The Open University

Financial Statements

for the year ended 31 July 2012

INSPIRING LEARNING

Contents

Results, cash flows, assets and reserves

	Year Ended 31 July 2012 £m	Year Ended 31 July 2011 £m
Funding body grants	**232.9**	257.8
Tuition fees and education contracts	**174.0**	164.0
Research grants and contracts	**13.8**	15.6
Other income	**28.3**	29.2
Endowment and investment income	**4.6**	3.9
Total income	453.6	470.5
Total expenditure	415.7	423.2
Surplus for the year before taxation and exceptional items	37.9	47.3
Net cash flow from operating activities	**32.6**	55.9
Net returns on investments and servicing of finance	**4.5**	4.7
Net cash flow before investing activities and tax	37.1	60.6
Fixed assets	**163.5**	172.8
Endowment assets	**0.5**	0.5
Net current assets	**237.1**	191.5
Total assets less current liabilities	401.1	364.8
Total reserves	252.8	215.2

Other key statistics

Number of full-time equivalent students	**86,173**	85,704
Total number of students	**246,626**	256,674
Percentage of students satisfied with the quality of their course (taken from the respondents to the National Student Survey)	**93**	93

The Open University has spent the last 43 years inspiring learning and creating higher educational opportunities with no barrier to entry. It has demonstrated excellence in research and teaching and confirmed its enormous reach through its use of open educational resources.

Key achievements in the year included:

Supporting our students

We have supported student tuition fees

42% of full-time equivalent UK undergraduate students received full or partial support for fees, either through The Open University or from UK government sources.

We achieved excellent rankings in the National Students Survey

In the top four Higher Education Institutions for the eighth year in succession in the UK, top in Scotland and Wales and second in Northern Ireland, in the 2012 National Students Survey, ranked in terms of overall satisfaction.

Extending our reach

Educational materials are open to all

The total individuals accessing the University's open educational resource website, OpenLearn, launched in October 2006, reached a cumulative total of 24 million.

We are using new media

The total downloads from The Open University iTunesU service, that was launched in June 2008, reached 57 million.

The number of full-time equivalent students has increased

The total number of full-time equivalent students studying Open University credit bearing courses was 86,173, an increase of 0.5% from last year, following the 2% increase the previous year.

Meeting our financial targets

Our financial strategy targets were met

Although total income decreased by 4% to £453.6 million, expenditure also decreased, by 2% to £415.7 million. The surplus of £37.9 million represented 8% of income, exceeding the target of 5% in the University's financial strategy.

We have prepared for a challenging period

The surplus of 8% of total income in 2011/12, together with the surpluses in previous years, have placed the University in a stronger and more liquid position to weather a period of considerable economic uncertainty and the significant changes in the funding of higher education in the United Kingdom, which are expected to result in a considerable call on our liquidity as we move forward into the new environment.

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 26 to 35, and the members of the University Council during the year ended 31 July 2012, who are the charity trustees, are listed on page 27.

The Higher Education Funding Council for England (HEFCE) is the principal regulator of those higher education institutions (HEIs) in England that are exempt charities, including The Open University, on behalf of the Charity Commission. As a charity registered in Scotland, the University is registered with the Office of the Scottish Charity Regulator under number SC038302.

The University is regulated principally by HEFCE under a Financial Memorandum, which defines the conditions under which the University receives public funds. The University complies with this Financial Memorandum and with the conditions of grant set out in funding agreements with the relevant grantor.

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

Mission

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

Values

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

The Open University is

Inclusive

Higher education open to all

Nearly all of our undergraduate courses have no formal entry requirements, either prior qualifications or experience. We allow people who have missed out on education to fulfil their potential and achieve a university-level qualification.

Promotion of social justice

We have developed a range of ways to include people from under-represented groups in higher education. Working in partnership with locally-based organisations we are able to offer programmes that reach out to potential students in their communities. And we are also working to make sure that these students receive the support they need to succeed in their studies.

Innovative

Leading the learning revolution

We are making an increasing amount of Open University teaching and learning resources available free of charge to anyone with access to the internet, no matter where in the world they live.

Inspiring and enabling learning

We pioneered ‘supported open learning’, meaning our students work wherever they choose and can plan their study around their other commitments.

World class research and teaching

Our modules are developed by multi-disciplinary course teams, including respected academics from other universities working alongside Open University colleagues and external assessors, to ensure academic standards are consistent with other universities. This model has helped to build the University's reputation for academic rigour and quality and has since been adopted by distance teaching institutions worldwide. The University also supports a vibrant research portfolio and fosters research teams who compete with top ranked institutions in the UK and worldwide.

Responsive

Individuals and employers

We respond to the needs of individuals and employers and the communities in which they live and work.

Students’ learning success

We are dedicated to supporting our students’ learning success and have national and regional student support networks in place as well as a careers advice service.

Strategic Objectives and Priorities

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

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

The strategic intent will be delivered by seven strategic priorities within two overarching themes:

Delivering an outstanding student experience

Market leading enquirer experience	Prospective students will benefit from clear, informed and targeted guidance that leads them towards the right study choices through a process that moves as fast as they want to move and which minimises unnecessary steps.
Excellent study experience	A study experience that maximises students' chances of success in achieving their study goals whilst maintaining academic standards. The study experience will be coherent, personal and targeted and will extend throughout the students' time with the University.
Moving from informal to formal learning	Building on the current success of our platforms delivering open media (free audio, video and text content) this Strategic Priority will ensure that millions more people in the UK, and across the world, will be actively engaging with Open University educational materials. Many more students will choose to make the journey from this informal learning towards registration with The Open University and we will be recognised as a world leader in this area. Our students will benefit from increasing use of open media in modules and qualifications and this will help deliver a unique learning experience.

Enhancing the capabilities of the University

Focused research and scholarship	We will focus investment on defined areas and attract funding from diverse sources. Our aim is to deliver sustainable improvements in the quality and impact of our research.
People and culture to deliver high performance	There will be a more positive solutions-focused culture in which people continue to be passionate about supporting the University's mission but become even more outwardly orientated and focused on delivering excellent service and outcomes for our students and customers.
Robust and flexible systems	Flexible, integrated and robust systems will improve business agility.
Financially sustainable	The University will remain in a robust financial position, delivering excellent value for money to its students and other customers, and will be able to respond to real-time changes in funding and cash flow.

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 five principal risks that may affect its ability to deliver its strategic priorities.

Risk of a significant decline in core UK market income

Risk	A failure to implement an appropriate strategic response to the new higher education environment (discussed on pages 22 to 24) along with increased competition from other providers and insufficient demand for the Open University offer will impact on the University's ability to sustain its breadth of mission and reach all of the UK markets.
Mitigation	The University is seeking to influence governments in each of the nations of the UK, and will ensure it maintains a sustainable pricing strategy. It will promote the value of study and target new students in priority segments including widening participation.

Risk of a failure to forecast and report student numbers accurately

Risk	The complexity of funding methodologies and reporting requirements in each of the UK nations, along with the inherent unpredictability of student behaviour, could lead to funding council targets not being met, resources being inappropriately directed and opportunities for income generation being lost.
Mitigation	The University will develop a student number planning, monitoring and control system fit for each of the nations of the UK.

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

Risk	The failure to attract and retain students from priority groups and lack of a coherent high quality and targeted student experience along with a failure to maintain innovation could lead to a failure to meet national governments' policy requirements, and an inability to fulfil the mission. This in turn would lead to loss in reputation and of competitive advantage.
Mitigation	The University is working to enhance the student experience and ensure the curriculum remains relevant. A new access programme is being developed along with a new framework for delivery of qualifications.

Risk of a failure to ensure financial sustainability

Risk	The failure to bring staff numbers and other costs in line with reduced public funding and lack of engagement of staff in reviewing operations, and the failure to adopt new technologies, will lead to a threat to financial viability and failure to achieve service levels. This may also lead to forward investment plans being curtailed.
Mitigation	The University will continue to review its cost-base and encourage behavioural and cultural changes related to use of resources. Business processes and systems will be updated and the institutional financial model reviewed.
Opportunity	The University will seek to use its quality, scale and reach to diversify activities and revenue streams to generate sustainable new sources of net income. Innovative propositions for business and government will be developed, the International Strategy will be implemented and philanthropic income will be sought.

Risk and Risk Management (continued)

Risk of staff not engaged with strategic objectives

Risk	An ineffective communication of strategic intent and lack of accountability, along with inability to identify skills needs, and low staff turnover will lead to the success of major initiatives being threatened.
Mitigation	The University will build a high performance outcome based culture and develop future leadership, professional and academic capability. An engagement programme for staff will be developed and University culture and operations will be aligned with brand values.

Public Benefit

The charitable aims of The Open University are set out in its Royal Charter: "….the advancement and dissemination of learning and knowledge by teaching and research by a diversity of means such as broadcasting and technological devices appropriate to higher education, by correspondence tuition, residential courses and seminars and in other relevant ways, and to provide education of University and professional standards for its students and to promote the educational well-being of the community generally". This falls within the Charities Act 2011 charitable purpose of the advancement of education and the University's Council has taken into account the Charity Commission's guidance on the reporting of public benefit. The charitable aims are expanded in the mission statement on page 4.

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

Research	The results of the vast majority of the research carried out by the University are published in the public domain and are freely available to all through Open Research Online – the University's Open Access repository of research publications and other research outputs. In 2011/12 968 research outputs were published.
Learning	The University registered 246,626 students in 2011/12 and ranks highly in student satisfaction. A significant amount of learning material is made freely available through the internet using websites such as 'iTunesU', 'YouTube', and the University's 'OpenLearn' resource.

The University is a fee charging charity. However, unlike other universities, all students study part-time and the tuition fees in 2011/12 were not subject to statutory regulation. The typical tuition fees for a student to complete an undergraduate degree at the University would be approximately £4,400 at 2011/12 fee rates, whereas the maximum regulated fees for students attending university full-time in England were £10,125. In addition, in terms of full-time equivalent students, 27,228 benefitted from full financial support and 4,634 benefitted from partial financial support, a total of 31,862, as indicated in the following table:

Public Benefit (continued)

Number and proportion of full-time equivalent UK undergraduate students at course start receiving financial support for tuition fees

	Full financial support		Partial financial support		Students paying their own fees		Sponsorship		Total
	Number	Proportion	Number	Proportion	Number	Proportion	Number	Proportion	
England	22,361	35%	3,513	6%	33,701	53%	3,981	6%	63,556
Scotland	2,431	41%	732	12%	2,327	39%	480	8%	5,970
Wales	1,613	47%	244	7%	1,284	37%	294	9%	3,435
Northern Ireland	823	45%	145	8%	774	43%	73	4%	1,815
Total UK	27,228	36%	4,634	6%	38,086	51%	4,828	7%	74,776

Full support - The full cost of fees is covered by financial support assessed on household income

Part support - Part of the fees are covered by financial support assessed on household income (individual income for Individual Learning Accounts in Scotland)

Student paying - The student pays the course fee with no direct financial support or sponsorship

The University spent £6.3 million providing financial assistance to students in addition to the £8.0 million of funding bodies' access funds and bursaries disbursed to eligible students; these sources of assistance are included in the table above. Unlike other universities, students study from home and often whilst in full-time employment, thereby diminishing the financial burden of their studies.

The University's wholly owned subsidiary, Open University Student Budget Accounts Limited, provides students with a deferred payment facility at a lower than market rate of interest. Around 22% of all students, or 34% of those paying their own fees, take advantage of this facility. Furthermore, some students paying their own fees subsequently have them reimbursed in whole or in part by their employers, but the precise number is not known.

