

THE COUNCIL

Minutes

This paper presents the confirmed Minutes of the last meeting of the Council held on Friday 17 May 2013 at 10.00am in the Hub Theatre, The Open University, Walton Hall, Milton Keynes, MK7 6AA.

The Council **approved** these Minutes as a correct record of its meeting on Tuesday 16 July 2013.

Fraser Woodburn
Secretary to the Committee

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THE COUNCIL

Minutes of the meeting of the Council held on Friday 17 May 2013 at 10.00am in the Hub Theatre, The Open University, Walton Hall, Milton Keynes, MK7 6AA.

- Present: Lord Haskins (Chair), the Vice-Chancellor, Mr H Brown, Mrs M Cantieri, Mrs S Dutton, Dr I Falconer, Mr A Freeling, Mr B Heil, Mr R Humphreys, Mrs C Ighodaro, Mr B Larkman, Dr C Lloyd, Mrs S Macpherson, Ms R McCool, Dr T O'Neil, Mr C Shaw, Mr M Steen, Prof W Stevely, Professor J Taylor, Dr G Walker
- In Attendance: University Secretary; Pro-Vice-Chancellor (Academic); Pro-Vice-Chancellor (Learning and Teaching); Pro-Vice-Chancellor (Research, Scholarship and Quality); Commercial Director; interim Director Students; Finance Director; Head of Governance; Senior Manager (Governance); Guy Mallison, Director, Strategy
- Observing: Mr L Hudson, (Director Communications); Dr S King, (Head of the Vice-Chancellor's Office),
- Apologies: Mr E Briffa, Mr P Mantle, Mrs R Spellman,

1 WELCOME

The Chair welcome Professor Belinda Tynan, Pro-Vice-Chancellor (Learning and Teaching) to her first meeting.

2 DECLARATION OF INTERESTS

There were no declarations of interest.

3 MINUTES

The Council **approved** as a correct record the minutes of the business meeting held on 12 March 2013.

4 MATTERS ARISING

C-2013-02-01

The Council **noted** the responses to the matters arising from the last meeting, which were not dealt with elsewhere on the agenda.

5 VICE-CHANCELLOR'S REGULAR REPORT

5.1 The Vice-Chancellor reported to the Council on:

- a) the transformation, over the past 12 months, from a situation of doubt and uncertainty to one of greater clarity and success for the University. The University had not just survived, but had thrived;
- b) the OU's first annual Charter Day celebration, marking the University's 44th birthday;
- c) the positive news regarding student numbers for 2012/13, which would be covered elsewhere on the agenda;
- d) the success of FutureLearn, prior to the launch of its first courses, in forging agreements with more than 20 of the UK's top universities and adding the British Museum to the list of value-added partners. Prince Andrew, the Duke of York, had hosted an event at Buckingham Palace that had allowed the OU to promote FutureLearn to potential stakeholders. The Duke would be visiting Walton Hall during the following week to hear more about FutureLearn and the rest of the OU's work.
- e) the award of a government grant to Blaine Price, Arosha Bandara, Marian Petre and Bashar Nuseibeh from the Faculty of Mathematics, Computing and Technology (MCT) to help develop cyber security research and education in Ghana;
- f) the success of the BBC's eight-part documentary about the NHS, *Keeping Britain Alive*, for which Carol Komaromy and Dr Jonathan Leach from the Faculty of Health and Social Care had been academic consultants. The University's partnership with the BBC produced some unique outcomes and the Vice-Chancellor would soon be meeting with the new Director-General of the BBC;
- g) the collaboration with the Royal College of Music on a project, led by Professor David Rowland from the Faculty of Arts, that would create a massive public database of people's experiences of listening to music of all kinds, from all historical periods and cultures. The project had secured £750,000 from the Arts and Humanities Research Council;
- h) the progress of Dr Ben Rozitis from the Faculty of Science towards becoming the first OU employee in space. Dr Rozitis had made it to the second round of a nationwide competition to win a seat on a commercial spaceflight in the not-too-distant future;
- i) the investment of £1.4 million from financial services group True Potential LLP secured by the Development Office and the Faculty of Business and Law. The money would be used to create a Centre for the Public Understanding of Finance, with a named Chair in Personal Financial capability, two PhD studentships and an OpenLearn module in Personal Finance.

