

The Open University celebrates 40 years
of inspiring learning



The Open
University

Financial Statements

for the year ended 31 July 2009



2009

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THE OPEN UNIVERSITY**FINANCIAL HIGHLIGHTS**

	Year Ended 31 July 2009 £m	Year Ended 31 July 2008 £m
RESULTS, CASH FLOWS, ASSETS AND RESERVES		
Funding body grants	233.7	225.6
Tuition fees and education contracts	141.6	128.8
Research grants and contracts	15.4	14.4
Other income	24.3	21.5
Endowment and investment income	6.0	10.6
TOTAL INCOME	421.0	400.9
TOTAL EXPENDITURE	411.4	388.4
SURPLUS FOR THE YEAR before taxation	9.6	12.5
Less: Taxation	0.0	0.1
Exceptional item	0.2	4.9
Surplus for the year retained within general reserves	9.8	17.3
Net cash flow from operating activities	12.9	13.7
Net returns on investments and servicing of finance	9.3	6.6
NET CASH FLOW BEFORE INVESTING ACTIVITIES AND TAX	22.2	20.3
Fixed assets	178.8	175.0
Endowment assets	0.5	0.6
Net current assets	42.6	28.4
TOTAL ASSETS LESS CURRENT LIABILITIES	221.9	204.0
TOTAL RESERVES	140.0	130.2
OTHER KEY STATISTICS		
	Number	Number
Number of full-time equivalent students	78,110	76,135
Total number of students	251,639	226,071
Percentage of students satisfied with the quality of their course (taken from the respondents to the National Student Survey)	94	94

THE OPEN UNIVERSITY

HIGHLIGHTS OF THE YEAR

In 2008/09 The Open University celebrated 40 years of 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:

- an excellent performance in the 2009 National Student Survey, ranked
 - in the top four for the fifth year in succession in the UK
 - top of those institutions having more than 100 responses
 - top in Scotland
 - top in Wales
 - top in Northern Ireland;
- an excellent performance in the 2008 Research Assessment Exercise, rising 23 places in the Times Higher league table of excellence to 43rd out of 159 institutions;
- the 2009 Institutional Audit by the Quality Assurance Agency for Higher Education expressed confidence in the University's management of the academic standards of its awards and of the learning opportunities available to students;
- the total individuals accessing the University's open educational resource website, OpenLearn, launched in October 2006, reached 5.9 million, 50% outside the UK;
- the total downloads from The Open University iTunesU service, launched in June 2008, reached 6.6 million, 87% outside the UK;
- the total video views on The Open University official YouTube channel, launched in August 2008, reached 1.6 million, 80% outside the UK;
- the total number of students studying Open University credit bearing courses was 251,639, an increase of 11% from last year;
- total income increased by 5% to £421.0 million, with a surplus of £9.6 million, or 2.3% of income before exceptional items, exceeding the target of 2% of income in the University's financial strategy.

THE OPEN UNIVERSITY

OPERATING AND FINANCIAL REVIEW

Mission

The Open University has a distinctive place in UK higher education. It promotes educational opportunity and social justice by providing high-quality university education to all who wish to realise their ambitions and fulfil their potential, whatever their previous academic attainments. Through academic research, pedagogic innovation and collaborative partnership it seeks to be a world leader in the design, content and delivery of supported open and distance learning.

The Open University is:

- *open as to people* – making university study available to an increasingly large and diverse body of students and providing learning opportunities that meet individuals' lifelong needs;
- *open as to places* – providing learning opportunities in the home, workplace and community throughout the United Kingdom and selectively elsewhere, and serving an increasingly mobile population;
- *open as to 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;
- *open as to 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.

Distinctive Capabilities

The Open University has built up a set of distinctive capabilities as it has established itself as the dominant provider of supported open and distance learning in the United Kingdom and a leading player in the international arena. An examination of the University's business model has identified a set of operational strengths which can underpin its response to the challenges that lie ahead.

The Open University is a vibrant academic community that combines excellence in teaching, research and logistics to provide a unique brand of supported open and distance learning to a large and diverse body of students. It is able to deploy the following distinctive capabilities:

- a team approach to developing and producing materials;
- an expertise in supported open and distance learning, providing students with high quality learning materials, first class academic and personal support and excellent service and organisation;
- an ability to manage and support at scale a diverse range of students admitted through open entry;
- an ability to run a high-volume, distributed business and exploit opportunities of scale;
- an ability to undertake national partnerships with major public and private sector employers;
- use of leading edge technology.

The Open University has no formal entrance requirements for admission to its undergraduate degree and diploma programmes. As students are not studying at a conventional university campus but are reliant on the resources available, or delivered to them, at home, workplace or their community, The Open University faces unique challenges in retaining students in study and helping them to progress to further courses. It owes its success in this regard to its Supported Open Learning methodology. As reported previously over the past few years, 18 out of the 25 subject areas assessed for teaching quality have been deemed excellent, a proportion bettered by few conventional universities.

Strategic Objectives and Priorities

In order to deliver its business strategies, The Open University has adopted ten strategic objectives:

- promote fair access for all;
- raise the profile and strengthen the brand of the University;
- create market responsive and innovative offerings;
- lead and innovate in pedagogy and educational technology;
- expand global reach;
- focus research activity;
- work in partnership;
- generate more income from diverse sources;
- ensure cost and quality leadership;
- diversify and develop its staff base.

For each objective, the University agrees key priorities for the year ahead and identifies the major development activities that are intended to achieve those priorities. The University's current key priorities are set out in its strategic plan, *OU Futures*, which is available on its web site.

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 six risks that may affect its ability to deliver its strategic priorities. In order to mitigate these risks, the University has established a risk management process which ensures that risks are managed to an acceptable level. Each of the risks identified below has been assessed using this process and a programme of mitigating action identified to ensure that the likelihood and impact of any of them crystallising is minimised.

Insufficient income may be caused by: Government funding policy changing to the detriment of part-time providers; partnership arrangements not being successful; or, new initiatives not generating planned levels of non-core revenues.

Inappropriate UK student mix may be caused by: a high proportion of non-funded students in England that have an equivalent or higher qualification to that which they are studying; an ineffective employer engagement strategy; course content and delivery only appealing to certain groups of student; a pricing structure that excludes certain segments; ineffective domestic marketing; or, lack of demand.

Failure to achieve student numbers may be caused by: the curriculum not attracting students; service levels not meeting customer requirements; e-learning techniques lagging behind competitors; quality of teaching being considered lower than competitors; the University having an inappropriate fees and financial support strategy; ineffective domestic and international marketing; or, lack of demand.

Costs being too high may be caused by: unclear accountability for spending; ineffective incentives to obtain value for money; over-engineered courses and services; or, ineffective prioritisation.

Insufficient appropriately skilled staff may be caused by: inappropriate or ineffective recruitment processes; ineffective performance management; ineffective reward and retention policies; or, inadequate training and development.

Limited or ineffective research activity may be caused by: research being ineffectively targeted and planned; inadequate research staff performance management; research delivery or promotion being inadequately managed; the calibre of research staff being inadequate; or, research partnership arrangements being unsuccessful.

These risks, their potential impact and a description of the actions being taken to mitigate each of them are described in the University's strategic plan, *OU Futures*, which is available on its web site.

Diversity and Employment of Disabled Persons

One of The Open University's current strategic priorities is to diversify and develop its staff base. Employee recruitment and grading processes, together with programmes for employee involvement, communication and training are all designed to promote equal opportunity to all irrespective of age, sex, race, religion, colour or sexual orientation.

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. If existing employees become disabled, every effort is made to continue their employment with the University and arrange appropriate training. It is the University's policy that the training, career development and promotion of disabled persons should, as far as possible, be identical with that of other employees.

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.

Student Numbers

The key statistics on page 2 show that over the year student numbers grew by 25,568 or 11% to 251,639 and full-time equivalents by 1,975 or 3% to 78,110. Over the ten years since 1999, the increase in full-time equivalents was 9,256 or 13% and in individual students 85,416 or 51%. The faster growth in individual students reflects an increase in the proportion of students choosing to study shorter courses, coupled with a significant increase in the number of students validated by the University. In terms of full-time equivalents, 35% of all part-time undergraduates in UK higher education institutions study with The Open University.

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. It strives to provide the best possible learning experience for students, and so it is particularly pleasing that the first five National Student Surveys ranked The Open University in the top four in respect of the overall satisfaction of its students. In 2009 The Open University was ranked top of those institutions having more than 100 responses, top in Scotland, top in Wales and top in Northern Ireland.

In the 2009 survey over 5,200 Open University students took part and 94% said they were satisfied overall, the same proportion as in 2008. This year 261 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 at such a large scale.

Institutional Audit

The 2009 Institutional Audit by the Quality Assurance Agency for Higher Education expressed confidence in the University's management of the academic standards of its awards and of the learning opportunities available to students. The audit report identified a number of significant areas of good practice and made some useful recommendations for further improvements which the University is pursuing.

Outcomes of the Research Assessment Exercise (RAE) 2008

The Open University submitted 21 discipline Units of Assessment (UoAs) to the Higher Education Funding Council for England (HEFCE) administered 2008 RAE, with contributions from all faculties. 439 full-time equivalent academic staff were submitted to the assessment, with supporting evidence drawn from some 1,750 publications, and a range of relevant proxy metrics for research infrastructure.

In the results made public on 18 December 2008, The Open University evidenced the success of its strategy to nurture key strengths, build a rich and sustainable research environment and develop and grow centres of excellence across a wide discipline range. The Open University was also distinguished for the depth and breadth of its research excellence, which illustrates a rounded 'footprint'. The results revealed a major improvement in the University's research rankings, the second largest improvement in the UK top 50, which provides further evidence of the quality and stature of the University as one that delivers world-leading excellence in teaching, research and knowledge transfer.

