Statements

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

Financial Highlights and Results

The financial highlights are set out on page 2 and show a deficit for the year after taxation of £112.1 million (before the gain on the deemed disposal of the controlling interest in FutureLearn Ltd.), and an adjusted operating surplus for the year, which reflects the on-going day-to-day operations of the University, of £2.2 million.

The results for the year are influenced by a number of specific factors:

This is the first year in which public funding to support tuition fees in England is only available through the Student Loans Company, with the previous transition arrangements first introduced in 2012 now finished.

The University is in the second year of a significant programme of strategic change to ensure the University's business readiness for the future, and to support securing its long-term financial sustainability.

During the year the University secured co-investment in FutureLearn, its previously wholly-owned subsidiary, resulting in a gain on deemed disposal of its controlling interest of £24.0m reported in the consolidated accounts.

Like all Higher Educational Institutions that are members of the Universities Superannuation Scheme (USS), the 2018/19 financial results reflect the accounting impact of the latest applicable complete actuarial valuation of the USS, as at 31 March 2017. The 2017 revaluation identified an overall scheme deficit of £7.5 billion. The University is required to use a prescribed model to calculate its share of the accounting provision for the cost of the deficit recovery plan. A new actuarial valuation as at 31 March 2018 has been agreed after the balance sheet date and the resulting adjustment reducing this provision will be reflected in the University's Financial Statements for the year ended 31 July 2020.

The adjusted operating surplus, which excludes items not influencing the day to day operations of the University, is derived by adjusting the reported deficit after tax, for the following items:

	Consolidated		University	
	Year Ended 31 July 2019 £m	Year Ended 31 July 2018 £m	Year Ended 31 July 2019 £m	Year Ended 31 July 2018 £m
Deficit for the year	(112.1)	(17.9)	(106.8)	(16.9)
Restructuring and strategic change	14.3	27.7	14.3	27.7
USS deficit provision adjustments	111.1	(2.1)	109.3	(2.0)
Other operating and asset adjustments	(11.1)	(12.9)	(11.1)	(12.9)
Adjusted Surplus / (Deficit) from Operating Activities	2.2	(5.2)	5.7	(4.1)

Financial Review (continued)

The movement from a £5.2 million adjusted operating deficit in 2017/18 to an adjusted operating surplus of £2.2 million in 2018/19 is explained below:

	Year Ended 31 July 2019 £m	
Adjusted Operating Deficit - 2017/18	(5.2)	The adjusted operating surplus in 2018/19 was due mainly to an overall net increase in income. Student fee income increased by 11.1% compared to 2017/18 which offset the decrease in teaching grants of 6.0% compared to the previous year.
Increase in Tuition Fee Income	30.2	
Decrease in Funding Body Grants	(10.8)	
Decrease in Other Income and Donations	(1.5)	
Increase in Operating Staff Costs	(9.2)	
Increase in Operating Expenses	(1.3)	
Adjusted Operating Surplus - 2018/19	2.2	

Income

Income from all sources increased by £25.1 million (6%) to £449.2 million

Tuition fee income

⇒ p54

Tuition fee income increased by £30.2 million (11%) to £301.2 million. The majority of the increase was for fees paid in respect of students in England, which increased by £22.9 million (10%) to £243.2 million.

Funding body grants

⇒ p54

Funding body grants decreased by £6.1 million (6%) to £95.0 million largely as a result of the reduction in recurrent grants from Office for Students; this decreased by £10.8 million (19%) to £51.4 million but still represents 59% of all recurrent grants from the various funding bodies, partially offset by a non-operating grant of £4.7 million. Total recurrent grants from other funding bodies increased by £1.5 million to £35.4 million, and specific grants from all funding bodies decreased by a total of £1.5 million to £8.2 million.

Research grants and contracts

⇒ p55

Income from research grants and contracts decreased by £0.7 million (5%) to £13.6 million.

Other income

⇒ p55

Other income increased by £3.5 million (14%) to £29.0 million, due to the final payment arising from the VAT settlement.

Investment income

⇒ p56

Investment income decreased by £1.6 million (18%) to £7.1 million, largely due to the reduction of the year-on-year movement in market value of investments in equity funds by £2.6 million (39%) to £4.0 million.

Donations and endowments

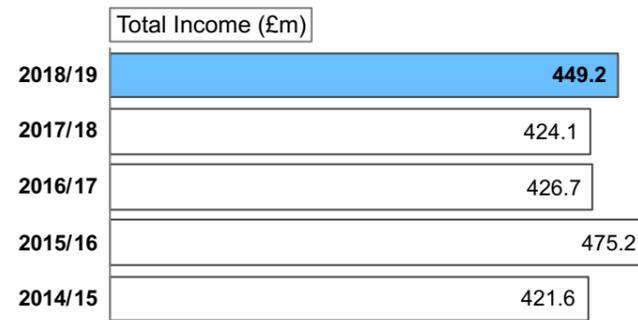
⇒ p56

Income from donations and endowments decreased by £0.2 million (6%) to £3.3 million.

Financial Review (continued)

Income (continued)

The overall increase in income this year is largely due to the increase in tuition fee income from increased student numbers. This offsets the reduction in funding body grants, particularly as from 2018/19 transition funding for pre-SLC students ceased. The high income in 2015/16 was due to a significant one-off VAT refund.



Expenditure

Total Expenditure from all sources increased by £110.3 million which included the £111.1 million USS provision for the year. Excluding the USS provision, total expenditure from all sources decreased by £0.8 million (0%) to £449.1 million

Staff costs

➡ p57

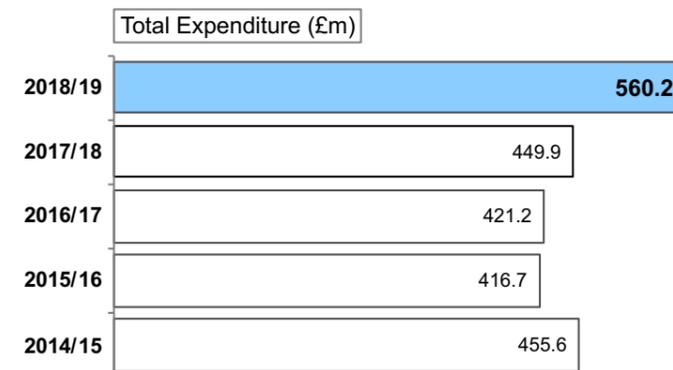
Total staff costs increased by £111.9 million to £416.1 million, mainly due to the USS pension provision for the year as mentioned above and the £11.7 (87%) reduction in the early retirement and voluntary severance costs compared to the previous year. Excluding these two factors, underlying staff costs have increased by £12.5 million (4%) including strategic change expenditure and impact of higher student numbers on tuition costs.

Non-staff costs

➡ p62, p63

Other (non-pay) operating expenses, depreciation and interest payable decreased by a combined total of £1.6 million (1%), including strategic change expenditure and impact of higher student numbers.

Whilst action to hold University costs flat has been reasonably successful over a number of years (noting that 2014/15 and 2018/19 were impacted by increases due to the USS deficit revaluation provision), the University will continue to seek efficiencies and cost reductions derived from our ongoing strategic change programme.

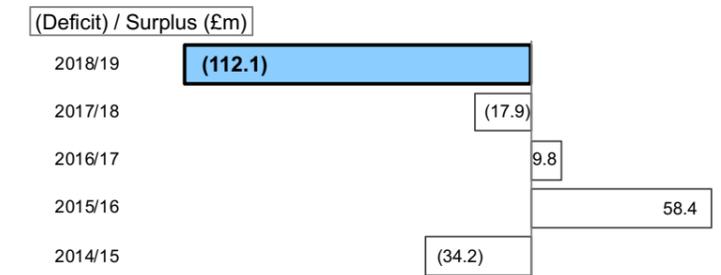


Financial Review (continued)

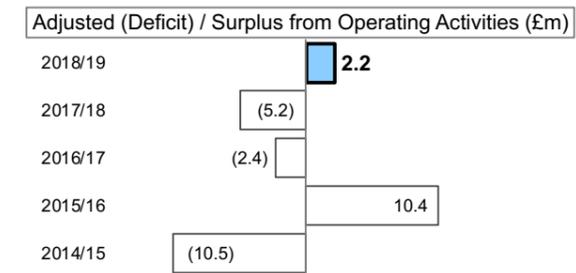
Outturn

Deficit after tax of £112.1 million (before the gain on partial disposal of the interest in FutureLearn Ltd.) which includes the adjustment for the USS provision, compares to a deficit of £17.9 million last year.

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



The second chart shows the adjusted surplus / (deficit) from operating activities, eliminating the main non-operational items across the years (see page 10). This is a better measure of underlying financial performance and is therefore one of the University's financial strategy measures.



Financial Review (continued)

Assets and Liabilities

⇨ p52, p65 to p72

The first time inclusion of intangible assets of £5.1 million relates to the capitalised costs for the core systems replacement programme.

Tangible assets totalled £241.6 million at 31 July 2019; the decrease of £6.3 million compared to 2017/18 was due to the depreciation charge for the year as expected.

The non-current investment of £22.6 million (see Note 14 on page 66) represents the year end carrying amount of the investment in the joint venture created as a result of the University's change in ownership of a previously wholly-owned subsidiary, FutureLearn Limited, as mentioned on pages 4 and 10.

Gilts, equities and term deposits totalled £203.8 million at 31 July 2019, an increase of £34.4 million since 31 July 2018 which is mainly due to investing more cash in term deposits at 31 July 2019 compared to last year.

The University recognises amounts on the balance sheet in respect of student tuition fee income for curriculum modules partially completed at 31 July (£27.0 million as shown in Note 17) and modules not starting until the following financial year (£24.7 million as shown in Note 17).

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 2019 was £6.3 million (an increase of £0.5 million since 2017/18), as shown in Note 15.

It is The Open University 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.

The University has a provision at 31 July 2019 of £1.0 million in respect of the continuing activities for the strategic change programme. The balance of this provision has decreased from £10.8 million at 31 July 2018. The provision for the University's estimated share in the deficit in the Universities Superannuation Scheme (USS) pension scheme based on the 2017 valuation, discussed on page 17 and in Notes 20 and 25, increased by £111.1 million to £167.8 million at 31 July 2019.

Cash Flow

⇨ p53

The group cash outflow of £72.1 million this year was due to increased investment in gilts and fixed-term deposits of £31.4 million as shown in Note 22; utilisation of provisions of £12.4 million (Note 20); and a reduction in amounts due to creditors of £22.9 million (Note 17). The reduction in creditors includes a change in the way that transactions with the Student Loan Company for students who do not inform us they have withdrawn from study are managed and the release of a deferred income balance alongside other year-on-year timing differences.

Capital Projects

⇨ p65

The inclusion of intangible assets in 2018/19 relates to capitalised costs of purchased software to deliver the core systems replacement programme. These are recognised as Assets under Construction.

