The Open University

Financial Statements

For the year ended 31 July 2016

Contents

	Year Ended 31 July 2016 £m	Year Ended 31 July 2015 £m
Results, cash flows, assets and reserves		
Tuition fees and education contracts	**248.0**	241.0
Funding body grants	**123.1**	127.9
Research grants and contracts	**15.3**	16.6
Other income	**44.3**	22.3
Endowment and investment income	**41.8**	11.5
Donations and Endowments	**2.7**	2.3
Total income	**475.2**	421.6
Total expenditure	**416.7**	455.6
Surplus / (Deficit) for the year before taxation	**58.5**	(34.0)
Adjusted Surplus / (Deficit) from Operating Activities	**10.4**	(10.5)
Net cash flow from operating activities	**(7.1)**	(23.4)
Net cash flows from investing and financing activities	**85.1**	(28.9)
Net cash flow	**78.0**	(52.3)
Fixed assets	**273.6**	269.0
Net current assets	**306.1**	243.6
Total assets less current liabilities	**579.7**	512.6
Total reserves	**447.5**	389.1

Other key statistics		
Total number of students	**174,739**	173,889
Number of full-time equivalent students	**67,006**	68,378
Percentage of UK undergraduate students receiving at least some financial support for their tuition fees	**68**	59
Percentage of students satisfied with the quality of their course (taken from the respondents to the National Student Survey)	**89**	90
FutureLearn total course registrations	**5,369,568**	2,868,515
FutureLearn total course registrations on OU delivered courses	**527,229**	284,271

The Open University has spent 47 years inspiring learning and creating higher educational opportunities with no barrier to entry. It has demonstrated excellence in research and teaching and confirmed its enormous reach through its use of open educational resources.

The University continues to meet its core mission objectives whilst operating in challenging economic conditions and being subject to complex funding arrangements – uncertainties that can only be exacerbated by the result in the referendum on European Union membership (‘Brexit’). However, student headcount has increased compared to the previous year and a healthy adjusted surplus from operating activities has been delivered. The University continues to be relevant to those seeking to develop or change their career and is making plans to enter the apprenticeship market; it is part of the fabric of British society and contributes to the wider social agenda through its partnership with the BBC and through its open access educational resources.

Whilst student headcount has increased, full-time equivalent student numbers decreased, and the University has continued to control costs in order to minimise fees charged to students. In 2015/16 a one-off VAT and interest refund totalling £52.7 million (received in 2013 and discussed in Note 24 on page 77) has contributed to the surplus before tax of £58.5 million. The adjusted surplus that reflects the underlying operating surplus was £10.4 million (2014/15, deficit of £10.5 million).

These financial statements are the first that have been prepared under the new accounting standard, FRS 102. The prior year comparatives have been re-stated; further information appears on pages 26, and 81 to 89.

Key achievements in the year included:

Supporting our students

We have supported student tuition fees

68% of our UK undergraduate students (as measured by full-time equivalent) received full or partial support for fees, either through The Open University or from UK government sources, including the Student Loans Company for eligible students in England and Wales.

We achieve good rankings in the National Students Survey

The Open University achieved an overall satisfaction score of 89% in the 2016 survey.

We are investing in our support services

We have embarked on a restructuring of our student recruitment and support centres to better meet our students’ needs and to extend the hours over which support is provided.

Extending our reach

We are providing Massive Open Online Courses

Since opening in September 2013, The Open University’s subsidiary company, FutureLearn Limited, has received over eight million course registrations from learners across the world to its free Massive Open Online Courses (MOOCs) from leading international universities, specialist education providers and cultural organisations.

We have launched Badged Open Courses

These courses for students who want to develop their study skills whilst wanting recognition for their learning were launched in 2015. There were more than 37,000 enrolments by July 2016.

Our educational materials are open to all

Total visits to the University’s open educational resource website, OpenLearn, launched in October 2006, reached 44.2 million.

We are using multiple media channels

Total downloads from The Open University iTunes U service, launched in June 2008, reached 70.9 million. In addition, the total number of video views of Open University content on You Tube reached 33.7 million.

We commission television and radio programmes

More than 240 million annual views and listens of OU branded series on screen, radio and online, including Full Steam Ahead, The Hunt and City in the Sky on television, and The Bottom Line and More or Less on radio.

We have a global footprint

The Open University works in partnership with international development agencies to deliver life-changing educational programmes across the world, including India, Bangladesh and Sub-Saharan Africa.

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. The subsidiaries donate the bulk of their taxable profits to the University.

OUSBA provides credit facilities to students to enable them to pay fees due to the University. OUW undertakes activities that, for legal and commercial reasons, are most appropriately channelled through a limited liability company: these relate mainly to the commercial exploitation of the University’s course materials and its rights therein throughout the world. FutureLearn Limited was established in December 2012 to develop and operate a platform to host ‘Massive Open Online Courses’ (MOOCs) for leading universities both in the UK, including The Open University, and overseas.

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 on pages 36 to 45, and the members of the University Council during the year ended 31 July 2016, who are the charity trustees, are listed on page 37.

The Higher Education Funding Council for England (HEFCE) 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 HEFCE under a Memorandum of Assurance and Accountability, which defines the conditions under which the University receives public funds. The University complies with this Memorandum and with the conditions of grant set out in funding agreements with the relevant grantor.

The University’s principal advisors are listed on page 91.

Formal governance structure

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

Council 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. Further information appears in the Corporate Governance Statement on page 36.

Senate 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.

Mission

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 Objectives and Priorities

The University's strategic intent for the period leading up to and including 2015/16 was described by seven priorities grouped into two themes:

Delivering an outstanding student experience

Market leading enquirer experience To develop a market-leading enquirer experience that gets potential students efficiently and effectively onto the right course for them.

Excellent study experience A study experience that maximises student success whilst maintaining academic standards.

Moving from informal to formal learning World leadership in delivering journeys from informal to formal learning through open media

Enhancing the capabilities of the University

Focused research and scholarship Research and scholarship that is externally recognised for excellence and impact.

People and culture to deliver high performance People and culture that enable us to deliver high performance and respond flexibly and effectively to changes in our marketplace.

Robust and flexible systems Flexible integrated and robust systems that support the University and its students.

Financially sustainable Enhanced financial sustainability through control of costs and greater diversification of net income

The strategic plan is reviewed regularly; the renewed plan, which builds on the activities and achievements of the above plan, is summarised on the next page.

Students First: strategy for growth

The Strategic Plan was approved by Council in May 2016; it is expressed in the diagram below.

More Students Qualifying

Reach even more students by offering a wider range of study options and qualifications in the UK and globally. Support students more effectively so that more people achieve a qualification, with a continued commitment to widen access and success.

Academic Excellence

Academic excellence based on the integrated value of teaching, research and engagement around a sustainable academic community which directly contributes to student success through high quality teaching and is recognised through external rankings, positions and progress against sector performance indicators.

Enhanced employability and career progression

Increase the number of students achieving positive personal and career development outcomes.

Adaptive organisation and culture

Our people are focussed on delivering the best for and with our students. We will work with our staff to put in place all that is needed to support a high performance culture, supporting them to develop the skills they need and investing in processes and systems which enable us to deliver flexibly and meet the needs of our students.

Income diversification and cost reduction

A substantial increase in income from alternative sources, a focus on value to students and a sustainable financial position.

Leadership in digital innovation

The Open University leads in the development and use of digital technologies in: a) teaching and learning; b) research and c) how we go about our work.

Students First: strategy for growth (continued)

The progress against the objectives will be tracked through a number of high-level strategic measures of success, grouped by the three overarching categories of growth, quality and sustainability:

Growth

An increase in overall reach An increase in the numbers of students directly registered on Open University modules and qualifications, and an increase in the numbers of people learning with The Open University globally, through partnerships and open educational resources.

More students qualifying An increase in the numbers of students achieving an Open University qualification.

Maintaining open access Ensure the proportion of students from disadvantaged backgrounds within the new undergraduate student population is maintained or increased in all nations of the UK.

An increase in income from alternative sources A significant increase in our total income from alternative sources (sources other than UK teaching and research), and from research and enterprise activities.

Quality

Improved student outcomes An increase in the numbers of students achieving positive personal and career development outcomes and an increase in student satisfaction measured through the National Student Survey, Postgraduate Taught Experience Survey and Postgraduate Research Experience Survey.

Strong performance in the proposed Teaching Excellence Framework.

A closing of the attainment gap between black and white students, and between disabled and non-disabled students.

Good outcomes in quality assessments Optimisation of our ranking in the Research Excellence Framework and maintenance of our high performance in future Quality Reviews.

Enhanced staff development An increase in the staff survey scores on motivation, ability to deal with organisational change, belief by staff that their role contributes to the University's future success, and understanding of how the OU is responding to development in the Higher Education sector.

Sustainability

Financial sustainability Generate a surplus in line with the University's financial strategy.

The full strategy document is available at: www.open.ac.uk/about/main/mission

Risk and Risk Management

The Open University is committed to the management of risk in order to achieve its strategic and operational objectives. In its Strategic Risk Register it has identified risks related to each of the strategic objectives in the Students First: strategy for growth plan, along with opportunities and threats as outlined below. The risks around the strategic objective of 'more students qualifying' relate directly to the achievement of the University's primary charitable objective. At a time when the University is planning, and making, significant changes to its operations and systems the risks relating to the strategic objective of 'adaptive organisation and culture' are heightened in importance.

Risk

More Students Qualifying

Failure to retain and support students to achieve their study goals

Risks Economic uncertainty from Brexit affects students' ability to continue study; failure to adequately understand and track students' study goals; insufficiently coherent, personal and targeted student support, including careers and employability support; turnover of key staff including uncertainty of the status of staff from the European Union; insufficiently high quality learning experience; curriculum not meeting the needs of students; and, failure to innovate as student needs and technology evolve.

Response The University is investing in student support, real-time analysis of engagement and retention and student focussed systems and processes, whilst giving faculties clear responsibility for the student experience. The University is doing more to understand performance with access to data, analysis and insight. The associate lecturer community will be further integrated into the academic staff base and there will be a renewed focus on scholarship. New models of learner engagement will be developed, and support will be provided for all staff and students in digital literacy, thus ensuring the University's digital platforms are leading edge

More Students Qualifying

Failure to attract sustainable student numbers

Risks Higher education policy and funding regimes in each of the UK nations are unfavourable to the University or are not sufficiently understood by potential students; the enquirer experience does not meet students' expectations; there is a failure to develop an attractive offer for the market(s); competitors provide a more attractive offer; and, economic uncertainty post-Brexit affects demand in the UK and internationally.

Response The University will: offer a wider range of study options and qualifications to attract more students from across the UK and abroad, undertake market needs analysis and refresh The Open University brand; undertake more outward facing activity to increase visibility of academic excellence; become a major player in new markets; review business processes and architecture capability; continue to operate an effective student number planning process based on agreed high-level inputs; and, engage with Government in each of the UK nations to secure policy and funding outcomes that maximise students' chances of success.

Risk and Risk Management (continued)

		Risk
Academic Excellence		**Inability to demonstrate academic excellence**
	Risks	Failure to recruit and retain excellent teaching and research staff; poor performance in external rankings of teaching and research quality; an inability to make the most of the academic talent within the University through lack of focus or clarify of expectations; Brexit results in an inability to secure future funding for teaching, research and commercial activities; and, academic activities are not of appropriate quality.
	Response	An academic strategy will be developed that focusses on teaching, research and external engagement activities that best support the mission; the associate lecturer community will be further integrated with the staff base; research will be focussed on world leading and internationally excellent areas; and, academic professional development will be improved. There will be increased emphasis on the relationship between career development and academic excellence; enhancing outward facing activity to increase external visibility of academic excellence and building on student-facing academic communities. Staff will be encouraged to engage and respond to the external environment and be focussed on supporting students to meet their goals.
Enhanced employability and career progression		**Inability to demonstrate benefits of study**
	Risks	Employer needs and government priorities are insufficiently understood or acted upon; students' goals are not sufficiently understood and tracked over time; students' needs are not effectively met through the curriculum and broader support; and, the University is unable to deliver sufficient employability impact.
	Response	The University will systematically track each student's aims, embed employability skills in the curriculum and invest in the careers service. Staff will be supported to be proactive, engaged and focussed on supporting students to meet their goals, Understanding of performance will be increased with access to data, information, analysis and insight.
Adaptive organisation and culture		**Staff not able to deliver the strategic objectives so that the organisation is unable to adapt to changing needs**
	Risks	Failure to anticipate and understand student and stakeholder needs; poor understanding of how well the University is meeting those needs; failure to value, develop and utilise human resources effectively; ineffective communication of strategic intent; inefficient or ineffective processes and systems; and, insufficient accountability. These risks have heightened importance due to the significant changes in the University's operations and systems that are planned and are being implemented.
	Response	The University will support staff to be empowered, proactive, engaged and focussed on student success, and will invest in staff to build leadership, performance management and change capability. Understanding of performance will be underpinned with access to data, information, analysis and insight, together with learning from completed major change projects and those in progress. Upgrading core IT systems and academic capability and opportunities will commence. Effective engagement and communication of the Strategy will be continued. Lessons learned from the implementation of major change projects will be applied to future change projects.

Risk and Risk Management (continued)

Risk

Leadership in digital innovation

Falling behind in digital innovation

Risks Competitors are better able to develop new digital technologies or derive better value from existing technologies; the University is not focussed on what will truly make a difference to students and fails to teach and support them effectively; and, staff are unable to turn ideas into outputs in a timely way.

Response The University will develop its research capability to support innovation and ensure digital platforms are leading edge; digital platforms such as FutureLearn and OpenLearn will be used to develop new models of engagement; and, work practices will be enhanced to ensure they are suitable for working in a digital world. Alongside developing widening access programmes in digital technologies, a minimal set of competencies for digital literacy will be developed which will provide development and support for staff and students. Leadership, change capability and a culture which is engaged and responsive will be fostered. University business processes will be reviewed and careful consideration will be given to the introduction of transparent performance indicators.

Opportunity

Income diversification and cost reduction

Scope to generate sustainable new streams of net income and to reduce costs

Opportunities The opportunity to diversify activities and revenue streams in different markets to respond to competitors and undertake market leading activities; greater demand for relevant and effective learning; ability to leverage our products; staff engagement activities highlight a willingness to pursue new income opportunities; and, new technology provides opportunities to review and recast ways of working.

Response The University will continue to grow existing activity; establish itself as a major player in new markets and grow philanthropic income; work practices will be enhanced for the digital world and key business processes will be reviewed. Developments to core IT systems will be considered and costs will continue to be scrutinised through the annual planning and budgeting process.

The University has embedded a risk framework and processes that address the risks identified above. The regular monitoring, oversight and governance of risk management is carried out at executive level, by the Audit Committee and Council.

In addition, the University is monitoring the post-Brexit issues and risks closely as developments unfold. Where appropriate, measures are being taken to manage risks and identify opportunities, and to communicate with key stakeholders.

Public Benefit 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 University operates throughout the United Kingdom and has students from over 100 countries globally. The main direct beneficiaries are its undergraduate and postgraduate students and the recipients of its research, much of which is freely available to the general public. 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	The University had 174,739 students registered in 2015/16 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' resource, as well as through FutureLearn Limited.
Research	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 2015/16 894 research outputs were published.

The University is a fee charging charity. However, unlike other universities, all its students study part-time and prior to 2012/13 the tuition fees were not subject to statutory regulation. Students who commenced their course of study before 2012/13 are only liable for the fees set on the basis of the fee regime then pertaining, which is typically £5,000 to complete an undergraduate degree at 2015/16 fee rates. Students in England who commenced their study after 2012/13 are liable for tuition fees of £5,400 per full-time equivalent, equating to £16,200 for an undergraduate degree, whilst students in Scotland, Wales and Northern Ireland are liable for tuition fees at the lower rates.

Each UK nation has different arrangements in place for the provision of financial support to students, although there are some sources of assistance that are available across the UK with some nation variations:

Disabled Students Allowance	These 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	Access modules are 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.

Public Benefit and Sources of Funding (continued)

The sources of teaching funding and the financial support available to students in each UK nation are summarised in the table below.

University's Sources of Funding	Financial Support for Students
England	
In England, the balance between grant funding to universities and fees charged to students entering higher education changed in 2012/13 from being directed largely towards the former to largely the latter. 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 Student Loans Company (SLC) to meet the cost of their fees. In 2015/16 approximately 55% of undergraduate full-time equivalent students (FTEs) in England were funded by the SLC under the new regime.	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 £21,000. Financial support for study-related costs is available to those earning less than £25,000 or those on benefits.
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.	60% of students in Scotland benefit from the Part-Time Fee Grant to help towards the cost of their tuition fees. If personal income is £25,000 or less, or on certain benefits, students could qualify for this grant to cover up to 100% of course tuition fees on eligible courses.
Wales	
In Wales, up to 2013/14, funding was largely by grant and student fees; with effect from 2014/15, tuition fees were 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 35% of the Open University's undergraduate full-time equivalent students (FTEs) in Wales were funded by the SLC in 2015/16.	Student loans are available only to those who have not studied at an equivalent or higher level before, and are repayable in instalments only when earning over the income threshold – currently £21,000. Students may also be eligible for a Course Grant between £50 and £1,155 if household income is up to £28,180. A Course Grant can help pay for course-related costs such as a laptop, internet access or travel to tutorials.
Northern Ireland	
In Northern Ireland, the University continues to receive teaching and learning grants. There is currently no provision for loans for part-time students, however, after a period of consultation the Department for the Economy is planning to introduce fee loans for part-time students and for postgraduate study in 2017/18.	Many 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 will continue in parallel with the introduction of part-time loans. Course grants for other study-related costs are also available.

Any changes to the internal relationships within the UK that may arise following the recent decision to leave the European Union could impact on the funding of tuition fees outlined in the table above. However, it is too early to make any informed predictions.

Public Benefit and Sources of Funding (continued)

Universities set their own targets for recruitment of students by subject area and by level of study; their income from the national funding bodies is determined by the aggregate student numbers completing their specified studies in the year, which, with the exception of England, will be restricted to previously allocated student numbers. Similarly, fee instalments are payable by SLC only if a student remains in active study at the date each instalment is due. The Open University is better placed than traditional universities in managing the operational implications of additional student numbers because it is not constrained by physical accommodation when recruiting students in particular disciplines.

Other UK universities charge high fees to overseas students who study in the UK, 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.

The differing type and level of fees and financial support has inevitably influenced the sources of tuition fee funding since the major changes were made in 2012/13. However, since students in England make up such a significant proportion of total students, the profile in England has a big influence on the University as a whole. The sources of funding of undergraduate student tuition fees in terms of full-time equivalents in 2015/16 is shown in the table below.