The University was ranked 43rd in the Times Higher league table of excellence out of 159 institutions – a rise of 23 places over 2001 (ranked 66th) with over 50% of the University's research assessed as internationally excellent (3*) and world class (4*), and all but one of its submissions evidencing elements of world leading (4*) research. Two thirds of the University's submissions were placed inside the 'Top 20' for their UoA, when the profiles were analysed using 'power' rankings.

Overall, the University secured significant improvements in a number of key discipline areas, with a notably strong performance in Art and Design as well as two new subject units (Development Studies and Accountancy and Finance), and success in key thematic submissions across Computing, Education, Sociology and a substantial science submission to Earth Systems. It is also reassuring to secure an improved institutional ranking given the very challenging and competitive UK research environment of the last few years. The RAE results for the period 2001 to 2007, coupled with a 75% growth in competitively awarded research income over the last five years, provide robust measures of the University's increasing research excellence and competitiveness.

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 16 to 21 and the members of the University Council during the year ended 31 July 2009 are listed on page 17.

The University is currently an exempt charity within the meaning of the Charities Act applying in England and Wales, although that status will change to being a registered charity within the next few months. At that point HEFCE will become the lead charity regulator 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. The University complies with the conditions of grant set out in funding agreements with the relevant grantor.

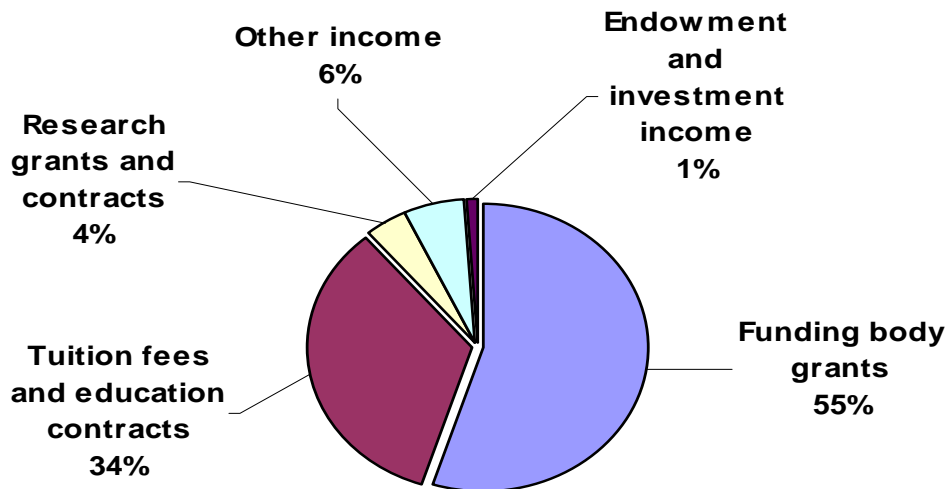
The University's principal advisors are listed on page 53.

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.

Funding

UK universities derive their income from five categories of income, of which, because of the nature and scale of The Open University's teaching activities, two dominate, as illustrated by the following chart:



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.

UK universities receive income from other sources in respect of their primary teaching and research activities: from tuition fees and education contracts for teaching and from project related research grants and contracts for research.

It is important to know how these funding sources are determined and regulated in order to appreciate the constraints on universities' teaching and research strategies.

Grants from the national higher education funding bodies can be used only to support the teaching of UK nationals resident in the UK. Whilst each funding body calculates the funding it allocates in different ways, the underlying principle, as it applies to The Open University, is the same : funding is provided at a set amount for each student who completes a specified unit of learning up to a total number of funded students for a given academic year. The value of the teaching grant per student is generally considerably higher than the fees charged to students. It follows that UK universities have little incentive to grow UK student numbers unless they can negotiate with the relevant funding body an increase in the student numbers that it is willing or able to fund, which in turn is dependent upon public expenditure limits and government policy. As universities will suffer claw back of teaching grant if the specified number of students fail to complete (subject to certain tolerances), they have every incentive to ensure that student completions do not fall below target.

Another feature of the UK funding regimes for teaching is that the national funding bodies agree the number of students for each university as a whole, except for some subject groupings that are dealt with separately. Thus, whilst universities will 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. Again, because the level of grant funding relating to UK students is significantly in excess of the fees charged to UK students, it follows that student numbers are managed at university level in order to maximise funding. The Open University is better placed than traditional universities in managing the operational implications of this feature of funding because it is not constrained by physical accommodation when recruiting students in particular disciplines.

Fees chargeable by UK universities to UK full-time students are regulated by government and are either waived or deferred on advantageous credit terms. Fees for UK part-time students are not regulated but neither are they eligible for waiver or deferral on advantageous terms; for this reason The Open University has put in place its own fee deferral arrangements at a subsidised rate of interest. Whereas other UK universities charge very high fees to overseas students choosing to study in the UK, The Open University provides its teaching to 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 acceptable in each market.

The Open University's other sources of funding are the same as other UK universities: research grants and contracts arising from competitive bids for funding from a range of public and private funders; other operating income from a wide variety of sources, including grants from European Union and charitable bodies; and, endowment and investment income.

Financial Strategy

The University's financial strategy is designed to maintain sufficient financial flexibility at all times. It is expressed through three parameters:

- to maintain net current assets at a minimum of 30 days' 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 a surplus of 2% of income;
- to restrict the maximum level of borrowings to the value of total fixed assets less deferred capital grants.

These parameters are considered in the development and implementation of the Group's treasury policy, its normal planning, budgeting and medium-term forecasting cycle, and in the planning and execution of its capital building programme. The 'Group' comprises the consolidated results of the University and its trading subsidiary undertakings.

The University's Finance Committee reviewed the financial strategy during the course of the year and the University's Council accepted the recommendation that it should continue unchanged. For the purposes of the parameter relating to net current assets, committed bank facilities are treated as being equivalent to net current assets.

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 that was undrawn at 31 July 2009 and for which there are currently no plans to draw down. The facility is structured to provide maximum flexibility at minimum cost over its whole life, which can be determined at the option of the University. The facility is secured on a part of the University's Walton Hall campus.

On 16 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, a little below the level of 30 days specified in the financial strategy, but this has improved to 38 days at 31 July 2009, largely as a result of the surplus for the year. The committed facility of £60.0 million provides a great deal of financial flexibility, increasing the aggregate of net current assets and committed facilities to 91 days' worth of expenditure at 31 July 2009 (31 July 2008, 83 days).

Royal Bank of Scotland also provided a loan of £3.0 million to one of the University's subsidiaries, which is being repaid over 25 years.

Treasury 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 above, 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. It is therefore not appropriate to adopt particular strategies to reduce this risk, although this policy is kept under review.

The Group is potentially vulnerable to changing interest rates on its cash balances, which are all held in the form of interest bearing deposits with financial institutions. Interest income is however a small proportion of total income. The cornerstone of the Group's treasury policy remains the minimisation of risk: it limits and monitors the level of funds that may be placed in fixed rate deposits or invested in UK government securities that mature after one year and up to five years. Policies, incorporating clearly defined controls and reporting requirements, are in place to monitor credit and market risk, as well as to maintain the operating financial flexibility of the Group. Overall, the Group has low vulnerability to changing interest rates.

The University's Finance Committee kept the Group's treasury policy under close review as the international credit crunch unfolded. Revisions were introduced to reduce the risk of counterparty default. Up until September 2007 the University's policy was to place deposits with a wide range of UK authorised banks with the highest short-term ratings for up to one year and up to two years with UK authorised banks having a minimum A rating from Fitch or in short-term UK gilts. From September 2007 all new deposits were placed for up to one year with a small number of the largest UK banks and building societies or invested in UK gilt-edged stocks of short maturities. From October 2008 the maximum period for deposits was reduced from one year to three months.

The counterparty profile of the University's deposits as at 31 July 2009, is set out in Note 15 and has not changed significantly since then.

The 2008 Operating and Financial Review 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 £0.3 million as at 31 July 2008, less distributions received from the banks' administrators totalling £1.0 million. A provision of £1.8 million has been made against these sums in these financial statements, representing our estimated recovery of 80% of the former deposit and 50% of the latter. The estimated recoveries are those published by the administrators based on their experience over the initial months of the administration. As at 31 July 2009 16% of the former deposit and 20% of the latter had been returned to creditors by the administrators and further receipts are expected before the end of 2009.

Pensions

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

The disclosures in Note 28 on pages 50 to 52 in respect of USS refer to the latest actuarial valuation, as at 31 March 2008. The funding level under the scheme-specific funding regime introduced by the Pensions Act was 103%. This was the first valuation to adopt this requirement. Since 31 March 2008 the funding level on this basis has declined from 103% to an estimated 74% at 31 March 2009. Employers are considering the nature and scale of action necessary to improve the affordability of the scheme over the long term.

On the basis set out in Financial Reporting Standard 17, *Retirement Benefits*, the funding level has declined from approximately 104% at 31 March 2008 to 86% at 31 March 2009. The next valuation, as at 31 March 2011, will not be published until early 2012.

Accounting Policies

The Group financial statements have been prepared in accordance with the Statement of Principal Accounting Policies set out on pages 26 to 29. 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.

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) and Open University Worldwide Limited (OUW). 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.

Results for the Year

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

Total income increased by £20.1 million or 5% to £421.0 million.

Funding body grants increased by £8.1 million or 4% to £233.7 million. The recurrent grant from the Higher Education Funding Council for England (HEFCE) was £182.0 million and represents 86% of all recurrent grants from the various funding bodies. It increased by £3.5 million or 2% from the total of £178.5 million in 2007/08 as a result of grant inflation and additional student numbers. The increase in recurrent grants from other funding bodies exceeded inflation. Specific grants increased by £2.5 million or 18% to £16.7 million as a result of a number of initiatives across the three national funding councils.

