THE COUNCIL

Minutes

This paper details the confirmed Minutes of the last meeting of the Council held on Wednesday 23 November 2016 in the Hub Theatre, The Open University, Walton Hall, Milton Keynes, MK7 6AA.

The Council approved these Minutes as a correct record at its meeting on Tuesday 7 March 2017.

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Attachments:

C-2016-05-M Minutes of the meeting held on Wednesday 23 November 2016
THE COUNCIL

Minutes of the meeting of the Council held on Wednesday 23 November 2016
in the Hub Theatre, The Open University, Walton Hall, Milton Keynes, MK7 6AA.

Present: Mr R Gillingwater (Pro-Chancellor, Chair), Mr P Horrocks (Vice-Chancellor), Mr H Brown (Treasurer), Mr C Pane (OUSA President), Dr J Baxter, Mr S Begbie, Mr J D’Arcy, Dr S Dutton, Ms R Girardet, Mr P Greenwood, Mrs F Chetwynd, Ms R Lock (remote attendance, Minutes 1 – 9 only), Mr J Newman (Minutes 1-9 only), Dr T O’Neil, Mr R Spedding, Mrs R Spellman, Prof W Stevely, Dr B Tarling, Ms S Unerman, Dr G Walker, Prof J Wolfe

In Attendance: University Secretary, Finance Director and Acting Chief Operating Officer, Director, External Engagement, Head of Governance, Senior Manager, Governance (Working Secretary), Pro-Vice-Chancellor (Learning and Teaching Innovation), Executive Dean ( Faculty of Wellbeing, Education and Language Studies)

VCE members in attendance for specific items: Mr G Mallison, Director of Strategy (B4, B5),

Others in attendance for specific items: Mr J Wylie, Director of Academic Services (B1), Ms P Loveless & Ms E Overshott, Pecan Consultants (B2), Ms L Allen, Strategy and Risk Manager (B5)

Observers: Mr L Holden (Interim Finance Director designate), Mr L Hudson (Director, Communications), Ms K Baldwin (VC’s Business Manager).

Apologies: Prof J Draper, Mr W Monk, Dr C Spencer

1 WELCOME

The Chair welcomed everyone to the meeting, including Rachel Lock who was participating remotely.

2 DECLARATIONS OF INTEREST

There were no declarations of interest.

4 MINUTES OF THE LAST MEETING

The minutes of the meeting of the Council held on 27 September 2016 were approved as a true record.

5 MATTERS ARISING

5.1 The Chair commented that the new format for this paper had been introduced following the Council Governance Review (CGR). The first part of the Action Tracker would provide an update on outstanding actions arising from previous Council meetings; the second
focussed on the recommendations of the CGR and would, in future, be considered by the Governance and Nominations Committee (GNC).

5.2 The Council noted the responses to the matters arising from the minutes of the last meeting.

6 CHAIRS BUSINESS

6.1 The Chair reported that he had recently attended the Higher Education Funding Council for England (HEFCE) Annual Meeting for Chairs of Governing Bodies, which had included a useful session on the Teaching Excellence Framework (TEF). There had been three major areas of discussion:

a) the impact of Britain leaving the European Union (Brexit) and its impact on higher education (HE), particularly with regard to the discontinuation of research collaborations and the decline in the number of European academics wanting to apply for UK research posts;

b) the new Research Excellence Framework (REF) and the current consultation. A welcome development was the proposal that research should be credited to the institution where it was undertaken, rather than move with the researcher; and

c) HEFCE’s acknowledgement of the financial pressures on the sector, with international student numbers remaining static, rising pension costs and pressure on research funding as a result of Brexit. It would be the first year that the sector as a whole would move into net debt.

6.2 The Chair said that he had also attended the Committee of University Chairs (CUC) Autumn Plenary, which had covered a range of issues and provided a good opportunity to network.

6.3 The Chair stated that he had met with representatives from the Universities and Colleges Union (UCU) immediately prior to the Council meeting. It was a constructive meeting, which he would report on further later in the meeting.

7 VICE-CHANCELLOR’S REPORT

7.1 The Vice-Chancellor introduced his report by commending to the Council the Annual Report, preview copies of which had been provided at the meeting. The report demonstrated that the OU aimed to put Students First; that it could ‘Open up the Future’, and that it was the solution to the UK’s skills gaps. The report would be mailed to external supporters, distributed throughout the OU, and made available on the OU’s website with the Financial Statements in January 2017.

7.2 With regard to the political environment, the situation would be clearer once the contents of the autumn statement were known. However, it was not anticipated that the OU would benefit significantly from anything announced in the statement.

