FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 JULY 2017

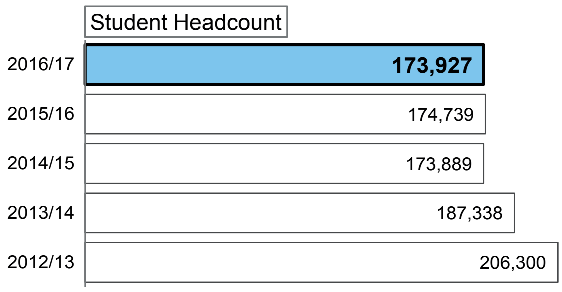
Contents

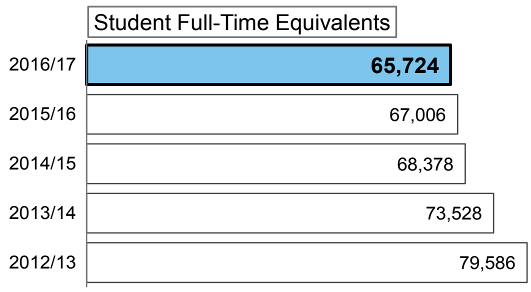
Introduction and Review of the Year

As the Open University approaches its 50th year, we continue to play a key role in the Higher Education sector. The Open University is unique in the UK as the only University to have a significant presence in all four nations. The opportunities afforded by this are challenged by the divergence of funding mechanisms across the four nations in recent years – a divergence that is widening with each passing year. Whilst students in England continue to represent the majority of the University's student population, the University continues to have a strong presence in Scotland, Wales and Northern Ireland, and has students based in over 100 countries around the world.

Public Value p17

It is a considerable achievement that we remain the largest University in terms of student numbers in Europe, with 173,927 module registrations in 2016/17, equating to 65,724 full-time equivalent students. The vast majority of our students are part-time and study at a distance, another key point of difference from traditional Universities.





Student Numbers p20

The changes in higher education fees and funding in England since 2012 have had a significant impact on The Open University's undergraduate student numbers. The majority of students studying for an equivalent or lower qualification to the one they already hold, students not studying for a qualification and non-UK students are ineligible for SLC loans. With an increase in fees and the lack of availability of loan funding for all students, student numbers were forecast to reduce significantly and the University planned its student numbers and finances accordingly.

The funding changes also resulted in the main income source for the University switching from grant funding to mainly tuition fees and there is inevitably some volatility in income from relatively small changes in student numbers. This, coupled with our vision to reach more students with life-changing learning, has led us to fundamentally review the operating model that has served us well for nearly 50 years, and we have embarked on a major transformational programme, Students First.

The transformational programme will impact on every part of the University. It will transform the way we organise ourselves to ensure the University continues to deliver on our mission, providing for our students a high quality experience and good value for money from a sustainable financial base. This planned change will have a significant impact on the University's financial position – one that is backed by re-alignment of resources and use of cash reserves built up in recent years, and that positions the University well for future growth.

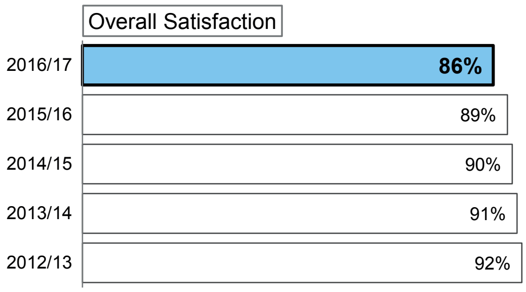
Students First: Strategy for Growth p5

Tuition Fees

We set The Open University's tuition fees in England below the maximum that can be charged for a part-time qualification. The University decided not to submit initially to the Teaching Excellence Framework as the current metrics and assessment criteria do not sufficiently take account of the nature of alternative higher education providers, such as The Open University, which offer non-synchronous, part-time education, catering for students with no or very low previous educational qualifications with a wide range of study motivations. Whilst we will continue to work with the Department for Education and The Higher Education Funding Council for England (HEFCE) to ensure that the metrics reflect appropriately distance part-time teaching with open-access, the decision not to enter the framework has not affected the tuition fees we set, because the University is not planning to increase the fees beyond the maximum that a part-time provider outside the framework can charge.

Introduction and Review of the Year (continued)

National Students Survey

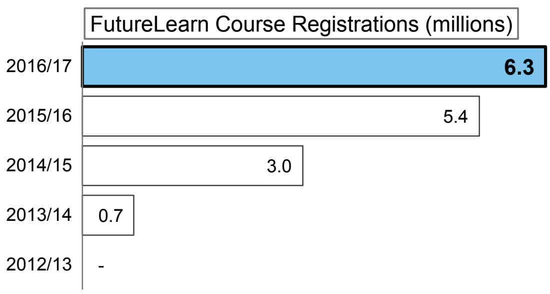


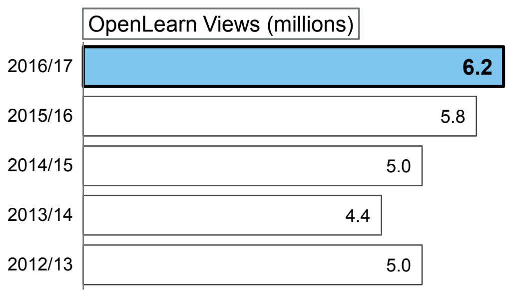
The results of the 2017 National Students Survey once again placed The Open University in the top third of UK Universities for overall satisfaction. The overall satisfaction score was 3% lower than the previous year; although this is still above the sector average, we clearly need to redouble our efforts. The survey is much wider than a single score for overall satisfaction, for example covering areas such as assessment, academic support, learning resources and teaching, and we are using the full results to inform our strategic plans.

Students Satisfaction p20

We have continued to build on our open mission to deliver quality educational opportunities, highlighted by the following achievements.

We offer a wide and diverse curriculum	There are more than 400 modules available for study, across over 180 qualifications.
We are delivering new Apprenticeship Programmes	In 2016/17 we launched the Chartered Manager Degree Apprenticeship, Digital and Technology Solutions Degree Apprenticeship and the Higher Apprenticeship in Health (Assistant Practitioner). Further Apprenticeship Programmes are being developed and will launch in 2018.
We have grown OpenLearn and FutureLearn	FutureLearn achieved 6.3 million registrations for its Massive Open Online Courses (MOOCs) during the year and now has 110 partners. It is also offering courses that count towards a degree. OpenLearn, the University's repository of open educational resources, achieved 6.2 million views in 2016/17.

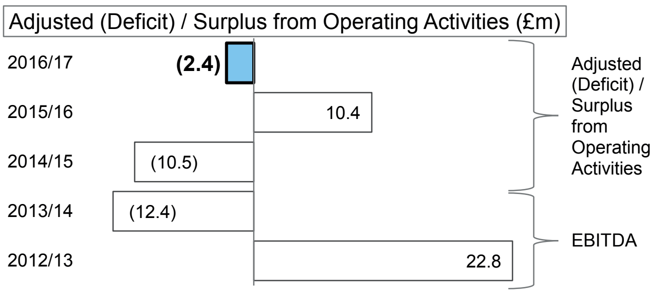


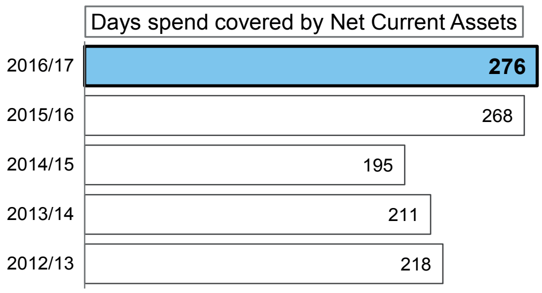


We make most of the results of our research freely available	The 'Open Research Online' portal published over 900 research articles during the year. We house one of Europe's premier research centres in Planetary, Space and Astronomical Sciences, noted for its work on many space missions such as Rosetta; we are a leader for massive innovations in learning technologies which break down barriers globally; and, we have nearly 1,000 research students studying for postgraduate degrees.
We have produced quality programming with the BBC	Acclaimed programmes broadcast during the year included 'The Beginning and the End of the Universe', 'Meet the Lords' and 'The Secrets of Your Food' on television, and 'More or Less' and 'All in the Mind' on radio.

Introduction and Review of the Year (continued)

As a charity, The Open University's primary objective is to meet our charitable aims whilst remaining financially sustainable. Although our balance sheet remains very strong and we are reporting a surplus for the year of £9.8 million, our results show the underlying position to be an adjusted operating deficit of £2.4 million in 2016/17. The funding changes referred to above and the external influences we face, as discussed on pages 26 to 27, continue to be challenging, but will be responded to through our transformation programme.





Financial Review p7

Conclusion

The University is indebted to the many voluntary lay members of its Council and other Committees. Six members of Council retired from office during the year: Mr C Pane, Mr W Monk, Mr J Newman, Dr T O'Neil, Mrs R Spellman and Professor W Stevely. The Council would like to express its gratitude for their contribution, and to the former long standing Finance Director, Mr M S Hedges, who retired during the year.

We continue to benefit from committed, high quality staff, both those based in offices in the UK and beyond, and the associate lecturers who are the primary point of contact with our students. We remain confident for the year ahead, whilst recognising the challenges and opportunities that we face, as outlined in the section on Future Developments on page 26.

The Open University has always adapted to changing technologies and student needs and this adaptability is more important than ever. More people have the opportunity for higher education study, competition has grown and part-time numbers have declined. Yet the opportunities for The Open University are also increasing, due to the changes brought by technology on the jobs market, by serious skills shortages and by the need around the world for high quality digitally delivered education.

Our transformation programme is a fundamental opportunity to reinvest in shaping the University for this future. We will become more agile, innovative and flexible for learners and employers. We have set a vision to streamline our curriculum and research, and transform our teaching model and our digital delivery systems. Through these changes The Open University will reinvent itself to provide a range of courses and modes of study that deliver the flexible, lower cost, employment-relevant forms of study that businesses and employees are crying out for. The scale of the challenge is significant, but we are confident that our transformation programme, supported by our sound financial base, will enable us to survive and thrive into our next 50 years and beyond.

Students First: Strategy for Growth p5

Strategic Report

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 Plan

Students First: Strategy for Growth

The Students First: Strategy for Growth was launched in July 2016 as a major transformational programme, to address how we can remain true to our mission and deliver our potential to do even more for our current and future students in a changing and challenging external environment.

The strategy has six strands:

- More students qualifying
- Enhanced employability and career progression
- Academic excellence
- Income diversification and cost reduction
- Adaptive organisation and culture
- Leadership in digital innovation

Students First: Strategy for Growth (continued)

To ensure we are ready for the challenges of the next half century, we are conducting a root and branch review of every aspect of our operations – from the experience of students to our teaching and research – to enhance our reputation as a world leader in lifelong and distance learning, becoming digital by design and placing the needs of students and the wider economy at the centre of all we do.

This programme is designed to recognise future economic challenges and provide leadership in preparing the wider workforce for a time of unprecedented change. We believe the Open University can play a crucial role in helping employers and employees respond to the rapid rise in automation in the work place, and support the rising generation of students who may be the first who routinely have to retrain and improve their skills throughout their careers to adapt to a rapidly evolving economy.

The key parts of The Open University Students First Transformation Programme which we will deliver are:

World leading part-time distance learning and teaching with digital innovation at its heart

A streamlined curriculum shaped to students' needs and adaptable to change

High quality research focused closely on the teaching curriculum to maximise its impact

Close links to employers to ensure the curriculum reflects the skills they need

A redesigned university that takes advantage of new technologies to improve efficiency and services to students

The outcomes will give students greater choice over when they start courses and the pace of their study. They will be able to work flexibly on screen, tablet or mobile - and they will be more closely supported than ever by tutors delivering a hands-on, highly personalised education.

The changes will require major investment in technology, in training for our staff, in redeveloping our curriculum and in reorganising the University.

In summary, we want to transform the University of the Air envisaged by Harold Wilson in the 1960s to a University of the Cloud – a world-leading institution, which is digital by design and has a unique ability to teach and support our students in a way that is responsive both to their needs and those of the economy.

A revitalised and redesigned University will be at the heart of the digital revolution by becoming a leading exponent of the use of digital technology for teaching and supporting students; by helping educate the digital citizens of the future; by undertaking research that can help equip society for a digital world.

The Open University will still be the Open University. We will retain our core mission of offering higher education to all, regardless of background or previous qualifications. But we will be delivering it in a different way, matching future needs to future technology.

We were disruptive and revolutionary in our use of technology in 1969, and as we approach our 50th year, we intend to be disruptive and revolutionary again, to transform the life chances of tens and thousands of future learners. The transformation process will put the University on a sustainable financial footing and we intend to reinvest in building a University fit for the next 50 years.

Financial Review

Scope of the Financial Statements

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

Financial Highlights and Results

This year is the fifth year under the new funding regime in England. Since students in England comprise more than 80% of all students, the continuing effects of the changes can be seen in the results for the year, most notably in the further increase in tuition fee income and decrease in funding body grants.

The surplus for the year was £9.8 million, whilst the adjusted operating deficit for the year, which excludes items not influenced by the day-to-day operations of the University, was £2.4 million.