Student Satisfaction

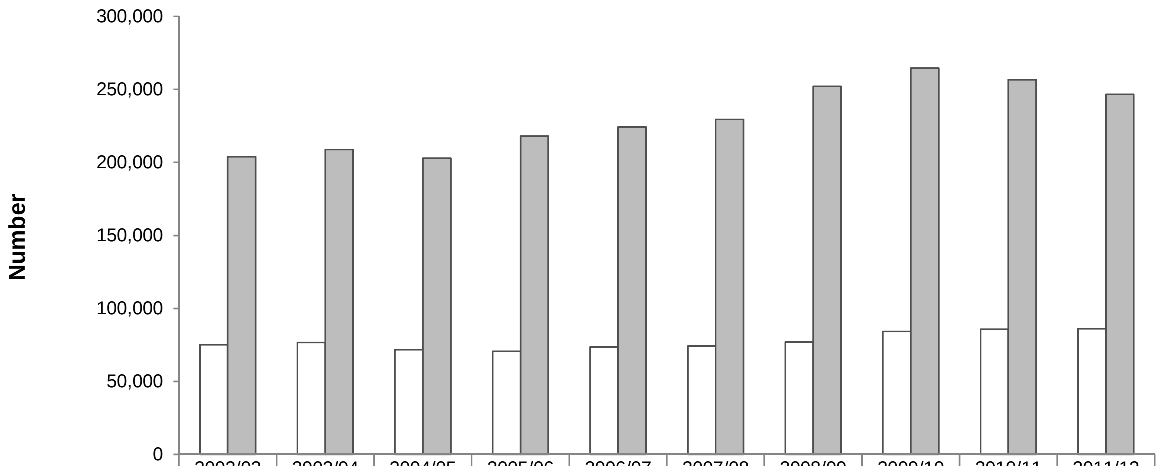
The Open University is committed to creating a curriculum that is fully attuned to student needs and aspirations, that reaches out to new groups of potential learners who seek career and personal advancement and that enables them to achieve success. We aim to provide the best possible learning experience for students, and so it is particularly pleasing that the first eight National Student Surveys ranked The Open University in the top four in respect of the overall satisfaction of its students. In 2012 The Open University was the university ranked highest overall in the UK, top in Scotland, top in Wales and second in Northern Ireland.

In the 2012 survey over 12,000 Open University students took part and 93% said they were satisfied overall. This year 226 institutions were surveyed, including further education colleges that offer higher education courses. The Open University has been at the forefront of the rankings since they were introduced in 2005: it is both gratifying that it maintains such a commanding position and a source of pride to achieve consistently outstanding results when operating at such a large scale.

Student Numbers

The key statistics on page 2 show that over the year student numbers fell by 10,048 or 4% to 246,626 and full-time equivalents grew by 469 or 1% to 86,173. Over the ten years since 2003, the increase in full-time equivalents was 10,975 or 15% and in individual students 42,820 or 21%. The faster growth in individual students over this decade reflects an increase in the proportion of students choosing to study shorter modules, although this trend has reversed slightly in the past two years, coupled with a significant increase in the number of students validated by the University.

Full Time Equivalent (FTE) students and Student Headcount



	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12
Full Time Equivalents	75,198	76,712	71,807	70,648	73,680	74,156	77,119	84,253	85,704	86,173
Student Headcount	203,806	208,725	202,894	217,972	224,350	229,404	252,191	264,616	256,674	246,626

Financial Year

In terms of full-time equivalents, 36% of all part-time undergraduates in UK higher education institutions study with The Open University.

Institutional Audit

In 2011, the Quality Assurance Agency for Higher Education (QAA) conducted an Audit of the University's Collaborative Provision, covering the management of the quality and standards of all provision leading to the award of a qualification or credit by the University delivered through an arrangement with a partner organisation. The resulting report confirmed that, in the context of its collaborative provision, confidence can be placed 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 areas of good practice and made some useful recommendations for further improvements which the University has been pursuing. This outcome builds on judgements of confidence in the University's management of quality and standards in non-collaborative provision in its 2009 Institutional Audit.

Research Outputs

The success of The Open University in the 2008 Research Assessment Exercise was expressed through an increase of £3.4 million (from £7.4 million to £10.8 million) in the Higher Education Funding Council for England's (HEFCE) grant allocated on research criteria. However, a consequence of the Government's Comprehensive Spending Review in 2010 was that HEFCE refocused the allocation of research funding to further enhance support to research rated as internationally excellent and, in 2010/11, commenced a two year phasing of changes that would see withdrawal of funding from 2* rated research and the reallocation of that funding to 3* and 4* research across the HEI sector. In 2011/12, year two of the phased changes, the University's HEFCE research grant decreased by £0.4 million to £10.1 million Income from external research grants has decreased from £15.6 million in 2010/11 to £13.8 million in 2011/12. The reduction reflects the harsher financial, and more competitive, external research funding environment.

Major changes in the external funding environment as various bodies adapt their policies and funding priorities to reflect the changing economic climate continue to affect the University. The changes have been reflected through deferred grant award announcement dates, in-project adjustments to the agreed funding for approved projects and the introduction of new criteria which define entry requirements for access to funding using evolving arguments of critical mass and quality thresholds.

Despite the challenging economic climate, the number of directly registered research students has remained stable, and of those, the proportion of new research students with some measure of external funding support was 46%. Completion rates continue to meet HEFCE benchmarks. A significant proportion of our research students are part-time whilst others are based in specialist research centres as part of our successful Affiliated Research Centre Programme.

Equality and Diversity

For more than 40 years, the Open University has been promoting social justice and equality of opportunity. It is core to our mission and is as important today as it was when we were founded. We have published nine institution-wide equality objectives for the priorities that we have identified. There are objectives for both students and staff and relate to the individual equality characteristics of age, disability, ethnicity, gender, religion or belief, sexual orientation, pregnancy and maternity, caring responsibilities, gender identity and community background in Northern Ireland. Further information is available on the University's equality and diversity website: http://www.open.ac.uk/equality-diversity/p2.shtml

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.

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.

Accounting Policies

The Group financial statements have been prepared in accordance with the Statement of Principal Accounting Policies set out on pages 38 to 41, which are in accordance with applicable United Kingdom Accounting Standards. In accordance with Financial Reporting Standard 18, *Accounting Policies*, the University's Finance Committee has reviewed the Group's accounting policies and considers them to be the most appropriate to the Group's operations.

Although International Financial Reporting Standards (IFRS) apply to listed companies and public sector bodies in the UK, they do not currently apply to not-for-profit public benefit entities. It is anticipated that IFRS will be introduced for public benefit entities in 2015; at that point the University's accounting policies will be revised accordingly.

Financial Strategy

The University's financial strategy is designed to maintain financial flexibility at all times. The University's Finance Committee reviewed the financial strategy during the course of 2011 and the University's Council accepted the recommendation that it should be strengthened as part of the University's overall risk management process. This was due to the inherent variability in cash flows that will arise in the UK market environment with the funding regime changes from October 2012.

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

Net Current Assets	To maintain net current assets at a minimum of 90 days' expenditure (previously 30 days), with a medium-term target of 180 days expenditure.
Income and Expenditure	To at least balance normal recurring income with normal recurring expenditure, taking one year with another, over the medium-term and to aim for a surplus of 5% of income (previously 2%).
Borrowings	To restrict the maximum level of borrowings to the value of £62 million (previously total fixed assets less deferred capital grants).

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

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

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 on page 12, sets minimum liquidity levels in order to ensure that sufficient financial flexibility is retained. Each year, as part of its normal planning processes, rolling five year financial forecasts are prepared: this process incorporates a review of capital expenditure and cash generation and so should enable any necessary future borrowing requirements to be negotiated well in advance of need.

The Group's foreign currency earnings form a very small proportion of total income and hence the overall exposure to exchange rate risk is small. Even when indirect foreign currency earnings, i.e. amounts invoiced in sterling to customers based outside the UK, are taken into account, the exposure to exchange rate risk remains small. It is therefore not appropriate to adopt particular strategies to reduce this risk, although this policy is kept under review.

The Group is potentially vulnerable to changing interest rates on its cash balances, which are held in the form of interest bearing deposits with financial institutions, in two money market liquidity funds, a sterling government fund and in UK fixed interest government bonds ("gilts") having a maturity within five years of the acquisition date. The cornerstone of the Group's treasury policy in very uncertain markets, when the timing of cash flows will change, remains the minimisation of risk: it limits and monitors the level of funds that may be placed in fixed term deposits, money market and sterling government funds or invested in UK gilts. Policies, incorporating clearly defined controls and reporting requirements, are in place to monitor credit and market risk, ensure sufficient liquidity, as well as to maintain the operating financial flexibility of the Group. Interest income is, however, a small proportion of total income and so, overall, the Group has low vulnerability to changing interest rates.

The counterparty profile of the University's gilts and term deposits as at 31 July 2012 is set out in Note 16 and summarised, along with the profile of cash balances, below; it has not changed significantly since then.

Spread of risk in the University's investment portfolio

	As at 31 July 2012		As at 31 July 2011	
	£m	**% of grand total**	£m	% of grand total
Gilts - Direct Holdings	**120.0**	**39%**	92.1	34%
Banks - Term Deposits	**35.4**	**12%**	102.4	38%
Total Gilts and Term Deposits	155.4	51%	194.5	72%
Money Market Funds	**100.0**	**33%**	60.0	22%
Banks - Overnight Deposits	**47.2**	**15%**	16.1	6%
Gilt Funds	**4.0**	**1%**	0.0	0%
Total Cash Balances	151.2	49%	76.1	28%
Grand Total	306.6	100%	270.6	100%

Treasury Management (continued)

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

Such has been the 'flight to quality' over the past two years, it is proving difficult to place deposits with the strongest financial institutions on acceptable terms. This accounts for the increased purchases of gilts and the use of money market liquidity funds and the introduction of a sterling government fund, which has the advantage of further reducing credit risk although at the cost for the gilt holdings of a small increase in interest rate risk.

The 2011 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 £0.4 million, less distributions received from the banks' administrators totalling £5.1million. A provision of £1.4 million (31 July 2011, £1.4 million) has been made against these sums in these financial statements, representing the estimated recovery of 80% (31 July 2011, 80%) of the former deposit and 80% (31 July 2011, 80%) of the latter. The estimated recoveries are those published by the administrators based on their experience over the administration. As at 31 July 2012 75% of the former deposit and 73% of the latter had been returned to creditors by the administrators and further receipts are expected before the end of 2013.

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 shown by the following table showing the level and proportion of income received in 2011/12:

Funding body grants	£232.9m 52%	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.
Tuition fees and education contracts	£174.0m 38%	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 were not regulated up to 2011/12 but neither were 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.
Other income	£28.3m 6%	This comes from a wide variety of sources, including grants from European Union and charitable bodies.
Research grants and contracts	£13.8m 3%	These arise from competitive bids for funding from a range of public and private funders. The total funding for research comprises this figure plus £10.1 million of the funding body grants, above.
Endowment and investment income	£4.6m 1%	The University has a small number of restricted expendable endowments; any new endowments received are included here, along with all income in respect of interest received from bank deposits, fixed interest government bonds ("gilts") and student loan accounts.

Further detail on the sources of income is available in the notes to the accounts, on pages 47 to 49.