5.2 A member congratulated the University on its on-going success.

6 INSTITUTIONAL PERFORMANCE REPORT 2013

C-2013-02-02

6.1 The Director of Strategy introduced the report, which included the key measures that had been agreed by the Council at its last meeting. These measures would help the University to track overall institutional performance and were focussed on the Strategic Plan. The paper sought the Council's approval to provide greater detail around the Widening Participation (WP) measure: in order to mitigate the risk of missing areas of underperformance by focussing on an aggregate target for the UK, targets had been

agreed with the individual funding councils in each of the UK nations. The end of module survey (EMS) measure of satisfaction was currently based on a sample of modules, but in future would move to all modules. The executive reviewed a more extensive operational management dashboard on a regular basis, but this report provided the Council with full transparency of the key measures at the appropriate level.

- 6.2 The key message in the report was that the institutional performance for 2011/12 had been good. Past performance was no indicator of future performance, and there had been significant change during the previous year, but the narrative under each measure indicated that the current level of confidence in achieving the University's future targets was generally high. However, some targets would be more difficult to achieve than others, for example the number of undergraduate students in Scotland and taught postgraduates, and the intermediate income targets for Global Direct and research income.
- 6.3 With reference to the targets in the report, members asked:
- a) why the target to 2015 of the proportion of postgraduate taught students whose overall experience met or exceeded expectations was lower than that already achieved in 2011/12 (page 11);
 - b) why the paper did not highlight 2 or 3 'stretch' targets that would provide a step-change difference in terms of the University's success against the Strategic Plan. Most of the figures appeared to be 'not to fall below' targets.
- 6.4 The following responses were given:
- a) The Pro-Vice-Chancellor (Research, Scholarship and Quality) said that there had been a review of the strategy for postgraduate taught students and the University was seeking to increase numbers, so the target was somewhat conservative. The Director, Institute of Educational Technology (IET), observed that the target for 2015 was a 'not to fall below' target;
 - b) The Vice-Chancellor said that the refresh of the Strategic Plan should be linked to the critical metrics, indicating not only targets that the University did not wish to fall below, but those where significant improvement was necessary. The Director of Strategy added that some targets would be 'stretch', even if they did not indicate incremental changes, but this should be better articulated for the Council. A member suggested that 'stretch' targets were expressed as an 'up-side', alongside the 'not to fall below' so that both measures were visible. The Vice-Chancellor said that his Executive (VCE) also had to understand the metrics, and where they were 'stretch' or 'not to fall below'. Dashboards were useful for shedding light on an institution's performance, but the University would not simply aim to achieve the targets and in doing so create unintended consequences.
- 6.5 Referring to the projected reduction in the size of the University in terms of undergraduate student numbers, associate lecturer (AL) members raised issues on:
- a) the implications of this reduction on staff employment;
 - b) the process by which the budget plan fed through to staff planning.
- 6.6 The following responses were made:
- a) the University Secretary said that the reduction in the size of the University had been identified in the UK Market Strategy agreed in July 2011, and the financial planning had already built in savings targets to ensure that the University continued to be viable. For the past two years, AL employment had been managed through

contracts and an internal only recruitment policy. The Acting Director, Students added that the transitional arrangements in place for ALs would remain until there was more clarity on future student numbers. The Chair observed that, as the student numbers were better than the budgeted figures, it was unlikely that any new plan would be necessary;

- b) The Vice-Chancellor said that there was a structured annual process: the budgets and forecasts that sat alongside the UK Market Strategy were analysed and approved by the Finance Committee, and the broad based allocation of resources across the University was reviewed by the Strategic Planning and Resources Committee (SPRC). It was the role of the executive to ensure that the resources were allocated in a way that ensured that the University achieved the goals in the Strategy. The Staff Strategy Committee was responsible for reviewing the health and performance of the University with regard to its staffing strategy, but the allocation of staff resources was the responsibility of SPRC and the Finance Committee.

6.7 Members also asked questions about:

- a) the number of undergraduates in Central Europe who qualified for the transitional arrangements;
- b) the measures that could be taken to improve the response rate to the EMS from those students who dropped out;
- c) whether the University would help the OU Students' Association (OUSA) find students to take part in the next Quality Assurance Agency for Higher Education (QAA) Institutional Review in 2015, as the requirement for greater student involvement would create a heavy load for part-time distance learning students.

