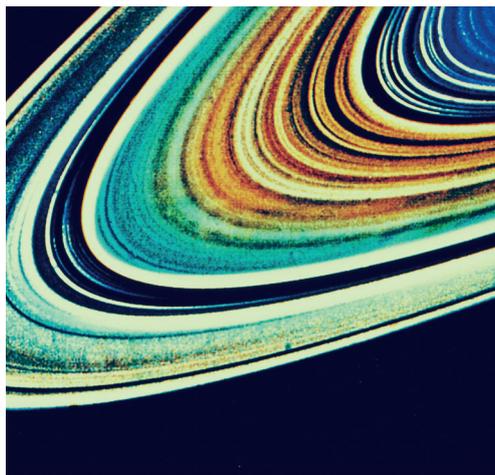
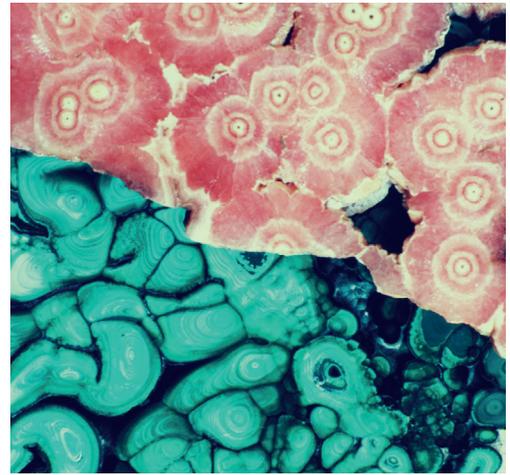
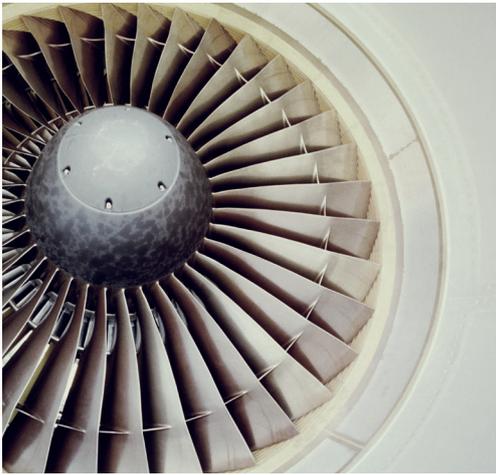




The Open
University

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 JULY 2018



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The Open University Financial Statements 2018

Highlights

Results, Cash Flows, Assets and Reserves

Year Ended
31 July 2018
£m

Year Ended
31 July 2017
£m



Total Income

Tuition fees and education contracts
Funding body grants
Research grants and contracts
Income from other sources

424.1

426.7

271.0

261.2

101.1

114.2

14.3

14.9

37.7

36.4



Total Expenditure

449.9

421.2



(Deficit) / Surplus for the Year After Taxation

(17.9)

9.8



Adjusted (Deficit) / Surplus from Operating Activities (see page 9)

(5.2)

(2.4)



Net Current Assets

319.5

318.5



Total Reserves

439.4

457.3

Other Key Statistics



Total number of students

174,898

173,927

Number of full-time equivalent students

64,914

65,724

Percentage of UK undergraduate students receiving at least
some financial support for their tuition fees

76

70

Percentage of students satisfied with the quality of their course
(taken from the respondents to the National Student Survey)

87

86

The Open University Financial Statements 2018

Highlights

The Open University has spent almost 50 years inspiring learning and creating higher educational opportunities with no barriers to entry. We continue to demonstrate excellence in research and teaching and achieve enormous reach through use of open access educational resources and our partnership with the BBC.

Key highlights of the year included:



Growing our attractiveness to students

We increased the number of students studying with us to a level last seen in 2013/14.
We improved our student satisfaction score in the 2018 National Students Survey.



Gaining external endorsement of the excellence of our teaching and learning

We secured continuance of triple accreditation for our MBA, keeping us in the top 1% globally.
We have excelled in all our professional programme reaccreditations and quality assurance assessments.



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 grew our Massive Open Online Courses, provided through the University's subsidiary company, FutureLearn Limited, to 20.6 million registrations from 8.2 million learners across the world, and introduced a more sustainable financial model for the company.

We increased learner take-up on our Badged Open Courses for learners who want to develop their study skills whilst wanting recognition, with more than 110,000 enrolments by July 2018.

We have established and are growing Higher Level Apprenticeships, having delivered three Higher Level Apprenticeship qualifications in England in 2017, and extending to seven in 2018.



Enhancing our multiple media channels

Use of our multiple media channels continues to grow. Total downloads from The Open University iTunes U service reached 72 million, video views of Open University content on YouTube reached 50 million, and there were 7.8 million unique visits to the University's open educational resource website, OpenLearn.

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 including *Blue Planet II*, *The Prosecutors* and *The NHS at 70* on television, and *All in the Mind* and *The Global Philosopher* on radio.



Extending our global footprint

We continue to work in partnership with international development agencies to deliver life-changing educational programmes across three continents.



Building for our future

We commenced an ambitious and far reaching programme of strategic change to enhance our students' experience and interaction with the University, and to upgrade and improve our student facing support systems and processes. Despite the considerable challenges that arose from this during the year, and a review and reset of the programme following the change in the University's leadership last April, the University has re-affirmed its strong commitment to the need for strategic change. We have re-focused our priorities, and are confident that we end the year in positive spirit and good shape to take The Open University forward for our students into our 50th year.

Introduction from Professor Mary Kellett, Acting Vice-Chancellor

The Open University is an innovative, unique global university; open to people, places, methods and ideas.

We are the only UK University to have a significant presence in all four nations. Whilst students in England represent the majority of our student population, we also have a strong presence in Scotland, Wales and Northern Ireland, and students based in over 100 countries around the world.

The current funding of part-time education in England, alongside an increase in competitor on-line study offerings, has had a significant impact on The Open University's undergraduate student numbers. Although we have more students taking loans from the Student Loans Company (SLC) in England than any other higher education institution, many of our students are not eligible for this support. This can be for a number of reasons; they are not studying for a full qualification, are non-UK resident or, in England, are studying for an equivalent or lower qualification than one they already hold. Consequently, from 2012 onwards we expected to see a drop in our student numbers.

Despite our share of the part-time market increasing, the overall decline to date was in line with what was forecast. This meant that, without further action, the University would find it challenging to achieve the financial strategy targets required for financial sustainability.

2017/18 was the final year when the University received transitional funding in England for those students who began their studies under the previous funding regime, alongside students paying the higher non-grant supported tuition fee and, in some cases being eligible to apply for funding from the Student Loans Company.

Given this somewhat turbulent background, it is really encouraging to see growth in the headcount number of total students in 2017/18. I believe that we can now expect student numbers to stabilise and, indeed, to grow in future.

In response to the consequences of the funding changes and coupled with our ambition to provide more opportunities for students to benefit from life-changing learning, we embarked on a major strategic change programme in 2017/18 with a clear focus on enhancing student success, improving operational efficiency and ensuring on-going financial sustainability. As part of this, we recognised the need to undertake a number of strategic cost reductions.

Following many years of prudent financial management, our strong balance sheet position enabled us to use some of our reserves to finance the one-off costs of strategic change. The deficit outturn reported for 2017/18 of £17.9m after taxation reflects this and is within the approved budget for this work.

Over the course of the year, it became apparent that the breadth, depth and pace of change presented significant challenges to the University's capacity and preparedness to deliver. With the departure of former Vice-Chancellor, Peter Horrocks, in April 2018, and my subsequent appointment as Acting Vice-Chancellor, I took the opportunity to review the change programme; ultimately resetting and refocussing our approach while reaffirming our commitment to The Open University's mission; with student success at its heart.

The Open University story, first written half a century ago, has transformed millions of lives, with the power to transform millions more, and I approach our 50th birthday with pride and optimism for the future.



Mission

As part of the strategic review of the University during 2017/18, and thinking ahead to our 50th Anniversary in 2019 and beyond, we have strongly re-affirmed our commitment to our existing mission, which is:

The Open University is open as to

People	Making university study available to a large and diverse body of students and providing learning opportunities that meet individuals' lifelong needs.
Places	Providing learning opportunities in the home, workplace and community throughout the United Kingdom and elsewhere, and serving an increasingly mobile population.
Methods	Using and developing the most effective media and technologies for learning, teaching and assessment, whilst attaching central importance to the personal academic support given to students, and working collaboratively with others to extend and enrich lifelong learning.
Ideas	Developing a vibrant academic community that reflects and supports the diversity of intellectual interests of all students and staff, and that is dedicated to the advancement and sharing of knowledge through research and scholarship.

Strategic Plan

The University launched its current strategic plan in May 2016, building on its strong track record of delivering genuine social and economic benefit for students, employers and society across the UK and beyond. The vision for this strategy is "to reach more students with life-changing learning that meets their needs and enriches society".

During 2017/18 the University developed the strategic plan and broadened its ambition in terms of scope and scale. This consequently increased the demands upon the University, particularly in terms of capacity and immediate capability to progress the plan. Following management and governance discussion, and the change of senior leadership in April 2018, the University undertook a review and reset of the strategic plan, drawing on widespread engagement with University staff, and has updated the articulation of the strategic priorities - confident in its renewed focus. We remain steadfast in our distinctive mission and fundamentally committed to our core values of being inclusive, innovative and responsive. We have also confirmed a continued commitment to the strategic vision. The key outcomes of the refresh process are a clearer definition of the University's strategic priorities and a more focused set of key activities to be undertaken to enable their achievement.

The key strategic priority for the Open University continues to be **student success**. 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)

The University has prioritised a number of pan-University student success initiatives for rapid impact, in addition to ongoing work embedded in faculties and units.

The focus on student success is underpinned by a set of related 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 cost base, to ensure our financial sustainability, headroom for re-investment back into the University, and value for our students
- 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. Performance against these is scrutinised by the University Council on at least an annual basis and supplemented by a wider range of leading indicators scrutinised by the Vice-Chancellor's Executive on a monthly basis.

Significant progress was made during 2017/18 in these priority areas. In particular, initiatives were designed and trialled to help more students complete modules of study and make future progress in accordance with their study intentions, and to enhance their career and employability prospects. In addition, the University is nearing the completion of a procurement process to replace its core administration computer systems and is investing in our people and teams to support student success. Underpinning all of these is delivery of financial sustainability through strategic change and building a platform for future growth. The strategic change programme will run across several years, with benefits being progressively delivered and accumulated.

Public Value and Sources of Funding

The charitable aims of The Open University are set out in its Royal Charter: "...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.

The main direct beneficiaries of the University's operations are its undergraduate and postgraduate students, its apprenticeship students and their employers, and the recipients of its research. The benefits, which also have wider public impact deriving from the intrinsic value of education and the development of knowledge and understanding, can be summarised in two strands:

Learning

⇒ p3, p16

The University had 174,898 students registered in 2017/18 and ranks highly in student satisfaction. A significant amount of learning material is made freely available through the internet using websites such as The Open University iTunes U service, 'YouTube', and the University's 'OpenLearn' platform, as well as through FutureLearn Limited.

Research

⇒ p17

The results of the vast majority of the research carried out by the University are published in the public domain and are freely available to all through Open Research Online – the University's Open Access repository of research publications and other research outputs. In 2017/18 1,192 research outputs were published.

Public Value and Sources of Funding (continued)

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 Open University are below the regulatory cap. Our students in England are liable for tuition fees of £5,728 per full-time equivalent, equating to £17,184 for an undergraduate degree, whilst our students in Scotland, Wales and Northern Ireland are liable for tuition fees of £1,916 per full-time equivalent, or £5,748 to complete an undergraduate degree. Other UK universities charge higher fees to overseas students who study in the UK, whereas The Open University teaches overseas students in the countries in which they are resident, either directly or in partnership with a range of educational and commercial organisations, at fee levels that are similar to England.

As a consequence 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. The ongoing process of devolution has led to a divergence in their funding arrangements, both in terms of grant funding for teaching, research and innovation, and financial support to students. Sources of assistance to students that are available across the UK with some nation variations include:

Disabled Students Allowance

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.

Access modules

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.

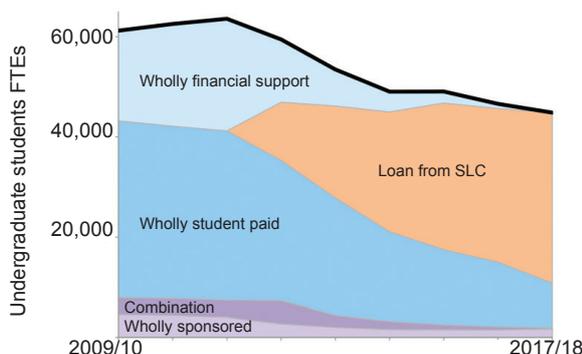
Deferred payment of tuition fees

The University’s wholly owned subsidiary, Open University Student Budget Accounts Limited, provides students with a deferred payment facility at a lower than market rate of interest. This offers an option for deferred payment for those not eligible, or not wanting, to use the Student Loans Company.

