The Open University

Financial Statements

for the year ended 31 July 2014

Contents

This page has been left blank intentionally

	Year Ended 31 July 2014 £m	Year Ended 31 July 2013 £m
Results, cash flows, assets and reserves		
Funding body grants	**149.0**	198.1
Tuition fees and education contracts	**213.1**	206.5
Research grants and contracts	**15.5**	14.7
Other income	**23.4**	24.5
Endowment and investment income	**3.2**	3.7
Total income	**404.2**	447.5
Total expenditure	**421.1**	428.7
(Deficit) / Surplus for the year before taxation	**(16.9)**	18.8
Net cash flow from operating activities	**62.9**	16.5
Net returns on investment and servicing of finance	**5.4**	4.1
Net cash flow before investment activities and tax	**68.3**	20.6
Fixed assets	**145.7**	154.4
Endowment assets	**0.5**	0.6
Net current assets	**243.5**	256.7
Total assets less current liabilities	**389.7**	411.7
Total reserves	**254.7**	271.6
Other key statistics		
Number of full-time equivalent students	73,528	79,586
Total number of students	187,338	206,300
Percentage of students satisfied with the quality of their course (taken from the respondents to the National Student Survey)	91	92
FutureLearn total course registrations	721,137	n/a
FutureLearn total OU course registrations	103,341	n/a

The New Funding Regime in England

During the year the University continued to adapt to the changes to the funding regime in England introduced in 2012/13, with funding for Higher Education in England being shifted from mainly funding body grants to largely student fees; the total funding received per student full-time equivalent (FTE) from all sources is broadly unchanged – it is the different mix of funding sources that can be seen in the financial statements. These changes affected many facets of the Financial Statements in 2012/13, most notably Funding Body grants, tuition fees, debtors, creditors, and cash flow. The changes were only implemented in England but, since the market in England is so significant, the overall results have been affected. The new funding regime is discussed on pages 20 and 21; this summary provides an overview as to the continuing effects that these major changes have had on the financial statements in 2013/14.

Student Numbers

The increased tuition fees have led to a fall in student registrations across the whole part-time sector, largely as a result of the unavailability of loans from the Student Loans Company (SLC) to those studying for an equivalent or lower qualification (ELQ) to one they already hold. The Open University has not been immune to this effect. The market in England forms such a significant proportion of the University's total market that this decrease is reflected in the overall student numbers, shown on pages 3 and 13.

Student Fees

From October 2012, the University's fee per FTE increased to £5,000 for undergraduate students in England commencing study for a qualification for the first time (compared to £9,000 charged by many other universities). Those already studying – 'transitional students' – continued to pay the old fee. The fall in student numbers has not led to an equivalent decrease in total tuition fees, as the higher fee per FTE has more than offset this. Note 2 to the financial statements on page 52 shows that in England tuition fees increased by £8.8 million (6%) compared to 2012/13; since 2011/12 (the last year under the old regime) the increase is £40.0 million (31%).

For new regime students in England funding their study by way of a loan from the SLC, the loan is paid to the University directly from the SLC in three instalments over the presentation period of a module, provided the students are still studying when each instalment is due. Note 13 to the financial statements on page 62 shows the amount due from the SLC for the modules that started before 31 July 2014. Although more students are being funded by the SLC in 2013/14, the level of the debt has decreased since 2012/13 because a higher proportion of students registered for the October module presentation rather than February, thereby bringing forward payments by the SLC. Since many modules continue past the balance sheet date, a proportion of the instalments for these loans was not due until after 31 July 2014 and this deferred fee income has been included in Note 15 on page 64.

Funding Body Grants

The increase in tuition fee income has been offset by a reduction in the recurrent teaching grant received from the Higher Education Funding Council for England (HEFCE) of £58.5 million (Note 1 to the financial statements on page 51). The reduction since 2011/12 (the last year under the old regime) is £89.5 million (48%).

Cash Flow

Under the old funding regime, funding was received from HEFCE in equal instalments across the financial year. In addition, tuition fees were paid in advance of a module starting. The majority of teaching funding is now received from the SLC on a student by student basis, spread over three payments: 25% due shortly after the module start, 25% due some three months later and the final 50% due after a further three months. As a result the cash flow position of the University within the year has been affected with peaks and troughs emerging through the financial year. Some of the instalments from the SLC are also due in the following financial year, in line with module completion dates, and so the cash flow statement in the financial statements has also been affected by a reduction in cash received compared to the previous funding regime.

The Future

2013/14 was the second year in which these changes have been felt. As new students begin their studies a greater proportion of the total will be funded under this new regime, and so there will be incremental changes to the financial statements for some years to come, as discussed on page 27.

The Open University has spent the last 45 years inspiring learning and creating higher educational opportunities with no barrier to entry. It has demonstrated excellence in research and teaching and confirmed its enormous reach through its use of open educational resources.

Key achievements in the year included:

Supporting our students

We have supported student tuition fees

52% of our UK undergraduate students (as measured by full-time equivalent) received full or partial support for fees, either through The Open University or from UK government sources, including the Student Loans Company for eligible students in England.

We achieved excellent rankings in the National Students Survey

The Open University is in the top ten Universities for the tenth year in succession in England, top in Northern Ireland and Wales and second in Scotland, in the 2014 National Students Survey, ranked in terms of overall satisfaction.

Extending our reach

We are launching Massive Open Online Courses

Since its platform opened in September 2013, The Open University's subsidiary company, FutureLearn Limited, has received over a million course registrations from more than 190 countries to its free Massive Open Online Courses (MOOCs) from leading UK and overseas universities. This includes over 100,000 course registrations on The Open University's own MOOCs during the financial year.

Our educational materials are open to all

The total visits to the University's open educational resource website, OpenLearn, launched in October 2006, reached 33.4 million.

We are using multiple media channels

The total downloads from The Open University iTunes U service, which is a powerful distribution system for putting all types of educational content into the hands of students, that was launched in June 2008, reached 67.1 million. In addition, the total number of video views of Open University content on You Tube reached 23.5 million.

Managing our resources

Our student recruitment targets were met

The changing funding environment in England meant that new students in England not eligible for loans from the Student Loans Company were less likely to choose to study and the University reduced its intake targets accordingly. The University met its overall student recruitment targets in England and throughout the United Kingdom.

Our financial projections have been realised

The surpluses generated in previous years have placed the University in a stronger and more liquid position at a time of considerable economic uncertainty. The nature of the University's business means that it expenses its investments in new systems and curriculum, unlike the investments of other universities in new facilities for students that are capitalised. The deficit in 2013/14 was close to the expectations of the annual budget and the longer term financial projections, and was after expenditure of £28.0m on strategic projects, somewhat less than the overall amount approved by Council. A return to surplus is planned from 2014/15.

Constitution, Governance and Regulation

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

The Council of the University is, subject to the provisions of the Charter and Statutes, the executive governing body of the University and is responsible for the administration and management of the revenue and the property of the University. The University's corporate governance arrangements are described on pages 30 to 37, and the members of the University Council during the year ended 31 July 2014, 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 Financial Memorandum, which defines the conditions under which the University receives public funds. The University complies with this Financial Memorandum and with the conditions of grant set out in funding agreements with the relevant grantor.

The financial statements comprise the consolidated results of the University and its trading subsidiary undertakings, together the 'Group'. The most significant of these 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.

The University's principal advisors are listed on page 77.

Formal governance structure

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

Council The University's main governing body is the Council, supported by a number of sub-committees. The Council is particularly concerned with finances, property and staff. It has ultimate authority within the University, but must respect the views of the Senate in academic matters. Further information appears in the Corporate Governance Statement on page 30.

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

Mission

The Open University is open as to

People Making university study available to a large and diverse body of students and providing learning opportunities that meet individuals' lifelong needs.

Places Providing learning opportunities in the home, workplace and community throughout the United Kingdom and selectively 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.

Values

The Open University promotes educational opportunity and social justice by providing high-quality university education to all who wish to realise their ambitions and fulfil their potential. Through academic research, pedagogic innovation and collaborative partnership we seek to be a world leader in the design, content and delivery of supported open learning.

The Open University is

Inclusive Playing a unique role in society, making Higher Education open to all.

Promoting social justice through the development of knowledge and skills.

Innovative Leading the learning revolution, placing innovation at the heart of our teaching and research.

Continuously seeking new and better ways to inspire and enable learning.

Creating world class research and teaching.

Responsive Responding to the needs of individuals and employers and the communities in which they live and work.

Dedicated to supporting our students' learning success.

Strategic Objectives and Priorities

The University's strategic intent for 2012-2015 is to

Secure the mission and thrive as a University by delivering a step-change in how effectively we help students achieve their study goals

The lifetime of the Strategic Plan will run through to the end of the financial year 2015/16. A refresh of the strategy is planned for 2015, which will feed into business planning for 2016/17. A new Plan will be developed in 2016, which will feed into business planning for 2017/18 and beyond. The strategic plan is available at this website: www.open.ac.uk/about/main/mission.

The strategic intent is being delivered by seven strategic priorities within two overarching themes, shown below and on the next page. Within this overarching institutional strategy the University also has defined strategies for the OU in Scotland, the OU in Ireland, and the OU in Wales, which includes a Welsh language version.

Delivering an outstanding student experience

Market leading enquirer experience

What we want to achieve To develop a compelling enquirer experience that gets potential students to the right course for them.

The improvement we are seeking Improved enquiry to registration experience for those to whom the University can offer a course of study; increased self-service; more effective recruitment of students on to the right course of study; and, reduced average cost of attracting online enquirers.

Excellent study experience

What we want to achieve A study experience that maximises students' success in achieving their study goals.

The improvement we are seeking Increased student satisfaction; improved qualification completion rates; extended opportunities for success to those from disadvantaged backgrounds; and, increased employability of Open University students,

Moving from informal to formal learning

What we want to achieve To be a world leader in delivering journeys from informal to formal learning.

The improvement we are seeking Increased numbers of informal learners converting to formal learning; improved brand awareness and reaching greater audiences; greater use of open media assets in learning and teaching; and, increased income from areas such as media sales.

Strategic Objectives and Priorities (continued)

Enhancing the capabilities of the University

Focused research and scholarship

What we want to achieve To ensure our research and scholarship will be externally recognised for excellence and impact.

The improvement we are seeking The majority of Open University research submitted to the Research Excellence Framework (REF) 2014 assessed as internationally excellent or world-leading; external income maintained by diversifying income sources amid increasing competition; improved ability to measure return on investment from different areas of research and scholarship and a defined view of areas justifying future investment; improved impact of research and scholarship; and, improved environment for research and scholarship.

People and culture to deliver high performance

What we want to achieve To increase the engagement of all staff with the University's strategic objectives and build staff capabilities in order to strengthen the agility and performance of the University.

The improvement we are seeking Improved leadership capability; improved staff performance focusing on outcomes; increased student and customer focus; improved ability to manage change; and, increased engagement with institutional objectives.

Robust and flexible systems

What we want to achieve To deliver the Systems to enable the University's ambitions.

The improvement we are seeking More agile systems enabling quicker change to meet future business needs; streamlined systems environment to enable staff to do their jobs more effectively; reduced business risk through the provision of robust and commercially relevant technology; and, more cost-effective solutions through the use of package systems where appropriate.

Financially sustainable

What we want to achieve To maintain the University's financial sustainability during the transition into the new funding environment and beyond, through maximising net income from all sources and providing challenge to the cost base.

The improvement we are seeking Strengthened reserves and liquidity; reduced University costs, increased contribution from non-core teaching net income (including business to business, international and development); and, income and costs managed appropriately and flexibly to provide value for money for tuition fees.

Risk and Risk Management

The Open University is committed to the management of risk in order to achieve its strategic and operational objectives. It has identified four principal risks and one opportunity that may affect its ability to deliver its strategic priorities.

Risk of a significant decline in core UK market income

Risk A failure to implement an appropriate strategic response to the new higher education environment (discussed on pages 20 to 21) along with increased competition from other providers, insufficient demand for The Open University offer and the enquirer experience not meeting expectations, will impact on the University's ability to sustain its breadth of mission and reach all of the UK markets.

Mitigation The University is seeking to influence governments in each of the nations of the UK, and will ensure it maintains a sustainable pricing strategy. It will promote the value of study, deliver an outstanding enquirer experience and target new students in priority segments including widening participation.

Risk of failure to plan, forecast & report student numbers accurately

Risk The failure to predict student behaviour or demand in response to market conditions and the failure to base expectations on adequate analysis of available data, could lead to divergence from student number plans with financial and operational consequences and loss of reputation. Business plans that depend on student numbers may become unrealistic.

Mitigation Student recruitment and retention data will be reported with agreed thresholds and a student-based predictive model developed for forecasting. Agreed strategic and high level inputs will inform student number planning, and marketing objectives will be driven by priorities that are defined by appropriate data and information.

Risk of an inability to support students to achieve their study goals

Risk The lack of a coherent high quality, personal and targeted student experience, along with a curriculum that does not meet the needs of students could lead to a failure to meet national governments' policy requirements, and an inability to fulfil the mission. This in turn would lead to loss in reputation and of competitive advantage.

Mitigation The University is working to enhance the student experience and ensure the curriculum remains relevant in a changing market. A new access programme has been developed along with a new framework for delivery of qualifications.

Risk of staff not engaged with strategic objectives

Risk An ineffective communication of strategic intent and lack of accountability, along with inability to identify skills needs, and staff perceiving their strengths and differences are not valued will lead to the success of major initiatives being threatened.

Mitigation The University will build a high performance outcome based culture and develop future leadership, professional and academic capability. An engagement programme for staff will be developed and a strong student and customer focussed culture will be built. The University will promote valued ways of working and improve staff commitment and engagement through diversity.

Risk and Risk Management (continued)

Opportunity : generate sustainable new streams of net income

Opportunity	The University will seek to use its quality, scale and reach to diversify activities and revenue streams to generate sustainable new sources of net income. Innovative propositions for business and government will be developed, the International Strategy will be implemented and philanthropic income will be sought.
Response	The University will develop innovative and versatile value propositions for business and government and will implement the International Strategy with enabling business models. Philanthropic income will be secured and scalable international development programmes will be developed.

Public Benefit

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 and the University's Council has taken into account the Charity Commission's guidance on the reporting of public benefit. The charitable aims are expanded in the mission statement on page 7.

The University operates throughout the United Kingdom and has students from over 100 countries globally. The main beneficiaries are its undergraduate and postgraduate students and the recipients of its research, much of which is freely available to the general public. The benefits can be summarised in two strands:

Learning	The University registered 187,338 students in 2013/14 and ranks highly in student satisfaction. A significant amount of learning material is made freely available through the internet using websites such as The Open University iTunes U service, 'YouTube', and the University's 'OpenLearn' resource.
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 2013/14 716 research outputs were published.

The University is a fee charging charity. However, unlike other universities, all students study part-time and prior to 2012/13 the tuition fees were not subject to statutory regulation. Students who commenced their course of study before 2012/13 are only liable for the fees at the old rate, which is typically £4,700 to complete an undergraduate degree at 2013/14 fee rates. Students in England who commenced their study with The Open University in or after 2012/13 are liable for fees at the new rate of £5,124 per full-time equivalent, equating to £15,372 for an undergraduate degree. Only students who are not studying for an equivalent or lower qualification (ELQ) than one they already hold are eligible to apply for a loan to cover the tuition fee from the Student Loans Company (SLC); in terms of full-time equivalent students, 17,684 benefitted from such a loan, whilst 9,607 UK students benefitted from full financial support and 6,032 from partial financial support, as indicated in the table on page 12.