	Consolidated		University	
	Year Ended 31 July 2017 £m	Year Ended 31 July 2016 £m	**Year Ended 31 July 2017 £m**	Year Ended 31 July 2016 £m
Surplus / (Deficit) for the year after other gains and tax	**9.8**	58.4	**15.5**	65.3
USS deficit provision adjustments	**(2.6)**	(1.6)	**(2.6)**	(1.8)
Unrealised gains on equity based funds	**(8.8)**	(5.4)	**(8.8)**	(5.4)
Gain on disposals of fixed assets	**(4.4)**	0.0	**(4.4)**	0.0
Significant one-off item: VAT refund	**0.0**	(53.3)	**0.0**	(53.3)
Significant one-off item: Restructuring	**3.6**	12.3	**3.6**	12.3
Adjusted Surplus / (Deficit) from Operating Activities	**(2.4)**	10.4	**3.3**	17.1

The movement from a £10.4 million adjusted operating surplus in 2015/16 to a deficit of £2.4 million in 2016/17 is explained below:

Movements in operating income and expenditure	**Year Ended 31 July 2017 £m**
2015/16	**10.4**
Increase in tuition fee income	**13.2**
Decrease in Funding Body Grants	**(8.9)**
Increase in Staff Costs	**(11.5)**
Increase in Operating Expenses	**(2.7)**
Miscellaneous	**(2.9)**
2016/17	**(2.4)**

Expenditure increased in 2016/17 in line with inflation, and due to increases in national insurance and employer pension rates, and the new Apprenticeship Levy. Increases in tuition fee income were offset by decreases in teaching grants and the net increase in income was insufficient to keep pace with the cost pressures through the year.

Financial Review (continued)

Income

Income decreased by £48.5 million (10%) to £426.7 million

Tuition fee income

Tuition fee income increased by £13.2 million or 5% to £261.2 million. The majority of the increase was in respect of fees paid by students, or on their behalf by their employers or the Student Loans Company (SLC), in England, which increased by £10.0 million or 5% to £213.4 million. This increase is a result of the changes in funding regime discussed in the section on Public Value on pages 17 to 19.

Tuition Fees and Education Contracts p53

Funding body grants

Funding body grants decreased by £8.9 million or 7% to £114.2 million largely as a result of the reduction in recurrent grant from HEFCE; this decreased by £5.9 million or 8% to £69.4 million but still represents 67% of all recurrent grants from the various funding bodies. Total recurrent grants from other funding bodies decreased by £1.6 million to £33.8 million, and specific grants from all funding bodies decreased by a total of £1.4 million to £11.0 million.

Funding Body Grants p53

Research grants and contracts

Income from research grants and contracts decreased by £0.4 million or 3% to £14.9 million.

Research Grants and Contracts p54

Other income

Other income decreased by £23.1 million (52%) to £21.2 million, due to the receipt of a one-off VAT refund of £21.0 million from Her Majesty's Revenue and Customs in 2015/16.

Other Income p54

Investment income

Investment income decreased by £28.8 million (69%) to £13.0 million. This was due to interest received in respect of the one-off VAT refund of £31.7 million in 2015/16, offset by a higher increase in the market value of equity funds of £3.6 million.

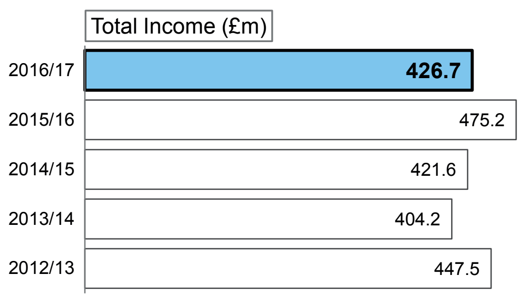
Investment Income p55

Donations and Endowments

Income from donations and endowments decreased by £0.5 million (19%) to £2.2 million.

Donations and Endowments p55

Following the one-off VAT refund in 2015/16, total income has returned to levels achieved in the previous two years. The changes to teaching funding led to decreases in total income since 2012/13 but the trend as shown in the chart shows that there has been an overall increase since 2013/14.



Financial Review (continued)

Expenditure

Expenditure increased by £4.5 million (1%) to £421.2 million

Staff costs

Total staff costs increased by £4.8 million or 2% to £286.9 million. A £5.3 million increase resulted from annual pay awards and progression of staff up incremental pay scales, and £3.0 million was due to changes in the number and mix of staff. Changes to National Insurance rates and the Apprenticeship Levy increased costs by £2.9 million. These increases were offset by a £6.0 million reduction in the costs of early retirement and restructuring and a £0.4m saving in respect of adjustments resulting from the USS pension deficit provision.

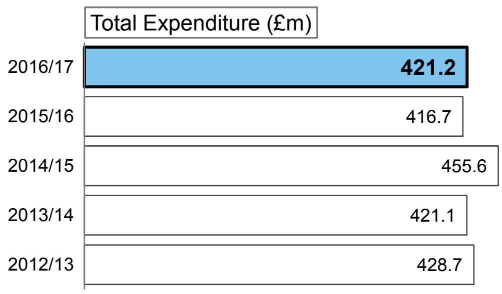
Staff Costs p56

Non-staff costs

Other (non-pay) operating expenses, depreciation and interest payable decreased by a combined total of £0.3 million.

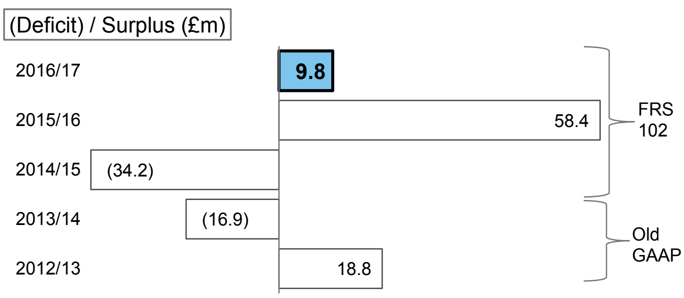
Other Operating Expenses p58
Interest Payable p59

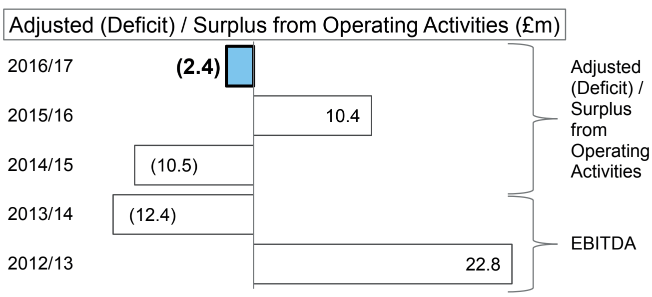
Cost pressures have been in place over a number of years which the University has responded to through savings programmes, the effect of which has been to broadly maintain expenditure in cash terms, negating the effects of inflation.



Surplus

Surplus after tax of £9.8 million compares to a surplus of £58.4 million last year.





The surpluses / (deficits) over the last five years are shown in the first chart. The figures up to 2013/14 were reported under an old accounting standard and are not strictly comparable to subsequent years due to the inclusion of new items from 2014/15 onwards.

The second chart shows the adjusted surplus / deficit from operating activities and attempts to eliminate the main non-operational differences across the years.

In the years up to and including 2013/14, the Adjusted Surplus / (Deficit) was measured using Earnings Before Interest, Taxation, Depreciation and Amortisation (EBITDA). Subsequently, due to the introduction of Financial Reporting Standard 102 (FRS 102), an equivalent measure of Adjusted Operating Surplus was introduced. This is broadly similar to EBITDA, and provides a view of underlying surplus / (deficit) after one-off and non-operational items have been eliminated.

Financial Review (continued)

Cash Flow

The Group net cash ouflow from operating activities was £15.5 million, an increased outflow of £8.4 million compared to the previous year. The increased outflow is largely explained by the reduction in operating surplus, discussed on pages 7 to 9. The total decrease in cash and cash equivalents was £7.2 million, due to the outflow from operating activities combined with transfers to term deposits, offset by the proceeds from the sale of two buildings and capital grant receipts.

Statement of Cash Flows p52

Capital Projects

The only additions to land and buildings were in respect of minor improvements. One freehold property and one long-leasehold property were sold during the year resulting in a total net gain of £4.4 million. In addition one further freehold property was sold after the balance sheet date but before the signing of these financial statements for a net gain of £1.8 million; this will be recognised in the 2017/18 financial statements.

The total capital expenditure in the year was £1.1 million (2016/17, £11.7 million).

Tangible Assets p61

Balance Sheet

Tangible assets totalled £261.5 million at 31 July 2017, a decrease of £12.1 million since 31 July 2016. The decrease is a result of the sale of two buildings discussed above, along with the annual depreciation charge.

Deposits and equities totalled £231.7 million at 31 July 2017, an increase of £20.1 million since 31 July 2016. The composition is shown in note 14 on page 64.

The University recognises amounts on the balance sheet in respect of modules partially completed at 31 July (£24.8 million as shown in Note 15 on page 65) and modules starting in the following financial year (£26.6 million as shown in Note 15 on page 65).

2016/17 is the fifth year that some tuition fees in England were payable by students via the SLC and the amount outstanding at 31 July 2017 was £5.4 million (a decrease of £2.4 million since 2015/16), as shown in Note 13 on page 63.

It is The Open University Group's policy to abide by terms of payment agreed with suppliers. Unless special terms apply, payment is made within 30 days of receipt of a valid invoice or after acceptance of the goods or services, whichever is the later. There are no matters to disclose under the Late Payment of Commercial Debts (Interest) Act 1998.

The University has a provision at 31 July 2017 of £3.4 million in respect of the restructuring of its operations in England. The balance of this provision has decreased from £10.3 million at 31 July 2016. The provision for the deficit in the Universities Superannuation Scheme (USS) pension scheme, discussed on pages 14, 66 and in Note 24, reduced by £2.6 million to £58.8 million at 31 July 2017.

Balance Sheet p51
and Notes to the Financial Statement p61 to 66

Financial Review (continued)

Treasury and Investment Management

The financing and liquidity of The Open University and its exposure to financial risk are managed through the central treasury function of the Finance Division. The financial strategy, discussed on pages 12 to 13, sets minimum liquidity levels in order to ensure that sufficient financial flexibility is retained. Each year, as part of its normal planning processes, rolling financial forecasts are prepared, incorporating a review of capital expenditure and cash generation.

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 review the treasury and investment 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 are invested in managed equity based funds and UK gilt-edged stocks of less than five years to maturity.

The University manages its liquid resources on two bases.

Short-term 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 on bank deposits and gilts is, however, a small proportion of total income and so, overall, there is low vulnerability to changing interest rates.

On creation of the fund managed on a long-term basis, capital of £80 million was split equally between two investment funds selected for their contrasting 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. 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 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 three years since the original investment.

The University does not directly invest in offshore funds, and the appropriateness of the environmental, social and governance policies of the two equity based funds managed on behalf of the University is agreed by the Investment Committee. The fund and counterparty profile of the University's gilts, equity based investment funds, and term deposits as at 31 July 2017 is set out in Note 14.

Financial Review (continued)

Financial Strategy

The University's financial strategy is designed to maintain financial flexibility at all times. It was reviewed in 2016/17 and Finance Committee and Council agreed that it should be expressed through three parameters:

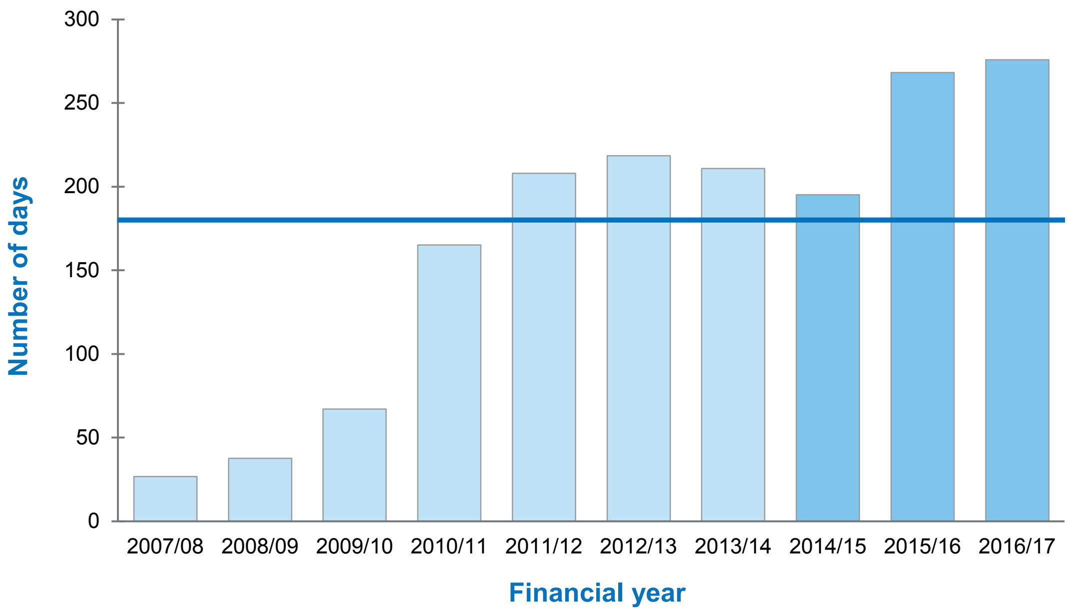
Net Current Assets	To maintain net current assets at a minimum of 180 days' expenditure.
Income and Expenditure	To at least balance normal recurring income with normal recurring expenditure, taking one year with another, over the medium-term and to aim for an Adjusted Surplus from Operating Activities 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 Statement of Recommended Practice (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.



At 31 July 2017, net current assets were £318.5 million, an increase of £12.4 million (4%) from the previous year's figure of £306.1 million. The 2017 figure represented 276 days of expenditure; this includes the impact of the draw-down of a committed loan facility of £60.0 million, in itself equivalent to 52 days of expenditure.