The only additions to land and buildings in the year of £0.2 million were in respect of minor improvements (2017/18, £0.7 million).

Financial Review (continued)

Treasury and Investment Management

The financing and liquidity of the University and its exposure to financial risk are managed through the Finance and Business Services central treasury function. The financial strategy, discussed on page 16, sets minimum liquidity levels in order to ensure that sufficient financial flexibility is retained. Each year, rolling financial forecasts are prepared, incorporating a review of capital expenditure and cash generation and utilisation.

The University's Finance and Investment Committees review the treasury and investment policies, ensuring sufficient diversification and capital protection after taking into account changing economic conditions.

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.

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 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. 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 2019 is set out in Note 16.

Financial Review (continued)

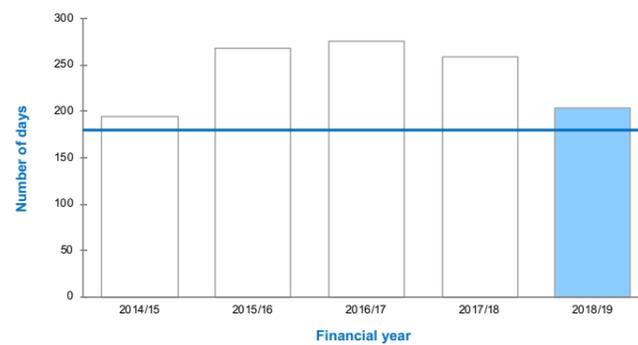
Financial Strategy

The University's financial strategy is designed to maintain financial sustainability and flexibility at all times. It was reviewed in 2018/19 and the Finance Committee confirmed the three existing parameters:

Net Current Assets To maintain net current assets at a minimum of 180 days expenditure.

The history of the University's financial performance against its target to maintain net current assets at a minimum of 180 days expenditure, is summarised in this graph. For the purposes of this parameter, committed bank facilities are treated as being equivalent to net current assets.

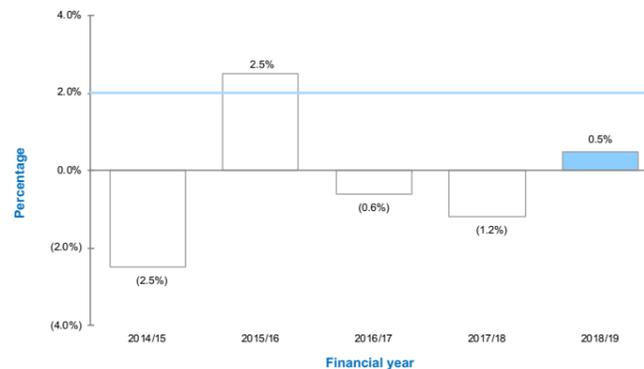
At 31 July 2019, net current assets were £311.3 million, a decrease of £8.2 million (2%) from the previous year's figure of £319.5 million. The 2019 figure represented 203 days of expenditure.



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.

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 2018/19 was £2.2 million (see page 10) which equates to 0.5% of income. This compares to the 2017/18 figure of -1.2%.

The measure provides a meaningful year-on-year comparison of results and is discussed on pages 10, 11 and 13. Following changes in higher education fees and funding in England, the University has experienced operating deficits, and through its current strategic change programme has now started to move back into an operating surplus position.



Borrowings To restrict the maximum level of borrowings to the value of £62 million.

The University has one committed long-term borrowing facility with NatWest of £60.0 million for a period of 25 years from October 2008. The loan was fully drawn down in April 2011 and is secured on a part of the University's Walton Hall campus (Note 18).

Financial Review (continued)

Pensions

The University has one defined benefit pension scheme available to its 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 2017 position, agreed by the USS Trustee in January 2019, has been incorporated within these financial statements as the agreed valuation in place as at 31 July 2019. Because the 2018 valuation was agreed in September 2019, it is reported in the financial statements as a non-adjusting post balance sheet event.

2017 actuarial valuation The disclosures in Note 25 in respect of USS refer to the latest completed full actuarial valuation, as at 31 March 2017. The funding level under the scheme-specific funding regime introduced by the Pensions Act was 89%. 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.

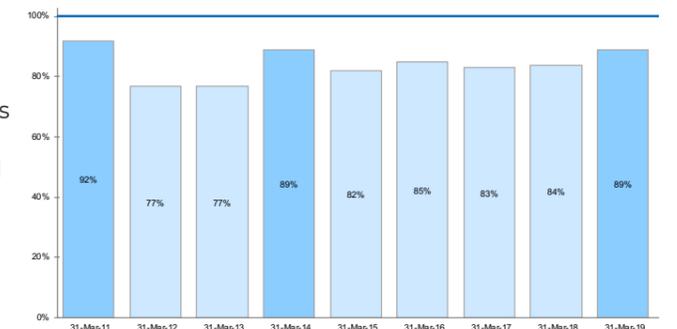
Following completion of the 2017 valuation, a revised deficit recovery plan was implemented with the aim of eliminating the deficit by 2034. The plan increased member contributions to 8.8% and employer contributions to 19.5% from April 2019. Further increases were planned to be phased in during 2019/20, although the outcomes of the 2018 scheme valuation impact these changes (see below).

The changes to the deficit recovery plan have resulted in a significant increase in the liability recognised by the Group in respect of its commitment to the USS deficit recovery plan. At 31 July 2019 the liability is £167.8 million (31 July 2018, £56.7 million), shown in Note 20. The plan, along with the changes to scheme benefits, is expected to eliminate the deficit by 2034.

2018 actuarial valuation The actuarial valuation as at 31 March 2018 was completed on 16 September 2019 - after the financial year end but before these financial statements were completed. This valuation has resulted in amendment to the deficit recovery plan which will take effect during 2019/20 along with the appropriate accounting adjustments. The provision to fund the deficit is expected to reduce from £167.8 million at 31 July 2019 to approximately £99.0 million at 31 July 2020, although this will be subject to changes resulting from other factors such as discount rates and pensionable staff costs.

Member and employer contribution rates will change as a result of the amended plan as follows: from 1 October 2019 to 30 September 2021: 9.6% and 21.1% respectively, and from 1 October 2021 onwards: 11% and 23.7% respectively.

The USS provides interim valuations as at 31 March each year. The USS funding levels since 2011 are shown in this graph. The bars in bold show the results of full actuarial valuations in the year the valuation took effect and the other bars show the results of interim actuarial estimates. Further information on the scheme changes, the deficit recovery plan and the assumptions made in the actuarial valuation can be found in Note 25.

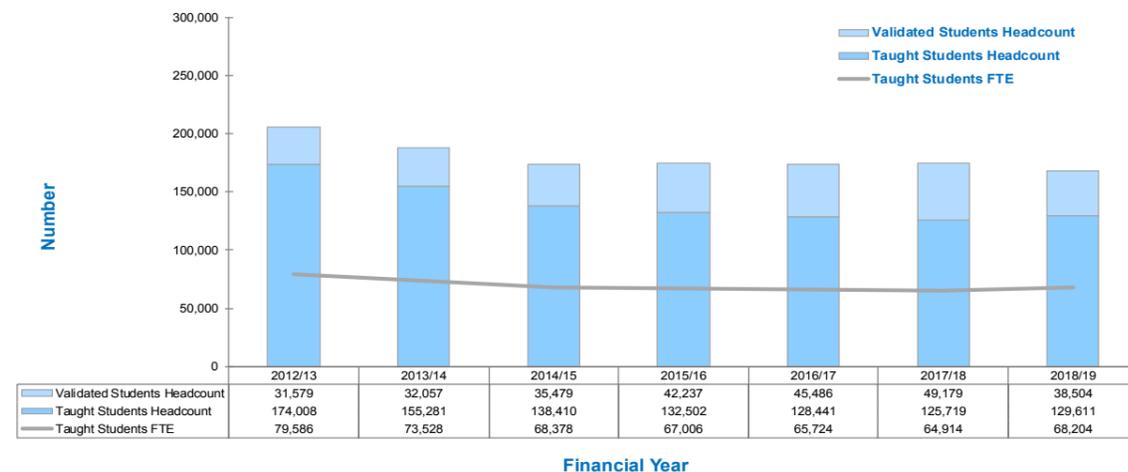


A small number of employees are members of defined contribution pension schemes. Details are provided in Note 25 on page 75.

Student Numbers

Over the year our directly taught student numbers of 129,611 have increased by 3,892 or 3.1% compared to 2017/18. This has contributed to the growth in tuition fee income of £30.2m reported on page 11. As a result of a review of the classification status of students registered through our validation arrangements with partner institutions, validated student headcount numbers were 38,504, resulting in a decrease of 10,675 (21.7%) from 2017/18. Validation fees have reduced by £0.2m as reported in Note 4 on page 55. The average intensity of student study, expressed in full-time equivalents, has increased by 3,290 or 5.1% to 68,204; validated students are not included in this measure. The increase in both directly taught student numbers and FTEs reported for 2018/19 is in line with our expectation that student numbers would stabilise and then grow, in part as outcomes of our strategic development priorities.

The period of stabilisation and then growth since 2012/13 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.



Financial Year
Full-Time Equivalent (FTE) students and Student Headcount

In terms of full-time equivalents, the latest available data from the Higher Education Statistics Agency shows that the University's share of the UK part-time undergraduate market in 2017/18 increased by 1% to 42% compared to the previous year.

Student Satisfaction

The Open University is committed to creating a curriculum attuned to student needs and aspirations, that reaches out to new groups of potential learners who seek career and personal advancement, and that enables them to achieve success. We aim to provide the best possible learning experience for students, and so it is particularly pleasing that The Open University continues to rank as one of the top universities in respect of the overall satisfaction of its students as measured in the 2019 National Students Survey.

In 2019, 403 institutions participated in the survey, including further education colleges that offer higher education courses. Over 13,000 Open University students took part and the University achieved an overall satisfaction rating of 87% which remained stable compared to the previous year but the University has moved up the rankings to joint 17th among other universities (from joint 20th in 2018).

The Open University has been at the forefront of the rankings since they were introduced in 2005. In 2019, The Open University was ranked first in Northern Ireland, and second in Scotland and in Wales. It is both gratifying that it maintains such a commanding position across all nations of the UK and a source of pride to achieve consistently outstanding results when operating on such a large scale.

Research Outputs

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

The University's five-year Research and Enterprise Plan sets out a research and enterprise agenda that differentiates and enhances its research profile on a national and international scale. The Plan's primary aims are to achieve success in the next Research Excellence Framework exercise (REF2021), build capacity to engage with the public and stakeholders, 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 research activity.

The University is progressing its preparations for REF2021, in which it will seek to optimise its performance across disciplines, submitting all eligible staff who have been identified as having significant responsibility for research (as defined in the University's REF2021 Code of Practice).