Whilst eligible students at other universities also benefit from support from the SLC, the maximum regulated fees for students beginning university full-time in England in or after 2012/13 were £9,000 per year, or £27,000 for a three year degree, plus, where relevant, the costs of living away from home.

Public Benefit (continued)

Sources of funding of tuition fees for full-time equivalent (FTE) UK undergraduate students in 2013/14

		Full financial support	Partial financial support	Loan from Student Loans Company	Sponsored	Students paying their own fees	Total
England	FTE's	7,310	2,413	17,684	1,991	23,845	**53,243**
	Proportion	*14%*	*4%*	*33%*	*4%*	*45%*	*100%*
Scotland	FTE's	62	3,148	0	436	2,397	**6,043**
	Proportion	*1%*	*52%*	*0%*	*7%*	*40%*	*100%*
Wales	FTE's	1,531	308	0	275	1,403	**3,517**
	Proportion	*43%*	*9%*	*0%*	*8%*	*40%*	*100%*
Northern Ireland	FTE's	704	163	0	50	882	**1,799**
	Proportion	*39%*	*9%*	*0%*	*3%*	*49%*	*100%*
Total 2013/14	**FTE's**	**9,607**	**6,032**	**17,684**	**2,752**	**28,527**	**64,602**
	Proportion	*15%*	*9%*	*28%*	*4%*	*44%*	*100%*
Total 2012/13	FTE's	17,453	5,944	11,606	3,532	32,426	70,961
	Proportion	*25%*	*8%*	*16%*	*5%*	*46%*	*100%*

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

The University spent £6.3 million providing financial assistance to students in addition to the £5.0 million of funding bodies' access funds and bursaries disbursed to eligible students (shown on page 71), and the £73.0 million of tuition fees funded by the SLC. These sources of assistance are included in the table above. Unlike other universities, students study from home and often whilst in full-time employment, thereby diminishing the financial burden of their studies.

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. Around 9% of all students, or 25% of those paying their own fees, take advantage of this facility, including some of those ELQ students not eligible for SLC loans. Furthermore, some students paying their own fees subsequently have them reimbursed in whole or in part by their employers, but the precise number is not known.

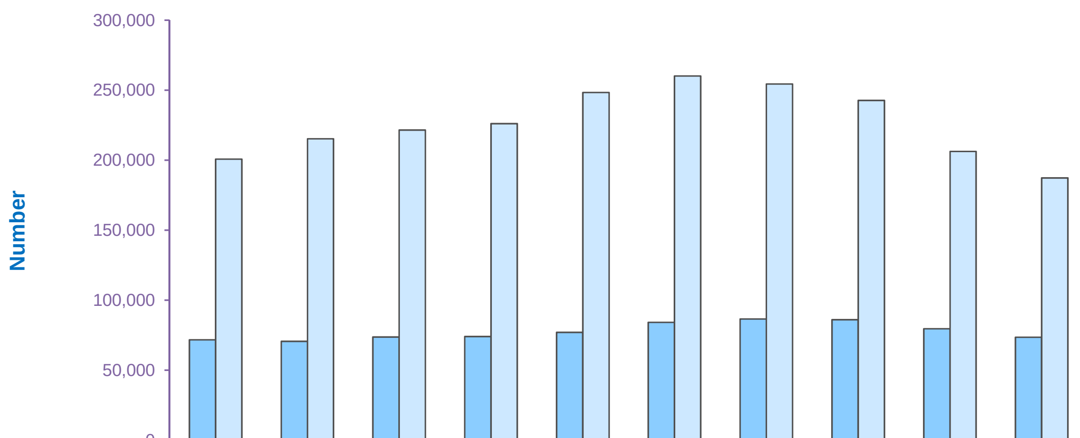
Public Benefit (continued)

In 2014 a report was commissioned to explore the economic impact of The Open University across the United Kingdom. It was estimated that in 2012/13 the total economic impact of all activities was approximately £3,118.0 million, of which teaching and learning activities contributed £1,671.0 million (54%), research £97.0 million (3%), informal learning provision, including viewing of Open University generated content on the BBC, The Open University iTunes U service and OpenLearn, £499.0 million (16%) and export activities £17.0 million (1%). The remainder, £834.0 million (27%), relates to the indirect impact of The Open University on the wider economy.

Student Numbers

The key statistics on page 3 show that over the year student numbers fell by 18,962 or 9% to 187,338 and full-time equivalents fell by 6,058 or 8% to 73,528. Over the ten years since 2004, the increase in full-time equivalents was 1,726 or 2%, whilst individual students decreased by 13,533 or 7%. The decrease in student numbers compared to 2012/13 is almost entirely attributable to students in England and was an expected result of the significant changes in the funding regime discussed on pages 20 and 21, and the ineligibility of ELQ students for SLC loans mentioned in the preceding two pages. The University met its overall student recruitment targets in England and throughout the UK.

Full Time Equivalent (FTE) students and Student Headcount



	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14
Full Time Equivalents	71,802	70,645	73,679	74,152	77,119	84,252	86,617	86,173	79,586	73,528
Student Headcount	200,871	215,237	221,494	226,205	248,437	260,119	254,519	242,802	206,300	187,338

Financial Year

In terms of full-time equivalents, The Open University share of the UK part-time undergraduate market increased to 44%.

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 2014 The Open University was the university ranked tenth in England, top in Northern Ireland, top in Wales and second in Scotland.

In the 2014 survey over 16,000 Open University students took part and 91% said they were satisfied overall. This year 272 institutions were surveyed, including further education colleges that offer higher education courses. The Open University has been at the forefront of the rankings since they were introduced in 2005: it is both gratifying that it maintains such a commanding position and a source of pride to achieve consistently outstanding results when operating at such a large scale.

Institutional Quality Review

The Quality Assurance Agency for Higher Education (QAA) did not conduct any reviews of The Open University in this year. The most recent institutional quality reviews were in 2009 (Institutional Audit) and 2011 (Collaborative Provision Audit). Both reviews resulted in positive outcomes in the form of judgements of confidence in the University's management of quality and standards. The next QAA review, now known as 'Higher Education Review', is expected in 2015 and will cover all provision for students, including collaborative arrangements. The University continues its programme of internal reviews, including Annual Quality Review of all qualifications and Periodic Programme Reviews.

Research Outputs

The University's aim is to ensure that its research and scholarship is externally recognised for excellence and impact, delivering sustainable benefits to the University's mission and priorities.

In 2008 the University had a successful submission to the Research Assessment Exercise leading to an increase of some 50% in the HEFCE research grant starting 2009/10, and a jump of 23 places in UK league tables for research. The results of the latest research assessment exercise, the Research Excellence Framework, informing the HEFCE research grant from 2015/16, will be released in December 2014. The University is seeking to maintain or improve its quality profile across all submitted units of assessment, with the majority of OU research submitted being assessed as either internationally excellent or world leading. In 2013/14 the University's HEFCE research grant decreased by £0.2 million (from £9.9 million to £9.7 million). This was the result of a £0.2 million reduction in the postgraduate research student supervision element; however, the mainstream grant was unchanged.

Income from external research grants has increased from £14.7 million in 2012/13 to £15.5 million in 2013/14. The increase reflects an on-going strategic focus to increase our performance in a competitive funding environment, which has resulted in improved outcomes from the University's research grant bidding activity and the subsequent grant income flow in the following years. Although competition for funds in the current economic climate remains high, the University is continuing to concentrate on further funder diversification and growth of external income by 2015.

Due to the pressure on funding, the number of research students has declined in the last year by about 10%; the economic climate seems to be having a greater impact on part time, self-funded study. Completion rates continue to meet HEFCE benchmarks. A significant proportion (approximately 30%) of our research students are based in specialist research centres as part of our successful Affiliated Research Centre Programme.

Equality and Diversity

For more than 40 years, the Open University has been promoting social justice and equality of opportunity. It is core to our mission and is as important today as it was when we were founded. We have published nine institution-wide equality objectives for the priorities that we have identified. 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 community background in Northern Ireland. Further information is available on the University's equality and diversity website: www.open.ac.uk/equality-diversity/.

At 31 July 2014, the gender breakdown of Council members, senior managers (comprising the University's extended leadership team and directors of subsidiary companies), and of staff was as follows:

	Employees		External		**Total**	
	Male	Female	Male	Female	**Male**	**Female**
Council Members	5	4	11	4	16	8
Senior Managers (excluding Council Members)	10	6	3	0	13	6
All Other Employees	3,895	5,831	n/a	n/a	3,895	5,831

Employee Involvement and Training

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.

Pensions

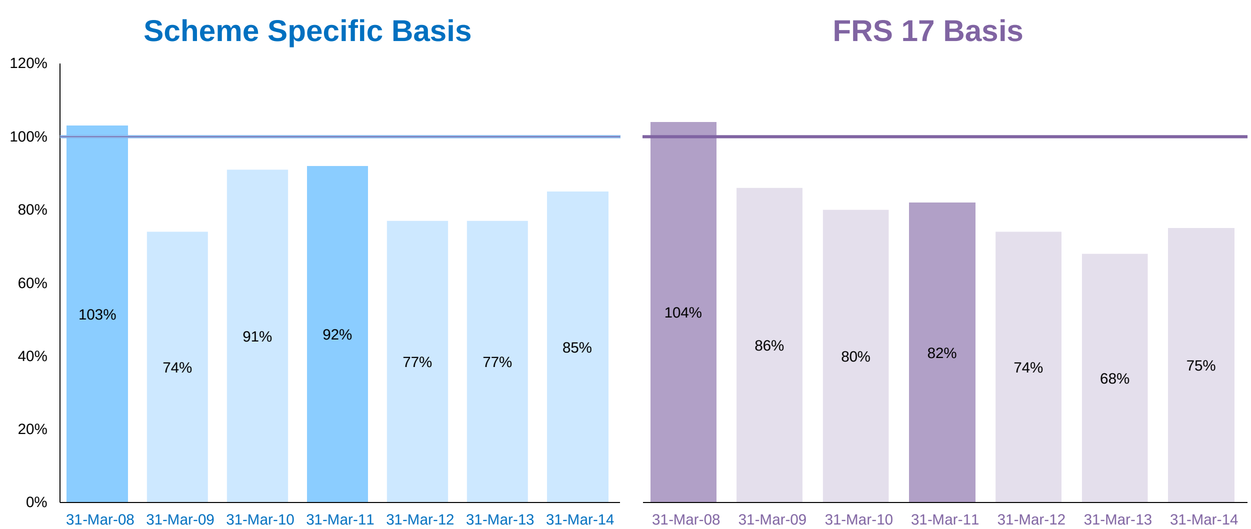
The University has only one defined benefit pension scheme available to its UK based staff, the national Universities Superannuation Scheme (USS). USS is completely independent of the University, which has no control over its policies or decisions. A number of changes to the benefits provided by the scheme were introduced in October 2011; these changes are summarised in Note 28, on pages 72 to 76.

The disclosures in Note 28 in respect of USS refer to the latest actuarial valuation, as at 31 March 2011. The funding level under the scheme-specific funding regime introduced by the Pensions Act was 92%. 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 was 82%.

The trustee of the USS, after obtaining the advice of the actuary, has put in place a ten year recovery plan to address the scheme shortfall. For the first 6 years of the plan, up to 31 March 2017, the employer contribution rate will remain at 16% and for the remaining four years of the plan employers will pay an additional contribution of 2% above the level of the then blended future service contribution rate. The plan is expected to eliminate the shortfall by the end of the ten year period, but will be reviewed at the actuarial valuation which is being carried out in 2014.

The actuary subsequently estimated the funding levels as at 31 March 2012, 31 March 2013, and 31 March 2014, and these are shown along with all the funding levels since 2008 in the following graphs. The bars in bold show the results of full actuarial valuations and the other bars show the results of interim actuarial estimates; the full valuation currently underway will supersede the bars shown below for March 2014 in the next published financial statements.

Funding Level of USS



USS is currently consulting the sector representative bodies on potential changes to future benefits that would substantially reduce the current deficit.

Scope of the Financial Statements

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

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

Accounting Policies

The Group financial statements have been prepared in accordance with the Statement of Principal Accounting Policies set out on pages 42 to 45, which are in accordance with applicable United Kingdom Accounting Standards. In accordance with Financial Reporting Standard 18, *Accounting Policies*, the University's Finance Committee has reviewed the Group's accounting policies and considers them to be the most appropriate to the Group's operations.

The Financial Reporting Council issued FRS 102 *The Financial Reporting Standard Applicable in the UK and Republic of Ireland* in March 2013; the first year that the University will report under the new standard will be 2015/16. The new Statement of Recommended Practice for Further and Higher Education was published in March 2014 in response to FRS 102 and the University's accounting policies will subsequently be revised accordingly.

Financial Strategy

The University's financial strategy is designed to maintain financial flexibility at all times. The University's Finance Committee reviewed the financial strategy during the course of the year and the University's Council accepted the recommendations that: the target of a surplus of 5% of income should be reduced to 2%; and, the surplus target should be re-expressed to be Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) as a percentage of income rather than surplus as a percentage of income. An analysis of recent performance revealed that EBITDA as a percentage of income is approximately 1% higher than surplus as a percentage of income, and the financial strategy target was therefore changed to be EBITDA of 3% of income.

The University's financial strategy is expressed through three parameters:

Net Current Assets	To maintain net current assets at a minimum of 90 days' expenditure, with a medium-term target 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 EBITDA of 3% of income.
Borrowings	To restrict the maximum level of borrowings to the value of £62 million.

For the purposes of the parameter relating to net current assets, committed bank facilities are treated as being equivalent to net current assets.

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.

Creditor Payment Policy

It is The Open University Group's policy to abide by terms of payment agreed with suppliers. Unless special terms apply, payment is made within 30 days of receipt of a valid invoice or after acceptance of the goods or services, whichever is the later.

Treasury and Investment Management

The financing and liquidity of the Group and its exposure to financial risk are managed through the central treasury function of the Finance Division. The Group's formal financial strategy, discussed on page 17, sets minimum liquidity levels in order to ensure that sufficient financial flexibility is retained. Each year, as part of its normal planning processes, rolling five year financial forecasts are prepared: this process incorporates a review of capital expenditure and cash generation and so should enable any necessary future borrowing requirements to be negotiated well in advance of need.

The Group'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.

Since January 2014 the University has split its liquid resources into two separate elements. The first (the short term fund) continues the historic practice of viewing capital protection as paramount and the returns as a secondary objective. The second, new, element (the long term 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 Group is potentially vulnerable to changing interest rates on its short-term fund, which is invested in interest bearing deposits with financial institutions, in two money market liquidity funds, a sterling government fund and in UK gilt-edged stocks ('gilts') having a maturity within five years of the acquisition date. The cornerstone of the Group'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 and sterling government funds or invested in equities 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 Group. Interest income is, however, a small proportion of total income and so, overall, the Group has low vulnerability to changing interest rates. The investment return from the short-term fund is viewed as satisfactory in such a low interest environment.