Funding (continued)

Grants from the national higher education funding bodies can be used to support the teaching of students anywhere in the world, although only EU students resident in the UK are eligible for inclusion in their funding formulae and resultant allocations. 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. In 2012, the value of the teaching grant per student was 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 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.

Other UK universities are able to charge very high fees to overseas students choosing to study in the UK, whereas 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 way in which universities in England and Wales are funded is changing significantly: these changes, which will be implemented in England from October 2012, are discussed in the section on future developments starting on pages 22 to 25.

Long-Term Borrowing Facility

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

Royal Bank of Scotland also provided a loan of £3.0 million to one of the University’s subsidiaries, which is being repaid over 20 years.

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.

Pensions

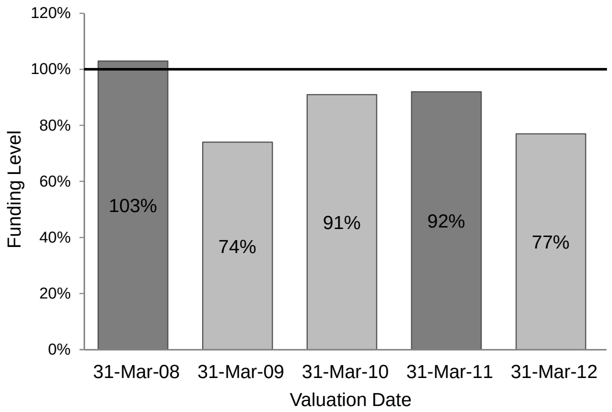
The University has only one defined benefit pension scheme available to its UK based staff, the national Universities Superannuation Scheme (USS). USS is completely independent of the University, which has no control over its policies or decisions.

The disclosures in Note 30 on pages 68 to 71 in respect of USS refer to the latest actuarial valuation, as at 31 March 2011. The funding level under the scheme-specific funding regime introduced by the Pensions Act was 92%. The actuary also valued the scheme using a number of other methods, including the basis set out in Financial Reporting Standard 17, *Retirement Benefits.* Under this method, the funding level was 82%.

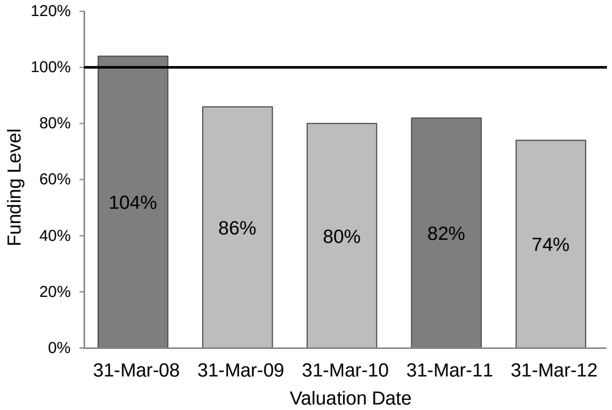
The trustee of the USS, after obtaining the advice of the actuary, has put in place a ten year recovery plan to address the scheme shortfall. For the first 6 years of the plan, up to 31 March 2017, the employer contribution rate will remain at 16% and for the remaining four years of the plan employers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

The actuary subsequently estimated the funding levels as at 31 March 2012, and these are shown along with all the funding levels since 2008 in the following graphs (the bars in bold show the results of full actuarial valuations and the other bars show the results of interim actuarial estimates):

Funding Level of USS



Scheme Specific Basis



FRS 17 Basis

Pensions (continued)

Over the last 12 months some rule changes for the USS have come into effect. The main changes were:

For active members at 1 October 2011

Pension age	The normal pension age for future service would be 65 and in the future would be linked to state pension age.
Contribution rate	The member contribution rate increased from 6.35% to 7.5% on 1 October 2011.
Pension increases	There would be a cap on pension increases for service after 1 October 2011.

For new entrants joining after 1 October 2011

A new section of the USS	The Career Revalued Benefits section of the USS is available to those new to the USS who join after 1 October 2011.
Benefits	The main difference from the original section is that benefits are accrued annually rather than based on final salary.

For all members

Increases in contributions to be shared	Where total contribution levels exceed 23.5% of salaries per annum, employers would pay 65% of the excess and members the remaining 35%.
New retirement options	A flexible retirement scheme was introduced for contributing members aged 55 or over.

The full list of changes can be found on the USS website: http://www.uss.co.uk/.

Results for the Year

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

Income

Income decreased by £16.9 million or 4% to £453.6 million

Funding body grants

Funding body grants decreased by £24.9 million or 10% to £232.9 million largely as a result of the non-repetition of a one-off grant from HEFCE of £20.6m in 2010/11. The recurrent grant from the Higher Education Funding Council for England (HEFCE) was £185.8 million and represented 85% of all recurrent grants from the various funding bodies. It decreased by £3.7 million or 2% from the total of £189.5 million in 2010/11. Recurrent grants from other funding bodies increased by £0.7 million from the total in 2010/11 to £31.6 million. Specific grants decreased by £22.1 million to £9.8 million because of the one-off grant from HEFCE referred to above, and decreases in specific grants from all funding bodies totalling £1.5 million.

Fee income

Fee income increased by £10.0 million or 6% to £174.0 million. The entire increase was in respect of fees paid by students, or on their behalf by their employers, in the United Kingdom, which increased by £10.1 million to £151.7 million. The overall increase results from a combination of general fee inflation and the increase in full-time equivalent students referred to on page 9.

Research grants and contracts

Income from research grants and contracts decreased by £1.8 million or 12% to £13.8 million, due to decreased value of work funded from Research Councils and other sources.

Other income

Other income decreased by £0.9 million to £28.3 million.

Endowment and investment income

Endowment and investment income increased by £0.7 million or 18% to £4.6 million as a result of increased balances invested.

Expenditure

Expenditure decreased by £7.5 million or 2% to £415.7 million

Staff costs

Total staff costs decreased by £5.4 million or 2% to £271.2 million. £6.7 million was from a reduction in the number of full-time equivalent staff, and £0.7 million from a reduction in early retirement and severance payments. This was offset by a £3.4 million increase resulting from nationally negotiated pay awards and progression of staff up incremental pay scales. The balance of £1.4 million arose from a change in mix in full-time and part-time staff.

Other (non-pay) operating expenses decrease

Other (non-pay) operating expenses, excluding depreciation and interest, decreased by £2.8 million or 2% to £133.3 million.

Surplus

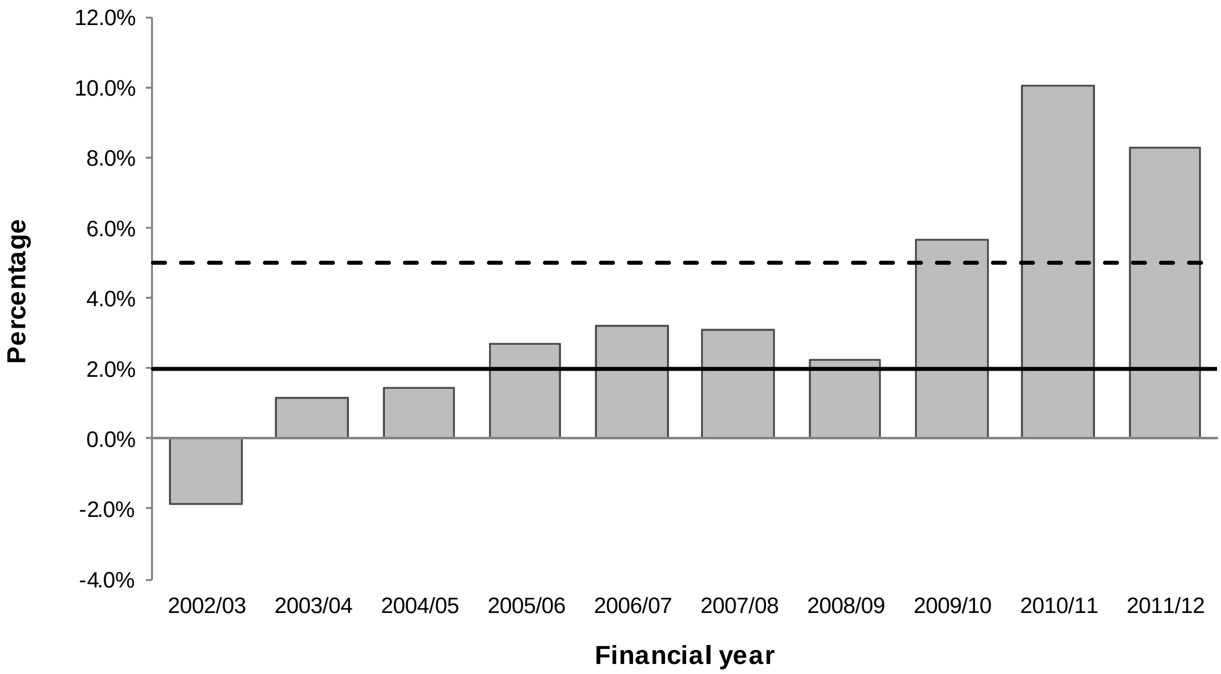
Surplus before tax and exceptional items of £37.9 million compared to £47.3 million last year.

Results for the Year (continued)

The 2011/12 surplus as a percentage of income was 8%. This highly creditable result was due to a combination of factors affecting both income and expenditure. The decrease in income arose from the one-off grant in 2010/11 of the University Modernisation Fund from HEFCE. In addition, cost increases were held at a much lower rate than the increase in income, due to a programme to reduce costs over an extended period to meet cuts in teaching grant as a result of the previous Government's decision to end funding for students in England studying for 'equivalent or lower qualifications' to those they already hold and the coalition Government's stated intention to reduce the public expenditure deficit.

The early commencement of expenditure reductions allows costs to be cut in a measured way so as to ensure that the quality of service to students is maintained. This has the beneficial effect of increasing the University's reserves at a time of such great uncertainty, which will allow time to deal with any unexpected revenue reductions. The history of the University's financial performance over the past decade, compared to the historic target of 2% up to 2009/10 and the current target of 5% set in its financial strategy, is summarised in the following graph.

Surplus as a percentage of income



Cash Flow

The Financial Highlights on page 2 show that the Group generated a net cash inflow of £32.6 million from operating activities, a decrease of £23.3 million compared to the previous year. Overall, the cash inflow before management of liquid resources shown on page 46 was £36.7 million, compared to £62.8 million last year.

Capital Projects

During the year additions to land and buildings totalled £0.1 million.