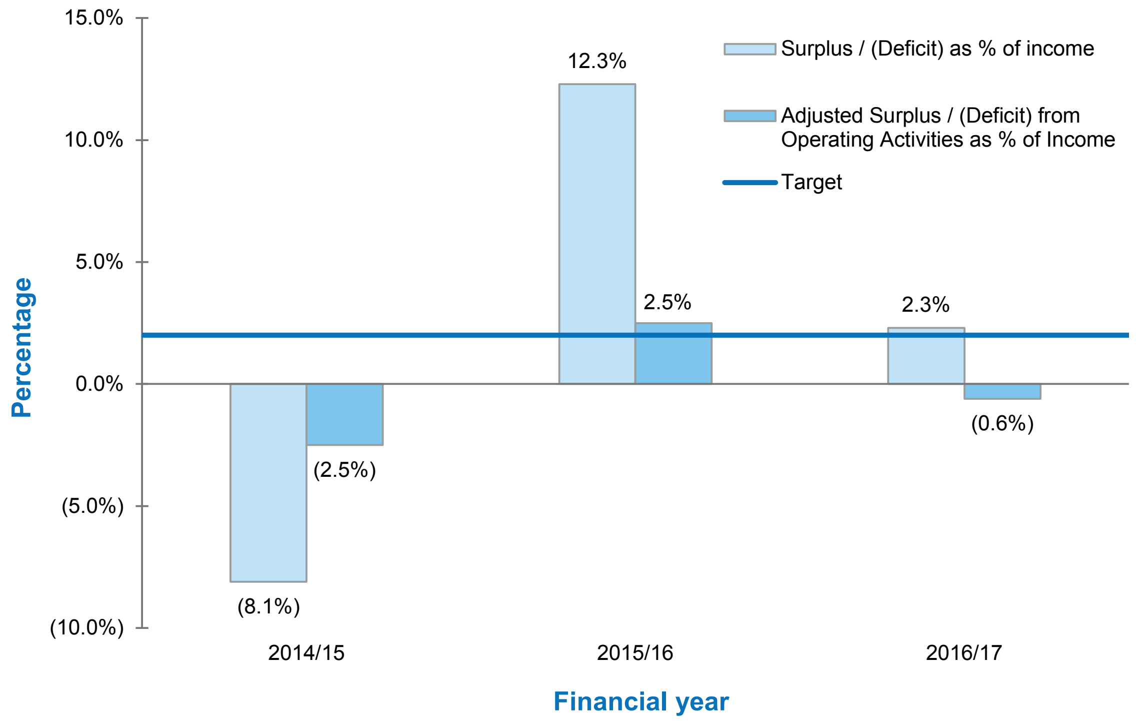
Financial Review (continued)

Financial Strategy

Income and Expenditure

The Adjusted Deficit from Operating Activities for 2016/17 was £2.4 million (see page 7). This equates to a percentage of income of -0.6%. This compares to the target of 2%, and to the 2015/16 figure of 2.5%.

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. The adoption of the 2015 SORP has introduced volatility in the reported results; 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 provides a meaningful year-on-year comparison of results.



Borrowings

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.

Financial Review (continued)

Pensions

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

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

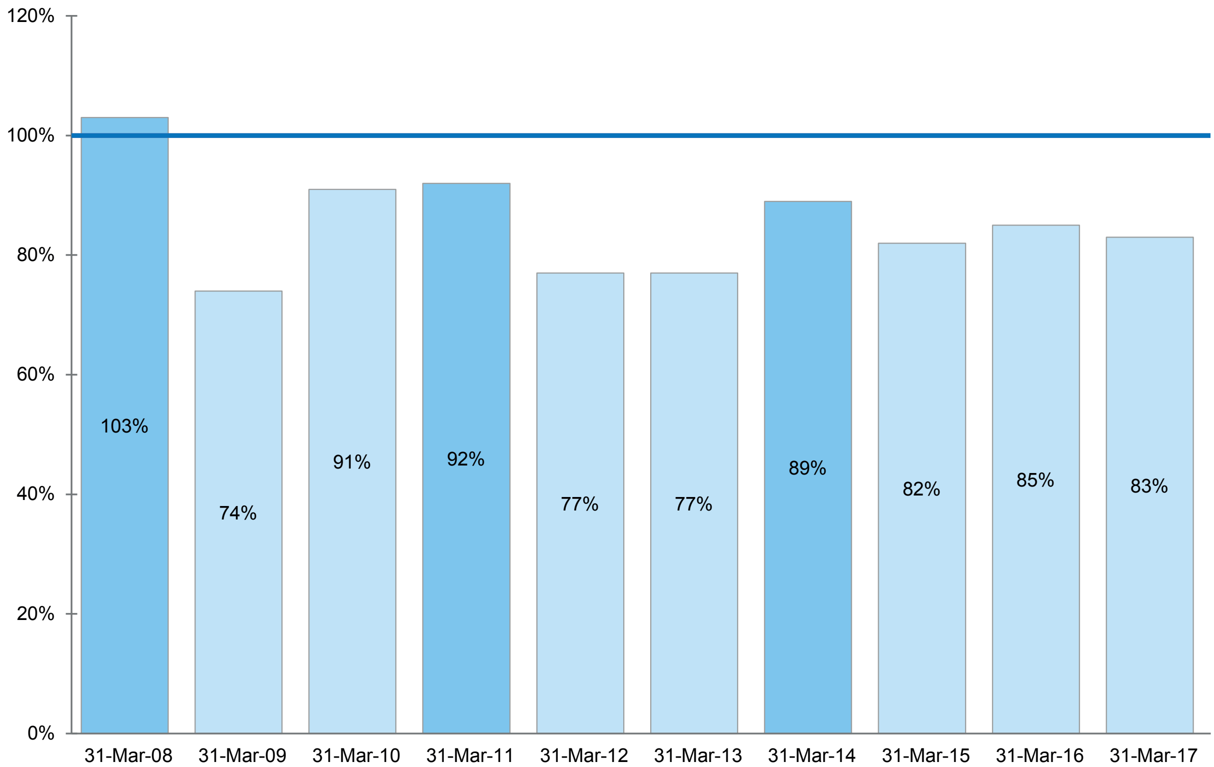
Following the 2014 valuation, a revised deficit recovery plan was implemented with the aim of eliminating the deficit by 2031. The plan increased member contributions to 8%, and employer contributions to 18%. The Group has a liability of £58.8 million (31 July 2016, £61.4 million) in respect of its commitment to the USS deficit recovery plan, shown in Note 17 on page 66. The plan along with the changes to scheme benefits are expected to eliminate the deficit by 2031.

The actuarial valuation as at 31 March 2017 is underway and the results are not yet known. However, an interim valuation has been provided which indicates that the funding level has reduced to 83%.

Further information on the scheme changes, the deficit recovery plan and the assumptions made in the actuarial valuation can be found in Note 24 on page 70.

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.



Risk and Risk Management

A risk management process has been established to identify, assess and monitor the principal risks that the University faces. The risk management process relies on a judgement of the risk likelihood and impact and on the development and monitoring of the internal risk response actions. A Strategic Risk Register is maintained which dynamically assesses the impact of each principal risk to the University's reputation, finances, operations and compliance.

A risk appetite framework has also been established to ensure that decisions of a strategic or tactical nature consider risk appetite as a key component. The risk management process is cascaded down through the University supported by the risk management governance structure. The Strategic Risk Register is considered and principal risks are discussed at regular meetings with the Vice-Chancellor's Executive and with The Council. In all areas of the University, risks are actively managed as appropriate to their significance. Where risks exceed risk appetite they are escalated for decision-making.

The tables below set out risk oversight responsibilities, the principal risks and their broad impact areas and examples of risk response actions in place.

Risk Oversight

The Council	Audit Committee	Vice-Chancellor and Vice-Chancellor's Executive
Overall responsibility for risk management, sets the tone for risk management within the University and takes an overall perspective of compliance with the University's policies.	Oversight of the risk framework and risk response actions on behalf of The Council.	The Vice-Chancellor is accountable to The Council for implementing an appropriate risk management framework. Individual members reporting to the Vice-Chancellor are accountable for specific risks.

Threat and opportunity responses have been developed, and have been assigned to members of the Vice-Chancellor's Executive. The responses are expected to decrease the impact and / or the likelihood of each threat being realised, or, to increase the likelihood and / or impact of each opportunity being realised.

Main Threats and associated response actions

1 Failure to sustain an effective operation during a period of change

The transformational programme will lead to pressures on the day-to-day operation of the University, which may have knock-on effects to IT systems and processes, staff productivity, delay to delivery of change objectives and engagement with key stakeholder communities.

Response actions	Identify a revised operational model and implementation plan for the University Ensure effective recruitment and induction of talent at senior level Ensure the workforce resourced at a level that is sufficient to meet operational needs

2 Failure to attract sustainable student numbers

The recent significant decline in the core part-time market and uncertainties arising from Brexit and devolved governments' higher education policies will add to the pressure of attracting students.

Response actions	Offer a wider range of study options and qualifications Enhance academic excellence Establish the University as a major player in new markets

3 Failure to retain and support students to achieve their study goals

We need to ensure that we understand and track students' study goals and offer coherent and targeted student support, whilst ensuring there is sufficient capability and capacity in key service areas.

Response actions	Staff to be empowered, proactive, engaged and focussed on supporting our students Integrate the Associate Lecturer community into the academic staff base Deliver student focussed systems and processes

Risk and Risk Management (continued)

Main Threats and associated response actions (continued)

4 Staff not engaged with or equipped to deliver the strategic objectives; the organisation is unable to respond to changing external needs

Communication and engagement of strategic intent and progress of the Students First Transformation Programme need to be effective and our staff need to be supported to deliver the strategic objectives.

Response actions	Build leadership, performance management and change capability in our staff Upgrade core IT systems Review business processes

5 Fall behind in digital innovation

We must ensure that we innovate effectively and invest in new ideas. We must retain an institutional appetite for innovation and establish a more agile approach to managing and monitoring digital innovation.

Response actions	Develop a strategy that delivers more Personalised Open Learning Review our systems and projects, ensuring they are leading edge and fit for purpose Develop a programme to support digital skills and inclusion

6 Failure to sustain and demonstrate academic excellence

We must make the most of our academic talent and recruit and retain excellent teaching and research staff.

Response actions	More clearly prioritise curriculum, research and external engagement Focus on research which is world-leading and internationally excellent Increase focus on academic professional development to improve academic capability

7 Inability to demonstrate how study at the OU enhances career and personal goals

Employer needs, student goals and government priorities must be understood and acted on and our students must be able to recognise and articulate the skills gained from undertaking Open University study.

Response actions	Systematically track what each student is seeking to achieve and how well we are supporting them Embed employability skills more explicitly in the curriculum

Opportunities and associated response actions

A Scope to generate new streams of income

We have the opportunity to diversify activities and revenue streams in different markets to respond to competitors and undertake market leading activities.

Response actions	Establish OU as a major player in new markets, including Apprenticeships Grow philanthropic income Move FutureLearn to profitability

B Scope to reduce costs

Business change and new technology may provide opportunities to review and revise ways of working that lead to cost savings.

Response actions	Deliver strategic cost reductions Transparency of resources used and their value Continued cost scrutiny, value and priority through annual planning and budgeting

Public Value

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, most 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 173,927 students registered in 2016/17 and ranks highly in student satisfaction. A significant amount of learning material is made freely available through the internet using websites such as The Open University iTunes U service, 'YouTube', and the University's 'OpenLearn' platform, as well as through FutureLearn Limited.
Research	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 2016/17 963 research outputs were published.

Research Outputs p22

The University is a fee charging charity. The majority of its students study part-time and tuition fees are 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 £5,150 to complete an undergraduate degree at 2016/17 fee rates. Students in England who commenced their study after 2012/13 are liable for tuition fees of £5,572 per full-time equivalent, equating to £16,716 for an undergraduate degree, whilst students in Scotland, Wales and Northern Ireland are liable for tuition fees at the lower rates.

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 number of students completing their specified studies in the year, which, with the exception of England, is restricted to previously allocated student numbers. 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.

Public Value (continued)

The University is unique in that it has a significant presence in all four of the UK nations, and receives grant funding from the four funding bodies. The ongoing process of devolution has caused a divergence of funding arrangements, both in terms of grant funding for teaching, research and innovation, and financial support to students.

There are some sources of assistance to students that are available across the UK with some nation variations:

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

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

England	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	65% of Open University 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	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	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 continues in parallel with the introduction of part-time loans in 2017/18. These are not means-tested, are available for undergraduate and post graduate courses to both new and existing students and can also be used by students eligible for fee grants to provide top-up funding where the course fee exceeds £1,230. Course grants for other study-related costs are also available.

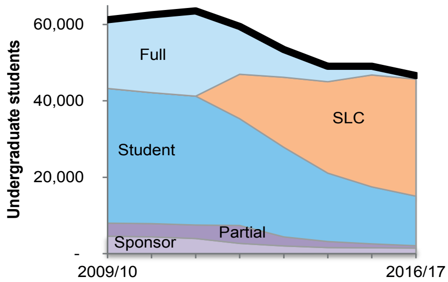
Public Value (continued)

The sources of funding of undergraduate tuition fees have changed over the seven years since the major changes were introduced, and diverged across the UK nations. The number and proportion over the period in each UK nation is summarised below.

Sources of Undergraduate Tuition Fee Funding

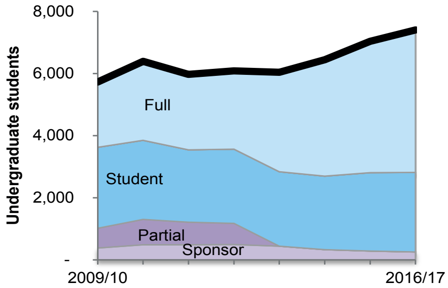
England

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 2016/17 approximately 66% of undergraduate full-time equivalent students (FTEs) in England were funded by the SLC under the new regime.



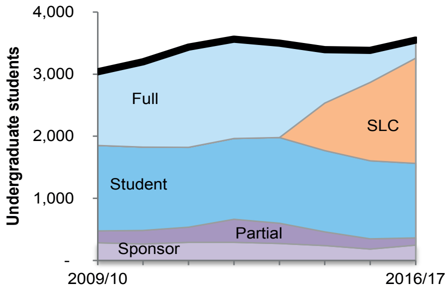
Scotland

In Scotland, higher education remains free for full-time students from Scotland and other European Union countries outside the UK. The cost of teaching part-time students is met largely by the direct teaching grant to universities for part-time students, but also through fees payable either by students or their employers. Part-time students whose personal income is £25,000 or less, or who are on certain benefits, can qualify for a part-time fee grant to help towards the cost of their tuition fees.