The main funding variations in each of the UK Nations are summarised below.

England

Student loans for tuition fees are available to undergraduate students who have not studied at an equivalent or higher level before (apart from a small number of exempted subjects), and are repayable in instalments only when earning over the income threshold – currently £25,000. Financial support for study-related costs is available to those earning less than £25,000 or those on benefits. Postgraduate maintenance loans are available to students studying an eligible masters qualification and are repayable in instalments only when earning over the income threshold – currently £21,000.



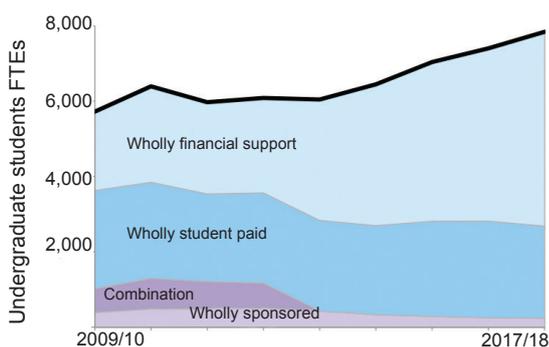
From 2018/19, the government in England is introducing part-time undergraduate maintenance loans, although availability of maintenance loans for undergraduate distance learning students has been deferred.

The chart shows how the funding in England has changed since 2009/10. In 2017/18 approximately 76% of undergraduate full-time equivalent students (FTEs) in England were funded by the SLC.

Public Value and Sources of Funding (continued)

Scotland

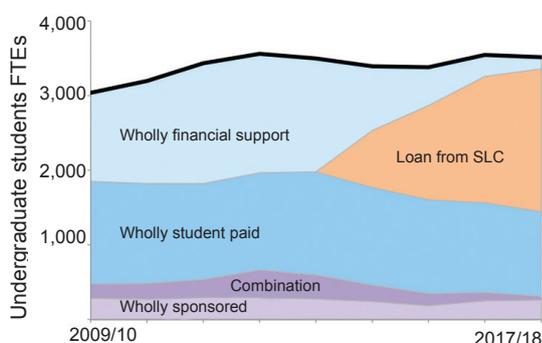
In Scotland, higher education remains free for full-time students from Scotland and other European Union countries outside the UK. The cost of teaching part-time students is met largely by the direct teaching grant to universities for part-time students but also through fees payable either by students or their employers. Part-time students can qualify for the Part-time Fee Grant towards the cost of their tuition fees.



68% of Open University undergraduate students in Scotland benefit from the Part-time Fee Grant to help towards the cost of their tuition fees. If their personal income is £25,000 or less, or they receive certain benefits, students can qualify for this grant to cover up to 100% of course tuition fees on eligible courses. Postgraduate masters and diploma courses are eligible for tuition fee loans of up to £5,500, spread over 2 or 3 years, from the Student Awards Agency Scotland (SAAS).

Wales

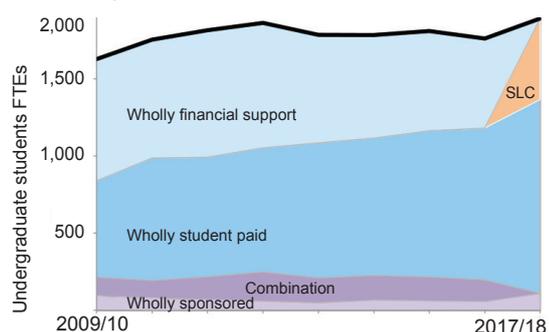
In Wales, up to 2013/14, funding was largely by grant and student fees; with effect from 2014/15, tuition fees have been funded by a mixture of grant, student loans from the SLC and fees paid direct by students. Students studying at an intensity of at least 25% of the full-time equivalent and who have not studied at an equivalent or higher level before, are eligible for a loan from the SLC. Approximately 54% of the Open University's undergraduate full-time equivalent students (FTEs) in Wales were funded by the SLC in 2017/18.



Undergraduate student loans are available only to those who have not studied at an equivalent or higher level before, apart from a small number of exempted subjects, and are repayable in instalments only when earning over the income threshold – currently £25,000. Students may also be eligible for a Course Grant between £50 and £1,155 if household income is below £28,180. Postgraduate maintenance loans are available on the same basis as England (see above). From 2018/19, the government in Wales is introducing new student support arrangements for both undergraduate and postgraduate students.

Northern Ireland

In Northern Ireland, the University continues to receive teaching and learning grants. The Department of the Economy has introduced fee loans for part-time students and for postgraduate study this year and approximately 28% of the Open University's undergraduate full-time equivalent students (FTEs) in Northern Ireland were funded by the SLC in 2017/18.



Many undergraduate students benefit from a means-tested fee grant of up to £1,230 to help towards the cost of their tuition fees. This grant support continues in parallel with the introduction of part-time loans in 2017/18. These are not means-tested, are available for undergraduate and post graduate courses to both new and existing students and can also be used by students eligible for fee grants to provide top-up funding where the course fee exceeds £1,230. Students may also be eligible for course grants of between £50 and £265 for other study-related costs.

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 FutureLearn Limited.

Financial Highlights and Results

The financial highlights are set out on page 2, showing a deficit for the year after taxation of £17.9 million, and an adjusted operating deficit for the year, which reflects the on-going day-to-day operations of the University, of £5.2 million.

This year is the sixth year under the new funding regime, and the final year of transitional funding, in England for those students who started their studies before the introduction of higher fees arising from the new regime. Since students in England comprise more than 77% of all students studying at the University, the continuing effects of the changes can be seen in the results for the year, most notably in the further increase in tuition fee income and the decrease in funding body grants.

During 2017/18 the University embarked on a significant programme of strategic change to ensure the University was business ready for the future, and able to move from an operating deficit position to an on-going financially sustainable position. This resulted in a programme of significant additional one-off spend to support the changes, starting in 2017/18 and likely to run for a further two to three years.

The operating deficit is derived by adjusting the reported deficit after tax, for the following items:

	Consolidated		University	
	Year Ended 31 July 2018 £m	Year Ended 31 July 2017 £m	Year Ended 31 July 2018 £m	Year Ended 31 July 2017 £m
(Deficit) / Surplus for the year after other gains and tax	(17.9)	9.8	(16.9)	15.5
USS deficit provision adjustments	(2.1)	(2.6)	(2.0)	(2.6)
Change in fair value of equity based funds	(4.9)	(8.8)	(4.9)	(8.8)
Gain on disposals of fixed assets	(8.0)	(4.4)	(8.0)	(4.4)
Restructuring and strategic change	27.7	3.6	27.7	3.6
Adjusted (Deficit) / Surplus from Operating Activities	(5.2)	(2.4)	(4.1)	3.3

The movement from a £2.4 million adjusted operating deficit in 2016/17 to an adjusted operating deficit of £5.2 million in 2017/18 is explained in more detail below:

	Year Ended 31 July 2018 £m	
Movements in operating income and expenditure		
2016/17	(2.4)	The increased operating deficit in 2017/18 was due mainly to an increase in expenditure in line with inflation, partly offset by a small increase in income compared to 2016/17. The income change was due to an increase in other income and donations, and to the increase in student fee income not being enough to offset the decrease in teaching grants.
Increase in Tuition Fee Income	9.8	
Decrease in Funding Body Grants	(13.1)	
Increase in Other Income and Donations	4.6	
Increase in Operating Staff Costs	(4.0)	
Increase in Operating Expenses	(0.1)	
2017/18	(5.2)	

Financial Review (continued)

Income

Income from all sources decreased by £2.6 million (0.6%) to £424.1 million

Tuition fee income

⇒ p49

Tuition fee income increased by £9.8 million or 3.8% to £271.0 million. The majority of the increase was for fees paid in respect of students in England, which increased by £6.9 million or 3.2% to £220.3 million.

Funding body grants

⇒ p49

Funding body grants decreased by £13.1 million or 11.5% to £101.1 million largely as a result of the reduction in recurrent grants from HEFCE/OfS; this decreased by £11.9 million or 17.1% to £57.5 million but still represents 63% of all recurrent grants from the various funding bodies. Total recurrent grants from other funding bodies increased by £0.1 million to £33.9 million, and specific grants from all funding bodies decreased by a total of £1.3 million to £9.7 million.

Research grants and contracts

⇒ p50

Income from research grants and contracts decreased by £0.6 million or 4% to £14.3 million.

Other income

⇒ p50

Other income increased by £4.3 million (20%) to £25.5 million, due largely to the income increase in FutureLearn Limited.

Investment income

⇒ p51

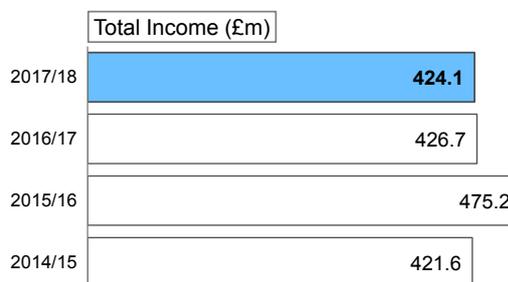
Investment income decreased by £4.3 million (33%) to £8.7 million. Following the sale of a portion of the equity based funds to crystallise a significant gain, the year-on-year increase in market value reduced by £3.9 million (37%) to £6.6 million.

Donations and endowments

⇒ p51

Income from donations and endowments increased by £1.3 million (59%) to £3.5 million.

Apart from 2015/16 when the University had a significant one-off VAT refund, the income levels have varied within a range of 1%, with tuition fee income increasing and funding body teaching grant decreasing as old regime (low fee) students in England complete their studies and new regime (high fee) students commence study.



Financial Review (continued)

Expenditure

Expenditure from all sources increased by £28.7 million (6.8%) to £449.9 million

Staff costs

➡ p52

Total staff costs increased by £17.3 million or 6.0% to £304.2 million, due largely to one-off staff costs in relation to restructuring and the Strategic change programme.

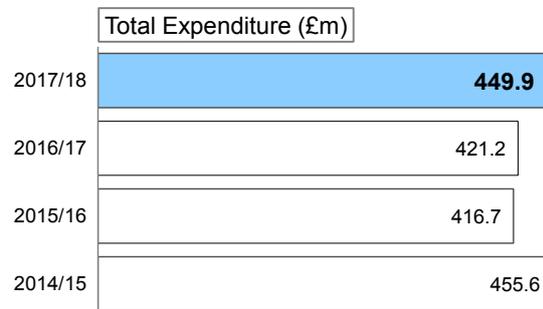
Non-staff costs

➡ p56, p57

Other (non-pay) operating expenses, depreciation and interest payable increased by a combined total of £11.4 million.

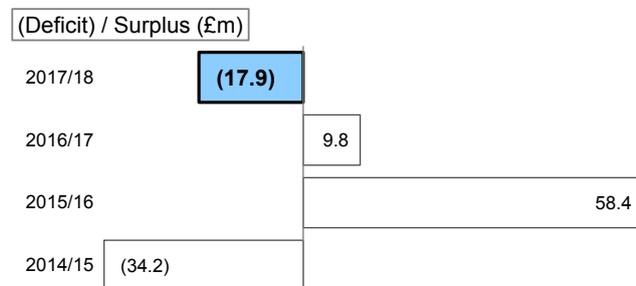
Cost pressures have been experienced over a number of years which the University has responded to through cost reduction programmes. The effect of this has been broadly to maintain operating expenditure in cash terms.

The increase in 2014/15 was principally due to the 2014 revaluation of the Universities Superannuation Scheme, and the increase in 2017/18 was principally due to expenditure associated with the strategic change programme.

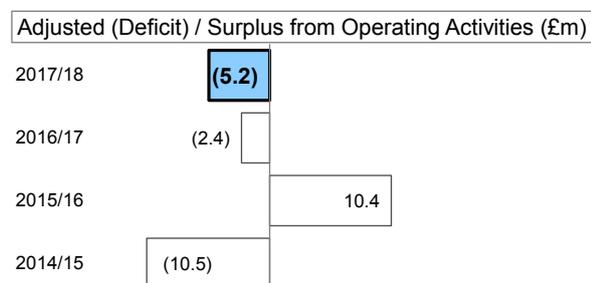


Outturn

Deficit after tax of £17.9 million compares to a surplus of £9.8 million last year.