Sources of funding of tuition fees for full-time equivalent (FTE) UK undergraduate students in 2015/16

		Full financial support	Partial financial support	Loan from Student Loans Company	Sponsored	Students paying their own fees	**Total**
England	FTEs	2,299	1,002	29,262	1,530	14,968	**49,061**
	Proportion	*5%*	*2%*	*60%*	*3%*	*30%*	*100%*
Scotland	FTEs	4,227	0	0	283	2,527	**7,037**
	Proportion	*60%*	*0%*	*0%*	*4%*	*36%*	*100%*
Wales	FTEs	514	165	1,262	185	1,255	**3,381**
	Proportion	*15%*	*5%*	*37%*	*5%*	*37%*	*100%*
Northern Ireland	FTEs	646	156	0	61	946	**1,809**
	Proportion	*36%*	*9%*	*0%*	*3%*	*52%*	*100%*
Total 2015/16	FTEs	**7,674**	**1,335**	**30,524**	**2,059**	**16,696**	**61,288**
	Proportion	*13%*	*2%*	*50%*	*3%*	*32%*	*100%*
Total 2014/15	FTEs	9,341	1,997	24,655	2,200	22,469	60,662
	Proportion	*15%*	*3%*	*41%*	*4%*	*37%*	*100%*

Student FTEs with at least a partial fee liability

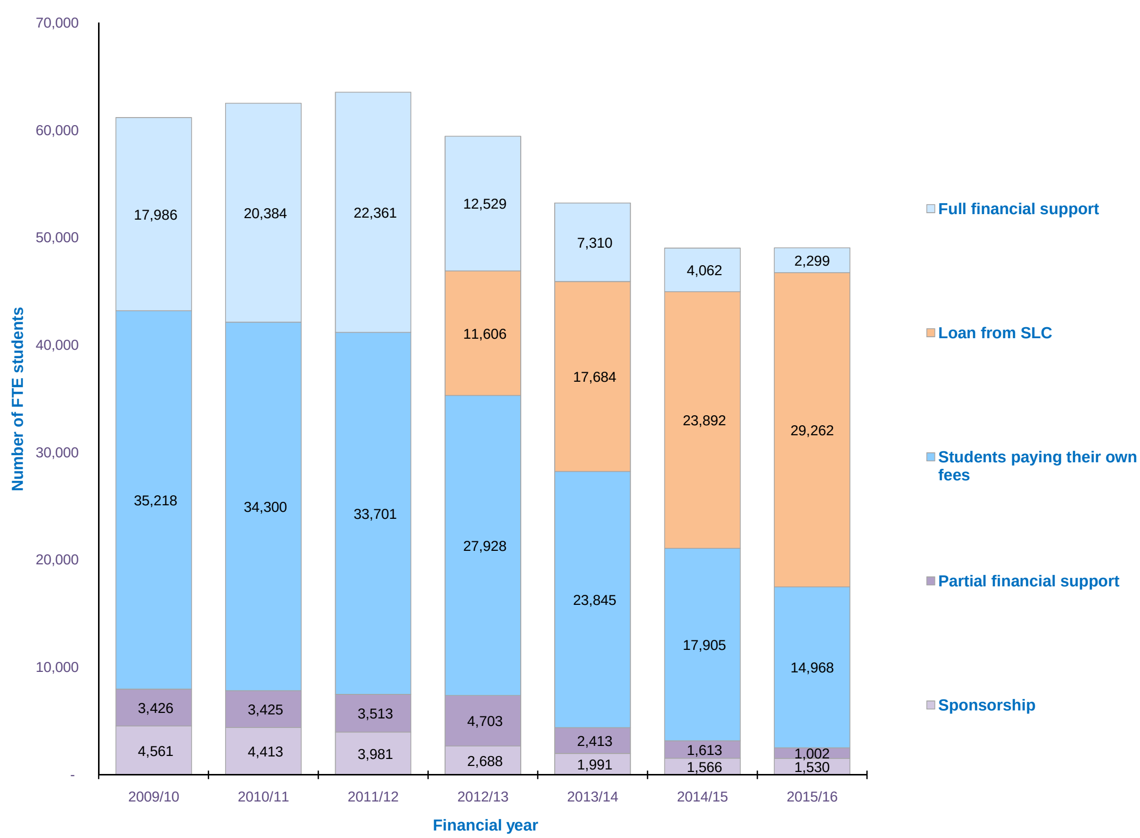
Full support	*The full cost of fees is covered by financial support assessed on household income*
Part support	*Part of the fees are covered by financial support assessed on household income (individual income for Individual Learning Accounts in Scotland)*
Student Loans Company	*Some or all of the fee is funded by a loan from the SLC. Some of these students may also receive partial financial support or pay some of their own fee but are only included in this column*
Sponsored	*The full fee is funded by a sponsor*
Student paying	*The student pays the course fee with no direct financial support or sponsorship*

Public Benefit and Sources of Funding (continued)

The University spent £9.6 million providing financial assistance to students in addition to the £0.3 million of funding bodies' access funds and bursaries disbursed to eligible students (shown on page 76), and the tuition fees funded by the SLC totalling £106.1 million. These sources of assistance are included in the table on page 13. Unlike other universities, students study from home and often whilst in employment, thereby diminishing the financial burden of their studies.

The changes in funding since 2012 have led to significant changes in the funding sources for undergraduate students in England. The chart below shows how the sources of funding of students in England has changed since 2009/10 in absolute terms.

Number of full-time equivalent undergraduate students in England by tuition fee funding source

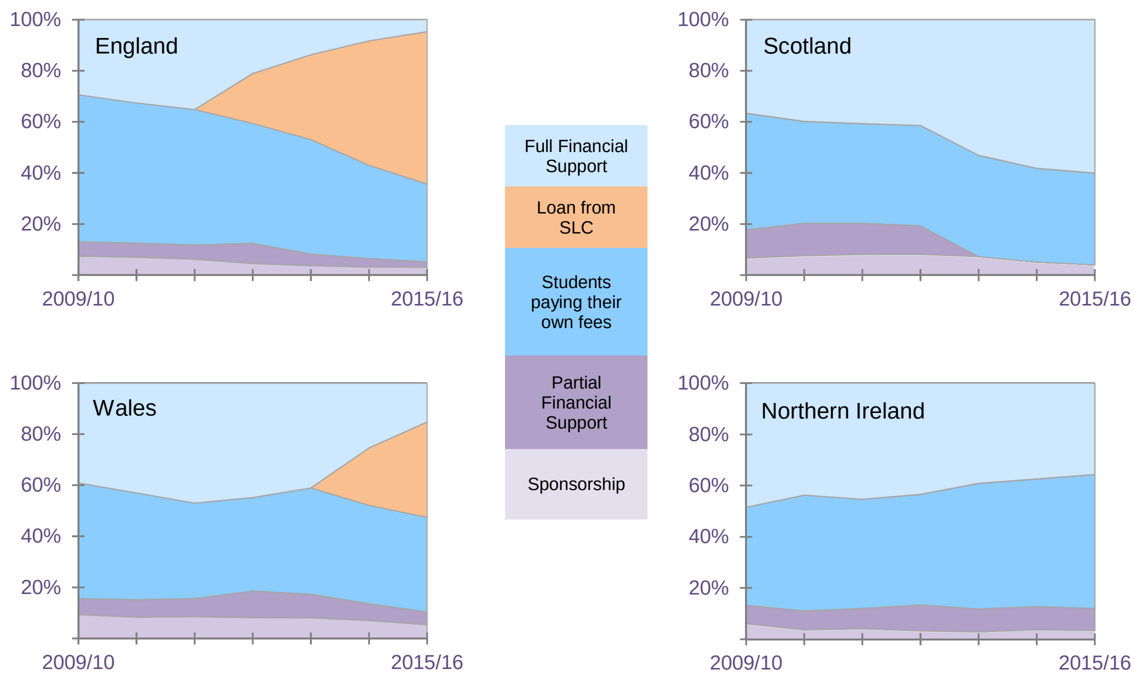


The number of students funded by full financial support had been growing in the years leading up to 2011/12. From 2012/13 new students were subject to higher tuition fees, and were able to fund their studies using student loans. As students who started their studies before 2012/13 complete their qualifications, and are replaced by new students, the number of students funded by student loans has increased.

As discussed above, there have also been changes to sources of tuition fees in the other UK nations, the most significant of which are the switch from partial to full financial support in Scotland in 2013/14, and the introduction of student loans in Wales in 2014/15. The proportions of sources of tuition fee funding for undergraduate students by UK nation are shown in the charts on the next page, demonstrating the increasing divergence between nations in the last five years.

Public Benefit and Sources of Funding (continued)

Relative proportions of sources of tuition fee funding for undergraduate students in the UK



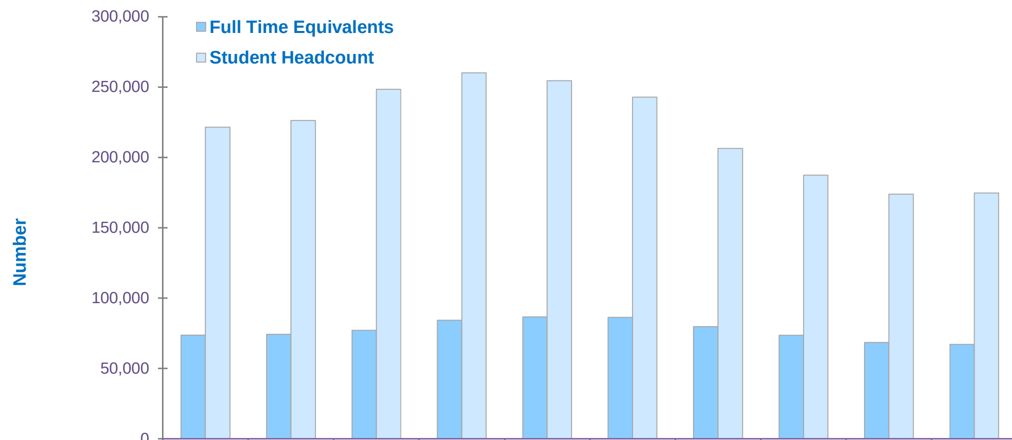
The nature and scale of The Open University's teaching activities dominate its income profile, split into funding body grants and tuition fees. However, UK Universities report their income under four further categories as indicated by the following table showing the level and proportion of income received in 2014/15 and 2015/16.

	2015/16	2014/15	
Tuition fees and education contracts	**£248.0m 52%**	£241.0m 57%	From UK students, as discussed above, and overseas.
Funding body grants	**£123.1m 26%**	£127.9m 30%	The Open University operates across the whole of the UK and so is funded for its teaching activities by all the national higher education funding bodies.
Other income	**£44.3m 9%**	£22.3m 5%	This comes from a wide variety of sources, including grants from the European Union and charitable bodies, and, for 2015/16 only, the exceptional VAT refund.
Research grants and contracts	**£15.3m 3%**	£16.6m 4%	These arise from competitive bids for funding from a range of public and private funders. The total funding for research comprises this figure plus £8.8 million of the funding body grants, above.
Investment income	**£41.8m 9%**	£11.5m 3%	This comprises interest received from bank deposits, fixed interest government bonds ("gilts"), equity gains and dividends, student loan accounts managed by Open University Student Budget Accounts Limited, and, for 2015/16 only, the interest on the exceptional VAT refund.
Donations and endowments	**£2.7m 1%**	£2.3m 1%	These are restricted or unrestricted donations and endowment funds received.

Student Numbers

The key statistics on page 2 show that over the year student numbers increased by 850 or 0.5% to 174,739, the first increase in six years, and full-time equivalents fell by 1,372 or 2% to 67,006. Over the period since 2006/07, the decrease in full-time equivalents was 6,673 or 9%, whilst the number of individual students decreased by 46,755 or 21%. 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 pages 11 to 15, 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



	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16
Full Time Equivalents	73,679	74,152	77,119	84,252	86,617	86,173	79,586	73,528	68,378	67,006
Student Headcount	221,494	226,205	248,437	260,119	254,519	242,802	206,300	187,338	173,889	174,739

Financial Year

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 2014/15 increased by 1% to 47%.

Student Satisfaction

The Open University is committed to creating a curriculum that is fully attuned to student needs and aspirations, that reaches out to new groups of potential learners who seek career and personal advancement and that enables them to achieve success. 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. In 2016 The Open University was the university ranked second in Northern Ireland and Scotland and twenty seventh in England. Insufficient responses were received from students in Wales and these results were therefore not published. The survey comprises 23 questions; the University improved its score in 10, remained the same in 12 and declined in 1.

In the 2016 survey over 28,000 Open University students took part and 89% said they were satisfied overall. This year 160 institutions were surveyed, including further education colleges that offer higher education courses. The Open University has been at the forefront of the rankings since they were introduced in 2005: 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 unique 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 had a successful outcome from the Research Excellence Framework (REF2014), considerably improving the quality profile of its research since it was previously assessed. Overall, 72% of Open University research was assessed as being 4 or 3 star quality, indicating that the research is ‘world-leading’ or ‘internationally excellent’. The results demonstrate that research excellence can sit alongside open access to higher education, although it is notable that research excellence across the sector improved significantly and this has impacted on the University’s share of HEFCE research grant funding. For 2015/16 the HEFCE research grant was £8.8 million, a reduction of £0.9 million on 2014/15 (9%).

Income from external research grants has decreased from £16.6 million in 2014/15 to £15.3 million in 2015/16. The decrease reflects that the 2014/15 figure included a one-off central government tax credit of £1.1m, (a source no longer available to higher education institutions), constraints on public funding for research (for example through the Research Councils and UK government departments) and the consequent increased competitiveness of the external funding environment. We envisage that competition for funds to support research in UK Universities will grow but the University continues to have strategic objectives to diversify and grow its external research income.

The registration of new Postgraduate Research (PGR) students fell in 2015/16 by approximately 4%. A graduate school will be launched in October 2016 that will enhance the marketing of research degrees, and aim to increase student numbers and improve the postgraduate research degree student experience. Submission rates of our registered PGR students continue to meet HEFCE benchmarks.

Institutional Quality Review

The University received a positive outcome from its December 2015 Quality Assurance Agency Higher Education Review. The reviewers concluded that the OU met UK expectations in all four areas of judgement and highlighted a number of features of good practice, including: the University’s support for enquirers and applicants in line with its commitment to open access and widening participation; its approach to addressing the needs of disabled students; the use of external advice; and, the widespread commitment to student success as a focal point for enhancement. The reviewers made only three recommendations and affirmed a number of actions already underway in the University, underlining the effectiveness of the University’s internal quality assurance and enhancement systems in identifying areas for improvement. In collaboration with the OU Students Association, the University has developed an action plan, which is published on its website [www.open.ac.uk/about/main/strategy/teaching-learning/quality-assurance-agency-higher-education-review]. The University also participated in a case study for the QAA’s review of UK provision in Greece and Cyprus.

In addition to QAA review outcomes, the University uses other external benchmarks and accreditations to evaluate the quality of its provision. It is accredited by the United States Middle States Commission on Higher Education and successfully completed the Commission’s periodic review process in 2015. Professional, statutory and regulatory bodies which have recently approved or re-approved Open University programmes include BCS - The Chartered Institute for IT and the Association of MBAs.

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

Equality and Diversity

For more than 40 years, The Open University has been promoting social justice and equality of opportunity. It is core to the mission and is as important today as it was when the University was founded. Nine institution-wide equality objectives have been published. There are objectives for both students and staff and relate to the individual equality characteristics of age, disability, ethnicity, gender, religion or belief, sexual orientation, pregnancy and maternity, caring responsibilities, gender identity and, in Northern Ireland, community background. Further information is available on the University's equality and diversity website: www.open.ac.uk/equality-diversity/.

At 31 July 2016, 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	7	3	9	6	16	9
Senior Managers (excluding Council Members)	7	3	0	0	7	3
All Other Employees	3,642	5,446	n/a	n/a	3,642	5,446

The staff numbers above are based on staff in-post as at 31 July 2016, whereas the staff numbers in note 7 on page 62 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.

Public Interest Disclosure

The University ensures that its Public Interest Disclosure (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 the Council, to ensure fitness for purpose. The Policy was reviewed in February 2016. Associated procedures, communications and training are planned for review in the 2016/17 financial year. One disclosure was made during the year ended 31 July 2016; the case was investigated and closed without ongoing concern.

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 pages 27 to 28, 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: this process incorporates a review of capital expenditure and cash generation and so should enable any necessary future borrowing requirements to be negotiated well in advance of need.

Foreign currency earnings are small The University's foreign currency earnings form a very small proportion of total income and hence the overall exposure to exchange rate risk is small. Even when indirect foreign currency earnings, i.e. amounts invoiced in sterling to customers based outside the UK, are taken into account, 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's Finance and Investment Committees keep the treasury and investment policies under close review and have amended these policies as 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 invested in managed equity based funds and UK gilt-edged stocks of less than five years to maturity.

Since January 2014 the University has split its liquid resources into two separate elements managed on two bases:

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

Long-term basis 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 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 in very uncertain markets, when the timing of cash flows is changing, remains the minimisation of risk: it limits and monitors the level of funds that may be placed in fixed term deposits, money market or invested in equity based investment funds and UK gilts. Policies, incorporating clearly defined controls and reporting requirements, are in place to monitor credit and market risk, ensure sufficient liquidity, as well as to maintain the operating financial flexibility of the University. Interest income is, however, a small proportion of total income and so, overall, there is low vulnerability to changing interest rates. The investment return from the short-term fund is viewed as satisfactory in such a low interest environment.

On creation of the fund managed on a long-term basis, capital of £80 million was split equally between two funds selected for their contrasting investment approach, albeit with the same long-term investment return target. This split is designed to provide a measure of capital protection in different market conditions. Both managers were chosen for their high conviction styles: neither follow particular indices, as would be the case for more passive investment managers; this can provide some protection at times of high market volatility (as has been the case both immediately before and after the end of the University's financial year). 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. The first fund is managed by Baillie Gifford and the second fund is managed by Ruffer. Whilst returns on the long-term funds need to be viewed over a five year horizon, both funds have produced returns above target in the two years since the original investment, in difficult market conditions.

Treasury and Investment Management (continued)

The broad composition of the equity based funds comprising the long-term fund at 31 July 2016 is as follows:

	Baillie Gifford	Ruffer
International equities	**75%**	**36%**
International bonds	**17%**	**0%**
International index-linked bonds	**1%**	**35%**
Cash, gold and short-term bonds	**7%**	**29%**
	100%	**100%**

The fund and counterparty profile of the University's gilts, equity based investment funds, and term deposits as at 31 July 2016 is set out in Note 15 and is reproduced below along with the profile of cash balances.

	As at 31 July 2016		As at 31 July 2015	
	£m	**% of grand total**	£m	% of grand total
Gilts – Direct Holdings	**91.8**	**24%**	125.7	32%
Equity Based Investment Funds at market value	**94.8**	**25%**	87.9	23%
Money Market Funds - escrow for VAT refund	**0.0**	**0%**	53.2	14%
Banks – Term Deposits	**25.0**	**6%**	25.2	7%
Total Gilts, Equities and Term Deposits	**211.6**	**55%**	292.0	76%
Money Market Funds - other	**101.0**	**26%**	46.0	12%
Banks – Overnight Deposits	**70.9**	**19%**	47.9	12%
Total Cash Balances	**171.9**	**45%**	93.9	24%
Grand Total	**383.5**	**100%**	385.9	100%

The recent Brexit decision introduces uncertainty into the future performance of the investment portfolio. The dramatic fall in equity markets immediately following the results of the referendum would have been expected to follow through to a similar fall in the value of the University's equity investments. However, the particular funds the University has invested in showed significant increases in value in the last two months of the year, increasing by £5.7 million to £94.8 million. This does not mean that these funds are immune to future effects of Brexit, and they should not be seen as a predictor of future performance – indeed the recent increase in valuation may have little to do with Brexit. However, it does show that some of the aftermath of the referendum result may be unexpected.

All of the University's longer term investments listed above are held in Sterling so any fluctuations in the currency markets will have no direct effects on their valuation. Knock-on effects to the gilts and other funds are likely but at this stage unknown. The University holds some overnight bank deposits in US Dollars and in Euros. These are used to fund overseas activities and the fluctuations in exchange rates through the year have led to exchange gains of £1.1 million during 2015/16; £0.8 million of this related to the period before the Brexit vote, £0.3 million after. In the short time since the Brexit decision there has been no significant effect on the University's other investments.

Long-Term Borrowing Facility

The University has a committed long-term borrowing facility with Royal Bank of Scotland 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.

Creditor Payment Policy

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.

Accounting Policies

The Group financial statements have been prepared in accordance with the Statement of Principal Accounting Policies set out on pages 50 to 54, which are in accordance with applicable United Kingdom Accounting Standards. The University's Audit Committee has reviewed the Group's accounting policies and considers them to be the most appropriate to the Group's operations.

The Financial Reporting Council issued FRS 102 *The Financial Reporting Standard Applicable in the UK and Republic of Ireland* in March 2013; this is the first year that the University will report under the new standard. The new Statement of Recommended Practice for Further and Higher Education was published in March 2014 in response to FRS 102 and the University's accounting policies have been revised accordingly.

A description of the impact of adopting the new SORP appears on page 26 and a detailed reconciliation between the results under the old SORP and the restated results under the new SORP appears in Note 26 on pages 81 to 89.

Pensions

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

The disclosures in Note 25 in respect of USS refer to the latest 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 and the USS introduced changes to the pension scheme to address the deficit. The changes to the scheme were included in the assumptions used by the actuary in arriving at these funding deficits. The scheme trustee carried out an interim valuation at 31 March 2016; the funding level under the scheme specific funding regime at this point was 85%.