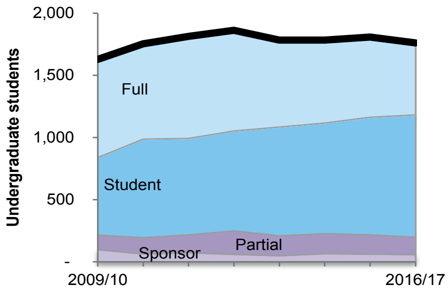
Wales

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 48% of the Open University's undergraduate full-time equivalent students (FTEs) in Wales were funded by the SLC in 2016/17.



Northern Ireland

In Northern Ireland, the University continues to receive teaching and learning grants. The Department of the Economy has introduced fee loans for part-time students and for postgraduate study in 2017/18.

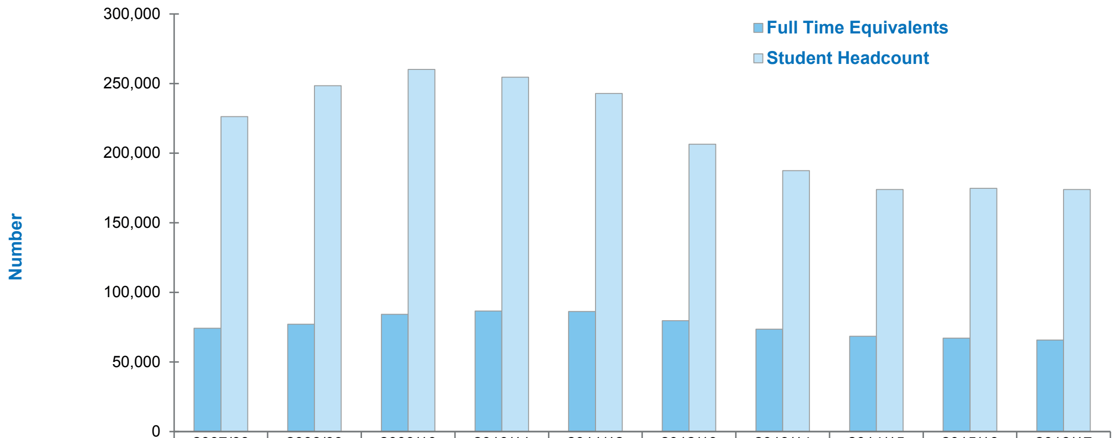


Key to charts		
Full: Full fee is covered by financial support	SLC: Some or all of the fee is funded by loan from the Student Loans Company loan	
Student: Student pays in full	Partial: Part of the fee is covered by financial support	Sponsor: Full fee is paid by sponsor

Student Numbers

Over the year, student numbers decreased by 812 or 0.5% to 173,927, and full-time equivalents fell by 1,282 or 2% to 65,724. Over the period since 2007/08, the decrease in full-time equivalents was 8,428 or 11%, whilst the number of individual students decreased by 52,278 or 23%. Both the longer-term and immediate reductions in student numbers are almost entirely attributable to students in England and were an expected result of the significant changes in the funding regime discussed on page 19, 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



	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
Full Time Equivalents	74,152	77,119	84,252	86,617	86,173	79,586	73,528	68,378	67,006	65,724
Student Headcount	226,205	248,437	260,119	254,519	242,802	206,300	187,338	173,889	174,739	173,927

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 2017 The Open University was the university ranked first in Northern Ireland, third in Scotland and fourth in Wales and thirty ninth in England. Significant changes were made to the questionnaire in 2017 compared with previous years, and the number of questions increased from 23 to 27. This year 371 institutions were surveyed, including further education colleges that offer higher education courses

In the 2017 survey over 14,000 Open University students took part and 86% said they were satisfied overall. 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.

Diversity and Equal Opportunities

For almost 50 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. Ten 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. A comprehensive set of monitoring statistics is published annually, sharing data about staff and students across a wide range of participation and progress indicators. We use this information to understand the representation and diversity of staff and students at the University, and to provide evidence to support activities to improve the staff and student experience.

The gender breakdown of Council members and staff appears below and the University will publish its gender pay gap report in accordance with The Equality Act 2010 (Gender Pay Gap Information) Regulations 2017 on its website, by the end of March 2018.

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

At 31 July 2017, the gender breakdown of Council members, senior managers (comprising the members of the Vice-Chancellor's Executive), and of staff was as follows:

	Employees		External		**Total**	
	Male	Female	Male	Female	**Male**	**Female**
Council Members	5	4	7	6	12	10
Senior Managers (excluding Council Members)	7	5	0	0	7	5
All Other Employees	3,125	4,770	n/a	n/a	3,125	4,770

The staff numbers above are based on staff in-post as at 31 July 2017, whereas the staff numbers in note 7 on page 56 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.

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 last assessed in RAE2008 (Research Assessment Exercise 2008). 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'. This compares to an equivalent figure of 51% in RAE2008. Whilst the results demonstrate that research excellence can sit alongside open access to higher education, it is notable that research excellence across the sector improved significantly and this has impacted on the University's share of HEFCE quality related research grant funding. For 2016/17 the HEFCE research grant was £8.9 million, an increase of £0.1 million on 2015/16.

Income from external research grants and contracts has decreased by £0.4 million (3%), from £15.3 million in 2015/16 to £14.9 million in 2016/17. The decrease reflects constraints on public funding for research (for example through the Research Councils and UK government departments), Brexit-related uncertainties around European Union (EU) funding 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 and is continuing to put in place measures to improve its income capture, including the development of faculty-level bidding strategies and more targeted support for bidding, particularly for high value and interdisciplinary funding. The University's investment in strategic research areas also has a key objective of driving growth in externally-funded research activity.

Notable award achievements in 2016/17 include:

An Economic and Social Research Council (ESRC) Doctoral Training Partnership with Oxford University and Brunel University, securing over £3.0 million to support the costs of 54 PhD students over six years, starting in 2017.

Two Science and Technology Facilities Council Consolidated Astronomy grants totalling £3.5 million.

Awards from new funders include £0.5million from the Money Advisory Service and an award from the US National Science Foundation.

Despite the uncertainty of Brexit, the University continues to engage with EU funding and in 2016/17 became part of 6 new EU Consortia, generating a total of just under £1.0 million in new awards.

The registration of new Postgraduate Research (PGR) students grew in 2016/17 by approximately 10% compared to 2015/16. To support growth in student numbers and enhance the environment for postgraduate research, the Open University Graduate School was launched in October 2016. The Graduate School provides a more visible, external presence to support the marketing of Open University research degrees, and aims to both 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 participated in the first year (2015/16) of the Annual Provider Review process which is part of HEFCE's new operating model for quality assessment and was deemed to fully meet HEFCE's requirements for quality and standards. This means that the University's qualification standards are: reliable and reasonably compare to those across the UK; the student academic experience is of high quality; student outcomes are generally good or excellent and the University had demonstrated continuous improvement in relation to them.

Various Professional, Statutory and Regulatory Bodies undertook assessments of the University's provision during 2016/17 including the Higher Education Academy (HEA) which accredited the University's APPLAuD (Accrediting & Promoting Professional Learning and Academic Development) and PLAuDIT (Professional Learning & Academic Development in Teaching) development provision forming routes for academic staff to HEA Fellowship, and reaccreditation by the Association of MBAs of the University's MBA provision. Meanwhile, the University continues its system of internal periodic and annual quality reviews and makes thorough use of the external examining system.

Public Interest Disclosure

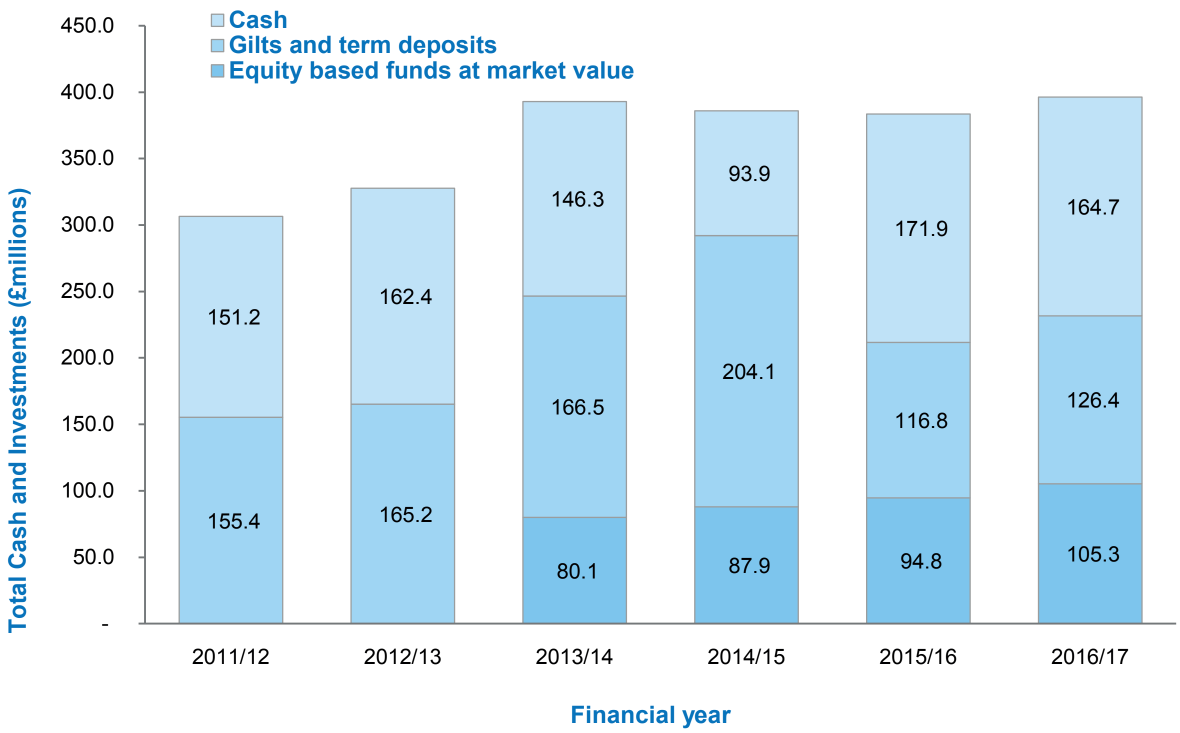
The University ensures that its Public Interest Disclosure (Whistleblowing) Policy and associated procedures are embedded and understood throughout the organisation through internal and external communication, including training that is proportionate to the risk it faces. The Policy is reviewed annually by Audit Committee, on behalf of Council, to ensure fitness for purpose. The Policy and procedures were comprehensively reviewed in the 2016/17 year as planned and were approved by the Audit Committee in February 2017. Nine disclosures were made in the period to 31 July 2017. Eight (of which six were anonymous) related to the same area of concern and were subject to an independent investigation which found none raised issues specific enough to warrant any further investigation, and there was no evidence which would support the taking of formal action under existing University Policy. The remaining disclosure was also investigated internally and closed.

Going Concern and Long-Term Sustainability

The University's major risks can be found on pages 15 to 16; financial information, including performance against the financial strategy can be found on pages 7 to 14, and the factors likely to affect future developments, performance and position are set out in the section on pages 26 to 27.

The University regularly reviews its business strategy and related risks. The University Council receives regular updates on the University's financial position and monitors performance against the strategy with reference to key performance indicators. An annual accountability return is also prepared for 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.

The University sector has been undergoing considerable upheaval in recent years, since the changes to funding for tuition fees were implemented from 2012. The various funding mechanisms are described on page 19. At the outset of this period of uncertainty the University had considerable financial resources at its disposal, with combined cash and investments of £306.6 million at 31 July 2012. The levels of cash and investments at market value remain at healthy levels; the aggregate £396.4 million holding at 31 July 2017 compares well with the historic figures, as shown in the chart below.



The University undertook extensive market research to prepare for the changes to funding 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. Modelling undertaken when the funding changes were first implemented in 2012 predicted that the University would be likely to report deficits in both 2012/13 and 2013/14, whereas deficits were delayed by one year but were significantly lower than scenarios had predicted. This was due in large part to a comprehensive cost control strategy, the effect of which has broadly been to maintain expenditure in cash terms, eliminating the effects of inflation.

Going Concern and Long-Term Sustainability (continued)

The financial strategy is discussed on pages 12 and 13. The chart on page 13 showing adjusted surplus from operating activities as a percentage of income in the last three years, indicates a small deficit in 2016/17. The chart on page 12, 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 276 days at 31 July 2017. 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 strategies put in place at the beginning of the changes to funding have been successful in maintaining the University as a going concern, but more action is required to secure the long term future of the University. The part-time market continues to decline and the wider political and economic outlook is uncertain. In order to secure its long-term future the University has put in place the Students First Transformation Programme; this will be implemented over the next three years and although it is expected to yield net annual cost savings, there will be a period of significant additional cost during the change programme. More details of the programme appear in the Strategic Plan section on pages 5 and 6. The healthy levels of cash and investments at 31 July 2017 mean that there is substantial resource available to facilitate the change programme without impacting on the day-to-day activities of the University. However, it is likely that two elements of the financial strategy, for net current assets and for operating surplus, will not be met whilst the programme is implemented.

The UK exit from the European Union and the forthcoming negotiations will undoubtedly introduce uncertainty into aspects of the University's business model. £13.1 million (5%) of the University's tuition fee income came from the European Union in 2016/17; this is not an insignificant amount although it is small when compared to the income generated from students in England (£213.4 million). A further £4.8 million of project-related income from the European Commission, mostly for research projects, was recognised. It is perhaps the knock-on effects of the outcome of the process which may have the largest impact. It is difficult to predict the effects of the eventual Brexit and it will be difficult to ascribe any effects, when they occur, to any single cause. However, as discussed above, the University remains well placed financially to withstand adverse events.

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, research, human resource-related measures and financial measures, including monthly and annual cash flow forecasts.

The University Group's forecasts and projections to 2019/20, taking account of the future developments discussed on pages 26 to 27 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 Open University faces some significant challenges and is subject to a number of external influences, outlined below.