Fee income increased by £12.8 million or 10% to £141.6 million. The bulk of the increase was in respect of fees paid by students, or on their behalf by their employers, in the United Kingdom, which increased by £10.2 million to £120.7 million. The overall increase results from a combination of general fee inflation and the increase in student numbers referred to above.

Income from research grants and contracts increased by £1.0 million or 7% to £15.4 million, due entirely to increased income from Research Councils. Other income increased by £2.8 million or 13% to £24.3 million. Endowment and investment income decreased by £4.6 million or 43% to £6.0 million as a result of lower deposits, following the repayment of the previous £60.0 million loan, and lower interest rates.

Expenditure increased by £23.0 million or 6% to £411.4 million.

Total staff costs increased by £21.4 million or 9% to £262.8 million. £15.4 million of this increase resulted from the nationally negotiated pay awards and £1.5 million from the progression of staff up incremental pay scales, staff promotions and merit increases. The balance of £4.5 million arose from an increase and change in mix in full-time and part-time staff.

Other (non-pay) operating expenses, excluding depreciation and interest, increased by £1.9 million or 1% to £134.0 million. The University spent £3.6 million providing financial assistance to students in addition to the £11.0 million of funding bodies' access funds and bursaries disbursed to eligible students.

The net result was a surplus before exceptional items for the year of £9.6 million compared to £12.4 million last year. In addition an exceptional item of £0.2m (year ended 31 July 2008, £4.9 million) relating to the transfer with effect from 31 May 2008 of the net assets of The Open University Foundation to the University increased the surplus after the exceptional item to £9.8 million (year ended 31 July 2008, £17.3 million).

Cash Flow

The Financial Highlights on page 2 show that the Group generated a net cash inflow of £12.9 million before investing activities, a decrease of only £0.8 million compared to the previous year. For the first time, due to the profile of payments adopted by HEFCE, deferred capital grants received in the year of £18.2 million, exceeded payments to acquire tangible fixed assets: this reflected a catching up of funding in respect of capital expenditure incurred in the previous years. In addition, proceeds of £4.1 million were received for the sale of investments transferred from The Open University Foundation. Overall, the cash inflow before management of liquid resources was £28.7 million compared to £8.0 million last year. This enabled the loans of £60.1 million to be repaid whilst still marginally increasing cash by £0.5 million.

Capital Projects

Additions to land and buildings during the year totalled £13.9 million, of which £13.1 million was financed by new deferred capital grants.

With the exception of the acquisition of a building to house the University's national centre in Belfast for £3.2 million, the additions comprised the costs of refurbishments of several buildings on the Walton Hall campus.

Future Developments

Funding of Teaching

In September 2007 the Government announced that, from 2008/09, it would phase out funding for the majority of students in England who are studying for a qualification that is equivalent to, or lower than, a qualification they have already been awarded. Funding for students studying in Scotland and Wales is not affected by this decision. HEFCE was charged with implementing this new policy and in October 2007 released the results of its modelling of the impact of this change on universities. This indicated that, over time, the University could lose some £30 million of its main teaching grant, albeit that the cash level of that grant would be maintained at the current level of around £140 million per annum for at least the next three years. This modelling showed that the effect on part-time students is ten times the effect on full-time students.

The Open University believes that the Government's decision to withdraw funding from most aspects of graduate development in England is damaging in three respects: it runs counter to the Leitch agenda on skills and lifelong learning; it penalises universities that have worked successfully to support lifelong learning; and it further exacerbates the under-funding of part-time provision, which has not been able to benefit to the extent that the full-time sector has from increases in student fees. Indeed, this policy creates a disincentive to universities to meet the need for the re-skilling and updating of the English workforce.

The Open University engaged with both the Government and HEFCE to minimise the impact on both students and the University's ability to support them. As a result of this engagement the University was able to report last year that the potential loss of funding had been reduced to less than 2% of forecast income in each of the years 2008/09 to 2010/11, rising gradually to a maximum impact of less than 7% of forecast income by 2013/14. The University is working with HEFCE to further mitigate the impact of this policy and is engaging with all political parties in the run up to the next general election. In July 2009 HEFCE announced that it was allocating funding for an additional 3,290 full-time equivalent students from 2009/10, which, when added to other smaller allocations would close the gap by around one-third.

Within the UK, the University is engaging with the devolved governments in Scotland and Wales in order to support their strategic objectives.

THE OPEN UNIVERSITY

OPERATING AND FINANCIAL REVIEW (continued)

The impact of the above change in government policy must be considered in the context of the financial and economic impact of the global financial conditions. Although press reports indicate that the world-wide recession may be, at least temporarily, coming to an end, the impact on the wider economy and on universities is likely to be felt for some time : high, and increasing, unemployment may be expected to reduce the ability and willingness of individuals to pay fees; an emphasis on cost cutting whilst companies repair their balance sheets may be expected to reduce their willingness to sponsor their employees on courses; and, a combination of economic forces point towards significant cuts in public expenditure. Thus the outlook for all universities over the next few years is much bleaker than it was.

There is, however, a counter-economic benefit for universities: those in work and seeking work will want to ensure that they have the best and most relevant skills and educational qualifications they can in order to protect their current jobs or help them to acquire new ones. At a time of fear of debt, part-time study whilst in work or seeking work may increase in relative attractiveness compared to full-time study, which would benefit The Open University in delivering its mission in these challenging times. At the time of writing, registrations for courses starting in October 2009 have exceeded target and those for 2010 are also looking very promising.

The Open University has considerable strengths to help it weather the changes in Government policy and the bleak 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 and is the only university that can operate at scale throughout the UK, thus having the capability of fulfilling a national role, and has been awarded a specific grant from HEFCE for this purpose. 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 five years.

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 45,000 students across 30 countries benefit from the University's materials and pedagogy. At the same time the University has boosted its involvement in teaching in Africa and Asia by working with a variety of public and private organisations.

Research

In its submission for the RAE 2008 the University's evidence for income per full-time equivalent academic and postgraduate research student numbers, as proxy measures of research performance, were well below the discipline norms. Going forward this remains a priority issue in the context of research management and preparation for the implementation of the HEFCE Research Excellence Framework (REF) that is being introduced as a replacement for the RAE. In this new model for the assessment of research excellence, the volume and diversity of research income will be a key measure given published reports which suggest a close correlation between the RAE outcome and Research Councils UK (RCUK) research funding, for example.

Also, the RCUK has initiated changes in the allocation of studentships which favour the clustering of awards to institutions with a large volume of research income. The Open University does not currently meet the proposed studentship allocation benchmark for three of the funding agencies (Arts and Humanities Research Council, Biotechnology and Biological Sciences Research Council and Economic and Social Research Council).

The Open University's recently improved performance in both postgraduate research student recruitment and external funding suggests that these problems are now being addressed effectively and the University has achieved an annual increase in the research degree qualification rate for both full-time and part-time postgraduate research students in each of the last three years.

Strategic Direction

The University has agreed that it will develop three business strategies for the future:

- We will maintain and revitalise our core business of supported open learning (SOL) and extend our global online offerings (eSOL) in order to offer UK awards directly to (a) funded UK students and (b) the rest of the world; we will also develop areas of internationally recognised research.
- We will develop a partnership function through which UK or accredited local awards and courses are offered to students through intermediaries, and in which the partners augment or otherwise enhance The Open University's contribution.
- We will create one or more experimental start-up businesses to develop and test radical, new business models: their purpose will be to test new forms of provision likely to appeal to those who do not find the current SOL and eSOL offerings appropriate to their needs (or able to satisfy all their learning requirements); these might include free education online with additional fee-paid, value-added services.

These business areas will be developed in parallel and will have their own business model(s), market understanding and growth strategies. They will be supported (as at present) by a common core of academic, administrative and operational units undertaking and supporting teaching, research and knowledge transfer, though service and product offerings may be created outside as well as within the University.

At the heart of this structure will be a University-wide productivity programme designed to continuously improve operational efficiency – through changes to structures, to staff roles and to processes, through outsourcing and through mergers and acquisitions and through the move toward e-business functions. This programme is an essential element of the University's preparations to deal with known reductions in funding and to prepare for the wider reductions in public funding expected over the short- to medium-term. As part of this planning a range of possible funding scenarios is being modelled so that the University can be as well prepared as possible.

The Open University's strategic direction is described in more detail in its strategic plan, *OU Futures*, which is available on its web site.

People

The University's consistently excellent performance in the National Student Survey and its exceptional performance in the 2008 Research Assessment Exercise is down to the professionalism and commitment of its 11,000 employees. The Council thanks each one for their hard work over the past year.

The following members of Council retired from office in the last year:

Mr R Delbridge
Professor B M Gourley
Ms L Carson
Mr R Dawe
Mr H G O'Brien
Professor L Wagner

The Council wishes to express its gratitude for their contribution.

Conclusion

Although the world-wide economic outlook looks less bleak than a year ago, great uncertainties remain. The increase in unemployment of individuals, cost cutting by corporations and cut backs in public expenditure by governments, will affect universities. In this context, the significant increase in student numbers in 2008/09 and in registrations for 2009/10 is particularly satisfying. The University has a sound financial base as it sets out to meet the considerable challenges ahead.

Through prudent financial management and systematic review of strategy, values and processes, the University continues to operate effectively. Its strong commitment to widening participation and to delivering high quality services is recognised throughout the world. The University's record of continuous improvement and innovation in relation to student support, learning, teaching, assessment, curriculum and research should maintain its unique position in the higher education sector.