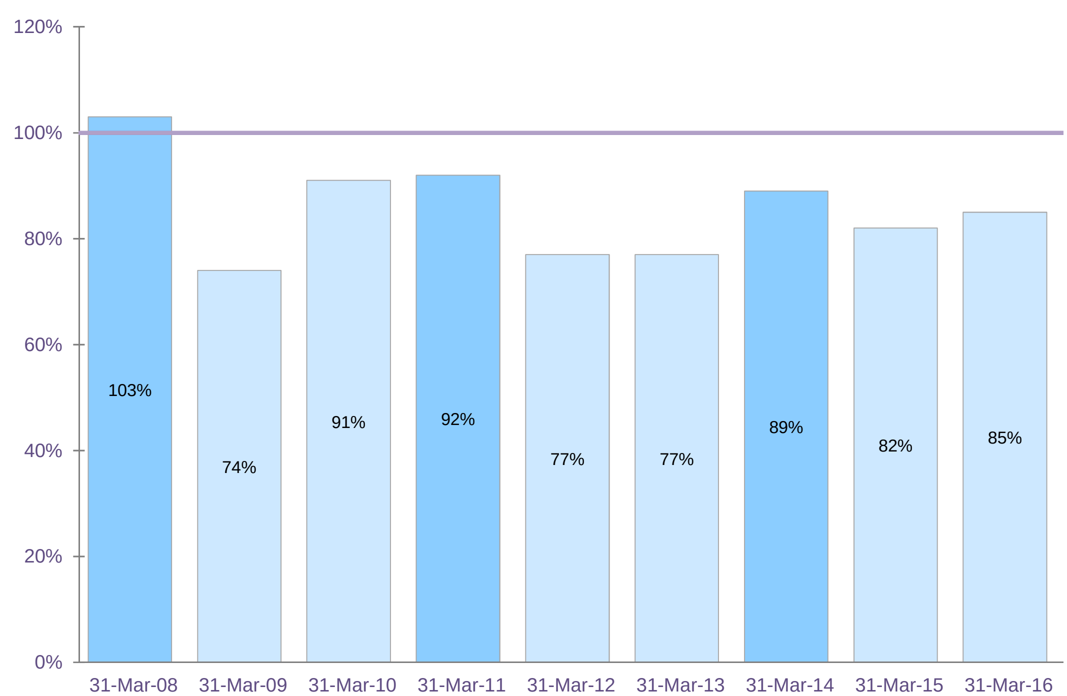
The main changes to the scheme benefits were that after 31 March 2016 benefits would be accrued annually for all members rather than on final salary, benefits would accrue on the basis of 1/75th instead of 1/80th and by 1 October 2016 there would be a new defined contribution benefit for those whose salary is in excess of a salary threshold, currently £55,000 per annum. Any benefits that had been built up by 31 March 2016 would be preserved. In tandem with the benefit changes, 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 £61.4 million (31 July 2015, £63.0 million) in respect of its commitment to the USS deficit recovery plan, shown in Note 18 on page 73. 2015/16 is the first year that scheme employers have been required to include a liability for this deficit. The revised plan along with the changes to scheme benefits are expected to eliminate the deficit by 2031.

Further information on the scheme changes, the deficit recovery plan and the assumptions made in the actuarial valuation can be found in Note 25 on page 78.

Funding Level of USS

The funding levels since 2008 are shown in the following graph. The bars in bold show the results of full actuarial valuations and the other bars show the results of interim actuarial estimates.



Results for the Year

This year is the fourth year under the new funding regime in England and the first reported under FRS 102. Since students in England comprise more than 80% of all students, the continuing effects of the changes can be seen in the result for the year, most notably in the anticipated reduction in student numbers, further increase in tuition fee income and decrease in funding body grants.

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

Income

Income increased by £53.6 million or 13% to £475.2 million

Tuition fee income

Tuition fee income increased by £7.0 million or 3% to £248.0 million. The majority of the increase was in respect of fees paid by students, or on their behalf by their employers or the SLC, in England, which increased by £7.4 million or 4% to £203.4 million. This increase is a result of the changes in funding regime discussed in the section on Public Benefit and Sources of Funding on pages 11 to 15. This was offset by a combined decrease in fee income outside England of £0.4 million.

Funding body grants

Funding body grants decreased by £4.8 million or 4% to £123.1 million largely as a result of the reduction in recurrent grant from HEFCE; this decreased by £7.4 million or 9% to £75.3 million but still represents 68% of all recurrent grants from the various funding bodies. Total recurrent grants from other funding bodies decreased by £0.7 million to £35.4 million. Specific grants increased by £3.3 million to £12.4 million due largely to an increase in grants received from HEFCE.

Research grants and contracts

Income from research grants and contracts decreased by £1.3 million or 8% to £15.3 million, due largely to decreases in research tax credits that are no longer available to universities.

Other income

Other income increased by £22.0 million (99%) to £44.3 million, due to the receipt of a VAT refund of £21.0 million from Her Majesty's Revenue and Customs.

Investment income

Investment income increased by £30.3 million or 263% to £41.8 million. This was due largely to interest received in respect of the VAT refund of £31.7 million.

Endowments and Donations

These increased by £0.4 million (17%) to £2.7 million

Expenditure

Expenditure decreased by £38.9 million or 9% to £416.7 million

Staff costs

Total staff costs decreased by £33.1 million or 11% to £282.1 million. £32.4 million of this decrease resulted from a reduction in the charge related to the provision for the deficit in the USS and £9.2 million from decreases in staff numbers and changes to the mix of staff. Annual pay awards, progression of staff up incremental pay scales and changes to national insurance and pension rates resulted in an increase of £7.0 million whilst the new restructuring scheme combined with the end of previous schemes led to an increase of £1.3 million.

Other (non-pay) operating expenses

Other (non-pay) operating expenses, excluding depreciation and interest, decreased by £7.1 million or 5% to £125.4 million.

Surplus

Surplus before tax of £58.5 million compared to a deficit of £34.0 million last year.

Adjusted surplus from operating activities *

Adjusted surplus from operating activities of £10.4 million (2014/15, deficit of £10.5 million).

* The adjusted surplus from operating activities is explained on page 24; it excludes non-operational items: USS deficit provision, unrealised gains on equity based funds and other significant one-off items.

Results for the Year (continued)

The surplus before taxation of £58.5 million is an improvement of £92.5 million since 2014/15. The surplus represents 12% of income. There were two significant unusual factors that contributed to the results in 2015/16:

VAT refund	The recognition of £53.3 million in respect of a refund of VAT, interest and costs from HMRC (discussed in note 24). This case has been running for some years and was settled in the University's favour following a Court of Appeal judgement in March 2016.
Reorganisation costs	Costs of £12.7 million related to the reorganisation of the University's physical locations in England. £2.0 million of this was expensed during the year and £10.3 million is included as a provision. The remaining £0.4 million was capitalised and is included in the balance sheet. This reorganisation will improve the support offered by the University's student recruitment and support centres.

Expenditure in the year included £34.1 million on strategic projects, including £12.3 million on reorganisation costs and £8.8 million on the set-up phase of FutureLearn Limited.

Operating Activities

The results for the year include volatile items over which the University can exert little direct control, and items that are not influenced by the day to day operation of the University. This measure of Adjusted Surplus or Deficit from Operating Activities extends the commonly used EBITDA measure by also removing the effects of the USS deficit provision and other significant one-off items. The results are summarised in the table below:

	Consolidated		University	
	Year Ended 31 July 2016 £m	Year Ended 31 July 2015 £m	**Year Ended 31 July 2016 £m**	Year Ended 31 July 2015 £m
Surplus / (Deficit) for the year after tax	**58.4**	(34.2)	**65.3**	(29.5)
USS deficit provision adjustments	**(1.6)**	30.0	**(1.8)**	29.6
Unrealised gains on equity based funds	**(5.4)**	(6.3)	**(5.4)**	(6.3)
Significant one-off item: VAT refund	**(53.3)**	0.0	**(53.3)**	0.0
Significant one-off item: Restructuring	**12.3**	0.0	**12.3**	0.0
Adjusted Surplus / (Deficit) from Operating Activities	**10.4**	(10.5)	**17.1**	(6.2)

The overall Adjusted Surplus from Operating Activities of £10.4 million (2.5% of adjusted operating income) meets the financial strategy target outlined on page 27.

Cash Flow

The Financial Highlights on page 2 show a Group net cash ouflow from operating activities of £7.1 million, an improvement of £16.3 million compared to the previous year. This change is due to the improvements in the adjusted surplus from operating activities generated by the University as outlined on page 24 and the ongoing transition of funding from funding body grants (which are received during the financial year) to tuition fees (which are received from the SLC in instalments over the length of each module). The increase in cash and cash equivalents was £78.0 million (2014/15: decrease of £52.3 million), due to the factors outlined above, along with the movement of the VAT refund and interest of £52.7 million that had been received in 2013 from deposits to cash; it is the recognition of this exceptional gain that accounts for the large discrepancy between the reported surplus and the net cash outflow from operating activities.

Capital Projects

During the year two buildings that have been occupied by the University for many years under leasehold arrangements were purchased; there were also other minor additions to land and buildings. The total capital expenditure in the year was £11.7 million (2014/15, £0.1 million). The Estates Committee monitors the condition of the University's buildings; the latest building condition review concluded that 99% were in the top two categories, either 'as new' or 'sound, operationally safe and exhibiting only minor deterioration'.

Balance Sheet

Tangible assets totalled £273.6 million at 31 July 2016, an increase of £4.6 million since 31 July 2015. The increase is a result of the purchase of two buildings that the University had occupied for many years on a leasehold basis, offset by the annual depreciation charge.

With the exception of those funded by the SLC, the University's tuition fees are payable in advance of modules starting. This results in the University holding cash at the balance sheet date due to modules partially completed at 31 July (£22.9 million as shown in Note 16 on page 71) and in respect of modules starting in the following financial year (£34.0 million as shown in Note 16 on page 71).

2015/16 is the fourth year that some tuition fees in England were payable by students via the SLC and the amount outstanding at 31 July 2016 was £7.8 million (a decrease of £0.4 million since 2014/15), as shown in Note 14 on page 69.

For several years, the University's financial statements have disclosed the existence of a claim for the repayment of VAT incurred over the period 1973 to 1994. The period from 1973 to 1978 was settled in 2011. A favourable judgement of the First-tier Tribunal in respect of the remaining period was received in June 2013 and the payment of £52.7 million was received from Her Majesty's Revenue and Customs (HMRC) during 2013/14. HMRC subsequently appealed the decision and then appealed the Upper Tribunal's judgement in favour of the University in May 2015. In March 2016 the Court of Appeal ruled in the University's favour and the entire £52.7 million has been recognised in the 2015/16 financial year along with the award of £0.6m in costs.

The University has made a provision at 31 July 2016 of £10.3 million in respect of the restructuring of its operations in England, as explained in Note 9 on page 65. The provision for the deficit in the USS pension scheme, discussed on pages 22, 24, 26 and in Note 25, reduced by £1.6 million to £61.4 million at 31 July 2016.

Adoption of FRS 102 and the 2015 SORP

Financial Reporting

These financial statements are the first to be prepared based on Financial Reporting Standard 102 (FRS 102), which has been incorporated into the rewritten SORP. The results for 2014/15 have been restated as a comparative using FRS 102 and the 2015 SORP.

The majority of the financial statements are unchanged under the 2015 SORP; however, there are some material changes compared to the 2014/15 published financial statements as described below:

Tangible assets	The University has taken advantage of the opportunity to undertake a one-off revaluation of its estate as at 31 July 2014. The balance sheet at 31 July 2014 reflected an increase in tangible assets of £130.3 million, and at 31 July 2015 of £132.7 million. The revaluation also provided updated information on estimated remaining useful lives of the buildings and the depreciation charge was adjusted as a result.
Current asset investments	These have been valued at market value rather than cost and so unrealised gains of £6.3 million that were not recognised previously have now been included in investment income in 2014/15, and £5.4 million in 2015/16.
USS Pension Deficit	As discussed on page 22, Accounting Policy 6 on page 51, and in Note 25, there is a deficit in the USS pension scheme. The Group's commitment to fund the deficit recovery contributions have been included as a liability for the first time. The liability is likely to be volatile even though the recovery contributions themselves are expected to be at a fixed proportion of salary costs for at least six years. The provision at 31 July 2015 was £63.0 million and at 31 July 2016, £61.4 million.
Revenue from grants	Revenue and capital grants have been recognised on entitlement, meaning that grants awarded with no performance conditions have been recognised in full once awarded. This means the annual release of funds from deferred capital is no longer carried out, and that a small number of grants have had their recognition timing adjusted. The combined effect in 2014/15 was a reduction in grant income of £6.4 million.
Reclassifications	There have been some reclassifications within the balance sheet, the most significant of which is the movement of investments with a maturity at inception of less than three months to cash at bank. The movement at 31 July 2015 was £10.0 million and at 31 July 2016 £25.0 million.
Disclosures	There are additional disclosures within the financial statements and the notes to the accounts.
Income and expenditure	The changes above will lead to increased volatility in the results reported from year to year, over and above any variations that result from operational factors. The result reported for 2014/15 under old SORP was a deficit of £7.5 million; under the 2015 SORP the result was a deficit £34.2 million. This movement was due to accounting standard changes only, and not due to any change in operational activities or to any additional cash inflow or outflow.

The notes to the financial statements include a comprehensive section to explain the transition adjustments to the balance sheet, and the Income and Expenditure Statement (the 'Statement of Comprehensive Income' in the 2015 SORP) on pages 81 to 89.

Financial Strategy

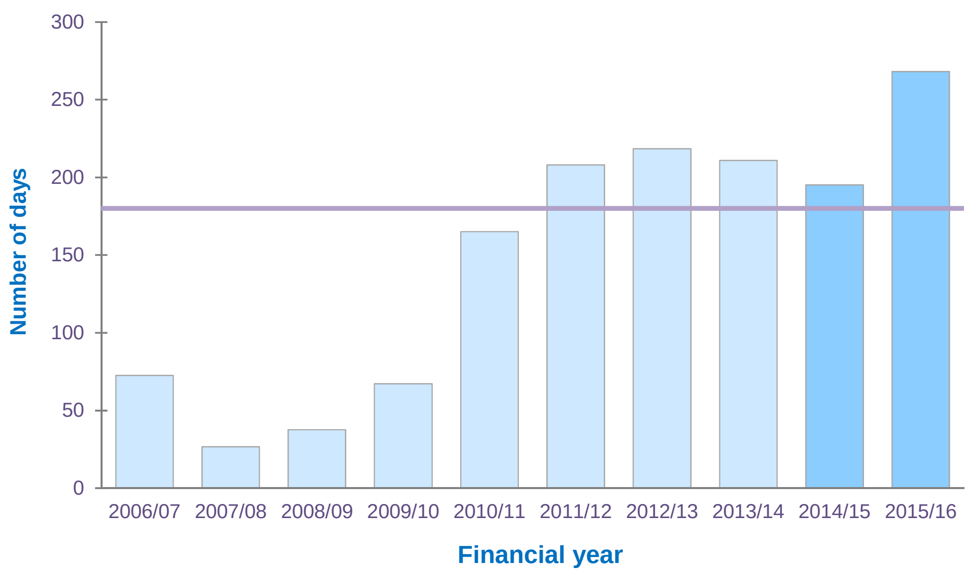
The University's financial strategy is designed to maintain financial flexibility at all times. It was reviewed in 2015/16 and Finance Committee and Council agreed that it should be expressed through three parameters:

Net Current Assets	To maintain net current assets at a minimum of 180 days' 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.
Borrowings	To restrict the maximum level of borrowings to the value of £62 million.

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

Net Current Assets

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 the following graph. In 2014/15 the University transitioned to the new SORP. The impact of this transition was to reduce the number of days cover by 14 days, from 209 days to 195 days. It is not possible to show the days' cover under the 2015 SORP prior to 2014/15. However, the chart below shows the history of the measure under the old SORP and under the 2015 SORP (in bold) compared to the target of 180 days of expenditure.



For the purposes of the parameter relating to net current assets, committed bank facilities are treated as being equivalent to net current assets. In October 2008 the University repaid the entire long-term loan of £60.0 million leaving in place the underlying committed facility, in order to reduce its exposure to counterparty default in respect of its deposits. As a result of this decision, the amount repaid was reclassified from long-term liabilities to current liabilities as at 31 July 2008. This reduced reported net current assets at 31 July 2008 to 27 days' worth of expenditure, as shown in the chart above. The committed facility of £60.0 million was subsequently drawn down in April 2011.

At 31 July 2016, net current assets were £306.1 million, an increase of £62.5 million (26%) from the previous year's figure of £243.6 million. The 2016 figure represented 268 days of expenditure; this includes the impact of the draw-down of the committed loan facility of £60.0 million, in itself equivalent to 53 days of expenditure.

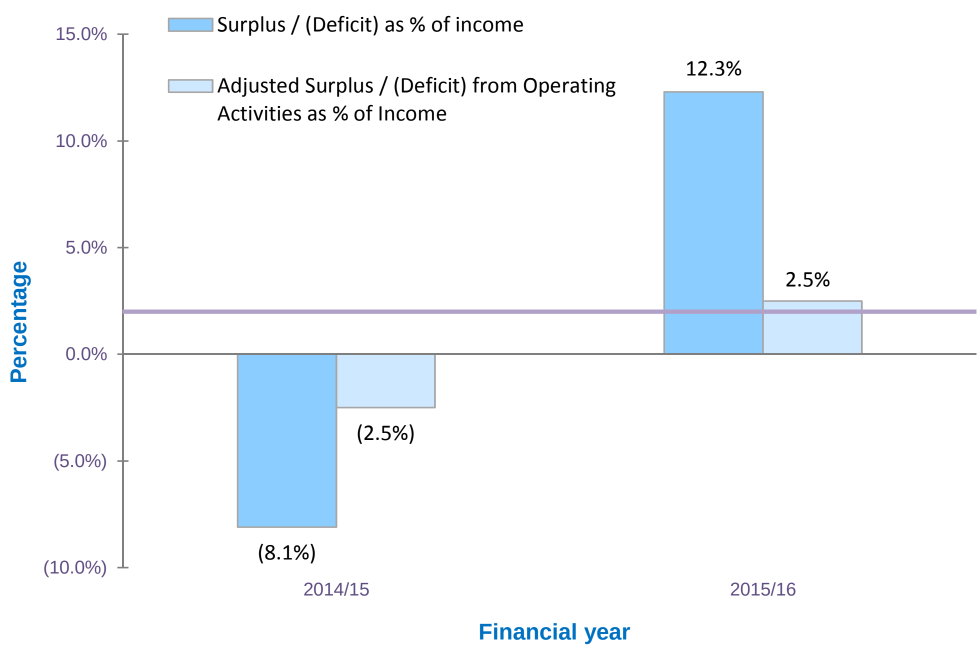
Financial Strategy (continued)

Income and Expenditure

The Adjusted Surplus from Operating Activities for 2015/16 as a percentage of income was 2.5%. This compares to the target of 2%, discussed on page 27, and to the 2014/15 figure of -2.5%.

Expenditure during the year also included spend on strategic projects, discussed on page 24. The aggregate of the results over the past four years is in line with the target, even after incurring an aggregate spend of £108.2 million on strategic projects.

The financial strategy measure of surplus changed as a result of the adoption of the 2015 SORP and it is therefore not possible to present the long term trend. As discussed on page 26, the adoption of the 2015 SORP is likely to introduce volatility in the reported results, and this is demonstrated in the graph below, which compares the reported surplus or deficit with the financial strategy measure of Adjusted Surplus / (Deficit) from Operating Activities and the target of 2%. The measure has the effect of smoothing the peaks and troughs and allowing a meaningful year-on-year comparison of results.