National higher education policy and funding arrangements

Sources of funding should stabilise but funding models may continue to diverge	Since the funding changes in 2012/13, relative proportions of teaching grants and tuition fees have changed. The relative mix is expected to stabilise in 2019/20 when approximately 20% of funding will come from funding body grants and 80% from tuition fees, although policy changes at devolved government level may cause further divergences.
The effects of Brexit on the University are uncertain	The exit from the European Union will undoubtedly affect The Open University. Total income of £17.9 million from European sources was recognised in 2016/17. The wider and longer term economic effects of Brexit are unknown, however as outlined in the section on Going Concern, the University has considerable resources at its disposal to weather a downturn.

Demand for part-time study at a distance

The part-time market is declining	The UK undergraduate part-time market has declined in recent years across the UK. A number of factors could be responsible, for example the decline in public sector workforce, the recession following the financial crisis in 2009, the changes to the funding regime discussed above, and the reduction in funding available in specific subjects. Many of these factors are still relevant and so it is reasonable to assume that the decline may not be over.
Demand for skills and employability outcomes	Whilst the part-time market has been declining, the demand for a skilled workforce is growing. Three quarters of businesses are expecting to recruit for higher-level skilled vacancies but they are not confident that they will be able to fill the vacancies.

Individual economic factors

Political and economic uncertainty for individuals	Individual uncertainty will influence potential students' decisions on whether, what, and how, to study. Although tuition fees may be seen as a barrier, the availability of tuition fee loans and maintenance loans along with the ability of Open University students to study whilst in full-time employment may prove attractive to those seeking to re-skill or to improve employment prospects.

Competitor offerings

New entrants to the market are emerging	A number of new entrants to the part-time market have emerged in recent years. Whilst small in relation to The Open University, the Higher Education Reform Act will remove some barriers to entry resulting in a more competitive market.
Alternative models of education	The University is itself committed to two of the new models of education: Massive Open Online Courses (MOOCs) and Apprenticeships.
The impact of technology on education	Students are increasingly expecting to learn anyplace, anytime and on any device, and the principles of big data and learning analytics are leading to advances in adaptive learning and the tailoring of the education experience.

Future Developments (continued)

The Students First strategy is explained on pages 5 to 6. A key enabler will be to ensure that the University is structured in such a way so as to exploit the opportunities it identifies and to position itself to meet the changing external environment.

The University has considerable strengths to equip it to meet the challenges from changes in funding, student numbers, competitors and economic factors. It remains 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 and fulfil a unique national role. With its open access policy, it continues to promote 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 can build on its 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. These strengths, developed for our future through the planned Student First Transformation Programme, mean that we can be confident that The Open University will thrive in the coming years and meet the challenges it faces.

Approved by Council on 28 November 2017 and signed on its behalf by:

R W SPEDDING
Chair of Audit Committee

L J HOLDEN
Group Finance Director

P J G HORROCKS
Vice-Chancellor

Constitution, Governance and Regulation

The Open University was incorporated by Royal Charter on 23 April 1969. It is registered at Companies House under number RC 000391 and its registered address is Walton Hall, Milton Keynes, MK7 6AA. Certain parts of the Charter, and the Statutes appended thereto, have been amended by the Privy Council, the last amendments being made in December 2005.

The Council of the University is, subject to the provisions of the Charter and Statutes, the executive governing body of the University and is responsible for the administration and management of the revenue and the property of the University. The University's corporate governance arrangements are described in the following pages, and the members of the University Council during the year ended 31 July 2017, who are the charity trustees, are listed on page 31.

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 73.

Formal governance structure

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

Council is the main governing body	The University's main governing body is the Council, supported by a number of sub-committees. The Council is particularly concerned with strategy, finances, property and staff. It has ultimate authority within the University, but must respect the views of the Senate in academic matters.
Senate is the academic authority	The Senate is the academic authority of the University, responsible for promoting the academic work of the University, both in teaching and research. Subject to the powers of the Council, it oversees academic management, including curriculum and all aspects of quality and standards associated with the University as a degree-awarding body. Senate meetings concentrate on major issues of academic strategy, policy, priority and performance.

During the year a Corporate Governance Review was completed and Council agreed to reduce the size of Council from 25 to 21 members with effect from August 2017. In addition, the Development Committee and Estates Committee were disestablished and the Membership Committee was re-constituted as the Governance and Nominations Committee.

Corporate Governance and Accountability Arrangements

The Open University is a body incorporated by Royal Charter. The University's Council is committed to achieving high standards of corporate governance in line with accepted best practice.

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.

During 2016 the University's Council undertook a formal review of its corporate governance arrangements facilitated by an external reviewer. The reviewer's report concluded that the University takes governance seriously, is well-governed in accordance with its statutory obligations, and is fully compliant with the Committee of University Chairs (CUC) Higher Education Code of Governance and the Scottish Code for Good Higher Education Governance. The review went on to make further suggestions for building on existing arrangements to strengthen governance and the University has been progressing these improvements throughout the year.

In respect of the year ended 31 July 2017, 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 21 members. Since the University is a charity the Council members are the charity trustees. The roles of Chair and Vice-Chair of the Council are separated from the role of the University's Chief Executive, the Vice-Chancellor.

The University's Council has adopted a statement of primary responsibilities, which is published on the University's Freedom of Information and Governance websites. This statement sets out the Council's responsibilities in respect of The Open University Charter, the proper conduct of public business, human resources, finance and the law, the University's mission and strategy, monitoring effectiveness and performance, the appointment of the University Officers and Council members, ensuring the welfare of students and the quality of institutional educational provision, and the students union. It also outlines the Council's regulatory powers and its delegation of powers.

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

During the year a Corporate Governance Review was completed and Council agreed to reduce the size of Council from 25 to 21 members with effect from August 2017. In addition, the Development Committee (which did not meet during the year) and Estates Committee were disestablished with immediate effect and the Membership Committee was re-constituted as the Governance and Nominations Committee.

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

The University Council (continued)

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

The following members of Council retired from office in the last year: Mr C Pane, Mr W Monk, Mr J Newman, Dr T O'Neil, Mrs R Spellman and Professor W Stevely. The Group Finance Director, Mr M S Hedges retired during the year and his successor, Mr L J Holden was appointed during the year.

Council and Committee Membership and Attendance

The members of the University's Council and Committees during the year ended 31 July 2017, and their attendance at the meetings held during their membership in that year, together with members serving in the period after 31 July 2017 and up to the date on which the financial statements were approved, are shown below.

Council Members	Council	Governance & Nominations	Remuneration	SPRC [8]	Estates (disestablished)	Staff Strategy	Finance	Investment	Audit
Officers of the University									
Mr R Gillingwater, Chair	5/5	6/6	2/2	2/2			6/6	1/2	
Mr H R Brown, Treasurer	5/5		2/2	2/2			6/6	2/2	
Mr P J G Horrocks, Vice-Chancellor	4/5	6/6		2/2			6/6		
President, Open University Students Association									
Mr C Pane [1]	2/2								
Mrs N Simpson [2]	3/3								
Elected Members: Staff									
Dr J Baxter	5/5								
Mrs F Chetwynd	5/5								
Mr J D'Arcy	5/5	5/6							
Professor J Draper	4/5	5/6							
Mrs S Dutton	5/5								
Dr T O'Neil [6]	5/5								
Dr C Spencer	4/5								
Professor J Wolffe	5/5								
Elected Members: Open University Students Association									
Mrs B Tarling	5/5	5/6							
External members co-opted by Council									
Mr S Begbie	2/5						2/2 [7]		
Professor J Brooks [3]	0/0	0/0	0/0	0/0					
Mrs M Curnock Cook [3]	0/0								
Mrs R Girardet	4/5	6/6							
Mr P Greenwood	4/5	5/6							
Mrs R Lock	4/5		0/0 [3]			1/3			
Mr W Monk [4]	0/2				1/1				
Mr J Newman [5]	2/3						3/3		
Mr R W Spedding	5/5								3/3
Mrs R Spellman [6]	5/5	6/6	2/2			3/3			
Professor W Stevely [6]	5/5	6/6	2/2	2/2					
Mrs S Unerman	5/5			2/2					
Dr G Walker	5/5								2/3

[1] To 28 February 2017
[2] From 1 March 2017
[3] From 1 August 2017
[4] To 30 November 2016
[5] To 31 March 2017
[6] To 31 July 2017
[7] From 1 April 2017
[8] Strategic Planning and Resources Committee

Council and Committee Membership and Attendance (continued)

Non-Council Members	SPRC [10]	Estates (disestablished)	Staff Strategy	Finance	Investment	Audit
Vice-Chancellor's Executive membership of committees						
Mr K Zimmerman, University Secretary [1]			2/2			
Mr M S Hedges, Finance Director [2]		1/1			1/1	
Mr L J Holden, Group Finance Director [3]					1/1	
Mr J Wylie, University Secretary (acting [4])		1/1	1/1[4]			
Mr D M Zuydam, Group Finance Director [5]					0/0	
Other Staff membership of committees						
Mr A Burrell			3/3			
Dr R Hilliam [6]	2/2					
Mr N Holt [7]		1/1				
Mr R O Humphreys	2/2[9]					
Professor S Kelly		0/1				
Mr D Knight			2/3			
Dr D Kodwani [6]	2/2					
Professor A Lane [6]	2/2					
Mr N Macarte		1/1				
Professor R Taylor			3/3			
External membership of committees						
Ms N Advani				5/6		
Mrs C Banszky					1/2	
Mr C Hughes						2/3
Mr C Juman						2/3
Mr B S Larkman					2/2	
Ms E Lewis [8]						2/2
Mr R McCracken				5/6		
Mr M B Moule					1/2	
Mr J Potts			3/3			
Mr N Poulter						3/3
Mr C A Wood					2/2	

[1] To 4 May 2017 and from 5 September 2017	[4] From 5 May to 4 September 2017	[7] To 31 May 2017
[2] To 31 December 2016	[5] From 3 July 2017 to 31 October 2017	[8] From 7 February 2017
[3] Interim Group Finance Director from 1 December 2016 to 2 July 2017; Group Finance Director from 1 November 2017	[6] To 31 July 2017	[9] To 11 July 2017

[10] Strategic Planning and Resources Committee

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

Committee Remit and Membership

	Members of Council	Employees	Other External Members
Governance and Nominations Committee	Mr R Gillingwater (Chair) Professor J Brooks [1] Ms R Giradet Mr P Greenwood Ms R Spellman [2] Professor W Steveley [2] Mrs B Tarling	Mr P J G Horrocks Mr J D'Arcy Professor J Draper	

The Governance and Nominations Committee is responsible for recommending to the Council external co-opted members of the Council, and Council membership of Council's committees. It monitors the effectiveness of Council membership and advises the Council on matters relating to the role of Council members. It is also responsible to the Council for assuring the effectiveness of the Council's governance arrangements. It replaced the membership committee during the year, which was disbanded.

	Members of Council	Employees	Other External Members
Remuneration Committee	Mr R Gillingwater (Chair) Professor J Brooks [1] Mr H R Brown Ms R Lock [1] Mrs R Spellman [2] Professor W Steveley [2]		

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.

	Members of Council	Employees	Other External Members
Strategic Planning and Resources Committee (SPRC)	Mr R Gillingwater Mr H R Brown Professor W Stevely [2] Ms S Unerman Professor J Brooks [1]	Mr P J G Horrocks -Chair Dr R Hilliam [2] Mr R O Humphreys [3] Dr D Kodwani [2] Professor A Lane [2]	

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.

	Members of Council	Employees	Other External Members
Development Committee	Ms R Girardet – Chair Mr H R Brown Mr R Gillingwater	Mr P J G Horrocks Professor A De Roeck	

The Development Committee did not meet during the year and was disbanded. Its duties have been taken on by other committees.

[1] From 1 August 2017
[2] To 31 July 2017
[3] To 11 July 2017

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

Committee Remit and Membership (continued)

	Members of Council	Employees	Other External Members
Estates Committee	Mr W Monk (Chair) [1]	Mr M S Hedges [2] Mr N Holt [3] Professor S Kelly Mr N Macarte Mr J Wylie	

The Estates Committee reviewed and developed the University's estates strategy and related strategies for recommendation to Council. It reviewed and recommended the rolling capital programme and monitored progress and expenditure thereon. It recommended expenditure proposals for individual capital development schemes and acquisitions to Finance Committee and Council. The committee was disbanded during the year and its duties taken on by other committees.

	Members of Council	Employees	Other External Members
Staff Strategy Committee	Ms R Spellman (Chair) [4] Mrs R Lock	Mr A Burrell Mr D Knight Professor R Taylor Mr J Wylie [5] Mr K Zimmerman [6]	Mr J Potts

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

	Members of Council	Employees	Other External Members
Finance Committee	Mr H R Brown – Chair Mr R Gillingwater Mr S Begbie [7] Mr J Newman [8]	Mr P J G Horrocks	Ms N Advani Mr R McCracken

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.

	Members of Council	Employees	Other External Members
Investment Committee	Mr R Gillingwater - Chair Mr H R Brown	Mr M S Hedges [2] Mr L J Holden [9] Mr D M Zuydam [10]	Mrs C Banszky Mr B S Larkman Mr M B Moule Mr C A Wood

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

[1] To 30 November 2016	[5] From 5 May to 4 September 2017	[9] Interim Group Finance Director from 1 December 2016 to 2 July 2017; Group Finance Director from 1 November 2017
[2] To 31 December 2016	[6] To 4 May 2017 and from 5 September 2017	
[3] To 31 May 2017	[7] From 1 April 2017	
[4] To 31 July 2017	[8] To 31 March 2017	[10] From 3 July 2017 to 31 October 2017

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

Committee Remit and Membership (continued)

	Members of Council	Employees	Other External Members
Audit Committee	Mr R W Spedding –Chair		Mr C Hughes
	Dr G Walker		Mr C Juman
	Vacancy		Ms E Lewis [1]
			Mr N Poulter

[1] From 7 February 2017

The Audit Committee comprises wholly external members, drawn from both within and outwith the Council, and so has no executive responsibility. During the year because of a temporary vacancy the number of Council lay members reduced to two but the vacancy is currently being filled and during the period the number of independent members increased to four to compensate. Its remit is as follows:

Risk management Reviewing the effectiveness of the Group's arrangements for risk management, control and governance.