On creation of this long-term fund the capital of £80 million was split equally between two funds selected for their contrasting investment styles, albeit with the same long-term investment return target. This split is designed to provide a measure of capital protection in different markets. The first fund is managed by Baillie Gifford and comprises around four fifths in a range of international equities and the balance in a range of international bonds. The second fund is managed by Ruffer and comprises roughly equal proportions of international index-linked gilts, international equities and cash / gold / short-term bonds. In the six months since the creation of the fund the return has been satisfactory in difficult market conditions. Both managers invest on behalf of a wide range of charitable clients and have well developed mechanisms to invest in a socially responsible manner and support strong corporate governance in the companies in which they invest.

The fund and counterparty profile of the University's gilts, equities and term deposits as at 31 July 2014 is set out in Note 14 and summarised, along with the profile of cash balances, below; it has not changed significantly since then.

Treasury and Investment Management (continued)

	As at 31 July 2014		As at 31 July 2013	
	£m	**% of grand total**	£m	% of grand total
Gilts – Direct Holdings	**88.7**	**23%**	108.2	33%
Equity Investment Funds	**80.1**	**20%**	0.0	0%
Money Market Funds - escrow for VAT refund	**52.7**	**13%**	0.0	0%
Banks – Term Deposits	**50.1**	**13%**	57.0	17%
Total Gilts, Equities and Term Deposits	**271.6**	**69%**	165.2	50%
Money Market Funds - other	**70.0**	**18%**	100.0	31%
Banks – Overnight Deposits	**50.7**	**13%**	39.4	12%
Gilt Funds	**0.0**	**0%**	23.0	7%
Total Cash Balances	**120.7**	**31%**	162.4	50%
Grand Total	**392.3**	**100%**	327.6	100%

The University's Finance Committee keeps the Group's treasury and investment policies under close review and has amended the policy as financial markets react to changing economic conditions. All deposits are currently placed for up to three months with a small number of the largest UK banks and building societies, in money market liquidity and sterling government funds or invested in managed equity funds and UK gilt-edged stocks of less than five years to maturity.

The 2011 Strategic Report reported on the position relating to amounts due from two UK subsidiaries of Icelandic banks. The total amount at risk relates to two two-year fixed term deposits, one of £5.0 million placed in October 2006 and the other of £1.5 million placed in March 2007, together with accrued interest of £0.4 million, less distributions received from the banks' administrators totalling £6.3 million. A provision of £0.6 million (31 July 2013, £0.6 million) has been made against these sums in these financial statements, representing the estimated recovery of 94% (31 July 2013, 94%) of the former deposit and 85% (31 July 2013, 85%) of the latter. The estimated recoveries are those published by the administrators based on their experience over the administration. As at 31 July 2014 94% of the former deposit and 82% of the latter had been returned to creditors by the administrators.

Long-Term Borrowing Facility

The University has a committed long-term borrowing facility with Royal Bank of Scotland of £60.0 million for a period of 25 years from October 2008. The loan was fully drawn down on 27 April 2011 and is secured on a part of the University's Walton Hall campus.

Royal Bank of Scotland also provided a loan of £3.0 million to one of the University's subsidiaries, OU Properties (Bristol) Limited. Following a review of the operation of the company the loan was redeemed in April 2014 and the company has ceased operations. Further information appears in Note 11 on page 61.

Overall Funding

UK universities report their income under five categories. The nature and scale of The Open University's teaching activities dominate, as indicated by the following table showing the level and proportion of income received in 2013/14:

	2013/14	2012/13	
Tuition fees and education contracts	**£213.1m 52%**	£206.5m 46%	Fees chargeable by UK universities to UK full-time students are regulated by government and are either waived or deferred on advantageous credit terms. With effect from 2012/13 part-time students in England were eligible to apply for fee loans from the Student Loans Company. Prior to 2012/13 fees for UK part-time students were not regulated but neither were they eligible for waiver or deferral on advantageous terms; for this reason The Open University put in place its own fee deferral arrangements at a subsidised rate of interest.
Funding body grants	**£149.0m 37%**	£198.1m 44%	The Open University is unique amongst UK universities in operating across the whole of the UK and so is funded for its teaching activities by all the national higher education funding bodies. In respect of its research activities, it is funded by HEFCE and not by any of the other national funding bodies.
Other income	**£23.4m 6%**	£24.5m 6%	This comes from a wide variety of sources, including grants from the European Union and charitable bodies.
Research grants and contracts	**£15.5m 4%**	£14.7m 3%	These arise from competitive bids for funding from a range of public and private funders. The total funding for research comprises this figure plus £9.7 million of the funding body grants, above.
Endowment and investment income	**£3.2m 1%**	£3.7m 1%	The University has a small number of restricted expendable endowments; any new endowments received are included here, along with all income in respect of interest received from bank deposits, fixed interest government bonds ("gilts"), equity dividends and student loan accounts managed by Open University Student Budget Accounts Limited. Changes in valuation of equity investments are also included in this line.

Further detail on the sources of income is available in the notes to the financial statements, on pages 51 to 53.

Funding of Teaching

The way in which universities in England are funded changed significantly from October 2012. In Wales changes in funding will be implemented from October 2014.

A particular feature of The Open University is that it operates in the four nations of the UK and is subject to the funding regime extant in each student's nation of residence. The unit of resource is similar across the whole of the UK even though the mix of funding between funding body grant and tuition fee varies significantly between each UK nation. The number of full-time equivalent students in England is a high proportion of the total in the UK and therefore the regime in operation in England is predominantly reflected in the mix of total grant and fee income shown in the table above. The table on page 21 explains how the funding of teaching is organised across the UK.

Overall Funding (continued)

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. Many full-time students are eligible for a loan from the Student Loans Company (SLC) to meet the cost of their fees; for the first time access to fee loans was extended to part-time students subject to the strict eligibility criteria summarised below. There is a transitional period where students who began their undergraduate study in 2011/12 and before can complete their studies and remain funded largely by grant funding, whilst new students from 2012/13 and onwards are funded largely by tuition fees. In 2013/14 approximately 33% of 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 to the extent that fees cannot be funded by the newly increased grants to individuals.
Wales	In Wales, funding continues to be largely by grant. With effect from 2014/15, students will be funded by a mixture of grants and repayable loans from the SLC.
Northern Ireland	In Northern Ireland the transfer of funding for the University's students from HEFCE to the Department of Employment and Learning took place with effect from 2013/14; this completed the devolution process for the University. There is currently no provision for loans for part-time students: primary legislation would be required for this and it is unlikely that loans would be available for some time.

The gradual decrease in transitional students in England who will be replaced by those who are funded under the new regime, along with the changes to the funding regimes in Wales, will lead to the proportions of Funding Body grants and tuition fees in the table on page 20 continuing to change for the next few years. There will however, remain a significant proportion of grant funding for some years to come.

In England and, from 2014/15, in Wales, loans from the SLC are available only to students resident in those parts of the UK studying for qualifications at an intensity of at least 25% of the full-time equivalent and who have not studied at an equivalent or higher level before. Across the UK, students studying for a qualification equivalent to or lower than one they already hold have traditionally formed a significant proportion of the part-time student population: at an individual institutional level these 'ELQ' students have ranged between around one-fifth and two-fifths of the student population, with Open University students being around the mid-point of this range. The University's extensive market research, conducted in 2011 to prepare for the new funding environment, indicated that individuals not eligible for SLC loans would be unlikely to study and the evidence since 2012/13 across the whole part-time sector is that this is so. The University therefore planned on the basis that student numbers would be lower; ultimately by around one-fifth but not until all the transitional students have completed their studies. The University has planned its finances and set its fees to maintain its financial viability at these lower student number levels.

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

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

Results for the Year

This year is the second 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 result for the year, most notably in the anticipated reduction in student numbers, further increase in tuition fee income and decrease in funding body grants.

The Group's results are summarised in the Financial Highlights on page 3.

Income	Income decreased by £43.3 million or 10% to £404.2 million
Funding body grants	Funding body grants decreased by £49.1 million or 25% to £149.0 million largely as a result of the reduction in recurrent grant from the Higher Education Funding Council for England (HEFCE); this decreased by £58.5 million or 38% to £96.3 million but still represents 72% of all recurrent grants from the various funding bodies. Some of this decrease is the result of recurrent grants in Northern Ireland transferring to the Department of Employment and Learning (Northern Ireland) from HEFCE, with total recurrent grants from other funding bodies increasing by £5.4 million to £36.6 million. Specific grants increased by £3.8 million to £10.5 million due largely to an increase in grants received from HEFCE.
Fee income	Fee income increased by £6.6 million or 3% to £213.1 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, in England, which increased by £8.8 million or 6% to £167.8 million. This increase is a result of the changes in funding regime discussed in the section on Funding of Teaching on pages 20 to 21. The combined decrease in fee income outside England was £2.2 million.
Research grants and contracts	Income from research grants and contracts increased by £0.8 million or 5% to £15.5 million, due to increased work funded from Research Councils and other sources.
Other income	Other income decreased by £1.1 million to £23.4 million.
Endowment and investment income	Endowment and investment income decreased by £0.5 million or 14% to £3.2 million.
Expenditure	Expenditure decreased by £7.6 million or 2% to £421.1 million, after incurring £28.0 million on approved strategic projects, and was well within the budget set.
Staff costs	Total staff costs increased by £6.7 million or 2% to £281.6 million. An increase of £1.3 million resulted from progression of staff up incremental pay scales and £2.8 million from an increase in the number of full-time equivalent staff in the University and in FutureLearn Limited; £0.8 million was due to an increase in pension costs and £1.1 million as a result of a change in the mix of full time and temporary staff; and, £0.7 million was due to an increase in costs of early retirement. A provision for restructuring of £1.4 million is also included in this line.
Other (non-pay) operating expenses	Other (non-pay) operating expenses, excluding depreciation and interest, decreased by £14.7 million or 10% to £129.5 million.
Deficit	Deficit before tax of £16.9 million compared to a surplus of £18.8 million last year. Whilst a deficit was budgeted for 2013/14, a return to surplus is planned for 2014/15.

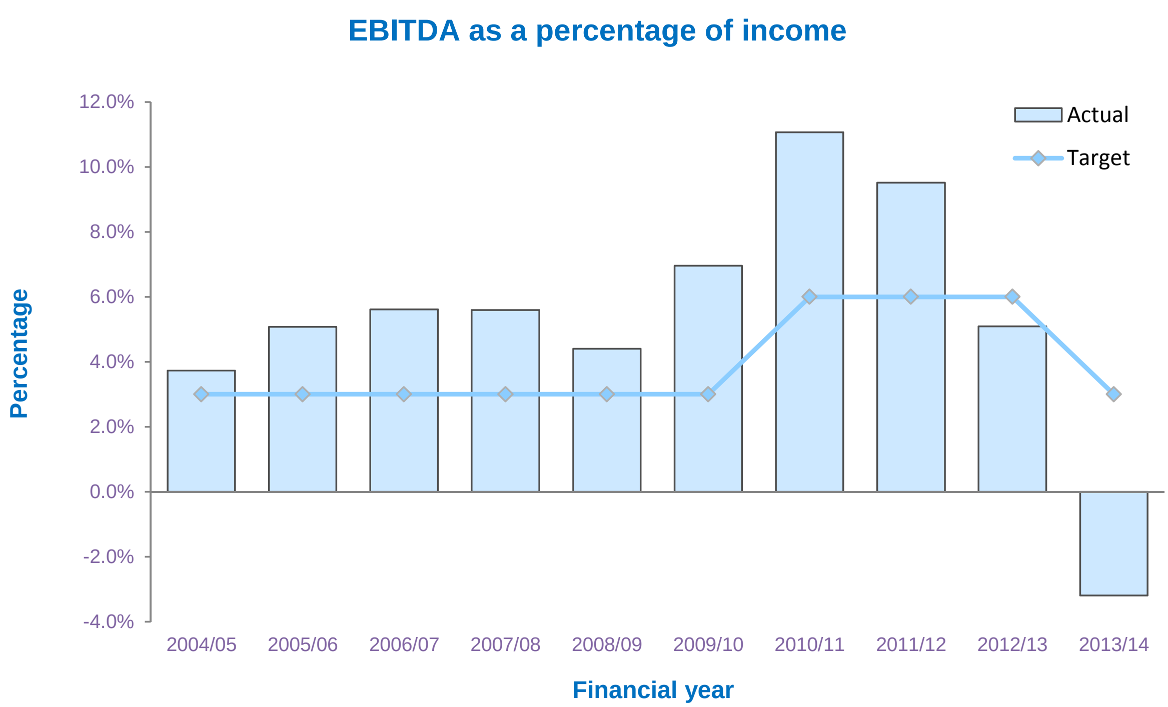
Results for the Year (continued)

The 2013/14 Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) as a percentage of income was -3%. This compares to the target of 3%, discussed on page 17 and was anticipated in the discussion on future developments in last year's financial statements.

The move from a surplus of £18.8 million in 2012/13 to a deficit of £16.9 million in 2013/14 is a result of a decrease in income of £43.3 million (10%) not being offset by the decrease in expenditure of £7.6 million (2%). The major cause of the decrease in income was the 25% drop in funding council grants not being fully replaced by increased tuition fee income. The most significant driver of this reduction in income was the reduction in student numbers from last year of 9% in headcount and 8% in full-time equivalents largely as a result of the funding changes in England that have impacted in the whole part-time sector.

Expenditure during the year included £28.0 million on approved strategic projects, including £6.0m on systems developments, £6.1 million on student facing websites and application processes, and £4.8 million on the set up phase of FutureLearn Limited. Thus the underlying position remains in line with the target EBITDA in the University's financial strategy. The University put in place a plan to increase reserves in 2010/11 and 2011/12 in preparation for the expected change in funding regime, and the financial strategy related to EBITDA as a percentage of income was amended accordingly; this plan envisaged that the subsequent two years could result in significantly reduced surpluses, or small deficits. The deficit of £16.9 million in 2013/14 is within the range anticipated. The aggregate of the results over the past four years is in line with the target, even after incurring an aggregate spend of £81.5 million on strategic projects.

The chart below provides a comparison between the target EBITDA as a percentage of income, against the actual results.



Cash Flow

The Financial Highlights on page 3 show that the Group generated a net cash inflow of £62.9 million from operating activities, a net increase of £46.4 million compared to the previous year due partly to the VAT refund of £52.7 million discussed on page 25, with the balance of £10.2 million reflecting the operating loss, which has been more than offset by the effect of depreciation, a non-cash item, and improvements to working capital. Overall, the cash inflow before management of liquid resources shown on page 50 was £68.1 million, compared to £20.5 million last year.

Capital Projects

During the year there were no additions to land and buildings (2012/13, nil).