6.8 The following responses were given:

- a) the Commercial Director said that transitional students had been included in the Global Direct figures on page 6, but in terms of full-time equivalents (FTEs) rather than individual students. Details were available, although they had not been illustrated on the table, and would be provided to OUSA;

Action: SH

- b) the Director, IET, said that the University had to take care not to be intrusive when eliciting student responses. In conjunction with the EMS, feedback from ALs might provide a more appropriate and targeted means of finding out why students dropped out. The Acting Director, Students said that at present, each student who withdrew from a module received a withdrawal questionnaire; but students did not always wish to respond. Those who did indicated a variety of reasons for withdrawal, most of which were personal, although sometimes it was due to the inappropriateness of the module for that individual student. The Director, IET added that the University was moving to a situation where it could monitor live data at faculty and AL level, which might enable it to extract useful data from the student level perspective through the Student Support Teams (SSTs). An AL member said that ALs also had to be careful to avoid being intrusive;
- c) the Pro-Vice-Chancellor (Research, Scholarship and Quality) said that the Quality Office was aware of the difficulties that would arise as a result of the requirement for greater student engagement with the quality process. However, the OU welcomed the opportunity for students to participate in the review and discussions were taking place with OUSA about how this additional requirement could be managed. The challenge for the University was to improve student completion rates, and thereby

the students' measure of success, whilst maintaining the levels of student satisfaction with the quality of their educational experience.

- 6.9 The Council **approved** the amendment to the Widening Participation measure within the Strategic Plan to replace the single UK-wide measure with individual measures for the four UK nations.

7 STUDENT NUMBERS

C-2013-02-03

- 7.1 The University Secretary introduced the report, which presented a good outcome across the UK with regard to student numbers. In England, the undergraduate numbers had exceeded the UK Market Strategy for both new and transitional students. The assumptions for new undergraduates had been considered to be ambitious. However, the recent intakes had achieved the long-term goal of 20% decline in student numbers 18 months ahead of expectation. The assumptions regarding transitional student figures had been considered pessimistic, but to what extent had been unknown. Contrary to the figures suggested by previous modelling, more transitional students had stayed in study in order not to lose their right to study under the old fees and funding arrangements. Consequently, transitional student numbers had been 10-12% above expectations. The outcome across the rest of the UK had also been good.
- 7.2 The planning assumptions for taught postgraduates had been ambitious, but it had not been a wise 'stretch' because the underpinning needed to achieve these numbers had not been done. Changes to the marketing approach were now being implemented and should affect future intakes, but the development of the product required further thought and had not yet started.
- 7.3 Part-time student numbers across the UK had been in steady decline. In Wales, the OU's market share had grown dramatically, because the rest of the sector had declined. Since the last meeting of the Council, two reports had been published: the Higher Education Funding Council for England (HEFCE) impact analysis on the 2012 funding reforms and a Higher Education Policy Institute (HEPI) report on the state of part-time education. In England, the headline figure had shown a 40% decline in part-time student numbers, but this had been over two years; the decline between 2011-12 and 2012-13 had been 33%, with an 11% decline between 2010-11 and 2011-12. The latter figure had not been related to the new fees and funding regime, but had been a factor of other universities withdrawing from part-time provision. The OU had done well in this context and had not seen a decline in its own part-time numbers until the past year, when it had been 25%, compared to 33% elsewhere. For part-time postgraduate students, the headline figure had shown a 27% decline over two years. However, the OU had only seen a 14% decline over the same period without any activity to improve postgraduate recruitment, so there was still an opportunity for improvement.
- 7.4 The paper highlighted several reasons that the OU had performed better than other higher education institutions (HEIs) in the part-time sector. However, if other HEIs wanted to put some energy into part-time, there was no reason why they could not recover part of the market in subsequent years. It would not be possible to recover the market for students studying for an equivalent and lower qualification (ELQ), who were not eligible for loans. The proportion of ELQ students was much higher in the rest of the sector (over 50%) than in the OU (23%). Consequently, there was a strong lobby, which the OU would support, to at least partially reverse the removal of support for ELQ students.

Transitional Students

7.5 Members asked the following questions regarding transitional students:

- a) whether there were any predictions about student numbers at the end of the 5-year period when the current transitional students would qualify;
- b) whether the fact that transitional student numbers were 12% ahead of expectations meant that they would qualify before the 5-year period was up, and, if so, whether this was significant in terms of planning.

7.6 The University Secretary replied:

- a) the figures had been built into the UK Market Strategy, which assumed a 20% decline in the undergraduate population in England and static numbers in the rest of the UK. However, the University was currently performing better than predicted and, through the Study Experience Programme, was aiming to significantly improve its completion rates. If it were successful, then the assumption of a 20% drop would prove to be pessimistic. The University's financial sustainability was based on a decline of 20%;
- b) the 12% was as a result of more students going through rather than because they were going through faster. The modelling had been revised, but the figures continued to be 12% higher than previous forecasts.

Postgraduate market

7.7 Referring to the postgraduate market, members raised the following issues:

- a) although the targets for postgraduate numbers were 'stretch' targets, they were still quite modest. The decline of 27% in the postgraduate market nationally was an opportunity for the OU. How quickly could the OU move with regard to redeveloping its offering to the market?
- b) whilst it had been appropriate that the University had not focussed on the postgraduate market over the past year, when the Strategy was next refreshed there should be a serious look at replicating the success of OU Business School (OUBS) postgraduate programmes in other areas, so that the target numbers were 10,000-20,000 rather than 3000-4000.