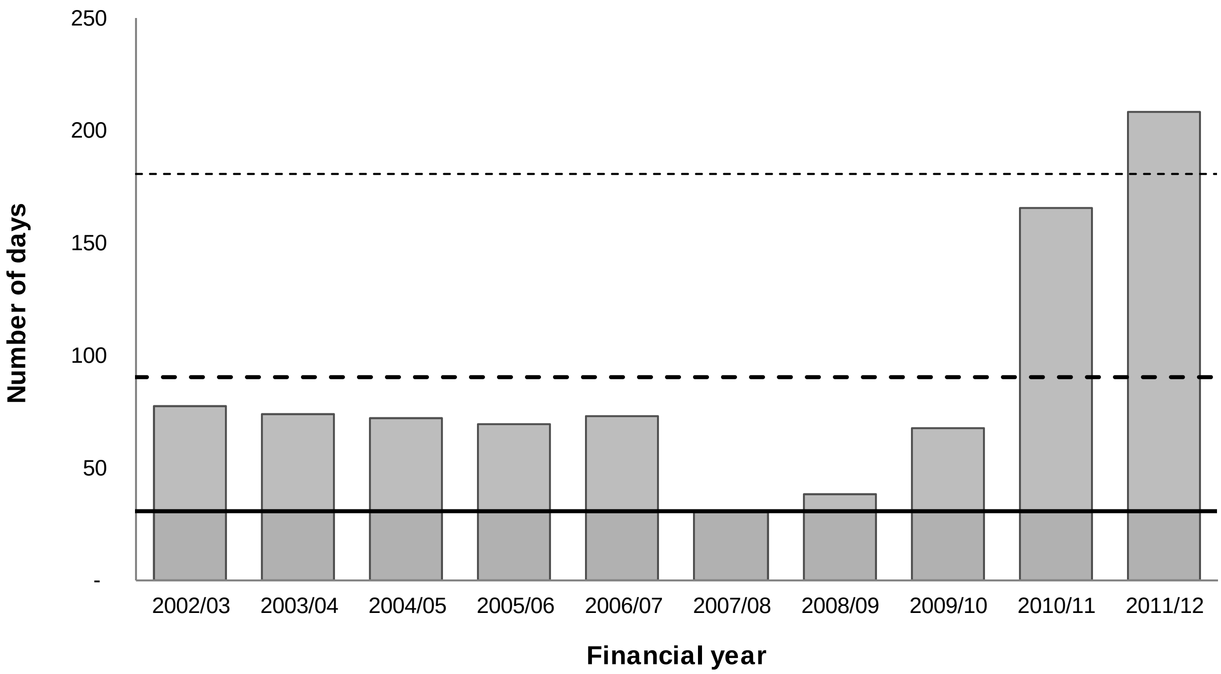
Balance Sheet

Tangible assets totalled £163.5 million at 31 July 2012, a decrease of £9.3 million since 31 July 2011 that reflects the end of a lengthy period of capital investment, with the result that depreciation is now exceeding the value of additions. 95% of the University's buildings are in the two highest building condition categories and the Estates Committee keeps the quality and operational capacity of the University's buildings under review.

At 31 July 2012, net current assets were £237.1 million, an increase of £45.6 million or 24% from the previous year's figure of £191.5 million. The 2012 figure represented 208 days of expenditure. This includes the draw down of a committed loan facility of £60.0 million on 27 April 2011, in itself equivalent to 53 days of expenditure.

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

Days expenditure represented by net current assets



In October 2008 the University repaid the entire amount of £60.0 million borrowed under a previous facility, leaving in place the current underlying committed facility, in order to reduce its exposure to counterparty default in respect of its deposits. As a result of this decision, the amount repaid was reclassified from long-term liabilities to current liabilities as at 31 July 2008. This reduced reported net current assets at 31 July 2008 to 27 days' worth of expenditure, as shown in the chart above, a little below the level of 30 days specified in the then financial strategy. This had improved to 68 days by 31 July 2010. The committed facility of £60.0 million was subsequently drawn down on 27 April 2011. The aggregate of net current assets represents 208 days' worth of expenditure at 31 July 2012 (31 July 2011, 165 days).

The University's tuition fees are payable in advance of modules starting. This results in the University holding cash at the balance sheet date due to modules partially complete at 31 July (£46.0m as shown in note 17 on page 60) and in respect of modules starting in the following financial year (£27.2m as shown in note 17 on page 60).

Going Concern

The University's activities and major risks can be found on pages 4 to 8; financial information, including performance against the financial strategy can be found on pages 18 to 20, and the factors likely to affect future developments, performance and position are set out in following section.

The University has revised its business strategy in the last year, as outlined on page 6. The primary risks, shown on pages 7 and 8, are reviewed on a quarterly basis, and the University Council receives regular updates on the University's financial position. An annual accountability return is also prepared for HEFCE, as the University's principal regulator. This includes an assessment of financial sustainability, management and mitigation of key risks and a review of the assumptions underlying the financial forecasts.

Whilst this is undoubtedly a time of uncertainty across the entire UK higher education sector, the University has considerable financial resources at its disposal. Action has been taken over the last three years to increase the level of cash and investments by £190.2m, from £116.4 million at 31 July 2009 to £306.6 million at 31 July 2012. This has been achieved through a combination of the drawdown of the £60 million loan facility in April 2011, which is repayable in 2033, the targeted cost reduction programme and the maintenance of student number levels.

Council decided in 2011 to alter the three parameters of the financial strategy to increase the robustness of the University's financial position, as outlined on page 12. The chart on page 19, showing the surplus as a percentage of income, demonstrates that the University continues to meet the revised target; whilst the chart on page 20, showing the days expenditure represented by net current assets, confirms that the medium term target of 180 days was achieved by 31 July 2012. The third element of the financial strategy, to restrict the maximum level of borrowings to the value of £62.0 million, continues to be within the target, as shown in note 18 of the accounts, on page 61.

The Open University is facing a period of considerable change in its funding, as described in the section of future developments on pages 22 to 25. Although the totality of income is unlikely to change significantly, the proportion derived from funding body grants will reduce dramatically over the next five years whilst the proportion derived from tuition fees will increase significantly. At the same time the timing of receipts from these sources will change considerably, giving rise to a large call on liquidity over this period.

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

Future Developments

Funding of Teaching

The funding environment for the teaching of higher education students in the UK is changing dramatically and the arrangements in each of the UK nations are diverging significantly, as shown below:

England	In England, the balance between grant funding paid to universities and colleges and fees charged to students is changing in 2012/13 from being directed largely towards the former to almost wholly the latter. As is the case now, many full-time students will be eligible for a loan from the Student Loans Company to meet the whole cost of their fees; for the first time access to fee loans is being extended to part-time students.
Scotland	In Scotland, higher education will remain free for full-time students from Scotland and other European Union countries outside the UK; the cost of teaching part-time students will be met through a combination of fees, payable either by students or their employers to the extent that fees cannot be funded by the newly increased grants to individuals, and, largely, the direct teaching grant funded for part-time students to universities.
Wales	In Wales, there may also be a shift from grant funding to funding almost wholly on the basis of student fees from 2013 or 2014, although the students will be funded by a mixture of grants and repayable loans.
Northern Ireland	in Northern Ireland whilst the level of full-time student fees has been set at the current level plus inflation, there is currently no provision for loans for part-time students: primary legislation would be required for this and it is unlikely that loans would be available before 2013/14. In addition, HEFCE is discussing the transfer of funding for The Open University's students in Northern Ireland to the Department of Employment and Learning, which would complete the devolution process for The Open University.

These changes represent the biggest transformation in the funding of higher education in the history of The Open University, and arguably in the sector since the formation of the University Grants Committee in 1919.

In the first half of 2011 the University undertook a major project to develop a new UK market strategy. A general population segmentation was constructed to give a numerical understanding of attitudes, preferences and self-reported behaviours in order to group and understand segments of the higher education market. An analysis of the competitive environment was produced, enabling analysis of the competitive pressure in each segment. Research was undertaken using a trade-off approach to understand perceptions of pricing and value. A micro-segmentation of current Open University students was undertaken to give a deeper understanding of their motivation for study. The University's student database was analysed to validate and refine the market research, understand segment specific growth and inform completion and progression rate assumptions. Finally, an economic viability tool was developed to undertake financial modelling of different scenarios.

As a result of this work the Council committed to the approach outlined below.

Future Developments (continued)

The Open University has focused its efforts towards

Quality and reach	Retain its positioning as the high quality pan-UK provider of part-time, flexible study for adults.
Widening access	Maintain its commitment to those from disadvantaged backgrounds: the aim is to ensure that these groups are as represented in the future Open University student population as they are today. This will be achieved, in part, through the roll out of a Widening Access and Success Programme that will provide low risk entry routes to HE.
Welcoming all types of students	Continue to welcome all types of students. The University has focused attention on groups which it is particularly well-placed to serve. These are in the traditional heartlands for The Open University: Adults, both employed and unemployed, without an undergraduate degree looking for a qualification. Adults, generally older, looking to enhance their knowledge by studying modules. Employed graduates looking to study at postgraduate level.
Student pathways	Retain an open access policy whilst supporting students on pathways which maximise their chances of success.

The Open University will succeed by

Orientating its marketing activities	Orientating its marketing activities and messaging around the needs and preferences of these priority segments. As part of this the University has concentrated on:	
	Value	Clearly expressing to students the distinctive value of The Open University, the study options available and the price.
	Communications	Communicating effectively the funding options available to potential students to minimise the upfront cost for them and maximise affordability.
Designing its offer	Designing its offer around the needs and preferences of these priority segments. This has not required a radical overhaul of the University's curriculum content in the short term, but it will include:	
	Routes to qualifications	Providing much clearer and easier routes to qualifications for the majority of students (this will build on, but accelerate, the work already underway) and improving the support to students to stay with the University to complete qualifications.
	Career aims	Ensuring Open University qualifications help students meet their career aims.
	Enhancing quality	Continuously improving the quality of the student experience and enhancing the University's reputation for quality for potential students.

Future Developments (continued)

In England and non-UK territories The Open University has introduced

Simplified pricing	A standard rate for all undergraduate courses and a pro rata price per credit has been established.
Fees of £5,000 per FTE	Undergraduate courses have been priced at £5,000 per annum per full-time equivalent for 2012/13 for individuals studying with the University for the first time.
Transitional arrangements	Transitional arrangements for existing students in England and non-UK territories have been put in place.

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

The changes to higher education funding have to be viewed through the prism of the global economic conditions. Following the recession that began in 2008 economic recovery world-wide has been faltering since summer 2011, compounded by the very serious concerns surrounding government indebtedness in Europe and the United States of America. In the UK, unemployment has not significantly increased, although the full impact of public spending cuts and losses to public sector jobs has yet to be felt. A study undertaken by London Economics found no correlation between economic conditions and demand for higher education; however, there is a risk that there may be a weakening of demand due to reduced ability and willingness of individuals to pay fees or employers being less inclined to sponsor students.

There is, though, potential for universities, and especially for The Open University, to provide an attractive solution for those who need to retrain for new careers or to protect current jobs. Part-time study whilst in work may be particularly attractive in the face of the increased tuition fees that all English universities are having to levy from 2012. Not only does The Open University offer the ability to study whilst in full time employment, but its announced fee of £5,000 per full time equivalent for 2012 compares favourably with other universities, many of which will be charging the maximum £9,000.

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

Initial indications of student recruitment are that demand and registrations for the academic year are holding up well. Having spent the last three years building up the University's cash reserves, results for 2012/13 are expected to be around breakeven, which is after allowing for expenditure on strategic initiatives to position the University advantageously in the new environment.

Future Developments (continued)

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 in more than 25 countries benefit from the University's materials and pedagogy. At the same time the University is boosting its involvement in teaching in Africa and Asia by working with a variety of public and private organisations. The University is seeking to put all its international activities on a more commercial footing, except where they can be funded from philanthropic donations, in view of the loss of UK public funding over the next few years.

Research

It is clear that UK public funding for research from both HEFCE, as core funding, and UK Research Councils, for individual projects, are under pressure as a result of the Comprehensive Spending Review and the Governments desire to concentrate research funding. These two sources, totalling some £17.0 million in 2011/12, form a relatively small but important part of the University's funding and steps will be taken to mitigate any future funding reductions once the various funding agencies' policies become clear.

People

The University's consistently excellent performance in the National Student Survey and its sound financial position 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 in a challenging environment to position the University so strongly for the future.

The following members of Council retired from office in the last year: Professor J Fortune, Dr M Hopkins and Ms L Murphy. The Council wishes to express its gratitude for their contribution.