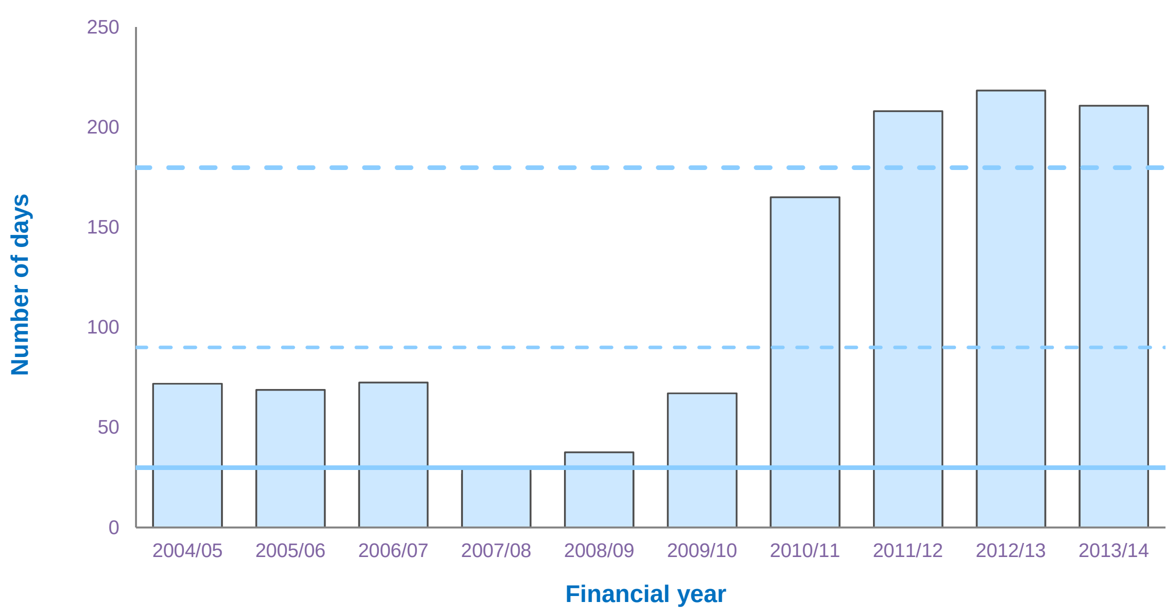
Balance Sheet

Tangible assets totalled £145.7 million at 31 July 2014, a decrease of £8.7 million since 31 July 2013 that reflects the end of a lengthy period of capital investment in 2010, with the result that depreciation is now exceeding the value of additions. 95% of the University's buildings are in the two highest building condition categories and the Estates Committee keeps the quality and operational capacity of the University's buildings under review.

At 31 July 2014, net current assets were £243.5 million, a decrease of £13.2 million or 5% from the previous year's figure of £256.7 million. The 2014 figure represented 211 days of expenditure. This includes the draw down of a committed loan facility of £60.0 million on 27 April 2011, in itself equivalent to 52 days of expenditure.

The history of the University's financial performance against its target to maintain net current assets at a minimum of 90 days' expenditure (previously 30 days), with a medium-term target of 180 days expenditure, is summarised in the following graph.

Days' expenditure represented by net current assets



Balance Sheet (continued)

In October 2008 the University repaid the entire amount of £60.0 million borrowed under a previous facility, leaving in place the current underlying committed facility, in order to reduce its exposure to counterparty default in respect of its deposits. As a result of this decision, the amount repaid was reclassified from long-term liabilities to current liabilities as at 31 July 2008. This reduced reported net current assets at 31 July 2008 to 27 days' worth of expenditure, as shown in the chart on page 24, a little below the level of 30 days specified in the then financial strategy. This had improved to 68 days by 31 July 2010. The committed facility of £60.0 million was subsequently drawn down on 27 April 2011. The aggregate of net current assets represents 211 days' worth of expenditure at 31 July 2014 (31 July 2013, 218 days).

With the exception of those funded by the Student Loans Company (SLC), the University's tuition fees are payable in advance of modules starting. This results in the University holding cash at the balance sheet date due to modules partially completed at 31 July (£41.8 million as shown in Note 15 on page 64) and in respect of modules starting in the following financial year (£29.1 million as shown in Note 15 on page 64).

2013/14 is the second year that some tuition fees in England were payable by students via the SLC and the amount outstanding at 31 July 2014 was £10.7 million (a decrease of £5.9 million since 2012/13), as shown in Note 13 on page 62.

For several years, the University's financial statements have disclosed the existence of a claim for the repayment of VAT incurred over the period 1973 to 1994. The period from 1973 to 1978 was settled in 2011. A favourable judgement of the First-tier Tribunal in respect of the remaining period was received in June 2013 and a debtor for £52.7 million was included in 2012/13, in Note 13. The payment was received from HMRC during 2013/14. HMRC subsequently appealed the decision and pending the outcome of that appeal it is uncertain whether any or all of the sum will need to be repaid: accordingly a liability for £52.7 million has been included in Note 15.

Going Concern and Long-Term Sustainability

The University's activities and major risks can be found on pages 6 to 12; financial information, including performance against the financial strategy can be found on pages 17 to 25, and the factors likely to affect future developments, performance and position are set out in following section.

In 2011 the University revised its business strategy, as outlined on pages 8 and 9. The primary risks, shown on pages 10 and 11, are reviewed on a quarterly basis, and the University Council receives regular updates on the University's financial position. 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 entered a time of uncertainty across the entire UK higher education sector with considerable financial resources at its disposal. Action was taken over three years to increase the level of cash and investments by £190.2 million, from £116.4 million at 31 July 2009 to £306.6 million at 31 July 2012. This was achieved through a combination of the drawdown of the £60 million loan facility in April 2011, which is repayable in 2033, a targeted cost reduction programme and the maintenance of student number levels. As a result of the changes to funding described on pages 20 and 21 the surplus in 2012/13 reduced from the higher than normal levels achieved in the previous two years, although the financial strategy target of a surplus of 5% of income, taking one year with another, was met. The sound financial management of the previous five years has allowed the University to operate at a deficit in 2013/14 without resorting to short-term measures that could adversely affect longer term financial sustainability; further, the deficit was budgeted and was predicted in the financial statements of 2012/13. The level of cash and investments as at 31 July 2014 is still greater than that at 31 July 2013.

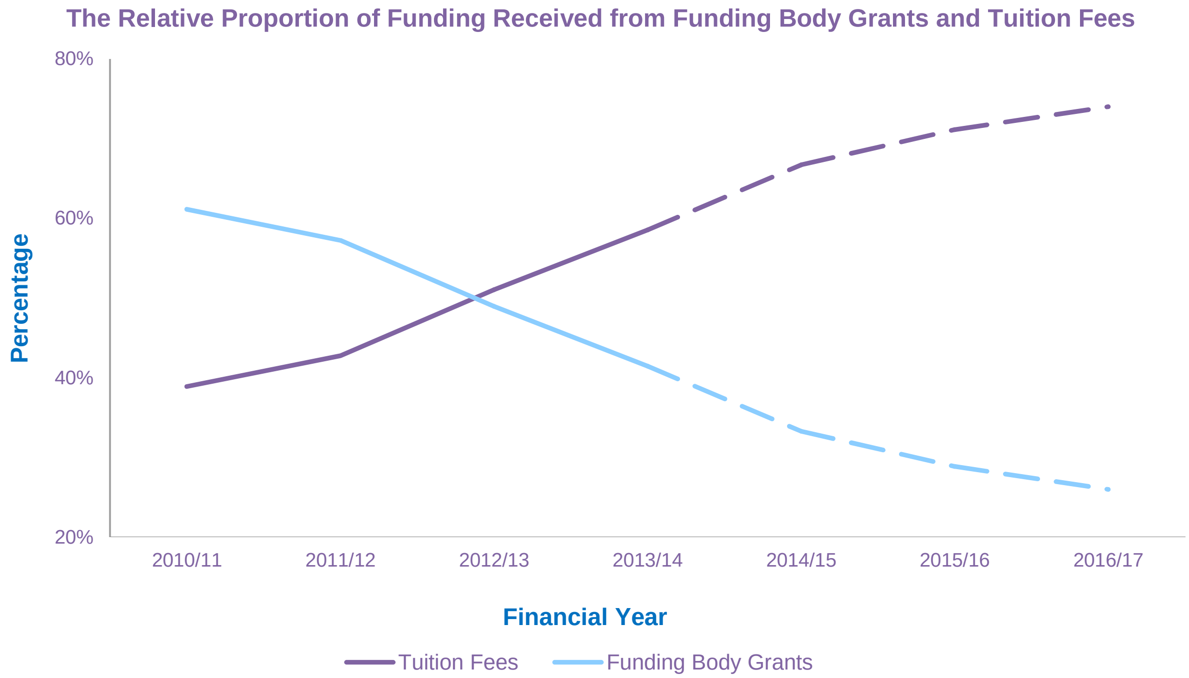
Council decided in 2011 to alter the three parameters of the financial strategy to increase the robustness of the University's financial position, as outlined on page 17. The chart on page 23, showing Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) as a percentage of income, demonstrates that the University exceeded the target in the years leading up to 2012/13; whilst the chart on page 24, showing the days expenditure represented by net current assets, confirms that the medium term target of 180 days was achieved by 31 July 2012 and has been maintained thereafter. 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, as shown in Note 16 of the financial statements, on page 65.

The Open University is in a period of considerable change in its funding environment, as described in the section on the funding of teaching on pages 20 and 21. Although the totality of income is unlikely to change significantly, the proportion derived from funding body grants will reduce over the next four years whilst the proportion derived from tuition fees will increase significantly, as illustrated by the chart on page 27. The University undertook extensive market research to prepare for these changes and implemented a UK market strategy, including pricing levels designed to support the University's mission to widen access whilst maintaining financial sustainability over the long-term.

The University's current forecasts and projections, taking account of reasonable sensitivities in relation to the key risks, indicate that the University should be able to operate within its current facilities and available headroom. The Council considers that the University has adequate resources to continue in operational existence for the foreseeable future. Accordingly, it continues to adopt the going concern basis in preparing the University's financial statements.

Future Developments

The way in which universities in the UK are funded has changed significantly in recent years and is discussed on pages 20 and 21. Despite the changes in funding around the UK, since the number of students in England comprises more than 80% of the total number of students, it is possible to provide a broad view of how the mix of grant funding and tuition fees is likely to change over the next few years, as shown by the chart below.



The relative proportion of funding received from funding bodies and tuition fees had been stable for many years up to 2011/12, the final year under the old, mainly grant-funded, regime. As transitional teaching grants from HEFCE reduce the proportions will change. Current expectations are that the relative mix from the two sources of funding should stabilise by 2016/17, although it is clear that this is subject to changes in policy enacted in any of the four UK nations. In addition, there are no plans to move away from the grant-funded regime in Scotland, and the University also receives some Funding Body Grants for specific projects. There will therefore continue to be a proportion of Funding Body Grant Income in the longer term.

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

As indicated on page 21 teaching grants are receivable from UK funding bodies only for those students that complete their specified studies in the year; similarly fee instalments are payable by SLC only if a student remains in active study at the date each instalment is due. Thus a student's personal objectives and the University's educational and financial objectives are aligned: this is reflected in the University's strategic objective to deliver an outstanding student experience (as set out on page 8) and is reflected in the principal risk of an inability to support students to achieve their study goals (as described on page 10).

The significant changes to higher education funding, particularly for part-time students, have to be seen in the context of the global economic conditions. Following the recession that began in 2008 economic recovery world-wide had faltered since summer 2011, compounded by indebtedness in Europe and the United States of America. In the UK, unemployment has decreased, although the full impact of public spending cuts has yet to be felt.

Future Developments (continued)

In April 2014 HEFCE published a report on the economic and policy influences on part-time higher education. The key finding was that part-time UK and EU undergraduate entrants in 2013/14 almost halved compared to 2010/11. The key contributors to this decline were identified as: the rise in part-time fees even though they are lower than full-time fees; entrants with financial backing from their employers almost halving; falls in employment – particularly in the public sector; part-time study appearing to be more likely to suffer in a recession – but this is not inevitable; and, wider comparisons among the UK nations showed that part-time declines in England appear to have been affected by a range of policy changes alongside economic effects.

There is potential for universities, and especially for The Open University, to provide an attractive solution for those who need to retrain for new careers or to protect current jobs. Part-time study whilst in work may be particularly attractive in the face of the increased tuition fees that all English universities have had to levy from 2012, although in the short-term the increase in part-time fees seems to be a significant deterrent to study – particularly for those not eligible for a loan from the SLC. Not only does The Open University offer the ability to study whilst in full time employment, but its 2013/14 fee of £5,124 per full time equivalent compared favourably with other universities, many of which have charged the maximum £9,000.

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

Demand and registrations for the 2014/15 academic year have met expectations. Having spent four years building up the University's cash reserves and following a small deficit in 2013/14, a surplus in line with the financial strategy is planned for 2014/15. The University welcomes the Government's announcement that from 2015/16 part-time students who have previously studied for a degree and wish to retrain part-time in engineering, technology and computer science will have access to student loans.

International Activities

On the international front, the University has maintained its direct teaching activities in Europe and its partnership activities in Eastern Europe and the rest of the world. Through these activities some 44,000 students in more than 25 countries benefit from the University's materials and pedagogy. At the same time the University is boosting its involvement in teaching in Africa and Asia by working with a variety of public and private organisations. The University is seeking to put all its international activities on a more commercial footing, except where they can be funded from philanthropic donations, in view of the loss of UK public funding over the next few years.

In September 2013 a subsidiary of the University, FutureLearn Limited, launched the UK's first massive open online courses in partnerships with twenty-one UK and two overseas universities. These courses are free to users, who may choose to pay for additional services. More than 100,000 learners registered on Open University MOOCs during the year. As with the University's other open educational resources, the FutureLearn courses are expected to create interest in its core credit bearing curriculum.

Future Developments (continued)

Research

The UK public funding for research from both HEFCE and the UK Research Councils have continued to come under pressure and the most recent Government Comprehensive Spending Review has resulted in a further real-term reduction in the UK science budget and the increasing concentration of research funding. Public funding for research (totalling £17.2 million in 2013/14) forms a relatively small but important part of the University's overall funding and hence steps are being taken to mitigate against any potential future funding reductions, for example optimising the outcome from the Research Excellence Framework 2014 and diversifying and increasing external research funding and through developing horizon scanning and coordination for large collaborative bids. The University will also look strategically to enhance income from non-UK sources in particular from the new EU Horizon 2020 programme. We will also seek to actively engage with South East Midlands Local Enterprise Partnership to promote opportunities for our research regionally.

The University is developing a new 'roadmap' for research, that will guide research and enterprise at the Open University in the years ahead, aiming to further enhance the research performance and reputation of the University, ensuring that it is externally recognised for excellence and impact, and delivers sustainable benefits to the University's mission and priorities.

People

The University's consistently excellent performance in the National Student Survey and its sound financial position are down to the professionalism and commitment of its 10,000 employees. The Council thanks each one for their hard work over the past year in a challenging environment to position the University so strongly for the future.

The following members of Council retired from office in the last year: Mr E Briffa, Professor J Draper, Dr A Freeling, Professor K Hetherington, Mr R O Humphreys, Dr C K Lloyd and Mr D M C E Steen. The Council wishes to express its gratitude for their contribution. The Vice-Chancellor, Mr M G Bean, will leave the University at the end of December 2014 and the appointment process for his successor is underway. The Pro-Chancellor, Lord Haskins of Skidby, retires at the end of December 2014 and will be replaced by Mr R Gillingwater CBE.