Surpluses / (deficits) over the last four years are shown in the first chart and represent the reported outturn position. This includes recurrent operating income and expenditure for day-to-day university business and one-off non-operating income and expenditure, such as gains on sale of property, the costs of one-off strategic change activities and in 2015/16 the one-off VAT refund.



The second chart shows the adjusted surplus / deficit from operating activities and eliminates the main non-operational items across the years (see page 9). This is a better measure of underlying financial performance and is therefore one of the University's financial strategy measures. The University budgeted for an operating deficit in 2017/18 whilst it is embarking on strategic change which will enable it to move back into operational surplus.

Financial Review (continued)

Balance Sheet

 [p47, p59 to p66](#)

Tangible assets totalled £247.9 million at 31 July 2018, a decrease of £13.6 million since 31 July 2017. The decrease is a result of the sale of two buildings discussed below, along with the annual depreciation charge.

Gilts, equities and term deposits totalled £169.4 million at 31 July 2018, a decrease of £62.3 million since 31 July 2017. The decrease is due to the sale of part of the equity based funds and the redemption of UK gilt edged stock.

The University recognises amounts on the balance sheet in respect of student tuition fee income for curriculum modules partially completed at 31 July (£26.0 million as shown in Note 15) and modules not starting until the following financial year (£26.7 million as shown in Note 15).

Some tuition fees in England, Northern Ireland and Wales are payable by students via the SLC and the amount outstanding at 31 July 2018 was £5.8 million (an increase of £0.4 million since 2016/17), as shown in Note 13.

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 2018 of £10.8 million in respect of the strategic change programme and of the restructuring of its operations in England. The balance of this provision has increased from £3.4 million at 31 July 2017. The provision for the University's estimated share in the deficit in the Universities Superannuation Scheme (USS) pension scheme based on the 2014 valuation, discussed on page 15, and in Notes 18 and 24, reduced by £2.1 million to £56.7 million at 31 July 2018.

Cash Flow

 [p48](#)

The Group net cash outflow from operating activities was £21.1 million, an increased outflow of £5.6 million compared to the previous year. The increased outflow is largely explained by the increase in operating deficit, discussed in the preceding pages. The total increase in cash and cash equivalents was £70.9 million, largely due to an increase in transfers to liquid resources of £78.5 million combined with the proceeds from the sale of fixed assets which increased by £4.8 million.

Capital Projects

 [p59](#)

The only additions to land and buildings in the year were in respect of minor improvements. Two freehold properties were sold during the year resulting in a total net gain of £8.0 million.

The total capital expenditure in the year was £0.7 million (2016/17, £1.1 million).

Financial Review (continued)

Treasury and Investment Management

The financing and liquidity of The Open University and its exposure to financial risk are managed through the central treasury function of the Finance Division. The financial strategy, discussed on page 14, sets minimum liquidity levels in order to ensure that sufficient financial flexibility is retained. Each year, as part of its normal planning processes, rolling financial forecasts are prepared, incorporating a review of capital expenditure and cash generation.

The University's Finance and Investment Committees review the treasury and investment policies in response to how financial markets have reacted to changing economic conditions. All deposits are currently placed for up to three months with a small number of the largest UK banks and building societies, in money market liquidity and sterling government funds, or are invested in managed equity based funds and UK gilt-edged stocks of less than five years to maturity.

The University manages its liquid resources on two bases.

Short-term fund

This fund continues the historic practice of viewing capital protection as paramount and the returns as a secondary objective.

The University is potentially vulnerable to changing interest rates on its short-term fund, which is invested in interest bearing deposits with financial institutions, in money market liquidity funds split between two managers, and in UK gilt-edged stocks ('gilts') having a maturity within five years of the acquisition date. The cornerstone of the University's treasury policy remains the minimisation of risk. Policies, incorporating clearly defined controls and reporting requirements, are in place to monitor credit and market risk, and ensure sufficient liquidity, as well as to maintain the operating financial flexibility of the University. Interest income on bank deposits and gilts is a small proportion of total income. Consequently, vulnerability to changing interest rates is low.

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 an accepted price of this objective.

The fund managed on a long-term basis comprises two investment funds selected for their contrasting approaches, albeit being set the same long-term investment return target. 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 corporate governance in the companies in which they invest.

Whilst the long-term funds need to be viewed over a five year horizon, combined returns by the start of 2018 were well above target since the original investment. The University therefore decided in January 2018 to realise the gains made on its two long term investment funds and to reset the total investment in each fund back to the initial value of £40.0 million. This decision was also in response to the then high levels of market uncertainty, reducing the University's exposure to equity markets.

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 Investment Committee.

The fund and counterparty profile of the University's gilts, equity based investment funds, and term deposits as at 31 July 2018 is set out in Note 14.

Financial Review (continued)

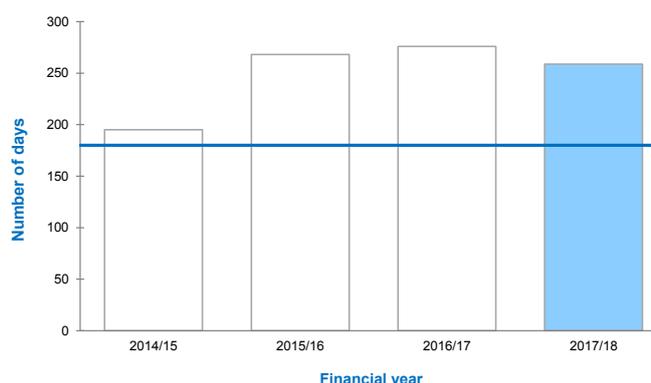
Financial Strategy

The University's financial strategy is designed to maintain financial sustainability and flexibility at all times. It was reviewed in 2017/18 and Finance Committee and Council 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 the parameter relating to net current assets, committed bank facilities are treated as being equivalent to net current assets.

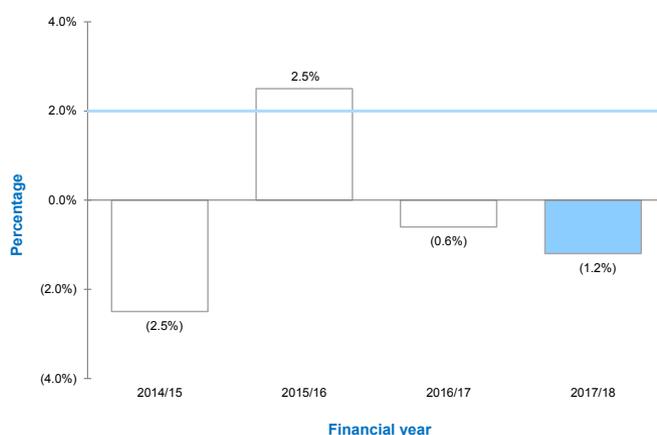
At 31 July 2018, net current assets were £319.5 million, an increase of £1.0 million (0.3%) from the previous year's figure of £318.5 million. The 2018 figure represented 259 days of expenditure.



Income and Expenditure To at least balance normal recurring income with normal recurring expenditure, taking one year with another, over the medium-term and to aim for an Adjusted Surplus from Operating Activities of 2% of income.

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 Deficit from Operating Activities for 2017/18 was £5.2 million (see page 9). This equates to a percentage of income of -1.2%. This compares to the 2016/17 figure of -0.6%.

The measure provides a meaningful year-on-year comparison of results and is discussed on pages 9 and 11. Following changes in higher education fees and funding in England, the University has experienced operating deficits, and through its current strategic change programme will seek 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.

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 undertaken every three years, with interim estimates being carried out in the other two years. One subsidiary has a defined contribution pension scheme.

2014 actuarial valuation

The disclosures in Note 24 in respect of USS refer to the latest completed full actuarial valuation, as at 31 March 2014. The funding level under the scheme-specific funding regime introduced by the Pensions Act was 89%. The actuary also valued the scheme using a number of other methods, including the basis set out in Financial Reporting Standard 17, Retirement Benefits; under this method, the funding level at 31 March 2014 was 72%. Under both measures, the scheme deficit had increased significantly since the last full valuation. Changes to scheme benefits were made in response to the 2014 valuation.

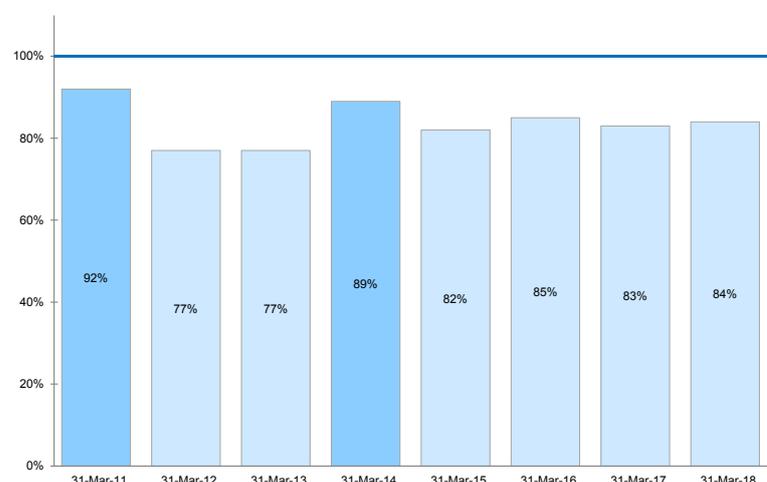
Following the 2014 valuation, a revised deficit recovery plan was implemented with the aim of eliminating the deficit by 2031. The plan increased member contributions to 8%, and employer contributions to 18%. The Group has a liability of £56.7 million (31 July 2017, £58.8 million) in respect of its commitment to the USS deficit recovery plan, shown in Note 18. The plan along with the changes to scheme benefits are expected to eliminate the deficit by 2031.

2017 actuarial valuation

The actuarial valuation as at 31 March 2017 is underway but the results have not been formally completed. The 2017 valuation has set out the challenges currently facing the scheme and the likelihood of significant increases in contributions being required to address these challenges. However, as the 2017 valuation has not formally completed, and there remain various stages of consultation around the key factors specifically relating to the funding of the past deficit, including the level of contributions required, the period of the recovery plan and the level of asset performance over the period, it remains appropriate to continue to account for the past deficit obligation in accordance with the plan agreed after the 2014 actuarial valuation.

The full actuarial valuation is expected to be completed in the coming financial year and there is a significant risk that the deficit provision as disclosed in these financial statements will not reflect the final outcome of the valuation and subsequent negotiations. A sensitivity analysis is included on page 44.

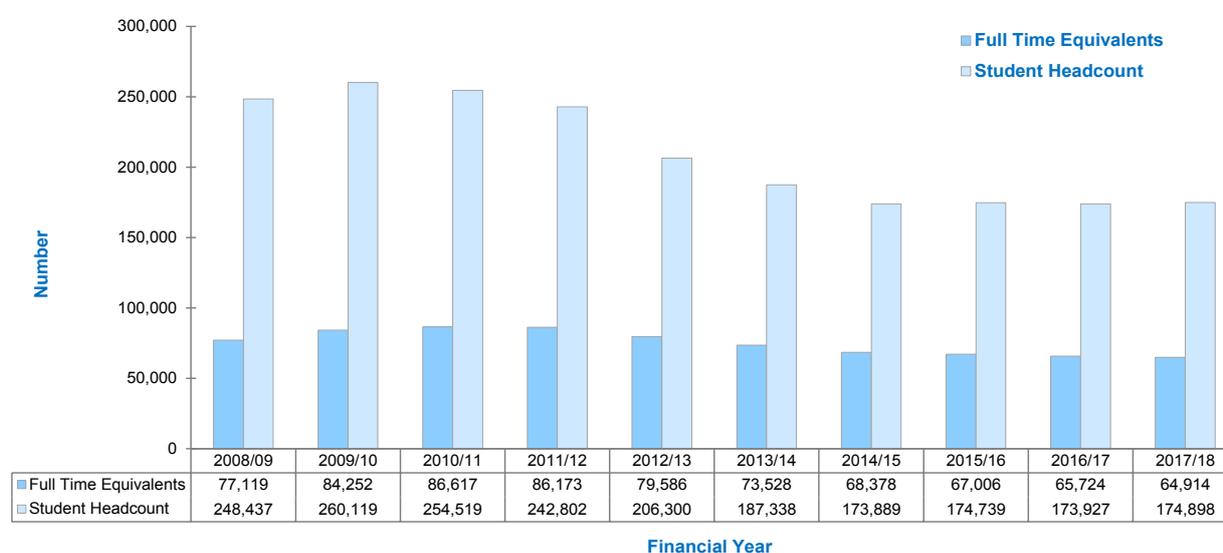
Interim valuations as at 31 March 2017 and at 31 March 2018 have been provided which indicate that the funding level has reduced to 84%. The funding levels since 2009 are shown in this graph. The bars in bold show the results of full actuarial valuations and the other bars show the results of interim 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 24.