The Council also wishes to express its appreciation to the alumni and supporters of the University who made donations and bequests in the year. The total received in the year from these sources was £2.8 million.

Conclusion

This is a time of world-wide economic problems, a fragile financial sector and austerity programmes of Western governments. On top of this the way in which universities in England are funded is changing significantly, making it difficult to predict how the student market will change and requiring expenditure on new systems and change programmes. However, the business model of The Open University looks increasingly relevant to those who have a thirst for knowledge or are in mid-career and need to change direction. If the UK is to prosper in a competitive globalised economy it has to raise its game as a knowledge economy, or face declining relative standards of living. The Open University, which provides excellent cost effective higher education, will be an important contributor to this transformation and enters this period of uncertainty in a strong financial position. It is encouraging that student recruitment in the early part of the new financial year remains strong.

Approved by Council on 27 November 2012 and signed on its behalf by:

D M C E STEEN	**M S HEDGES**	**M G BEAN**
Treasurer	Finance Director	Vice-Chancellor

Corporate Governance and Accountability Arrangements

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

Throughout the year ended 31 July 2012, and up to the date of approval of the financial statements, the University has been in compliance with all the Code provisions set out in the UK Corporate Governance Code insofar as they relate to universities.

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

In respect of the year ended 31 July 2012, the University's Council can report that there was no element of this Code with which the University's practice was not consistent.

The University Council

The membership of the Council is set out in the University Statutes. At the date of approval of these financial statements there are 22 members comprising: ex officio and co-opted external members; the Vice-Chancellor; the President of the Open University Students Association (OUSA) and a student and staff employees appointed after election. Since the University is a charity the Council members are the charity trustees. The roles of Chair and Vice-Chair of the Council are separated from the role of the University's Chief Executive, the Vice-Chancellor.

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

The Statement of Responsibilities of the University's Council on pages 34 and 35 describes its responsibilities in respect of maintaining accounting records, preparing financial statements and accountability arrangements. It also summarises the University's system of internal control and its system of risk identification and management.

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

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

The University Council (continued)

The Council met four times during the year. The members of the University's Council during the year ended 31 July 2012, and their attendance at the meetings held during their membership in that year, together with members serving in the period after 31 July 2012 and up to the date on which the financial statements were approved, were:

Ex-officio members who are also officers of the University

Pro-Chancellor & Chair of the Council	Lord Haskins (4/4)
Treasurer	Mr D M C E Steen (4/4)
Vice-Chancellor (Employee)	Mr M G Bean (4/4)

Ex officio members

President, Open University Students Association	Mrs M Cantieri (3/4)

Elected members

Members of Senate (Employees)	Dr S Ding (4/4)
	Professor J Fortune (to 31 July 2012) (4/4)
	Mr R O Humphreys (4/4)
	Dr C K Lloyd (4/4)
	Dr T O'Neil (3/4)
	Professor J Taylor (from 1 August 2012)
Associate Lecturers (Employees)	Dr I Falconer (4/4)
	Mr B Heil (from 1 August 2012)
	Dr M Hopkins (to 31 July 2012) (4/4)
Open University Students Association	Ms L Murphy (to 31 July 2012) (4/4)
	Mr C Shaw (from 1 August 2012)
Non-academic Staff (Employees)	Mrs S Dutton (4/4)

External members co-opted by Council

Mr E Briffa (2/4)	Mrs S Macpherson (3/4)
Mr H R Brown (3/4)	Mr P Mantle (3/4)
Dr A Freeling (3/4)	Ms R McCool (4/4)
Mrs C A Ighodaro (4/4)	Mrs R Spellman (4/4)
Mr B S Larkman (4/4)	Professor W Stevely (4/4)

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

University Secretary	Mr A F Woodburn
Finance Director	Mr M S Hedges
Director, Students	Mr W S Swann
Pro-Vice-Chancellors	Professor A Bassindale
	Professor T Blackman (from 5 September 2011)
	Professor A W Tait

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 twice during the year, one of the meetings being held by correspondence. The members during the year ended 31 July 2012, and their attendance at the meetings held during their membership, were:

External members of Council	Chair	Lord Haskins (2/2) Professor W Stevely (2/2)
Employees	Vice-Chancellor	Mr M G Bean (2/2) Dr M Hopkins (2/2) Mr R O Humphreys (2/2)

Estates Committee

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

The Estates Committee met twice during the year. The members during the year ended 31 July 2012, and their attendance at meetings during their membership, were:

External member of Council	Chair	Mr P Mantle (2/2)
Other external members		Mr R Booker (2/2) Mr R J Chenery (to 9 March 2012) (1/1) Mr W Monk (from 1 August 2012)
Employees		
	Mr M S Hedges - Finance Director (2/2) Ms A Howells (2/2) Ms M Kirby (2/2) Professor N Mason (2/2)	Professor D Rowland (1/2) Mrs N Whitsed (2/2) Mr A F Woodburn - University Secretary (2/2)

Remuneration Committee

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

The Remuneration Committee met twice during the year. The members during the year ended 31 July 2012 and attendance at the meetings during their membership were:

External members of Council	Chair	Lord Haskins (2/2)
		Mr D M C E Steen (2/2)
		Ms R McCool (2/2)
		Professor W Stevely (2/2)

External members of the Council receive no remuneration for their services although expenses incurred in attending meetings are met by the University. Members of the Council who are employees of the University receive no additional remuneration for their services to the Council although, once again, expenses incurred in attending meetings are met by the University. The aggregate expenses paid to or on behalf of members of Council in this capacity is disclosed in Note 7 on page 51.

Staff Strategy Committee

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

The Staff Strategy Committee met three times during the year. The members during the year ended 31 July 2012, and their attendance at the meetings held during their membership, were:

External members of Council	Chair	Ms R McCool (3/3)
		Mrs R Spellman (3/3)
Other external members		Ms A Corbyn (to 26 September 2011) (0/0)
Employees		Mr A Burrell (3/3)
	Pro-Vice-Chancellor	Professor T Blackman (from 5 September 2011) (3/3)
	Pro-Vice-Chancellor	Professor A Bassindale (to 5 September 2011) (0/0)
		Dr C K Lloyd (3/3)
	University Secretary	Mr A F Woodburn (2/3)

Strategic Planning and Resources Committee

In respect of its strategic and development responsibilities, the Council receives recommendations and advice from the Strategic Planning and Resources Committee, a joint committee of the Council and of the Senate, the body responsible for the University's academic affairs. 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 2012, and their attendance at the meetings held during their membership, were:

External members of Council	Chair	Lord Haskins (4/4)
		Mr D M C E Steen (4/4)
		Mr E Briffa (4/4)
		Professor W Stevely (from 1 August 2011) (4/4)
Employees	Vice-Chancellor	Mr M G Bean (2/2)
	Deans' representative	Dr S Bromley (to 26 January 2012) (1/1)
	Deans' representative	Dr H Rymer (from 1 February 2012) (2/3)
	Senate elected member	Mrs E Armitage (from 13 December 2011) (3/3)
	Senate elected member	Professor A De Roeck (4/4)
	Senate elected member	Mr D Goldrie (4/4)
	Senate elected member	Ms B Stephens (to 14 November 2011) (0/1)

Development Committee

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

The Development Committee met twice during the year. The members during the year ended 31 July 2012, and their attendance at meetings during their membership, were:

External members of Council	Chair	Dr A Freeling (2/2)
		Lord Haskins (2/2)
		Mr D M C E Steen (2/2)
Employee	Vice-Chancellor	Mr M G Bean (2/2)
Officers in attendance	Finance Director	Mr M S Hedges
	University Secretary	Mr A F Woodburn
	Director of Development	Ms E Prak

Finance Committee

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

The Finance Committee met five times during the year. The members during the year ended 31 July 2012 (of whom the Chair and two others have recent and relevant financial experience), and their attendance at the meetings held during their membership, were:

External members of Council	Chair	Mr D M C E Steen - Chair (5/5)
		Lord Haskins (5/5)
		Mr H R Brown (5/5)
		Mr B S Larkman (5/5)
Other external members		Mr J Gollan (from 1 August 2011) (4/5)
		Mr F Neale (to 27 March 2012) (2/4)
Employee	Vice-Chancellor	Mr M G Bean (4/5)
Officers in attendance	Finance Director	Mr M S Hedges (5/5)
	University Secretary	Mr A F Woodburn (4/5)

Audit Committee

The Audit Committee comprises wholly external members, drawn from both within and outwith the Council, and so has no executive responsibility. During the year ended 31 July 2012 the Audit Committee met three times. Its members and their attendance at meetings held during their membership were:

External members of Council	Chair	Mrs C A Ighodaro - Chair (3/3) Ms S Macpherson (2/3)
Other external members		Mr C Hughes (3/3) Mr C Juman (3/3) 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.

Audit Committee remit

Risk management and internal controls	Reviewing the effectiveness of the Group's arrangements for risk management, controls and governance.
Value for money and data quality	Satisfying itself and assuring Council, with advice from the Chief Auditor and other internal and external sources of assurance as appropriate, that satisfactory arrangements are in place to promote economy, efficiency and effectiveness, and ensure the quality of data submitted to the various funding councils.
Internal Audit	Reviewing and approving the terms of reference of the Internal Audit function and monitoring its performance and effectiveness.
External Audit	Advising the Council, as necessary, on the appointment, in accordance with the HEFCE Audit Code of Practice, and remuneration of the external auditors, and monitoring their performance and effectiveness through consideration of their reports and discussion with both management and the auditors. Reviewing with the external auditors the scope and nature of their audit, including the report to Audit Committee written by the external auditors.
Regulatory Compliance	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.

Audit Committee (continued)

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 agreed actions 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, who were appointed in 2006 and whose appointment will be formally reviewed in 2013. In 2006 the decision was taken to segregate as far as possible the provision of audit related services from non-audit services in order to further enhance the independence of the external auditors. One piece of continuing work was commissioned in 2010/11 and commenced in 2011/12 in respect of the conversion of the University's subsidiaries finance statements to iXBRL format. During the year a protocol to preserve ongoing independence was agreed with the external auditors in respect of situations whereby the University provided services to them.

Performance Evaluation of Council and its Committees

The Council evaluated its performance in 2011/12 through an effectiveness review, which included a profile of the year's business against its responsibilities and incorporated a summary of independent evaluations of the way in which the Council had operated during the year from each member. Each Council Committee conducted a similar effectiveness review.

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

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

The Council is responsible for ensuring that proper accounting records are kept that disclose with reasonable accuracy at any time the financial position of the University and enable the financial statements to be prepared in accordance with the University's Charter and Statutes, the Statement of Recommended Practice on Accounting for Further and Higher Education Institutions and other relevant accounting standards. Under the Financial Memorandum between the Higher Education Funding Council for England (HEFCE) and the University's Council and the HEFCE Accounts Direction, the Council, through its designated office holder, is required to prepare financial statements for each financial year that give a true and fair view of the University's state of affairs and the surplus or deficit and cash flows for that year. The Council considers that the financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary to understand the University's performance, business model and strategy.

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

Accounting policies	Are selected and applied consistently.
Judgements and estimates	Are reasonable and prudent.
Accounting standards are followed	Applicable accounting standards are followed, subject to any material departures disclosed and explained in the financial statements.
Going concern basis is applicable	Financial statements are prepared on the going concern basis unless it is inappropriate to presume that the University will continue in operation. As indicated on page 21 the Council is satisfied that it has adequate resources to continue in operation for the foreseeable future: for this reason, the going concern basis continues to be adopted in the preparation of the financial statements.