The Council also wishes to express its appreciation to the alumni and supporters of the University who made donations and bequests in the year. The total received in the year from these sources was £2.9 million.

Conclusion

The austerity programmes of Western governments continue; on top of this the way in which universities in England are funded has changed significantly, requiring expenditure on new systems and change programmes. However, the business model of The Open University looks increasingly relevant to those who have a thirst for knowledge or are in mid-career and need to change direction. If the UK is to prosper in a competitive globalised economy it has to raise its game as a knowledge economy, or face declining relative standards of living. The Open University, which provides excellent cost effective higher education, will be an important contributor to this transformation and has maintained its strong financial position in this period of uncertainty.

Approved by Council on 25 November 2014 and signed on its behalf by:

H R BROWN	**M S HEDGES**	**M G BEAN**
Treasurer	Finance Director	Vice-Chancellor

Corporate Governance and Accountability Arrangements

The Open University is a body incorporated by Royal Charter. Although the University does not have shareholders and is not a listed company, the University's Council is committed to achieving high standards of corporate governance in line with accepted best practice. Accordingly, the University's Council believes it is appropriate to report on compliance, as far as is practicable, with the appropriate provisions of the UK Corporate Governance Code (formerly the Combined Code) issued by the Financial Reporting Council in September 2012.

Throughout the year ended 31 July 2014, and up to the date of approval of the financial statements, the University has been in compliance with all the Code provisions set out in the UK Corporate Governance Code insofar as they relate to universities.

In March 2009 the Committee of University Chairs (CUC) issued a Guide for Members of Higher Education Governing Bodies in the UK which incorporates a Governance Code of Practice. This code is voluntary and is intended to reflect good practice in a sector that comprises a large number of very diverse institutions. Institutions should state that they have had regard to the code, and where an institution's practices are not consistent with particular provisions of this code, an explanation should be published in the corporate governance statement of the annual audited financial statements.

In respect of the year ended 31 July 2014, the University's Council can report that there was no element of this Code with which the University's practice was not consistent.

The University Council

The membership of the Council is set out in the University Statutes. At the date of approval of these financial statements there are 24 members comprising: ex officio and co-opted external members; the Vice-Chancellor; the President of the Open University Students Association (OUSA) and a student and staff employees appointed after election. Since the University is a charity the Council members are the charity trustees. The roles of Chair and Vice-Chair of the Council are separated from the role of the University's Chief Executive, the Vice-Chancellor.

The University's Council has adopted a statement of primary responsibilities, which is published on the University's Freedom of Information and Governance websites. This statement sets out the Council's responsibilities in respect of the proper conduct of public business, strategic planning, monitoring effectiveness and performance, finance, audit, estate management, human resource management, equality and diversity, students' union, health and safety, and the appointment of the University Officers.

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.

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

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

The University Council (continued)

The Council met four times during the year. The members of the University's Council during the year ended 31 July 2014, and their attendance at the meetings held during their membership in that year, together with members serving in the period after 31 July 2014 and up to the date on which the financial statements were approved, were:

Ex-officio members who are also officers of the University

Pro-Chancellor & Chair of the Council	Lord Haskins (4/4)
Treasurer	Mr D M C E Steen (to 14 February 2014) (1/1) Mr H R Brown (from 11 March 2014) (3/3)
Vice-Chancellor (Employee)	Mr M G Bean (4/4)

Ex officio members

President, Open University Students Association	Mrs M Cantieri (to 31 July 2014) (4/4) Miss R Tudor (from 1 August 2014)

Elected members

Members of Senate (Employees)	Professor J Draper (to 31 July 2014) (2/4) Professor K Hetherington (to 31 July 2014) (4/4) Mr R O Humphreys to (31 July 2014) (3/4) Dr C K Lloyd (to 31 July 2014) (4/4) Mr J Miller (from 1 August 2014) Dr T O'Neil (4/4) Professor H Rymer (from 1 August 2014) Professor J Wolffe (from 1 August 2014) Mr J M Yeo (from 1 August 2014)
Associate Lecturers (Employees)	Dr I Falconer (to 31 July 2014) (3/4) Mr B Heil (4/4) Dr C Spencer (from 15 September 2014)
Open University Students Association	Mr C Shaw (4/4)
Non-academic Staff (Employee)	Mrs S Dutton (4/4)

External members co-opted by Council

Mr E Briffa (to 31 July 2014) (4/4)	Mr W Monk (4/4)
Mr H R Brown (Treasurer from 11 March 2014) (1/1)	Mr J Newman (from 1 August 2014)
Dr A Freeling (to 31 July 2014) (4/4)	Mr R W Spedding (4/4)
Mrs R Girardet (from 1 August 2014)	Mrs R Spellman (4/4)
Mr B S Larkman (4/4)	Professor W Stevely, Vice-Chair of Council (4/4)
Mrs S Macpherson (4/4)	Mrs S Unerman (from 1 August 2014)
Ms R McCool (3/4)	Dr G Walker (3/4)

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

University Secretary	Mr A F Woodburn
Finance Director	Mr M S Hedges
Director, Students	Mr K Zimmerman
Pro-Vice-Chancellors	Professor T Blackman Professor M Mihsein Professor B R Tynan
Commercial Director	Mr S Hill

Membership Committee

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

The Membership Committee met six times during the year. The members during the year ended 31 July 2014 and their attendance at the meetings held during their membership in that year, together with members serving in the period after 31 July 2014 and up to the date on which the financial statements were approved, were:

External members of Council	Chair	Lord Haskins (6/6)
		Mr E Briffa (to 31 July 2014) (4/6)
		Professor W Stevely (6/6)
		Ms R Spellman (from 1 August 2014)
Employees	Vice-Chancellor	Mr M G Bean (6/6)
		Mr R O Humphreys (to 31 July 2014) (5/6)
		Dr C K Lloyd (to 31 July 2014) (6/6)
		Mr J Miller (from 1 August 2014)
		Professor H Rymer (from 1 August 2014)

Estates Committee

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

The Estates Committee met twice during the year. The members during the year ended 31 July 2014 and their attendance at the meetings held during their membership in that year, together with members serving in the period after 31 July 2014 and up to the date on which the financial statements were approved, were:

External member of Council	Chair	Mr W Monk (2/2)
Other external members		Mr R Booker (to 31 July 2014) (2/2)
Employees	Finance Director	Mr M S Hedges (2/2)
		Mr N Holt (from 1 June 2014) (1/1)
		Ms A Howells (to 31 March 2014) (1/1)
		Professor S Kelley (from 1 June 2014) (1/1)
		Ms M Kirby (to 31 July 2014) (2/2)
		Professor N Mason (to 31 May 2014) (1/1)
		Professor J Roche (2/2)
		Mrs N Whitsed (1/2)
	University Secretary	Mr A F Woodburn (2/2)

Remuneration Committee

The Remuneration Committee determines the annual remuneration of, and rewards to, the most senior staff, including the Vice-Chancellor. The cost of living salary increases for all staff are determined by national pay negotiations for all universities.

The Remuneration Committee met twice during the year. The members during the year ended 31 July 2014 and their attendance at the meetings held during their membership in that year, together with members serving in the period after 31 July 2014 and up to the date on which the financial statements were approved, were:

External members of Council	Chair	Lord Haskins (2/2)
		Mr D M C E Steen (to 14 February 2014) (1/2)
		Mr H R Brown (from 11 March 2014 (1/1)
		Ms R McCool (2/2)
		Professor W Stevely (2/2)

External members of the Council receive no remuneration for their services although expenses incurred in attending meetings are met by the University. Members of the Council who are employees of the University receive no additional remuneration for their services to the Council, although expenses incurred in attending meetings are met by the University. The aggregate expenses paid to or on behalf of members of Council in this capacity is disclosed in Note 7 on page 56.

Staff Strategy Committee

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

The Staff Strategy Committee met three times during the year. The members during the year ended 31 July 2014 and their attendance at the meetings held during their membership in that year, together with members serving in the period after 31 July 2014 and up to the date on which the financial statements were approved, were:

External members of Council	Chair	Ms R McCool (2/3)
		Mrs R Spellman (3/3)
Other external members		Mr J Potts (3/3)
Employees		Mr A Burrell (3/3)
	Pro-Vice-Chancellor	Professor T Blackman (3/3)
		Dr C K Lloyd (3/3)
	University Secretary	Mr A F Woodburn (2/3)

Strategic Planning and Resources Committee

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

The Strategic Planning and Resources Committee met four times during the year. The members during the year ended 31 July 2014 and their attendance at the meetings held during their membership in that year, together with members serving in the period after 31 July 2014 and up to the date on which the financial statements were approved, were:

External members of Council	Chair	Lord Haskins (4/4)
		Mr D M C E Steen (to 14 February 2014) (1/2)
		Mr E Briffa (to 31 July 2014) (3/4)
		Mr H R Brown (from 11 March 2014) (1/2)
		Professor W Stevely (4/4)
		Ms S Unerman (from 1 August 2014)
Employees	Vice-Chancellor	Mr M G Bean (4/4)
		Mr D Goldrie (to 31 August 2014) (4/4)
		Professor M Grady (4/4)
		Mr R O Humphreys (from 1 September 2014)
		Dr S Hutchinson (to 31 August 2014) (4/4)
		Professor H Rymer (4/4)
		Mr M Staples (from 1 September 2014)

Development Committee

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

The Development Committee met twice during the year. The members during the year ended 31 July 2014 and their attendance at the meetings held during their membership in that year, together with members serving in the period after 31 July 2014 and up to the date on which the financial statements were approved, were:

External members of Council	Chair	Dr A Freeling (2/2)
		Ms R Girardet (Chair from 1 August 2014)
		Lord Haskins (2/2)
		Mr D M C E Steen (to 14 February 2014) (1/1)
		Mr H R Brown (from 1 August 2014)
Employees	Vice-Chancellor	Mr M G Bean (2/2)
		Professor A De Roeck (2/2)
Officers in attendance	Finance Director	Mr M S Hedges (2/2)
	University Secretary	Mr A F Woodburn (1/2)
		Mr M Gorman (1/1)
		Ms E Prak (2/2)

Finance Committee

The Finance Committee reviews and then recommends to Council the University's annual revenue and capital budgets and monitors performance in relation to the approved budgets. It reviews and then recommends to Council the financial regulations and financial policies that are applied by management. It approves the accounting policies used for the preparation of the financial statements. It reviews the annual financial statements, including significant matters of judgement arising that require review, and meets with the external auditors to discuss the outcome of their audit; it then recommends the financial statements to Council for approval.

The Finance Committee met four times during the year. The members during the year ended 31 July 2014 and their attendance at the meetings held during their membership in that year (of whom the Chair and three others have recent and relevant financial experience), together with members serving in the period after 31 July 2014 and up to the date on which the financial statements were approved, were:

External members of Council	Chair	Mr D M C E Steen (to 14 February 2014) (2/2) Mr H R Brown (Chair from 11 March 2014) (4/4) Lord Haskins (4/4) Mr B S Larkman (3/4) Mr J Newman (from 1 August 2014)
Other external members		Mr J Gollan (3/4) Ms N Advani (from 1 August 2014)
Employee	Vice-Chancellor	Mr M G Bean (3/4)
Officers in attendance	Finance Director University Secretary	Mr M S Hedges (4/4) Mr A F Woodburn (4/4)

Investment Committee

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

The Investment Committee met once during the year. The members during the year ended 31 July 2014 and their attendance at the meetings held during their membership in that year, together with members serving in the period after 31 July 2014 and up to the date on which the financial statements were approved, were:

External members of Council	Chair	Lord Haskins (1/1) Mr D M C E Steen (to 14 February 2014) (1/1) Mr H R Brown (from 11 March 2014) (0/0) Mr B S Larkman (1/1)
Other external members		Mr H Leslie Melville (to 13 March 2014) (1/1) Mr M B Moule (1/1)
Employee	Finance Director	Mr M S Hedges (1/1)
Officers in attendance		Mr B Cheyne (1/1)

Audit Committee

The Audit Committee comprises wholly external members, drawn from both within and outwith the Council, and so has no executive responsibility. During the year ended 31 July 2014 the Audit Committee met three times. The members during the year ended 31 July 2014 and their attendance at the meetings held during their membership in that year, together with members serving in the period after 31 July 2014 and up to the date on which the financial statements were approved, were:

External members of Council	Chair	Mr R W Spedding (3/3) Mrs S Macpherson (3/3) Dr G Walker (3/3)
Other external members	Mr C Hughes (3/3) Mr C Juman (2/3)	Mr N Poulter (from 1 August 2014) Ms J Seeley (to 31 July 2014) (2/3)

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

Audit Committee remit

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

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 councils, and the Student Loans Company.

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, as necessary, 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.

Reviewing with the external auditors the scope and nature of their audit, including the report to Audit Committee written by the external auditors.

Regulatory Compliance In addition to seeking assurance on risks associated with non-compliance generally for the University the Committee also assesses its own compliance with the regulatory framework relating to the Audit Code of Practice.

Remit review

During the year the Audit Committee, and the Finance Committee, reviewed their respective roles in relation to the review of the University's accounting policies and financial statements (including subsidiary companies). Currently the responsibility for the review of the annual accounting policies and financial statements is shared with the Finance Committee. It has been agreed by Council that responsibility for review of accounting policies and financial statements will transfer to the Audit Committee with effect from the 2014/15 financial year. The current members of the Committee have the skills and background to take on this broader role in respect of the financial statements.

Audit Committee (continued)

Internal Audit Operation

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

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

The Committee keep the performance and effectiveness of Internal Audit under review through their attendance at each meeting; private sessions after each meeting; feedback received from management and the external auditors, and reviewing the outcome of quality review self-assessments reported in the Chief Auditor's annual report. A formal external quality assessment of Internal Audit effectiveness is to be commissioned in 2015 in accordance with the HEFCE requirement to do so every five years. The Committee has expressed its satisfaction with the work of Internal Audit during the year.

External Audit Operation

The Audit Committee keeps under review the independence and objectivity of the external auditors, who were reappointed in November 2013 for a seven year period (subject to an annual review) following a competitive tender exercise. In addition to the tender exercise, the Committee has kept the effectiveness of the external auditors under review through consideration of their plans and reports and their attendance at all Committee meetings during the year; holding a private session with the Committee after each meeting and formally once a year supplemented with feedback received from management.

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

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

Performance Evaluation of Council and its Committees

The Council evaluated its performance in 2013/14 through an effectiveness review, which included a profile of the year's business against its responsibilities and incorporated a summary of independent evaluations of the way in which the Council had operated during the year from each member. Each Council Committee conducted a similar effectiveness review.

A review of individual members of the Council was undertaken, based on a short self-assessment questionnaire. Such reviews are conducted on a rolling basis over a two-year period, with any concerns and recommendations being reported to the Council through the Membership Committee. The Council also reflected on its effectiveness at the end of each meeting.

In 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 Financial Memorandum 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 page 24 the Council is satisfied that it has adequate resources to continue in operation for the foreseeable future: for this reason, the going concern basis continues to be adopted in the preparation of the financial statements.