7.8 The following responses were given:

- a) Pro-Vice-Chancellor (Academic) said that the University had audited its postgraduate portfolio, with a view to identifying those areas in which it should invest, those which should be withdrawn and those which were not currently covered. The project, which had been conducted in conjunction with Marketing, was almost complete and discussions were now being held with faculties. Once this exercise was complete, which would take 12-18 months, a new postgraduate curriculum would be available for promotion through the new UK postgraduate marketing strategy. Marketing activity was already in place for the Masters in Business Administration (MBA), which aimed to improve recruitment for next year. In addition, the marketing of undergraduate and postgraduate courses for Global Direct was being reviewed.
- b) The University Secretary said that postgraduate provision had been the growth area identified by the UK Market Strategy, but the pressure on the organisation to survive had meant that it had not been an immediate priority. The University's postgraduate numbers were not as good as they should be, partly because of its curriculum, but

also because of the way OU postgraduate provision was perceived. This perception needed to be changed, as well as the curriculum.

Market capacity and competition

7.9 Members raised several issues about market capacity and competition:

- a) the proportion of the total capacity that had come out of the part-time sector;
- b) the need for regional centres to do some local marketing in order to pick up that capacity left by HEIs pulling out of part-time market;
- c) the apparent imbalance between the reduction in part-time provision by domestic universities compared to the interest from foreign competitors in the market.

7.10 The University Secretary made the following responses:

- a) an analysis of the current state of part-time provision was not yet available. For most HEIs, part-time provision was a peripheral activity: for a few institutions it represented over 20% of total provision, but for the majority it was 5-10% or less. Birkbeck had been almost wholly part-time, but it too was now moving to full-time provision. The part-time market had not been very attractive: the funding available and the fees that could be charged had been lower than for full-time provision. Moreover, 50% of students in other HEIs had been ELQ, for which funding was being withdrawn. Market analysis would have demonstrated that most institutions should withdraw capacity from expensive, distracting part-time provision and put more effort into their full-time market. This seemed to have been a factor in driving down part-time recruitment in the rest of the sector across the UK;
- b) most marketing was nationally based, but there was still a relevant local element, which Marketing carried out in conjunction with the regional centres;
- c) the University was monitoring for-profit and private organisations closely as they appeared to be a potential threat as mainstream universities in the sector pulled out of part-time and the OU's market share grew. To date, the private providers had not been successful in breaking into either the full-time or part-time market; only those who had collaborated with traditional universities had made any headway. However, the OU should not be complacent, as these competitors had significant funding behind them. It was not sensible for such organisations to set up face-to-face part-time provision, but they could run a successful online only operation. The Vice-Chancellor added that the OU's decision to set a fee of £5000 had established a price in the market that it would be difficult for the for-profits to match to the satisfaction of their stakeholders. Moreover, as an unintended consequence of the OU's decision to launch FutureLearn, digital enablers were now failing to recruit elite universities as FutureLearn was helping those institutions to produce their own Massive Open Online Courses (MOOCs). It was likely, however, that private providers would start to acquire those UK HEIs that would enter into a distressed situation in 3-10 years, which would result in a very different competitive situation.

UK policy on part-time provision and ELQ

7.11 A member observed that the OU was better informed than HEFCE and other HEIs operating in the part-time sector with regard to the effect of the new fees and funding regime on the part-time market. As the Department of Business, Innovation and Skills (BIS) had asked Universities UK (UUK), under its President, Professor Eric Thomas, to take forward a major review of part-time provision and how policy could be adapted to it, there was an opportunity for the OU to take a leadership role within the group and to

provide appropriate input, including ideas on how the ELQ policy could be adjusted to mitigate the damaging effect it had had. The University Secretary confirmed that the OU was represented on the UUK Review. The Review purported to represent all four nations of the UK, but there was a danger that issues arising from the different fees and funding regimes might be overlooked. The University's contacts with BIS were likely to be more productive, as the English Minister for Universities and Science was open to lobbying on partially reversing the ELQ decision for part-time provision in areas that related to the economy and employment.

- 7.12 In response to a query from the Chair, the Director, the OU in Wales, said that there had never been an ELQ restrictive policy in Wales, nor did England's high fee, high loan regime apply. A loan arrangement would soon be implemented, for which the eligibility criteria were likely to be similar to those in England, but there would still be institutional learning and teaching grants that would offset the need for high fees. Consequently, the University needed to take care that it did not put out messages to the public domain, which would not be well received by the governments in other nations.
- 7.13 The Director, IET said that the Early Qualification Experience Survey had just been conducted in collaboration with the faculties and Student Services, and some interesting findings were just breaking. A significant percentage of students were still studying for personal development, rather than for career purposes. The University Secretary said that the University had not assumed that it would lose all ELQ students, but that 60% would be lost. So far, this had proved accurate.