Student Numbers

Over the year, student numbers increased by 971 or 0.6% to 174,898, though the average intensity of student study, expressed in full-time equivalents reduced by 810 or 1.2% to 64,914. Over the period since 2008/09, the decrease in full-time equivalents was 12,205 or 16%, whilst the number of individual students decreased by 73,539 or 30%. Both the longer-term and immediate reductions in student numbers are almost entirely attributable to students in England and were an expected result of the significant changes in the funding regime discussed on page 7, including the ineligibility for SLC loans of students studying an equivalent or lower qualification (ELQ) to one they already hold.

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 Open University share of the UK part-time undergraduate market in 2015/16 increased by 1% to 48%.

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 2018 National Students Survey.

In 2018 413 institutions were surveyed, including further education colleges that offer higher education courses. Over 12,000 Open University students took part and 87% said they were satisfied overall. This represented a 1% improvement for the University compared to the previous year, and was against a backdrop of downwards movement across surveyed institutions as a whole. The Open University has been at the forefront of the rankings since they were introduced in 2005. In 2018 The Open University was the university ranked first in Northern Ireland, second in Scotland, third in Wales and twentieth in England. It is both gratifying that it maintains such a commanding position and a source of pride to achieve consistently outstanding results when operating at 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. 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 is progressing its preparations for the next Research Excellence Framework (REF2021), where it will seek to maintain its excellent results from REF2014. Overall, 72% of Open University research was assessed in REF2014 as being 4 or 3 star quality, indicating that the research is 'world-leading' or 'internationally excellent'. The significant changes introduced for REF2021, particularly around non-selective academic staff submission, do however introduce a level of potential perturbation in the outcomes (both in quality profile and funding) across the sector, notably for those institutions such as the Open University that adopted a relatively selective approach to inclusion of research active staff in REF2014.

Income from external research grants and contracts has decreased by £0.6 million (4%), from £14.9 million in 2016/17 to £14.3 million in 2017/18. The decrease reflects the ongoing challenges of constraints on, and competition for, public funding for research (for example through the Research Councils and UK government departments). We envisage that competition for funds to support research in UK universities will intensify further. However, the University continues to have strategic objectives to diversify and grow its external research income and has put in place measures to both improve income capture and manage its internal research cost base. The University's ongoing investment in strategic research areas also has a key objective of driving growth in externally-funded research activity.

Notable award achievements in 2017/18 include:

Two awards of £1 million each from the Engineering and Physical Sciences Research Council (EPSRC) to study 'The Physics and Mechanics of Creep Cavity Nucleation and Sintering in Energy Materials' and to study 'Secure, Adaptive, Usable Software Engineering'.

Two awards from the Mayor's Office for Policing and Crime providing over £2 million for projects on Transforming Police Training and Development.

The University became part of 9 new EU Consortia, despite the continued uncertainty for UK research after Brexit, generating a total of just over £2.3 million in new awards.

To support growth in student numbers and enhance the environment for postgraduate research and the postgraduate research student experience, the Open University Graduate School, launched in October 2016, acts as a hub for the research student community, promoting engagement between researchers and ensuring the provision of skills training that will translate to successful completion and employment outcomes. The Graduate School also leads on the development of internal and external partnerships; working internally with academics to sustain a rich research environment, and articulating the value The Open University brings to external partnerships such as doctoral training partnerships and international training networks. Submission rates of our registered PGR students continue to meet national benchmarks.

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.

In the last year, nearly 10,000 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 totalling £4.1 million are helping our students and faculties take research and learning further than ever.

A team of professional fundraisers is employed to raise funds through a variety of methods: major gift fundraising from individuals, trusts and foundations, and commercial and charitable organisations; and fundraising from alumni of the University via direct mail, telephone, or crowdfunding to encourage regular, planned and legacy gifts.

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. 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 actively fundraise from individuals over the age of 80 by telephone or post. Donors over the age of 80 are informed of the impact of their donations but are not asked to increase their 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. We are also responsible for the reputation of the University from a philanthropic partnerships perspective and as such have rigorous due diligence protocols in place.

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. Ten complaints in relation to fundraising were assessed and resolved in the year. 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, and they are as important today as when the University was established nearly 50 years ago. In addition to continuing work on its institutional Equality Objectives, the University has published a new student focused Gender Identity Policy and an Accessibility policy during the last twelve months.

Alongside the wide range of equality statistics that continue to be published, we have also made available our Gender Pay Gap data which is in line with the Education Sector. This information helps us to better understand areas of inequality that continue to require our attention. Our focus in the coming months is to look into the areas of inequality identified and find ways to address them, and to support activities to improve staff and student experience.

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

At 31 July 2018, 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	3	5	6	7	9	12
Senior Managers (excluding Council Members)	7	4	0	0	7	4
All Other Employees	3,051	4,720	n/a	n/a	3,051	4,720

The staff numbers above are based on staff in-post as at 31 July 2018, whereas the staff numbers in note 7 are the average numbers 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 2017, 6.1% (2016: 5.1%) 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 2017/18 year as planned and were approved by the Audit Committee in February 2018. Two disclosures were made to the Whistleblowing mailbox in the period to 31 July 2018. One was investigated and closed with no further action. The second was anonymous and was forwarded as requested to members of the University's Council, and is now closed.

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 who 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 2017 to 31 March 2018, as follows:

Relevant union officials	There were 47 employees (30.7 full-time equivalent) who were relevant trade union officials during the relevant period.
Percentage of time spent on facility time	Of the 47 employees, 43 staff spent less than 50% of their working hours on facility time, and 4 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 0.07% 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 7.04% of the total paid facility time hours during the relevant period.

Institutional Quality Review

The University participated in HEFCE's Annual Provider Review process for 2016/17 in which it was judged to 'meet requirements' with no action required in relation to quality and standards matters. 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 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 University has an established risk management process, risk management framework and risk appetite which are regularly reviewed and updated. The University Council defines, and reviews on an annual basis, its risk appetite across a framework of risk categories. This enables the University to ensure that decisions of a strategic or tactical nature are 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 has been implemented during 2017/18 which provides for the consistent capture of risk information, the ability to view risks in real-time across the piece and ease of obtaining 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 and the Audit Committee, and the Council. In all areas of the University, risks are actively managed as appropriate to their significance.

Risk and Risk Management (continued)

Risk Oversight

The Council	Audit Committee	Vice-Chancellor and Vice-Chancellor's Executive
Overall responsibility for risk management, defines and reviews risk appetite on an annual basis, 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 focusses 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:

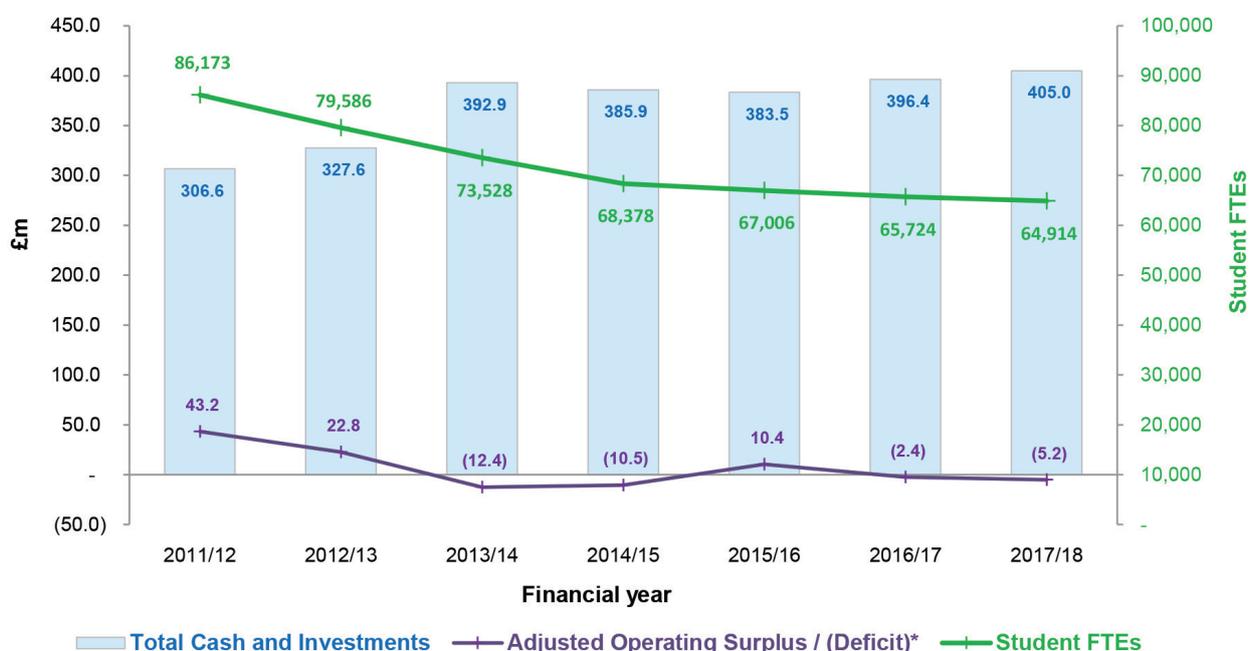
Existing technology falling behind demands	We are investing in a strategic programme to replace legacy systems which will include detailed planning for the transition to new systems to ensure business continuity. We are also investing in digital technology and innovation projects.
Increasingly challenging context for teaching and research	We continue to innovate our model of supported open learning and engage with the Teaching Excellence Framework on appropriate metrics. We will be delivering the approved scholarship plan and research and enterprise plan, and will continue to invest in academic staff development.
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 ensure the effective selection and on-boarding of senior leadership. We will strengthen the communication and cascade of strategic objectives to staff, invest in developing strategic change capability and introduce an employee charter.
Planned UK exit from the European Union in 2019	Brexit will undoubtedly introduce uncertainty into aspects of our business model. A relatively small proportion of the University's tuition fee income came from the European Union in 2017/18, whilst a further £4.7 million of project-related income came from the European Commission, mostly for research projects. The strength of our underlying financial position, and the outcomes from our strategic change programme, will ensure that the University remains well placed to withstand and respond to any adverse impact from Brexit. We are supporting and assisting staff and research students who may be affected through our International Community Support Network and our Employee Assistance Programme.
Introduction of new regulatory environment	The establishment of the Office for Students and its focus on value for students is welcomed. The increasing divergence in regulatory environments across the four UK nations does create additional complexity for the University.
Scope to generate new streams of income	We will investigate opportunities in selected new markets in the UK and globally, advance existing partnerships to their full potential and develop FutureLearn as a key strategic arm of The Open University Group. We will promote the University and increase fundraising through the 50 th 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. We will continue to focus on transparency of resources used and their value.

Going Concern and Long-Term Sustainability

The University's risk management processes are described on page 21 and financial information, including performance against the financial strategy can be found on page 14.

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. This includes an assessment of financial sustainability, management and mitigation of key risks and a review of the assumptions underlying the financial forecasts.

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. Three metrics are shown in the chart below:



*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 Investments

A significant level of cash and investments has been built up in the last few years, largely due to increases from non-operating activities. This currently stands at £405 million and provides a strong balance to support the strategic change programme.

Adjusted Operating Surplus / (Deficit)

The University has an adjusted deficit from operating activities as it continues to re-align its operating expenditure, through cost reductions and improved ways of working, with operating income following the impact in our student numbers arising from the changes in higher education fees and funding in England. The University is forecasting an operating surplus from 2019/20 onwards.

Student FTEs

Following sharp decreases immediately following changes to funding (discussed on page 7), the pace of decline has significantly reduced in the last three years. Student FTEs are predicted to increase by 2019/20.

Going Concern and Long-Term Sustainability (continued)

The elements of the University's financial strategy, discussed on page 14, and related charts indicate the University's performance against our financial sustainability targets. The University's adjusted deficit from operating activities as a percentage of income is below target in 2017/18, the days expenditure represented by net current assets is above target at 31 July 2018, and the level of borrowings continues to be within the target.

The strategies put in place at the beginning of the changes to funding have been successful in maintaining the University as a going concern, but more action is required to secure the longer term sustainability of the University. The part-time market has declined and the wider political and economic outlook is uncertain. In order to secure its long-term future, the University began a significant strategic change programme in 2017/18. During the first year of the programme it was recognised that the breadth, depth and pace of the full change programme, as initially scoped, were too great to be progressed and the programme is being reviewed. Some elements, including the replacement of core IT administrative and student facing systems have been prioritised to continue to ensure that the University is business ready for the future.