D M C E STEEN
Treasurer

M S HEDGES
Finance Director

M G BEAN
Vice-Chancellor

17 November 2009

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 Combined Code issued by the Financial Reporting Council on 23 July 2003.

Throughout the year ended 31 July 2009, the University has been in compliance with all the Code provisions set out in the Combined Code insofar as they relate to universities.

In November 2004 the Committee of University Chairmen 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 which 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 2009, 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. There are currently 25 members comprising ex officio, appointed and co-opted external members: the Vice-Chancellor; the President of the Open University Students Association (OUSA); employees appointed after election; and a student. The roles of Chairman and Vice-Chairman 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 22 and 23 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 Strategic Planning and Resources Committee (a joint committee with the Senate); a Finance Committee; a Membership Committee; a Remuneration Committee; a Staff Strategy Committee; an Estates Committee; and an Audit Committee. All of these committees are formally constituted with terms of reference. With the exception of the Strategic Planning and Resources Committee, 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.

THE OPEN UNIVERSITY

CORPORATE GOVERNANCE STATEMENT (continued)

The Council met four times during the year. The members of the University's Council during the year ended 31 July 2009, and their attendance at the meetings held during their membership, were:

Ex-officio members who are also officers of the University:

Pro Chancellor & Chairman of Council	Lord Haskins (4/4)
Treasurer	Mr R Delbridge (4/4)
Vice-Chancellor (Employee)	Professor B M Gourley (4/4)

Ex officio members:

President, OU Students Association	Ms L Carson (to 31 March 2009) (2/2) Mrs R Evans (from 1 April 2009) (2/2)
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Elected members:

Members of Senate (Employees)	Dr R K Hamilton (4/4) Dr C K Lloyd (4/4) Professor C Earl (4/4) Dr P W Skelton (3/4) Dr J Fortune (4/4)
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Associate Lecturers (Employees)	Dr M Hopkins (4/4) Ms E Rankin (3/4)
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Open University Students Association	Ms L Murphy (4/4)
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Non-academic Staff (Employees)	Mrs C A Signorini (4/4)
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External members co-opted by Council:

Mr S Barnett (2/4)	Ms C McEwen (2/4)
Mr E Briffa (4/4)	Mr P Mantle (3/4)
Mr R Dawe – Vice-Chairman (4/4)	Mr A Peck (3/4)
Dr A Freeling (4/4)	Mr D M C E Steen (4/4)
Mrs C A Ighodaro (3/4)	Professor L Wagner (to 18 November 2008) (1/1)
Mr H G O'Brien (2/4)	Ms S Macpherson (from 13 May 2009) (1/1)
	Professor W Stevely (from 13 May 2009) (0/1)

Officers in attendance at Council meetings:

University Secretary	Mr A F Woodburn
Finance Director	Mr M S Hedges
Director, Students	Mr W S Swann
Pro-Vice-Chancellors	Professor B R Heywood
	Professor D Kirkpatrick
	Professor A W Tait
	Professor D M Vincent

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. It recommends to Council the distribution of resources within the University on the basis of its strategic direction and requirements.

The Strategic Planning and Resources Committee met four times during the year. The members during the year ended 31 July 2009, and their attendance at the meetings held during their membership, were:

<i>External members of Council</i>	Lord Haskins (4/4) Mr R Dawe (4/4) Mr R Delbridge (2/4) Mr E Briffa (from 24 April 2009) (2/2)
<i>Employees</i>	Professor B M Gourley – Vice-Chancellor – Chair (4/4) Mr D Goldrie – Senate elected member (4/4) Mr M S Hedges – Finance Director (non-voting) (4/4) Professor B R Heywood – Pro-Vice-Chancellor (4/4) Professor D Kirkpatrick – Pro-Vice-Chancellor (2/4) Mr G A Lammie – Senate elected member (4/4) Professor D Miell – Deans' representative (3/4) Professor A De Roeck – Senate elected member (4/4) Mr W S Swann – Director, Students (4/4) Professor A W Tait – Pro-Vice-Chancellor (4/4) Professor D M Vincent – Pro-Vice-Chancellor – Deputy Chair (3/4) Mr M A Watkinson – Director, Strategy (non-voting) (4/4) Mr A F Woodburn – University Secretary (4/4)

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 three times during the year. The members during the year ended 31 July 2009, and their attendance at the meetings held during their membership, were:

<i>External members of Council</i>	Lord Haskins – Chair (3/3) Mr S Barnett (3/3) Ms C McEwen (3/3)
<i>Employees</i>	Professor B M Gourley – Vice-Chancellor (3/3) Dr M Hopkins (3/3) Dr R K Hamilton (3/3)

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 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 six times during the year. The members during the year ended 31 July 2009 (of whom the Chair and two others have recent and relevant financial experience), and their attendance at the meetings held during their membership, were:

<i>External members of Council</i>	Mr R Delbridge – Chair (6/6) Lord Haskins (5/6) Mr H G O'Brien (2/6) Mr D M C E Steen (6/6)
<i>Other external members</i>	Mr F Neale (6/6) Mr H R Brown (from 31 March 2009) (2/2)
<i>Employee</i>	Professor B M Gourley – Vice-Chancellor (6/6)
<i>Officers in attendance</i>	Mr M S Hedges – Finance Director Professor D M Vincent – Pro-Vice-Chancellor Mr A F Woodburn – University Secretary

Remuneration Committee

The Remuneration Committee determines the annual remuneration of 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.

External members of Council receive no remuneration for their services although expenses incurred in attending meetings are met by the University. Members of Council who are employees of the University receive no additional remuneration for their services to Council although, once again, expenses incurred in attending meetings are met by the University.

The Remuneration Committee met once during the year. The members during the year ended 31 July 2009, and their attendance at the meetings held during their membership, were:

<i>External members of Council</i>	Lord Haskins – Chair (1/1) Mr S Barnett (1/1) Mr R Dawe (1/1) Mr R Delbridge (1/1)
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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 twice during the year. The members during the year ended 31 July 2009, and their attendance at the meetings held during their membership, were:

<i>External members of Council</i>	Mr S Barnett – Chair (1/2) Mr A Peck (2/2)
<i>Other external members</i>	Ms A Watts (1/2) Ms R McCool (2/2)
<i>Employees</i>	Mr A Burrell (2/2) Professor B R Heywood – Pro-Vice-Chancellor (2/2) Dr C K Lloyd (2/2) Mr A F Woodburn – University Secretary (1/2)

Estates Committee

The Estates Committee develops the University's estates strategy for recommendation to Council. It recommends the rolling capital programme and monitors progress and expenditure thereon.

The Estates Committee met three times during the year. The members during the year ended 31 July 2009, and their attendance at the meetings held during their membership, were:

<i>External member of Council</i>	Mr P Mantle – Chair (3/3)
<i>Other external members</i>	Mr R Booker (2/3) Mr R J Chenery (3/3)
<i>Employees</i>	Ms C Baume (1/3) Professor C Earl (3/3) Mr M S Hedges – Finance Director (1/3) Ms A L Howells (2/3) Mr B J Palmer (2/2) Professor P Potts (2/3) Mrs N Whitsed (1/3) Mr A F Woodburn – University Secretary (2/3)

Audit Committee

The Audit Committee comprises wholly external members, drawn from both within and outwith the Council, and so has no executive responsibility.

The Audit Committee met three times during the year. The members during the year ended 31 July 2009 (of whom the Chair and two others have recent and relevant financial experience), and their attendance at the meetings held during their membership, were:

<i>External members of Council</i>	Mrs C A Ighodaro – Chair (3/3) Mr A Peck (2/3) Professor L Wagner (to 27 October 2008) (0/0) Ms C McEwen (from 28 October 2008) (1/3)
<i>Other external members</i>	Mr G Wilkinson (1/3) Ms J Seeley (3/3)

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

The remit of the Audit Committee includes:

- reviewing the effectiveness of the Group's arrangements for risk management, control, and governance;
- satisfying itself and assuring Council, with advice from the Chief Auditor, that satisfactory arrangements are in place to promote economy, efficiency and effectiveness;
- reviewing and approving the terms of reference of the internal audit function and monitoring its performance and effectiveness;
- advising the Council, as necessary, on the appointment and remuneration of the external auditors, and monitoring their performance and effectiveness;
- reviewing with the external auditors the scope and nature of the audit, including the report to Audit Committee written by the external auditors;
- assessing compliance with the regulatory framework relating to audit issues.

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

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. The Chief Auditor has unfettered access to the Audit Committee.

The internal audit work programme is drawn down from a risk-focused Audit Plan, which 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 recommendations to ensure that they are addressed in a timely and effective manner, and reports regularly thereon to the Audit Committee.

The Audit Committee also keeps under review the independence and objectivity of the external auditors. In 2006 the decision was taken to segregate audit related services from non-audit services in order to further enhance the independence of the external auditors.

THE OPEN UNIVERSITY

RESPONSIBILITIES OF THE UNIVERSITY'S COUNCIL

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

In causing the financial statements to be prepared, the Council has ensured that:

- suitable accounting policies are selected and applied consistently;
- judgements and estimates are made that are reasonable and prudent;
- applicable accounting standards are followed, subject to any material departures disclosed and explained in the financial statements;
- financial statements are prepared on the going concern basis unless it is inappropriate to presume that the University will continue in operation. 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:

- 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 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 TDA and any other conditions which the Funding Councils or Agency may from time to time prescribe;
- ensure that there are appropriate financial and management controls in place to safeguard public funds and funds from other sources;
- 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 the assets of the University and prevent and detect fraud;
- secure the economical, efficient and effective management of the University's resources and expenditure.