Student loans

- 7.14 A member asked:
- a) what were the implications of the changing environment with regard to the loans that the University made through the Open University Student Budget Account (OUSBA), and how important was this in terms of the OU's overall marketing strategy;
 - b) how much more capital the University would require over the next few years in order to continue to make loans available.
- 7.15 The Finance Director said:
- a) OUSBA already provided credit facilities to postgraduate students, the biggest proportion of which by value was to MBA students. OUSBA facilities were also available to students not eligible for loans from the Student Loan Company (SLC). The aim was to make recruitment as attractive as possible. The maximum loan period had been extended from 9 months to 12 months for a 60-credit course for new regime students, which had reduced the repayment by £100 per month. Moreover, the rate of interest on the loan was subsidised;
 - b) the needs of OUSBA were assessed regularly as part of the review of the University's capital requirements. The demand for OUSBA loans from the English undergraduate market would reduce significantly in number, because SLC ensured that education was free at the point of access. However, those that did not wish to use SLC or were not eligible would still apply. The number of customers would go down, but the value of the loan book would be approximately the same, currently around £25 million. The University currently provided OUSBA with a loan facility of £60 million, so there was capacity to take on more loans if the market demanded it.
- 7.16 The Chair said that the University had made an encouraging start in the very different fees and funding regime, but the uncertainties in the market meant that there were many more threats and opportunities to be dealt with over the next few years. The situation was likely

to become a political issue as the next election approached and the University would need to be ready with its response.

7.17 The Council **noted** the report.

8 FORECAST OUTTURN

C-2013-02-04

8.1 The Finance Director introduced the paper, which forecast an outturn surplus of £8.7 million in 2012/13, based on the second quarter's results, and outlined key variances in income and expenditure. The report for this quarter ignored any potential effects of the HEFCE grant funding announcement in March, as changes to the way the announcement was handled now made it more difficult to predict. However, the announcement had been more favourable than expected and this would be reflected in the report for the next quarter. The impact on cash flow from the new arrangements with SLC continued to be worse than expected, and was being followed up with SLC at both institutional and sector level.

8.2 The Treasurer commented that given the scale of change faced by the University and its students, and the late stage at which SLC had opened for applications for part-time students, it had been an amazing achievement for the October 2012 recruitment to have been so close to the assumptions in the UK Market Strategy, and then for them to have been exceeded in February and then May 2013. The whole staff were to be congratulated for their hard work and forbearance, and the executive for their leadership. It was pleasing that increased expenditure on strategic activity was being contained within the overall surplus forecast for the year. However, the University could not afford to relax: the Strategic Intelligence Tracker, circulated with the materials for the afternoon's Strategy Workshop, highlighted the difficulties of operating in the new market. The OU would have to work hard to maintain its market share.

8.3 Members raised the following issues:

- a) whether there was an optimum level for surplus, and whether the surplus could ever become so large that it suggested that the University was not making best use of its money in year;
- b) whether the fact that tuition fee income was running at less than 50% of the full year forecast was due to the change in the payment patterns from SLC, or whether further recruitment was anticipated in the second half of the year.

8.4 The Finance Director responded:

- a) the Financial Strategy set out the target surplus. The OU was not in business to make money; the funds received were applied in pursuit of the University's objectives. Historically, the target surplus had been set at 2% in order to maintain the level of reserves in real terms. This had been increased to 5% under the new fees and funding regime, to take account of the greater volatility of income from funding council and other sources, but it would be reviewed as the situation stabilised. The Chair said that the financial forecasts indicated that the University was likely to have to use its reserves over the next year. The Treasurer added that 2% and 5% were low targets for any organisation; this was one of the reasons that the University was always so close to breakeven and that variances appeared to have such a large impact.
- b) that the fee income projections were independent of the cash paid by SLC; fees owed by SLC were shown on the balance sheet under debtors. The University recognised fees over the life of the modules: 50% of all student recruitment took place in October; only half of the income from February recruitment would fall into this financial year, whilst the rest would fall into 2013/14; and for May recruitment

the proportions were one third this year, two thirds next year. As the financial year began in August, fee income was weighted at the back end.