Borrowings

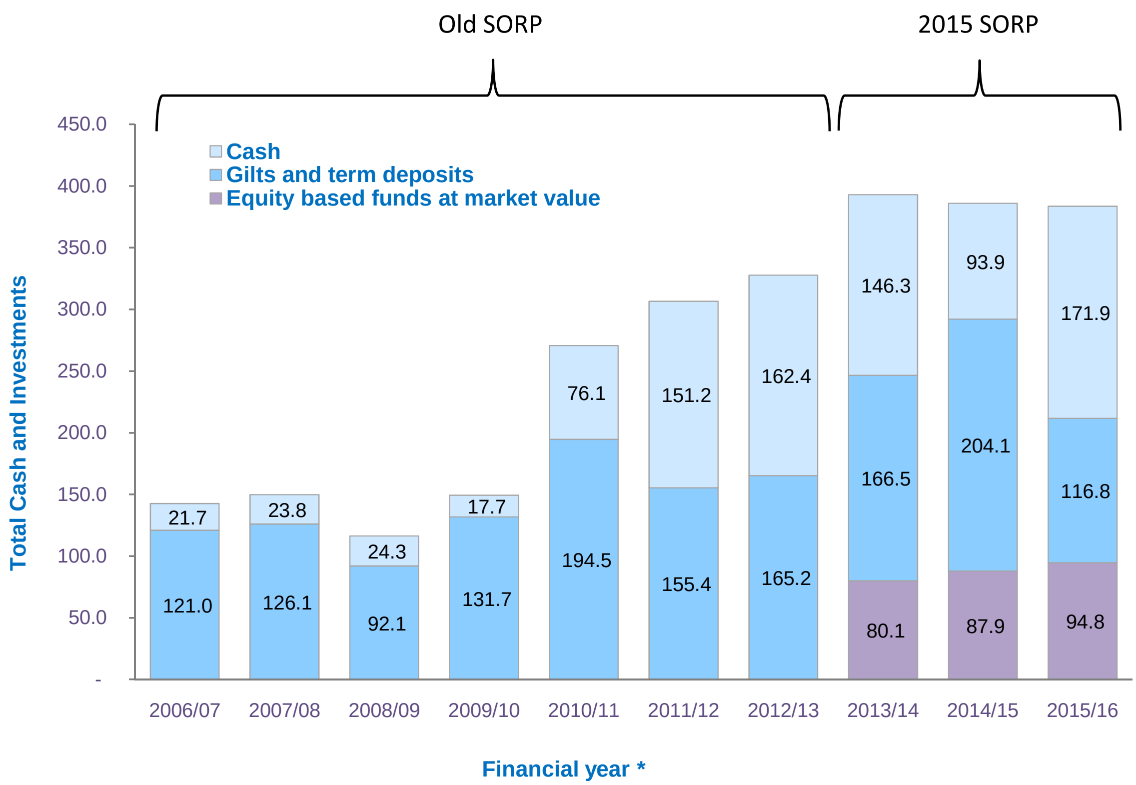
The Group has one long term loan in place – a bank loan of £60.0 million secured on part of the University's Walton Hall campus and repayable in 2033.

Going Concern and Long-Term Sustainability

The University's activities and major risks can be found on pages 5 to 15; financial information, including performance against the financial strategy can be found on pages 23 to 28, and the factors likely to affect future developments, performance and position are set out in the following section on pages 32 to 34.

The University regularly reviews its business strategy and related risks, as outlined on pages 5 to 10. 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 HEFCE, 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.

In late 2012 the University entered a time of uncertainty across the entire UK higher education sector with considerable financial resources at its disposal. Action was taken over three years to increase the level of cash and investments by £190.2 million, from £116.4 million at 31 July 2009 to £306.6 million at 31 July 2012. This was achieved through a combination of the drawdown of the £60 million loan facility in April 2011, which is repayable in 2033, a targeted cost reduction programme and the maintenance of student number levels. The changes to funding described on pages 11 to 15 led to deficits in 2013/14 and 2014/15. After the one-off cash inflow of £52.7 million in 2013/14 relating to the VAT and interest refund, discussed in Note 16 on page 71 and Note 24 on page 77, the levels of cash and investments at market value remain at healthy levels; the aggregate £383.5 million holding at 31 July 2016 compares well with the historic figures, as shown in the chart below and discussed in more detail on pages 19 and 20.

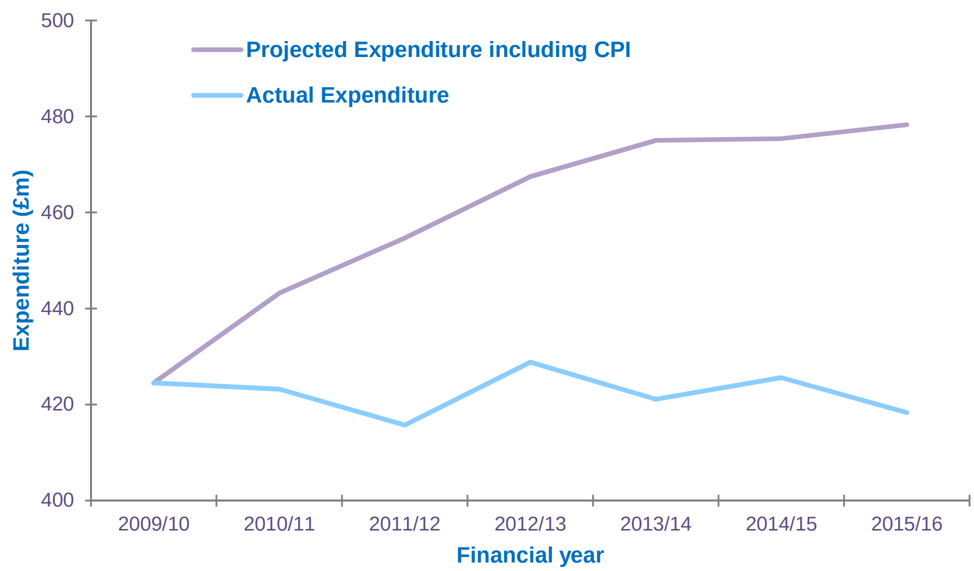


* The columns for 2013/14 to 2015/16 are based on the 2015 SORP, the columns for the previous years are based on the old SORP. The effect of the changed SORP on this chart has been to reclassify some resources from 'gilts and term deposits' to 'cash'; the total has not materially changed.

Going Concern and Long-Term Sustainability (continued)

The chart on page 28 showing adjusted surplus from operating activities as a percentage of income in the last two years, demonstrates a return to surplus in 2015/16. The chart on page 27, showing the days expenditure represented by net current assets, confirms that the target of 180 days was achieved by 31 July 2012 and has been maintained thereafter, at 268 days at 31 July 2016. The third element of the financial strategy, to restrict the maximum level of borrowings to the value of £62.0 million, continues to be within the target.

The Open University has experienced a period of considerable change in its funding environment, as described in the section on the sources of funding on pages 11 to 15, and described in previous financial statements over a number of years. The University undertook extensive market research to prepare for these changes and implemented a UK market strategy, including pricing levels designed to support the University's mission to widen access whilst maintaining financial sustainability over the long-term. A comprehensive cost control strategy was implemented, the effect of which has broadly been to maintain expenditure in cash terms, eliminating the effects of inflation. The chart below compares actual expenditure (excluding the effects of the USS deficit recovery plan) with projected expenditure including the effects of the annual consumer price index increase at 31 July every year, using actual expenditure in 2009/10 as a baseline. The cumulative difference between this CPI-adjusted projected expenditure and actual expenditure over the six years is £261.0 million.



Figures up to and including 2013/14 are based on the old SORP, from 2014/15 figures are based on the 2015 SORP (but excluding the effects of the USS deficit recovery plan).

This tight control of costs has enabled the University to manage the reductions in student numbers discussed on pages 14 and 16 whilst minimising the fees charged to students. A comparison of the University's fees with those charged by many other Universities in England appears on page 33. The action to control costs has supported the University's mission by providing cost-effective higher education for its students, thereby maximising student numbers within the constraints of the funding environment in which the University operates (as described on pages 11 and 12).

Going Concern and Long-Term Sustainability (continued)

The deficit reported in 2014/15, whilst disappointing, was not unexpected, and, as discussed above, the University had put plans in place to absorb these results. The financial statements for 2015/16 show a return to a healthy surplus, even after the effect of the one-off refund of VAT is removed (discussed on pages 71 and 77). The latest financial modelling shows that time-limited strategic spending may lead to a small deficit in 2016/17, followed by a surplus the following year. The most recent student recruitment information largely supports the forecasts on which the 2016/17 budget was based.

The recent Brexit decision has introduced uncertainty into aspects of the University's business model, as discussed on pages 10, 12, 17, 20 and 33. Less than £15.0 million (6%) of the University's tuition fee income comes from the European Union; this is not an insignificant amount although it is small when compared to the income generated from students in England (£203.4 million). The weakening of sterling against the Euro may make The Open University more attractive to EU students, although economic factors could work against this. As the University has a presence in all four UK nations, it is exposed to the potential for further independence referenda amongst the nations of the UK arising from the Brexit decision. However, the key factor at this early stage in the Brexit process for The Open University is uncertainty and this has been reflected in the section on risk on page 10, and is demonstrated by the unexpected significant increase in the market value of the University's equity investments in the last two months of the year, discussed of page 20. The decision in 2009/10 to build up reserves in order to deal with the issues known at that time now appears more prescient and further developments will be monitored closely and appropriate action taken.

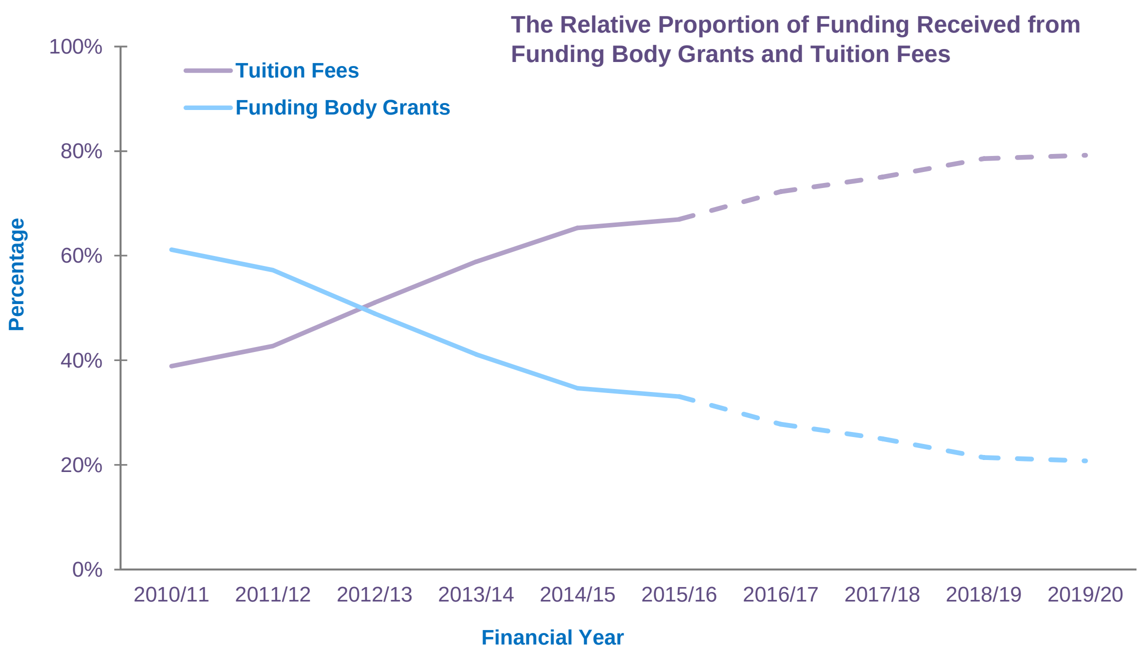
Despite the recent pressures brought on by changes in funding mechanisms and the uncertainty following the Brexit decision, the University's underlying financial health remains robust.

The Council also reviews its performance against its key measures of success in an institutional performance report. This provides Council with the opportunity to track a selection of measures that are key to the University's success, and to ensure that the University's management team have effective processes in place to make any improvements necessary. The measures include information on student recruitment, student retention, student experience, human resource-related measures and financial measures, including monthly and annual cash flow forecasts.

The Group's forecasts and projections to 2018/19, taking account of the future developments discussed on pages 32 to 34 and 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.

Future Developments

The way in which universities in the UK are funded has changed significantly in recent years and is discussed on pages 11 to 15. Despite the changes in funding around the UK, since the number of Open University students in England comprises more than 80% of the total number of students, it is possible to provide a broad view of how the University's mix of grant funding and tuition fees is likely to change over the next few years, as shown by the chart below.



Sources of funding should stabilise by 2018/19

The relative proportion of funding received from funding bodies and tuition fees had been stable for many years up to 2011/12, the final year under the old, mainly grant-funded, regime. As transitional teaching grants from HEFCE have reduced the proportions have changed. Current expectations are that the relative mix from the two sources of funding should stabilise by 2018/19, although it is clear that this is subject to changes in policy enacted in any of the four UK nations. In addition, there are no plans to move away from the grant-funded regime in Scotland, and the University also receives some Funding Body Grants for specific activities and projects. There will therefore continue to be a proportion of Funding Body Grant Income in the longer term.

Undergraduate pricing for the other UK nations and postgraduate courses for all areas has been kept at similar levels to those presently charged, after allowing for inflation.

Teaching grants are receivable from UK funding bodies only for those students that complete their specified studies in the year; similarly fee instalments are payable by SLC only if a student remains in active study at the date each instalment is due. Thus a student's personal objectives and the University's educational and financial objectives are aligned: this is reflected in the University's strategic objective to deliver more students qualifying (as set out on page 6) and is reflected in the principal risk of the failure to retain and support students to achieve their study goals (as described on page 8).

Future Developments (continued)

Global events influence university funding	The significant changes to higher education funding, particularly for part-time students, have to be seen in the context of the global economic conditions. Following the recession that began in 2008 economic recovery world-wide has faltered since summer 2011, compounded by indebtedness in Europe and the United States of America. In the UK, unemployment has decreased, although the extent of changes to previously planned cuts in public expenditure is unknown.
The implications of Brexit will be multi-faceted but are uncertain	The timing of the UK exit from the European Union remains uncertain as well as the potential impact across a variety of areas. Much of the effect could be driven by economic necessities but it will be difficult to assign the cause of any economic downturn solely to Brexit; rather, the risk of economic conditions adversely impacting the HE sector can be said to have increased significantly. One significant change resulting from the Brexit vote and the resultant change in government has been the move in governmental responsibility for University teaching from the Department of Business, Innovation and Skills (now the Department of Business, Energy and Industrial Strategy) to the Department of Education. Funding for University research was not moved and so there are now two governmental departments in England with responsibility for university funding. The University has identified a number of interrelated elements that it will monitor as the Brexit negotiations develop: tuition fees from EU students, research income from the European Commission; the status of non-UK staff; and, UK political considerations. The effect on the University of any of the changes are not possible to predict with any degree of certainty, and could be positive or negative.
The part-time market in the UK has declined	In April 2014 HEFCE published a report on the economic and policy influences on part-time higher education. The key finding was that the number of part-time UK and EU undergraduate entrants in 2013/14 almost halved compared to 2010/11. The key contributors to this decline were identified as: the rise in part-time fees; entrants with financial backing from their employers almost halving; and, wider comparisons among the UK nations showing that part-time decline in England appear to have been affected by a range of policy changes alongside economic effects.
The Open University has a distinctive proposition	There is potential for universities, and especially for The Open University, to provide an attractive solution for those who need to retrain for new careers or to protect current jobs. The Open University offers the ability to study whilst in employment, and its 2015/16 fee of £5,400 per full time equivalent compares favourably with other universities in England, many of which have charged the maximum £9,000. The Open University's share of the UK undergraduate part-time market continues to grow despite the overall declining market. The Open University is also well-placed to engage with the Government's new drive to deliver 3 million apprenticeships in England by 2020. Three new Open University degree Apprenticeship Programmes will be launched in 2016/17 as part of a new partnership with KPMG LLP, with the first presentations beginning in 2017/18.

Future Developments (continued)

The Open University has considerable strengths to help it weather the changes in Government policy and the uncertain economic climate and take advantage of the opportunities that will be presented in this new environment. It is the leader in the UK part-time higher education market, with a growing market share, and is the only university that can operate at scale throughout the UK, thus having the capability of fulfilling a national role. With its open access policy, it promotes fair access for all who want to study higher education courses and so has a substantial and unique contribution to make to widening participation in the UK. The Open University has earned a world-wide reputation for the quality of its teaching. It is rated amongst the best in the UK for the excellence of its materials and for its approach to supported open learning, which uses methods and technologies that are appropriate to the students and their learning needs. This has been confirmed by the University's very high placings for its students' overall satisfaction in the National Student Survey for ten years.

International Activities

On the international front, the University has maintained its direct teaching activities in Europe and its partnership activities in the rest of the world. Through these activities more than 8,000 students in 130 countries register on the University's modules annually. The University is boosting its involvement in teaching in Africa and Asia by working with a variety of public and private organisations. The University is putting its international activities on a more commercial footing, except where they can be funded from philanthropic donations, in view of the loss of UK public funding over the next few years.

In September 2013 a subsidiary of the University, FutureLearn Limited, launched the UK's first massive open online courses in partnerships with twenty-one UK and two overseas universities. FutureLearn now has eighty four partners from across the world, including a number of internationally renowned cultural institutions. The courses are free to users, who may choose to pay for additional services. Out of 5.4 million course registrations with FutureLearn, more than 520,000 learners registered on Open University MOOCs during the year. As with the University's other extensive open educational resources, the FutureLearn courses are expected to create interest in its core credit bearing curriculum.

Research

The University approved a new strategic plan for its research, Research Shaping the Future, in January 2015. The Plan outlines three priorities for research that aim to strengthen the University's academic reputation and secure its sustainability by: (i) building its position for the next Research Excellence Framework exercise; (ii) creating a focus on strategic research areas; and, (iii) improving the environment for research at The Open University. Proactive planning for the next REF has now commenced and the University will be aiming to further build on the improvement to its quality profile as assessed by REF2014, in particular to increase the proportion of research assessed as world leading (4 star). In 2016/17, in light of our new institutional strategy, Students First, we will be looking to update our strategic plans for research to bring these in line with our broader aspirations for Academic Excellence.

Although concentration of, and competition for, research funding continues to be a concern, not least due to the uncertainty of the impact of Brexit, the University is continuing to put in place measures to improve its income capture, including more targeted support for large and collaborative bids, particularly focusing on areas where the University has recognised or emerging world leading research strengths.

To both further diversity external income and increase the impact of the University's research, we will be aiming to deliver a step change in our knowledge exchange and enterprise (KEE) activities in the coming years, with an emphasis on leading and driving forward local initiatives and opportunities to develop a stronger regional footprint. In 2016/17, we will be deploying our Higher Education Innovation Funding (HEIF) to enhance the capacity and capability of our academics to more actively and widely contribute to institutional KEE endeavours. HEIF will also be used to drive forward knowledge exchange from our strategic research areas, to support KEE initiatives in Milton Keynes and the wider region.

Alongside our new Graduate School and our recently funded Economic and Social Research Council (ESRC) Doctoral Training partnership with Oxford and Brunel Universities, we will look to develop further Doctoral Training Partnerships within the UK and consolidate our network of Affiliated Research Centres around the world, further building and strengthening The Open University postgraduate research student community.

People

The University's consistently excellent performance in the National Student Survey and its sound financial position are down to the professionalism and commitment of its 9,000 employees. The Council thanks each one for their hard work over the past year in a challenging environment to position the University so strongly for the future.

The following members of Council retired from office in the last year: Mr J Miller and Ms R McCool. The Council wishes to express its gratitude for their contribution. The University Secretary, Mr A F Woodburn, retired in October 2015 and has been succeeded by Mr K Zimmerman. Mr M S Hedges will retire as Group Finance Director at the end of December 2016 and the appointment process for his successor is underway.

The Council also wishes to express its appreciation to the alumni and supporters of the University who made donations and bequests in the year. The total received in the year from these sources was £2.7 million.