7.3 The meeting was taking place at a challenging time, as the University continued to work through one of the most difficult operational delivery failures that the OU had faced: the implementation of the Group Tuition Policy (GTP). The situation was now largely stable, although there were still difficulties ahead and significant discontent from some staff, resulting most recently in the UCU vote of no confidence in the Vice-Chancellor’s Executive (VCE), which had been passed during the previous week at the UCU OU Branch Annual General Meeting.
7.4 A specific update on the tutorial issues would be provided later on the agenda. However, there were some broader considerations arising from the operational failings that were relevant to wider delivery issues and to the whole Council agenda. Initial reflections on the causes of the problems had fallen into two broad categories. First, those issues that the University had dealt with poorly in the lead up to implementation, including: siloed thinking; lack of high-level project management skills; insufficient focus on the interdependencies between separate project activities; failure to engage staff properly; and some misjudgements at senior level.

7.5 The second, and probably more profound, set of issues illustrated some historic and deep-seated characteristics of the organisation. These included a perceived schism between “management” and front-line staff; a profusion of discretionary approaches to key University policies, leading to an almost unmanageable variety of working practices; and fragile and vulnerable systems across the IT estate.

7.6 The weight that the Council attached to the relative importance of these two categories would provide direction for the OU’s approach to change in the next few years. If the Council’s primary concern was the continuing fallout from the GTP implementation and the University’s poor track record in introducing major change, then it was likely to conclude that any additional reform should be tempered with caution about further poor implementation and disquiet from staff. However, if the Council considered the second category of deep-seated, systemic dysfunction to be critical, it would probably conclude that the scale of change required was greater than ever, alongside an essential improvement in execution.

7.7 The Vice-Chancellor said that, in his opinion, recent developments made the need to reform the organisation even more apparent. The strategic priorities in the Students First strategy agreed by the Council in July 2016, remained unchanged by these events, although the way in which they were sequenced and achieved required careful consideration. The strategic performance report identified significant stretch in the scale of the targets and, in some cases, relatively low confidence in achieving them, but the necessity of tackling the root causes of poor institutional performance, including weak change delivery, was now greater than ever.

7.8 The Vice-Chancellor asked the Council to reconfirm its support for the need to change, its acceptance that there would be continued difficulties whilst the work was undertaken, and its commitment to holding him and his Executive to account, so that the lessons learned from recent mistakes could help the organisation to move forward.

8 **GROUP TUITION**

8.1 The Vice-Chancellor reminded members that he had notified the Council about the scale of the operational failures impacting on the introduction of the new tutorials system for the October 2016 (16J) presentation on 30 September 2016. VCE had seriously considered cancelling all tutorials scheduled for 1-2 October 2016, but had been unanimous in the decision to proceed on the basis that, although there would be a higher than acceptable failure rate, the alternative would be much worse.

8.2 Since then, a large part of the University had been in crisis recovery mode, which had put tremendous strain on staff across the institution, especially staff tutors and associate lecturers (ALs). Their hard work and dedication had mitigated the potential impact: hundreds of students’ tutorials had been badly impacted, but the number could have been in the thousands. The Vice-Chancellor had apologised to all those affected, both students and staff, and had thanked staff for their hard work and forbearance; and he did so again. He also thanked those Council members who had offered their support. Such challenging circumstances had demonstrated some of the qualities embodied by the OU: dedication
to resolving problems and working across organisational boundaries in a way that was focussed on the interests of students.

8.3 Tutorial delivery had now been largely stabilised, although there was still some work to be done regarding the autumn presentation. The focus had now turned to the secure delivery of the next main presentation in February 2017 (17B). Jonathan Wylie, the newly appointed Director of Academic Services, was now responsible for the operational recovery, as well as for the Student Recruitment and Support Centre (SRSC) programme, and was present to answer any questions.

8.4 The Vice-Chancellor reported that he had visited two of the new consolidated SRSCs, which were now operational and offering extended hours of service to students. There were some initial problems, but overall the benefits of the reforms agreed by the Council were now being achieved.

8.5 Mr Wylie provided an update on the current situation with regard to the delivery of Group Tuition. The circumstances had arisen primarily because of failures in the new Learning Events Management (LEM) system combined with underlying problems around the availability of information. During the first weekend of October, the University had been able to provide the majority of tutorials, although many practical difficulties had been experienced concerning venues and late notification of events to students and ALs. The situation had gradually improved and 99% of tutorials for the 16J presentation were now fully available. There were still outstanding issues for the 17B presentation and only a short lead time in which to resolve them. Adjustments had been made to the process and the way it was managed; however, it was still flawed and would not be corrected by February. Better communications, together with input from the Business Process Improvement (BPI) team, would ensure that arrangements for the October 2017 (17J) presentation would be much improved.

8.6 The Chair of Audit Committee highlighted the Committee’s robust discussion on the matter at its last meeting (C-2016-05-14B). KPMG had presented the main issues arising from their review of the GTP and SRSC implementations, which resonated with some of the other items on the Council agenda, including risk management and effective culture. It was clear that all of the major projects were essential in the context of issues such as falling student numbers and the need to improve service provision, although the Audit Committee had discussed whether some might be deferred to ensure there were no further failures. KPMG had strongly recommended the establishment of a central transformation office to oversee complex, interdependent projects and to strengthen the University’s project management capability, and this required further consideration. The immediate operational difficulties would be managed, but the University’s ability to achieve its strategic objectives was a matter for concern. If the OU did not deliver an Adaptive Organisation and Culture (AOC), it would also fail to achieve its other objectives. The Audit Committee would be given an update on the status of the projects at its next meeting in February 2017, and would seek further assurance that the management was capable of dealing with the issues.