8.5 The Council **noted** the 2012-2013 forecast consolidated outturn of £8.7 million surplus.

9 HEFCE ASSESSMENT OF INSTITUTIONAL RISK 2011-2012 C-2013-02-05

9.1 The University Secretary commented that the opinion provided by HEFCE that the OU was 'not at higher risk' was the best that could be given.

9.2 The Council **noted** that the University had been assessed as 'not at higher risk'.

10 FINANCE COMMITTEE C-2013-02-06

10.1 The Treasurer reported that the Finance Committee had reviewed the funding options for FutureLearn Ltd. It was a subsidiary of the OU, but an entirely separate entity that was being nurtured in its infancy by the OU. The Finance Committee had agreed that, at present, it would be best for FutureLearn to be funded solely by the OU. However, the business plans and funding requirements for FutureLearn would be reviewed at the next meeting of the Finance Committee, when the options for funding could be reconsidered.

10.2 The FutureLearn venture was risky, not least because its financial viability and value would only become apparent during 2014, when the income that could be generated by it, directly or indirectly, would become clearer. However, the OU was promoting FutureLearn for a variety of reasons, not just to provide a financial return. The alternative, in order to reduce the risk, was to fund FutureLearn with capital from other sources. The executive had identified and approached some potential sources, and had also constructed suitable financial instruments. However, for the time being, the Finance Committee had taken the view that it was in the University's best interests, not least to avoid creating a potentially intrusive and time-demanding group of shareholders, for the OU to continue financing FutureLearn itself. Specific philanthropic donations would be welcomed and encouraged through the normal development channels. This was a difficult decision that would be kept under review.

10.3 Another member of the Finance Committee emphasised that the Committee wanted to keep its options open regarding the financing of FutureLearn until the business plan had been further developed and the quantum of funding needed had been considered; it was not closed to other options. However, it did not wish to create the more complex structure that would have been necessary had the University accepted some of the philanthropic investments that had been offered. If there were no commonality of purpose and identity with the goals of FutureLearn, then there would be a danger of putting the whole investment at risk.

10.3 The Finance Committee had also agreed to form the Investment Committee, which included two new members whose curriculum vitae appeared elsewhere on the agenda (C-2013-02-10). These members were known personally to the Treasurer from serving together on the board of an investment trust. The Committee had held its first meeting on 1 May, at which the Finance Director had given a comprehensive presentation on the resources that the University was unlikely to need to draw down in the short and medium term. The aim was to maximise the return on these longer-term funds at an acceptable level of risk. As the uncertainty about student numbers and funding had begun to subside, it was calculated that the amount available for investment was £30 - £130 million.

10.4 The process for selecting investment managers had commenced and the intention was to make an appointment in the early autumn, although the need to comply with EU procurement regulations might cause some delay. An inevitable consequence of investing more widely in the market was that values would fluctuate. As a result of current accounting standards, once the investment policy had been implemented, such swings

would be reflected in the aggregate financial data presented to the Council. The extent to which the Council could tolerate these swings would become a major driver of behaviour. The Investment Committee had discussed this extensively. In view of the need to build confidence, whilst still allocating a sum sufficient to attract the attention of superior investment managers, the Committee had decided, subject to the approval of the Finance Committee, to invite proposals on the management of £50 million of OU funds in the first instance. This was an important development with which the Council had to be content.

FutureLearn

10.5 Members raised the following issues concerning FutureLearn:

- a) the need for the Council to fully understand the FutureLearn business model, and how this impacted on the University itself, especially if the OU was the sole shareholder;
- b) whether the OU could access the (more patient) capital that was currently widely available;
- c) whether the Development Office would endeavour to draw in resources specifically for FutureLearn;
- d) the need to justify the level of investment in FutureLearn to all OU staff and to articulate all of the benefits that it would bring to staff, students and the University;
- e) the extent to which the OU could expect some flow back of the creative benefits and learning being generated by FutureLearn, and whether this would be fed back into the OU's mainstream provision and the way in which it delivered courses online;
- f) the OU's access to FutureLearn data, as if this was inhibited for whatever reason it would limit the benefit that the organisation could draw from the experience.

10.6 The following responses were provided:

- a) the Treasurer said that the Finance Committee would be reviewing the FutureLearn business model when it considered the financial projections at its next meeting. The Finance Director added that KPMG had been commissioned to do a complete review of the business plan and financial projections, including the cash flow projections;
- b) the Vice-Chancellor had identified potential investors, but that these had not been unencumbered donations. The structure of the enterprise would soon become complicated, if different classes of investor were admitted;
- c) donations would be raised through the normal OU development routes and channelled through the Finance Department. The Finance Director added that it was tax advantageous for individuals to make donations to the University in this way.
- d) The Vice-Chancellor said that Finance Committee would review the advantages and disadvantages of alternative investment arrangements;
- e) The Treasurer said that the separation of the OU and FutureLearn, and the fact that FutureLearn continued to be a wholly owned subsidiary, would enable the University to put resources into it - not only financial, but also knowledge and expertise - knowing that the value added would come back to the OU. The Director, IET said that the Institute had been collaborating with FutureLearn and had provided training workshops for the partners. It was part of IET's role to ensure that such learning

was brought back into the University as part of a quality enhancement process. IET would feedback lessons learned as the OU started to roll out its own MOOCs for FutureLearn.