The Council has taken reasonable steps to:

Use funds properly	Ensure that funds from HEFCE, the Scottish Funding Council (SFC), the Higher Education Funding Council for Wales (HEFCW), the Department of Employment and Learning (Northern Ireland) (DELNI) and the 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.
Implement controls	Ensure that there are appropriate financial and management controls in place to safeguard public funds and funds from other sources.
Manage risks	Ensure that there are effective systems of risk identification and management that cover all risks, produce a balanced portfolio of risk exposure, are based on a clearly articulated policy and approach, are monitored and reviewed regularly, are integrated into normal business processes and aligned to the University's strategic objectives and are managed by heads of units and senior managers.
Safeguard assets	Safeguard the assets of the University and prevent and detect fraud.
Manage resources	Secure the economical, efficient and effective management of the University's resources and expenditure.

Risk Management

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

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

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

Internal Control

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

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

We have audited the group and parent institution financial statements (the ''financial statements'') of The Open University for the year ended 31 July 2012 which comprise the Consolidated Income and Expenditure Account, the Consolidated and University Balance Sheets, the Consolidated Cash Flow Statement, the Statement of Group Total Recognised Gains and Losses, the Accounting Policies and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Respective responsibilities of Council members and auditors

As explained more fully in the Responsibilities of University's Council set out on page 34 the Council is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Council as a body in accordance with section 10 of the Charters and statutes of the University and no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and parent institution's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Council and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the financial statements to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the group's and University's affairs as at 31 July 2012 and of the group's income and expenditure, recognised gains and losses and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been properly prepared in accordance with the Statement of Recommended Practice – Accounting for Further and Higher Education.

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

In our opinion, in all material respects:

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

Matters on which we are required to report by exception

We have nothing to report in respect of where the HEFCE Audit Code of Practice issued under the Further and Higher Education Act 1992 requires us to report to you if, in our opinion the statement of internal control included as part of the Responsibilities of the University's Council is inconsistent with our knowledge of the parent institution and group.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Milton Keynes
27 November 2012

1 Basis of Preparation

The financial statements have been prepared on a going concern basis under the historical cost convention as modified by the revaluation of land and buildings, in accordance with the Statement of Recommended Practice, *Accounting for Further and Higher Education Institutions,* (SORP) published in July 2007 and in accordance with applicable United Kingdom Accounting Standards.

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 2012.

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

3 Recognition of Income

a. Fee income is credited to income over the period in which the students are studying. This is achieved by using a time apportionment basis over the period of the relevant module.

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 modules that begin in a future financial year, the income is included in creditors as student fee income in advance. Where these fees have not been paid wholly or partly in advance by the end of the financial year in which registration takes place 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, it is probable that a transfer of economic benefits will be required to settle the obligation and where the amount of the obligation can be reliably estimated.

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

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

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

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

5 Foreign Currencies

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

6 Pension Schemes

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

Defined benefit scheme (USS)

The assets of the scheme are held in a separate trustee-administered fund. Because of the mutual nature of the scheme, the scheme's assets are not hypothecated to individual institutions and a scheme-wide contribution rate is set. The University is therefore exposed to actuarial risks associated with other institutions' employees and is unable to identify its share of the underlying assets and liabilities in full in USS on a consistent and reasonable basis and therefore, as required by 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.

Defined contribution schemes (FSSU, OURSP and others)

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

7 Leasing Costs

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

8 Stocks of Finished Goods

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

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

9 Investments

a. Investments in subsidiaries are shown at cost.

b. Current asset investments comprise funds held on deposit, in money market funds and in short-date UK government stocks (gilts). Interest is accrued on a daily basis.

10 Land and Buildings

Land and buildings held at 31 July 1998 are shown in the balance sheet at the valuation on that date; land and buildings acquired after 31 July 1998 are shown at cost. The revaluation at 31 July 1998 was undertaken in accordance with the appraisal and valuation manual prepared by the Royal Institution of Chartered Surveyors. The Walton Hall campus was valued on the basis of depreciated replacement cost and all other buildings on the basis of existing use value. The valuation was conducted by Chesterton plc, International Property Consultants.

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

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

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

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

11 Equipment

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

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

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

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

12 Heritage Assets

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

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

13 Taxation Status

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

14 Accounting for Donations

a. Unrestricted donations

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

b. Endowment funds

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

	Notes	**Year Ended 31 July 2012 £m**	Year Ended 31 July 2011 £m
Income			
Funding body grants	1	**232.9**	257.8
Tuition fees and education contracts	2	**174.0**	164.0
Research grants and contracts	3	**13.8**	15.6
Other income	4	**28.3**	29.2
Endowment and investment income	5	**4.6**	3.9
Total income		453.6	470.5
Expenditure			
Staff costs	6	**271.2**	276.6
Other operating expenses	7	**133.3**	136.1
Depreciation		**10.6**	10.6
Interest payable and other finance costs	8	**0.6**	(0.1)
Total expenditure		415.7	423.2
Surplus after depreciation and before tax and exceptional items		37.9	47.3
Less: Taxation	9	**0.3**	0.0
Surplus after depreciation and tax		37.6	47.3
Exceptional items: continuing operations	10	**0.0**	0.7
disposal of fixed asset	11	**0.0**	1.1
Surplus for the year retained within reserves		37.6	49.1

Note of Historical Cost Surplus

	Notes	Year Ended 31 July 2012 £m	Year Ended 31 July 2011 £m
Surplus after depreciation of assets at valuation and tax		**37.6**	47.3
Difference between an historical cost depreciation charge and the actual depreciation charge for the year	22	**0.9**	0.9
Historical cost surplus after tax		38.5	48.2

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 38 to 41 and the notes on pages 47 to 71 form an integral part of these financial statements.

	Notes	**Year Ended 31 July 2012 £m**	Year Ended 31 July 2011 £m
Surplus on continuing operations after depreciation of assets at valuation, tax and exceptional items		**37.6**	49.1
New expendable endowments	14	**0.0**	0.1
Total recognised gains relating to the year		37.6	49.2

The accounting policies on pages 38 to 41 and the notes on pages 47 to 71 form an integral part of these financial statements.

	Note	Consolidated		University	
		As At 31 July 2012 £m	As At 31 July 2011 £m	**As At 31 July 2012 £m**	As At 31 July 2011 £m
Fixed Assets					
Tangible assets	12	**163.5**	172.8	**161.0**	170.3
Investments	13	**0.0**	0.0	**1.0**	1.0
Total Fixed Assets		163.5	172.8	162.0	171.3
Endowment Assets	14	0.5	0.5	0.5	0.5
Current Assets					
Stocks of finished goods		**4.6**	4.3	**4.6**	4.3
Debtors - due within one year	15	**39.9**	39.5	**20.8**	22.1
- due after one year	15	**0.0**	0.2	**62.9**	63.1
Gilts and term deposits	16	**155.4**	194.5	**155.4**	194.5
Cash at bank and in hand		**151.2**	76.1	**146.0**	71.4
Total Current Assets		351.1	314.6	389.7	355.4
Less Creditors : amounts falling due within one year	17	114.0	123.1	153.4	164.8
Net Current Assets		237.1	191.5	236.3	190.6
Total Assets Less Current Liabilities		401.1	364.8	398.8	362.4
Less Creditors : amounts falling due after more than one year	18	62.3	62.4	60.5	60.5
Less Provisions for liabilities	19	3.5	0.0	3.5	0.0
Total Net Assets		335.3	302.4	334.8	301.9

	Note	Consolidated		University	
		As At 31 July 2012 £m	As At 31 July 2011 £m	**As At 31 July 2012 £m**	As At 31 July 2011 £m
Deferred Capital Grants	20	82.0	86.7	82.0	86.7
Expendable endowments	21	0.5	0.5	0.5	0.5
Reserves					
Revaluation reserve	22	**2.5**	3.4	**2.5**	3.4
General funds	22	**250.3**	211.8	**249.8**	211.3
Total Reserves		252.8	215.2	252.3	214.7
Total Funds		335.3	302.4	334.8	301.9

The accounting policies on pages 38 to 41 and the notes on pages 47 to 71 form an integral part of these financial statements, which were approved by Council on 27 November 2012 and signed on its behalf by:

D M C E STEEN
Treasurer

M S HEDGES
Finance Director

M G BEAN
Vice-Chancellor

	Notes	**Year Ended 31 July 2012 £m**	Year Ended 31 July 2011 £m
Net cash inflow from operating activities	23	32.6	55.9
Return on investments and servicing of finance			
Interest received		**5.1**	4.8
Interest paid		**(0.6)**	(0.1)
Net cash inflow from returns on investment and servicing of finance		4.5	4.7
Tax paid	9	(0.3)	0.0
Capital expenditure			
Payments to acquire tangible assets		**(1.2)**	(5.5)
Deferred capital grants received		**1.1**	2.7
Proceeds of sale of fixed asset		**0.0**	5.0
Net cash inflow from capital expenditure		(0.1)	**2.2**
Cash inflow before management of liquid resources		36.7	62.8
Management of liquid resources			
Cash transferred from / (to) term deposits or gilts		**38.5**	(64.2)
Financing			
New bank loan drawn down in year		**0.0**	60.0
Loan repayment in the year		**(0.1)**	(0.2)
Increase in cash in the year	24,25	75.1	**58.4**

The accounting policies on pages 38 to 41 and the notes on pages 47 to 71 form an integral part of these financial statements.

1 Funding Body Grants

	Year Ended 31 July 2012 £m	Year Ended 31 July 2011 £m
Recurrent grants		
Higher Education Funding Council for England (HEFCE)	**185.8**	189.5
Scottish Funding Council (SFC)	**20.8**	19.9
Higher Education Funding Council for Wales (HEFCW)	**8.0**	7.9
Training and Development Agency for Schools (TDA)	**2.7**	2.9
Department of Employment and Learning (Northern Ireland) (DELNI)	**0.1**	0.2
Total Recurrent grants	217.4	220.4
Specific grants		
Higher Education Funding Council for England		
University Modernisation Fund	**0.0**	20.6
Other	**7.0**	8.8
Scottish Funding Council	**0.8**	1.0
Higher Education Funding Council for Wales	**2.0**	1.5
Total Specific grants	9.8	31.9
Deferred capital grants released in year - see note 20		
Higher Education Funding Council for England		
Buildings	**4.4**	4.9
Equipment	**0.8**	0.6
Scottish Funding Council		
Buildings	**0.5**	0.0
Total Deferred capital grants released in year	5.7	5.5
Total Funding Body Grants	232.9	257.8

2 Tuition Fees and Education Contracts

	Year Ended 31 July 2012 £m	Year Ended 31 July 2011 £m
Student fees		
United Kingdom	**151.7**	141.6
Overseas	**21.1**	21.2
Research training support grants	**1.2**	1.2
Total Tuition Fees and Education Contracts	174.0	164.0

3 Research Grants and Contracts

	Year Ended 31 July 2012 £m	Year Ended 31 July 2011 £m
Research Councils	**6.9**	8.2
Other sources, including industrial companies	**6.9**	7.4
Total Research Grants and Contracts	13.8	15.6

4 Other Income

	Year Ended 31 July 2012 £m	Year Ended 31 July 2011 £m
Other grants and contracts	**14.8**	16.7
Royalties received	**0.3**	0.3
External computer services	**0.1**	0.2
Sub-tenants' rental and services	**0.1**	0.1
Validation fees	**3.7**	2.3
Other income	**9.3**	9.6
Total Other Income	28.3	29.2

5 Endowment and Investment Income

	Year Ended 31 July 2012 £m	Year Ended 31 July 2011 £m
Interest on student loans	**0.6**	0.6
Other interest receivable	**4.0**	3.3
Total Endowment and Investment Income	4.6	3.9

6 Staff Costs

	Year Ended 31 July 2012 £m	Year Ended 31 July 2011 £m
Staff costs		
Salaries and other payments to employees	**226.8**	229.6
Social security costs	**15.6**	15.9
Pension costs - see Note 30	**28.8**	31.1
Total Staff Costs	271.2	276.6
Staff costs by category		
Full-time staff categories	**200.9**	207.4
Associate lecturers, residential school staff and examination marking fees	**59.1**	58.1
Other staff costs, including casual staff	**6.1**	5.3
Early retirement and voluntary severance	**5.1**	5.8
Total Staff Costs	271.2	276.6

Remuneration of Higher Paid Employees

The emoluments of Mr M G Bean, the Vice-Chancellor, included in the above costs are £316,000 (year ended 31 July 2011, £322,000). 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 £51,000 (year ended 31 July 2011, £52,000). The aggregate of these sums is £367,000 (year ended 31 July 2011, £374,000).