Key areas of risk and opportunity potentially impacting the University in the near future are discussed on pages 20 to 21 alongside consideration of response actions by the University. The underlying financial strength of the University positions us well to respond to these and the following:

Financial resilience

Treasury management is discussed on page 13 and performance against the financial strategy is discussed on page 14. The healthy levels of cash and investments at 31 July 2018 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 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 external financing or borrowing to support it.

Cost of pension provision

The impact and timing of decisions relating to the 2017 valuation of the Universities Superannuation Scheme are discussed on page 15. It is probable that employer and member contributions to the scheme will increase significantly as a result of the rising scheme deficit, potentially partially offset by changes in member benefits. The likely increase in the scheme deficit provision will have an adverse effect on the statement of comprehensive income. Whilst the University has significant resources available to mitigate wholly against this raising any going concern issues, any significant increase would pose operational cost challenges.

Political and economic factors

The planned UK exit from the European Union in 2019 will undoubtedly introduce uncertainty into aspects of the University's business model, as discussed on page 21.

Outcomes of the Post-18 Education review initiated by the Government in February 2018 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 Open 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 2020/21, 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 Open University faces some significant external uncertainties, outlined above, which both pose challenge and opportunity. All of these may be further impacted by the UK government's review of post-18 education and funding in England, for which outcomes are not yet known. However, the review potentially provides a significant opportunity for many of the issues currently recognised as adversely affecting part-time education, and particularly distance part-time provision, and for supporting the wider political agenda on social mobility and the Industrial Strategy. But there are also considerable risks, in that reconciling the issues facing post-18 education, particularly in England, without additional funding will challenge the Government's prioritisation and routing of existing funds. The funding changes in Wales from 2018/19, following the Diamond review, which have boosted part-time study, and the potential availability of maintenance grants for students on undergraduate part-time distance study in England, remain areas of great interest for the University.

The Open University has considerable strengths to equip us to meet the challenges from changes in funding, student numbers, competitors and economic factors. We remain the leader in the UK part-time higher education market, with a growing market share, and 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, and so the University has a substantial and unique contribution to make to widening participation in the UK. We can build on our world-wide reputation for the quality of our teaching, and through our subsidiary FutureLearn Limited we are further extending our reach and impact, supported by a plan to seek significant additional investment by the end of 2018 from the University and co-investors to accelerate the business growth of the company.

The Open University is recognised across all the nations of the UK for the excellence of its materials and its approach to supported open learning. The University commits, through regular reviews of the methods and technologies it uses, to support students and their learning needs, and through its strategic change programme, to ensure that the quality of our students' experience is sustained as world-leading for the future. Outcomes from that programme, following its review and reset, will support achievement of financial sustainability and future growth. They are underpinned by a strong balance sheet position, built from prudent financial management over many years. Consequently, The Open University ends the year in positive spirit and good shape, going forward confidently for our students into the University's 50th year and beyond.

Approved by Council on 27 November 2018 and signed on its behalf by:

R W SPEDDING
Chair of Audit Committee

L J HOLDEN
Group Finance Director

M KELLETT
Vice-Chancellor (Acting)

Constitution, Governance and Regulation

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 2018, who are the charity trustees, are listed on page 28.

The Office for Students (OfS) is the principal regulator of those higher education institutions (HEIs) 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 is regulated principally by OfS, which defines the conditions under which the University receives public funds. The University complies with the terms and conditions of funding and with the conditions of grant set out in funding agreements with the relevant grantor. The University was regulated by HEFCE up to March 2018.

The University's principal advisors are listed on page 72.

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.

In December 2014 the Committee of University Chairs (CUC) issued The Higher Education Code of Governance. This code is voluntary and is intended to reflect good practice in a sector that comprises a large number of very diverse institutions. In addition, in July 2013 the Scottish Code of Good HE Governance was published, and subsequently updated in 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.

During the year, the University's Governance and Nominations Committee (GNC) reviewed current governance practice against the Committee of University Chairs (CUC) HE Code of Governance (2014) and the Scottish Code of Good HE Governance (2017). Following some minor changes to governance practice, the University meets all the requirements of the 'must' statements of the CUC Code. It also applies the majority of the 'should' statements and, where it does not, the GNC has been asked to consider whether further changes should be made to current practice. A number of minor operational actions were also taken to strengthen effectiveness. The University also complies with the majority of the principles of the Scottish Code; where it does not, some changes to current governance practice have been agreed or practice is currently under review.

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 stepping down of the then Vice-Chancellor in April 2018. The report made a series of observations and recommendations that are being followed up by the Council to improve its own effectiveness.

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 union. It also outlines the Council's regulatory powers and its delegation of powers.

The Statement of Responsibilities of the University's Council on pages 34 and 35 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.

During the year, the Council approved, on the recommendation of the Governance and Nominations Committee, to disestablish its Staff Strategy Committee with effect from 28 November 2017.

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 (SPRC - 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.

The University Council (continued)

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 in the last year: Dr Sue Dutton, Nicola Simpson, Clare Spencer and Sue Unerman. The Vice-Chancellor, Peter Horrocks, resigned during the year, and Professor Mary Kellett was appointed Acting Vice-Chancellor. The University Secretary, Keith Zimmerman, left the University at the end of the financial year, and Jonathan Nicholls was appointed as Acting University Secretary.

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

Performance Evaluation of Council and its Committees

Recommendations from the 2016 Council Governance Review, which were intended to strengthen the University's governance arrangements, continued to be implemented during 2017/18, including the development of a Code of Conduct for all committee members and the disestablishment of the Staff Strategy Committee. Following a special meeting of the Council in April 2018, the Council commissioned a report on the lessons learned from the events leading to that meeting, which will be reviewed and implemented during 2018/19.

The Governance and Nominations Committee reviewed the University's current governance practice with the requirements of and best practice outlined in the Committee of University Chairs (CUC) Higher Education Code of Governance, as well as the 2017 edition of the Scottish Code of Good HE Governance. It found that the University already applied the majority of the principles set out in these Codes, but approved some proposed changes to strengthen governance practice.

The Council reflects on its effectiveness at the end of each meeting and also annually. In 2017/18 the annual review focussed on the year's business against the terms of reference, and members' attendance. Each Council Committee conducted a similar effectiveness review. These annual reviews are considered by the Governance and Nominations Committee, which makes recommendations for change if required.

The annual Council Induction and Development Day was held in September 2017. This event 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. 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; any concerns and recommendations are reported to the Council through the Governance and Nominations Committee. The Committee evaluated this process during the year in the light of good practice in the sector, and approved some changes to the approach to performance evaluation of individual members.

Council and Committee Membership and Attendance

The members of the University's Council and Committees during the year ended 31 July 2018, and their attendance at the meetings held during their membership in that year, together with members serving in the period after 31 July 2018 and up to the date on which the financial statements were approved, are shown below.

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

¹ To 31 December 2017

² From 1 January 2018

³ To 13 April 2018

⁴ From 13 April 2018

⁵ To 31 July 2018

⁶ From 1 August 2018

⁷ To 28 February 2018

⁸ From 22 March 2018

⁹ Strategic Planning and Resources Committee

Council and Committee Membership and Attendance (continued)

	Governance & Nominations	SPRC ⁷	Staff Strategy (disbanded)	Finance	Investment	Audit
Non-Council Members						
Vice-Chancellor's Executive membership of committees						
Mr K Zimmerman, University Secretary ¹			0/0			
Mr L J Holden, Group Finance Director ²					1/1	
Mr D M Zuydam, Group Finance Director ³					1/1	
Other Staff membership of committees						
Ms A Henderson ⁶	0/0					
Mr D Knight			0/0			
Professor R Taylor			0/0			
External membership of committees						
Ms N Advani ⁵				4/4		
Mrs C Banzky					2/2	
Mr C Hughes ⁵						2/3
Mr C Juman ⁵						3/3
Mr B S Larkman					2/2	
Ms E Lewis						3/3
Mr R McCracken				4/4		
Mr M B Moule					2/2	
Mr J Potts ³			0/0			
Mr N Poulter						3/3
Mr P Robert-Tissot ⁴				2/2		
Mr C A Wood					2/2	

¹ To 20 July 2018

² From 1 November 2017

³ To 31 October 2017

⁴ From 22 February 2018

⁵ To 31 July 2018

⁶ From 28 September 2018

⁷ Strategic Planning and Resources Committee

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

Committee Remit and Membership

	Members of Council	Employees	Other External Members
Audit Committee	Mr R W Spedding (Chair) Dr G Walker Mr P Greenwood ¹		Mr C Hughes ² Mr C Juma ² Ms E Lewis Mr N Poulter

¹ From 7 February 2018

² To 31 July 2018

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 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 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 and sought specific assurance on these risks through the work of the external auditors. These related to:

- Tuition fee loan income and collection** The controls over the receipt of fee income from or on behalf of students, which comprises the University's main source of income.
- Strategic change programme** The controls in respect of assurance of the strategic change programme and the associated business risks, and the impact on the financial statements.
- USS pension provision** The accounting treatment adopted for the provision for the costs related to the Group's commitment to fund the deficit in the Universities Superannuation Scheme.
- The valuation of FutureLearn Limited** The accounting treatment in respect of the carrying value of the investment in FutureLearn Limited and the impact on the University's balance sheet.
- The corporate governance disclosure** The corporate governance disclosure and review of compliance with the Committee of University Chairs, and the Scottish Higher Education governance code, which represent best practice in the sector (see page 26).

The Group financial statements have been prepared in accordance with the Statement of Principal Accounting Policies set out on pages 39 to 43, 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)	Mr P J G Horrocks ³	
	Professor J Brooks	Prof M Kellett ²	
	Ms R Girardet	Mr J D'Arcy	
	Mr P Greenwood	Prof J Draper ⁴	
	Dr B Tarling	Ms A Henderson ⁹	
	Dr G Walker ¹		

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
	Mr H R Brown ⁵
	Professor J S Brooks
	Mrs C Stockmann ⁶

The University has regard to the Committee of University Chairs (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 (SPRC)	Mr R Gillingwater	Prof M Kellett ² (Chair)
	Mr H R Brown ⁵	Mr PJG Horrocks ³ (Chair)
	Mrs C Stockmann ⁶	Mr J D'Arcy ⁷
	Ms S Unerman ⁴	Professor J Draper ⁸
	Mr S Begbie ¹	Dr C Spencer ⁸
	Professor J Brooks	Professor J Wolffe ⁷
	Dr B Tarling ⁷	

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 1 August 2018

² From 13 April 2018

³ To 13 April 2018

⁴ To 31 July 2018

⁵ To 31 December 2017

⁶ From 1 January 2018

⁷ From 24 October 2017

⁸ From 24/10/17 to 31/7/18

⁹ From 28 September 2018

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/management/governance-ou/government-structure.

Committee Remit and Membership (continued)

	Members of Council	Employees	Other External Members
Staff Strategy Committee	Mrs R Lock ³	Mr A Burrell ³ Mr D Knight ³ Professor R Taylor ¹² Mr J Wylie ¹¹ Mr K Zimmerman ³	Mr J Potts ³

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

Finance Committee	Mr H R Brown ⁵ (Chair) Mrs C Stockmann ⁶ (Chair) Mr R Gillingwater Mr S Begbie Mrs M E Curnock Cook ⁴	Mr P J G Horrocks ⁸ Prof M Kellett ⁹	Ms N Advani ¹⁰ Mr R McCracken Mr P Robert-Tissot ⁷
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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 R Gillingwater (Chair) Mrs C Stockmann ⁶	Mr L J Holden ² Mr D M Zuydam ¹	Mrs C Banzky Mr B S Larkman Mr M B Moule Mr C A Wood
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The Investment Committee advises Finance Committee on the University's investment strategy, recommends appropriate fund and investment managers and monitors their performance.

¹ To 31 October 2017

² From 1 November 2017

³ To 28 November 2017

⁴ From 28 November 2017

⁵ To 31 December 2017

⁶ From 1 January 2018

⁷ From 22 February 2018

⁸ To 13 April 2018

⁹ From 13 April 2018

¹⁰ To 31 July 2018

¹¹ To 31 August 2017

¹² To 11 October 2017

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 (OfS) 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 22 to 24 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), the National College for Teaching and Leadership (NCTL) 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, NCTL and UKRI and any other conditions which the six 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 fraud.
Manage resources	Secure the economical, efficient and effective management of the University's resources and expenditure.