Income from external research grants and contracts has decreased by £0.7 million (5%), from £14.3 million in 2017/18 to £13.6 million in 2018/19. The decrease is despite efforts across the University to improve external research income capture against a backdrop of the ongoing challenges of constraints on, and competition for, public funding for research including the uncertainty around Brexit. We envisage that competition for funds to support research in UK universities will intensify further in the years ahead and so the University will further increase its focus on taking forward measures to increase and diversify external research income capture, improve cost recovery on its research activity and effectively manage its internal research cost base.

Notable award achievements in 2018/19 include:

A prestigious new award from Research England of £6.7 million, part of the Expanding Excellence in England scheme to grow the University's Astrobiology research group.

Significant successes in other areas of the University's Space research with £0.8 million from the UK Space Agency to engage in the ongoing development of the Athena mission (due to launch 2032).

Major awards for postgraduate research with £6.0 million from the Arts and Humanities Research Council for a Doctoral Training Partnership (DTP) with the universities of Oxford and Cambridge, and £0.5 million from the Engineering and Physical Sciences Research Council to continue the Centre for Doctoral Training in Nuclear Energy Futures (led by Imperial College London).

Successful partnering with the universities of Oxford and Brunel in the Economic and Social Research Council-funded Grand Union DTP.

Successful partnering outcomes from continuing engagement by the University with European funding calls, although the impact of Brexit is starting to be felt, resulted in seven new projects funded by the European Commission in 2018/19, totalling £2.2 million.

Postgraduate Research Students

The Open University Graduate School is the hub for supporting the University's postgraduate research student community through registry services and the provision of training to support transferrable skills. In addition to providing this support, the Graduate School manages the network of Affiliated Research Centres (ARCs), facilitates the development of bids for doctoral training, new ARC applications (e.g. Insitut Pasteur and the Italian Institute of Technology) and other forms of external partnerships. It works to build a community amongst a diverse postgraduate research student population and to promote wellbeing.

The 2019 Postgraduate Research Experience Survey results showed that the overall satisfaction University respondents had with their studies was 87%, based on 187 responses. This was 6% higher than the mean score for surveyed institutions.

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 held by 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 16,000 Open University alumni, supporters, trusts, foundations and organisations have supported the University's vision of a high-quality education, open to everyone with the determination to succeed. Donations are helping our students and faculties take research and learning further than ever.

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 unreasonable intrusion, persistent approaches or placing undue pressure on a person to give money or property.

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.

The Open University does not actively fundraise from individuals over the age of 80 by telephone. The University regularly monitors its fundraising activities to protect vulnerable people and others from unreasonable intrusion.

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.

The Open University does not employ third-party fundraisers or external call centres and does not use commission-based incentives for our team. We do 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 also 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 standard University Performance and Development Reviews. The University is registered with the Fundraising Regulator and has signed up to its code of fundraising practice. Three complaints in relation to fundraising activities including administrative practices or procedures were assessed and resolved in the year in line with The Open University 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 2019 was a significant milestone for the University in terms of Equality and Diversity. Some of the major accomplishments include:

1. a review and revision of the institutional Equality Objectives which involved extensive OU staff and student consultation, and
2. the submission of an application for Race Equality Charter (REC) Bronze status.

A key focus for the 2019/2020 academic year will be to implement an ambitious REC action plan, with the aim of addressing barriers to Black, Asian and Minority Ethnic (BAME) staff and student progression and success.

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

At 31 July 2019, the gender breakdown of Council members, senior managers (comprising the members of the Vice-Chancellor's Executive), and of staff was as follows:

	Employees		External		Total	
	Male	Female	Male	Female	Male	Female
Council Members	5	3	7	6	12	9
Senior Managers (excluding Council Members)	8	4	0	0	8	4
All Other Employees	3,279	5,183	n/a	n/a	3,279	5,183

The staff numbers above are based on staff in-post as at 31 July 2019, whereas the staff numbers in Note 7 are the average FTE over the entire financial year.

The Open University places considerable value on the involvement of its employees and on good communication with them. Staff are informed through regular meetings, the extensive University intranet, open fora, staff newsletters, and other means. Staff are encouraged to participate in formal and informal consultation at University and Unit level, through membership of formal committees and informal working groups. The University provides technical and general training to all levels of staff and helps to build leadership capacity.

In the calendar year 2018, 6.2% (2017: 6.1%) of our staff have declared that they have a disability. The University is committed to a policy of equal opportunities for disabled staff and students and aims to create an environment enabling staff and students to participate fully in University life.

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 in the 2018/19 year to ensure accessibility and consistency with other student-facing policies, and were approved by the Audit Committee in June 2019. Two disclosures were made to the Whistleblowing mailbox in the period to 31 July 2019. One disclosure was investigated and closed, with five recommendations progressed internally. A preliminary investigation into the second disclosure has been completed and a formal investigation has commenced.

Trade Union Facility Time

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

Relevant union officials	There were 67 employees (39.7 full-time equivalent) who were relevant trade union officials during the relevant period.
Percentage of time spent on facility time	Of the 67 employees, 64 staff spent less than 50% of their working hours on facility time, and 3 staff spent 100% of their working hours on facility time during the relevant period.
Percentage of pay bill spent on facility time	The pay amount relating to the total percentage of working hours spent on facility time is 0.1% of the total staff costs for the University during the relevant period.
Paid trade union activities	The number of hours spent by employees who were relevant trade union officials on paid trade union activities is 10.5% of the total paid facility time hours during the relevant period.

Institutional Quality Review

The Open University successfully registered with the Office for Students (OfS) in February 2019 after meeting the initial conditions of registration. The conditions included six relating to quality and standards. At the time of registration, the OfS imposed an enhanced monitoring requirement relating to condition B3 (the provider must deliver successful outcomes for all of its students, which are recognised and valued by employers, and / or enable further study). The University responded to the OfS in May 2019.

In addition, much of the University's academic provision is accredited or recognised by various Professional, Statutory and Regulatory Bodies. For instance, the University's Business School is triple accredited by the Association of Masters of Business Administration (AMBA), The Association to Advance Collegiate Schools of Business (AACSB) and the European Quality Improvement System (EQUIS). Other examples include regulation of the Nursing programme by the Nursing and Midwifery Council, of the Psychology programme by the British Psychological Society and of the Social Work programme by the Health and Care Professions Council. Meanwhile, the University continues its system of internal periodic and annual quality reviews and makes thorough use of the external examining system.

Risk and Risk Management

The Open University actively supports effective risk management and sees it as all members of staff responsibility to identify, assess and manage risks (opportunities as well as threats) – it is important to the University's long-term success and ability to deliver its strategy. The risk management process, risk management framework and risk appetite are regularly reviewed and updated. The University Council approves, on an annual basis, its risk appetite across a framework of risk categories. This enables decisions of a strategic or tactical nature to be informed by a clear understanding of risk appetite. Where risks exceed risk appetite they are escalated for decision-making.

The risk management process is cascaded down through the University supported by the risk management governance structure. 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 produce aggregate data.

A Strategic Risk Register is maintained and used to dynamically assess the principal strategic threats and opportunities for the University. It is discussed at regular meetings of the Vice-Chancellor's Executive, the Audit Committee, and the Council. In all areas of the University, risks are actively managed as appropriate to their significance.

Risk Oversight

The Council	Audit Committee	Vice-Chancellor and Vice-Chancellor's Executive
Overall responsibility for risk management, determines risk appetite and tolerance on an annual basis and sets the tone for risk within the University.	Oversight of the risk framework process and risk response actions on behalf of The Council.	The Vice-Chancellor is accountable to The Council for implementing an appropriate risk management framework. Individual members reporting to the Vice-Chancellor are accountable for specific 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:

Security breach of data and/or IT systems	We continue to invest in adequate threat intelligence, extended technology controls and security risk identification. We also invest in improvement in staff's digital skills and awareness of information security.
Existing technology falling behind demands	We are investing in a strategic programme to replace legacy systems which will include detailed planning for the transition to new systems to ensure business continuity. We are also investing in digital technology and innovation projects.

Risk Oversight (continued)

Increasingly challenging context for teaching and research	We will ensure appropriate planning and resourcing to successfully implement the new Associate Lecturer contract. From 2021, we will replace the current multiple fixed-term contracts with permanent contracts for Associate Lecturers alongside the provision of other benefits including increased annual leave and increased time for professional development. We continue to innovate our model of supported open learning and we are scenario planning for potential outcomes of the post-18 education review. We will be delivering the approved Scholarship Plan and Research and Enterprise Plan, and will continue to invest in academic staff development.
Changing regulatory or compliance conditions across the four UK nations	We will continue to build our relationships with the Office for Students and other regulatory bodies in each of the UK nations. Whilst maintaining compliance with regulatory and compliance matters, we will increase our organisational maturity in process and approach.
Increasing challenge in recruiting and retaining students	In addition to the strategic programme of initiatives to support student success, we continue to invest in brand and marketing to communicate the value of Open University study and continue to engage with governments to influence policy and optimise opportunities.
Engagement and enablement of staff to deliver strategic objectives	We will invest in an approach to create cultural change through management behaviour and practices. We will strengthen the communication and cascade of strategic objectives to staff, invest in developing strategic change capability and introduce an employee charter.
Scope to generate new streams of income	We will optimise opportunities through the investment in FutureLearn by SEEK Ltd. We will investigate opportunities in selected new markets in the UK and globally, and advance existing partnerships to their full potential. We will continue to promote the University and increase fundraising, building on the 50th anniversary celebrations.
Scope to reduce costs	We are undertaking a structured review of internal processes and bureaucracy, particularly in the light of investment in new systems and digital innovation. We will continue to focus on transparency of resources used and their value.

The risk presented by the UK's planned exit from the European Union is being monitored separately from the organisation's key strategic risks.

Planned UK exit from the European Union	Continuing uncertainty regarding the UK's exit from the European Union creates a challenging environment. The level of risk to tuition fee income is low as a relatively small proportion of income comes from the European Union. However, a further £4.7 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 from Brexit. Support is continuing to be provided to research students and staff who may be affected through our International Community Support Network and our Employee Assistance Programme.
---	---

Going Concern and Long-Term Sustainability

The University regularly reviews its business strategy and related risks. The University Council receives regular updates on the University's financial position and monitors performance against the strategy with reference to key performance indicators. An annual accountability return is also prepared for OfS, as the University's principal regulator, and presented to Council. 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 summarised balance sheets 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 / or 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.

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. 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 the decrease in its core student numbers that were a result of the funding changes implemented in 2012/13, and to ensure the on-going excellence of its teaching and support to its students. The chart below sets out three metrics of past performance during this period of change that evidence the University's financial resilience.