Compensation for loss of office paid to UK based employees earning in excess of £100,000 and funded from general income was £77,000 (year ended 31 July 2011, £35,000).

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

	Staff Numbers 31 July 2012	Staff Numbers 31 July 2011
£100,000 - £109,999	**6**	6
£110,000 - £119,999	**6**	4
£120,000 - £129,999	**0**	2
£130,000 - £139,999	**2**	2
£140,000 - £149,999	**1**	1
£160,000 - £169,999	**0**	1
£170,000 - £179,999	**1**	0

Average staff numbers (including higher paid staff)

Full-time and part-time staff at Milton Keynes, Wellingborough, national and regional centres	**4,643**	4,852
Associate lecturers and residential school staff	**5,898**	6,088
	10,541	10,940

7 Other Operating Expenses

	Year Ended 31 July 2012 £m	Year Ended 31 July 2011 £m
Consumables and staff support	**46.2**	48.1
Teaching materials and residential schools	**15.3**	17.4
Student publications and recruitment	**20.6**	16.1
Financial assistance to students	**6.3**	3.3
Books and periodicals	**3.5**	3.4
Audio visual production	**5.9**	6.7
Heat, light, water and power	**2.5**	2.8
Repairs, general maintenance and equipment	**12.4**	16.8
Rents and rates	**6.4**	7.7
Students' association grant	**0.8**	0.9
Auditors' remuneration - Group audit fees	**0.1**	0.1
Other expenses	**13.3**	12.8
Total Other Operating Expenses	133.3	136.1

Included in the above are audit fees in respect of the University only of £0.10 million (year ended 31 July 2011, £0.10 million) and its subsidiaries of an aggregate of £0.02 million (year ended 31 July 2011, £0.02 million). Fees paid to the auditors for non-audit services totalled £Nil (year ended 31 July 2011, £Nil).

The total expenses paid to or on behalf of the members of Council in the year was £18,000 (year ended 31 July 2011, £16,000). This represents travel and subsistence expenses incurred in attending Council meetings in their official capacity and reflects the UK-wide distribution of the University's activities and distribution of its Council members. No payments or other benefits for being a member of Council were paid to, or waived by, Council members. Ten members of staff served on Council; the expenses paid to these staff specifically for serving on Council are included in the figure above. No other supplementary payment was made to these staff in their capacity as members of Council.

8 Interest Payable and Other Finance Costs

	Year Ended 31 July 2012 £m	Year Ended 31 July 2011 £m
On bank loans, overdrafts and other loans:		
Repayable wholly or partly in more than 5 years	**0.6**	0.1
Impairment on deposits	**0.0**	(0.2)
Total Interest Payable and Other Finance Costs	0.6	(0.1)

The University had in place two two-year fixed term deposits in UK subsidiaries of Icelandic banks that were put into administration in October 2008, one of £5.0 million placed in October 2006 and the other of £1.5 million placed in March 2007. The impairment provisions against the two deposits in administration have been reviewed in light of the latest guidelines from the administrators regarding the stream of repayments and final settlement, and remain unchanged.

9 Taxation

	Year Ended 31 July 2012 £m	Year Ended 31 July 2011 £m
Foreign taxes	**0.3**	0.0
Total Taxation	0.3	0.0

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

10 Exceptional Item: Continuing Operations

	Year Ended 31 July 2012 £m	Year Ended 31 July 2011 £m
Value added tax refund	**0.0**	0.7
Total Exceptional Item: Continuing Operations	0.0	0.7

The exceptional item for the year ended 31 July 2011 represented a refund of VAT from Her Majesty's Revenue and Customs via one of the University's suppliers (see also Note 26).

11 Exceptional Item: Disposal of Fixed Asset

	Year Ended 31 July 2012 £m	Year Ended 31 July 2011 £m
Profit on disposal of building	**0.0**	1.1
Total Exceptional Item: Disposal of Fixed Asset	0.0	1.1

The exceptional item for the year ended 31 July 2011 represented the profit on disposal of an office building at Bedford Row in London.

12 Tangible Assets : Consolidated

	Land and Buildings £m	Equipment £m	Total £m
Cost and valuation			
At 1 August 2011	240.1	21.5	261.6
Additions	0.1	1.2	1.3
Disposals	0.0	(4.8)	(4.8)
At 31 July 2012	240.2	17.9	258.1
Depreciation			
At 1 August 2011	68.8	20.0	88.8
Charge for year	9.1	1.5	10.6
Disposals	0.0	(4.8)	(4.8)
At 31 July 2012	77.9	16.7	94.6
Net book amount			
At 31 July 2012	162.3	1.2	163.5
At 31 July 2011	171.3	1.5	172.8
Financed by capital grants - see Note 20	81.2	0.8	82.0
Financed from other sources	81.1	0.4	81.5
Net book amount at 31 July 2012	162.3	1.2	163.5

As at 31 July 2012, there was £Nil of future capital expenditure for which either contracts had been placed or there was a firm intention to commence work (year ended 31 July 2011, £0.4 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 2012 £m	Year Ended 31 July 2011 £m
Cost	**234.5**	234.4
Aggregate depreciation	**74.5**	66.3
Net book amount	160.0	168.1

12 Tangible Assets : University

	Land and Buildings £m	Equipment £m	Total £m
Cost and valuation			
At 1 August 2011	235.0	21.5	256.5
Additions	0.0	1.2	1.2
Disposals	0.0	(4.8)	(4.8)
At 31 July 2012	235.0	17.9	252.9
Depreciation			
At 1 August 2011	66.2	20.0	86.2
Charge for year	9.0	1.5	10.5
Disposals	0.0	(4.8)	(4.8)
At 31 July 2012	75.2	16.7	91.9
Net book amount			
At 31 July 2012	159.8	1.2	161.0
At 31 July 2011	168.8	1.5	170.3

	Land and Buildings £m	Equipment £m	Total £m
Financed by capital grants - see Note 20	81.2	0.8	82.0
Financed from other sources	78.6	0.4	79.0
Net book amount at 31 July 2012	159.8	1.2	161.0

The unamortised value of HEFCE capital grants amounted to £89.1 million (31 July 2011, £96.9 million). In the event that the related assets were either to be sold or ceased to be used for the provision of publically funded higher education, the University would either have to surrender the proceeds to HEFCE or use them in accordance with the Financial Memorandum with HEFCE.

13 Investments

	University	
	As At 31 July 2012 £m	As At 31 July 2011 £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
Total shares in wholly owned subsidiary companies	0.8	0.8
Long term loans		
Open University Worldwide Limited	**0.2**	0.2
Total long term loans	0.2	0.2
Total Investments	1.0	1.0

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.

The carrying value of the investments is supported by the subsidiaries' net assets.

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

Connected Charitable Entities

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

OU Properties (Bristol) Limited does not have share capital or loans disclosed above, but its results, assets and liabilities are included in the consolidated financial statements. The Company is registered in England and Wales and owns a specific office building, which is leased to the University. Its charitable purpose is the advancement of education by the provision of assistance and benefit for the educational purposes of The Open University. It is financed through a specific bank facility.

OU Properties (Bristol) Limited - Reserves	£m
At 1 August 2011	0.5
Income	0.2
Expenditure	(0.2)
At 31 July 2012	0.5

14 Endowment Assets : Consolidated and University

	At At 31 July 2012 £m	As At 31 July 2011 £m
Balance at 1 August	**0.5**	0.4
Additions	**0.0**	0.1
Balance at 31 July	0.5	0.5

Represented by:

Cash at bank held for endowment funds	**0.5**	0.5
Total Endowment Assets	0.5	0.5

15 Debtors

	Consolidated		University	
	As At 31 July 2012 £m	As At 31 July 2011 £m	**As At 31 July 2012 £m**	As At 31 July 2011 £m
Amounts falling due within one year				
Students' loan accounts	**21.7**	19.7	**0.0**	0.0
Fee debtors	**0.5**	0.5	**0.5**	0.5
Amounts due from subsidiaries	**0.0**	0.0	**4.7**	5.2
Other debtors	**12.4**	13.1	**10.5**	10.5
Total amounts falling due within one year	34.6	33.3	15.7	16.2
Prepayments and accrued income	**5.3**	6.2	**5.1**	5.9
Total due within one year	39.9	39.5	20.8	22.1
Amounts falling due after one year	0.0	0.2	62.9	63.1

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. As at the 31 July 2012, the former subsidiary had an outstanding loan amount of £60.0 million at an interest rate equal to base rate (31 July 2011, £60.0 million). As at 31 July 2012, the latter subsidiary has an outstanding loan amount of £2.9 million at an interest rate equal to 1% over base rate (31 July 2011, £2.9 million). Under the loan agreement between the University and each subsidiary, the subsidiaries are required to lend back to the University at the same interest rate any surplus funds, as disclosed in Note 17.

16 Gilts and Term Deposits : Consolidated and University

	As At 31 July 2012 £m	As At 31 July 2011 £m
UK gilt edged stock	**120.0**	92.1
Fixed term deposits maturing:		
In one year or less	**35.4**	102.4
Total Gilts and Term Deposits	155.4	194.5

The University holds tradable Treasury gilts with a redemption date of less than five years. At 31 July 2012 the weighted average redemption yield was 1.52% (year ended 31 July 2011, 2.09%) and the weighted average period to maturity was 812 days (year ended 31 July 2011, 1015 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 2012 the weighted average interest rate of these fixed rate deposits was 1.48% per annum (31 July 2011, 1.46% per annum) and the remaining weighted average period for which the interest rate is fixed on these deposits was 63 days (31 July 2011, 112 days). The fair value of these deposits and gilts was not materially different from the book value.

The total sum of £35.4 million includes £1.4 million in respect of expected future repayments from the administrators of the UK subsidiaries of Icelandic banks in accordance with Note 8.

The deposits shown in this note exclude accrued interest, which is included in prepayments and accrued income in Note 15.