Approved by Council on 23 November 2016 and signed on its behalf by:

R W SPEDDING
Chair of Audit Committee

M S HEDGES
Finance Director

P J G HORROCKS
Vice-Chancellor

Corporate Governance and Accountability Arrangements

The Open University is a body incorporated by Royal Charter. Although the University does not have shareholders and is not a listed company, the University's Council is committed to achieving high standards of corporate governance in line with accepted best practice. Accordingly, the University's Council believes it is appropriate to report on compliance, as far as is practicable, with the appropriate provisions of the UK Corporate Governance Code issued by the Financial Reporting Council in September 2014.

Throughout the year ended 31 July 2016, and up to the date of approval of the financial statements, the University has been in compliance with all the Code provisions set out in the UK Corporate Governance Code insofar as they relate to universities.

In December 2014 the Committee of University Chairs (CUC) issued The Higher Education Code of Governance. This replaced the previous Governance Code of Practice, issued in 2009. 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. 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.

In respect of the year ended 31 July 2016, the University's Council can report that there was no element of either Code with which the University's practice was not consistent.

The University Council

The membership of the Council is set out in the University Statutes. At the date of approval of these financial statements there are 24 members comprising: ex officio and co-opted external members; the Vice-Chancellor; the President of the Open University Students Association (OUSA); and, a student and staff employees appointed after election. 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 OU 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 46 and 47 describes its responsibilities in respect of maintaining accounting records, preparing financial statements and accountability arrangements. It also summarises the University's system of internal control and its system of risk identification and management.

The Council has the following committees: an Audit Committee; a Development Committee; an Estates Committee; a Finance Committee; an Investment Committee (a subcommittee of Finance Committee), a Membership Committee; a Remuneration Committee; a Staff Strategy Committee; and, a Strategic Planning and Resources Committee (a joint committee with the Senate). All of these committees are formally constituted with terms of reference. The Chair of each committee is an external Council member, with the exception of the Strategic Planning and Resources Committee which is chaired by the Vice-Chancellor. The Council, on the recommendation of the Membership Committee, appoints all members of the Council who sit on these committees. The Council also appoints external members co-opted to Council committees. The corporate governance disclosures in respect of these committees follow those in respect of the Council itself.

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 University Council (continued)

The Council met four times during the year. The members of the University's Council during the year ended 31 July 2016, and their attendance at the meetings held during their membership in that year, together with members serving in the period after 31 July 2016 and up to the date on which the financial statements were approved, were:

Ex-officio members who are also officers of the University

Pro-Chancellor & Chair of the Council	Mr R Gillingwater (4/4)
Treasurer	Mr H R Brown (4/4)
Vice-Chancellor (Employee)	Mr P J G Horrocks (4/4)

Ex officio members

President, Open University Students Association	Mrs R Tudor (to 31 July 2016) (4/4) Mr C Pane (from 1 August 2016)

Elected members

Members of Senate (Employees)	Dr J Baxter (4/4) Mr J D'Arcy (from 1 August 2016) Professor J Draper (from 1 August 2016) Dr T O'Neil (4/4) Dr E Marr (from 30 April 2016 to 31 July 2016) (1/2) Professor H Rymer (to 29 April 2016) (2/2) Professor J Wolffe (4/4) Mr J M Yeo (to 31 July 2016) (4/4)
Associate Lecturers (Employees)	Mrs F Chetwynd (from 1 August 2016) Mr B Heil (to 31 July 2016) (4/4) Dr C Spencer (4/4)
Open University Students Association	Mr C Shaw (to 31 July 2016) (4/4) Mrs B Tarling (from 1 August 2016)
Non-academic Staff (Employee)	Mrs S Dutton (4/4)

External members co-opted by Council

Mr S Begbie (from 1 August 2016)	Mr J Newman (4/4)
Mrs R Girardet (4/4)	Mr R W Spedding (4/4)
Mr P Greenwood (3/4)	Mrs R Spellman (4/4)
Mr B S Larkman (to 8 April 2016) (1/2)	Professor W Stevely, Vice-Chair of Council (4/4)
Mrs R Lock (from 2 October 2015)(4/4)	Mrs S Unerman (2/4)
Mrs S Macpherson (to 31 July 2016) (4/4)	Dr G Walker (4/4)
Mr W Monk (4/4)	

Members of the Vice-Chancellor's Executive in attendance at Council meetings

University Secretary	Mr A F Woodburn (to 4 October 2015) Mr K Zimmerman (from 5 October 2015)
Finance Director	Mr M S Hedges
Director, External Engagement	Mr S Hill

Membership Committee

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

The Membership Committee met five times during the year. The members during the year ended 31 July 2016 and their attendance at the meetings held during their membership in that year, together with members serving in the period after 31 July 2016 and up to the date on which the financial statements were approved, were:

External members of Council	Mr R Gillingwater (5/5) - Chair Ms R Spellman (4/5) Professor W Stevely (5/5) Mrs R Tudor (3/4)
Employees	Mr P J G Horrocks (5/5) – Vice-Chancellor Professor H Rymer (to 1 May 2016) (3/4)

Estates Committee

The Estates Committee reviews and develops the University's estates strategy and related strategies for recommendation to Council. It reviews and recommends the rolling capital programme and monitors progress and expenditure thereon. It recommends expenditure proposals for individual capital development schemes and acquisitions to Finance Committee and Council.

The Estates Committee met once during the year. The members during the year ended 31 July 2016 and their attendance at the meetings held during their membership in that year, together with members serving in the period after 31 July 2016 and up to the date on which the financial statements were approved, were:

External member of Council	Mr W Monk (1/1) – Chair
Employees	Professor A De Roeck (to 31 July 2016) (1/1) Mr M S Hedges (1/1) Mr N Holt (1/1) Professor S Kelley (from 1 August 2016) Dr C K Lloyd (to 31 July 2016) (1/1) Mr D Matthewman (to 16 May 2016) (1/1) Mr N Macarte (1/1) Mr A F Woodburn (to 4 October 2015) (0/0) Mr J Wylie (from 1 August 2016)

Staff Strategy Committee

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

The Staff Strategy Committee met three times during the year. The members during the year ended 31 July 2016 and their attendance at the meetings held during their membership in that year, together with members serving in the period after 31 July 2016 and up to the date on which the financial statements were approved, were:

External members of Council	Mrs R Spellman (3/3) – Chair Mrs R Lock (from 24 November 2015) (3/3)
Other external members	Mr J Potts (2/3)
Employees	Mr A Burrell (3/3) Professor A Bassindale (to 1 October 2015)) (0/0) Mr D Knight (from 19 November 2015) (3/3) Dr C K Lloyd (to 18 November 2015) (0/0) Professor R Taylor (from 2 October 2015) (3/3) Mr A F Woodburn (to 4 October 2015) (0/0) Mr K Zimmerman (from 5 October 2015 (3/3)

Remuneration Committee

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.

The Remuneration Committee met once during the year. The members during the year ended 31 July 2016 and their attendance at the meetings held during their membership in that year, together with members serving in the period after 31 July 2016 and up to the date on which the financial statements were approved, were:

External members of Council	Mr R Gillingwater (1/1) – Chair Mr H R Brown (1/1) Mrs R Spellman (1/1) Professor W Stevely (1/1)

Remuneration of Council members

External members of the Council receive no remuneration for their services although expenses incurred in attending meetings are met by the University. Members of the Council who are employees of the University receive no additional remuneration for their services to the Council, although expenses incurred in attending meetings are met by the University. The aggregate expenses paid to or on behalf of members of Council in this capacity is disclosed in Note 8 on page 64.

Strategic Planning and Resources Committee

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

The Strategic Planning and Resources Committee met four times during the year. The members during the year ended 31 July 2016 and their attendance at the meetings held during their membership in that year, together with members serving in the period after 31 July 2016 and up to the date on which the financial statements were approved, were:

External members of Council	Mr R Gillingwater (4/4) – Deputy Chair Mr H R Brown (4/4) Professor W Stevely (4/4) Ms S Unerman (3/4)
Employees	Mr P J G Horrocks (4/4) – Vice-Chancellor - Chair Professor M Grady (to 31 July 2016) (4/4) Dr R Hilliam (from 1 August 2016) Mr R O Humphreys (3/4) Dr D Kodwani (from 1 August 2016) Professor A Lane (from 1 August 2016) Mr B Quinn (from 10 May 2016 to 31 July 2016) (1/1) Professor H Rymer (to 10 May 2016) (2/3) Mr M Staples (to 31 July 2016) (4/4)

Development Committee

The Development Committee is responsible to the Council for strategies and policies relating to activities to raise donations in support of the University's strategic objective to broaden its funding.

The Development Committee met three times during the year. The members during the year ended 31 July 2015 and their attendance at the meetings held during their membership in that year, together with members serving in the period after 31 July 2015 and up to the date on which the financial statements were approved, were:

External members of Council	Ms R Girardet (3/3) – Chair Mr R Gillingwater (2/3) Mr H R Brown (3/3)
Employees	Mr P J G Horrocks (3/3) – Vice-Chancellor Professor A De Roeck (3/3)
Officers in attendance	Mr M S Hedges (3/3) Mr S Hill (from 21 December 2015) (2/2) Mrs J Johnson (3/3) Ms E Prak (to 30 June 2016) (3/3) Mr A F Woodburn (to 4 October 2015) (1/1) Mr A F Woodburn (from 5 October 2015 to 20 December 2015) (1/1) Mr K Zimmerman (to 1 October 2015) (0/0)

Finance Committee

The Finance Committee reviews and then recommends to Council the University's annual revenue and capital budgets and monitors performance in relation to the approved budgets. It reviews and then recommends to Council the financial regulations and financial policies that are applied by management.

The Finance Committee met four times during the year. The members during the year ended 31 July 2016 and their attendance at the meetings held during their membership in that year (of whom the Chair and three others have recent and relevant financial experience), together with members serving in the period after 31 July 2016 and up to the date on which the financial statements were approved, were:

External members of Council	Mr H R Brown (4/4) – Chair Mr R Gillingwater (3/4) Mr B S Larkman (to 8 April 2016) (2/2) Mr J Newman (4/4)
Other external members	Ms N Advani (4/4) Mr R McCracken (4/4)
Employees	Mr P J G Horrocks (4/4) – Vice-Chancellor
Officers in attendance	Mr M S Hedges (4/4) Mr A F Woodburn (to 4 October 2015) (0/0) Mr K Zimmerman (from 5 October 2015) (4/4)

Investment Committee

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

The Investment Committee met twice during the year. The members during the year ended 31 July 2016 and their attendance at the meetings held during their membership in that year, together with members serving in the period after 31 July 2016 and up to the date on which the financial statements were approved, were:

External members of Council	Mr R Gillingwater (2/2) - Chair Mr H R Brown (0/2) Mr B S Larkman (to 8 April 2016) (1/2)
Other external members	Mrs C Banszky (from 1 August 2016) Mr B S Larkman (from 9 April 2016) (0/0) Mr M B Moule (2/2) Mr C A Wood (2/2)
Employee	Mr M S Hedges (2/2)
Officer in attendance	Mr B Cheyne (2/2)

Audit Committee

The Audit Committee comprises wholly external members, drawn from both within and outwith the Council, and so has no executive responsibility. During the year ended 31 July 2016 the Audit Committee met three times. The members during the year ended 31 July 2016 and their attendance at the meetings held during their membership in that year and up to the date on which the financial statements were approved, were:

External members of Council	Mr R W Spedding (3/3) – Chair Mrs S Macpherson (to 31 July 2016) (3/3) Dr G Walker (3/3)
Other external members	Mr C Hughes (2/3) Mr C Juman (3/3) Mr N Poulter (3/3)
Officers in attendance	Mr P J G Horrocks (3/3) – Vice-Chancellor Mr M S Hedges (3/3) Mr K Zimmerman (from 5 October 2015) (3/3) Mr S Farmer (3/3)

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, together with reports from consultants appointed to review particular aspects of the University's operations and change programmes (in 2015/16 one such report was considered).

Audit Committee remit

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 HEFCE 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 HEFCE Audit Code of Practice.

Audit Committee (continued)

Review of Financial Statements

It has reviewed the accounting policies and arrangements for the preparation of the financial statements and sought assurances over the areas of key accounting judgment.

It 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:

Fee income	The control over and receipt of fee income from or on behalf of students, which comprises the University's main source of income. Audit Committee is satisfied from a review of the controls relied upon by management and the computer assisted auditing techniques used by the external auditors that the income recorded shows a true and fair view of the University's income from this source.
Historic VAT repayment	The extent to which the historic VAT repayment could be recognised. Audit Committee is satisfied with the accounting treatment adopted.
USS deficit recovery provision	The provision for the costs related to the Group's commitment to fund the deficit in the Universities Superannuation Scheme. Audit Committee is satisfied with the accounting treatment adopted.
FRS 102 transition arrangements and disclosures	The project to transition to the 2015 SORP, the transition adjustments and the changes in disclosures. Audit Committee is satisfied with the accounting treatment adopted and the disclosures in the financial statements.

It has reviewed the content of the financial statements, including the primary statements, supporting notes, strategic review and corporate governance statements, and reviewed the external auditor's report and opinion. On the basis of the work summarised above, Audit Committee has been able to recommend approval of the University's financial statements to Council on the basis that, taken as a whole, they are fair, balanced and understandable and provide the information necessary to understand the University's performance, business model and strategy.

External Audit Operation

PricewaterhouseCoopers LLP (PwC) or their predecessor firms have been the University's auditors since inception. The University's external audit is tendered every seven years in accordance with the requirements of the HEFCE Memorandum of Assurance and Accountability and the PwC partners responsible for the audit are rotated regularly in accordance with PwC's own policies. The Audit Committee keeps under review the independence and objectivity of the external auditors, who were reappointed in November 2013 for a seven year period (subject to an annual review) following a competitive tender exercise. The Committee has kept the effectiveness of the external auditors under review through consideration of their plans and reports and their attendance at all Committee meetings during the year; holding a private session with the Committee after each meeting and formally once a year supplemented with feedback received from management.

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

The Committee has expressed its satisfaction with the work of External Audit during the year.

In 2006 the decision was taken to segregate as far as possible the provision of audit related services from non-audit services in order to further enhance the independence of the external auditors. A protocol to preserve ongoing independence has been agreed with the external auditors in respect of situations whereby they provide services to the University.

Audit Committee (continued)

Internal Audit Operation

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

The Internal Audit work programme is risk-focused, aligned with the University's Strategic Objectives and Strategic Risks and remains dynamic and is updated regularly to reflect changes in the University's risk profile. Internal Audit monitors the progress made by units in implementing agreed actions to ensure that they are addressed in a timely and effective manner, and reports regularly thereon to the Audit Committee.

The Committee keep the performance and effectiveness of Internal Audit under review through their attendance at each meeting; private sessions after each meeting; feedback received from management and the external auditors, and reviewing the outcome of quality review self-assessments reported in the Chief Auditor's annual report. A formal external quality assessment of Internal Audit effectiveness was last undertaken in June 2015, which concluded that The Open University Internal Audit function is within the upper quartile of external quality assessment reviews undertaken by the assessor. The next external review is due in 2020.

The Committee has expressed its satisfaction with the work of Internal Audit during the year.

Performance Evaluation of Council and its Committees

The Council evaluated its performance in 2015/16 through an effectiveness review, which included reviews of the year's business against the terms of reference, members' attendance, role and responsibilities, and current practice against the Higher Education (HE) Code of Governance and the Scottish Code of Good HE Governance. Each Council Committee conducted a similar effectiveness review. As a result of the review, the Council approved changes to its Statement of Primary Responsibilities and its Standing Orders in order to meet the requirements of the new Codes or to clarify responsibilities.

A review of individual members of the Council was undertaken, based on a short self-assessment questionnaire. Such reviews are conducted on an annual basis, with any concerns and recommendations being reported to the Council through the Membership Committee. The Council also reflected on its effectiveness at the end of each meeting. In the second half of the financial year a more formal review of the effectiveness of Council and its committees was undertaken with the assistance of external consultants: the recommendations will be considered by Council and agreed changes to structures and operations will be implemented over the course of the next year.

Council Induction and Development Days were held in September 2014 and September 2016, which introduced new members of the Council and its Committees to their role and responsibilities, and provided a refresher for longer serving members. All members are provided with information on the governor development events and resources offered by the Leadership Foundation in Higher Education (LFHE).

Responsibilities of the University's Council

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

The Council is responsible for ensuring that proper accounting records are kept that disclose with reasonable accuracy at any time the financial position of the University and enable the financial statements to be prepared in accordance with the University's Charter and Statutes, the Statement of Recommended Practice on Accounting for Further and Higher Education Institutions and other relevant accounting standards. Under the Memorandum of Assurance and Accountability between the Higher Education Funding Council for England (HEFCE) and the University's Council and the HEFCE Accounts Direction, the Council, through its designated office holder, is required to prepare financial statements for each financial year that give a true and fair view of the University's state of affairs and the surplus or deficit and cash flows for that year. 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 29 to 31 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 HEFCE, the Scottish Funding Council (SFC), the Higher Education Funding Council for Wales (HEFCW), the Department of Employment and Learning (Northern Ireland) (DELNI) and the National College for Teaching and Leadership (NCTL) are used only for the purposes for which they have been given and in accordance with the Memorandum of Assurance and Accountability with HEFCE and the Funding Agreements with SFC, HEFCW, DELNI and NCTL and any other conditions which the five funding bodies may from time to time prescribe.

Implement controls Ensure that there are appropriate financial and management controls in place to safeguard public funds and funds from other sources.

Manage risks Ensure that there are effective systems of risk identification and management that cover all risks, produce a balanced portfolio of risk exposure, are based on a clearly articulated policy and approach, are monitored and reviewed regularly, are integrated into normal business processes and aligned to the University's strategic objectives and are managed by heads of units and senior managers.

Safeguard assets Safeguard the assets of the University and prevent and detect 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.

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.

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.

Key internal controls are reviewed annually and no significant issues have arisen in the year.

Report on the financial statements

Our opinion

In our opinion, The Open University’s group financial statements and parent entity financial statements (the “financial statements”):

- give a true and fair view of the state of the group’s and of the parent entity’s affairs as at 31 July 2016 and of the group’s income and expenditure and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice;
- have been properly prepared in accordance with the Statement of Recommended Practice – Accounting for Further and Higher Education; and,
- have been prepared in accordance with the requirements of the Charities and Trustee Investment (Scotland) Act 2005 and regulation 14 of the Charities Accounts (Scotland) Regulations 2006 (as amended).

What we have audited

The financial statements, included within The Open University’s report titled Financial Statements (“The Open University’s Financial Statements”), comprise:

- the consolidated and parent entity Balance Sheets as at 31 July 2016;
- the consolidated and parent entity Statements of Comprehensive Income for the year then ended;
- the consolidated and parent entity Statement of Changes in Reserves for the year then ended;
- 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.

The financial reporting framework that has been applied in the preparation of the financial statements is the Statement of Recommended Practice for Further and Higher Education, incorporating United Kingdom Accounting Standards, comprising FRS 102 “The Financial Reporting Standard applicable in the UK and Republic of Ireland”, and applicable law (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the Council has made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinions on other matters prescribed in the HEFCE Audit Code of Practice issued under the Further and Higher Education Act 1992

In our opinion, in all material respects:

- funds from whatever source administered by the University for specific purposes have been properly applied to those purposes and, if relevant, managed in accordance with relevant legislation;
- income has been applied in accordance with the University's statutes; and,
- funds provided by HEFCE have been applied in accordance with the Memorandum of Assurance and Accountability, and any other terms and conditions attached to them, with the Funding Agreement with the Scottish Funding Council, with the Funding Letter with the Higher Education Funding Council for Wales, with the Funding Agreement with the Department of Employment and Learning (Northern Ireland) and with the Funding Agreement with the National College for Teaching and Leadership.

Other matters on which we are required to report by exception

Internal Control

Under the HEFCE Audit Code of Practice issued under the Further and Higher Education Act 1992 we are required to report to you if, in our opinion, the statement of internal control included as part of the Responsibilities of the University’s Council is inconsistent with our knowledge of the parent entity and group. We have no exceptions to report from this responsibility.

Sufficiency of accounting records and information and explanations received

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

- sufficient accounting records have not been kept by the parent entity; or
- the parent entity 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.