*Adjusted Operating surplus / (deficit) is based on Earnings before Interest, Tax, Depreciation and Amortisation (EBITDA) in the years up to and including 2013/14, 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. This currently stands at £367.3 million and provides a strong balance to support the strategic change programme and forecast cash flows.
Adjusted Operating Surplus / (Deficit)	In 2018/19 the University has moved back into a small adjusted surplus from operating activities as it continues to re-align its operating expenditure, through cost reductions and improved ways of working, resulting from its strategic change activities. The University is forecasting operating surpluses in line with the financial strategy (see page 16) from 2019/20 onwards.
Student FTEs	After sharp decreases immediately following changes to funding in 2012/13, the pace of decline has significantly reduced in the later years and for 2018/19 taught student numbers and student FTEs have increased. Student FTEs are predicted to stabilise and grow in the future.

Going Concern and Long-Term Sustainability (continued)

The strategic change programme introduced last year has been successful to date, and provides confidence for the longer term sustainability of the University. Our key strategic priority continues to be student success as described on page 5 underpinned by a set of related objectives, which include enhancing future student income growth and institutional sustainability by diversifying our reach and sources of income and managing and challenging our cost base. The replacement of core IT administrative and student-facing systems remains a priority to ensure that the University is business ready for the future.

However, the external environment continues to be uncertain and volatile. The key areas of risk and opportunity potentially impacting the University in the near future are discussed on pages 23 to 24 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:

Financial resilience

Treasury management is discussed on page 15 and performance against the financial strategy is discussed on page 16. The healthy levels of cash and current asset investments at 31 July 2019 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 and timing of decisions relating to the 2017 and 2018 valuations of the Universities Superannuation Scheme are discussed on page 17. The increase in the scheme deficit provision as a result of the 2017 valuation has a significant adverse accounting effect on the statement of comprehensive income. Whilst it is anticipated that there will be a reduction in the scheme deficit on finalisation of the 2018 valuation, the University has resources available to mitigate wholly against the 2017 valuation, addressing any going concern issues. However, any significant increase of employer contributions over those anticipated 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 planned UK exit from the European Union will undoubtedly introduce uncertainty into aspects of the University's business model, as discussed on page 24.

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 life-long learning markets, may present significant opportunities for the University, but the pressures on public funding, and decisions about prioritisation of its use for post-18 education, may also present challenges.

The University Group's forecasts and projections to 2022/23, 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 12 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 can 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 8 and 9), and 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. We can, and 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 performance and balance sheet.

The Open University’s celebrations in 2019 of 50 years of achievement support us going forward confidently for our students into the University’s 51st year and beyond.

Approved by Council on 26 November 2019 and signed on its behalf by:



R W SPEDDING
Chair of Audit Committee



L J HOLDEN
Group Finance Director



T BLACKMAN
Vice-Chancellor

Constitution, Governance and Regulation

This Corporate Governance statement covers the period from August 2018 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 2019, who are the charity trustees, are listed on page 32.

The Open University is regulated principally by the Office for Students (OfS), which defines the conditions under which the University receives public funds. The OfS replaces the former Higher Education Funding Council for England. Operating throughout the UK, the University also receives funding from the Higher Education Funding Council for Wales and 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 - Quality Assurance Agency for Higher Education and the designated data body 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 80.

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 sub-committees. 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) and the Scottish Code of Good HE Governance (2013, revised 2017). 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's 2017/18 review of the University's current governance practice against the requirements of and best practice outlined in the CUC Higher Education Code of Governance found that the University applied the majority of the principles set out in the Code, but recommended some changes to strengthen governance practice. During 2018/19, the Committee has monitored progress of outstanding actions and continued to review areas where further improvement can be made. 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.

In 2018, the Council commissioned a report on its role and effectiveness in the governance of the strategic change programme and the events that led to the subsequent review and reset of the programme and the resignation of the then Vice-Chancellor in April 2018. The report made a series of observations and recommendations, which were reviewed and implemented during 2018/19 to improve the Council's effectiveness. A review of the management of governance continues to build on these recommendations.

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 21 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 38 and 39 describes its responsibilities in respect of maintaining accounting records, preparing financial statements and accountability arrangements. It also summarises the University's system of internal control and its system of risk identification and management.

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 Finance Committee), a Remuneration Committee; 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 last year: the Pro-Chancellor, Richard Gillingwater; and the Treasurer, Caroline Stockmann. Malcolm Sweeting was appointed as Pro-Chancellor from 1 January 2019; Sandy Begbie served as Acting Treasurer from 1 January to 31 July 2019. Robert McCracken was appointed Treasurer from 1 August 2019.

Further information on Council and Committee membership and remit appears below.

Performance Evaluation of Council and its Committees

The Council supports on-going review of the role and performance of governance, which included implementation during the year of recommendations from an internal review undertaken in the previous year. The Council reflects on its effectiveness at the end of each meeting and annually.

Review during 2018/19 focused on the year's business against the terms of reference and members' attendance. Each Council Committee conducted a similar annual effectiveness review, supplemented by feedback from a member survey. These reviews are considered by the Governance and Nominations Committee, which makes recommendations for change if required. The Council also regularly commits to external review of its effectiveness.

The annual Council Induction and Development Day introduces new members of the Council and its Committees to the University and its vision, values and strategy, and to their role and responsibilities. It also provides a refresher and opportunity for further development for longer serving members.

The 2018 event focused on 'Governance in a Changing World', delivered by an external speaker specialising in constitutional, governance and regulatory advice. All members are provided with information on the governor development events and resources offered by Advance HE (formerly the Leadership Foundation in Higher Education).

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 2019, and their attendance at the meetings held during their membership in that year, together with members serving in the period after 31 July 2019 and up to the date on which the financial statements were approved, are shown below.

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

¹ To 31 December 2018

² From 1 January 2019

³ From 1 January to 31 July 2019

⁴ From 1 August 2019

⁵ To 30 September 2019

⁶ From 1 October 2019

⁷ From 1 Aug to 31 Dec 2018

⁸ From 25 Feb to 31 July 2019

⁹ Strategic Planning and Resources Committee

Council and Committee Membership and Attendance (continued)

Non-Council Members

Vice-Chancellor's Executive membership of committees

	Governance & Nominations	SPRC ⁷	Finance	Investment	Audit
Mr L J Holden, Group Finance Director ²				2/2	
Mr P Traynor, Chief Financial Officer ³				0/0	

External membership of committees

Ms E Lewis					3/4
Mrs C Banzsky				2/2	
Mr B S Larkman				2/2	
Mr R McCracken ¹			5/5		
Mr M B Moule				2/2	
Mr N Poulter					4/4
Mr P Robert-Tissot			8/9	2/2	
Mr C A Wood				2/2	

¹ External Member of Finance Committee to 24 February 2019

² to 31 October 2019

³ from 1 November 2019

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.

Committee Remit and Membership

	Members of Council	Other External Members
Audit Committee	Mr R W Spedding (Chair) Dr G Walker Mr P Greenwood	Ms E Lewis Mr N Poulter

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

Risk management	Reviewing the effectiveness of the Group's arrangements for risk management, control and governance.
Financial Statements	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.
Value for money and data quality	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.
Internal audit	Reviewing and approving the terms of reference of the Internal Audit function and monitoring its performance and effectiveness.
External audit	Advising the Council on the appointment, in accordance with the Audit Code of Practice, 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.
Regulatory compliance	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 relating to the Audit Code of Practice.

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 in accordance with the requirements of The Office for Students Terms and Conditions of Funding for Higher Education Institutions and the PricewaterhouseCoopers (PwC) partners responsible for the external audit are rotated regularly in accordance with PwC's own policies and required regulations.

Committee Remit and Membership (continued)

Audit Committee (continued)

The Audit Committee has discussed with the external auditors and management 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:

Strategic Change programmes The controls over the review and reset of the Students First Transformation programme; assurance on the core systems replacement programme including both the technology solution and business change; and updates on the Finance Transformation programme.

USS pensions provision 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.

The deemed disposal of the controlling interest in FutureLearn The controls over the negotiation of the deemed disposal of the controlling interest in FutureLearn and the accounting treatment in respect of the calculation and disclosure of the unrealised gain from this transaction.

The Group financial statements have been prepared in accordance with the Statement of Principal Accounting Policies set out on pages 43 to 49, 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.

Committee Remit and Membership (continued)

	Members of Council	Employees	Other External Members
Governance and Nominations Committee	Mr R Gillingwater (Chair) ² Mr M Sweeting (Chair) ³ Professor J Brooks Ms R Girardet Mr P Greenwood Dr B Tarling Dr G Walker	Prof M Kellett ⁸ Prof T Blackman ⁹ Mr J D'Arcy 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.

Remuneration Committee	Mrs R Lock (Chair) Mr R Gillingwater ² Mr M Sweeting ³ Professor J Brooks Mr S Begbie ⁴ Mrs C Stockmann ² Mr R McCracken ⁷		
-------------------------------	---	--	--

The University has regard to the CUC Higher Education Senior Staff Remuneration code. 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 for all universities.

Strategic Planning and Resources Committee	Mr R Gillingwater ² Mr M Sweeting ³ Mrs C Stockmann ² Ms M Galliers ⁵ Mr S Begbie ⁶ Professor J Brooks Dr B Tarling Mr R McCracken ⁷	Prof M Kellett ⁸ (Chair) Prof T Blackman ⁹ Dr J Byford ¹ Dr R Heffernan ¹ Mr T Parry ¹ Professor J Wolffe [*]	
---	---	--	--

In respect of its strategic and development responsibilities, the Council receives recommendations and advice from the Strategic Planning and Resources Committee, a joint committee of the Council and of the Senate, the body responsible for the University's academic affairs.

¹ From 28 September 2018 ² To 31 December 2018 ³ From 1 January 2019 ⁴ 1 January to 31 July 2019
⁵ From 5 March 2019 ⁶ To 31 July 2019 ⁷ From 1 August 2019 ⁸ To 30 September 2019
⁹ From 01 October 2019

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.

Committee Remit and Membership (continued)

	Members of Council	Employees	Other External Members
Finance Committee	Mrs C Stockmann (Chair) ¹ Mr S Begbie (Acting Chair) ² Mr R McCracken (Chair) ⁶ Mr S Begbie ¹ Mr R McCracken ⁵ Mr R Gillingwater ¹ Mr M Sweeting ³ Mrs M E Curnock Cook	Prof M Kellett ⁷ Prof T Blackman ⁸	Mr R McCracken ⁴ Mr P Robert-Tissot

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

Investment Committee	Mr M Sweeting (Chair) ¹¹ Mr R McCracken (Chair) ¹⁰ Mr M Sweeting ¹⁰ Mrs C Stockmann ¹ Mr R Gillingwater ¹ Mr P Robert-Tissot Mr S Begbie ² Mr R McCracken ¹¹	Mr L J Holden ⁹ Mr P Traynor ¹⁰	Mrs C Banzky Mr B S Larkman Mr M B Moule Mr C A Wood
-----------------------------	--	--	---

The Investment Committee advises Finance Committee on the University's investment strategy, recommends appropriate funds and investment managers and monitors their performance.