Risk Management

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 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 Control

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 internal controls relating to the running of the University were, in his opinion, satisfactory, and that some challenges for governance, risk management and internal control arrangements, specific to the strategic change programme during the year, were being addressed in the review and reset of the University's strategic change activity.

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 2018 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); and
- 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' ("OfS's") Accounts direction (OfS 2018.26).
- have been prepared in accordance with the requirements of the Charities and Trustee Investment (Scotland) Act 2005 and 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 Balance Sheets as at 31 July 2018; 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, which include other explanatory information.

Basis for opinion

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

Independence

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

Conclusions relating to going concern

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

- the Council's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Council has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group 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.

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

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.

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' 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 34 and 35, 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 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 have been appointed as auditors under section 44(1)(c) of the Charities and Trustee Investment (Scotland) Act 2005 and report in accordance with those Acts 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 OfS and Research England 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 and any other terms and conditions attached to them;
- income has been applied in accordance with the University's statutes; and
- funds provided by the Higher Education Funding Council for England, 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

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 27 November 2018

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 for the financial year ended 31 July 2018.

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.

3 Recognition of Income

Tuition Fees and Education Contracts

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

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

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

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

Funding Body Grants

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

Research Grants and Contracts

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

Other Income

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

Investment Income

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

Donations and Endowments

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

Amounts Received as Agent

- h. Where the University acts solely as paying agent to disburse bursaries and grants on behalf of a third party, the grants and bursaries received and the disbursements made are excluded from the Income and Expenditure Account. The balances carried forward are included in both current assets and in creditors falling due within one year.

4 Recognition of Expenditure

- a. Expenditure is recognised in respect of goods and services received when supplied in accordance with contractual terms.
- b. 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.
- c. Restructuring costs are recognised in respect of the direct expenditure of a reorganisation where plans are sufficiently detailed and well advanced, and where appropriate communication to those affected has been undertaken at the balance sheet date.
- d. Module development costs are charged to expenditure as they are incurred.
- e. The University has a maintenance plan designed to keep its estate in a constant state of good repair. The cost of maintenance is charged to expenditure in the period in which it is incurred.
- f. Loan interest and/or facility fees are charged to expenditure on a daily basis.

5 Foreign Currencies

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

6 Leasing Costs

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

7 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.

8 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), and, for employees of FutureLearn Limited 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. 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 (13 years as at 31 July 2018). 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.

9 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.

Investment properties are recognised at cost and are included in Tangible Fixed Assets as the investment property component cannot be measured reliably without undue cost or effort, in accordance with paragraph 10.4 of the SORP.

10 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

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

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).

11 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.

12 Investments

- a. Investments in subsidiaries are shown at cost.
- b. 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.

13 Stocks of Finished Goods

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

14 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.

15 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 pages 39 to 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 costs of the University restructuring scheme have been estimated based on the terms of the scheme, taking into account length of service and other pertinent factors. Judgements have been made on take-up of severance schemes and related costs, and costs of exit from properties.

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 deficit recovery plan may be revised as a result of the latest actuarial valuation, discussed on page 15. However, in line with advice received from BUFDG, the University has concluded that it is most appropriate to use the current plan. A sensitivity analysis appears below that outlines the possible future direction of the provision.

Critical Accounting Estimates and Judgements (continued)

The current 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 2018	Effect on Expenditure in year ended 31 July 2018	Notes
For every 1% increase in staff costs	Increase by £0.5m	Increase staff cost by £0.5m	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 £0.4m	Decrease staff cost by £0.4m	The effect is reversed if discount rates decrease.

USS Deficit sensitivity analysis: future model

This table shows the potential increase in the total deficit provision for various deficit contribution levels and various recovery plan end dates. The increases below could be offset by potential changes to member benefits. All of the increase would be charged to 'staff costs' in the year the changes were agreed.

Potential increase in total provision		End date of the recovery plan				
		31 March 2031	31 March 2032	31 March 2033	31 March 2034	31 March 2035
Deficit contribution rate	2.1%	£0.0m	£4.8m	£9.6m	£14.3m	£19.0m
	3.1%	£25.7m	£32.7m	£39.8m	£46.8m	£53.7m
	4.1%	£51.3m	£60.7m	£70.0m	£79.3m	£88.4m
	5.1%	£77.0m	£88.6m	£100.3m	£111.8m	£123.1m
	6.1%	£102.7m	£116.6m	£130.5m	£144.3m	£157.8m

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.

Fixed Assets

Land and Buildings were independently revalued at 31 July 2014 in accordance with the appraisal and valuation manual prepared by the Royal Institution of Chartered Surveyors. The results of the valuation of all land and buildings have been reflected in the balance sheet.

Buildings are depreciated on a straight-line basis over their expected useful lives of 40 years. Almost all of the properties are located on the main campus site at Milton Keynes and most of them were purpose-built new build constructions. The cycle of building refurbishment and replacement has shown the estimate of 40 years is reasonable.

	Note	Consolidated		University	
		Year Ended 31 July 2018 £m	Year Ended 31 July 2017 £m	Year Ended 31 July 2018 £m	Year Ended 31 July 2017 £m
Income					
Tuition fees and education contracts	1	271.0	261.2	271.0	261.2
Funding body grants	2	101.1	114.2	101.1	114.2
Research grants and contracts	3	14.3	14.9	14.3	14.9
Other income	4	25.5	21.2	15.6	17.1
Investment income	5	8.7	13.0	8.6	12.8
Donations and endowments	6	3.5	2.2	3.5	2.2
Total income		424.1	426.7	414.1	422.4
Expenditure					
Staff costs	7	304.2	286.9	293.0	276.3
Other operating expenses	8	137.3	126.0	137.6	126.7
Depreciation		6.9	7.0	6.9	7.0
Interest and other finance costs	9	1.5	1.3	1.5	1.3
Total expenditure		449.9	421.2	439.0	411.3
(Deficit) / Surplus before other gains and losses		(25.8)	5.5	(24.9)	11.1
Gain on disposal of fixed assets		8.0	4.4	8.0	4.4
(Deficit) / Surplus for the year before taxation		(17.8)	9.9	(16.9)	15.5
Taxation	10	(0.1)	(0.1)	0.0	0.0
(Deficit) / Surplus for the year		(17.9)	9.8	(16.9)	15.5
Represented by:					
Endowment comprehensive income for the year		0.7	0.3	0.7	0.3
Restricted comprehensive income for the year		0.0	0.1	0.0	0.1
Unrestricted comprehensive income for the year		(18.6)	9.4	(17.6)	15.1
Total comprehensive income for the year		(17.9)	9.8	(16.9)	15.5

All amounts relate to continuing operations.

The accounting policies on pages 39 to 44 and the notes on pages 49 to 70 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 2017	1.6	0.1	455.6	457.3
Surplus / (Deficit) from the statement of comprehensive income	0.7	0.0	(18.6)	(17.9)
Balance at 31 July 2018	2.3	0.1	437.0	439.4

University

Income and Expenditure Reserve

	Endowment £m	Restricted £m	Unrestricted £m	Total £m
Balance at 1 August 2017	1.6	0.1	479.3	481.0
Surplus / (Deficit) from the statement of comprehensive income	0.7	0.0	(17.6)	(16.9)
Balance at 31 July 2018	2.3	0.1	461.7	464.1

The accounting policies on pages 39 to 44 and the notes on pages 49 to 70 form an integral part of these financial statements.

	Note	Consolidated		University	
		As At 31 July 2018 £m	As At 31 July 2017 £m	As At 31 July 2018 £m	As At 31 July 2017 £m
Fixed Assets					
Tangible assets	11	247.9	261.5	247.9	261.5
Investments	12	0.0	0.0	31.3	27.2
Total Fixed Assets		247.9	261.5	279.2	288.7
Current Assets					
Stock		2.5	2.6	2.5	2.6
Trade and other receivables due within one year	13	36.1	36.8	26.3	28.8
Trade and other receivables due after one year	13	0.0	1.0	8.9	10.7
Gilts, equities and term deposits	14	169.4	231.7	169.4	231.7
Cash and cash equivalents		235.6	164.7	228.0	157.6
Total Current Assets		443.6	436.8	435.1	431.4
Less Creditors: amounts falling due within one year	15	124.1	118.3	122.9	117.2
Net Current Assets		319.5	318.5	312.2	314.2
Total Assets Less Current Liabilities		567.4	580.0	591.4	602.9
Less Creditors: amounts falling due after more than one year	16	60.5	60.5	60.5	60.5
Less provisions for liabilities	18	67.5	62.2	66.8	61.4
Total Net Assets		439.4	457.3	464.1	481.0
Restricted Reserves					
Income and expenditure reserve – endowments		2.3	1.6	2.3	1.6
Income and expenditure reserve – donations		0.1	0.1	0.1	0.1
Unrestricted Reserves					
Income and expenditure reserve – unrestricted		437.0	455.6	461.7	479.3
Total Reserves		439.4	457.3	464.1	481.0

The accounting policies on pages 39 to 44 and the notes on pages 49 to 70 form an integral part of these financial statements, which were approved by Council on 27 November 2018 and signed on its behalf by:

R W SPEDDING
Chair of Audit Committee

L J HOLDEN
Group Finance Director

M KELLETT
Vice-Chancellor (Acting)

	Note	Year Ended 31 July 2018 £m	Year Ended 31 July 2017 £m
Cash flows from operating activities			
(Deficit) / Surplus for the year		(17.9)	9.8
Adjustment for non-cash items			
Depreciation		6.9	7.0
Decrease in stock		0.1	0.8
Decrease in debtors		1.1	5.3
Increase / (Decrease) in creditors		6.0	(5.6)
Increase / (Decrease) in provisions		4.3	(10.5)
		18.4	(3.0)
Adjustments for investing or financing activities			
Investment income		(8.7)	(13.0)
Interest payable	9	1.5	1.3
Endowment income		(0.8)	(0.3)
Profit on disposal of fixed assets		(8.0)	(4.4)
Capital grant income		(5.6)	(5.9)
		(21.6)	(22.3)
Net Cash Outflow from Operating Activities		(21.1)	(15.5)
Cash flows from investing activities			
Proceeds from sales of fixed assets		15.4	10.6
Capital grants receipts		5.8	6.0
Investment income receipts		3.7	3.9
Payments made to acquire fixed assets		(0.8)	(1.2)
Sale / (acquisition) of investments		67.5	(11.0)
Net cash inflow from investing activities		91.6	8.3
Cash flows from Financing Activities			
Interest paid		(0.4)	(0.3)
Endowment cash received		0.8	0.3
Net cash inflow from financing activities		0.4	0.0
Increase / (Decrease) in cash and cash equivalents in the year	20	70.9	(7.2)
Cash and cash equivalents at beginning of the year		164.7	171.9
Cash and cash equivalents at end of the year		235.6	164.7

The accounting policies on pages 39 to 44 and the notes on pages 49 to 70 form an integral part of these financial statements.

1 Tuition Fees and Education Contracts: Consolidated and University

	Year Ended 31 July 2018 £m	Year Ended 31 July 2017 £m
Student fees – United Kingdom		
Taught Degrees		
England	220.3	213.4
Scotland	16.0	14.6
Wales	6.7	6.4
Northern Ireland	4.7	4.1
Research Degrees	2.8	2.6
Total Student Fees – United Kingdom	250.5	241.1
Student Fees - Overseas	19.1	18.6
Research training support grants	1.4	1.5
Total Tuition Fees and Education Contracts	271.0	261.2

2 Funding Body Grants: Consolidated and University

	Year Ended 31 July 2018 £m	Year Ended 31 July 2017 £m
Recurrent grants		
Higher Education Funding Council for England / Office for Students / UK Research & Innovation	57.5	69.4
Scottish Funding Council	22.1	21.7
Higher Education Funding Council for Wales	6.5	6.6
Department for the Economy (Northern Ireland)	5.3	5.5
Total Recurrent grants	91.4	103.2
Specific grants		
Higher Education Funding Council for England / Office for Students	6.1	5.7
Scottish Funding Council	1.9	2.6
Higher Education Funding Council for Wales	1.7	2.7
Total Specific grants	9.7	11.0
Total Funding Body Grants	101.1	114.2

3 Research Grants and Contracts: Consolidated and University

	Year Ended 31 July 2018 £m	Year Ended 31 July 2017 £m
Research Councils	4.5	5.6
Other sources, including industrial companies	9.8	9.3
Total Research Grants and Contracts	14.3	14.9

4 Other Income

	Consolidated		University	
	Year Ended 31 July 2018 £m	Year Ended 31 July 2017 £m	Year Ended 31 July 2018 £m	Year Ended 31 July 2017 £m
Other grants and contracts	10.0	9.6	5.7	5.0
Validation fees	4.1	3.6	4.1	3.6
Other learning services	6.8	5.7	1.3	1.7
Other income	4.6	2.3	4.5	6.8
Total Other Income	25.5	21.2	15.6	17.1

The categories of other income in this table have been amended to better represent the University's current operations. Figures for 2016/17 have been restated - the total remains unchanged.