Other information in The Open University’s Financial Statements

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 Open University’s Financial Statements 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

Respective responsibilities of the Council and auditors

As explained more fully in the Responsibilities of the University’s Council set out on page 46 and 47, the Council is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

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 regulations made under that Act. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) (“ISAs (UK & Ireland)”). Those standards require us to comply with the Auditing Practices Board’s Ethical Standards for Auditors.

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 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.

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the group and parent entity’s circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the Council; and,
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the Council judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in The Open University’s Financial Statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Milton Keynes 23 November 2016

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 applicable United Kingdom Accounting Standards and, for the first time, the Statement of Recommended Practice, Accounting for Further and Higher Education Institutions, (SORP) published in March 2014 (see accounting policy 16 below). 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 2016.

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 a time apportionment basis over the period of the relevant module. 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 either at year end rates or, where there are related forward foreign exchange contracts, at contract rates. The resulting exchange differences are dealt with in the determination of income and expenditure for the financial year.

6 Pension Schemes

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

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 (15 years as at 31 July 2016). 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 (FSSU, OURSP and others)

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

7 Leasing Costs

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

8 Stocks of Finished Goods

a. Stocks of 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.

9 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 the lower of cost or net realisable value; listed equity investments or investment funds are stated at market value. Interest is accrued on a daily basis.

10 Land and Buildings

Land and buildings held at 31 July 2014 are shown in the balance sheet at the valuation on that date less accumulated depreciation and accumulated impairment losses; land and buildings acquired after 31 July 2014 are shown at cost less accumulated depreciation and accumulated impairment losses. The revaluation at 31 July 2014 was undertaken in accordance with the appraisal and valuation manual prepared by the Royal Institution of Chartered Surveyors. The Walton Hall campus was valued on the basis of depreciated replacement cost and all other buildings on the basis of existing use value. The valuation was conducted by Gerald Eve LLP, a regulated firm of Chartered Surveyors.

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

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

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.

11 Equipment

Equipment, including computers, costing less than £50,000 per individual item or group of related items is written off in the year of acquisition; in-house software development costs are charged to expenditure as incurred. All other equipment is capitalised.

Capitalised equipment is stated at cost and 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

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

12 Heritage Assets

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

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

13 Taxation Status

The University is an exempt charity within the meaning of Schedule 3 of the Charities Act 2011 and as such is a charity within the meaning of Paragraph 1 of Schedule 6 to the Finance Act 2010. The University is also a charity within the meaning of the Charities and Trustee Investment (Scotland) Act 2005 and as such is a charity within the meaning of Paragraph 1 of Schedule 6 to the Finance Act 2010 and is recorded on the index of charities maintained by the Office of the Scottish Charity Regulator (charity no. SC038302). 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.

14 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 potion must be retained indefinitely it is categorised as a permanent endowment.

15 Cash, Cash Equivalents and Liquid Resources

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

16 Transition to this SORP

The University has prepared its financial statements in accordance with FRS 102 and the 2015 SORP for the first time this year and consequently has applied the first time adoption requirements. An explanation of how the transition to the SORP has affected the reported financial position and financial performance of the consolidated results of the University is provided in Note 27.

Application of first time adoption grants certain exemption from the full requirements of the SORP in the transition period. The following exemption has been taken into these financial statements: land and buildings have been revalued as at 31 July 2014 and that value has been used as the deemed cost.

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, accounting estimate or assumption to be followed 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 and assumptions relating to revenue, fixed assets and 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 FRS 102 accounting policies provided on page 50 to 54. Management has discussed its critical accounting estimates and associated disclosures with its external auditors, its Finance Committee and its Audit Committee.

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.

Provisions

The Group has made two provisions in the financial statements, related to restructuring costs and to the deficit recovery plan of the Universities Superannuation Scheme.

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

Statements of Comprehensive Income
for the year ended 31 July 2016

	Note	Consolidated		University	
		Year Ended 31 July 2016 £m	Year Ended 31 July 2015 £m	**Year Ended 31 July 2016 £m**	Year Ended 31 July 2015 £m
Income					
Tuition fees and education contracts	1	**248.0**	241.0	**248.0**	241.0
Funding body grants	2	**123.1**	127.9	**123.1**	127.9
Research grants and contracts	3	**15.3**	16.6	**15.3**	16.6
Other income	4	**44.3**	22.3	**42.4**	21.2
Investment income	5	**41.8**	11.5	**41.8**	11.5
Donations and endowments	6	**2.7**	2.3	**2.7**	2.3
Total income		**475.2**	421.6	**473.3**	420.5
Expenditure					
Staff costs	7	**282.1**	315.2	**273.8**	308.9
Other operating expenses	8	**125.4**	132.5	**124.6**	132.6
Depreciation		**7.1**	6.8	**7.1**	6.8
Interest and other finance costs	10	**2.1**	1.1	**2.4**	1.4
Total expenditure		**416.7**	455.6	**407.9**	449.7
Surplus / (Deficit) before taxation		**58.5**	(34.0)	**65.4**	(29.2)
Taxation	11	**(0.1)**	(0.2)	**(0.1)**	(0.3)
Surplus / (Deficit) for the year after taxation		**58.4**	(34.2)	**65.3**	(29.5)
Represented by:					
Endowment comprehensive income for the year		**0.7**	0.1	**0.7**	0.1
Unrestricted comprehensive income for the year		**57.7**	(34.3)	**64.6**	(29.6)
Total comprehensive income for the year		**58.4**	(34.2)	**65.3**	(29.5)

All amounts relate to continuing operations.

The accounting policies on pages 50 to 54 and the notes on pages 59 to 89 form an integral part of these financial statements.

Consolidated

	Income and Expenditure Account		
	Endowments £m	Unrestricted £m	**Total £m**
Balance at 1 August 2015	0.6	388.5	**389.1**
Surplus from the income and expenditure statement	0.7	57.7	**58.4**
Balance at 31 July 2016	**1.3**	**446.2**	**447.5**

University

	Income and Expenditure Account		
	Endowment £m	Unrestricted £m	**Total £m**
Balance at 1 August 2015	0.6	399.6	**400.2**
Surplus from the income and expenditure statement	0.7	64.6	**65.3**
Balance at 31 July 2016	**1.3**	**464.2**	**465.5**

The accounting policies on pages 50 to 54 and the notes on pages 59 to 89 form an integral part of these financial statements.

Balance Sheets as at 31 July 2016

	Note	Consolidated		University	
		As At 31 July 2016 £m	As At 31 July 2015 £m	**As At 31 July 2016 £m**	As At 31 July 2015 £m
Fixed Assets					
Tangible assets	12	**273.6**	269.0	**273.6**	269.0
Investments	13	**0.0**	0.0	**21.0**	12.6
Total Fixed Assets		**273.6**	269.0	**294.6**	281.6
Current Assets					
Stock		**3.4**	4.2	**3.4**	4.2
Trade and other receivables due within one year	14	**43.1**	42.7	**34.4**	34.1
Trade and other receivables due after one year	14	**0.0**	0.0	**11.6**	62.9
Gilts, equities and term deposits	15	**211.6**	292.0	**211.6**	292.0
Cash and cash equivalents		**171.9**	93.9	**165.7**	89.0
Total Current Assets		**430.0**	432.8	**426.7**	482.2
Less Creditors: amounts falling due within one year	16	**123.9**	189.2	**124.4**	240.7
Net Current Assets		**306.1**	243.6	**302.3**	241.5
Total Assets Less Current Liabilities		**579.7**	512.6	**596.9**	523.1
Less Creditors: amounts falling due after more than one year	17	**60.5**	60.5	**60.5**	60.5
Less provisions for liabilities	18	**71.7**	63.0	**70.9**	62.4
Total Net Assets		**447.5**	389.1	**465.5**	400.2
Restricted Reserves					
Income and expenditure reserve – endowments		**1.3**	0.6	**1.3**	0.6
Unrestricted Reserves					
Income and expenditure reserve – unrestricted		**446.2**	388.5	**464.2**	399.6
Total Reserves		**447.5**	389.1	**465.5**	400.2

The accounting policies on pages 50 to 54 and the notes on pages 59 to 89 form an integral part of these financial statements, which were approved by Council on 23 November 2016 and signed on its behalf by:

R W SPEDDING
Chair of Audit Committee

M S HEDGES
Finance Director

P J G HORROCKS
Vice-Chancellor

Consolidated Statement of Cash Flows for the year ended 31 July 2016

	Note	Year Ended 31 July 2016 £m	Year Ended 31 July 2015 £m
Cash inflow from operating activities			
Surplus / (Deficit) for the year		**58.4**	(34.2)
Adjustment for non-cash items			
Depreciation		**7.1**	6.8
Decrease in stock		**0.8**	2.8
Decrease / (Increase) in debtors		**1.6**	(1.2)
Decrease in creditors		**(65.5)**	(10.1)
Increase in provisions		**7.0**	27.7
		(49.0)	26.0
Adjustments for investing or financing activities			
Investment income		**(10.1)**	(11.5)
Interest payable	10	**2.1**	1.1
Endowment income		**(0.8)**	(0.1)
Profit on disposal of fixed assets		**(0.1)**	(0.5)
Capital grant income		**(7.6)**	(4.2)
		(16.5)	(15.2)
Net Cash Outflow from Operating Activities		**(7.1)**	(23.4)
Cash flows from investing activities			
Proceeds from sales of fixed assets		**0.1**	1.1
Capital grants receipts		**5.3**	5.1
Investment income		**5.0**	2.9
Payments made to acquire fixed assets		**(11.5)**	(0.4)
Transfer to / (from) liquid resources		**85.8**	(37.3)
		84.7	(28.6)
Cash flows from Financing Activities			
Interest paid		**(0.4)**	(0.4)
Endowment cash received		**0.8**	0.1
		0.4	(0.3)
Increase / (Decrease) in cash and cash equivalents in the year	20	**78.0**	(52.3)
Cash and cash equivalents at beginning of the year		**93.9**	146.2
Cash and cash equivalents at end of the year		**171.9**	93.9

The accounting policies on pages 50 to 54 and the notes on pages 59 to 89 form an integral part of these financial statements.

1 Tuition Fees and Education Contracts: Consolidated and University

	Year Ended 31 July 2016 £m	Year Ended 31 July 2015 £m
Student fees – United Kingdom		
Taught Degrees		
England	**203.4**	196.0
Northern Ireland	**4.1**	3.8
Scotland	**13.3**	12.6
Wales	**6.0**	6.5
Research Degrees	**2.4**	2.4
Total Student Fees – United Kingdom	**229.2**	221.3
Student Fees - Overseas	**17.6**	18.4
Research training support grants	**1.2**	1.3
Total Tuition Fees and Education Contracts	**248.0**	241.0

2 Funding Body Grants: Consolidated and University

	Year Ended 31 July 2016 £m	Year Ended 31 July 2015 £m
Recurrent grants		
Higher Education Funding Council for England	**75.3**	82.7
Scottish Funding Council	**22.2**	21.8
Higher Education Funding Council for Wales	**8.3**	9.5
Department of Employment and Learning (Northern Ireland)	**4.9**	4.7
National College for Teaching and Leadership	**0.0**	0.1
Total Recurrent grants	**110.7**	118.8
Specific grants		
Higher Education Funding Council for England	**8.9**	6.2
Scottish Funding Council	**2.0**	2.0
Higher Education Funding Council for Wales	**1.5**	0.9
Total Specific grants	**12.4**	9.1
Total Funding Body Grants	**123.1**	127.9

3 Research Grants and Contracts: Consolidated and University

	Year Ended 31 July 2016 £m	Year Ended 31 July 2015 £m
Research Councils	**5.8**	7.2
Other sources, including industrial companies	**9.5**	9.4
Total Research Grants and Contracts	**15.3**	16.6

4 Other Income

	Consolidated		University	
	Year Ended 31 July 2016 £m	Year Ended 31 July 2015 £m	**Year Ended 31 July 2016 £m**	Year Ended 31 July 2015 £m
VAT refund	**21.0**	0.0	**21.0**	0.0
Other grants and contracts	**10.6**	12.3	**7.0**	8.6
Royalties received	**0.1**	0.2	**0.1**	0.2
Sub-tenants' rental and services	**0.2**	0.2	**0.2**	0.2
Validation fees	**3.2**	3.0	**3.2**	3.0
Other income	**9.2**	6.6	**10.9**	9.2
Total Other Income	**44.3**	22.3	**42.4**	21.2

Further information about the VAT refund can be found in Note 24 on page 77.

5 Investment Income

	Consolidated		University	
	Year Ended 31 July 2016 £m	Year Ended 31 July 2015 £m	**Year Ended 31 July 2016 £m**	Year Ended 31 July 2015 £m
Interest receivable on VAT refund	**31.7**	0.0	**31.7**	0.0
Change in market value of equity based funds	**6.9**	7.8	**6.9**	7.7
Interest receivable on gilts, bank deposits and money market funds	**2.9**	3.4	**3.2**	3.8
Interest on student loans	**0.3**	0.3	**0.0**	0.0
Total Investment Income	**41.8**	11.5	**41.8**	11.5

Further information about the VAT refund can be found in Note 24 on page 77.

6 Donations and Endowments: Consolidated and University

	Year Ended 31 July 2016 £m	Year Ended 31 July 2015 £m
New endowments	**0.8**	0.1
Unrestricted donations	**1.9**	2.2
Total Donations and Endowments	**2.7**	2.3

All endowments are held as cash.

7 Staff Costs

	Consolidated		University	
	Year Ended 31 July 2016 £m	Year Ended 31 July 2015 £m	**Year Ended 31 July 2016 £m**	Year Ended 31 July 2015 £m
Staff costs analysed by type				
Salaries and other payments to employees	**234.5**	236.8	**227.7**	231.6
Social security costs	**17.3**	16.1	**16.6**	15.7
Pension costs - see Note 25	**30.3**	62.3	**29.5**	61.6
	282.1	315.2	**273.8**	308.9
Staff costs analysed by category of staff				
Full-time staff categories	**209.6**	234.2	**201.4**	228.1
Associate lecturers, residential school staff and examination marking fees	**57.1**	64.8	**57.1**	64.8
Other staff costs, including casual staff	**9.5**	8.3	**9.4**	8.1
Early retirement and voluntary severance	**5.9**	7.9	**5.9**	7.9
	282.1	315.2	**273.8**	308.9
Total Staff Costs	**282.1**	315.2	**273.8**	308.9

Staff costs include £8.1 million (year ended 31 July 2015, £nil) arising from the restructuring of the University's locations in England, as shown in note 9.

	Year Ended 31 July 2016	Year Ended 31 July 2015	**Year Ended 31 July 2016**	Year Ended 31 July 2015
Average staff numbers (including higher paid staff)				
Full-time and part-time staff at Milton Keynes, Wellingborough, national and regional centres	**4,589**	4,833	**4,471**	4,744
Associate lecturers and residential school staff	**4,172**	4,491	**4,172**	4,491
	8,761	9,324	**8,643**	9,235

7 Staff Costs (continued)

Remuneration of Higher Paid Employees

The Vice-Chancellor

The emoluments of Mr P J G Horrocks, the Vice-Chancellor from 5 May 2015, included in the above costs comprised salary of £328,000, performance related pay of £5,000, and taxable benefits of £14,000, which totalled £347,000 (year end 31 July 2015, £82,000, together with £240,000 for the previous Vice-Chancellor and acting Vice-Chancellor). The University is making no pension contributions in respect of Mr Horrocks. The pension contributions in the year ended 31 July 2015 for the previous Vice-Chancellor and acting Vice-Chancellor were £32,000.

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 members of the Vice-Chancellor's Executive. The total compensation for the year ended 31 July 2016 (including any employers' pension contributions) was £1.9 million (year end 31 July 2015, £1.8 million).

Compensation for loss of office

Compensation for loss of office paid to UK based employees earning in excess of £100,000 and funded from general income was £0.1m (year ended 31 July 2015, £nil).

Higher paid employees

The remuneration of higher paid employees other than the Vice-Chancellor, excluding the pension contributions for the Group and the University, were:

	Consolidated		University	
	Year Ended 31 July 2016	Year Ended 31 July 2015	**Year Ended 31 July 2016**	Year Ended 31 July 2015
£100,000 - £109,999	**9**	9	**7**	8
£110,000 - £119,999	**9**	5	**7**	3
£120,000 - £129,999	**7**	2	**6**	2
£130,000 - £139,999	**0**	1	**0**	1
£140,000 - £149,999	**1**	2	**1**	1
£150,000 - £159,999	**2**	3	**2**	3
£160,000 - £169,999	**2**	2	**1**	2
£180,000 - £189,999	**0**	1	**0**	1
£200,000 - £209,999	**1**	0	**1**	0
£240,000 - £249,999	**0**	1	**0**	0
£270,000 - £279,999	**1**	0	**0**	0
	32	26	**26**	21

8 Other Operating Expenses

	Consolidated		University	
	Year Ended 31 July 2016 £m	Year Ended 31 July 2015 £m	**Year Ended 31 July 2016 £m**	Year Ended 31 July 2015 £m
Teaching materials and expenses	**21.2**	26.5	**20.6**	25.7
Student Recruitment	**19.0**	20.5	**18.1**	19.5
Financial assistance, bursaries and prizes	**9.6**	9.2	**9.6**	9.2
Grants to Open University Students' Association	**1.0**	0.8	**1.0**	0.8
Provision for bad debts	**0.0**	(0.2)	**0.0**	(0.1)
Total Student Related Other Operating Expenses	**50.8**	56.8	**49.3**	55.1
Staff support and consumables	**32.4**	36.6	**29.7**	34.7
Equipment purchase, rental and lease	**13.0**	9.9	**12.9**	9.8
Repairs and maintenance	**6.6**	6.5	**6.6**	6.5
Academic resources and subscriptions	**6.3**	5.9	**6.2**	5.8
Estate utilities and services	**5.6**	6.2	**5.6**	6.2
Rent and rates	**5.5**	3.6	**5.4**	3.6
Broadcast media production	**3.6**	3.6	**3.6**	3.6
Auditors' remuneration - Group audit fees	**0.1**	0.1	**0.1**	0.1
Other expenses	**1.5**	3.3	**5.2**	7.2
Total Non-Student Related Other Operating Expenses	**74.6**	75.7	**75.3**	77.5
Total Other Operating Expenses	**125.4**	132.5	**124.6**	132.6

Included in the above are audit fees in respect of the University only of £0.10 million (year ended 31 July 2015, £0.10 million) and its subsidiaries of an aggregate of £0.03 million (year ended 31 July 2015, £0.02 million). Fees paid to the auditors for non-audit services totalled £Nil (year ended 31 July 2015, £Nil).

The total expenses paid to or on behalf of the members of Council in the year was £0.02 million (year ended 31 July 2015, £0.02 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. Ten 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 £4.6 million (year ended 31 July 2015, £2.7 million), comprising £4.4 million property leases (2014/15: £2.6 million) and £0.2 million plant and machinery (2014/15: £0.1 million).

Total other operating expenses includes £4.2 million (year ended 31 July 2015, £nil) relating to the restructuring of the University operations in England, as shown in note 9.

9 Restructuring Costs: Consolidated and University

	Year Ended 31 July 2016 £m	Year Ended 31 July 2015 £m
Staff costs	**0.6**	0.0
Other operating expenses	**1.4**	0.0
Capital expenditure	**0.4**	0.0
Total expenditure in the year	**2.4**	0.0
Staff costs	**7.5**	0.0
Other operating expenses	**2.8**	0.0
Total included in the provision	**10.3**	0.0
Total Restructuring Costs	**12.7**	0.0
Included in the Statement of Comprehensive Income	**12.3**	0.0
Included in the Balance Sheet	**0.4**	0.0
Total restructuring costs	**12.7**	0.0

The reorganisation of the University's regional presence in the UK was agreed by Council in November 2015 and commenced early in 2016. It is anticipated that the reorganisation will be completed in 2017.