17 Creditors

Amounts falling due within one year

	Consolidated		University	
	As At 31 July 2012 £m	As At 31 July 2011 £m	**As At 31 July 2012 £m**	As At 31 July 2011 £m
Trade creditors	**7.6**	11.2	**7.4**	11.1
Student fee income in advance	**27.2**	22.5	**27.2**	22.5
Student fee income deferred	**46.0**	45.7	**45.9**	45.4
Grants and other contracts in advance	**10.5**	14.6	**10.0**	13.9
Other creditors and accruals	**22.7**	29.1	**27.6**	32.5
Amounts due to subsidiaries	**0.0**	0.0	**35.3**	39.4
Total amounts falling due within one year	114.0	123.1	153.4	164.8

A provision for fee debts of £5.5 million (31 July 2011, £4.2 million) in respect of student loans in the accounts of Open University Student Budget Accounts Limited is included in other creditors and accruals in the University's balance sheet, as the University bears the ultimate liability for the company's bad debts. Debtors in the consolidated balance sheet are shown net of the provision for bad debts.

Amounts due to subsidiaries includes surplus funds lent by the subsidiaries to the University under the terms of the loan agreements referred to in Note 15.

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

18 Creditors

Amounts falling due after more than one year

	Consolidated		University	
	As At 31 July 2012 £m	As At 31 July 2011 £m	**As At 31 July 2012 £m**	As At 31 July 2011 £m
Long-term loans	**61.8**	61.9	**60.0**	60.0
Salix revolving green fund	**0.5**	0.5	**0.5**	0.5
Total amounts falling due after more than one year	62.3	62.4	60.5	60.5

The Group has two long-term loan facilities.

A bank loan to the University of £60.0 million (31 July 2011, £60.0 million). This loan is secured on a part of the University's Walton Hall campus, denominated in sterling and repayable in October 2033. The interest margin over the London Inter-Bank Offered Rate is fixed over the life of the loan. At 31 July 2012 the interest rate on this loan was 0.73875% per annum.

A bank loan to OU Properties (Bristol) Limited of £1.9 million, including £0.1 million due within one year and included in other creditors and accruals in Note 17 above (31 July 2011, £2.0 million, including £0.1 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 2012 the interest rate on this loan was 0.7% per annum.

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

19 Provisions for Liabilities : Consolidated and University

	As At 31 July 2012 £m	As At 31 July 2011 £m
Early retirement scheme		
Balance at 1 August	0.0	2.4
Utilised in year	**0.0**	**(2.4)**
Balance at 31 July	0.0	**0.0**

The early retirement scheme was launched in July 2010. The cost of the early retirement was estimated on the basis of applications, received and expected, that would have been agreed before the retirement date of 31 March 2011. The scheme was closed in 2011.

	As At 31 July 2012 £m	As At 31 July 2011 £m
Restructuring		
Balance at 1 August	0.0	0.0
Increase in provision	3.5	0.0
Balance at 31 July	3.5	**0.0**

The restructuring provision relates to the costs of restructuring the University's operations in the UK and overseas. The cost of restructuring was estimated on the basis of expected costs that would be incurred by 31 July 2013.

20 Deferred Capital Grants : Consolidated and University

	Funding Bodies £m	Other £m	**Total £m**
At 1 August 2011			
Buildings	86.0	0.1	**86.1**
Equipment	0.3	0.3	**0.6**
Total	86.3	0.4	86.7
Cash Receivable			
Equipment	1.1	0.0	**1.1**
Total	1.1	0.0	1.1
Released to Income and Expenditure			
Buildings	(4.9)	0.0	**(4.9)**
Equipment	(0.8)	(0.1)	**(0.9)**
Total	(5.7)	(0.1)	(5.8)
At 31 July 2012			
Buildings	81.1	0.1	**81.2**
Equipment	0.6	0.2	**0.8**
Total - see Note 12	81.7	0.3	82.0

21 Expendable Endowments : Consolidated and University

	Restricted Expendable £m	**2012 Total £m**	2011 Total £m
Balance at 1 August			
Capital	0.5	**0.5**	0.5
Accumulated income/(expenditure)	0.0	**0.0**	(0.1)
Total balance at 1 August	0.5	0.5	0.4
Additions	0.0	**0.0**	0.1
Balance at 31 July	0.5	0.5	**0.5**

	Restricted Expendable £m	**2012 Total £m**	2011 Total £m
Balance at 31 July represented by:			
Capital	0.5	**0.5**	0.5
Total	0.5	0.5	0.5

22 Reserves

	Consolidated £m	University £m
Revaluation reserve		
At 1 August 2011	3.4	3.4
Transfer to general funds in respect of contributions to depreciation released in the year	(0.9)	(0.9)
At 31 July 2012	2.5	2.5

	Consolidated £m	University £m
General funds		
At 1 August 2011	211.8	211.3
Surplus for the year including exceptional items	37.6	37.6
Transfers from revaluation reserve	0.9	0.9
At 31 July 2012	250.3	249.8

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

	Year Ended 31 July 2012 £m	Year Ended 31 July 2011 £m
Surplus for the year before tax and after exceptional item	**37.9**	49.1
Depreciation	**10.6**	10.6
Profit on disposal of fixed asset	**0.0**	(1.1)
Impairment of fixed assets	**0.0**	0.1
Deferred capital grant released to income	**(5.8)**	(5.8)
Endowment and investment income	**(4.6)**	(3.9)
Interest payable and other financial costs	**0.6**	(0.1)
(Increase) / decrease in stock	**(0.3)**	0.2
(Increase) / decrease in debtors	**(0.2)**	0.8
(Decrease) / increase in creditors	**(9.1)**	8.4
Increase / (decrease) in provisions	**3.5**	(2.4)
Net Cash Inflow From Operating Activities	32.6	55.9

24 Reconciliation to Net Funds

	Year Ended 31 July 2012 £m	Year Ended 31 July 2011 £m
Increase in cash in the year	**75.1**	58.4
Movement in deposits	**(39.1)**	62.8
Movement in endowments	**0.0**	0.1
Movement in bank debt	**0.1**	(59.8)
Change in net funds	36.1	61.5
Net funds at 1 August	**209.2**	147.7
Net Funds at 31 July	245.3	209.2

25 Analysis of Changes in Net Funds

	At 1 August 2011 £m	Cash flows £m	Non cash movements £m	**At 31 July 2012 £m**
Cash at bank and in hand	76.1	75.1	0.0	**151.2**
Endowment assets	0.5	0.0	0.0	**0.5**
Fixed term deposits	194.5	(38.5)	(0.6)	**155.4**
Loans	(61.9)	0.1	0.0	**(61.8)**
Total	209.2	36.7	(0.6)	245.3

26 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 the period 1973 to 1994, along with associated interest. In July 2011, Her Majesty's Revenue and Customs agreed the claim for the period 1973 to 1974. The amount of £0.7 million was received in October 2011 and was treated as an exceptional item in 2010/11. The University considers that there are too many uncertainties for any reasonable estimate of the remaining amounts potentially recoverable to be calculated.

27 Commitments

Leasehold obligations

During the year ended 31 July 2012 the Group paid £2.9 million (year ended 31 July 2011, £2.9 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:

Annual commitments under operating leases	**As At 31 July 2012 £m**	As At 31 July 2011 £m
Expiring:		
within 1 year	**0.3**	0.3
between 2 and 5 years	**0.8**	0.8
over 5 years	**1.8**	1.8
Total Commitments	2.9	2.9

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

28 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.

	Year Ended 31 July 2012 £m	Year Ended 31 July 2011 £m
HEFCE Access for Learning		
Balance brought forward	**0.0**	0.0
Funding Body Grants	**6.8**	6.6
Disbursed to Students	**(6.3)**	(6.6)
Balance carried forward	0.5	0.0
SFC Access Funds		
Balance brought forward	**0.2**	(0.1)
Funding Body Grants	**0.0**	3.1
Disbursed to Students	**(0.2)**	(2.8)
Balance carried forward	0.0	0.2
HEFCW Access Funds		
Balance brought forward	**0.1**	0.1
Funding Body Grants	**0.1**	0.1
Disbursed to Students	**(0.2)**	(0.1)
Balance carried forward	0.0	0.1
TDA Training Bursaries		
Balance brought forward	**0.2**	(0.1)
TDA Grants	**0.9**	1.7
Disbursed to Students	**(1.3)**	(1.4)
Balance carried forward	(0.2)	0.2

29 Related Party Transactions

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

The Standing Orders of the University's Council specify that one member shall be drawn from the Open University Student's Association (OUSA), a charity independent from the University that supports the University's students, in addition to the President of OUSA. The University provides funding to OUSA, which is shown in Note 7 on page 51.

No other material transactions have taken place.

30 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 2011, £0.1 million).

Defined Benefit Scheme

Universities Superannuation Scheme

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

The University is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis and therefore, as required by FRS 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.

30 Pension Schemes (continued)

The latest triennial actuarial valuation of the scheme was at 31 March 2011. This was the second valuation for USS under the new scheme-specific funding regime introduced by the Pensions Act 2004, which requires schemes to adopt a statutory funding objective, which is to have sufficient and appropriate assets to cover their technical provisions. The actuary also carries out regular reviews of the funding levels. In particular, he carries out a review of the funding level each year between triennial valuations and details of the estimate of the funding level at 31 March 2012 are included in this note.

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

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

Standard mortality tables were used as follows:

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

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

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

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

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

30 Pension Schemes (continued)

As part of this valuation, the trustees have determined, after consultation with the employers, a recovery plan to pay off the shortfall by 31 March 2021. The next formal triennial actuarial valuation is at 31 March 2014. If experience up to that date is consistent with the assumptions made for this current actuarial valuation and contributions are paid at the determined rates or amounts, the shortfall at 31 March 2014 is estimated to be £2.2 billion, equivalent to a funding level of 95%. The contribution rate will be reviewed as part of each valuation and may be reviewed more frequently.

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

At the valuation date the Scheme was still a full Final Salary Scheme for future accruals and the prevailing employer contribution rate was 16%. Following UK Government legislation, from 2011 statutory pension increases or revaluations are based on the Consumer Prices Index measure of price inflation. Historically these increases had been based on the Retail Prices Index measure of price inflation. Since the previous valuation as at 31 March 2008, there have been a number of changes to the benefits provided by the scheme. These changes became effective from October 2011 and are outlined on page 17.

Since 31 March 2011 global investment markets have continued to fluctuate and following its peak in September 2011, inflation has declined rapidly towards the year end, although the market's assessment of inflation has remained reasonably constant. The actuary has estimated that the funding level as at 31 March 2012 under the scheme specific funding regime had fallen from 92% to 77%. This estimate is based on the results from the valuation at 31 March 2011, allowing primarily for investment returns and changes to market conditions. These are cited as the two most significant factors affecting the funding positions which have been taken into account for the 31 March 2012 estimation. On the FRS 17 basis, using an AA bond discount rate of 4.9% based on spot yields, the actuary estimated that the funding level at 31 March 2012 was 74%. An estimate of the funding level measured on a historic gilts basis at that date was approximately 56%.

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

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

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

30 Pension Schemes (continued)

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 trustees 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 major exposure to 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 internal investment team, its investment consultant and the scheme actuary, and considers the views of the employers. The 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, although the trustee is mindful of the desirability of keeping the funding level on the scheme’s technical provisions close to or above 100%, thereby minimizing the risk of the introduction of deficit contributions. The actuary has confirmed that the scheme’s cash flow is likely to remain positive for the next ten years or more.

The total pension cost for the University was £28.8 million (year ended 31 July 2011, £31.1 million). This includes £2.2 million outstanding contributions as at 31 July 2012 (year ended 31 July 2011, £2.3 million). Of the total pension cost, £1.5 million (year ended 31 July 2011, £2.8 million) related to costs in respect of early retirement.

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The Open University

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