5 Investment Income

	Consolidated		University	
	Year Ended 31 July 2018 £m	Year Ended 31 July 2017 £m	Year Ended 31 July 2018 £m	Year Ended 31 July 2017 £m
Change in value of equity based funds	6.6	10.5	6.7	10.5
Interest receivable on gilts, bank deposits and money market funds	1.8	2.2	1.9	2.3
Interest on student loans	0.3	0.3	0.0	0.0
Total Investment Income	8.7	13.0	8.6	12.8

The change in value of equity based funds comprises £1.7m of realised gains due to dividends received and reinvested in the fund, and £4.9m of unrealised gains due to an increase in fair value of the funds. A portion of the funds were sold during the year which resulted in the realisation of £28.6 million of gains that were recognised in previous years.

6 Donations and Endowments: Consolidated and University

	Year Ended 31 July 2018 £m	Year Ended 31 July 2017 £m
Unrestricted donations	2.6	1.8
New endowments	0.8	0.3
Restricted donations	0.1	0.1
Total Donations and Endowments	3.5	2.2

All endowments are held as cash.

7 Staff Costs

	Consolidated		University	
	Year Ended 31 July 2018 £m	Year Ended 31 July 2017 £m	Year Ended 31 July 2018 £m	Year Ended 31 July 2017 £m
Staff costs analysed by type				
Salaries and other payments to employees	252.9	234.2	243.3	225.2
Social security costs	21.7	20.9	20.6	20.0
Pension costs - see Note 24	29.6	31.8	29.1	31.1
	304.2	286.9	293.0	276.3
Staff costs analysed by category of staff				
Full-time staff categories	223.4	217.4	212.6	206.9
Associate lecturers, residential school staff and examination marking fees	58.4	58.2	58.3	58.2
Other staff costs, including casual staff	9.0	8.8	8.7	8.7
Early retirement and voluntary severance	13.4	2.5	13.4	2.5
	304.2	286.9	293.0	276.3
Total Staff Costs	304.2	286.9	293.0	276.3

	Year Ended 31 July 2018	Year Ended 31 July 2017	Year Ended 31 July 2018	Year Ended 31 July 2017
	Average monthly staff numbers (including higher paid staff)			
Full-time and part-time staff at Milton Keynes, Wellingborough, national and regional centres	4,667	4,824	4,491	4,664
Associate lecturers and residential school staff	3,804	3,621	3,804	3,621
	8,471	8,445	8,295	8,285

7 Staff Costs (continued)

Remuneration of Higher Paid Employees

The Vice-Chancellor

During the year, there was a change of University leadership. The Vice Chancellor, Mr P J G Horrocks stepped down from office on 13th April 2018 and on the same date Professor M Kellett was appointed by the Council as Acting Vice Chancellor. Mr P J G Horrocks stayed during the handover until his official leaving date of 13th July 2018, payment for which is included in the basic salary line below.

Remuneration of the Vice-Chancellor	Year Ended 31 July 2018		Year Ended 31 July 2017
	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	Vice-Chancellor Mr P J G Horrocks 01/08/16 to 31/07/17
Basic Salary	£39,000	£321,000	£332,000
Acting & Accommodation Allowance	£43,000	n/a	n/a
Performance Related Pay	Nil	Nil	£13,000
Pension contributions (on substantive role only)	£7,000	Nil	Nil
Taxable Benefit	Nil	£15,000	£15,000
Non-taxable benefit (use of premises) ¹	Nil	£38,000	£65,000
Compensation for loss of office:			
Severance Pay (including pay in lieu of notice)	n/a	£242,000	n/a
Legal advice costs	n/a	£13,200	n/a

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

Basic salary	6.7	9.0	n/a
Total remuneration	7.7	9.9	n/a

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

7 Staff Costs (continued)

Vice Chancellor Pay Justification

	Acting Vice-Chancellor Professor M Kellett	Vice-Chancellor Mr P J G Horrocks
Annual Salary	£250,000 (including acting allowance of £117,000)	£337,500
Performance Related Pay	Eligible to be considered for discretionary merit award (based on previous year's performance)	Eligible to be considered for 6.5% performance-related bonus (based on previous year's performance)
Benefits	Pension: 18% employer contribution on substantive salary Annual accommodation allowance of £27,000	Company car Use of premises, contribution to removal expenses
Salary Benchmark against UCEA ¹ data +£400m revenue higher education provider	Below lower quartile	Upper quartile
Salary Benchmark against CUC ² data +£400m revenue higher education provider	Below lower quartile	Upper quartile
Context	Internal appointment as Acting VC. Salary uplift to overall market midpoint	Permanent appointment made – seeking a commercial appointment in a competitive market place
Process for judging performance	Pro Chancellor seeks feedback from Council members against delivery of personal objectives and institutional performance 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. Market positioning is modest for the Acting VC, reflecting the temporary nature of the appointment. This leads to a lower ratio between the VC's remuneration and the institutional median. More flexibility may be needed for a substantive appointment later, depending on the candidate profile.

¹ UCEA: Universities and Colleges Employers Association

² CUC: Committee of University Chairs

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 12 members of the Vice-Chancellor's Executive (year ended 31 July 2017, 12 members). The total compensation for the year ended 31 July 2018 (including any severance payments and employers' pension contributions) was £3.1 million (year end 31 July 2017, £2.2 million).

Compensation for loss of office

The total amount of compensation for loss of office payable across the University was £13.3 million for 412 staff. This includes a provision of £10.1 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, other than 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 2018 Number	Year Ended 31 July 2017 Number	Year Ended 31 July 2018 Number	Year Ended 31 July 2017 Number
£100,000 - £104,999	3	1	1	1
£105,000 - £109,999	0	4	0	1
£110,000 - £114,999	3	1	1	0
£115,000 - £119,999	3	2	2	2
£120,000 - £124,999	0	1	0	1
£125,000 - £129,999	1	4	0	4
£130,000 - £134,999	5	3	5	2
£135,000 - £139,999	2	2	0	0
£145,000 - £149,999	0	1	0	0
£150,000 - £154,999	1	0	1	0
£155,000 - £159,999	1	0	1	0
£165,000 - £169,999	0	1	0	1
£175,000 - £179,999	1	0	1	0
£180,000 - £184,999	0	2	0	2
£190,000 - £194,999	0	1	0	0
£195,000 - £199,999	2	0	1	0
	22	23	13	14

*The full-time equivalent staff numbers above are based on the current OfS disclosure guidance for full time equivalent basic salary only for staff receiving salary in a full year, whereas the previous years' disclosures were based on actual total remuneration paid. The previous year's columns have therefore been restated in line with the new reporting requirement.

8 Other Operating Expenses

	Consolidated		University	
	Year Ended 31 July 2018 £m	Year Ended 31 July 2017 £m	Year Ended 31 July 2018 £m	Year Ended 31 July 2017 £m
Teaching materials and expenses	19.5	20.5	17.3	19.3
Student Recruitment	22.2	18.8	21.9	18.2
Financial assistance, bursaries and prizes	9.8	10.2	9.8	10.1
Grants to Open University Students' Association	1.6	1.3	1.6	1.3
Provision for bad debts	0.2	0.2	0.2	0.2
Total Student Related Other Operating Expenses	53.3	51.0	50.8	49.1
Staff support and consumables	48.4	39.3	46.5	36.9
Equipment purchase, rental and lease	10.9	10.2	10.8	10.0
Repairs and maintenance	5.4	6.8	5.4	6.8
Academic resources and subscriptions	6.9	6.6	6.9	6.6
Estate utilities and services	5.2	5.5	5.2	5.5
Rent and rates	2.2	1.8	2.2	1.8
Broadcast media production	3.7	3.4	3.7	3.4
Auditors' remuneration - Group audit fees	0.1	0.1	0.1	0.1
Other expenses	1.2	1.3	6.0	6.5
Total Non-Student Related Other Operating Expenses	84.0	75.0	86.8	77.6
Total Other Operating Expenses	137.3	126.0	137.6	126.7

Included in the above are audit fees in respect of the University only of £0.10 million (year ended 31 July 2017, £0.10 million) and its subsidiaries of an aggregate of £0.03 million (year ended 31 July 2017, £0.02 million). Fees paid to the auditors for non-audit services totalled £0.01 million (year ended 31 July 2017, £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 2017, £0.01 million). This represents travel and subsistence expenses incurred in attending Council meetings in their official capacity and reflects the UK-wide distribution of the University's activities and distribution of its Council members. No payments or other benefits for being a member of Council were paid to, or waived by, Council members. Eight members of staff served on Council; the expenses paid to these staff specifically for serving on Council are included in the figure above. No other supplementary payment was made to these staff in their capacity as members of Council.

Operating lease rentals included above are £1.7 million (year ended 31 July 2017, £1.1 million), comprising £1.3 million property leases (2016/17: £0.8 million) and £0.4 million plant and machinery (2016/17: £0.3 million).

9 Interest Payable and Other Finance Costs

	Consolidated		University	
	Year Ended 31 July 2018 £m	Year Ended 31 July 2017 £m	Year Ended 31 July 2018 £m	Year Ended 31 July 2017 £m
Finance charge on USS deficit provision (note 18)	1.1	1.0	1.1	1.0
On loans not wholly repayable within 5 years	0.4	0.3	0.4	0.3
Total Interest Payable and Other Finance Costs	1.5	1.3	1.5	1.3

10 Taxation

	Consolidated		University	
	Year Ended 31 July 2018 £m	Year Ended 31 July 2017 £m	Year Ended 31 July 2018 £m	Year Ended 31 July 2017 £m
Foreign taxes	0.1	0.1	0.0	0.0
Total Taxation	0.1	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.

Tax Reconciliation

	Consolidated		University	
	Year Ended 31 July 2018 £m	Year Ended 31 July 2017 £m	Year Ended 31 July 2018 £m	Year Ended 31 July 2017 £m
Profit before taxation	(17.8)	9.9	(16.9)	15.5
Taxation at 19% (2017: 20%)	(3.4)	2.0	(3.2)	3.1
Profit falling within charitable exemption	3.4	(2.0)	3.2	(3.1)
Unrelieved overseas taxation	0.1	0.1	0.0	0.0
Tax charge for the year	0.1	0.1	0.0	0.0

11 Tangible Assets: Consolidated and University

	Land and Buildings £m	Equipment £m	Total £m
Cost and valuation			
At 1 August 2017	279.4	15.9	295.3
Additions	0.4	0.3	0.7
Disposals	(7.9)	(0.9)	(8.8)
At 31 July 2018	271.9	15.3	287.2
Accumulated Depreciation			
At 1 August 2017	18.7	15.1	33.8
Charge for the year	6.3	0.6	6.9
Disposals	(0.5)	(0.9)	(1.4)
At 31 July 2018	24.5	14.8	39.3
Net book amount			
At 31 July 2018	247.4	0.5	247.9
At 31 July 2017	260.7	0.8	261.5

At 31 July 2018 land and buildings included £39.7 million (31 July 2017, £41.3 million) in respect of freehold land which is not depreciated.

The unamortised value of OfS capital grants amounted to £53.3 million (31 July 2017, £54.5 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 Memorandum of Assurance and Accountability with OfS.

Two buildings were sold in 2017/18, leading to a net gain of £8.0 million.

12 Investments: University

	As At 31 July 2018 £m	As At 31 July 2017 £m
Ordinary shares in wholly owned subsidiary companies		
FutureLearn Limited	29.8	25.7
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	31.1	27.0
Long term loans		
Open University Worldwide Limited	0.2	0.2
Total long term loans	0.2	0.2
Total Investments	31.3	27.2

FutureLearn Limited is registered in England and Wales and provides a multi-institutional platform for massive open online courses on behalf of a number of leading international universities, including The Open University. The increase in share capital reflects the funding of the operational losses incurred during the start-up phase of this business. On the basis of the business plan prepared by the Company the University expects to receive a return on its investment.

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.

The Open University participates in a number of joint teaching and joint research operations with other universities. Income from such arrangements during 2017/18 amounted to £0.04 million (2016/17, £0.2 million).