The Council has taken reasonable steps to:

Use funds properly	Ensure that funds from HEFCE, the Scottish Funding Council (SFC), the Higher Education Funding Council for Wales (HEFCW), the Department of Employment and Learning (Northern Ireland) (DELNI) and the National College for Teaching and Leadership (NCTL) (formerly the Training and Development Agency for Schools (TDA)) are used only for the purposes for which they have been given and in accordance with the Financial Memorandum with HEFCE and the Funding Agreements with SFC, HEFCW, DELNI and NCTL and any other conditions which five funding bodies may from time to time prescribe.
Implement controls	Ensure that there are appropriate financial and management controls in place to safeguard public funds and funds from other sources.
Manage risks	Ensure that there are effective systems of risk identification and management that cover all risks, produce a balanced portfolio of risk exposure, are based on a clearly articulated policy and approach, are monitored and reviewed regularly, are integrated into normal business processes and aligned to the University's strategic objectives and are managed by heads of units and senior managers.
Safeguard assets	Safeguard the assets of the University and prevent and detect fraud.
Manage resources	Secure the economical, efficient and effective management of the University's resources and expenditure.

Risk Management

The key elements of the University's system of risk identification and management, which is designed to discharge the responsibilities set out above, include the following:

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

Any system of internal control or risk management is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable, but not absolute, assurance against material misstatement or loss.

Internal Control

The key elements of the University's system of internal control, which is designed to discharge the responsibilities set out above, include the following:

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

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

Report on the financial statements

Our opinion

In our opinion, the financial statements, defined below:

- give a true and fair view of the state of the group's and of the parent institution's affairs as at 31 July 2014 and of the group's income and expenditure, recognised gains and losses and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice;
- have been properly prepared in accordance with the Statement of Recommended Practice – Accounting for Further and Higher Education; and
- have been prepared in accordance with the Charities and Trustee Investment (Scotland) Act 2005 and regulation 14 of the Charities Accounts (Scotland) Regulations 2006 (as amended).

This opinion is to be read in the context of what we say in the remainder of this report.

What we have audited

The group financial statements and parent institution financial statements (the "financial statements"), which are prepared by The Open University, comprise:

- the consolidated and University Balance Sheets as at 31 July 2014;
- the consolidated Income and Expenditure Account for the year then ended;
- the consolidated Statement of Total Recognised Gains and Losses for the year then ended;
- the consolidated Cash Flow Statement for the year then ended;
- the Statement of Principal Accounting Policies; and
- the notes to the financial statements, which include other explanatory information.

The financial reporting framework that has been applied in their preparation is the Statement of Recommended Practice for Further and Higher Education (SORP), incorporating United Kingdom Generally Accepted Accounting Practice.

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

What an audit of financial statements involves

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

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

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

Opinions on other matters prescribed in the HEFCE Audit Code of Practices issued under the Further and Higher Education Act 1992 and in accordance with other regulatory requirements

In our opinion, in all material respects:

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

Other matters on which we are required to report by exception

Internal Control

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

Sufficiency of accounting records and information and explanations received

We have nothing to report in respect of the following matters where the Charities Accounts (Scotland) Regulations 2006 (as amended) require us to report to you if, in our opinion:

- 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; or
- we have not received all the information and explanations we require for our audit

We have no exceptions to report from this responsibility.

Other information in the Annual Report

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

Responsibilities for the financial statements and the audit

Respective responsibilities of the Council and auditors

As explained more fully in the Responsibilities of the University's Council set out on pages 38 and 39 the Council (whose members are also the charitable trustee for the purposes of charity law) is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

We have been appointed as auditors under section 44(1)(c) of the Charities and Trustee Investment (Scotland) Act 2005 and report in accordance with regulations made under the Act.

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 and in accordance with section 44(1)(c) of the Charities and Trustee Investment (Scotland) Act 2005 and regulation 10 of the Charities Accounts (Scotland) Regulations 2006 (as amended) and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Milton Keynes
25 November 2014

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 the Statement of Recommended Practice, Accounting for Further and Higher Education Institutions, (SORP) published in July 2007 and in accordance with applicable United Kingdom 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 2014; intra-group transactions have been eliminated on consolidation.

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

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

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

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

b. Recurrent grants from Funding Bodies are credited to income in the period in which they are receivable.

c. Non-recurrent grants received in respect of the acquisition or construction of buildings and equipment are treated as deferred capital grants and amortised in line with depreciation over the life of the assets. Non-recurrent grants received in respect of the acquisition of freehold land are treated as income in the period in which all conditions of the grants have been met.

d. Income for specific purposes, such purposes being designated by the grant-making body or donor under a specific agreement or contract and which can only be applied for those specific purposes, is credited to income over the life of the agreement or contract when the conditions attaching to its receipt have been met, such as incurring the appropriate expenditure, including expenditure on indirect costs.

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.

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

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

4 Recognition of Expenditure

a. Expenditure is recognised in respect of goods and services received when supplied in accordance with contractual terms.

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

c. Restructuring costs are recognised in respect of the direct expenditure of a reorganisation where plans are sufficiently detailed and well advanced, and where appropriate communication to those affected has been undertaken at the balance sheet date.

d. Module development costs are charged to expenditure as they are incurred.

e. The University has a maintenance plan designed to keep its estate in a constant state of good repair. The cost of maintenance is charged to expenditure in the period in which it is incurred.

f. Loan interest and / or facility fees are charged to expenditure on a daily basis.

5 Foreign Currencies

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

6 Pension Schemes

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

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 17, *Retirement Benefits*, the University accounts for the scheme as if it were a defined contribution scheme. 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.

Defined contribution schemes (FSSU, OURSP and others)

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

7 Leasing Costs

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

8 Stocks of Finished Goods

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

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

9 Investments

a. Investments in subsidiaries are shown at cost.

b. Current asset investments, comprising funds held on deposit, in money market funds and in short-date UK government stocks (gilts), are recognised at the lower of cost or net realisable value; listed equity investments or investment funds are stated at market value. Interest is accrued on a daily basis.

10 Land and Buildings

Land and buildings held at 31 July 1998 are shown in the balance sheet at the valuation on that date; land and buildings acquired after 31 July 1998 are shown at cost. The revaluation at 31 July 1998 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 Chesterton plc, International Property Consultants.

On adoption of FRS 15, *Tangible Fixed Assets*, the Group adopted the transitional provisions to retain the book value of land and buildings, many of which were last revalued in 1998, and has not adopted a policy of annual revaluations for the future. However, these values are subject to impairment reviews as set out in FRS 11, *Impairment of Fixed Assets and Goodwill.*

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.

Where buildings are acquired with the aid of specific grants, they are capitalised and depreciated as above. The related grants are treated as deferred capital grants and released to income over the expected useful life of the buildings.

Where land is acquired with the aid of specific grants it is capitalised as above. The related grants are treated as income in the period in which all conditions of grant have been met.

11 Equipment

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

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

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

11 Equipment (continued)

Where equipment is acquired with the aid of specific grants, it is capitalised and depreciated as above. The related grants are treated as deferred capital grants and released to income over the expected useful life of the equipment, which is the period of the grant in respect of equipment acquired for specific research projects.

12 Heritage Assets

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

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

13 Taxation Status

The University is an exempt charity within the meaning of Schedule 3 of the Charities Act 2011 (formerly schedule 2 of the Charities Act 1993) and as such is a charity within the meaning of Paragraph 1 of Schedule 6 to the Finance Act 2010. The University is also a charity within the meaning of the Charities and Trustee Investment (Scotland) Act 2005 and as such is a charity within the meaning of Paragraph 1 of Schedule 6 to the Finance Act 2010 and is recorded on the index of charities maintained by the Office of the Scottish Charity Regulator (charity no. SC038302). Accordingly, the University is potentially exempt from taxation in respect of income or capital gains received within categories covered by Section 287 Corporation Tax Act 2009 (CTA 2009) and Sections 471, and 478-488 of CTA 2010 (formerly enacted in Section 505 of the Income and Corporation Taxes Act 1988 (ICTA)), or Section 256 of the Taxation of Chargeable Gains Act 1992, to the extent that such income or gains are applied to exclusively charitable purposes. The University receives no similar exemption in respect of Value Added Tax and any tax incurred is either expensed or capitalised according to the nature of the underlying expenditure.

14 Accounting for Donations

a. Unrestricted 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.

b. Endowment funds

Where donations are to be retained to the benefit of the University for purposes specified by the donors, other than the purchase or construction of tangible fixed assets, they are accounted for as expendable endowments.

15 Cash Flows and Liquid Resources

Cash flows comprise increases or decreases in cash. 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. No other investments, however liquid, are included as cash. Liquid resources comprise assets held as readily disposable store of value. They include term deposits and other instruments held as part of the University’s treasury management activities. They exclude any such assets held as endowment asset investments.

	Notes	Year Ended 31 July 2014 £m	Year Ended 31 July 2013 £m
Income			
Funding body grants	1	**149.0**	198.1
Tuition fees and education contracts	2	**213.1**	206.5
Research grants and contracts	3	**15.5**	14.7
Other income	4	**23.4**	24.5
Endowment and investment income	5	**3.2**	3.7
Total income		**404.2**	447.5
Expenditure			
Staff costs	6	**281.6**	274.9
Other operating expenses	7	**129.5**	144.2
Depreciation		**9.6**	10.0
Interest payable and other finance costs	8	**0.4**	(0.4)
Total expenditure		**421.1**	428.7
(Deficit) / Surplus after depreciation and before tax		**(16.9)**	18.8
Taxation	9	**0.1**	0.0
(Deficit) / Surplus after depreciation and tax		**(17.0)**	18.8
Surplus for the year transferred to endowment funds		**0.1**	0.0
(Deficit) / Surplus for the year retained within reserves		**(16.9)**	18.8

Consolidated Note of Historical Cost Surplus and Deficit	Notes	Year Ended 31 July 2014 £m	Year Ended 31 July 2013 £m
(Deficit) / Surplus after depreciation of assets at valuation and tax		**(17.0)**	18.8
Difference between an historical cost depreciation charge and the actual depreciation charge for the year	20	**0.9**	0.9
Historical cost (deficit) / surplus after tax		**(16.1)**	19.7

The income and expenditure account has been prepared on an historical basis as modified by the revaluation of land and buildings and is solely in respect of continuing activities. All amounts relate to continuing operations.

The accounting policies on pages 42 to 45 and the notes on pages 51 to 76 form an integral part of these financial statements.

	Notes	**Year Ended 31 July 2014 £m**	Year Ended 31 July 2013 £m
(Deficit) / Surplus on continuing operations after depreciation of assets at valuation, and tax		**(17.0)**	18.8
New expendable endowments	12	**0.0**	0.1
Total recognised (losses) / gains relating to the year		**(17.0)**	18.9

The accounting policies on pages 42 to 45 and the notes on pages 51 to 76 form an integral part of these financial statements.

	Note	Consolidated		University	
		As At 31 July 2014 £m	As At 31 July 2013 £m	**As At 31 July 2014 £m**	As At 31 July 2013 £m
Fixed Assets					
Tangible assets	10	**145.7**	154.4	**145.8**	152.0
Investments	11	**0.0**	0.0	**8.0**	3.5
Total Fixed Assets		**145.7**	154.4	**153.8**	155.5
Endowment Assets	12	**0.5**	0.6	**0.5**	0.6
Current Assets					
Stock		**7.0**	4.2	**7.0**	4.2
Debtors – due within one year	13	**37.9**	104.2	**26.3**	89.5
– due after one year	13	**0.0**	0.0	**62.9**	62.9
Gilts, equities and term deposits	14	**271.6**	165.2	**271.6**	165.2
Cash at bank and in hand		**120.7**	162.4	**117.0**	158.5
Total Current Assets		**437.2**	436.0	**484.8**	480.3
Less Creditors : amounts falling due within one year	15	**193.7**	179.3	**243.3**	224.9
Net Current Assets		**243.5**	256.7	**241.5**	255.4
Total Assets Less Current Liabilities		**389.7**	411.7	**395.8**	411.5
Less Creditors : amounts falling due after more than one year	16	**60.5**	62.1	**60.5**	60.5
Less provisions for liabilities	17	**1.4**	0.0	**1.4**	0.0
Total Net Assets		**327.8**	349.6	**333.9**	351.0

	Note	Consolidated		University	
		As At 31 July 2014 £m	As At 31 July 2013 £m	**As At 31 July 2014 £m**	As At 31 July 2013 £m
Deferred Capital Grants	18	**72.6**	77.4	**72.6**	77.4
Expendable Endowment Funds	19	**0.5**	0.6	**0.5**	0.6
Reserves					
Revaluation reserve	20	**0.7**	1.6	**0.7**	1.6
General funds	20	**254.0**	270.0	**260.1**	271.4
Total Reserves		**254.7**	271.6	**260.8**	273.0
Total Funds		**327.8**	349.6	**333.9**	351.0

The accounting policies on pages 42 to 45 and the notes on pages 51 to 76 form an integral part of these financial statements, which were approved by Council on 25 November 2014 and signed on its behalf by:

The financial statements on pages 42 to 76 were approved by Council on 25 November 2014 and signed on its behalf by:

H R BROWN
Treasurer

M S HEDGES
Finance Director

M G BEAN
Vice-Chancellor

Consolidated Cash Flow Statement for the year ended 31 July 2014

	Notes	Year Ended 31 July 2014 £m	Year Ended 31 July 2013 £m
Net cash inflow from operating activities	21	**62.9**	16.5
Return on investment and servicing of finance			
Interest received		**5.8**	4.5
Interest paid		**(0.4)**	(0.4)
Net cash inflow from returns on investment and servicing of finance		**5.4**	4.1
Tax paid	9	**(0.1)**	0.0
Capital expenditure			
Payments to acquire tangible assets		**(0.9)**	(1.0)
Deferred capital grants received		**0.8**	0.9
Net cash outflow from capital expenditure		**(0.1)**	(0.1)
Cash inflow before management of liquid resources		**68.1**	20.5
Management of liquid resources			
Cash transferred to term deposits or gilts		**(108.2)**	(9.1)
Financing			
Loan repayment in the year		**(1.6)**	(0.2)
(Decrease) / Increase in cash in the year	22,23	**(41.7)**	11.2

The accounting policies on pages 42 to 45 and the notes on pages 51 to 76 form an integral part of these financial statements.