Financial Statements Reviewing the University's accounting policies and consolidated financial statements, and recommending them for approval to Council. Reviewing with the external auditors the scope and nature of their audit of the financial statements, including their report to Audit Committee.

Value for money and data quality Satisfying itself and reporting to Council, with advice from the Chief Auditor and other internal and external sources of assurance as appropriate, that satisfactory arrangements are in place to promote economy, efficiency and effectiveness, and the quality of data submitted to the various funding bodies, and the SLC.

Internal audit Reviewing and approving the terms of reference of the Internal Audit function and monitoring its performance and effectiveness.

External audit Advising the Council on the appointment, in accordance with the 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.

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

Committee Remit and Membership (continued)

Audit Committee (continued)

The Audit Committee has discussed with the external auditors and management the key financial risks and uncertainties impacting on the preparation of the financial statements and the financial position of the University and sought specific assurance on these risks through the work of the external auditors. These related to:

Tuition fee loan income and collection	The 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.
Students First transformation programme	Audit Committee has reviewed the accounting implications of the Students First transformation programme and is satisfied that the financial statements accurately reflect the current position. It is also satisfied that management is taking steps to manage the associated business risks.
USS pension 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
The valuation of FutureLearn Limited	The valuation of FutureLearn Limited on the University's balance sheet. Audit Committee is satisfied that the valuation is reasonable.
The corporate governance disclosure	A review of the corporate governance disclosure was undertaken during the year and Audit Committee is satisfied that this should record compliance with the Committee of University Chairs, and the Scottish Higher Education governance codes which represent best practice in the sector (see page 29).

The Group financial statements have been prepared in accordance with the Statement of Principal Accounting Policies set out on pages 43 to 47, 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.

Performance Evaluation of Council and its Committees

A report on the formal review of the effectiveness of the Council and its committees, undertaken with the assistance of external consultants, was presented to Council in July 2016. The review concluded that the University was well-governed in accordance with its statutory obligations, and was fully compliant with the Committee of University Chairs (CUC) Higher Education (HE) Code of Governance and the Scottish Code of Good HE Governance. Although the report identified that the University's governance arrangements served the University well, that the governance system was sound and that business was being effectively discharged, it proposed that the University's governance arrangements be strengthened to meet the challenges the University faces and to support its ambitions as set out in the Students First Strategy. The recommendations in the report were subject to further consultation and review by the Governance and Nominations Committee, and subsequently agreed by the Council in September 2016 and March 2017. Changes to structures and operations, including the Statement of Primary Responsibilities and Standing Orders, have been made over the course of the year in order to implement the recommendations approved by Council.

The Council also evaluated its performance in 2016/17 through an effectiveness review, which included reviews of the year's business against the terms of reference, members' attendance, role and responsibilities. Each Council Committee conducted a similar effectiveness review. These reviews are considered by the Governance and Nominations Committee at its autumn meeting.

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 Governance and Nominations Committee. The Council also reflected on its effectiveness at the end of each meeting.

The annual Council Induction and Development Day was held in September 2016. This event introduced new members of the Council and its Committees to the University and to their role and responsibilities; and also provided a refresher and opportunity for further development for longer serving members. All members are provided with information on the governor development events and resources offered by 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 24 to 25 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 for the Economy (Northern Ireland) (DfE) 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, DfE 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 audit of the financial statements

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 2017 and of the group's income and expenditure, gains and losses, changes in reserves and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law);
- have been properly prepared in accordance with the requirements of the Statement of Recommended Practice – Accounting for Further and Higher Education and the 2016/17 HEFCE Accounts Direction; 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).

We have audited the financial statements, included within the Financial Statements, which comprise the consolidated and University Statements of comprehensive income for the year ended 31 July 2017; the consolidated and University Balance Sheets as at 31 July 2017; the consolidated and University Statements 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.

Basis for opinion

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

Independence

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

Conclusions relating to going concern

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

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

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

Reporting on other information

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

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

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

Trustees’ Report

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

Responsibilities for the financial statements and the audit

Responsibilities of the Council for the financial statements

As explained more fully in the Responsibilities of the University’s Council statement set out on pages 38 and 39, the Council is responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The Council is also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors’ responsibilities for the audit of the financial statements

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

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

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

Use of this report

This report, including the opinions, has been prepared for and only for the Council as a body in accordance with Section 10 of the Charters and Statutes of the University, section 44(1)(c) of the Charities and Trustee Investment (Scotland) Act 2005 and regulations made under that Acts, regulation 10 of the Charities Accounts (Scotland) Regulations 2006 (as amended), and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Opinions on other matters prescribed in the 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 institution for specific purposes have been properly applied to those purposes and, if relevant, managed in accordance with relevant legislation;
- income has been applied in accordance with the institution's statutes; and,
- funds provided by HEFCE have been applied in accordance with the Memorandum of Assurance and Accountability, and any other terms and conditions attached to them.

Charities Accounts (Scotland) Regulations 2006

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

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

We have no exceptions to report arising from this responsibility.

Other matters on which we are required to report by exception

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 statement is inconsistent with our knowledge of the parent institution and group. We have no exceptions to report from this responsibility.

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Milton Keynes 28 November 2017

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, the Statement of Recommended Practice, Accounting for Further and Higher Education Institutions, (SORP) published in March 2014. The University is a public benefit entity and therefore has applied the relevant public benefit requirement of the applicable accounting standards. The accounting policies have been applied consistently throughout the year.

2 Basis of Consolidation

The consolidated financial statements incorporate the financial statements of the University and its subsidiary undertakings for the financial year ended 31 July 2017.

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

3 Recognition of Income

Tuition Fees and Education Contracts

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

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

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

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

   Where students are funded for their Apprenticeship programme by the Skills Funding Agency or their employer their liability for the fee is created when the programme begins.

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 Leasing Costs

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

7 Taxation Status

The University is potentially exempt from taxation on income or capital gains to the extent that such income or gains are applied to exclusively charitable purposes. The University receives no similar exemption in respect of Value Added Tax and any tax incurred is either expensed or capitalised according to the nature of the underlying expenditure.

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

8 Pension Schemes

In the United Kingdom the University participates in 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 (14 years as at 31 July 2017). The scheme actuary reviews the funding of the USS every year and undertakes a formal actuarial valuation every three years, at which time the deficit recovery plan may be amended.

Defined contribution schemes

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

9 Land and Buildings

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

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

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

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

10 Equipment

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

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

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

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

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

11 Heritage Assets

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

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

12 Investments

a. Investments in subsidiaries are shown at cost.

b. Sections 11 and 12 of FRS 102 have been adopted in full. Current asset investments, comprising funds held on deposit, in money market funds and in short-date UK government stocks (gilts), are recognised at 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.

13 Stocks of Finished Goods

a. Stocks of module materials are valued at the lower of cost and net realisable value. Provision is made for obsolete or surplus module materials.

b. Stocks of materials for use at residential schools are written off when purchased.

14 Cash, Cash Equivalents and Liquid Resources

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

15 Accounting for Donations and Endowments

a. Donations

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

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

b. Endowments

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

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

Accounting Estimates and Judgements

The University prepares its consolidated financial statements in accordance with FRS 102 as issued by the UK Financial Reporting Council, the application of which often requires judgements to be made by management when formulating the consolidated financial position and results. Under FRS 102, management is required to adopt those accounting policies most appropriate to the circumstances for the purpose of presenting fairly the Group's financial position, financial performance and cash flows. In determining and applying accounting policies, judgement is often required in respect of items where the choice of specific policy or decision about accounting assumptions or estimates could materially affect the reported results or net asset position of the Group; it may later be determined that a different choice would have been more appropriate.

Management considers that certain accounting estimates 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 accounting policies provided on pages 43 to 47. 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. Any change in the quantum of the provision is charged to staff costs. A sensitivity analysis of the approximate effects of changes in future staffing levels and changes in the discount rate has been carried out as follows:

	Effect on total provision at 31 July 2017	Effect on Expenditure in year ended 31 July 2017	Notes
For every 1% increase in staff costs	Increase by £0.5m	Increase staff cost by £0.5m	The effect is reversed if staff costs decrease, and diminishes the further in the future the change occurs.
For every 0.1% increase in discount rate	Decrease by £0.4m	Decrease staff cost by £0.4m	The effect is reversed if discount rates decrease.

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 2017

	Note	Consolidated		University	
		Year Ended 31 July 2017 £m	Year Ended 31 July 2016 £m	**Year Ended 31 July 2017 £m**	Year Ended 31 July 2016 £m
Income					
Tuition fees and education contracts	1	**261.2**	248.0	**261.2**	248.0
Funding body grants	2	**114.2**	123.1	**114.2**	123.1
Research grants and contracts	3	**14.9**	15.3	**14.9**	15.3
Other income	4	**21.2**	44.3	**17.1**	42.4
Investment income	5	**13.0**	41.8	**12.8**	41.8
Donations and endowments	6	**2.2**	2.7	**2.2**	2.7
Total income		**426.7**	475.2	**422.4**	473.3
Expenditure					
Staff costs	7	**286.9**	282.1	**276.3**	273.8
Other operating expenses	8	**126.0**	125.4	**126.7**	124.6
Depreciation		**7.0**	7.1	**7.0**	7.1
Interest and other finance costs	9	**1.3**	2.1	**1.3**	2.4
Total expenditure		**421.2**	416.7	**411.3**	407.9
Surplus before other gains and losses		**5.5**	58.5	**11.1**	65.4
Gain on disposal of fixed assets		**4.4**	0.0	**4.4**	0.0
Surplus for the year before taxation		**9.9**	58.5	**15.5**	65.4
Taxation	10	**(0.1)**	(0.1)	**0.0**	(0.1)
Surplus for the year		**9.8**	58.4	**15.5**	65.3
Represented by:					
Endowment comprehensive income for the year		**0.3**	0.7	**0.3**	0.7
Restricted comprehensive income for the year		**0.1**	0.0	**0.1**	0.0
Unrestricted comprehensive income for the year		**9.4**	57.7	**15.1**	64.6
Total comprehensive income for the year		**9.8**	58.4	**15.5**	65.3

All amounts relate to continuing operations.

The accounting policies on pages 43 to 47 and the notes on pages 53 to 71 form an integral part of these financial statements.

Consolidated

	Income and Expenditure Reserve			
	Endowment £m	Restricted £m	Unrestricted £m	**Total £m**
Balance at 1 August 2016	1.3	0.0	446.2	**447.5**
Surplus from the statement of comprehensive income	0.3	0.1	9.4	**9.8**
Balance at 31 July 2017	**1.6**	**0.1**	**455.6**	**457.3**

University

	Income and Expenditure Reserve			
	Endowment £m	Restricted £m	Unrestricted £m	**Total £m**
Balance at 1 August 2016	1.3	0.0	464.2	**465.5**
Surplus from the statement of comprehensive income	0.3	0.1	15.1	**15.5**
Balance at 31 July 2017	**1.6**	**0.1**	**479.3**	**481.0**

The accounting policies on pages 43 to 47 and the notes on pages 53 to 71 form an integral part of these financial statements.

Balance Sheets as at 31 July 2017

	Note	Consolidated		University	
		As At 31 July 2017 £m	As At 31 July 2016 £m	**As At 31 July 2017 £m**	As At 31 July 2016 £m
Fixed Assets					
Tangible assets	11	**261.5**	273.6	**261.5**	273.6
Investments	12	**0.0**	0.0	**27.2**	21.0
Total Fixed Assets		**261.5**	273.6	**288.7**	294.6
Current Assets					
Stock		**2.6**	3.4	**2.6**	3.4
Trade and other receivables due within one year	13	**36.8**	43.1	**28.8**	34.4
Trade and other receivables due after one year	13	**1.0**	0.0	**10.7**	11.6
Gilts, equities and term deposits	14	**231.7**	211.6	**231.7**	211.6
Cash and cash equivalents		**164.7**	171.9	**157.6**	165.7
Total Current Assets		**436.8**	430.0	**431.4**	426.7
Less Creditors: amounts falling due within one year	15	**118.3**	123.9	**117.2**	124.4
Net Current Assets		**318.5**	306.1	**314.2**	302.3
Total Assets Less Current Liabilities		**580.0**	579.7	**602.9**	596.9
Less Creditors: amounts falling due after more than one year	16	**60.5**	60.5	**60.5**	60.5
Less provisions for liabilities	17	**62.2**	71.7	**61.4**	70.9
Total Net Assets		**457.3**	447.5	**481.0**	465.5
Restricted Reserves					
Income and expenditure reserve – endowments		**1.6**	1.3	**1.6**	1.3
Income and expenditure reserve – donations		**0.1**	0.0	**0.1**	0.0
Unrestricted Reserves					
Income and expenditure reserve – unrestricted		**455.6**	446.2	**479.3**	464.2
Total Reserves		**457.3**	447.5	**481.0**	465.5

The accounting policies on pages 43 to 47 and the notes on pages 53 to 71 form an integral part of these financial statements, which were approved by Council on 28 November 2017 and signed on its behalf by:

R W SPEDDING
Chair of Audit Committee

L J HOLDEN
Group Finance Director

P J G HORROCKS
Vice-Chancellor

	Note	**Year Ended 31 July 2017 £m**	Year Ended 31 July 2016 £m
Cash flows from operating activities			
Surplus / (Deficit) for the year		**9.8**	58.4
Adjustment for non-cash items			
Depreciation		**7.0**	7.1
Decrease in stock		**0.8**	0.8
Decrease in debtors		**5.3**	1.6
Decrease in creditors		**(5.6)**	(65.5)
(Decrease) / Increase in provisions		**(10.5)**	7.0
		(3.0)	(49.0)
Adjustments for investing or financing activities			
Investment income		**(13.0)**	(10.1)
Interest payable	9	**1.3**	2.1
Endowment income		**(0.3)**	(0.8)
Profit on disposal of fixed assets		**(4.4)**	(0.1)
Capital grant income		**(5.9)**	(7.6)
		(22.3)	(16.5)
Net Cash Outflow from Operating Activities		**(15.5)**	(7.1)
Cash flows from investing activities			
Proceeds from sales of fixed assets		**10.6**	0.1
Capital grants receipts		**6.0**	5.3
Investment income		**3.9**	5.0
Payments made to acquire fixed assets		**(1.2)**	(11.5)
Transfer (from) / to liquid resources		**(11.0)**	85.8
Net cash inflow from investing activities		**8.3**	84.7
Cash flows from Financing Activities			
Interest paid		**(0.3)**	(0.4)
Endowment cash received		**0.3**	0.8
Net cash inflow from financing activities		**0.0**	0.4
(Decrease) / Increase in cash and cash equivalents in the year	19	**(7.2)**	78.0
Cash and cash equivalents at beginning of the year		**171.9**	93.9
Cash and cash equivalents at end of the year		**164.7**	171.9

The accounting policies on pages 43 to 47 and the notes on pages 53 to 71 form an integral part of these financial statements.