The restructuring programme will deliver a new student recruitment and support centre structure and is framed by the programme vision to work in partnership as one University, providing a high quality, seamless journey for enquirers and students from the start of their Open University experience to the point where they achieve their qualification. Each centre will be differentiated by academic unit and will be located at one of three existing locations in England: Manchester, Milton Keynes and Nottingham. The remaining locations in England will be closed under a rolling programme over the next two years: Bristol, Cambridge, Birmingham, Gateshead, Leeds, London and Oxford. The national centres in Belfast, Cardiff and Edinburgh will not be directly affected by the programme.

The costs shown above have been included in the relevant place in the Statement of Comprehensive Income and the related notes; the table above is for information only. In addition to the costs of the restructuring programme summarised above a small amount of depreciation has been charged on the capital expenditure incurred in the year.

10 Interest Payable and Other Finance Costs

	Consolidated		University	
	Year Ended 31 July 2016 £m	Year Ended 31 July 2015 £m	**Year Ended 31 July 2016 £m**	Year Ended 31 July 2015 £m
Finance charge on USS deficit provision	**1.7**	0.9	**1.7**	0.9
On loans not wholly repayable within 5 years	**0.4**	0.4	**0.7**	0.7
Impairment on deposits	**0.0**	(0.2)	**0.0**	(0.2)
Total Interest Payable and Other Finance Costs	**2.1**	1.1	**2.4**	1.4

11 Taxation

	Consolidated		University	
	Year Ended 31 July 2016 £m	Year Ended 31 July 2015 £m	**Year Ended 31 July 2016 £m**	Year Ended 31 July 2015 £m
UK Corporation Tax at 20% (2014/15: 20.67%)	**0.0**	0.2	**0.0**	0.3
Foreign taxes	**0.1**	0.0	**0.1**	0.0
Total Taxation	**0.1**	0.2	**0.1**	0.3

As an exempt charity the University is potentially exempt from taxation in respect of income or capital gains in the United Kingdom. The UK Corporation tax is solely in respect of Research and Development Expenditure Credit grants received by The Open University and by FutureLearn Limited in 2014/15.

The tax assessed for the year is higher (2014/15: higher) than the standard rate of corporation tax in the UK (20%).

Tax Reconciliation

	Consolidated		University	
	Year Ended 31 July 2016 £m	Year Ended 31 July 2015 £m	**Year Ended 31 July 2016 £m**	Year Ended 31 July 2015 £m
Profit / (Loss) before taxation	**58.5**	(34.0)	**65.4**	(29.2)
Taxation at 20% (2014/15: 20.67%)	**11.7**	(7.0)	**12.9**	(6.0)
(Profit) / Loss falling within charitable exemption	**(11.7)**	7.3	**(12.9)**	6.3
Deferred tax asset	**0.0**	(0.1)	**0.0**	0.0
Unrelieved overseas taxation	**0.1**	0.0	**0.1**	0.0
Tax charge for the year	**0.1**	0.2	**0.1**	0.3

12 Tangible Assets : Consolidated and University

	Land and Buildings £m	Equipment £m	**Total £m**
Cost and valuation			
At 1 August 2015	274.5	16.4	**290.9**
Additions	11.3	0.4	**11.7**
Disposals	0.0	(1.5)	**(1.5)**
At 31 July 2016	**285.8**	**15.3**	**301.1**
Accumulated Depreciation			
At 1 August 2015	6.1	15.8	**21.9**
Charge for the year	6.5	0.6	**7.1**
Disposals	0.0	(1.5)	**(1.5)**
At 31 July 2016	**12.6**	**14.9**	**27.5**
Net book amount			
At 31 July 2016	**273.2**	**0.4**	**273.6**
At 31 July 2015	268.4	0.6	269.0

Additions to land and buildings includes £0.4 million (year ended 31 July 2015, £nil) related to the restructuring of the University operations in England, as shown in note 9.

At 31 July 2016 land and buildings included £42.7 million (31 July 2015, £40.3 million) in respect of freehold land which is not depreciated.

The unamortised value of HEFCE capital grants amounted to £56.5 million (31 July 2015, £66.6 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 HEFCE or use them in accordance with the Memorandum of Assurance and Accountability with HEFCE.

13 Investments : University

	As At 31 July 2016 £m	As At 31 July 2015 £m
Ordinary shares in wholly owned subsidiary companies		
FutureLearn Limited	**19.5**	11.6
Open University Student Budget Accounts Limited	**1.0**	0.5
Open University Worldwide Limited	**0.3**	0.3
Total ordinary shares in wholly owned subsidiary companies	**20.8**	12.4
Long term loans		
Open University Worldwide Limited	**0.2**	0.2
Total long term loans	**0.2**	0.2
Total Investments	**21.0**	12.6

FutureLearn Limited is registered in England and Wales and provides a multi-institutional platform for free, 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 6% of the students use this facility. The company operates under the Consumer Credit Act.

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

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 2015/16 amounted to £0.2 million (2014/15, £0.5 million).

Connected Charitable Entities

The University has links with two exempt charities that fall within paragraph 28 of Schedule 3 of the Charities Act 2011, Bookhire Limited and Open University Enterprises Limited. Both are 100% owned subsidiaries of the University, did not have any income or expenditure in the year, have no assets and have been dormant companies for a number of years.

14 Trade and Other Receivables

	Consolidated		University	
	As At 31 July 2016 £m	As At 31 July 2015 £m	**As At 31 July 2016 £m**	As At 31 July 2015 £m
Amounts falling due within one year				
Student Loans Company	**7.8**	8.2	**7.8**	8.2
Students' loan accounts with Open University Student Budget Accounts Limited	**9.4**	9.9	**0.0**	0.0
Fee debtors	**0.6**	0.7	**0.6**	0.7
Amounts due from subsidiaries	**0.0**	0.0	**3.0**	2.8
Other debtors	**21.0**	20.3	**18.9**	18.9
Prepayments and accrued income	**4.3**	3.6	**4.1**	3.5
Total due within one year	**43.1**	42.7	**34.4**	34.1
Amounts falling due after one year	**0.0**	0.0	**11.6**	62.9

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

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

The University finances Open University Student Budget Accounts Limited and Open University Worldwide Limited, through long-term loans that are due for repayment or review in 2027. As at 31 July 2016, Open University Student Budget Accounts Limited had an outstanding loan amount of £8.5 million at an interest rate equal to 1% over base rate (31 July 2015, £60.0 million). During the year the loan agreement was replaced with a loan facility for a maximum of £20.0 million; under the old loan agreement, Open University Student Budget Accounts Limited was required to lend back to the University at the same interest rate any surplus funds, as disclosed in Note 16.

As at 31 July 2016, 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 2015, £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 16.

An allowance for bad or doubtful debts of £1.4 million has been included (31 July 2015, £2.7 million).

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

15 Gilts, Equities and Term Deposits : Consolidated and University

	As At 31 July 2016 £m	As At 31 July 2015 £m
UK gilt edged stock	**91.8**	125.7
Equity Based Funds	**94.8**	87.9
Money Market Funds - escrow for VAT refund	**0.0**	53.2
Fixed term deposits maturing in one year or less	**25.0**	25.2
Total Gilts, Equities and Term Deposits	**211.6**	292.0

The University holds tradable Treasury gilts with a redemption date of less than five years. At 31 July 2016 the weighted average redemption yield was 1.37% (year ended 31 July 2015, 1.52%) and the weighted average period to maturity was 868 days (year ended 31 July 2015, 933 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 2016 was £94.8 million (31 July 2015, £87.9 million), an increase of £6.9 million. This comprises an increase in book cost of £1.5 million as a result of dividends received and an increase in fair value determined with reference to the quoted market price at 31 July 2016 of £5.4 million. These changes are included above and in the income and expenditure account, and shown in Note 5. The nature of the underlying investments is discussed in the Strategic Report on pages 19 and 20.

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 2016 the weighted average interest rate of these fixed rate deposits was 0.77% per annum (31 July 2015, 0.77% per annum) and the remaining weighted average period for which the interest rate is fixed on these deposits was 86 days (31 July 2015, 93 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 14.

16 Creditors

	Consolidated		University	
	As At 31 July 2016 £m	As At 31 July 2015 £m	**As At 31 July 2016 £m**	As At 31 July 2015 £m
Amounts falling due within one year				
Student fee income in advance	**34.0**	33.3	**34.0**	33.3
Student fee income deferred	**22.9**	28.2	**22.3**	27.7
Grants and other contracts in advance	**13.8**	15.1	**13.8**	15.2
Trade Creditors	**12.3**	12.2	**12.1**	12.1
Other creditors and accruals	**40.9**	47.7	**40.4**	47.5
Value Added Tax refund and interest	**0.0**	52.7	**0.0**	52.7
Amounts due to subsidiaries	**0.0**	0.0	**1.8**	52.2
Total amounts falling due within one year	**123.9**	189.2	**124.4**	240.7

A provision for fee debts of £0.3 million (31 July 2015, £0.5 million) in respect of student loans in the financial statements of Open University Student Budget Accounts Limited is included in other creditors and accruals in the University's balance sheet, as the University bears the ultimate liability for the company's bad debts. Debtors in the consolidated balance sheet are shown net of the provision for bad debts.

There was uncertainty as to whether the Value Added Tax and interest refund would be retained and a liability was therefore included for the full amount at 31 July 2015. The case has subsequently been resolved and the full amount is recognised as income in 2015/16. Further information on the VAT refund can be found in Note 24 on page 77.

Amounts due to subsidiaries includes surplus funds lent by the subsidiaries to the University under the terms of the loan agreements referred to in Note 14. The loan agreement with Open University Student Budget Accounts Limited was replaced during in the year with a loan drawdown facility and the loan back to the Open University of surplus funds is therefore no longer required. The surplus funds loaned by Open University Student Budget Accounts Limited to the University at 31 July 2015 were £50.1m.

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

17 Creditors: Amounts falling due after more than one year : Consolidated and University

	As At 31 July 2016 £m	As At 31 July 2015 £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 2015, £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 2016 the interest rate on this loan was 0.71% per annum.

The Salix revolving green fund is a HEFCE 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.

18 Provisions for Liabilities

	Obligation to fund USS deficit £m	Restructuring £m	Total £m
Consolidated			
At 1 August 2015	63.0	0.0	**63.0**
Increase in provision	0.0	12.7	**12.7**
Unwind of finance charge	1.7	0.0	**1.7**
Utilised in year	(2.5)	(2.4)	**(4.9)**
Release of provision	(0.8)	0.0	**(0.8)**
At 31 July 2016	61.4	10.3	**71.7**
University			
At 1 August 2015	62.4	0.0	**62.4**
Increase in provision	0.0	12.7	**12.7**
Unwind of finance charge	1.7	0.0	**1.7**
Utilised in year	(2.5)	(2.4)	**(4.9)**
Release of provision	(1.0)	0.0	**(1.0)**
At 31 July 2016	60.6	10.3	**70.9**

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 1.71% (31 July 2015, 2.70%).

The restructuring provision relates to the costs of restructuring the University's operations in the UK. The provision at 31 July 2016 was estimated on the basis of expected costs that would be incurred by 31 July 2017, as shown in Note 9.

19 Endowment Funds : Consolidated and University

	Restricted Permanent £m	Restricted Expendable £m	**2016 Total £m**	2015 Total £m
At 1 August 2015				
Capital	0.0	0.6	**0.6**	0.6
Accumulated income	0.0	0.0	**0.0**	0.0
Total balance at 1 August 2015	0.0	0.6	**0.6**	0.6
Additions	0.1	0.6	**0.7**	0.0
Expenditure	0.0	0.0	**0.0**	0.0
	0.1	0.6	**0.7**	0.0
At 31 July 2016	0.1	1.2	**1.3**	0.6
Balance at 31 July represented by:				
Capital	0.1	1.2	**1.3**	0.6
Total	0.1	1.2	**1.3**	0.6

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

	At 1 August 2015 £m	Cash Flows £m	Non cash Movements £m	**At 31 July 2016 £m**
Cash at bank and in hand	93.9	76.9	1.1	**171.9**
Gilts, fixed term deposits and equities	292.0	(85.8)	5.4	**211.6**
Loans	(60.5)	0.0	0.0	**(60.5)**
Total	**325.4**	**(8.9)**	**6.5**	**323.0**

21 Lease Obligations

During the year ended 31 July 2016 the Group recognised £4.6 million (year ended 31 July 2015, £2.7 million) in respect of operating leases. This comprises £2.3 million on lease payments made and £2.3 million in respect of the provision for restructuring which includes £1.0 million for an onerous lease.

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

	Year Ended 31 July 2016 £m	Year Ended 31 July 2015 £m
Payable during the year	**4.6**	2.7
Future minimum lease payments due:		
Not later than one year	**2.0**	2.2
Later than one year and not later than five years	**5.2**	5.9
Later than five years	**4.4**	5.3
Total lease payments due	**11.6**	13.4

22 Amounts Disbursed as Agent

The Funding Council and National College for Teaching and Leadership (NCTL) grants and bursaries set out below are available solely for students: the University acts only as paying agent. The grants and bursaries and related disbursements are therefore excluded from the Statement of Comprehensive Income; the balances carried forward are included in both current assets and in creditors falling due within one year and so there is no effect on net current assets. The separate grants for the costs of administering the above items are included in the Statement of Comprehensive Income.

	Year Ended 31 July 2016 £m	Year Ended 31 July 2015 £m
HEFCE Access for Learning		
Balance brought forward 1 August 2015	**0.0**	0.5
Funding Body Grants	**0.0**	0.0
Disbursed to Students	**0.0**	(0.5)
Balance carried forward 31 July 2016	**0.0**	0.0
NCTL Training Bursaries		
Balance brought forward 1 August 2015	**(1.5)**	(0.6)
NCTL Grants	**1.5**	0.1
Disbursed to Students	**(0.3)**	(1.0)
Balance carried forward 31 July 2016	**(0.3)**	(1.5)

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 on page 64.

No other material transactions have taken place.

24 Contingencies

VAT Case

Following the decision of the House of Lords in the Conde Nast/Fleming case, and in common with many other organisations, a claim was submitted on behalf of the University for the repayment of VAT incurred over the period 1973 to 1994, along with associated interest. In July 2011, Her Majesty's Revenue and Customs agreed the claim for the period 1973 to 1974. An amount of £0.7 million was received in October 2011 and was treated as an exceptional item in 2010/11. In June 2013 the First Tier Tribunal found in favour of the University in respect of the remaining period at issue, 1978 to 1994. The VAT refund of £21.0 million along with related interest calculated on a simple basis of £31.7 million was paid by HM Revenue & Customs to the supplier in October 2013 and was paid to the University in December 2013. Following an appeal by HMRC the Upper Tribunal found in favour of the University in May 2015 and subsequently following a further appeal by HMRC the Court of Appeal found in favour of the University in May 2016. The refund and interest have been recognised in income in 2015/16 (see Notes 4 and 5 respectively).

The University has also lodged an appeal for interest to be paid on a compound basis rather than a simple basis. The University is in the process of challenging HMRC's decision to impose VAT on these supplies for the period from 2009 to date.

25 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.

A small number of employees are members of defined contribution schemes.

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 £0.1 million (year ended 31 July 2014, £0.1 million).

Defined Benefit Scheme

The University participates in the Universities Superannuation Scheme (USS), a defined benefit scheme which is externally funded and contracted out of the State Second Pension (S2P). The assets of the scheme are held in a separate fund administered by the trustee, Universities Superannuation Scheme Limited. The appointment of directors to the board of the trustee is determined by the Company's Articles of Association. Four of the directors are appointed by Universities UK; three are appointed by the University and College Union, of whom at least one must be a USS pensioner member; 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.

The latest triennial actuarial valuation of the scheme was at 31 March 2014. This was the third valuation for USS under the new scheme-specific funding regime introduced by the Pensions Act 2004, which requires schemes to adopt a statutory funding objective, which is to have sufficient and appropriate assets to cover their technical provisions.

The 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 those relating to the rate of return on investments (i.e. the valuation rate of interest), the rates of increase in salary and pensions and the assumed rates of mortality. In relation to the past service liabilities the financial assumptions were derived from market yields prevailing at the valuation date. An "inflation risk premium" adjustment was also included by making a deduction from the market-implied inflation on account of the historically high level of inflation implied by government bonds (particularly when compared to the Bank of England's target of 2% for CPI which corresponds broadly to 2.75% for RPI per annum). The deduction was 0.2% in year one, decreasing to 0.1% over the subsequent 20 years.

25 Pension Schemes (continued)

To calculate the technical provisions, it was assumed that the valuation rate of interest would be 5.2% per annum in the first year, decreasing to 4.7% over the subsequent 20 years; salary increases would be CPI in year one, CPI plus 1% in year two and RPI plus 1% thereafter; and, pensions would increase annually by CPI.

Standard mortality tables were used as follows:

Male members' mortality	S1NA ("light") YoB tables – no age rating
Female members' mortality	S1NA ("light") YoB tables – rated down one year

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

Males (females) currently aged 65	24.2 (26.3) years
Males (females) currently aged 45	26.2 (28.6) years

At the valuation date, 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.

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

The actuary also valued the scheme on a number of other bases as at the valuation date. Under the Pension Protection Fund regulations introduced by the Pensions Act 2004 it was 83% funded; on a buy-out basis (i.e. assuming the Scheme had discontinued on the valuation date) the assets would have been approximately 54% of the amount necessary to secure all the USS benefits with an insurance company; and, using the FRS 17 formula as if USS was a single employer scheme, using a AA bond discount rate of 3.3% per annum based on spot yields, the actuary estimated that the funding level at 31 March 2015 was 72%.

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 deficit recovery plan was put in place on the assumption that the scheme benefit changes outlined on page 80 would be agreed. 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 2016 was 1.71% (31 July 2015, 2.70%), and the total provision at 31 July 2016 was £61.4 million (31 July 2015, £63.0 million). The provision for the deficit is shown in Note 18 on page 73.

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.

The sensitivities regarding the principal assumptions used to measure the scheme liabilities on a technical provisions basis as at the date of the last triennial valuation are set out below:

25 Pension Schemes (continued)

Assumption	Change in Assumption	Impact on scheme liabilities
Initial discount rate	Decrease by 0.25%	Increase by £0.8 billion
Discount rate in 20 years' time	Decrease by 0.25%	Increase by £1.1 billion
RPI	Increase by 0.1%	Increase by £0.8 billion
Members live longer than Assumed	1 year longer	Increase by 0.5 billion

In response to the worsening of the deficit since 2011, some changes to the scheme benefits and to employer and employee contributions were agreed. The majority of the changes take effect from 31 March 2016, and have been incorporated into the actuarial valuation discussed above. The changes include:

Accrued benefits	For final salary section members, accrued entitlement up to 31 March 2016 will be calculated based on salary and service immediately prior to that date; subsequently these benefits will increase in line with CPI.
Future benefits	The defined benefit accrual after 31 March 2016 will be on a CARE basis with an accrual rate of 1/75th and a cash lump sum of 3/75ths of salary, up to a salary threshold of initially £55,000.
Member contributions	Member contributions will be 8% of salary for all members.
Employer contributions	Employer contributions will be 18% of salary for all members.
Defined contribution	A new defined contribution benefit for salary in excess of the salary threshold will be introduced by 1 October 2016.

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

The trustee'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, taken together with the anticipated returns form the basis of the trustee's funding strategy. These parameters are informed by advice from its internal investment team, its investment consultant and the scheme actuary, as well as an independent assessment of the support available from the sponsoring employers. The trustee remains confident that it can continue to take a long-term view of scheme funding, backed as it is by a robust Higher Education sector.

The fund is invested in a wide range of asset classes, both publicly traded (including equities and fixed income) and private (including private equity, infrastructure, property and timberland). A diversified portfolio helps to spread investment risk across different asset classes and boost the level of confidence in maintaining sufficient investment returns from the funds as a whole. The investment approach is innovative and responsible, and targeted at achieving returns required to meet the scheme's liabilities. Recently, the trustee has invested directly in infrastructure assets. These investments are typically illiquid, but can achieve attractive inflation-linked returns in ways often not available in the publicly traded markets and which can match the scheme's liabilities to a high degree

The total pension cost for the University was £30.3 million (year ended 31 July 2015, £62.3 million). This includes £2.7 million outstanding contributions as at 31 July 2016 (year ended 31 July 2015, £2.5 million). The total pension cost is after a £3.3 million credit related to adjustments to the USS deficit provision (year ended 31 July 2015, a charge of £29.1 million), and includes £1.4 million (year ended 31 July 2015, £1.8 million) related to costs in respect of early retirement.