THE OPEN UNIVERSITY

RESPONSIBILITIES OF THE UNIVERSITY'S COUNCIL (continued)

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

- definitions of the responsibilities of, and the authority delegated to, heads of academic and administrative units;
- a medium and short-term planning process, supplemented by detailed annual income, expenditure, capital and cash flow budgets;
- regular reviews of academic performance and quarterly financial reviews involving variance reporting and updates of forecast outturns;
- 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, including financial controls and procedures, approved by Finance Committee;
- a professional Internal Audit team whose annual programme is approved by Audit Committee.

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:

- linking the identification and management of risk to the achievement of institutional objectives through the annual planning process;
- evaluating the likelihood and impact of risks becoming a reality as part of that same process and establishing mitigating controls;
- having review procedures that cover business, operational, compliance and financial risk;
- embedding risk assessment and internal control processes in the ongoing operations of all units;
- 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.

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.

INDEPENDENT AUDITORS' REPORT to the Council of The Open University

We have audited the group financial statements of The Open University for the year ended 31 July 2009 which comprise the Consolidated Income and Expenditure Account, the Consolidated and University Balance Sheets, the Consolidated Cash Flow Statement, the Consolidated Statement of Total Recognised Gains and Losses, the Statement of Principal Accounting Policies and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of the Council and auditors

The Council's responsibilities for preparing the financial statements in accordance with the Accounts Direction issued by the Higher Education Funding Council for England, the Statement of Recommended Practice - Accounting for Further and Higher Education, applicable United Kingdom Law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the statement of Responsibilities of the University's Council.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements, and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the Council of The Open University in accordance with the Charter and Statutes of the University. We do not, in giving this opinion, 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.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Statement of Recommended Practice - Accounting for Further and Higher Education. We report to you whether, in our opinion, income from funding bodies, grants and income for specific purposes and from other restricted funds administered by the University have been properly applied in all material respects for the purposes for which they were received, and whether income has been applied in all material respects in accordance with the University's Charter and Statutes and, where appropriate, with the Financial Memorandum with the Higher Education Funding Council for England (HEFCE) and with the funding agreements with the Scottish Funding Council, the Higher Education Funding Council for Wales, the Department of Employment and Learning (Northern Ireland) and the Training and Development Agency for Schools. We also report to you whether, in our opinion, the information given in the Operating and Financial Review is consistent with those financial statements. In addition we report to you if, in our opinion, the University has not kept adequate accounting records, if the financial statements are not in agreement with the accounting records or if we have not received all the information and explanations we require for our audit.

We read the other information contained in the financial statements and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. This other information comprises only the Financial Highlights, the Highlights of the Year, the Operating and Financial Review, the Corporate Governance Statement and the statement of the Responsibilities of the University's Council.

We also review the statement of internal control included as part of the statement of the Responsibilities of the University's Council and comment if the statement is inconsistent with our knowledge of the University. We are not required to consider whether the statement of internal control covers all risks and controls, or to form an opinion on the effectiveness of the University's corporate governance procedures or its risk and control procedures. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board and with the HEFCE Accountability and Audit Code of Practice contained in the Financial Memorandum 2008/19. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the University's Council in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- i. the financial statements give a true and fair view of the state of affairs of the University and the Group at 31 July 2009, and of the Group's income and expenditure, recognised gains and losses and statement of cash flows for the year then ended;
- ii. the financial statements have been properly prepared in accordance with the Statement of Recommended Practice - Accounting for Further and Higher Education, and United Kingdom Generally Accepted Accounting Practice;
- iii. in all material respects, income from the Higher Education Funding Council for England, the Scottish Funding Council, the Higher Education Funding Council for Wales and the Training and Development Agency for Schools, grants and income for specific purposes and from other restricted funds administered by the University have been applied only for the purposes for which they were received; and
- iv. in all material respects, income has been applied in accordance with the University's Charter and Statutes and, where appropriate, in accordance with the Financial Memorandum 2008/19 with the Higher Education Funding Council for England, with the Funding Agreement dated July 2006 with the Scottish Funding Council, with the Funding Letter dated April 2006 with the Higher Education Funding Council for Wales and with the Funding Agreement dated May 2007 with the Training and Development Agency for Schools.

PricewaterhouseCoopers LLP

Chartered Accountants and Registered Auditors
East Midlands

17 November 2009

1 Basis of preparation

The financial statements have been prepared 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 Accounting Standards.

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 2009.

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 course.

Fee income is stated gross; financial assistance to students, other fee waivers and provision for bad debts are included in other operating expenses.

Where students have registered, which is when the liability to pay the fees is created, for courses that begin in a future financial year, the income is included in creditors as 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 or if payment will become due in a future financial year under an instalment credit agreement, the amount not received at the end of the financial year is included in debtors.

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

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 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. Course 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 is 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.

a. 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 University 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 FRS17, *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.

b. 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 course materials are valued at the lower of cost and net realisable value. Provision is made for obsolete or surplus course 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 less provision for impairment.
- b. Current asset investments comprise funds held on deposit. 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 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.

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 and software, costing less than £30,000 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 over its expected useful life as follows:

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

Where equipment is acquired with the aid of specific grants, it is capitalised and depreciated as above. The related grants are 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 Taxation status

The University is an exempt charity within the meaning of Schedule 2 of the Charities Act 1993 and as such is a charity within the meaning of Section 506(1) of the Taxes Act 1988. Accordingly, the University is potentially exempt from taxation in respect of income or capital gains received within categories covered by Section 505 of the Taxes Act 1988 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.

13 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, they are accounted for as expendable endowments. Specifically the University has restricted expendable endowments whereby the donor has specified a particular objective other than the purchase or construction of tangible fixed assets, and the University can convert the donated sum into income.

CONSOLIDATED INCOME AND EXPENDITURE ACCOUNT for the Year Ended 31 July 2009

	<i>NOTES</i>	Year Ended 31 July 2009 £m	Year Ended 31 July 2008 £m
INCOME			
Funding body grants	1	233.7	225.6
Tuition fees and education contracts	2	141.6	128.8
Research grants and contracts	3	15.4	14.4
Other income	4	24.3	21.5
Endowment and investment income	5	6.0	10.6
Total income		421.0	400.9
EXPENDITURE			
Staff costs	6	262.8	241.4
Depreciation		11.2	10.6
Other operating expenses	7	134.0	132.1
Interest payable and other financial costs	8	3.4	4.3
Total expenditure		411.4	388.4
Surplus after depreciation of assets at valuation and before tax		9.6	12.5
Less: Taxation	9	0.0	0.1
Surplus after depreciation of assets at valuation and tax		9.6	12.4
Exceptional item: continuing operations	10	0.2	4.9
Surplus for the year retained within general reserves		9.8	17.3
NOTE OF HISTORICAL COST SURPLUS			
Surplus after depreciation of assets at valuation and tax		9.6	12.4
Difference between an historical cost depreciation charge and the actual depreciation charge for the year	20	1.1	1.1
Historical cost surplus after tax		10.7	13.5

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.

The accounting policies on pages 26 to 29 and the notes on pages 34 to 52 form an integral part of these financial statements.

THE OPEN UNIVERSITY

CONSOLIDATED STATEMENT OF RECOGNISED GAINS AND LOSSES for the Year Ended 31 July 2009

	Year Ended 31 July 2009 £m	Year Ended 31 July 2008 £m
Surplus on continuing operations after depreciation of assets at valuation, tax and exceptional items	9.8	17.3
Depreciation of shares held for resale within net current assets	0.0	(0.5)
Depreciation of shares held for resale attributable to expendable endowments	(0.1)	0.0
Endowments transferred from The Open University Foundation	0.0	0.6
Total recognised gains relating to the year	<u>9.7</u>	<u>17.4</u>

The accounting policies on pages 26 to 29 and the notes on pages 34 to 52 form an integral part of these financial statements.

THE OPEN UNIVERSITY

BALANCE SHEETS as at 31 July 2009

	NOTES	CONSOLIDATED		UNIVERSITY	
		As At 31 July 2009 £m	As At 31 July 2008 £m	As At 31 July 2009 £m	As At 31 July 2008 £m
FIXED ASSETS					
Tangible assets	11	178.8	175.0	167.9	163.7
Investments	12	0.0	0.0	9.8	10.7
		178.8	175.0	177.7	174.4
ENDOWMENT ASSETS					
	13	0.5	0.6	0.5	0.6
CURRENT ASSETS					
Stocks of finished goods		3.9	3.7	3.9	3.7
Debtors - due within one year	14	37.4	39.8	22.9	27.0
- due after one year		0.3	0.0	63.2	63.0
Deposits	15	92.1	126.1	92.1	126.1
Cash at bank and in hand		24.3	23.8	20.1	20.1
Assets for resale - shares		0.0	5.0	0.0	5.0
		158.0	198.4	202.2	244.9
LESS CREDITORS: amounts falling due within one year	16	115.4	170.0	161.4	217.9
NET CURRENT ASSETS		42.6	28.4	40.8	27.0
TOTAL ASSETS LESS CURRENT LIABILITIES		221.9	204.0	219.0	202.0
LESS CREDITORS: amounts falling due after more than one year	17	2.2	2.3	0.0	0.0
TOTAL NET ASSETS		219.7	201.7	219.0	202.0
DEFERRED CAPITAL GRANTS					
	18	79.2	70.9	79.2	70.9
ENDOWMENTS					
Expendable	19	0.5	0.6	0.5	0.6
RESERVES					
	20	5.7	6.3	5.7	6.3
Revaluation reserve		134.3	123.9	133.6	124.2
General funds		140.0	130.2	139.3	130.5
TOTAL RESERVES		219.7	201.7	219.0	202.0

The accounting policies on pages 26 to 29 and the notes on pages 34 to 52 form an integral part of these financial statements, which were approved by Council on 17 November 2009 and signed on its behalf by:

D M C E STEEN
Treasurer

M S HEDGES
Finance Director

M G BEAN
Vice-Chancellor

THE OPEN UNIVERSITY

CONSOLIDATED CASH FLOW STATEMENT for the Year Ended 31 July 2009

	NOTES	Year Ended 31 July 2009 £m	Year Ended 31 July 2008 £m
NET CASH INFLOW FROM OPERATING ACTIVITIES	21	<u>12.9</u>	<u>13.7</u>
RETURN ON INVESTMENTS AND SERVICING OF FINANCE			
Interest received		10.2	10.8
Interest paid		<u>(0.9)</u>	<u>(4.2)</u>
NET CASH INFLOW FROM RETURNS ON INVESTMENT AND SERVICING OF FINANCE		<u>9.3</u>	<u>6.6</u>
TAX PAID		<u>0.0</u>	<u>(0.1)</u>
CAPITAL EXPENDITURE			
Payments to acquire tangible assets		(15.8)	(28.0)
Deferred capital grants received		18.2	15.8
Proceeds on sale of assets acquired for resale		<u>4.1</u>	<u>0.0</u>
NET CASH INFLOW/(OUTFLOW) FROM CAPITAL EXPENDITURE		<u>6.5</u>	<u>(12.2)</u>
CASH INFLOW BEFORE MANAGEMENT OF LIQUID RESOURCES		28.7	8.0
MANAGEMENT OF LIQUID RESOURCES			
Cash transferred from/(to) term deposits		31.9	(5.1)
FINANCING			
Loan repayment in the year		<u>(60.1)</u>	<u>(0.2)</u>
INCREASE IN CASH IN THE YEAR	22,23	<u>0.5</u>	<u>2.7</u>

The accounting policies on pages 26 to 29 and the notes on pages 34 to 52 form an integral part of these financial statements.

1 FUNDING BODY GRANTS

	Year Ended 31 July 2009 £m	Year Ended 31 July 2008 £m
Recurrent grants		
Higher Education Funding Council for England (HEFCE)	182.0	178.5
Scottish Funding Council (SFC)	19.2	18.0
Higher Education Funding Council for Wales (HEFCW)	7.5	7.2
Training and Development Agency for Schools (TDA)	2.7	2.9
Department of Employment and Learning (Northern Ireland) (DELNI)	0.2	0.2
	<u>211.6</u>	<u>206.8</u>
Specific grants		
Higher Education Funding Council for England	13.1	11.9
Scottish Funding Council	2.3	1.5
Higher Education Funding Council for Wales	1.3	0.8
	<u>16.7</u>	<u>14.2</u>
Deferred capital grants released in year		
Higher Education Funding Council for England - see Note 18		
Buildings	4.2	3.5
Equipment	1.2	1.1
	<u>5.4</u>	<u>4.6</u>
	<u>233.7</u>	<u>225.6</u>

2 TUITION FEES AND EDUCATION CONTRACTS

	Year Ended 31 July 2009 £m	Year Ended 31 July 2008 £m
Student fees		
United Kingdom	120.7	110.5
Overseas	20.7	18.0
Learning material sales	0.0	0.1
Research training support grants	0.2	0.2
	<u>141.6</u>	<u>128.8</u>

3 RESEARCH GRANTS & CONTRACTS

	Year Ended 31 July 2009 £m	Year Ended 31 July 2008 £m
Research Councils	9.5	7.6
Other sources, including industrial companies	5.9	6.8
	<u>15.4</u>	<u>14.4</u>

4 OTHER INCOME

	Year Ended 31 July 2009 £m	Year Ended 31 July 2008 £m
Other grants and contracts	13.2	9.5
Royalties received	0.3	0.3
External computer services	0.2	0.2
Sub-tenants' rental and services	0.5	0.6
Validation fees	2.5	2.3
Released from deferred capital grant	0.1	0.1
Other income	7.5	8.5
	<u>24.3</u>	<u>21.5</u>

5 ENDOWMENT AND INVESTMENT INCOME

	Year Ended 31 July 2009 £m	Year Ended 31 July 2008 £m
Endowment income	0.0	0.1
Interest on student loans	0.8	0.8
Other interest receivable	5.2	9.7
	<u>6.0</u>	<u>10.6</u>

6 STAFF COSTS

	Year Ended 31 July 2009 £m	Year Ended 31 July 2008 £m
Staff costs		
Salaries and other payments to employees	223.3	204.1
Social security costs	15.2	14.8
Pension costs - see Note 28	24.3	22.5
	<u>262.8</u>	<u>241.4</u>
Staff costs by category		
Full-time staff categories	203.0	187.7
Associate lecturers, residential school staff and examination marking fees	53.0	47.5
Other staff costs, including casual staff	6.2	4.8
Early retirement and voluntary severance	0.6	1.4
	<u>262.8</u>	<u>241.4</u>

REMUNERATION OF HIGHER PAID EMPLOYEES

The emoluments of Professor Brenda Gourley, the Vice-Chancellor, included in the above costs are £272,000 (year ended 31 July 2008, £236,000). These emoluments are shown on the same basis as for higher paid staff. The University's pension contributions to the Universities Superannuation Scheme in respect of the Vice-Chancellor are paid at the same rates as for other academic staff and amounted to £37,000 (year ended 31 July 2008, £33,000). The aggregate of these sums is £309,000 (year ended 31 July 2008, £269,000).

Compensation for loss of office paid to UK based employees earning in excess of £100,000 and funded from general income was £Nil (year ended 31 July 2008, £Nil).

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

	Staff Numbers 31 July 2009	Staff Numbers 31 July 2008
£100,000 - £109,999	4	5
£110,000 - £119,999	3	0
£120,000 - £129,999	1	2
£130,000 - £139,999	2	0
£150,000 - £159,999	0	1
£160,000 - £169,999	1	0
	<u> </u>	<u> </u>

AVERAGE STAFF NUMBERS

Full-time and part-time staff at Milton Keynes, Wellingborough, national and regional centres	5,060	4,983
Associate lecturers and residential school staff	6,258	6,246
	<u>11,318</u>	<u>11,229</u>

7 OTHER OPERATING EXPENSES

	Year Ended 31 July 2009 £m	Year Ended 31 July 2008 £m
Consumables and staff support	47.2	43.5
Course materials and residential schools	18.5	19.0
Student publications and recruitment	17.4	16.7
Financial assistance to students	3.6	4.3
Books and periodicals	1.5	1.3
Audio visual production	7.9	7.8
Heat, light, water and power	3.7	2.8
Repairs, general maintenance and equipment	15.0	17.8
Rents and rates	7.4	8.6
Students' association grant	0.8	0.8
Auditors' remuneration - Group audit fees	0.1	0.1
Other expenses	10.9	9.4
	134.0	132.1

Included in the above are audit fees in respect of the University only of £0.10 million (year ended 31 July 2008, £0.09 million) and its subsidiaries of an aggregate of £0.02 million (year ended 31 July 2008, £0.02 million).

8 INTEREST PAYABLE AND OTHER FINANCIAL COSTS

	Year Ended 31 July 2009 £m	Year Ended 31 July 2008 £m
On bank loans, overdrafts and other loans:		
Repayable wholly or partly in more than 5 years	0.8	4.3
Impairment on deposits	1.8	0.0
Loss on shares	0.8	0.0
	3.4	4.3

An impairment of £1.8 million has been recognised on the University's fixed term deposits in UK subsidiaries of Icelandic banks that were put into administration in October 2008. The level of impairment has been based on the latest advice from administrators regarding the stream of repayments and final settlement. The University had in place 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, with such banks. The principal amounts outstanding have been reduced by the distributions received from the administrators totalling £1.0 million and by the impairment and are included in Note 15.

THE OPEN UNIVERSITY

NOTES TO THE ACCOUNTS (continued)

9 TAXATION

	Year Ended 31 July 2009 £m	Year Ended 31 July 2008 £m
Foreign taxes	0.0	0.1

The foreign tax is withholding tax on royalty income received by Open University Worldwide Limited.

10 EXCEPTIONAL ITEM

	Year Ended 31 July 2009 £m	Year Ended 31 July 2008 £m
Transfer of activity from The Open University Foundation	0.2	4.9

The exceptional item represents an agreed transfer of activities and underlying reserves from The Open University Foundation to The Open University by the Foundation's Trustees.

11 TANGIBLE ASSETS

CONSOLIDATED

	Land and Buildings £m	Buildings in the Course of Construction £m	Equipment £m	Total £m
Cost and valuation				
At 1 August 2008	211.9	8.2	19.8	239.9
Additions	6.9	7.0	1.1	15.0
Transfers	8.2	(8.2)	0.0	0.0
Disposals	0.0	0.0	(0.8)	(0.8)
At 31 July 2009	227.0	7.0	20.1	254.1
Depreciation				
At 1 August 2008	47.5	0.0	17.4	64.9
Charge for year	9.3	0.0	1.9	11.2
Disposals	0.0	0.0	(0.8)	(0.8)
At 31 July 2009	56.8	0.0	18.5	75.3
Net book amount				
At 31 July 2009	170.2	7.0	1.6	178.8
At 31 July 2008	164.4	8.2	2.4	175.0
Financed by capital grants - see Note 18	71.2	7.0	1.0	79.2
Financed from other sources	99.0	0.0	0.6	99.6
Net book amount				
At 31 July 2009	170.2	7.0	1.6	178.8

As at 31 July 2009, there was £24.0 million of future capital expenditure for which either contracts had been placed or there was a firm intention to commence work (year ended 31 July 2008, £18.3 million).