¹ To 31 December 2018 ² From 01 Jan to 31 July 2019 ³ From 01 January 2019 ⁴ To 24 February 2019
⁵ From 25 February 2019 ⁶ From 1 August 2019 ⁷ To 30 September 2019 ⁸ From 01 October 2019
⁹ To 31 October 2019 ¹⁰ From 1 November 2019 ¹¹ From 01 Jan to 31 Oct 2019

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.

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:

Accounting policies	Are selected and applied consistently.
Judgements and estimates	Are reasonable and prudent.
Accounting standards	Are followed, subject to any material departures disclosed and explained in the financial statements.
Going concern basis	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 25 to 27 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:

Use funds properly	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.
Implement controls	Ensure that there are appropriate financial and management controls in place to safeguard public funds and funds from other sources.
Manage risks	Ensure that there are effective systems of risk identification and management that cover all risks, produce a balanced portfolio of risk exposure, are based on a clearly articulated policy and approach, are monitored and reviewed regularly, are integrated into normal business processes and aligned to the University's strategic objectives and are managed by heads of units and senior managers.
Safeguard assets	Safeguard the assets of the University and prevent and detect corruption, fraud, bribery and other irregularities.
Manage resources	Secure the economical, efficient and effective management of the University's resources and expenditure.

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:

Links to objectives	Linking the identification and management of risk to the achievement of institutional objectives through the annual planning process.
Evaluation of likelihood and impact	Evaluating the likelihood and impact of risks becoming a reality as part of that same process and establishing mitigating controls.
Review of procedures	Having review procedures that cover business, operational, compliance and financial risk.
Embedding the risk process	Embedding risk assessment and internal control processes in the ongoing operations of all units.
Reporting	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:

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

The Chief Auditor reported to the Audit Committee that in his opinion the arrangements for governance, risk management and internal control, 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 University financial statements (the "financial statements"):

- give a true and fair view of the state of the group's and of the University's affairs as at 31 July 2019 and of the group's and of the University's income and expenditure, gains and losses, 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 properly prepared in accordance with the requirements of the Statement of Recommended Practice – Accounting for Further and Higher Education and the requirements of the Office for Students' Accounts direction (OfS 2018.26); and
- 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).

We have audited the financial statements, included within the Financial Statements (the "Annual Report"), which comprise the Consolidated and University Statements of Financial Position as at 31 July 2019; the Consolidated and University Statements of Comprehensive Income, the Consolidated and University 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

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 University'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.

We have nothing to report in respect of the above matters.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's and University's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the group's and University's activities, students, suppliers and the wider economy.

Report on the audit of the financial statements (continued)

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, except to the extent otherwise explicitly stated in this report, 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 38 and 39, 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 control as they determine is 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 University'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 University 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. This description forms part of our auditors' report.

Report on the audit of the financial statements (continued)

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' and Research England's Audit Code of Practice issued under the Further and Higher Education Act 1992 (as amended)

In our opinion, in all material respects:

- funds from whatever source administered by the University 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 University's statutes; and
- funds provided by the OfS and Research England have been applied in accordance with the relevant terms and conditions, and any other terms and conditions attached to them.

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 University; or
- the University 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 2019

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) published in March 2014. The University is a public benefit entity and therefore has applied the relevant public benefit requirement of the applicable accounting standards. The accounting policies 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 2019.

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.

3 Recognition of Income (continued)

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 Provision

- 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 three schemes to provide retirement and death benefits for its employees, namely, the Universities Superannuation Scheme (USS), for a small number of staff the Federated Superannuation System of Universities (FSSU) a defined contribution scheme and, for employees of FutureLearn Limited, a wholly-owned subsidiary until 29 April 2019, 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 hypothecated 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 in full in USS 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 (15 years as at 31 July 2019). The scheme actuary reviews the funding of the USS every year and 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 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.

11 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	5 years
Motor vehicles	4 years
Computing equipment	3 years
Other equipment	3 years
Software packages	5 years

Costs relating to the purchase and implementation of software packages are capitalised as intangible assets.

Software development costs, in-house or outsourced, are charged to expenditure as incurred.

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).

12 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.

13 Investments

- Investments in subsidiaries are shown at cost.
- Investments in jointly controlled entities are accounted for at cost less impairment in the University financial statements.
- Sections 11 and 12 of FRS 102 have been adopted in full. Current asset investments, comprising funds held on deposit, in money market funds and in short-date UK government stocks (gilts), are recognised at cost less impairment; listed equity investments or investment funds are stated at fair value. Interest is accrued on a daily basis.

14 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.

15 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.

16 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 when formulating the consolidated financial position and results. 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. In determining and applying accounting policies, judgement is often required in respect of items where the choice of specific policy or decision about accounting assumptions or estimates could materially affect the reported results or net asset position of the Group. It may later be determined that a different choice would have been more appropriate.

Management considers that certain accounting estimates relating to provisions are its critical accounting estimates. A discussion of these critical accounting estimates is provided below and should be read in conjunction with the disclosure of the Group's significant accounting policies provided on the preceding pages from page 43. Management has discussed its critical accounting estimates and associated disclosures with its external auditors, its Finance Committee and its Audit Committee.

Accounting Estimates

Provisions

The Group has made two provisions in the financial statements, related to University restructuring costs and to the deficit recovery plan of the Universities Superannuation Scheme. The provision in respect of the Universities Superannuation Scheme is a critical accounting estimate.

Critical Accounting Estimates and Judgements (continued)

The costs to the University of the USS deficit recovery plan have been estimated based on a model devised by the USS and BUFDG. The deficit recovery plan will be revised in 2019/20 as a result of the latest actuarial valuation (2018 valuation), discussed on page 17.

The model uses the additional costs included in the deficit recovery plan, adjusts according to management judgement of estimated changes in staffing levels and pay increases, and is discounted based on corporate bond levels having a maturity of a similar length to the recovery plan. 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: current model

	Effect on total provision at 31 July 2019	Effect on Expenditure in year ended 31 July 2019	Notes
For every 1% increase in staff costs	Increase by £1.7m	Increase staff cost by £1.7m	The effect is reversed if staff costs decrease, and diminishes the further in the future the change occurs.
For every 0.1% increase in discount rate	Decrease by £1.4m	Decrease staff cost by £1.4m	The effect is reversed if discount rates decrease.

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.

	Note	Consolidated		University	
		Year Ended 31 July 2019 £m	Year Ended 31 July 2018 £m	Year Ended 31 July 2019 £m	Year Ended 31 July 2018 £m
Income					
Tuition fees and education contracts	1	301.2	271.0	301.2	271.0
Funding body grants	2	95.0	101.1	95.0	101.1
Research grants and contracts	3	13.6	14.3	13.6	14.3
Other income	4	29.0	25.5	23.0	15.6
Investment income	5	7.1	8.7	7.0	8.6
Donations and endowments	6	3.3	3.5	3.3	3.5
Total income		449.2	424.1	443.1	414.1
Expenditure					
Staff costs	7	416.1	304.2	403.4	293.0
Other operating expenses	8	135.6	137.3	138.0	137.6
Depreciation		6.7	6.9	6.7	6.9
Interest and other finance costs	9	1.8	1.5	1.8	1.5
Total expenditure		560.2	449.9	549.9	439.0
Deficit before other gains and losses		(111.0)	(25.8)	(106.8)	(24.9)
Gain on disposal of fixed assets		0.0	8.0	0.0	8.0
Share of deficit of joint venture		(1.4)	0.0	0.0	0.0
Deficit for the year before taxation		(112.4)	(17.8)	(106.8)	(16.9)
Taxation	10	0.3	(0.1)	0.0	0.0
Deficit for the year		(112.1)	(17.9)	(106.8)	(16.9)
Other comprehensive income					
Gain on deemed disposal of controlling interest in subsidiary	11	24.0	0.0	0.0	0.0
Total comprehensive expense for the year		(88.1)	(17.9)	(106.8)	(16.9)
Represented by:					
Endowment comprehensive income for the year		(0.3)	0.7	(0.3)	0.7
Restricted comprehensive income for the year		1.2	0.0	1.2	0.0
Unrestricted comprehensive expense for the year		(89.0)	(18.6)	(107.7)	(17.6)
Total comprehensive expense for the year		(88.1)	(17.9)	(106.8)	(16.9)

All amounts relate to continuing operations.
The accounting policies on pages 43 to 49 and the Notes on pages 54 to 78 form an integral part of these financial statements.

Consolidated	Income and Expenditure Reserve			
	Endowment £m	Restricted £m	Unrestricted £m	Total £m
Balance at 1 August 2018	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
Balance at 31 July 2019	2.0	1.3	348.0	351.3

University	Income and Expenditure Reserve			
	Endowment £m	Restricted £m	Unrestricted £m	Total £m
Balance at 1 August 2018	2.3	0.1	461.7	464.1
(Deficit) / Surplus for the year	(0.3)	1.2	(107.7)	(106.8)
Balance at 31 July 2019	2.0	1.3	354.0	357.3

The accounting policies on pages 43 to 49 and the Notes on pages 54 to 78 form an integral part of these financial statements.

	Note	Consolidated		University	
		As At 31 July 2019 £m	As At 31 July 2018 £m	As At 31 July 2019 £m	As At 31 July 2018 £m
Non-current assets					
Intangible assets	12	5.1	0.0	5.1	0.0
Tangible assets	13	241.6	247.9	241.6	247.9
Investments	14	22.6	0.0	31.5	31.3
Total Non-current Assets		269.3	247.9	278.2	279.2
Current Assets					
Stock		2.8	2.5	2.8	2.5
Trade and other receivables due within one year	15	42.1	36.1	31.7	26.3
Trade and other receivables due after one year	15	0.0	0.0	8.5	8.9
Gilts, equities and term deposits	16	203.8	169.4	203.8	169.4
Cash and cash equivalents		163.5	235.6	161.3	228.0
Total Current Assets		412.2	443.6	408.1	435.1
Less Creditors: amounts falling due within one year	17	100.9	124.1	102.2	122.9
Net Current Assets		311.3	319.5	305.9	312.2
Total Assets Less Current Liabilities		580.6	567.4	584.1	591.4
Less Creditors: amounts falling due after more than one year	18	60.5	60.5	60.5	60.5
Less provisions for liabilities	20	168.8	67.5	166.3	66.8
Total Net Assets		351.3	439.4	357.3	464.1
Restricted Reserves					
Income and expenditure reserve – endowments		2.0	2.3	2.0	2.3
Income and expenditure reserve – donations		1.3	0.1	1.3	0.1
Unrestricted Reserves					
Income and expenditure reserve – unrestricted		348.0	437.0	354.0	461.7
Total Reserves		351.3	439.4	357.3	464.1

The accounting policies on pages 43 to 49 and the Notes on pages 54 to 78 form an integral part of these financial statements, which were approved by Council on 26 November 2019 and signed on its behalf by:



R W SPEDDING
Chair of Audit Committee



L J HOLDEN
Group Finance Director



T BLACKMAN
Vice-Chancellor

	Year Ended 31 July 2019 £m	Year Ended 31 July 2018 £m
Cash flows from operating activities		
Deficit for the year before tax	(112.4)	(17.8)
Adjustment for non-cash items		
Depreciation	6.7	6.9
(Increase) / Decrease in stock	(0.3)	0.1
(Increase) / Decrease in debtors	(6.7)	1.1
(Decrease) / Increase in creditors	(24.3)	6.0
Increase in provisions	100.1	4.3
Share of deficit of joint venture	1.4	0.0
Adjustments for investing or financing activities		
Investment income	(7.1)	(8.7)
Interest payable	1.8	1.5
Endowment income	(0.2)	(0.8)
Profit on disposal of fixed assets	0.0	(8.0)
Capital grant income	(3.2)	(5.6)
Cash flows from operating activities	(44.2)	(21.0)
Taxation	0.3	(0.1)
Net Cash Outflow from Operating Activities	(43.9)	(21.1)
Cash flows from investing activities		
Proceeds from sales of fixed assets	0.0	15.4
Capital grants receipts	3.9	5.8
Investment income receipts	4.1	3.7
Payments made to acquire tangible assets	(0.5)	(0.8)
Payments made to acquire intangible assets	(3.9)	0.0
(Acquisition) / sale of gilts, equities and fixed-term deposits	(31.4)	67.5
Net cash (outflow) / inflow from investing activities	(27.8)	91.6
Cash flows from Financing Activities		
Interest paid	(0.6)	(0.4)
Endowment cash received	0.2	0.8
Net cash (outflow) / inflow from financing activities	(0.4)	0.4
(Decrease) / Increase in cash and cash equivalents in the year	(72.1)	70.9
	22	
Cash and cash equivalents at beginning of the year	235.6	164.7
Cash and cash equivalents at end of the year	163.5	235.6

The accounting policies on pages 43 to 49 and the Notes on pages 54 to 78 form an integral part of these financial statements.

1 Tuition Fees and Education Contracts: Consolidated and University

	Year Ended 31 July 2019 £m	Year Ended 31 July 2018 £m
Student fees – United Kingdom		
Taught Degrees:		
England	243.2	220.3
Scotland	18.2	16.0
Wales	8.9	6.7
Northern Ireland	6.1	4.7
Research Degrees	2.6	2.8
Total Student Fees – United Kingdom	279.0	250.5
Student Fees - Overseas	20.9	19.1
Research training support grants	1.3	1.4
Total Tuition Fees and Education Contracts	301.2	271.0

2 Funding Body Grants: Consolidated and University

	Year Ended 31 July 2019 £m	Year Ended 31 July 2018 £m
Recurrent grants		
Office for Students / UK Research & Innovation	51.4	57.5
Scottish Funding Council	22.5	22.1
Higher Education Funding Council for Wales	7.5	6.5
Department for the Economy (Northern Ireland)	5.4	5.3
Total Recurrent grants	86.8	91.4
Specific grants		
Office for Students / UK Research & Innovation	4.8	6.1
Scottish Funding Council	1.7	1.9
Higher Education Funding Council for Wales	1.7	1.7
Total Specific grants	8.2	9.7
Total Funding Body Grants	95.0	101.1

3 Research Grants and Contracts: Consolidated and University

	Year Ended 31 July 2019 £m	Year Ended 31 July 2018 £m
Research Councils	4.0	4.5
Other sources, including industrial companies	9.6	9.8
Total Research Grants and Contracts	13.6	14.3

4 Other Income

	Consolidated		University	
	Year Ended 31 July 2019 £m	Year Ended 31 July 2018 £m	Year Ended 31 July 2019 £m	Year Ended 31 July 2018 £m
Other grants and contracts	9.9	10.0	7.0	5.7
Validation fees	3.9	4.1	3.9	4.1
Other learning services	5.0	6.8	1.1	1.3
Other income	10.2	4.6	11.0	4.5
Total Other Income	29.0	25.5	23.0	15.6

5 Investment Income

	Consolidated		University	
	Year Ended 31 July 2019 £m	Year Ended 31 July 2018 £m	Year Ended 31 July 2019 £m	Year Ended 31 July 2018 £m
Change in value of equity-based funds	4.0	6.6	4.0	6.7
Interest receivable on gilts, bank deposits and money market funds	2.8	1.8	3.0	1.9
Interest on student loans	0.3	0.3	0.0	0.0
Total Investment Income	7.1	8.7	7.0	8.6

The change in value of equity-based funds comprises £3.8m of realised gains due to dividends received and reinvested in the fund and realised gains on market value, and £0.2m of unrealised gains which is the net movement in fair value of the funds during the year.

6 Donations and Endowments: Consolidated and University

	Year Ended 31 July 2019 £m	Year Ended 31 July 2018 £m
Unrestricted donations	1.8	2.6
New endowments	0.2	0.8
Restricted donations	1.3	0.1
Total Donations and Endowments	3.3	3.5

All endowments are held as cash.

7 Staff Costs

	Consolidated		University	
	Year Ended 31 July 2019 £m	Year Ended 31 July 2018 £m	Year Ended 31 July 2019 £m	Year Ended 31 July 2018 £m
Staff costs				
Salaries and other payments to employees	245.6	252.9	236.6	243.3
Social security costs	22.2	21.7	21.1	20.6
Pension costs - see Note 25	148.3	29.6	145.7	29.1
	416.1	304.2	403.4	293.0
Staff costs analysed by category of staff				
Core staff categories	319.5	223.4	306.8	212.6
Associate lecturers, residential school staff and examination marking fees	86.4	58.4	86.4	58.3
Other staff costs, including casual staff	8.5	9.0	8.5	8.7
Early retirement and voluntary severance	1.7	13.4	1.7	13.4
	416.1	304.2	403.4	293.0
Total Staff Costs	416.1	304.2	403.4	293.0

	Year Ended 31 July 2019	Year Ended 31 July 2018	Year Ended 31 July 2019	Year Ended 31 July 2018
Staff numbers expressed as average full-time equivalents during the year (including higher paid staff)				
Full-time and part-time staff at Milton Keynes, Wellingborough, national and regional centres	4,269	4,311	4,202	4,147
Associate lecturers and residential school staff	1,049	994	1,049	994
	5,318	5,305	5,251	5,141

7 Staff Costs (continued)

Remuneration of Higher Paid Employees

The Vice-Chancellor

In November 2018 the Acting Vice Chancellor, Professor Mary Kellett, was appointed to substantive role as Vice Chancellor. Professor Kellett retired from the University at the end of September 2019 and the new Vice Chancellor, Professor Tim Blackman, was appointed to the role beginning 1 October 2019.

Remuneration of the Vice-Chancellor	Year Ended 31 July 2019	Year Ended 31 July 2018	
	Vice-Chancellor Professor M Kellett	Acting Vice-Chancellor Professor M Kellett 13/04/18 to 31/07/18	Vice-Chancellor Mr P J G Horrocks 01/08/17 to 13/04/18
Basic Salary	£225,000	£39,000	£321,000
Acting Allowance	£45,000	£36,000	n/a
Accommodation Allowance	£27,000	£7,000	n/a
Performance Related Pay	Nil	Nil	Nil
Pension contributions (on substantive role only)	£42,000	£7,000	Nil
Taxable Benefit	Nil	Nil	£15,000
Non-taxable benefit (use of premises) ¹	Nil	Nil	£38,000
Compensation for loss of office:			
Severance Pay (including pay in lieu of notice)	n/a	n/a	£242,000
Legal advice costs	n/a	n/a	£13,200

Pay multiple – based on full-time equivalent multiple of median for all staff

Basic salary	6.8	6.7	9.0
Total remuneration	8.3	7.7	9.9

¹ The former Vice-Chancellor vacated the premises during the previous year 2017/18. It was used as a meeting and event venue in addition to being a residence for the former Vice-Chancellor. The Vice-Chancellor did not reside in the premises during the year 2018/19.

7 Staff Costs (continued)

Vice Chancellor Pay Justification

	Vice-Chancellor Professor M Kellett
Annual Salary	£270,000
Performance Related Pay	Eligible to be considered for discretionary merit award (based on previous year's performance)
Benefits	Pension: 18% to 19.5% employer contribution on substantive salary Annual accommodation allowance of £27,000
Salary Benchmark against UCEA ¹ data +£400m revenue higher education provider	Lower quartile
Salary Benchmark against CUC ² data +£400m revenue higher education provider	Lower quartile
Salary Benchmark against OfS data +£400m revenue higher education provider	Lower quartile
Context	Moved from Acting VC to substantive role in November 2018. Retired at the end of September 2019

¹ UCEA: Universities and Colleges Employers Association

² CUC: Committee of University Chairs

7 Staff Costs (continued)

Vice Chancellor Pay Justification (continued)

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 members against delivery of personal objectives and institutional performance.
- Institutional performance report - Institutional performance based on KPIs 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.

Remuneration Committee review performance outcome and consider overall institutional performance:

- Universities need to show that they are benchmarking against appropriate comparators. This is not easy for the Open University given its distinctive nature, but the use of UCEA data for large institutions and Russell Group comparators is justified by 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.

7 Staff Costs (continued)

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 13 members of the Vice-Chancellor's Executive (year ended 31 July 2018, 12 members). The total compensation for key management personnel for the year ended 31 July 2019 (including any severance payments and employers' pension contributions) was £2.3 million (year ended 31 July 2018, £3.1 million).

Compensation for loss of office

The total amount of compensation for loss of office payable across the University was £1.7 million for 70 staff. This includes a provision of £0.5 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 University, were:

	Consolidated		University	
	Year Ended 31 July 2019 Number	Year Ended 31 July 2018 Number	Year Ended 31 July 2019 Number	Year Ended 31 July 2018 Number
£100,000 - £104,999	3	3	3	1
£105,000 - £109,999	1	0	1	0
£110,000 - £114,999	3	3	3	1
£115,000 - £119,999	0	3	0	2
£120,000 - £124,999	1	0	1	0
£125,000 - £129,999	2	1	1	0
£130,000 - £134,999	1	5	1	5
£135,000 - £139,999	2	2	2	0
£140,000 - £144,999	2	0	2	0
£150,000 - £154,999	0	1	0	1
£155,000 - £159,999	0	1	0	1
£165,000 - £169,999	1	0	1	0
£175,000 - £179,999	0	1	0	1
£195,000 - £199,999	0	2	0	1
£200,000 - £204,999	1	0	1	0
£250,000 - £254,999	0	1	0	1
£270,000 - £274,999	1	0	1	0
	18	23	17	14

*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.