1 Funding Body Grants

	Year Ended 31 July 2014 £m	Year Ended 31 July 2013 £m
Recurrent grants		
Higher Education Funding Council for England	**96.3**	154.8
Scottish Funding Council	**21.0**	20.8
Higher Education Funding Council for Wales	**9.4**	9.6
National College for Teaching and Leadership	**0.1**	0.7
Department of Employment and Learning (Northern Ireland)	**6.1**	0.1
Total Recurrent grants	**132.9**	186.0
Specific grants		
Higher Education Funding Council for England	**8.1**	3.8
Scottish Funding Council	**1.4**	1.0
Higher Education Funding Council for Wales	**1.0**	1.9
Total Specific grants	**10.5**	6.7
Deferred capital grants released in year – see Note 18		
Higher Education Funding Council for England		
Buildings	**4.7**	4.9
Equipment	**0.9**	0.5
Total Deferred capital grants released in year	**5.6**	5.4
Total Funding Body Grants	**149.0**	198.1

2 Tuition Fees and Education Contracts

	Year Ended 31 July 2014 £m	Year Ended 31 July 2013 £m
Student fees – United Kingdom		
Taught Degrees		
England	**167.8**	159.0
Northern Ireland	**3.9**	3.6
Scotland	**11.8**	12.0
Wales	**6.6**	6.9
Research Degrees	**2.4**	2.5
Total Student Fees – United Kingdom	**192.5**	184.0
Student Fees - Overseas	**19.2**	21.4
Research training support grants	**1.4**	1.1
Total Tuition Fees and Education Contracts	**213.1**	206.5

3 Research Grants and Contracts

	Year Ended 31 July 2014 £m	Year Ended 31 July 2013 £m
Research Councils	**7.5**	6.7
Other sources, including industrial companies	**8.0**	8.0
Total Research Grants and Contracts	**15.5**	14.7

4 Other Income

	Year Ended 31 July 2014 £m	Year Ended 31 July 2013 £m
Other grants and contracts	**12.1**	12.3
Royalties received	**0.2**	0.2
External computer services	**0.0**	0.1
Sub-tenants' rental and services	**0.2**	0.2
Validation fees	**2.9**	2.9
Other income	**8.0**	8.8
Total Other Income	**23.4**	24.5

5 Endowment and Investment Income

	Year Ended 31 July 2014 £m	Year Ended 31 July 2013 £m
Interest on student loans	**0.5**	0.6
Increase in fair value of equity investments	**0.2**	0.0
Interest receivable on bank deposits and invested funds	**2.5**	3.1
Total Endowment and Investment Income	**3.2**	3.7

6 Staff Costs

	Year Ended 31 July 2014 £m	Year Ended 31 July 2013 £m
Staff costs analysed by type		
Salaries and other payments to employees	**232.8**	227.7
Social security costs	**15.9**	15.8
Pension costs - see Note 28	**32.9**	31.4
	281.6	274.9
Staff costs analysed by category of staff		
Full-time staff categories	**206.6**	201.9
Associate lecturers, residential school staff and examination marking fees	**61.3**	61.0
Other staff costs, including casual staff	**10.0**	8.0
Early retirement and voluntary severance	**3.7**	4.0
	281.6	274.9
Total Staff Costs	**281.6**	274.9

Average staff numbers (including higher paid staff)	Year Ended 31 July 2014	Year Ended 31 July 2013
Full-time and part-time staff at Milton Keynes, Wellingborough, national and regional centres	**4,838**	4,589
Associate lecturers and residential school staff	**4,891**	5,471
	9,729	10,060

6 Staff Costs (continued)

Remuneration of Higher Paid Employees

The emoluments of Mr M G Bean, the Vice-Chancellor, included in the above costs are £354,000 (year ended 31 July 2013, £351,000). The University's pension contributions to the Universities Superannuation Scheme (USS) in respect of the Vice-Chancellor are paid at the same rates as for other academic staff and amounted to £58,000 (year ended 31 July 2013, £56,000). The aggregate of these sums is £412,000 (year ended 31 July 2013, £407,000).

Compensation for loss of office paid to UK based employees earning in excess of £100,000 and funded from general income was £30,000 (year ended 31 July 2013, £Nil).

The remuneration of other higher paid employees, excluding the University's pension contributions, was:

	Staff Numbers	
	31 July 2014	31 July 2013
£100,000 - £109,999	**7**	8
£110,000 - £119,999	**4**	3
£120,000 - £129,999	**3**	2
£130,000 - £139,999	**2**	0
£140,000 - £149,999	**2**	4
£150,000 - £159,999	**0**	1
£160,000 - £169,999	**1**	1
£170,000 - £179,999	**2**	0
	21	19

7 Other Operating Expenses

	Year Ended 31 July 2014 £m	Year Ended 31 July 2013 £m
Student publications and recruitment	**16.9**	19.6
Teaching materials and residential schools	**14.0**	15.3
Increase in provision for bad and doubtful debts	**0.0**	7.9
Financial assistance and allowances to students	**6.3**	6.9
Grants to Open University Students' Association	**0.9**	0.8
Total Student Related Other Operating Expenses	**38.1**	50.5
Consumables and staff support	**53.9**	54.2
Repairs, general maintenance and equipment	**11.5**	12.4
Audio visual production	**7.4**	6.4
Rents and rates	**6.7**	6.0
Books and periodicals	**3.8**	3.6
Heat, light, water and power	**2.7**	3.2
Backdated Value Added Tax charge	**0.0**	2.8
Auditors' remuneration - Group audit fees	**0.1**	0.1
Other expenses	**5.3**	5.0
Total Non-Student Related Other Operating Expenses	**91.4**	93.7
Total Other Operating Expenses	**129.5**	144.2

Included in the above are audit fees in respect of the University only of £0.10 million (year ended 31 July 2013, £0.10 million) and its subsidiaries of an aggregate of £0.02 million (year ended 31 July 2013, £0.03 million). Fees paid to the auditors for non-audit services totalled £Nil (year ended 31 July 2013, £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 2013, £0.01 million). This represents travel and subsistence expenses incurred in attending Council meetings in their official capacity and reflects the UK-wide distribution of the University's activities and distribution of its Council members. No payments or other benefits for being a member of Council were paid to, or waived by, Council members. 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 £2.7 million (year ended 31 July 2013, £2.7 million), all in respect of property leases.

8 Interest Payable and Other Finance Costs

	Year Ended 31 July 2014 £m	Year Ended 31 July 2013 £m
On loans not wholly repayable within 5 years	**0.4**	0.4
Impairment on deposits	**0.0**	(0.8)
Total Interest Payable and Other Finance Costs	**0.4**	(0.4)

9 Taxation

	Year Ended 31 July 2014 £m	Year Ended 31 July 2013 £m
Foreign taxes	**0.1**	0.0
Total Taxation	**0.1**	0.0

As an exempt charity the University is potentially exempt from taxation in respect of income or capital gains in the United Kingdom.

The foreign tax is corporation tax in respect of the University's operations overseas, and withholding tax on royalty income received by Open University Worldwide Limited.

10 Tangible Assets : Consolidated

	Land and Buildings £m	Equipment £m	**Total £m**
Cost and valuation			
At 1 August 2013	240.2	17.4	**257.6**
Additions	0.0	0.9	**0.9**
Disposals	0.0	(1.4)	**(1.4)**
At 31 July 2014	**240.2**	**16.9**	**257.1**
Accumulated Depreciation			
At 1 August 2013	86.9	16.3	**103.2**
Charge for the year	8.6	1.0	**9.6**
Disposals	0.0	(1.4)	**(1.4)**
At 31 July 2014	**95.5**	**15.9**	**111.4**
Net book amount			
At 31 July 2014	**144.7**	**1.0**	**145.7**
At 31 July 2013	153.3	1.1	154.4
Financed by capital grants – see Note 18	71.6	1.0	**72.6**
Financed from other sources	73.1	0.0	**73.1**
Net book amount at 31 July 2014	**144.7**	**1.0**	**145.7**

If the land and buildings held at 31 July 1998 had not been revalued, the total value of land and buildings, including buildings in the course of construction, would have been included at the following amounts:

	Year Ended 31 July 2014 £m	Year Ended 31 July 2013 £m
Cost	**234.5**	234.5
Aggregate depreciation	**90.2**	82.5
Net book amount	**144.3**	152.0

10 Tangible Assets : University

	Land and Buildings £m	Equipment £m	**Total £m**
Cost and valuation			
At 1 August 2013	235.0	17.4	**252.4**
Additions	2.6	0.8	**3.4**
Disposals	0.0	(1.4)	**(1.4)**
At 31 July 2014	**237.6**	**16.8**	**254.4**
Accumulated Depreciation			
At 1 August 2013	84.1	16.3	**100.4**
Charge for the year	8.6	1.0	**9.6**
Disposals	0.0	(1.4)	**(1.4)**
At 31 July 2014	**92.7**	**15.9**	**108.6**
Net book amount			
At 31 July 2014	**144.9**	**0.9**	**145.8**
At 31 July 2013	150.9	1.1	152.0
Financed by capital grants – see Note 18	71.6	1.0	**72.6**
Financed from other sources	73.3	0.0	**73.3**
Net book amount at 31 July 2014	**144.9**	**0.9**	**145.8**

The unamortised value of HEFCE capital grants amounted to £72.5 million (31 July 2013, £80.3 million). In the event that the related assets were either to be sold or ceased to be used for the provision of publically funded higher education, the University would either have to surrender the proceeds to HEFCE or use them in accordance with the Financial Memorandum with HEFCE.

The additions include the purchase of a building from the subsidiary company OU Properties (Bristol) Limited for £2.6m, discussed in Note 11, following an independent market valuation.

11 Investments : University

	As At 31 July 2014 £m	As At 31 July 2013 £m
Ordinary shares in wholly owned subsidiary companies		
FutureLearn Limited	**7.0**	2.5
Open University Student Budget Accounts Limited	**0.5**	0.5
Open University Worldwide Limited	**0.3**	0.3
Total ordinary shares in wholly owned subsidiary companies	**7.8**	3.3
Long term loans		
Open University Worldwide Limited	**0.2**	0.2
Total long term loans	**0.2**	0.2
Total Investments	**8.0**	3.5

FutureLearn Limited is registered in England and Wales and provides a multi-institutional platform for free, massive open online courses on behalf of a number of leading international universities, including The Open University.

Open University Student Budget Accounts Limited is registered in England and Wales and was established to provide students with a deferred payment facility. Around 9% of the students use this facility. The company operates under the Consumer Credit Act.

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

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

Open University Business School Limited and Bookhire Limited are registered in England and Wales and are dormant.

11 Investments : University (continued)

Connected Charitable Entities

The University has links with three exempt charities that fall within paragraph 28 of Schedule 3 of the Charities Act 2011. All three are 100% owned subsidiaries of the University. Bookhire Limited and Open University Enterprises Limited are dormant companies.

OU Properties (Bristol) Limited does not have share capital or loans disclosed above, but its results, assets and liabilities are included in the consolidated financial statements. The Company is registered in England and Wales and owns a specific office building, which was leased to the University. Its charitable purpose is the advancement of education by the provision of assistance and benefit for the educational purposes of The Open University. It was financed through a specific bank facility. During the course of the year the operation of OU Properties (Bristol) was reviewed and the decision was taken to transfer the assets to the University and to dissolve the company. At the balance sheet date all assets had been transferred to the University and the bank facility had been cancelled; proceedings to strike off the company were underway at the time these Financial Statements were signed.

OU Properties (Bristol) Limited - Reserves	£m
At 1 August 2013	0.6
Income	2.7
Expenditure	(3.3)
At 31 July 2014	**0.0**

12 Endowment Assets : Consolidated and University

	As At 31 July 2014 £m	As At 31 July 2013 £m
Balance at 1 August	**0.6**	0.5
Additions	**0.0**	0.1
Decrease in cash balances held for endowment funds	**(0.1)**	0.0
Balance at 31 July	**0.5**	0.6
Represented by:		
Cash at bank held for endowment funds	**0.5**	0.6
Total Endowment Assets	**0.5**	0.6

13 Debtors

	Consolidated		University	
	As At 31 July 2014 £m	As At 31 July 2013 £m	**As At 31 July 2014 £m**	As At 31 July 2013 £m
Amounts falling due within one year				
Student Loans Company	**10.7**	16.6	**10.7**	16.6
Students' loan accounts with Open University Student Budget Accounts Limited	**10.9**	14.7	**0.0**	0.0
Fee debtors	**0.5**	1.4	**0.5**	1.4
Higher Education Funding Council for England	**0.0**	3.4	**0.0**	3.4
Amounts due from subsidiaries	**0.0**	0.0	**0.6**	1.7
Value Added Tax refund and interest	**0.0**	52.7	**0.0**	52.7
Other debtors	**11.9**	11.2	**10.9**	9.6
Total debtors falling due within one year	**34.0**	100.0	**22.7**	85.4
Prepayments and accrued income	**3.9**	4.2	**3.6**	4.1
Total due within one year	**37.9**	104.2	**26.3**	89.5
Amounts falling due after one year	**0.0**	0.0	**62.9**	62.9

The Student Loans Company pays students' loans for their fees directly to the University in three instalments. Students' loan accounts represent amounts due from students paying instalments under credit terms with The Open University's subsidiary company, Open University Student Budget Accounts Limited.

The University finances Open University Student Budget Accounts Limited and Open University Worldwide Limited, through long-term loans that are due for repayment or review in 2016. As at the 31 July 2014, the former subsidiary had an outstanding loan amount of £60.0 million at an interest rate equal to base rate (31 July 2013, £60.0 million). As at 31 July 2014, the latter subsidiary has an outstanding loan amount of £2.9 million at an interest rate equal to 1% over base rate (31 July 2013, £2.9 million). Under the loan agreement between the University and each subsidiary, the subsidiaries are required to lend back to the University at the same interest rate any surplus funds, as disclosed in Note 15.

The Value Added Tax refund represents the amount due at 31 July 2013 following a ruling in the University's favour by the First-tier Tribunal, which was paid to the University in 2013/14. Since an appeal has been lodged there is uncertainty as to whether the refund will be retained and a liability has therefore also been included in Note 15. The case is referred to in Note 24 on page 70.

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 2014 £m	As At 31 July 2013 £m
UK gilt edged stock	**88.7**	108.2
Equity Funds	**80.1**	0.0
Money Market Funds - escrow for VAT refund	**52.7**	0.0
Fixed term deposits maturing in one year or less	**50.1**	57.0
Total Gilts, Equities and Term Deposits	**271.6**	165.2

The University holds tradable Treasury gilts with a redemption date of less than five years. At 31 July 2014 the weighted average redemption yield was 1.63% (year ended 31 July 2013, 1.55%) and the weighted average period to maturity was 630 days (year ended 31 July 2013, 684 days).

In January 2014 an initial investment of £40.0m was made in each of two funds that invest largely in equities. The fair value of the equity investments has since increased by £0.1m, and was determined with reference to the quoted market price at 31 July 2014. The change in market value is included in the income an expenditure account and shown in Note 5.

Fixed term deposits with more than 24 hours maturity at the balance sheet date are held with banks and building societies operating in the London market and licensed by the Financial Services Authority. The interest rates for these deposits are fixed for the duration of the deposit at time of placement. At 31 July 2014 the weighted average interest rate of these fixed rate deposits was 0.70% per annum (31 July 2013, 0.74% per annum) and the remaining weighted average period for which the interest rate is fixed on these deposits was 86 days (31 July 2013, 71 days). The fair value of these deposits and gilts was not materially different from the book value.

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

15 Creditors

	Consolidated		University	
	As At 31 July 2014 £m	As At 31 July 2013 £m	**As At 31 July 2014 £m**	As At 31 July 2013 £m
Amounts falling due within one year				
Student fee income in advance	**29.1**	24.5	**29.1**	24.5
Student fee income deferred	**42.1**	48.6	**41.8**	48.3
Grants and other contracts in advance	**12.9**	10.8	**12.9**	10.8
Trade Creditors	**11.7**	7.7	**10.3**	5.7
Other creditors and accruals	**45.2**	35.0	**46.2**	41.4
Value Added Tax refund and interest	**52.7**	52.7	**52.7**	52.7
Amounts due to subsidiaries	**0.0**	0.0	**50.3**	41.5
Total amounts falling due within one year	**193.7**	179.3	**243.3**	224.9

A provision for fee debts of £1.2 million (31 July 2013, £7.3 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.