- f) the Vice-Chancellor said that Simon Nelson, Chief Executive of FutureLearn, would report back on the University's access to data in his next update.

Action: MB

- 10.7 A member observed that there was a lack of clarity about the type of enterprise that FutureLearn was at present. It was not currently a company that, having established a board, could operate with business models, cash flows, targets, etc in order to win in a clear market; but rather an experiment to learn in a very uncertain world, that had to have the freedom to operate in order to explore what was possible. It was a concern that there was so much focus on the business plan.
- 10.8 The Vice-Chancellor said that FutureLearn had been constituted as a limited company, capitalised by the OU with its own board, which was now being built with external members. It was answerable to the Finance Committee, which was empowered to make decisions about the use of the University's capital up to a certain amount and that, because it was a wholly owned OU subsidiary, would scrutinise FutureLearn's business plan and financials. However, the FutureLearn board had to have room to manoeuvre and learn in a speculative space, and to do whatever was necessary to make the venture a success. The Finance Committee had asked FutureLearn to put forward an early stage speculative business plan that would be sufficient to indicate the amount of capitalisation required over a given period, with certain review mechanisms built in so that there was a balance of risk and return. The Treasurer added that the University was groping its way forward in an unknown world, and another member of the Finance Committee said that whilst asking KPMG to look at plans that were not very concrete was difficult, having someone else scrutinise and challenge such plans was a useful process.
- 10.9 A member said that ultimate accountability lay with the Council. Consequently, there was a need for the Council to fully understand and buy into the governance model behind FutureLearn.
- 10.10 The Vice-Chancellor proposed that a paper should be put together that set out the governance model for FutureLearn, which was as for other subsidiaries such as OUSBA and OU Worldwide. The paper would demonstrate how FutureLearn was monitored on behalf of the Council, through the scrutiny of both Finance and Audit Committees. It was important that the Council was clear on how decisions were made and by whom, and that the boundaries within which the FutureLearn board were able to experiment and innovate were clear to all;

Action: FW

- 10.11 A member expressed concern that all the communications about FutureLearn led with the word 'free'. It was essential to consider how FutureLearn was marketed. The Vice-Chancellor said that he would take this message back to the FutureLearn board. Those who would succeed in the MOOC space would be those who were differentiated on the quality of the student experience, so the word 'free' should be used in combination with other product characteristics.

Action: MB

- 10.12 A member commented that, at a recent conference on MOOCs, the OU had been lauded for its investment in FutureLearn. The MOOCs market was not considered to be a mature one, so it was not too late for the OU to enter and make a real impact.

Investment Committee

10.13 Members raised the following issues:

- a) that several members of the Investment Committee had served together on another committee, as the lack of diversity could lead to groupthink. It was important to introduce an element of challenge, particularly if a riskier strategy was being considered, and a broader membership base should be encouraged;
- b) ethical investment;
- c) the difficulty in obtaining large donations if it was not known that they could be invested in the markets. It was therefore important for development that the OU had the skills and abilities to manage large sums of money appropriately.

10.14 The Treasurer made the following responses:

- a) the membership of the Investment Committee would probably be widened in future. However, although both had a background in the investment trust industry, the two new external members were very different in character and would add to the discussions constructively and effectively. The third external member, Brian Larkman, came from an entirely different investment background.
- b) the Committee would develop policy on the whole of the investment strategy that would include something on ethical investment, although this was not a simple matter. The Finance Director said that best practice would be followed where possible; USS, which was one of the largest pension schemes in the UK, had a highly developed social investment policy, which would be reviewed by the OU.

10.15 The Council **noted** the unconfirmed minutes from the meeting held on 16 April 2013 (F-2013-02-M).

12 STAFF STRATEGY COMMITTEE

C-2012-02-07

12.1 The Chair of the Staff Strategy Committee (SSC) commented that a verbal report of the meeting had been given at the last meeting of the Council.

12.2 With reference to the item on Workforce Planning and Talent Management Review, the Chair of SSC said that this answered the earlier point about how the University could ensure that in future the OU had the people capability to support the University strategy.