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 2009 £m	Year Ended 31 July 2008 £m
Cost	227.6	214.0
Aggregate depreciation	56.0	48.2
Net book amount	171.6	165.8

11 TANGIBLE ASSETS (continued)

UNIVERSITY

	Land and Buildings £m	Buildings in the Course of Construction £m	Equipment £m	Total £m
Cost and valuation				
At 1 August 2008	198.2	8.2	19.7	226.1
Additions	6.9	7.0	1.1	15.0
Transfers	8.2	(8.2)	0.0	0.0
Disposals	0.0	0.0	(0.8)	(0.8)
At 31 July 2009	213.3	7.0	20.0	240.3
Depreciation				
At 1 August 2008	45.2	0.0	17.2	62.4
Charge for year	8.8	0.0	2.0	10.8
Disposals	0.0	0.0	(0.8)	(0.8)
At 31 July 2009	54.0	0.0	18.4	72.4
Net book amount				
At 31 July 2009	159.3	7.0	1.6	167.9
At 31 July 2008	153.0	8.2	2.5	163.7
Financed by capital grants - see Note 18	71.2	7.0	1.0	79.2
Financed from other sources	88.1	0.0	0.6	88.7
Net book amount				
At 31 July 2009	159.3	7.0	1.6	167.9

One building has been partially funded with the aid of a grant of £0.3 million from the Wolfson Foundation. Land and buildings that have been funded from Treasury sources amount to £90.3 million. In the event that these were to be sold, the University would either have to surrender the proceeds to the Treasury or use them in accordance with the Financial Memorandum with HEFCE.

12 INVESTMENTS

	UNIVERSITY	
	As At 31 July 2009 £m	As At 31 July 2008 £m
Shares in wholly owned subsidiary companies:		
Open University Student Budget Accounts Limited	0.5	0.5
Open University Worldwide Limited	0.3	0.3
OU Properties (Walton Drive) Limited	8.8	9.7
Long term loans:		
Open University Worldwide Limited	0.2	0.2
	9.8	10.7

Open University Student Budget Accounts Limited is registered in England and Wales and was established to provide students with a deferred payment facility. Around 22% 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.

OU Properties (Walton Drive) Limited is registered in England and Wales and owns a specific office building which is occupied by the University and Open University Worldwide Limited. The purchase of the building was financed by a share issue. Recently, an evaluation of the business has been undertaken in order to determine the relative merits of continuing to operate as at present or transferring the Company's assets and liabilities to its parent, The Open University. The evaluation is now complete and approval has been obtained from the Charity Commission to a variation of the Company's Memorandum to allow transfer of the Company's assets to The Open University on winding up. Transfers of the Company's assets and liabilities to its parent are expected to take place during the early part of the financial year to 31 July 2010, following which the Company will be wound up.

In addition the University has the following subsidiary that does not have share capital or loans disclosed above but whose results, assets and liabilities are included in the consolidated group financial statements: OU Properties (Bristol) Limited is registered in England and Wales and owns a specific office building, which is leased to the University. It is financed through a specific bank facility.

THE OPEN UNIVERSITY

NOTES TO THE ACCOUNTS (continued)

13 ENDOWMENT ASSETS

	CONSOLIDATED AND UNIVERSITY	
	Year Ended	Year Ended
	31 July 2009	31 July 2008
	£m	£m
Balance at 1 August	0.6	0.0
Invested endowments transferred from The Open University Foundation	0.0	0.6
Loss on sale of shares	(0.1)	0.0
	<hr/>	<hr/>
Balance at 31 July	0.5	0.6
Represented by:		
Cash at bank held for endowment funds	0.5	0.6
	<hr/>	<hr/>
Total endowment assets	0.5	0.6

The invested endowments were transferred from The Open University Foundation as at 30 May 2008. As part of the transfer activity from The Open University Foundation, the University received £5.0 million of shares, which were included in current assets at 31 July 2008; these shares were sold in October 2008.

THE OPEN UNIVERSITY

NOTES TO THE ACCOUNTS (continued)

14 DEBTORS

	CONSOLIDATED		UNIVERSITY	
	As At	As At	As At	As At
	31 July 2009	31 July 2008	31 July 2009	31 July 2008
	£m	£m	£m	£m
DEBTORS				
Students' loan accounts	16.1	13.4	0.0	0.0
Fee debtors	0.7	0.5	0.7	0.5
Amounts due from subsidiaries	0.0	0.0	5.5	3.1
Other debtors	17.6	19.3	14.2	17.3
	34.4	33.2	20.4	20.9
PREPAYMENTS AND ACCRUED INCOME	3.0	6.6	2.5	6.1
TOTAL	37.4	39.8	22.9	27.0
Amounts due after one year	0.3	0.0	63.2	63.0

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 its two main operating subsidiaries, Open University Student Budget Accounts Limited and Open University Worldwide Limited, through long-term loans that are due for repayment or review in 2016. The former subsidiary has borrowed £60.0 million at an interest rate equal to base rate. The latter subsidiary has borrowed £3.2 million at an interest rate equal to 1% over base rate. 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 are disclosed in Note 16.

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

15 DEPOSITS

	CONSOLIDATED		UNIVERSITY	
	As At	As At	As At	As At
	31 July 2009	31 July 2008	31 July 2009	31 July 2008
	£m	£m	£m	£m
UK gilt edged stock	44.1	29.6	44.1	29.6
Fixed term deposits maturing in one year or less	48.0	96.5	48.0	96.5
	92.1	126.1	92.1	126.1

The University holds tradable Treasury gilts with a redemption date of less than three years. At 31 July 2009 the weighted average redemption yield was 3.47% and the weighted average period to maturity was 607 days.

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 2009 the weighted average interest rate of these fixed rate deposits was 1.26% per annum and the remaining weighted average period for which the interest rate is fixed on these deposits was 34 days. The fair value of these deposits was not materially different from the book value.

The total sum of £48.0 million includes £4.0 million in respect of expected future repayments from the administrators of the Icelandic banks in accordance with Note 8.

The deposits shown in this note exclude accrued interest, which is included in other debtors in Note 14.

16 CREDITORS: amounts falling due within one year

	CONSOLIDATED		UNIVERSITY	
	As At 31 July 2009 £m	As At 31 July 2008 £m	As At 31 July 2009 £m	As At 31 July 2008 £m
Trade creditors	10.2	9.6	10.1	9.5
Other creditors and accruals	45.2	103.3	47.0	104.4
Income in advance	16.1	13.5	16.1	13.5
Deferred income	43.9	43.6	42.7	42.6
Amounts due to subsidiaries	0.0	0.0	45.5	47.9
	115.4	170.0	161.4	217.9

A provision for fee debts of £2.0 million (year ended 31 July 2008, £1.4 million) in respect of student loans in the accounts of Open University Student Budget Accounts Limited is included as a creditor in the University's balance sheet, as the University bears the ultimate liability for the company's bad debts. Debtors in the consolidated balance sheet are shown net of the provision for bad debts.

Amounts due to subsidiaries includes surplus funds lent by the subsidiaries to the University under the terms of the loan agreements referred to in Note 14.

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

17 CREDITORS: amounts falling due after more than one year

	CONSOLIDATED		UNIVERSITY	
	As At 31 July 2009 £m	As At 31 July 2008 £m	As At 31 July 2009 £m	As At 31 July 2008 £m
Long-term loans	2.2	2.3	0.0	0.0

The Group has two long-term loan facilities.

A long-term committed facility for the University of £60.0 million (31 July 2008, £60.0 million) until October 2033. This facility is secured on a part of the University's Walton Hall campus. The annual commitment fee when the facility is not drawn down and the interest margin over the London Inter-Bank Offered Rate should the facility be drawn down are at percentages fixed for the life of the facility.

A bank loan to OU Properties (Bristol) Limited of £2.3 million, including £0.1 million due within one year and included in other creditors and accruals in Note 16 above, (31 July 2008, £2.5 million, including £0.2 million due within one year) is secured on a single office building, denominated in sterling and repayable in 80 quarterly instalments commencing on 1 October 2005 and ending on 1 July 2025. The rate of interest is fixed to the lender's base rate. At 31 July 2009 the interest rate on this loan was 0.70% per annum.

18 DEFERRED CAPITAL GRANTS

	CONSOLIDATED AND UNIVERSITY		
	Funding Bodies £m	Other £m	Total £m
At 1 August 2008			
Buildings	69.1	0.3	69.4
Equipment	1.2	0.3	1.5
Total	70.3	0.6	70.9
Cash Receivable			
Buildings	13.1	0.0	13.1
Equipment	0.3	0.5	0.8
Total	13.4	0.5	13.9
Released to Income and Expenditure			
Buildings	(4.2)	(0.1)	(4.3)
Equipment	(1.2)	(0.1)	(1.3)
Total	(5.4)	(0.2)	(5.6)
At 31 July 2009			
Buildings	78.0	0.2	78.2
Equipment	0.3	0.7	1.0
Total - see Note 11	78.3	0.9	79.2

19 ENDOWMENTS

	CONSOLIDATED AND UNIVERSITY		
	Restricted Expendable £m	2009 Total £m	2008 Total £m
Balances at 1 August	0.6	0.6	0.0
New endowments	0.0	0.0	0.6
Loss on sale of shares	(0.1)	(0.1)	0.0
At 31 July	0.5	0.5	0.6
Represented by:			
Capital	0.5	0.5	0.6
Accumulated income/(expenditure)	0.0	0.0	0.0
	0.5	0.5	0.6

20 RESERVES

	CONSOLIDATED £m	UNIVERSITY £m
REVALUATION RESERVE		
At 1 August 2008	6.3	6.3
Transfer to general funds	0.5	0.5
Contributions to depreciation released in the year	(1.1)	(1.1)
At 31 July 2009	5.7	5.7
GENERAL FUNDS		
At 1 August 2008	123.9	124.2
Surplus for the year including exceptional item	9.8	8.8
Transfers from revaluation reserve	0.6	0.6
At 31 July 2009	134.3	133.6