1 Tuition Fees and Education Contracts: Consolidated and University

	Year Ended 31 July 2017 £m	Year Ended 31 July 2016 £m
Student fees – United Kingdom		
Taught Degrees		
England	**213.4**	203.4
Scotland	**14.6**	13.3
Wales	**6.4**	6.0
Northern Ireland	**4.1**	4.1
Research Degrees	**2.6**	2.4
Total Student Fees – United Kingdom	**241.1**	229.2
Student Fees - Overseas	**18.6**	17.6
Research training support grants	**1.5**	1.2
Total Tuition Fees and Education Contracts	**261.2**	248.0

2 Funding Body Grants: Consolidated and University

	Year Ended 31 July 2017 £m	Year Ended 31 July 2016 £m
Recurrent grants		
Higher Education Funding Council for England	**69.4**	75.3
Scottish Funding Council	**21.7**	22.2
Higher Education Funding Council for Wales	**6.6**	8.3
Department for the Economy (Northern Ireland)	**5.5**	4.9
Total Recurrent grants	**103.2**	110.7
Specific grants		
Higher Education Funding Council for England	**5.7**	8.9
Scottish Funding Council	**2.6**	2.0
Higher Education Funding Council for Wales	**2.7**	1.5
Total Specific grants	**11.0**	12.4
Total Funding Body Grants	**114.2**	123.1

3 Research Grants and Contracts: Consolidated and University

	Year Ended 31 July 2017 £m	Year Ended 31 July 2016 £m
Research Councils	**5.6**	5.8
Other sources, including industrial companies	**9.3**	9.5
Total Research Grants and Contracts	**14.9**	15.3

4 Other Income

	Consolidated		University	
	Year Ended 31 July 2017 £m	Year Ended 31 July 2016 £m	**Year Ended 31 July 2017 £m**	Year Ended 31 July 2016 £m
Other grants and contracts	**9.6**	10.6	**5.0**	7.0
Validation fees	**3.6**	3.2	**3.6**	3.2
Sub-tenants' rental and services	**0.2**	0.2	**0.2**	0.2
Royalties received	**0.1**	0.1	**0.1**	0.1
Other income	**7.7**	9.2	**8.2**	10.9
VAT refund	**0.0**	21.0	**0.0**	21.0
Total Other Income	**21.2**	44.3	**17.1**	42.4

5 Investment Income

	Consolidated		University	
	Year Ended 31 July 2017 £m	Year Ended 31 July 2016 £m	**Year Ended 31 July 2017 £m**	Year Ended 31 July 2016 £m
Change in market value of equity based funds	**10.5**	6.9	**10.5**	6.9
Interest receivable on gilts, bank deposits and money market funds	**2.2**	2.9	**2.3**	3.2
Interest on student loans	**0.3**	0.3	**0.0**	0.0
Interest receivable on VAT refund	**0.0**	31.7	**0.0**	31.7
Total Investment Income	**13.0**	41.8	**12.8**	41.8

The change in market value of equity based funds comprises £1.7m of realised gains due to dividends received and £8.8m of unrealised gains due to an increase in fair value of the funds.

6 Donations and Endowments: Consolidated and University

	Year Ended 31 July 2017 £m	Year Ended 31 July 2016 £m
Unrestricted donations	**1.8**	1.9
New endowments	**0.3**	0.8
Restricted donations	**0.1**	0.0
Total Donations and Endowments	**2.2**	2.7

All endowments are held as cash.

7 Staff Costs

	Consolidated		University	
	Year Ended 31 July 2017 £m	Year Ended 31 July 2016 £m	**Year Ended 31 July 2017 £m**	Year Ended 31 July 2016 £m
Staff costs analysed by type				
Salaries and other payments to employees	**234.2**	234.5	**225.2**	227.7
Social security costs	**20.9**	17.3	**20.0**	16.6
Pension costs - see Note 24	**31.8**	30.3	**31.1**	29.5
	286.9	282.1	**276.3**	273.8
Staff costs analysed by category of staff				
Full-time staff categories	**217.4**	209.6	**206.9**	201.4
Associate lecturers, residential school staff and examination marking fees	**58.2**	57.1	**58.2**	57.1
Other staff costs, including casual staff	**8.8**	9.5	**8.7**	9.4
Early retirement and voluntary severance	**2.5**	5.9	**2.5**	5.9
	286.9	282.1	**276.3**	273.8
Total Staff Costs	**286.9**	282.1	**276.3**	273.8

Average monthly staff numbers (including higher paid staff)	**Year Ended 31 July 2017**	Year Ended 31 July 2016	**Year Ended 31 July 2017**	Year Ended 31 July 2016
Full-time and part-time staff at Milton Keynes, Wellingborough, national and regional centres	**4,824**	4,589	**4,664**	4,471
Associate lecturers and residential school staff	**3,621**	4,172	**3,621**	4,172
	8,445	8,761	**8,285**	8,643

7 Staff Costs (continued)

Remuneration of Higher Paid Employees

The Vice-Chancellor

The emoluments of Mr P J G Horrocks, the Vice-Chancellor, included in the above costs comprised salary of £332,000, performance related pay of £13,000, and taxable benefits of £15,000, which totalled £360,000 (year-end 31 July 2016, £347,000, comprising salary of £328,000, performance-related pay of £5,000 and taxable benefits of £14,000; the performance-related pay in year-ended 31 July 2016 was for part of a prior year. If the total remuneration for 2015/16 was restated as for a full year Mr Horrocks' total would have been £362,000). For 2016/17 the performance related element for Mr Horrocks, which would normally be paid at the start of the following year, is Nil. The University is making no pension contributions in respect of Mr Horrocks.

Key management personnel

Key management personnel are those persons having authority and responsibility for planning, directing, and controlling the activities of the University. This comprises the 12 members of the Vice-Chancellor's Executive (year ended 31 July 2016, 11 members). The total compensation for the year ended 31 July 2017 (including any employers' pension contributions) was £2.2 million (year end 31 July 2016, £1.9 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 £Nil (year ended 31 July 2016, £0.1 million).

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 2017 Number	Year Ended 31 July 2016 Number	**Year Ended 31 July 2017 Number**	Year Ended 31 July 2016 Number
£100,000 - £109,999	**7**	9	**6**	**7**
£110,000 - £119,999	**4**	9	**4**	**7**
£120,000 - £129,999	**2**	7	**1**	**6**
£130,000 - £139,999	**8**	0	**7**	**0**
£140,000 - £149,999	**2**	1	**1**	**1**
£150,000 - £159,999	**0**	2	**0**	**2**
£160,000 - £169,999	**5**	2	**3**	**1**
£200,000 - £209,999	**1**	1	**1**	**1**
£210,000 - £219,999	**1**	0	**1**	**0**
£250,000 - £259,999	**1**	0	**0**	**0**
£270,000 - £279,999	**0**	1	**0**	**0**
	31	32	**24**	25

8 Other Operating Expenses

	Consolidated		University	
	Year Ended 31 July 2017 £m	Year Ended 31 July 2016 £m	**Year Ended 31 July 2017 £m**	Year Ended 31 July 2016 £m
Teaching materials and expenses	**20.5**	21.2	**19.3**	20.6
Student Recruitment	**18.8**	19.0	**18.2**	18.1
Financial assistance, bursaries and prizes	**10.2**	9.6	**10.1**	9.6
Grants to Open University Students' Association	**1.3**	1.0	**1.3**	1.0
Provision for bad debts	**0.2**	0.0	**0.2**	0.0
Total Student Related Other Operating Expenses	**51.0**	50.8	**49.1**	49.3
Staff support and consumables	**39.3**	32.4	**36.9**	29.7
Equipment purchase, rental and lease	**10.2**	13.0	**10.0**	12.9
Repairs and maintenance	**6.8**	6.6	**6.8**	6.6
Academic resources and subscriptions	**6.6**	6.3	**6.6**	6.2
Estate utilities and services	**5.5**	5.6	**5.5**	5.6
Rent and rates	**1.8**	5.5	**1.8**	5.4
Broadcast media production	**3.4**	3.6	**3.4**	3.6
Auditors' remuneration - Group audit fees	**0.1**	0.1	**0.1**	0.1
Other expenses	**1.3**	1.5	**6.5**	5.2
Total Non-Student Related Other Operating Expenses	**75.0**	74.6	**77.6**	75.3
Total Other Operating Expenses	**126.0**	125.4	**126.7**	124.6

Included in the above are audit fees in respect of the University only of £0.10 million (year ended 31 July 2016, £0.10 million) and its subsidiaries of an aggregate of £0.02 million (year ended 31 July 2016, £0.03 million). Fees paid to the auditors for non-audit services totalled £0.01 million (year ended 31 July 2016, £Nil).

The total expenses paid to or on behalf of the members of Council in the year was £0.01 million (year ended 31 July 2016, £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 £1.1 million (year ended 31 July 2016, £4.6 million), comprising £0.8 million property leases (2015/16: £4.4 million) and £0.3 million plant and machinery (2015/16: £0.2 million).

9 Interest Payable and Other Finance Costs

	Consolidated		University	
	Year Ended 31 July 2017 £m	Year Ended 31 July 2016 £m	**Year Ended 31 July 2017 £m**	Year Ended 31 July 2016 £m
Finance charge on USS deficit provision (note 17)	**1.0**	1.7	**1.0**	1.7
On loans not wholly repayable within 5 years	**0.3**	0.4	**0.3**	0.7
Total Interest Payable and Other Finance Costs	**1.3**	2.1	**1.3**	2.4

10 Taxation

	Consolidated		University	
	Year Ended 31 July 2017 £m	Year Ended 31 July 2016 £m	**Year Ended 31 July 2017 £m**	Year Ended 31 July 2016 £m
Foreign taxes	**0.1**	0.1	**0.0**	0.1
Total Taxation	**0.1**	0.1	**0.0**	0.1

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.

Tax Reconciliation

	Consolidated		University	
	Year Ended 31 July 2017 £m	Year Ended 31 July 2016 £m	**Year Ended 31 July 2017 £m**	Year Ended 31 July 2016 £m
Profit before taxation	**9.9**	58.5	**15.5**	65.4
Taxation at 20% (2016: 20%)	**2.0**	11.7	**3.1**	12.9
Profit falling within charitable exemption	**(2.0)**	(11.7)	**(3.1)**	(12.9)
Unrelieved overseas taxation	**0.1**	0.1	**0.0**	0.1
Tax charge for the year	**0.1**	0.1	**0.0**	0.1

11 Tangible Assets: Consolidated and University

	Land and Buildings £m	Equipment £m	**Total £m**
Cost and valuation			
At 1 August 2016	285.8	15.3	**301.1**
Additions	0.0	1.1	**1.1**
Disposals	(6.4)	(0.5)	**(6.9)**
At 31 July 2017	**279.4**	**15.9**	**295.3**
Accumulated Depreciation			
At 1 August 2016	12.6	14.9	**27.5**
Charge for the year	6.4	0.6	**7.0**
Disposals	(0.3)	(0.4)	**(0.7)**
At 31 July 2017	**18.7**	**15.1**	**33.8**
Net book amount			
At 31 July 2017	**260.7**	**0.8**	**261.5**
At 31 July 2016	273.2	0.4	273.6

At 31 July 2017 land and buildings included £41.3 million (31 July 2016, £42.7 million) in respect of freehold land which is not depreciated.

The unamortised value of HEFCE capital grants amounted to £54.5 million (31 July 2016, £56.5 million). In the event that the related assets were either to be sold or ceased to be used for the provision of publically funded higher education, the University would either have to surrender the proceeds to HEFCE or use them in accordance with the Memorandum of Assurance and Accountability with HEFCE.

Two buildings were sold in 2016/17, leading to a net gain of £4.4 million.

One further building was sold after the balance sheet date and before these financial statements were signed. This sale will be recognised in the 2017/18 financial statements; the net gain will be approximately £1.8 million and the total net book value will be reduced by approximately £1.9 million.

12 Investments: University

	As At 31 July 2017 £m	As At 31 July 2016 £m
Ordinary shares in wholly owned subsidiary companies		
FutureLearn Limited	**25.7**	19.5
Open University Student Budget Accounts Limited	**1.0**	1.0
Open University Worldwide Limited	**0.3**	0.3
Total ordinary shares in wholly owned subsidiary companies	**27.0**	20.8
Long term loans		
Open University Worldwide Limited	**0.2**	0.2
Total long term loans	**0.2**	0.2
Total Investments	**27.2**	21.0

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

Open University Student Budget Accounts Limited is registered in England and Wales and was established to provide students with a deferred payment facility. Around 6% of tuition fees are funded in this way. The company operates under the Consumer Credit Act.

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

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

The Open University participates in a number of joint teaching and joint research operations with other universities. Income from such arrangements during 2016/17 amounted to £0.2 million (2015/16, £0.2 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.