12.3 The Council **noted** the unconfirmed minutes from the meeting held on 4 March 2013 (CSSC-2013-01-M).

13 STRATEGIC PLANNING AND RESOURCES COMMITTEE

C-2013-02-08

13.1 A member enquired about University's response to the recent Scottish Governance Code. Professor Bill Stevely said that a draft Code had been published and was publically available. The OU was already close to complying with the Code and it was unlikely to cause the University any significant problems if it went through in its current form. The OU's response had emphasised the need for a degree of flexibility not only for the OU, but also for some of the smaller institutions. The OU had to satisfy four different jurisdictions and, if each had different ways of expressing governance, the OU would be unable to match them all. It was likely that the Cabinet Secretary for Education and Lifelong Learning, Mike Russell, would be prepared to allow such flexibility. The Vice-Chancellor said that the Director, OU in Scotland and his team were keeping track of developments and providing responses. The Vice-Chancellor and Professor Stevely were also engaged at Minister and sector level.

13.2 Another member suggested that at some point during the next academic year the Council should consider the ramifications of a 'yes' vote in the Scottish referendum, which was scheduled for 18 September 2014. If Scotland voted to come out of the UK, the timescale for putting this into effect was just 12- 18 months. The Vice-Chancellor said that this had already been given some consideration. Fortunately, the OU's funding was already devolved, and the OU in Scotland had a strategy and strong relationships with the funding council and government in Scotland. As the date approached, it would be appropriate to ask the Director, OU in Scotland to report any other issues for consideration to SPRC.

13.3 The Council **noted**:

- a) the unconfirmed minutes from the meeting (SPRC-2013-02-M)
- b) the paper presented to SPRC on the UK Political Landscape and Funding Environment (SPRC-2013-02-04)
- c) that the recommendation from SPRC on the report of the University's annual institutional performance (SPRC-2013-02-M Minute 5) is covered elsewhere on the agenda (C-2013-02-02).

14 CHAIR'S ACTION

C-2013-02-09

The Council **noted** the formation of an Investment Committee, and its constitution, terms of reference and membership.

15 MEMBERSHIP COMMITTEE

C-2013-02-10

15.1 A member commented that there were some key areas of experience missing from the skills matrix attached to the minutes: Strategy, and Fundraising and Development. The University Secretary agreed that these should be added to the skills matrix.

Action: GovTeam

15.2 The Council:

- a) **approved**:
 - i) the appointment of Bill Monk as an external co-opted member of the Council from 1 August 2013 to 31 July 2017;
 - ii) the appointment of Bill Monk as Chair of the Estates Committee from 1 August 2013 to 31 July 2017;
 - iii) the appointment of Bob Spedding as an external co-opted member of the Council from 1 August 2013 to 31 July 2017;
 - iv) the appointment of Bob Spedding as Chair of the Audit Committee from 1 August 2013 to 31 July 2017;
 - v) the reappointment of Michael Steen as Treasurer for a further two years from 1 August 2013 to 31 July 2015;
 - vi) the appointment of Dr Greg Walker to the Audit Committee as *one of three lay members of the Council, appointed by the Council, not being officers of the University or members of the Finance Committee* for a period of four years commencing 1 August 2013;

- vii) the appointment of Rob Humphreys to the Nominating Advisory Committee for Statute 21 Procedures as *one of the Senate members of the Council (appointed by Council for 2 years)* to 31 July 2014;
 - viii) the introduction of a Council Induction and Development Day from September 2013;
- b) **noted:**
- i) the appointment of Brian Larkman to the Investment Committee as a member of the Finance Committee appointed by the Council to 31 July 2015;
 - ii) the appointment of Mr H Leslie Melville to the Investment Committee as one of at least two and up to four external members appointed by the Council from outside its membership for a period of four years to 31 July 2017;
 - iii) the appointment of Mr M B Moule to the Investment Committee as one of at least two and up to four external members appointed by the Council from outside its membership for a period of four years to 31 July 2017;
 - iv) the unconfirmed minutes of the last meeting of the Membership Committee held on 12 March 2013.

16 DECLASSIFICATION OF COUNCIL PAPERS

The Council **agreed** that the following paper should remain confidential:

C-2013-02-02 Institutional Performance Report 2013

17 NEXT MEETING

The next ordinary business meeting of the Council will be held on Tuesday 16 July 2013 at 9.45am for 10.00am in the Hub Theatre, The Open University, Walton Hall, Milton Keynes, MK7 6AA

18 REVIEW OF MEETING

This item was included following a recommendation from the Council Governance Review Group, agreed by the Council in July 2010. There were no comments on this occasion.

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Key:
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MB Martin Bean
SH Steve Hill
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