NOTES TO THE ACCOUNTS (continued)

**21 RECONCILIATION OF SURPLUS BEFORE TAX
TO NET CASH INFLOW FROM OPERATING ACTIVITIES**

	Year Ended 31 July 2009 £m	Year Ended 31 July 2008 £m
Surplus for the year before tax after exceptional item	9.8	17.4
Depreciation	11.2	10.6
Deferred capital grant released to income	(5.6)	(4.8)
Endowment and investment income	(6.0)	(10.6)
Interest payable and other financial costs	3.4	4.3
(Increase)/decrease in stock	(0.2)	1.1
(Increase)/decrease in debtors	(6.0)	3.1
Increase/(decrease) in creditors	6.3	(2.4)
Assets acquired for resale	0.0	(5.0)
	<u>12.9</u>	<u>13.7</u>

22 RECONCILIATION TO NET FUNDS

	Year Ended 31 July 2009 £m	Year Ended 31 July 2008 £m
Increase in cash in the year	0.5	2.7
Movement in deposits	(34.0)	5.1
Movement in endowments	(0.1)	0.0
Movement in bank debt	60.1	0.2
Change in net funds	<u>26.5</u>	8.0
Net funds at 1 August	88.2	80.2
Net funds at 31 July	<u>114.7</u>	<u>88.2</u>

23 ANALYSIS OF CHANGES IN NET FUNDS

	At 1 August 2008 £m	Cash flows £m	Non cash movements £m	At 31 July 2009 £m
Cash at bank and in hand	23.8	0.5	0.0	24.3
Endowment assets	0.6	(0.1)	0.0	0.5
Fixed term deposits	126.1	(31.9)	(2.1)	92.1
Bank loans	(62.3)	60.1	0.0	(2.2)
Total	<u>88.2</u>	<u>28.6</u>	<u>(2.1)</u>	<u>114.7</u>

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 has been submitted on behalf of the University for the repayment of VAT incurred over a period of years, along with associated interest. The University considers that there are too many uncertainties for any reasonable estimate of the amounts potentially recoverable during that period to be calculated.

25 COMMITMENTS

LEASEHOLD PROPERTIES

During the year ended 31 July 2009 the Group paid £3.8 million (year ended 31 July 2008, £3.9 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:

	Year Ended 31 July 2009 £m	Year Ended 31 July 2008 £m
Expiring:		
within 1 year	0.3	0.3
between 2 and 5 years	0.3	0.5
over 5 years	3.2	3.1
	<hr/>	<hr/>
Total	3.8	3.9
	<hr/>	<hr/>

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

26 AMOUNTS DISBURSED AS AGENT

The Funding Council and TDA 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 TDA grants for the costs of administering the above items are included in the Income and Expenditure Account.

HEFCE ACCESS FOR LEARNING

	Year Ended 31 July 2009 £m	Year Ended 31 July 2008 £m
Balance brought forward	0.0	0.7
Funding Body Grants	7.7	5.7
Disbursed to Students	(7.7)	(6.4)
	<hr/>	<hr/>
Balance carried forward	0.0	0.0
	<hr/>	<hr/>

26 AMOUNTS DISBURSED AS AGENT (continued)

SFC ACCESS FUNDS

	Year Ended 31 July 2009 £m	Year Ended 31 July 2008 £m
Balance brought forward	0.0	(0.1)
Funding Body Grants	1.9	1.9
Disbursed to Students	(2.0)	(1.8)
	<hr/>	<hr/>
Balance carried forward	(0.1)	0.0
	<hr/>	<hr/>

HEFCW ACCESS FUNDS

	Year Ended 31 July 2009 £m	Year Ended 31 July 2008 £m
Balance brought forward	0.1	0.1
Funding Body Grants	0.1	0.0
Disbursed to Students	(0.1)	0.0
	<hr/>	<hr/>
Balance carried forward	0.1	0.1
	<hr/>	<hr/>

TDA TRAINING BURSARIES

	Year Ended 31 July 2009 £m	Year Ended 31 July 2008 £m
Balance brought forward	0.6	0.2
TDA Grants	0.9	1.8
Disbursed to Students	(1.2)	(1.4)
	<hr/>	<hr/>
Balance carried forward	0.3	0.6
	<hr/>	<hr/>

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.

28 PENSION SCHEMES

The University participates in 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 also 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.

The total pension cost for all these defined contribution schemes was £0.1 million (year ended 31 July 2008, £0.1 million).

Defined Benefit Pension 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; one is appointed by the Higher Education Funding Councils; and a minimum of two and a maximum of four are co-opted directors appointed by the management committee. Under the scheme trust deed and rules, the employer contribution rate is determined by the trustee, acting on actuarial advice.

The University is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis and therefore, as required by FRS 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 actuarial valuation of the scheme was at 31 March 2008. This was the first 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.

28 PENSION SCHEMES (continued)

The 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. It was assumed that the valuation rate of interest would be 6.4% per annum (which includes an additional assumed investment return over gilts of 2% per annum), salary increases would be 4.3% per annum (plus an additional allowance for increases in salaries due to age and promotion and a further amount of £1.35 billion of liabilities to reflect recent experience) and pensions would increase by 3.3% per annum. In relation to the future service liabilities it was assumed that the valuation rate of interest would be 6.1% per annum, including an additional investment return assumption of 1.7% per annum, salary increases would be 4.3% per annum (also plus an allowance for increases in salaries due to age and promotion) and pensions would increase by 3.3% per annum.

Standard mortality tables were used as follows:

Pre-retirement mortality	PA92 MC YoB tables – rated down 1 year for males; no age rating for females.
Post-retirement mortality	PA92 MC YoB tables – rated down 1 year for males; no age rating for females.

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

Males (females) currently aged 65	22.8 (24.8) years
Males (females) currently aged 45	24.0 (25.9) years

At the valuation date, the value of the assets of the scheme was £28,842.6 million and the value of the scheme's technical provisions was £28,135.3 million indicating a surplus of £707.3 million. The assets therefore were sufficient to cover 103% of the benefits which had accrued to members after allowing for expected future increases in earnings.

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 71%. Under the Pension Protection Fund regulations introduced by the Pensions Act 2004 it was 107% funded; on a buy-out basis (i.e. assuming the Scheme had discontinued on the valuation date) the assets would have been approximately 79% of the amount necessary to secure all the USS benefits with an insurance company; and using the FRS17 formula as if USS was a single employer scheme, the actuary estimated that the funding level would have been approximately 104%.

Since 31 March 2008 the funding level of the scheme has declined. The actuary has estimated that the funding level under the new scheme specific funding regime had fallen from 103% at 31 March 2008 to 74% at 31 March 2009. This fall in the scheme's funding level is due to a decline in the global investment markets. These estimated funding levels are based on the funding levels as at 31 March 2008, adjusted to reflect the fund's actual investment performance and changes in gilt yields (i.e. the valuation rate of interest). On the FRS17 basis, using an AA bond discount rate of 7.1% based on spot yields, the actuary estimated that the funding level at 31 March 2009 was 86%. An estimate of the funding level measured on a buy-out basis was approximately 46%.

The employer contribution rate required for future service benefits alone at the date of the valuation was 16% of pensionable salaries and the trustee company, on the advice of the actuary, agreed to increase the institution contribution rate to 16% of the pensionable salaries from 1 October 2009.

28 PENSION SCHEMES (continued)

Surpluses or deficits which arise at future valuations may impact on the University's future contribution commitment. The sensitivities regarding the principal assumptions used to measure the scheme liabilities are set out below:

Assumption	Change in Assumption	Impact on scheme liabilities
Valuation rate of interest	Increase/decrease by 0.5%	Decrease/increase by £2.2 billion
Rate of pension increases	Increase/decrease by 0.5%	Increase/decrease by £1.5 billion
Rate of salary growth	Increase/decrease by 0.5%	Increase/decrease by £0.7 billion
Rate of mortality	More prudent assumption (Mortality used at last actuarial valuation, rated down by a further year for male members)	Increase by £1.6 billion

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 believes that, over the long-term, equity investment and investment in selected alternative asset classes will provide superior returns to other investment classes. The management structure and targets set are designed to give the fund a bias towards equities through portfolios that are diversified both geographically and by sector. The trustee recognises that it would be possible to select investments producing income flows broadly similar to the estimated liability cash flows. However, in order to meet the long-term funding objective within a level of contributions that it considers the employers would be willing to make, the trustee has agreed to take on a degree of investment risk relative to the liabilities. This taking of investment risk seeks to target a greater return than the matching assets would provide whilst maintaining a prudent approach to meeting the fund's liabilities. Before deciding to take investment risk relative to the liabilities, the trustee receives advice from its investment consultant and the scheme actuary, and considers the views of the employers. The strong positive cash flow of the scheme means that it is not necessary to realise investments to meet liabilities. The trustee believes that this, together with the ongoing flow of new entrants into the scheme and the strength of covenant of the employers enables it to take a long-term view of its investments. Short-term volatility of returns can be tolerated and need not feed through directly to the contribution rate. The actuary has confirmed that the scheme's cash flow is likely to remain positive for the next ten years or more.

The next formal triennial actuarial valuation is due as at 31 March 2011. The contribution rate will be reviewed as part of each valuation.

The total pension cost for the University was £24.3 million (year ended 31 July 2008, £22.5 million). This includes £2.0 million outstanding contributions as at 31 July 2009 (year ended 31 July 2008, £1.6 million). Of the total pension cost, £0.2 million (year ended 31 July 2008, £0.6 million) related to costs in respect of early retirement.

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