8 Other Operating Expenses

	Consolidated		University	
	Year Ended 31 July 2019 £m	Year Ended 31 July 2018 £m	Year Ended 31 July 2019 £m	Year Ended 31 July 2018 £m
Teaching materials and expenses	17.0	19.5	15.5	17.3
Student recruitment	20.4	22.2	19.9	21.9
Financial assistance, bursaries and prizes	10.6	9.8	10.6	9.8
Grants to Open University Students' Association	1.7	1.6	1.7	1.6
Provision for bad debts	0.0	0.2	0.0	0.2
Total Student Related Other Operating Expenses	49.7	53.3	47.7	50.8
Staff support and consumables	53.7	48.4	52.1	46.5
Equipment purchase, rental and lease	5.7	10.9	5.6	10.8
Repairs and maintenance	6.7	5.4	6.7	5.4
Academic resources and subscriptions	7.1	6.9	7.1	6.9
Estate utilities and services	5.4	5.2	5.4	5.2
Rent and rates	2.2	2.2	2.2	2.2
Broadcast media production	3.5	3.7	3.5	3.7
Auditors' remuneration - Group audit fees	0.2	0.1	0.1	0.1
Other expenses	1.4	1.2	7.6	6.0
Total Non-Student Related Other Operating Expenses	85.9	84.0	90.3	86.8
Total Other Operating Expenses	135.6	137.3	138.0	137.6

Included in the above are audit fees in respect of the University only of £0.1 million (year ended 31 July 2018, £0.1 million) and its subsidiaries of an aggregate of £0.02 million (year ended 31 July 2018, £0.03 million). Fees paid to the auditors for non-audit services totalled £nil (year ended 31 July 2018, £0.01 million).

The total expenses paid to or on behalf of the members of Council in the year was £0.01 million (year ended 31 July 2018, £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 £1.6 million (year ended 31 July 2018, £1.7 million), comprising £1.3 million property leases (2017/18: £1.3 million) and £0.3 million plant and machinery (2017/18: £0.4 million).

9 Interest Payable and Other Finance Costs

	Consolidated		University	
	Year Ended 31 July 2019 £m	Year Ended 31 July 2018 £m	Year Ended 31 July 2019 £m	Year Ended 31 July 2018 £m
Finance charge on USS deficit provision (Note 20)	1.2	1.1	1.2	1.1
On loans not wholly repayable within 5 years	0.6	0.4	0.6	0.4
Total Interest Payable and Other Finance Costs	1.8	1.5	1.8	1.5

10 Taxation

	Consolidated		University	
	Year Ended 31 July 2019 £m	Year Ended 31 July 2018 £m	Year Ended 31 July 2019 £m	Year Ended 31 July 2018 £m
Foreign taxes	0.0	0.1	0.0	0.0
Deferred Tax	(0.3)	0.0	0.0	0.0
Total Taxation (credit) / charge	(0.3)	0.1	0.0	0.0

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 Corporation Tax Act 2009 (CTA 2009) and Sections 471, and 478-488 of 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 any tax incurred is either expensed or capitalised according to the nature of the underlying expenditure.

Gain on Deemed Disposal of Controlling Interest in Subsidiary

10 Taxation (continued)

Tax Reconciliation	Consolidated		University	
	Year Ended 31 July 2019 £m	Year Ended 31 July 2018 £m	Year Ended 31 July 2019 £m	Year Ended 31 July 2018 £m
Deficit before taxation	(112.4)	(17.8)	(106.8)	(16.9)
Taxation at 19% (2018: 19%)	(21.4)	(3.4)	(20.3)	(3.2)
Deficit falling within charitable exemption	21.4	3.4	20.3	3.2
Deferred tax movement	(0.3)	0.0	0.0	0.0
Unrelieved overseas taxation	0.0	0.1	0.0	0.0
Tax (credit) / charge for the year	(0.3)	0.1	0.0	0.0

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

	Year Ended 31 July 2019 £m	Year Ended 31 July 2018 £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	48.0	0.0
Total value of enhanced assets post deemed disposal of controlling interest	48.0	0.0
50% Share of enhanced assets post deemed disposal of controlling interest	24.0	0.0
Less book value at disposal	0.0	0.0
Gain on Deemed Disposal of Controlling Interest in Subsidiary	24.0	0.0

On 29 April 2019 the University secured co-investment in FutureLearn Ltd. As a result there is a deemed disposal of the controlling interest in the subsidiary reported in the consolidated accounts. 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 is no gain reported within the University as the investment in FutureLearn is held at cost less impairment.

Tangible Assets

12 Intangible Assets: Consolidated and University

	Year Ended 31 July 2019 £m	Year Ended 31 July 2018 £m
Assets in the course of construction		
Cost at 1 August 2018	0.0	0.0
Additions	5.1	0.0
at 31 July 2019	5.1	0.0

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

13 Tangible Assets: Consolidated and University

	Land and Buildings £m	Equipment £m	Asset under Construction £m	Total £m
Cost and valuation				
At 1 August 2018	271.9	15.3	0.0	287.2
Additions	0.2	0.1	0.1	0.4
Disposals	0.0	0.0	0.0	0.0
At 31 July 2019	272.1	15.4	0.1	287.6
Accumulated Depreciation				
At 1 August 2018	24.5	14.8	0.0	39.3
Charge for the year	6.3	0.4	0.0	6.7
Disposals	0.0	0.0	0.0	0.0
At 31 July 2019	30.8	15.2	0.0	46.0
Net book amount				
At 31 July 2019	241.3	0.2	0.1	241.6
At 31 July 2018	247.4	0.5	0.0	247.9

At 31 July 2019 land and buildings included £39.7 million (31 July 2018, £39.7 million) in respect of freehold land which is not depreciated.

The unamortised value of OfS capital grants amounted to £48.1 million (31 July 2018, £53.3 million). In the event that the related assets were either to be sold or ceased to be used for the provision of publically 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.

14 Investments

	Consolidated		University	
	Year Ended 31 July 2019 £m	Year Ended 31 July 2018 £m	Year Ended 31 July 2019 £m	Year Ended 31 July 2018 £m
Investments in Subsidiaries (a)	0.0	0.0	1.5	31.3
Investment in Joint Venture (b)	22.6	0.0	30.0	0.0
Total Investments	22.6	0.0	31.5	31.3

	As At 31 July 2019 £m	As At 31 July 2018 £m
	(a) Investments in Subsidiaries	
FutureLearn Limited	0.0	29.8
Open University Student Budget Accounts Limited	1.0	1.0
Open University Worldwide Limited	0.3	0.3
Total ordinary shares in wholly-owned subsidiary companies	1.3	31.1
Long-term loans		
Open University Worldwide Limited	0.2	0.2
Total long-term loans	0.2	0.2
Total Investments in Subsidiaries	1.5	31.3

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

The University's subsidiaries are: Open University Student Budget Accounts Limited (OUSBA), Open University Worldwide Limited (OUW) and, until 29 April 2019, FutureLearn Limited.

Open University Student Budget Accounts Limited is registered in England and Wales and was established to provide students with a deferred payment facility. Around 4.5% 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.

14 Investments (continued)

	Consolidated		University	
	Year Ended 31 July 2019 £m	Year Ended 31 July 2018 £m	Year Ended 31 July 2019 £m	Year Ended 31 July 2018 £m
(b) Investment in Joint Venture				
at 1 August 2018	0.0	0.0	0.0	0.0
Valuation at initial recognition of joint venture (see Note 11)	24.0	0.0	30.0	0.0
Share of deficit of joint venture	(1.4)	0.0	0.0	0.0
Investment in Joint Venture at 31 July 2019	22.6	0.0	30.0	0.0

On 29 April 2019 The University signed a deal with SEEK Ltd. resulting in joint ownership of FutureLearn Ltd, the University's social learning platform. 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 massive open online courses (MOOCs) on behalf of a number of leading international universities, including The Open University. Our partnership with SEEK will take our mission to make education open for all, into new parts of the world.

15 Trade and Other Receivables

	Consolidated		University	
	As At 31 July 2019 £m	As At 31 July 2018 £m	As At 31 July 2019 £m	As At 31 July 2018 £m
Amounts falling due within one year				
Student Loans Company	6.3	5.8	6.3	5.8
Students' loan accounts with Open University Student Budget Accounts Limited	6.5	6.9	0.0	0.0
Fee debtors	3.5	3.1	3.5	3.1
Amounts due from subsidiaries	0.0	0.0	0.5	1.5
Amounts due from joint venture	0.8	0.0	0.8	0.0
Other debtors and accrued income	16.7	15.3	12.4	11.2
Prepayments	8.3	5.0	8.2	4.7
Total due within one year	42.1	36.1	31.7	26.3
Amounts falling due after one year				
Amounts due from subsidiaries	0.0	0.0	8.5	8.9
Other debtors	0.0	0.0	0.0	0.0
Total falling due after one year	0.0	0.0	8.5	8.9

The Student Loans Company pays students' loans for their fees directly to the University in three instalments.

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

The University finances Open University Student Budget Accounts Limited and Open University Worldwide Limited, through long-term loans that are due for repayment or review in 2027. As at 31 July 2019, Open University Student Budget Accounts Limited had an outstanding loan amount of £5.6 million at an interest rate equal to 1% over base rate (31 July 2018, £6.0 million).

As at 31 July 2019, Open University Worldwide Limited had an outstanding loan amount of £2.9 million at an interest rate equal to 1% over base rate (31 July 2018, £2.9 million). Under the loan agreement, Open University Worldwide Limited is required to lend back to the University at the same interest rate any surplus funds, as disclosed in Note 17.

An allowance for bad or doubtful debts of £2.0 million has been included (31 July 2018, £1.6 million).

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

16 Gilts, Equities and Term Deposits: Consolidated and University

	As At 31 July 2019 £m	As At 31 July 2018 £m
Equity-based funds	87.4	83.3
UK gilt edged stock	41.4	61.1
Fixed-term deposits maturing in one year or less	75.0	25.0
Total Gilts, Equities and Term Deposits	203.8	169.4

The University holds tradeable Treasury gilts with a redemption date of less than five years. At 31 July 2019 the weighted average redemption yield was 1.33% (year ended 31 July 2018, 1.39%) and the weighted average period to maturity was 313 days (year ended 31 July 2018, 553 days).

In January 2014, an initial investment of £40.0m was made in each of two funds that invest largely in equities. In the year ending 31 July 2018, a portion of the funds were sold which resulted in the realisation of £28.6 million of gains that were recognised in previous years. The market value of the equity-based investments at 31 July 2019 was £87.4 million (31 July 2018, £83.3 million), a net increase of £4.0 million. This comprises an increase in book cost of £3.8 million as a result of dividends received plus realised changes in market value and a net increase in fair value determined with reference to the quoted market price at 31 July 2019 of £0.2 million. These changes are included above and in the income and expenditure account, and shown in Note 5.

Fixed-term deposits with more than 3 months to maturity at inception are held with banks and building societies operating in the London market and licensed by the Financial Conduct Authority. The interest rates for these deposits are fixed for the duration of the deposit at time of placement. At 31 July 2019 the weighted average interest rate of these fixed-rate deposits was 0.97% per annum (31 July 2018, 0.63% per annum) and the remaining weighted average period for which the interest rate is fixed on these deposits was 94 days (31 July 2018, 92 days). The fair value of these deposits and gilts was not materially different from the book value. Fixed-term deposits of 3 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 15.