13 Trade and Other Receivables

	Consolidated		University	
	As At 31 July 2018 £m	As At 31 July 2017 £m	As At 31 July 2018 £m	As At 31 July 2017 £m
Amounts falling due within one year				
Student Loans Company	5.8	5.4	5.8	5.4
Students' loan accounts with Open University Student Budget Accounts Limited	6.9	7.9	0.0	0.0
Fee debtors	3.1	2.8	3.1	2.8
Amounts due from subsidiaries	0.0	0.0	1.5	3.5
Other debtors and accrued income	15.3	15.5	11.2	12.2
Prepayments	5.0	5.2	4.7	4.9
Total due within one year	36.1	36.8	26.3	28.8
Amounts falling due after one year				
Amounts due from subsidiaries	0.0	0.0	8.9	9.7
Other debtors	0.0	1.0	0.0	1.0
Total falling due after one year	0.0	1.0	8.9	10.7

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 2018, Open University Student Budget Accounts Limited had an outstanding loan amount of £6.0 million at an interest rate equal to 1% over base rate (31 July 2017, £6.8 million).

As at 31 July 2018, the 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 2017, £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 15.

An allowance for bad or doubtful debts of £1.6 million has been included (31 July 2017, £1.5 million).

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

14 Gilts, Equities and Term Deposits: Consolidated and University

	As At 31 July 2018 £m	As At 31 July 2017 £m
Equity Based Funds	83.3	105.3
UK gilt edged stock	61.1	91.4
Fixed term deposits maturing in one year or less	25.0	35.0
Total Gilts, Equities and Term Deposits	169.4	231.7

The University holds tradeable Treasury gilts with a redemption date of less than five years. At 31 July 2018 the weighted average redemption yield was 1.39% (year ended 31 July 2017, 1.31%) and the weighted average period to maturity was 553 days (year ended 31 July 2017, 684 days).

In January 2014 an initial investment of £40.0m was made in each of two funds that invest largely in equities. The market value of the equity based investments at 31 July 2018 was £83.3 million (31 July 2017, £105.3 million), a net decrease of £22.0 million. This comprises a decrease of £28.6 million following the sale of a portion of both funds; an increase in book cost of £1.7 million as a result of dividends received and an increase in fair value determined with reference to the quoted market price at 31 July 2018 of £4.9 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 2018 the weighted average interest rate of these fixed rate deposits was 0.63% per annum (31 July 2017, 0.45% per annum) and the remaining weighted average period for which the interest rate is fixed on these deposits was 92 days (31 July 2017, 72 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 prepayments and accrued income in Note 13.

15 Creditors: amounts falling due within one year

	Consolidated		University	
	As At 31 July 2018 £m	As At 31 July 2017 £m	As At 31 July 2018 £m	As At 31 July 2017 £m
Student fee income in advance	26.7	26.6	26.7	26.6
Student fee income deferred	26.0	24.8	25.6	24.3
Grants and other contracts in advance	13.8	16.9	13.8	16.9
Trade Creditors	7.8	7.0	7.6	6.6
Other creditors and accruals	49.8	43.0	47.5	41.1
Amounts due to subsidiaries	0.0	0.0	1.7	1.7
Total amounts falling due within one year	124.1	118.3	122.9	117.2

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

A provision for fee debts of £0.5 million (31 July 2017, £0.4 million) in respect of student loans in the financial statements of Open University Student Budget Accounts Limited is included in other creditors and accruals in the University's balance sheet, as the University bears the ultimate liability for the company's bad debts. Debtors in the consolidated balance sheet are shown net of the provision for bad debts.

Amounts due to subsidiaries includes surplus funds lent by Open University Worldwide to the University under the terms of the loan agreements referred to in Note 13.

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

16 Creditors: amounts falling due after more than one year: Consolidated and University

	As At 31 July 2018 £m	As At 31 July 2017 £m
Long-term loans	60.0	60.0
Salix revolving green fund	0.5	0.5
Total amounts falling due after more than one year	60.5	60.5

The Group has one long-term loan facility: A bank loan to the University of £60.0 million (31 July 2017, £60.0 million). This loan is secured on a part of the University's Walton Hall campus, denominated in sterling and repayable in October 2033. The interest margin of 0.2% over the London Inter-Bank Offered Rate is fixed over the life of the loan. At 31 July 2018 the interest rate on this loan was 0.70% per annum.

The Salix revolving green fund is an OfS backed fund to encourage investment in energy saving projects in the Higher Education sector. Funds will be repaid to Salix at the point when there are no more suitable eligible projects in which to invest.

17 Financial Instruments

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

	Consolidated		University	
	As At 31 July 2018 £m	As At 31 July 2017 £m	As At 31 July 2018 £m	As At 31 July 2017 £m
Cash and cash equivalents	235.6	164.7	228.0	157.6
Current asset investments	169.4	231.7	169.4	231.7
Non-current investments	0.0	0.0	31.3	27.2
Long-term loans receivable	0.0	1.0	8.9	9.7
Trade and other receivables	31.1	31.6	21.6	23.9
Total Financial Assets	436.1	428.0	459.2	450.1
Loans payable	60.5	60.5	60.5	60.5
Trade and other creditors	51.1	44.0	50.7	43.7
Total Financial Liabilities	111.6	104.5	111.2	104.2

18 Provisions for Liabilities

	Obligation to fund USS deficit £m	Restructuring £m	Total £m
Consolidated			
At 1 August 2017	58.8	3.4	62.2
Increase in provision	1.0	10.1	11.1
Unwind of finance charge	1.1	0.0	1.1
Utilised in year	(4.2)	(2.4)	(6.6)
Release of provision	0.0	(0.3)	(0.3)
At 31 July 2018	56.7	10.8	67.5
University			
At 1 August 2017	58.0	3.4	61.4
Increase in provision	1.0	10.1	11.1
Unwind of finance charge	1.1	0.0	1.1
Utilised in year	(4.1)	(2.4)	(6.5)
Release of provision	0.0	(0.3)	(0.3)
At 31 July 2018	56.0	10.8	66.8

The obligation to fund the past deficit on the Universities Superannuation Scheme (USS) arises from the contractual obligation with USS for total payments to March 2031 relating to benefits arising from past performance. 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 June 2015. The weighted average discount factor that has been applied over the remainder of the 17 year deficit recovery plan is 2.16% (31 July 2017, 1.85%).

The restructuring provision of £10.8 million comprises £0.7 million for the remaining spend relating to the staff entitled to claim expenses for relocating or redeploying up to two years after the closure of their location in accordance with the University policy, and a £10.1 million provision for the current University strategic change programme. The total provision is expected to be fully utilised by 31 July 2019.

19 Endowment Funds : Consolidated and University

	Restricted Permanent £m	Restricted Expendable £m	2018 Total £m	2017 Total £m
At 1 August 2017				
Capital	0.1	1.5	1.6	1.3
Accumulated income	0.0	0.0	0.0	0.0
Total balance at 1 August 2017	0.1	1.5	1.6	1.3
Additions	0.0	0.8	0.8	0.3
Expenditure	0.0	(0.1)	(0.1)	0.0
	0.0	0.7	0.7	0.3
At 31 July 2018	0.1	2.2	2.3	1.6
Balance at 31 July represented by:				
Capital	0.1	1.5	1.6	1.6
Accumulated income	0.0	0.7	0.7	0.0
Total	0.1	2.2	2.3	1.6

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

	At 1 August 2017 £m	Cash Flows £m	Non cash Movements £m	At 31 July 2018 £m
Cash at bank and in hand	164.7	70.9	0.0	235.6
Gilts, fixed term deposits and equities	231.7	(67.5)	5.2	169.4
Loans	(60.5)	0.0	0.0	(60.5)
Total	335.9	3.4	5.2	344.5

Non-cash movements comprise the increase in value of equity investments of £6.6 million (note 5), offset by the adjustment for the amortisation of gilt holdings of £1.4 million.

21 Lease Obligations

During the year ended 31 July 2018 the Group recognised £1.7 million (year ended 31 July 2017, £1.1 million) in respect of operating leases. This comprises £2.0 million on lease payments made and a release of £0.3 million in respect of the provision for restructuring.

The Group has obligations for annual payments under non-cancellable operating leases as follows:

	Year Ended 31 July 2018 £m	Year Ended 31 July 2017 £m
Payable during the year	1.7	1.1
Future minimum lease payments due:		
Not later than one year	1.8	1.7
Later than one year and not later than five years	5.0	4.4
Later than five years	4.3	4.2
Total lease payments due	11.1	10.3

22 Amounts Disbursed as Agent

The remaining bursary for the National College for Teaching and Leadership (NCTL) ended during the previous financial year 2016-17. The bursary was available solely for students: the University acted only as paying agent. The grants and bursaries and related disbursements were therefore excluded from the Statement of Comprehensive Income; any balances carried forward were included in both current assets and in creditors falling due within one year and so there was no effect on net current assets. The separate grants for the costs of administering the above items were included in the Statement of Comprehensive Income.

	Year Ended 31 July 2018 £m	Year Ended 31 July 2017 £m
NCTL Training Bursaries		
Balance brought forward 1 August 2017	0.0	(0.3)
NCTL Grants	0.0	0.3
Balance carried forward 31 July 2018	0.0	0.0

23 Related Party Transactions

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

24 Pension Schemes

The University participates in the defined benefit scheme, 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 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 2017, £0.2 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, discussed below.

24 Pension Schemes (continued)

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.

USS triennial actuarial valuation

The latest triennial actuarial valuation of the scheme is underway and will report 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. At the date of signing these financial statements the valuation had not been completed. However, an interim valuation as at 31 March 2018 was carried out and the result showed that the deficit had increased to £12.1 billion, a funding ratio of 84%.

At the last completed triennial valuation date (31 March 2014), the value of the assets of the scheme was £41.6 billion and the value of the scheme's technical provisions was £46.9 billion indicating a deficit of £5.3 billion. The assets therefore were sufficient to cover 89% of the benefits which had accrued to members after allowing for expected future increases in earnings. Surpluses or deficits which arise at future valuations may impact on the University's future contribution commitment. A deficit may require additional funding in the form of higher contribution requirements, where a surplus could, perhaps, be used to similarly reduce contribution requirements.

Interim actuarial valuations have been carried out in the four years since the last full valuation. At 31 March 2015 the assets were sufficient to cover 82% of accrued benefits, at 31 March 2016, 85%, at 31 March 2017, 83%, and at 31 March 2018, 84%.

The 2014 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 in the table below

Assumptions used in the triennial valuation

Valuation rate of interest	5.2% per annum in the first year, decreasing to 4.7% over the subsequent 20 years
Salary increases	CPI in year one, CPI plus 1% in year two and RPI plus 1% thereafter
Pension increases	Annually by CPI
Inflation risk premium adjustment	0.2% in the first year, decreasing to 0.1% over the subsequent 20 years
Mortality tables	Male: S1NA ("light") YoB tables – no age rating Female: S1NA ("light") YoB tables – rated down one year
Life expectancy at age 65 (currently aged 65)	Male: 24.2 years Female: 26.3 years
Life expectancy at age 65 (currently aged 45)	Male: 26.2 years Female: 28.6 years

24 Pension Schemes (continued)

USS deficit recovery plan

As part of the valuation, the trustees have determined, after consultation with the employers, a recovery plan to pay off the shortfall by 31 March 2031. In 2015 the actuary estimated that if experience remained in line with the assumptions made, 50% of the shortfall will be recovered by 31 March 2025.

The plan committed employers to contributions to the deficit of 0.7% of salaries up to 31 March 2016, 2.5% of salaries from 1 April 2016 to 30 September 2016 and 2.1% of salaries from 1 October 2016 to 31 March 2031. The Open University's share of the deficit has been modelled based on these 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 for to calculate the provision at 31 July 2018 was 2.16% (31 July 2017, 1.85%), and the total provision at 31 July 2018 was £56.7 million (31 July 2017, £58.8 million). The provision for the deficit is shown in Note 18.

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 total pension cost for the University was £29.6 million (year ended 31 July 2017, £31.8 million). This includes £2.8 million outstanding contributions as at 31 July 2018 (year ended 31 July 2017, £2.8 million). The total pension cost is after a £3.2 million credit related to adjustments to the USS deficit provision (year ended 31 July 2017, a credit of £3.6 million), and includes £0.2 million (year ended 31 July 2017, £0.2 million) related to costs in respect of early retirement.

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
ERDF	European Regional Development Funding
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
OUSBA	Open University Student Budget Accounts Limited
OUW	Open University Worldwide Limited
QAA	Quality Assurance Agency
RAE	Research Assessment Exercise
REF	Research Excellence Framework
RPI	Retail Price Index
SFC	Scottish Funding Council
SLC	Student Loans Company
SORP	Statement of Recommended Practice
SPRC	Strategic Planning and Resources Committee
TEF	Teaching Excellence Framework
USS	Universities Superannuation Scheme

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