There is uncertainty as to whether the Value Added Tax and interest refund shown as a debtor at 31 July 2013 in Note 13 will be retained and a liability has therefore been included for the full amount. HM Revenue and Customs (HMRC) has confirmed that no interest liability will arise on this amount should it become payable as a result of a future Tribunal ruling in favour of HMRC. The case is referred to in Note 24 on page 70.

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

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

16 Creditors

	Consolidated		University	
	As At 31 July 2014 £m	As At 31 July 2013 £m	**As At 31 July 2014 £m**	As At 31 July 2013 £m
Amounts falling due after more than one year				
Long-term loans	**60.0**	61.6	**60.0**	60.0
Salix revolving green fund	**0.5**	0.5	**0.5**	0.5
Total amounts falling due after more than one year	**60.5**	62.1	**60.5**	60.5

The Group has one long-term loan facility:

A bank loan to the University of £60.0 million (31 July 2013, £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 over the London Inter-Bank Offered Rate is fixed over the life of the loan. At 31 July 2014 the interest rate on this loan was 0.69% per annum.

In addition, a bank loan to OU Properties (Bristol) Limited was redeemed during the year. The loan at 31 July 2013 was for £1.7 million (including £0.1 million due within one year and included in other creditors and accruals in note 15) and was secured on a single office building, denominated in sterling and repayable in 80 quarterly instalments commencing on 1 October 2005. The rate of interest was fixed at a rate above the lender's base rate. The operation of the company was reviewed during the year and a decision was taken to transfer all of its assets to the University, to redeem the long term loan, and to dissolve the company.

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 : Consolidated and University

	As At 31 July 2014 £m	As At 31 July 2013 £m
Restructuring		
Balance at 1 August	**0.0**	3.5
Increase in provision	**1.4**	0.0
Released to Income and Expenditure Account	**0.0**	(0.9)
Utilised in year	**0.0**	(2.6)
Balance at 31 July	**1.4**	0.0

The restructuring provision relates to the costs of restructuring the University's operations in the UK. The increase in provision at 31 July 2014 was estimated on the basis of expected costs that would be incurred by 31 July 2015.

18 Deferred Capital Grants: Consolidated and University

	Funding Bodies £m	Other £m	**Total £m**
At 1 August 2013			
Buildings	76.2	0.1	**76.3**
Equipment	1.0	0.1	**1.1**
Total	**77.2**	**0.2**	**77.4**
Cash Receivable			
Equipment	0.8	0.0	**0.8**
Total	**0.8**	**0.0**	**0.8**
Released to Income and Expenditure			
Buildings	(4.7)	0.0	**(4.7)**
Equipment	(0.9)	0.0	**(0.9)**
Total	**(5.6)**	**0.0**	**(5.6)**
At 31 July 2014			
Buildings	71.5	0.1	**71.6**
Equipment	0.9	0.1	**1.0**
Total – see Note 10	**72.4**	**0.2**	**72.6**

19 Expendable Endowment Funds : Consolidated and University

	Restricted Expendable £m	**2014 Total £m**	2013 Total £m
Balance at 1 August			
Capital	0.6	**0.6**	0.5
Accumulated income	0.0	**0.0**	0.0
Total balance at 1 August	**0.6**	**0.6**	0.5
Additions	0.0	**0.0**	0.1
Expenditure	(0.1)	**(0.1)**	0.0
Balance at 31 July	**0.5**	**0.5**	0.6
Balance at 31 July represented by:			
Capital	0.5	**0.5**	0.6
Total	**0.5**	**0.5**	0.6

20 Reserves

	Consolidated £m	University £m
Revaluation reserve		
At 1 August 2013	**1.6**	1.6
Transfer to general funds in respect of contributions to depreciation released in the year	**(0.9)**	(0.9)
At 31 July 2014	**0.7**	**0.7**
General funds		
At 1 August 2013	**270.0**	271.4
Deficit for the year	**(16.9)**	(12.2)
Transfers from revaluation reserve	**0.9**	0.9
At 31 July 2014	**254.0**	**260.1**

21 Reconciliation of Surplus Before Tax to Net Cash Inflow From Operating Activities

	Year Ended 31 July 2014 £m	Year Ended 31 July 2013 £m
(Deficit) / Surplus for the year before tax	**(16.9)**	18.8
Depreciation	**9.6**	10.0
Deferred capital grant released to income	**(5.6)**	(5.5)
Endowment and investment income	**(3.2)**	(3.7)
Interest payable and other financial costs	**0.4**	(0.4)
(Increase) / Decrease in stock	**(2.8)**	0.4
Decrease / (Increase) in debtors (see Note 13)	**65.5**	(64.8)
Increase in creditors	**14.5**	65.2
Increase / (Decrease) in provisions	**1.4**	(3.5)
Net Cash Inflow from Operating Activities	**62.9**	16.5

22 Reconciliation to Net Funds

	Year Ended 31 July 2014 £m	Year Ended 31 July 2013 £m
(Decrease) / Increase in cash in the year	**(41.7)**	11.2
Movement in deposits	**106.4**	9.8
Movement in endowments	**(0.1)**	0.1
Movement in bank debt	**1.6**	0.2
Change in net funds	**66.2**	21.3
Net funds at 1 August	**266.6**	245.3
Net Funds at 31 July	**332.8**	266.6

23 Analysis of Changes in Net Funds

	At 1 August 2013 £m	Cash Flows £m	Non cash Movements £m	**At 31 July 2014 £m**
Cash at bank and in hand	162.4	(41.7)	0.0	**120.7**
Endowment assets	0.6	(0.1)	0.0	**0.5**
Gilts, fixed term deposits and equities	165.2	108.2	(1.8)	**271.6**
Loans	(61.6)	1.6	0.0	**(60.0)**
Total	**266.6**	**68.0**	**(1.8)**	**332.8**

.

24 Contingencies

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. The 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. However, HMRC has lodged an appeal with the Upper Tribunal and the University considers that there are too many uncertainties for these amounts to be recognised as income; an equivalent amount is therefore included in creditors in Note 15. The University has also lodged an appeal for interest to be paid on a compound basis rather than a simple basis.

25 Commitments

During the year ended 31 July 2014 the Group paid £2.5 million (year ended 31 July 2013, £2.7 million) in respect of operating leases for long-leasehold properties.

The Group has obligations for annual payments under non-cancellable operating leases in respect of long-leasehold properties as follows:

Leasehold obligations

Annual commitments under operating leases	**As At 31 July 2014 £m**	As At 31 July 2013 £m
Expiring:		
within 1 year	**0.1**	0.3
between 2 and 5 years	**1.5**	1.1
over 5 years	**0.9**	1.3
Total Commitments	**2.5**	2.7

A number of the property leases are subject to periodic rent reviews.

26 Amounts Disbursed as Agent

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

	Year Ended 31 July 2014 £m	Year Ended 31 July 2013 £m
HEFCE Access for Learning		
Balance brought forward	**0.3**	0.5
Funding Body Grants	**4.0**	5.3
Disbursed to Students	**(3.8)**	(5.5)
Balance carried forward	**0.5**	0.3
SFC Access Funds		
Balance brought forward	**0.1**	0.0
Funding Body Grants	**(0.1)**	3.3
Disbursed to Students	**0.0**	(3.2)
Balance carried forward	**0.0**	0.1
HEFCW Access Funds		
Balance brought forward	**0.0**	0.0
Funding Body Grants	**0.0**	0.1
Disbursed to Students	**0.0**	(0.1)
Balance carried forward	**0.0**	0.0
NCTL Training Bursaries		
Balance brought forward	**1.4**	(0.2)
NCTL Grants	**(0.8)**	2.5
Disbursed to Students	**(1.2)**	(0.9)
Balance carried forward	**(0.6)**	1.4

27 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 and in accordance with the University's financial regulations and normal procurement procedures.

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 7 on page 56.

No other material transactions have taken place.

28 Pension Schemes

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

Defined Contribution Schemes

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

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

A small number of overseas based employees are members of defined contribution schemes in the countries in which they are employed.

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

The total pension cost for all these defined contribution schemes was £0.1 million (year ended 31 July 2013, £0.1 million).

Defined Benefit Scheme

Universities Superannuation Scheme

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

28 Pension Schemes (continued)

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 17, *Retirement Benefits*, 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.

The latest triennial actuarial valuation of the scheme was at 31 March 2011. This was the second valuation for USS under the new scheme-specific funding regime introduced by the Pensions Act 2004, which requires schemes to adopt a statutory funding objective, which is to have sufficient and appropriate assets to cover their technical provisions. The actuary also carries out regular reviews of the funding levels. In particular, he carries out a review of the funding level each year between triennial valuations and details of the estimate of the funding level at 31 March 2014 are included in this note.

The triennial valuation was carried out using the projected unit method. The assumptions which have the most significant effect on the result of the valuation are those relating to the rate of return on investments (i.e. the valuation rate of interest), the rates of increase in salary and pensions and the assumed rates of mortality. In relation to the past service liabilities the financial assumptions were derived from market yields prevailing at the valuation date. An “inflation risk premium” adjustment was also included by deducting 0.3% from the market-implied inflation on account of the historically high level of inflation implied by government bonds (particularly when compared to the Bank of England’s target of 2% for CPI which corresponds broadly to 2.75% for RPI per annum).

To calculate the technical provisions, it was assumed that the valuation rate of interest would be 6.1% per annum, salary increases would be 4.4% per annum (with short-term general pay growth at 3.65% per annum and an additional allowance for increases in salaries due to age and promotion reflecting historical experience, with a further cautionary reserve on top for past service liabilities), and pensions would increase by 3.4% per annum for three years following valuation then 2.6% per annum thereafter.

Standard mortality tables were used as follows:

Male members’ mortality	S1NA (“light”) YoB tables – no age rating
Female members’ mortality	S1NA (“light”) YoB tables – rated down one year

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

Males (females) currently aged 65	23.7 (25.6) years
Males (females) currently aged 45	25.5 (27.6) years

At the valuation date, the value of the assets of the scheme was £32,433.5 million and the value of the scheme’s technical provisions was £35,343.7 million indicating a deficit of £2,910.2 million. The assets therefore were sufficient to cover 92% of the benefits which had accrued to members after allowing for expected future increases in earnings.

28 Pension Schemes (continued)

The actuary also valued the scheme on a number of other bases as at the valuation date. On the scheme's historic gilts basis, using a valuation rate of interest in respect of past service liabilities of 4.4% per annum (the expected return on gilts) the funding level was approximately 68%. Under the Pension Protection Fund regulations introduced by the Pensions Act 2004 it was 93% funded; on a buy-out basis (i.e. assuming the Scheme had discontinued on the valuation date) the assets would have been approximately 57% of the amount necessary to secure all the USS benefits with an insurance company; and, using the FRS 17 formula as if USS was a single employer scheme, using a AA bond discount rate of 5.5% per annum based on spot yields, the actuary estimated that the funding level at 31 March 2011 was 82%.

As part of this valuation, the trustees have determined, after consultation with the employers, a recovery plan to pay off the shortfall by 31 March 2021. In 2011 the actuary estimated that if experience remained in line with the assumptions made, the shortfall at 31 March 2014 is estimated to be £2.2 billion, equivalent to a funding level of 95%.

However, changes in the market conditions between March 2011 and March 2014 have had an impact on the scheme funding. The next formal triennial actuarial valuation will take place as at 31 March 2014, and work is currently underway to update the actuarial assumptions and allow for any adjustments to the overall funding approach adopted by the board of the trustee in consultation with stakeholders. As work on the 2014 valuation is not yet complete the trustee cannot provide the final figure however, an estimate has been provided using the assumptions used to deliver the 2011 actuarial valuation. On that basis, the actuary has estimated that the funding level under the scheme specific funding regime will have fallen from 92% at 31 March 2011 to 85% at 31 March 2014. This estimate is based on the results from the valuation at 31 March 2011 allowing primarily for investment returns and changes to market conditions. The funding level has decreased mainly due to a decrease in real gilt yields, reducing the implied net discount rate and therefore placing a higher value on the schemes liabilities. The increase has been partially offset by a higher than expected investment return.

On the FRS17 basis, using an AA bond discount rate of 4.5% per annum based on spot yields, the actuary estimates that the funding level at 31 March 2014 was 75%. An estimate of the funding level measured on a historic gilts basis at that date was approximately 61%.

Surpluses or deficits which arise at future valuations may impact on the University's future contribution commitment. A deficit may require additional funding in the form of higher contribution requirements, where a surplus could, perhaps, be used to similarly reduce contribution requirements.

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

Assumption	Change in Assumption	Impact on scheme liabilities
Investment return	Decrease by 0.25%	Increase by £1.6 billion
The gap between Retail Price Index and Consumer Price Index	Decrease by 0.25%	Increase by £1 billion
Rate of salary growth	Increase by 0.25%	Increase by £0.6 billion
Members live longer than assumed	1 year longer	Increase by 0.8 billion
Equity markets in isolation	Fall by 25%	Increase by £4.6 billion

28 Pension Schemes (continued)

The technical provisions relate essentially to the past service liabilities and funding levels, but it is also necessary to assess the ongoing cost of newly accruing benefits. The cost of future accrual was calculated using the same assumptions as those used to calculate the technical provisions but the allowance for promotional salary increases was not as high. Analysis has shown very variable levels of growth over and above general pay increases in recent years, and the salary growth assumption built into the cost of future accrual is based on more stable, historic, salary experience. However, when calculating the past service liabilities of the scheme, a cautionary reserve was included in addition, on account of the variability mentioned above.

As at the 2011 valuation the Scheme was still a full Final Salary Scheme for future accruals and the prevailing employer contribution rate was 16%. Following UK Government legislation, from 2011 statutory pension increases or revaluations are based on the Consumer Prices Index measure of price inflation. Historically these increases had been based on the Retail Prices Index measure of price inflation.

Since 31 March 2011 there have been changes to the benefits provided by the scheme although these became effective from October 2011. These include:

New entrants	Other than in specific, limited circumstances, new entrants are now provided benefits on Career Revalued Benefits rather than a Final Salary basis.
Normal pension age	The normal pension age was increased for future service and new entrants, to age 65.
Flexible retirement	Flexible retirement options were introduced.
Member contributions increased	Contributions were uplifted to 7.5% p.a. and 6.5% p.a. for Final Salary Section members and Career Revalued Benefits Section respectively.
Cost sharing	If the total contribution level exceeds 23.5% of salaries per annum, the employers will pay 65% of the excess over 23.5% and members would pay the remaining 35% to the fund as additional contributions.
Pension increase cap	For service derived after 30 September 2011, USS will match increases in official pensions for the first 5%. If official pensions increase more than 5% then USS will pay half of the difference up to a maximum increase of 10%.

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

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

28 Pension Schemes (continued)

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

The total pension cost for the University was £32.9 million (year ended 31 July 2013, £31.4 million). This includes £2.5 million outstanding contributions as at 31 July 2014 (year ended 31 July 2013, £2.5 million). Of the total pension cost, £1.9 million (year ended 31 July 2013, £2.9 million) related to costs in respect of early retirement.

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	**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