13 Trade and Other Receivables

	Consolidated		University	
	As At 31 July 2017 £m	As At 31 July 2016 £m	**As At 31 July 2017 £m**	As At 31 July 2016 £m
Amounts falling due within one year				
Student Loans Company	**5.4**	7.8	**5.4**	7.8
Students' loan accounts with Open University Student Budget Accounts Limited	**7.9**	9.4	**0.0**	0.0
Fee debtors	**2.8**	0.6	**2.8**	0.6
Amounts due from subsidiaries	**0.0**	0.0	**3.5**	3.0
Other debtors	**15.5**	21.0	**12.2**	18.9
Prepayments and accrued income	**5.2**	4.3	**4.9**	4.1
Total due within one year	**36.8**	43.1	**28.8**	34.4
Amounts falling due after one year				
Amounts due from subsidiaries	**0.0**	0.0	**9.7**	11.6
Other debtors	**1.0**	0.0	**1.0**	0.0
Total falling due after one year	**1.0**	0.0	**10.7**	11.6

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 2017, Open University Student Budget Accounts Limited had an outstanding loan amount of £6.8 million at an interest rate equal to 1% over base rate (31 July 2016, £8.5 million).

As at 31 July 2017, 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 2016, £2.9 million). Under the loan agreement Open University Worldwide Limited is required to lend back to the University at the same interest rate any surplus funds, as disclosed in Note 15.

An allowance for bad or doubtful debts of £1.5 million has been included (31 July 2016, £1.4 million).

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

14 Gilts, Equities and Term Deposits: Consolidated and University

	As At 31 July 2017 £m	As At 31 July 2016 £m
Equity Based Funds	**105.3**	94.8
UK gilt edged stock	**91.4**	91.8
Fixed term deposits maturing in one year or less	**35.0**	25.0
Total Gilts, Equities and Term Deposits	**231.7**	211.6

The University holds tradeable Treasury gilts with a redemption date of less than five years. At 31 July 2017 the weighted average redemption yield was 1.31% (year ended 31 July 2016, 1.37%) and the weighted average period to maturity was 684 days (year ended 31 July 2016, 868 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 2017 was £105.3 million (31 July 2016, £94.8 million), an increase of £10.5 million. This comprises an increase in book cost of £1.7 million as a result of dividends received and an increase in fair value determined with reference to the quoted market price at 31 July 2017 of £8.8 million. These changes are included above and in the income and expenditure account, and shown in Note 5.

Fixed term deposits with more than 3 months to maturity at inception are held with banks and building societies operating in the London market and licensed by the Financial Conduct Authority. The interest rates for these deposits are fixed for the duration of the deposit at time of placement. At 31 July 2017 the weighted average interest rate of these fixed rate deposits was 0.45% per annum (31 July 2016, 0.77% per annum) and the remaining weighted average period for which the interest rate is fixed on these deposits was 72 days (31 July 2016, 86 days). The fair value of these deposits and gilts was not materially different from the book value. Fixed term deposits of 3 months or less to maturity at inception are recognised as 'Cash or Cash Equivalents' on the balance sheet.

The deposits shown in this note exclude accrued interest, which is included in prepayments and accrued income in Note 13.

15 Creditors: amounts falling due within one year

	Consolidated		University	
	As At 31 July 2017 £m	As At 31 July 2016 £m	**As At 31 July 2017 £m**	As At 31 July 2016 £m
Student fee income in advance	**26.6**	34.0	**26.6**	34.0
Student fee income deferred	**24.8**	22.9	**24.3**	22.3
Grants and other contracts in advance	**16.9**	13.8	**16.9**	13.8
Trade Creditors	**7.0**	12.3	**6.6**	12.1
Other creditors and accruals	**43.0**	40.9	**41.1**	40.4
Amounts due to subsidiaries	**0.0**	0.0	**1.7**	1.8
Total amounts falling due within one year	**118.3**	123.9	**117.2**	124.4

A provision for fee debts of £0.4 million (31 July 2016, £0.3 million) in respect of student loans in the financial statements of Open University Student Budget Accounts Limited is included in other creditors and accruals in the University's balance sheet, as the University bears the ultimate liability for the company's bad debts. Debtors in the consolidated balance sheet are shown net of the provision for bad debts.

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

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

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

	As At 31 July 2017 £m	As At 31 July 2016 £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 2016, £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 2017 the interest rate on this loan was 0.45% 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.

17 Provisions for Liabilities

	Obligation to fund USS deficit £m	Restructuring £m	**Total £m**
Consolidated			
At 1 August 2016	61.4	10.3	**71.7**
Increase in provision	0.6	1.0	**1.6**
Unwind of finance charge	1.0	0.0	**1.0**
Utilised in year	(4.2)	(6.5)	**(10.7)**
Release of provision	0.0	(1.4)	**(1.4)**
At 31 July 2017	58.8	3.4	**62.2**
University			
At 1 August 2016	60.6	10.3	**70.9**
Increase in provision	0.5	1.0	**1.5**
Unwind of finance charge	1.0	0.0	**1.0**
Utilised in year	(4.1)	(6.5)	**(10.6)**
Release of provision	0.0	(1.4)	**(1.4)**
At 31 July 2017	58.0	3.4	**61.4**

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 1.85% (31 July 2016, 1.71%).

The restructuring provision relates to the costs of restructuring the University's operations in the UK. The provision is expected to be fully utilised or released by 31 July 2018.

18 Endowment Funds : Consolidated and University

	Restricted Permanent £m	Restricted Expendable £m	**2017 Total £m**	2016 Total £m
At 1 August 2016				
Capital	0.1	1.2	**1.3**	0.6
Accumulated income	0.0	0.0	**0.0**	0.0
Total balance at 1 August 2016	0.1	1.2	**1.3**	0.6
Additions	0.0	0.3	**0.3**	0.7
Expenditure	0.0	0.0	**0.0**	0.0
	0.0	0.3	**0.3**	0.7
At 31 July 2017	0.1	1.5	**1.6**	1.3
Balance at 31 July represented by:				
Capital	0.1	1.5	**1.6**	1.3
Total	0.1	1.5	**1.6**	1.3

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

	At 1 August 2016 £m	Cash Flows £m	Non cash Movements £m	**At 31 July 2017 £m**
Cash at bank and in hand	171.9	(7.4)	0.2	**164.7**
Gilts, fixed term deposits and equities	211.6	11.0	9.1	**231.7**
Loans	(60.5)	0.0	0.0	**(60.5)**
Total	**323.0**	**3.6**	**9.3**	**335.9**

20 Lease Obligations

During the year ended 31 July 2017 the Group recognised £1.1 million (year ended 31 July 2016, £4.6 million) in respect of operating leases. This comprises £2.1 million on lease payments made and a release of £1.0 million in respect of the provision for restructuring.

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

	Year Ended 31 July 2017 £m	Year Ended 31 July 2016 £m
Payable during the year	**1.1**	4.6
Future minimum lease payments due:		
Not later than one year	**1.7**	2.0
Later than one year and not later than five years	**4.4**	5.2
Later than five years	**4.2**	4.4
Total lease payments due	**10.3**	11.6

21 Amounts Disbursed as Agent

The National College for Teaching and Leadership (NCTL) 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; any 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.

NCTL Training Bursaries	**Year Ended 31 July 2017 £m**	Year Ended 31 July 2016 £m
Balance brought forward 1 August 2016	**(0.3)**	(1.5)
NCTL Grants	**0.3**	1.5
Disbursed to Students	**0.0**	(0.3)
Balance carried forward 31 July 2017	**0.0**	(0.3)

22 Related Party Transactions

Due to the nature of the University's operations and the composition of the Council (being drawn from both public and private sector organisations) it is inevitable that transactions will take place with organisations in which a member of Council may have an interest. All transactions in which a member of Council may have an interest are conducted at arm's length, in accordance with the University's financial regulations and normal procurement procedures and are not material to either party.

The Standing Orders of the University's Council specify that one member shall be drawn from the Open University Student's Association (OUSA), a charity independent from the University that supports the University's students, in addition to the President of OUSA. The University provides funding to OUSA, which is shown in Note 8.

No other material transactions have taken place.

23 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 simple interest were recognised in income in 2015/16.

The University had also lodged an appeal for interest to be paid on a compound basis. The Supreme Court issued its judgement in respect of the lead case, Littlewoods, on 1 November 2017. The court ruled against Littlewoods which means that the University will not receive further interest in respect of this claim.

24 Pension Schemes

The University participates in the defined benefit scheme, the Universities Superannuation Scheme (USS), a defined benefit scheme which was contracted out of the State Second Pension (S2P) up to 5 April 2016. The assets of the scheme are held in a separate fund administered by the trustee, Universities Superannuation Scheme Limited. A small number of employees are members of defined contribution schemes.

Defined Contribution Schemes

A small number of employees are members of the Federated Superannuation System for Universities (FSSU), which is administered by trustees and has assets independent of the University.

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

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 £0.2 million (year ended 31 July 2016, £0.1 million).

Defined Benefit Scheme

The University participates in the Universities Superannuation Scheme (USS), a defined benefit scheme which is externally funded. The assets of the scheme are held in a separate fund administered by the trustee, Universities Superannuation Scheme Limited. The appointment of directors to the board of the trustee is determined by the Company's Articles of Association. Four of the directors are appointed by Universities UK; three are appointed by the University and College Union, of whom at least one must be a USS pensioner member; and a minimum of three and a maximum of five are independent directors appointed by the board. Under the scheme trust deed and rules, the employer contribution rate is determined by the trustee, acting on actuarial advice.

The University is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis and therefore, as required by FRS 102, accounts for the scheme as if it were a defined contribution scheme. As a result, the amount charged to the expenditure account represents the contributions payable to the scheme in respect of the accounting period along with the adjustment for the provision for the scheme deficit, discussed below.

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

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

USS triennial actuarial valuation

The latest triennial actuarial valuation of the scheme is underway and will report on the scheme as at 31 March 2017. This is the fourth valuation for USS under the new scheme-specific funding regime introduced by the Pensions Act 2004, which requires schemes to adopt a statutory funding objective, which is to have sufficient and appropriate assets to cover their technical provisions. At the date of signing these financial statements the valuation had not been completed. However, an interim valuation as at 31 March 2017 was carried out and the result showed that the deficit had increased to £12.6 billion, a funding ratio of 83%.

24 Pension Schemes (continued)

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

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

The 2014 triennial valuation was carried out using the projected unit method. The assumptions which have the most significant effect on the result of the valuation are in the table below

Assumptions used in the triennial valuation

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

USS deficit recovery plan

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

The plan committed employers to contributions to the deficit of 0.7% of salaries up to 31 March 2016, 2.5% of salaries from 1 April 2016 to 30 September 2016 and 2.1% of salaries from 1 October 2016 to 31 March 2031. The Open University's share of the deficit has been modelled based on these additional contribution rates along with an estimate of future staff costs, and a discount factor based on high quality corporate bonds. The discount factor used for to calculate the provision at 31 July 2017 was 1.85% (31 July 2016, 1.71%), and the total provision at 31 July 2017 was £58.8 million (31 July 2016, £61.4 million). The provision for the deficit is shown in Note 17.

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

The total pension cost for the University was £31.8 million (year ended 31 July 2016, £30.3 million). This includes £2.8 million outstanding contributions as at 31 July 2017 (year ended 31 July 2016, £2.7 million). The total pension cost is after a £3.6 million credit related to adjustments to the USS deficit provision (year ended 31 July 2016, a credit of £3.3 million), and includes £0.2 million (year ended 31 July 2016, £1.4 million) related to costs in respect of early retirement.

CPI	Consumer Price Index
CUC	Committee of University Chairs
DfE	Department for the Economy (Northern Ireland)
EBITDA	Earnings Before Interest, Tax, Depreciation and Amortisation
ELQ	Equivalent or Lower Qualification
ERDF	European Regional Development Funding
ESRC	Economic and Social Research Council
FRS	Financial Reporting Standard
FSSU	Federated Superannuation System of Universities
FTE	Full-Time Equivalent
HEA	Higher Education Academy
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
MOOCs	Massive Open Online Courses
NCTL	National College for Teaching and Leadership
NEST	National Employment Savings Trust
OURSP	Open University Retirement Solution Plan
OUSA	Open University Students Association
OUSBA	Open University Student Budget Accounts Limited
OUW	Open University Worldwide Limited
QAA	Quality Assurance Agency
RAE	Research Assessment Exercise
REF	Research Excellence Framework
RPI	Retail Price Index
SFC	Scottish Funding Council
SLC	Student Loans Company
SORP	Statement of Recommended Practice
SPRC	Strategic Planning and Resources Committee
TEF	Teaching Excellence Framework
USS	Universities Superannuation Scheme

Principal Advisors

Independent Auditors

PricewaterhouseCoopers LLP

Chartered Accountants and Registered Auditors
Exchange House
Central Business Exchange
Midsummer Boulevard
Central Milton Keynes MK9 2DF

Bankers

Royal Bank of Scotland Plc

2nd Floor
152 Silbury Boulevard
Milton Keynes
Bucks MK9 1LT

Fund Managers

Baillie Gifford

Calton Square
1 Greenside Row
Edinburgh EH1 3AN

BlackRock Investment Managers

33 King William Street
London EC4R 9AS

Insight Investment Management Ltd

33 Old Broad Street
London EC2N 1HZ

Ruffer LLP

80 Victoria Street
London SW1E 5JL

Solicitors

Anderson Law LLP

76 Wallingford Road
Shillingford
Oxfordshire OX10 7EU

Eversheds LLP

Senator House
85 Queen Victoria Street
London EC4V 4JL

Lightfoots LLP

1 – 3 High Street
Thame
Oxfordshire OX9 2BX

Shoosmiths LLP

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

Stockbrokers

Barclays Bank

Tay House
300 Bath Street
Glasgow G2 4LH

Taxation Advisors

KPMG LLP

St James Square
Manchester M2 6DS


The Open University