20 Provisions for Liabilities

	Obligation to fund USS deficit £m	Restructuring £m	Total £m
Consolidated			
At 1 August 2018	56.7	10.8	67.5
Increase in provision	112.8	0.5	113.3
Unwind of finance charge	1.2	0.0	1.2
Utilised in year	(2.9)	(9.5)	(12.4)
Release of provision	0.0	(0.8)	(0.8)
At 31 July 2019	167.8	1.0	168.8
University			
At 1 August 2018	56.0	10.8	66.8
Increase in provision	110.9	0.5	111.4
Unwind of finance charge	1.2	0.0	1.2
Utilised in year	(2.8)	(9.5)	(12.3)
Release of provision	0.0	(0.8)	(0.8)
At 31 July 2019	165.3	1.0	166.3

The obligation to fund the past deficit on the Universities Superannuation Scheme (USS) arises from the contractual obligation with USS to 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 February 2019. The weighted average discount factor that has been applied over the remainder of the deficit recovery plan is 1.58% (31 July 2018, 2.16%).

The adoption of the new deficit recovery plan following the 2017 actuarial valuation has given rise to a significant increase in the Group deficit provision which has increased from £56.7 million to £167.8 million. More details on the 2017 actuarial valuation are set out in Note 25.

Since the year end, following the completion of the 2018 actuarial valuation, a new deficit recovery plan has been agreed of which more detail is given in Note 25. As at 31 July 2019 using a discount factor of 1.38% reflecting the shorter period of the deficit recovery plan and with other assumptions used to calculate the provision unchanged, this would have resulted in a revised provision of £99.0 million, a decrease of £68.8 million from the current year end provision.

The restructuring provision of £1.0 million comprises £0.5 million new provision for the ongoing strategic change programme and £0.5 million from last year's provision due to contract extension of staff on the voluntary severance scheme. The total provision is expected to be fully utilised by 31 July 2020.

21 Endowment Funds: Consolidated and University

	Restricted Permanent £m	Restricted Expendable £m	2019 Total £m	2018 Total £m
At 1 August 2018				
Capital	0.1	1.5	1.6	1.6
Accumulated income	0.0	0.7	0.7	0.0
Total balance at 1 August 2018	0.1	2.2	2.3	1.6
Additions	0.0	0.2	0.2	0.8
Expenditure	0.0	(0.5)	(0.5)	(0.1)
	0.0	(0.3)	(0.3)	0.7
At 31 July 2019	0.1	1.9	2.0	2.3
Balance at 31 July represented by:				
Capital	0.1	2.2	2.3	1.6
Accumulated income	0.0	(0.3)	(0.3)	0.7
Total	0.1	1.9	2.0	2.3

22 Reconciliation of Cash Flow to Statement of Financial Position: Consolidated

	At 1 August 2018 £m	Cash Flows £m	Non cash Movements £m	At 31 July 2019 £m
Cash at bank and in hand	235.6	(72.1)	0.0	163.5
Gilts, fixed-term deposits and equities	169.4	31.4	3.0	203.8
Loans	(60.5)	0.0	0.0	(60.5)
Total	344.5	(40.7)	3.0	306.8

Non-cash movements comprise the increase in value of equity investments of £4.0 million (Note 5), offset by the adjustment for the amortisation of gilt holdings of £1.0 million.

23 Lease Obligations

During the year ended 31 July 2019, the Group recognised £1.6 million (year ended 31 July 2018, £1.7 million) expense 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 2019 £m	Year Ended 31 July 2018 £m
Payable during the year	1.6	1.7
Future minimum lease payments due:		
Not later than one year	1.4	1.8
Later than one year and not later than five years	4.7	5.0
Later than five years	3.2	4.3
Total lease payments due	9.3	11.1

24 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 8.

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 2019 are as follows:

	Income from related party £m	Expenditure to related party £m	Balance due from related party £m	Balance due to related party £m
FutureLearn Ltd (with effect from 29 April 2019)	0.5	0.0	0.8	0.0
Total	0.5	0.0	0.8	0.0

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.

25 Pension Schemes

The University participates in the Universities Superannuation Scheme (USS), a defined benefit scheme which was contracted out of the State Second Pension (S2P) up to 5 April 2016. The assets of the scheme are held in a separate fund administered by the trustee, Universities Superannuation Scheme Limited. 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. Employees of FutureLearn Limited, a previously wholly-owned subsidiary until 29 April 2019, are members of a defined contribution scheme.

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 2018, £0.3 million).

Defined Benefit Scheme

The University participates in the Universities Superannuation Scheme (USS), a defined benefit scheme which is externally funded. 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 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 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.

25 Pension Schemes (continued)

USS triennial actuarial valuation

The latest triennial actuarial valuation that is included in the Statement of Financial Position (page 52) and in Note 20 and this Note reports on the scheme as at 31 March 2017. This is the fourth 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 at 31 March 2017 was £60.0 billion and the value of the scheme's technical provisions was £67.5 billion indicating a deficit of £7.5 billion and a funding level of 89%.

The level of the scheme deficit has led to changes in the deficit recovery plan, and this in turn effects the provision shown in the Financial Statements.

	2014 Valuation	2017 Valuation
Entire USS Scheme		
Total Assets	£41.6 billion	£60.0 billion
Total Liabilities	£46.9 billion	£67.5 billion
Scheme Deficit	£5.3 billion	£7.5 billion
Funding level	89%	89%
Open University Group		
Provision	£56.7 million	£167.8 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 2019 was 1.58% (31 July 2018, 2.16%), and the total provision at 31 July 2019 was £167.8 million (31 July 2018, £56.7 million). The provision for the deficit is shown in Note 20.

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 2017 triennial valuation was carried out using the projected unit method. The assumptions which have the most significant effect on the result of the valuation are on the table in the next page.

25 Pension Schemes (continued)

Assumptions used in the triennial valuation

Valuation rate of interest	Years 1-10: CPI – 0.53% reducing linearly to CPI – 1.32% Years 11-20: CPI + 2.56% reducing linearly to CPI + 1.7% by year 21 Years 21 +: CPI + 1.7%
Pension increases	Term dependent rates in line with the difference between the Fixed Interest and Index Linked yield curves, less 1.3% p.a.
Life expectancy at age 65 (currently aged 65)	Male: 24.6 years Female: 26.1 years
Life expectancy at age 65 (currently aged 45)	Male: 26.6 years Female: 27.9 years

Employer and Employee contributions

As part of the 2017 valuation, the trustees determined, after consultation with the employers, a recovery plan to pay off the shortfall by 30 June 2034. Following the completion of the 2018 valuation the deficit recovery plan has been amended. The additional funding required to fund both the deficit and the ongoing future costs are collected through increased employer and employee contributions.

The contributions following the 2017 valuation are as follows:

Period	Employers	Employees
To 31 March 2019	18%	8%
1 April 2019 to 30 September 2019	19.5%	8.8%
1 October 2019 to 31 March 2020	22.5%	10.4%
1 April 2020 onwards	24.2%	11.4%

The total pension cost for the University was £145.7 million (year ended 31 July 2018, £29.6 million). This includes £3.2 million outstanding contributions as at 31 July 2019 (year ended 31 July 2018, £2.8 million). The total pension cost is after a £108.1 million debit related to adjustments to the USS deficit provision (year ended 31 July 2018, a credit of £3.2 million)

25 Pension Schemes (continued)

2018 Valuation (not included in the Financial Statements)

A further full valuation was completed on 16 September 2019, which reported the scheme as at 31 March 2018. This showed assets of £63.7 billion, technical provisions of £67.3 billion and a scheme deficit of £3.6 billion and a funding level of 95%. This valuation is not reflected in these financial statements as it was completed after the end of the financial year.

As at 31 July 2019, using a discount factor of 1.38%, reflecting the shorter period of the deficit recovery plan, but with other assumptions used to calculate the provision unchanged, this results in a revised provision of £99.0 million, a decrease of £68.8 million from the reported provision.

The contributions following the 2018 valuation are as follows:

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

BAME	Black Asian and Minority Ethnic
CPI	Consumer Price Index
CUC	Committee of University Chairs
DfE	Department for the Economy (Northern Ireland)
EBITDA	Earnings Before Interest, Tax, Depreciation and Amortisation
ELQ	Equivalent or Lower Qualification
ESRC	Economic and Social Research Council
FRS	Financial Reporting Standard
FSSU	Federated Superannuation System of Universities
FTE	Full-Time Equivalent
HEA	Higher Education Academy
OfS	Office for Students
HEFCW	Higher Education Funding Council for Wales
HEI	Higher Education Institution
HEIF	Higher Education Innovation Fund
HMRC	Her Majesty's Revenue and Customs
MOOCs	Massive Open Online Courses
NCTL	National College for Teaching and Leadership
NEST	National Employment Savings Trust
OURSP	Open University Retirement Solution Plan
OUSA	Open University Students Association
OUSBAL	Open University Student Budget Accounts Limited
OUW	Open University Worldwide Limited
QAA	Quality Assurance Agency
REC	Race Equality Charter
REF	Research Excellence Framework
RPI	Retail Price Index
SAAS	Student Awards Agency Scotland
SFC	Scottish Funding Council
SLC	Student Loans Company
SORP	Statement of Recommended Practice
SPRC	Strategic Planning and Resources Committee
TEF	Teaching Excellence Framework
UCU	University and College Union
USS	Universities Superannuation Scheme

**Independent
Auditors**

[PricewaterhouseCoopers LLP](#)
Chartered Accountants and Registered Auditors
Exchange House
Central Business Exchange
Midsummer Boulevard
Milton Keynes MK9 2DF

Bankers

[National Westminster Bank](#)
1st Floor Silbury House
300 Silbury Boulevard
Milton Keynes MK9 2AZ

Fund Managers

[Baillie Gifford](#)
Calton Square
1 Greenside Row
Edinburgh EH1 3AN

[BlackRock Investment
Managers](#)
33 King William Street
London EC4R 9AS

[Insight Investment
Management Ltd](#)
33 Old Broad Street
London EC2N 1HZ

[Ruffer LLP](#)
80 Victoria Street
London SW1E 5JL

[Legal and General Investment
Management Ltd](#)
One Coleman Street
London EC2R 5AA

Solicitors

[Anderson Law LLP](#)
76 Wallingford Road
Shillingford
Oxfordshire OX10 7EU

[Eversheds LLP](#)
Senator House
85 Queen Victoria Street
London EC4V 4JL

[Lightfoots LLP](#)
1 – 3 High Street
Thame
Oxfordshire OX9 2BX

[Shoosmiths LLP](#)
1st Floor
Witan Gate House
500-600 Witan Gate West
Milton Keynes MK9 1SH

Taxation Advisors

[KPMG LLP](#)
St James Square
Manchester M2 6DS