26 Transition to FRS 102

As explained in the accounting policies, these are the University's first financial statements prepared in accordance with FRS 102 and the new FEHE SORP. The accounting policies set out on page 50 to 54 have been applied in preparing the financial statements for the year ended 31 July 2016, the comparative information presented for the year ended 31 July 2015 and in the preparation of an opening FRS 102 statement of financial position at 1 August 2014. In preparing its FRS 102, SORP based statement of financial position, the University has adjusted amounts reported previously in financial statements prepared in accordance with its old basis of accounting (the 2007 SORP). An explanation of how the transition to FRS 102 and the SORP has affected the University's financial position and financial performance is set out in the tables on the following pages.

Statement of Financial Position

	As at 1 August 2014		As at 31 July 2015	
	Consolidated £m	University £m	Consolidated £m	University £m
Total reserves under 2007 SORP	254.7	260.8	247.2	257.8
Revaluation of estate at 31 July 2014	130.3	130.2	132.7	132.6
Release of deferred capital grants	72.6	72.6	67.4	67.4
Provision for USS deficit	(33.0)	(32.7)	(63.0)	(62.4)
Valuation of equities at market value	0.0	0.0	6.3	6.3
Annual leave accrual	(5.6)	(5.6)	(4.8)	(4.7)
Recognition of grants	3.8	3.9	2.7	2.6
Endowments	0.5	0.5	0.6	0.6
Total effect of transition to FRS 102	168.6	168.9	141.9	142.4
Total reserves under FRS 102	423.3	429.7	389.1	400.2

Financial Performance

	Year ended 31 July 2015	
	Consolidated £m	University £m
Deficit for the year under 2007 SORP	(7.5)	(3.0)
Provision for USS Deficit	(29.9)	(29.7)
Recognition of grants	(6.4)	(6.4)
Valuation of equities at market value	6.3	6.3
Revaluation of Estate at 31 July 2014	2.4	2.4
Annual leave accrual	0.8	0.8
Endowments	0.1	0.1
Total effect of transition to FRS 102	(26.7)	(26.5)
Total Comprehensive Income for the year under FRS 102	(34.2)	(29.5)

	Notes	As at 1 August 2014			As at 31 July 2015		
		2007 SORP £m	Effect of Transition to FRS 102 £m	FRS 102 £m	2007 SORP £m	Effect of Transition to FRS 102 £m	FRS 102 £m
Non-current assets							
Fixed assets	1	145.7	130.3	276.0	136.3	132.7	269.0
Investments		0.0	0.0	0.0	0.0	0.0	0.0
Total non-current assets		**145.7**	**130.3**	**276.0**	**136.3**	**132.7**	**269.0**
Endowment Assets	2	0.5	(0.5)	0.0	0.6	(0.6)	0.0
Current Assets							
Stock		7.0	0.0	7.0	4.2	0.0	4.2
Trade and other receivables	3	37.9	3.8	41.7	39.6	3.1	42.7
Gilts, equities and term deposits	4	271.6	(25.0)	246.6	295.7	(3.7)	292.0
Cash and cash equivalents	5	120.7	25.5	146.2	83.3	10.6	93.9
Total Current Assets		**437.2**	**4.3**	**441.5**	**422.8**	**10.0**	**432.8**
Less Creditors: amounts falling due within one year	6	193.7	5.6	199.3	184.0	5.2	189.2
Net Current Assets		**243.5**	**(1.3)**	**242.2**	**238.8**	**4.8**	**243.6**
Total Assets Less Current Liabilities		**389.7**	**128.5**	**518.2**	**375.7**	**136.9**	**512.6**
Less Creditors: amounts falling due after more than one year		60.5	0.0	60.5	60.5	0.0	60.5
Provisions							
Pension provision	7	0.0	33.0	33.0	0.0	63.0	63.0
Other provisions		1.4	0.0	1.4	0.0	0.0	0.0
Total provisions		**1.4**	**33.0**	**34.4**	**0.0**	**63.0**	**63.0**
Total Net Assets		**327.8**	**95.5**	**423.3**	**315.2**	**73.9**	**389.1**

See page 83 for the notes to this table.

		As at 1 August 2014			As at 31 July 2015		
	Notes	2007 SORP £m	Effect of Transition to FRS 102 £m	FRS 102 £m	2007 SORP £m	Effect of Transition to FRS 102 £m	FRS 102 £m
Deferred capital grants	8	72.6	(72.6)	0.0	67.4	(67.4)	0.0
Expendable Endowment funds	9	0.5	(0.5)	0.0	0.6	(0.6)	0.0
Restricted reserves							
Income & expenditure reserve: -endowment reserve	9	0.0	0.5	0.5	0.0	0.6	0.6
Income & expenditure reserve: -restricted reserve		0.0	0.0	0.0	0.0	0.0	0.0
Unrestricted reserves							
Income & expenditure reserve: -unrestricted reserve	10	254.0	168.8	422.8	247.2	141.3	388.5
Revaluation reserve	11	0.7	(0.7)	0.0	0.0	0.0	0.0
Total Funds		**327.8**	**95.5**	**423.3**	**315.2**	**73.9**	**389.1**

Notes to the consolidated balance sheet transition statement

1. Fixed assets. 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 the deemed cost. The total increase in the valuation of land and buildings was £130.3 million at 1 August 2014, and after allowing for appropriate depreciation the increase at 31 July 2015 compared to old UK GAAP was £132.7 million.
2. In accordance with FRS 102 the assets of the endowment funds are now recognised as part of the underlying asset type. All endowment assets, £0.5 million at 1 August 2014 and £0.6 million at 31 July 2015, are therefore recognised as 'cash'.
3. Trade and other receivables now includes entitlement to grant income of £3.8m at 1 August 2014, and £3.0m at 31 July 2015, along with a £0.1m tax asset recognised in 2014/15 in Open University Worldwide Limited as a result of the recognition of the provision for the USS deficit in that company.
4. In accordance with FRS 102, the definition of cash and cash equivalents has been amended and now includes deposits and investments with up to three months until maturity at placement. At 1 August 2014, there were £25.0 million of such deposits and these are now shown in cash. At 31 July 2015 the equivalent adjustment was £10.0 million. In addition, the increase in market value of equity investments was not recognised under old UK GAAP. Under FRS 102 an increase in market value at 31 July 2015 of £6.3 million has now been included in this line; the total adjustment for 2014/15 is therefore £3.7 million.
5. The adjustments in notes 2 and 4, above, are reflected in cash and cash equivalents.
6. In accordance with FRS 102, an accrual for the untaken staff leave at the balance sheet date has been included, £5.6 million at 1 August 2014 and £4.8 million at 31 July 2015. In addition £0.4m of grants deferred through the deferred capital grants line at 31 July 2015 are now shown on this line, making the total adjustment on this line £5.2m.
7. The pension provision is a provision for the estimated cost of the deficit recovery plan for the University Superannuation Scheme, £33.0 million at 1 August 2014 and £63.0 million at 31 July 2015.
8. Government capital grants are now recognised in accordance with accounting policy 3c, rather than being deferred over the life of the underlying asset. The balance of deferred capital grants has therefore been transferred to general reserves, £72.6 million at 1 August 2014 and £67.4 million at 31 July 2015.
9. Endowments are shown in a restricted reserve: £0.5 million at 1 August 2014 and £0.6 million at 31 July 2015.
10. This adjustment is an accumulation of those adjustments explained in notes 1, 3, 4, 6, 7, 8 and 11.
11. The revaluation discussed in note 1 means that the revaluation reserve is no longer required. It has therefore been moved to unrestricted reserves, £0.7m at 1 August 2014 and £0.0m at 31 July 2015.

		Year Ended 31 July 2015		
		UK GAAP £m	Effects of Transition to FRS 102 £m	FRS 102 £m
Income				
Funding body grants	1	134.3	(6.4)	127.9
Tuition fees and education contracts		241.0	0.0	241.0
Research grants and contracts		16.6	0.0	16.6
Other income	2	24.5	(2.2)	22.3
Investment income	3	5.2	6.3	11.5
Donations and endowments	2	0.0	2.3	2.3
Total income		**421.6**	**(0.0)**	**421.6**
Expenditure				
Staff costs	4	286.9	28.3	315.2
Other operating expenses	5	132.6	(0.1)	132.5
Depreciation	6	9.1	(2.3)	6.8
Interest and other finance costs	7	0.2	0.9	1.1
Total expenditure		**428.8**	**26.8**	**455.6**
Deficit before taxation		**(7.2)**	**(26.8)**	**(34.0)**
Taxation	8	(0.3)	0.1	(0.2)
Deficit for the year after taxation		**(7.5)**	**(26.7)**	**(34.2)**
Total comprehensive income for the year		**(7.5)**	**(26.7)**	**(34.2)**

See page 85 for the notes to this table.

Notes to the consolidated statement of comprehensive income and expenditure transition statement

1. Funding body capital grants that were recognised over a full year under old UK GAAP are recognised on entitlement under FRS 102. In addition the release of deferred capital grants under old UK GAAP has been reversed; the total decrease in grants recognised was £6.4 million.
2. Income from donations and endowments is now shown in a separate line. In 2014/15 there were £2.2m of donations that were included in other income under old UK GAAP; these donations are now included in donations and endowments, along with £0.1m of new endowments that were not recognised in the income and expenditure account in old UK GAAP.
3. The increase in market value of equity investments was not recognised under old UK GAAP. Under FRS 102 an increase in market value in 2014/15 of £6.3 million has now been included.
4. The adjustment to staff costs comprises:
    a. Adjustments related to the USS deficit provision of £29.1 million: a release for the utilisation of the provision of -£4.9 million; and, an increase in the overall deficit provision following an actuarial valuation of £34.0 million.
    b. A movement in the annual leave accrual between 2013/14 and 2014/15 of -£0.8m.
5. Other operating expenses has been reduced by £0.1m as a result of the effect of the new valuation on the loss on disposal of assets.
6. The depreciation line has been adjusted to allow for the new valuation of the estate as discussed on the previous page. The valuation included a reassessment of the remaining useful life of the buildings with the result that depreciation is now being spread over a greater number of years, leading to a reduction in the overall depreciation charge of £2.3m.
7. £0.9 million has been added to interest and other finance costs to reflect the unwinding of the finance charge for the USS deficit recovery provision.
8. The increase in the USS deficit recovery provision in Open University Worldwide Limited has led to a tax asset of £0.1m being recognised that will be released as the provision unwinds.

The total of the adjustments arising from the USS deficit provision are:

Description	Note above	Amount £m
Increase following actuarial valuation	4a	34.0
Utilised in 2014/15	4a	(4.9)
Finance charge	7	0.9
Tax asset	8	(0.1)
Total effect		29.9

		As at 1 August 2014			As at 31 July 2015		
	Notes	2007 SORP £m	Effect of Transition to FRS 102 £m	FRS 102 £m	2007 SORP £m	Effect of Transition to FRS 102 £m	FRS 102 £m
Non-current assets							
Fixed assets	1	145.8	130.2	276.0	136.4	132.6	269.0
Investments		8.0	0.0	8.0	12.6	0.0	12.6
Total non-current assets		**153.8**	**130.2**	**284.0**	**149.0**	**132.6**	**281.6**
Endowment Assets	2	0.5	(0.5)	0.0	0.6	(0.6)	0.0
Current Assets							
Stock		7.0	0.0	7.0	4.2	0.0	4.2
Debtors due within one year	3	26.3	3.9	30.2	31.1	3.0	34.1
Debtors due after one year		62.9	0.0	62.9	62.9	0.0	62.9
Gilts, equities and term deposits	4	271.6	(25.0)	246.6	295.7	(3.7)	292.0
Cash and cash equivalents	5	117.0	25.5	142.5	78.4	10.6	89.0
Total Current Assets		**484.8**	**4.4**	**489.2**	**472.3**	**9.9**	**482.2**
Less Creditors: amounts falling due within one year	6	243.3	5.6	248.9	235.6	5.1	240.7
Net Current Assets		**241.5**	**(1.2)**	**240.3**	**236.7**	**4.8**	**241.5**
Total Assets Less Current Liabilities		**395.8**	**128.5**	**524.3**	**386.3**	**136.8**	**523.1**
Less Creditors: amounts falling due after more than one year		60.5	0.0	60.5	60.5	0.0	60.5
Provisions							
Pension provision	7	0.0	32.7	32.7	0.0	62.4	62.4
Other provisions		1.4	0.0	1.4	0.0	0.0	0.0
Total provisions		**1.4**	**32.7**	**34.1**	**0.0**	**62.4**	**62.4**
Total Net Assets		**333.9**	**95.8**	**429.7**	**325.8**	**74.4**	**400.2**

See page 87 for the notes to this table.

		As at 1 August 2014			As at 31 July 2015		
	Notes	2007 SORP £m	Effect of Transition to FRS 102 £m	FRS 102 £m	2007 SORP £m	Effect of Transition to FRS 102 £m	FRS 102 £m
Deferred capital grants	8	72.6	(72.6)	0.0	67.4	(67.4)	0.0
Expendable Endowment funds	9	0.5	(0.5)	0.0	0.6	(0.6)	0.0
Restricted reserves							
Income & expenditure reserve: -endowment reserve	9	0.0	0.5	0.5	0.0	0.6	0.6
Income & expenditure reserve: -restricted reserve		0.0	0.0	0.0	0.0	0.0	0.0
Unrestricted reserves							
Income & expenditure reserve: -unrestricted reserve	10	260.1	169.1	429.2	257.8	141.8	399.6
Revaluation reserve	11	0.7	(0.7)	0.0	0.0	0.0	0.0
Total Funds		**333.9**	**95.8**	**429.7**	**325.8**	**74.4**	**400.2**

Notes to the University balance sheet transition statement

1. Fixed assets. On adoption of FRS 102 the University adopted the transitional provisions to measure land and buildings at fair value on the date of transition, and to use that fair value as the deemed cost. The total increase in the valuation of land and buildings was £130.2 million at 1 August 2014, and after allowing for appropriate depreciation the increase at 31 July 2015 compared to old UK GAAP was £132.6 million.
2. In accordance with FRS 102 the assets of the endowment funds are now recognised as part of the underlying asset type. All endowment assets, £0.5 million at 1 August 2014 and £0.6 million at 31 July 2015, are therefore recognised as 'cash'.
3. Trade and other receivables now includes entitlement to grant income of £3.9m at 1 August 2014, and £3.0m at 31 July 2015.
4. In accordance with FRS 102, the definition of cash and cash equivalents has been amended and now includes deposits and investments with up to three months until maturity at placement. At 1 August 2014, there were £25.0 million of deposits which were due to mature before 31 October 2014 and these are now shown in cash. At 31 July 2015 the equivalent adjustment was £10.0 million. In addition, the increase in market value of equity investments was not recognised under old UK GAAP. Under FRS 102 an increase in market value at 31 July 2015 of £6.3 million has now been included in this line; the total adjustment for 2014/15 is therefore £3.7 million.
5. The adjustments in notes 2 and 4, above, are reflected in cash and cash equivalents.
6. In accordance with FRS 102, an accrual for the untaken staff leave at the balance sheet date has been included, £5.6 million at 1 August 2014 and £4.7 million at 31 July 2015. In addition £0.4m of grants deferred through the deferred capital grants line at 31 July 2015 are now shown on this line, making the total adjustment on this line £5.1m.
7. The pension provision is a provision for the estimated cost of the deficit recovery plan for the University Superannuation Scheme, £32.7 million at 1 August 2014 and £62.4 million at 31 July 2015.
8. Government capital grants are now recognised in accordance with accounting policy 3c, rather than being deferred over the life of the underlying asset. The balance of deferred capital grants has therefore been transferred to general reserves, £72.6 million at 1 August 2014 and £67.4 million at 31 July 2015.
9. Expendable endowments are now shown in a restricted reserve £0.5 million at 1 August 2014 and £0.6 million at 31 July 2015.
10. This adjustment is an accumulation of those adjustments explained in notes 1, 3, 4, 6, 7, 8 and 11.
11. The revaluation discussed in note 1 means that the revaluation reserve is no longer required. It has therefore been moved to unrestricted reserves, £0.7m at 1 August 2014 and £0.0m at 31 July 2015.

		Year Ended 31 July 2015		
		UK GAAP	Effects of Transition to FRS 102	FRS 102
		£m	£m	£m
Income				
Funding body grants	1	134.3	(6.4)	127.9
Tuition fees and education contracts		241.0	0.0	241.0
Research grants and contracts		16.6	0.0	16.6
Other income	2	23.4	(2.2)	21.2
Investment income	3	5.2	6.3	11.5
Donations and endowments	2	0.0	2.3	2.3
Total income		**420.5**	**(0.0)**	**420.5**
Expenditure				
Staff costs	4	280.9	28.0	308.9
Other operating expenses	5	132.7	(0.1)	132.6
Depreciation	6	9.1	(2.3)	6.8
Interest and other finance costs	7	0.5	0.9	1.4
Total expenditure		**423.2**	**26.5**	**449.7**
Surplus / (Deficit) before taxation		**(2.7)**	**(26.5)**	**(29.2)**
Taxation		(0.3)	0.0	(0.3)
Deficit after depreciation and tax		**(3.0)**	**(26.5)**	**(29.5)**
Deficit for the year		**(3.0)**	**(26.5)**	**(29.5)**
Total comprehensive income for the year		**(3.0)**	**(26.5)**	**(29.5)**

See page 89 for the notes to this table.

Notes to the University statement of comprehensive income and expenditure transition statement

1. Funding body capital grants that were recognised over a full year under old UK GAAP are recognised on entitlement under FRS 102. In addition the release of deferred capital grants under old UK GAAP has been reversed; the total decrease in grants recognised was £6.4 million.
2. Income from donations and endowments is now shown in a separate line. In 2014/15 there were £2.2m of donations that were included in other income under old UK GAAP; these donations are now included in donations and endowments, along with £0.1m of new endowments that were not recognised in the income and expenditure account in old UK GAAP.
3. The increase in market value of equity investments was not recognised under old UK GAAP. Under FRS 102 an increase in market value in 2014/15 of £6.3 million has now been included
4. This adjustment to staff costs comprises:
    a. Adjustments related to the USS deficit provision of £28.8 million: a release for the utilisation of the provision of -£4.8 million; and, an increase in the overall deficit provision following an actuarial valuation of £33.6 million.
    b. A movement in the annual leave accrual between 2013/14 and 2014/15 of -£0.8m.
5. Other operating expenses has been reduced by £0.1m as a result of the effect of the new valuation on the loss on disposal of assets.
6. The depreciation line has been adjusted to allow for the new valuation of the estate as discussed on the previous page. The valuation included a reassessment of the remaining useful life of the buildings with the result that depreciation is now being spread over a greater number of years, leading a reduction in the overall depreciation charge of £2.3m.
7. £0.9 million has been added to this line to reflect the unwinding of the finance charge for the USS deficit recovery provision.

The total of the adjustments arising from the USS deficit provision are:

Description	Note above	Amount £m
Increase following actuarial valuation	4a	33.6
Utilised in 2014/15	4a	(4.8)
Finance charge	7	0.9
Total effect		29.7

BCS	British Computer Society
CARE	Career Average Revalued Earnings
CPI	Consumer Price Index
CUC	Committee of University Chairs
DELNI	Department of Employment and Learning (Northern Ireland)
EBITDA	Earnings Before Interest, Tax, Depreciation and Ammortisation
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
HEFCE	Higher Education Funding Council for England
HEFCW	Higher Education Funding Council for Wales
HEI	Higher Education Institution
HEIF	Higher Education Innovation Fund
HMRC	Her Majesty's Revenue and Customs
IELTS	International English Language Testing System
ISA	International Standards on Accounting
KEE	Knowledge exchange and enterprise
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
S2P	State Second Pension
SFC	Scottish Funding Council
SLC	Student Loans Company
SORP	Statement of Recommended Practice
USS	Universities Superannuation Scheme

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