8.7 Another member of the Audit Committee emphasised that the issues would not be resolved simply by establishing a project office. It was crucial that the management was able to make the right judgement calls.

8.8 The Chair reported that, following a formal letter from the University and Colleges Union (UCU), he had held a constructive meeting with UCU members immediately prior to the Council meeting. They had explained the UCU views on the GTP implementation, which had affected their perception of the Executive’s ability to lead change. The key message was that, when formulating an implementation plan, management should listen to those responsible for putting it into practice.
8.9 UCU had made a number of positive suggestions, including the involvement of its members with the GTP recovery plans and the introduction of a set of principles for implementing change. It supported the proposal that the University should have a transformation office capability and had also proposed that the whistle-blowing procedures should be revisited. UCU had also requested sight of all Council papers before each meeting. There had been agreement that the issues should remain within the OU, particularly given the fragile nature of part-time education. The Director of Human Resources (HR) had been present at the meeting and would prepare a short note for circulation.

Action: Director, HR

8.10 The UCU members had also raised some concerns about the proposals contained in the Council Governance Review (CGR), in particular the implications of changing the size of the Council. The Chair had explained that no decisions would be made until the Senate had considered the report at its meeting in January 2017, and had undertaken to keep UCU informed.

8.11 Members expressed their appreciation of the Vice-Chancellor’s response to the situation and the efforts being made across the University to recover from the immediate crisis. The President of the OU Students Association also acknowledged the huge effort made by the Association to manage the situation.

8.12 A member said that there was still significant support for the principles of GTP; however, its implementation had not only failed on its own terms, but had failed in comparison to last year under the previous system, when timetables had been available before module start. Acknowledging that it was not the Council’s role to consider operational detail, the member said that it was important for the Council to understand some of the problems faced by staff dealing with the issues on the ground. For example, other policies, such as those relating to the appointment or redundancy of Associate Lecturers (ALs), made it difficult to make progress with timetabling. The disruption created by the closure of regional centres had had the greatest impact on Cluster Managers and Staff Tutors, who were also working hard to manage the failures of GTP implementation, and it was often unclear who they could call upon for administrative support. Another member supported this point and said it was essential to keep workload pressures under review. There was an ongoing concern about the delivery of examinations and exam venues, the failure of which would be catastrophic. Another member noted that, although the IT issues had been stabilised, they were still not working well and were not fit for purpose.

8.13 A student member commented that students had strongly supported Group Tuition as originally described in the Policy approved by the Senate in October 2014. It was reassuring that more tutorial timetables were now being published, but there were other issues to be resolved. For example, the geographical link between tutor and student had been broken, so it was often impossible for a student to attend a face-to-face tutorial with their own tutor; many of the events for a tutorial were being planned on the same day; and students were often unable to see outside their own Cluster in order to book alternative tutorials. Consequently, students were losing confidence in GTP and the feedback was becoming increasingly negative. The Vice-Chancellor observed that these concerns had not been expressed during the Senate discussion in October, so should be raised at the next meeting in January. The student member reassured the Council that the OU Students Association still supported the principles of GTP, but that its representatives were having to reassure other students.

8.14 Several members raised concerns about the KPMG report, which indicated that there had been no interviews with students or front-line staff. One member observed that this was particularly disappointing in view of the Students First strategy, and commented that the
Vice-Chancellor’s apology had only been apparent to him as a Council member, not in his experience as a student. The President of the OU Students Association said he was also frustrated at the failure to include the student perspective in the report, despite the Student’s Association’s request to be involved in all reviews; the University should commit to engage students in all future reviews. The Vice-Chancellor acknowledged the concern that the University had not automatically focussed on the student voice; the attention had been on correcting the problem.

8.15 Another member noted that there had been no input from the Nation Offices, which was worrying given their devolved responsibilities.

8.16 Members also expressed concern at the observation in the KPMG report that there was a lack of real understanding of the objectives of GTP amongst ALs and Cluster Managers. As KPMG had not spoken to these staff, the observation could only be based on hearsay and was potentially very damaging. If the report was to be seen outside of the Council the hard work to stabilize the situation could be lost.

8.17 The Finance Director and Acting Chief Operating Officer commented that KPMG had undertaken an initial, quick review that would not impede the recovery work, but could be presented to Audit Committee at its meeting on 1 November 2016.

8.18 The Chair of the Staff Strategy Committee commented that it was essential to look at both capacity and capability issues, as the stresses of the current situation could not continue. External consultants were not necessarily required to support action going forward; the University could take a radically different approach by showing confidence in its staff to suggest solutions and engaging them in the change process. The leadership development programme should ensure that the Executive had the ability to listen and did not view staff comments as resistance to change. Behaviour and attitudes, especially trust, were as important as process.

8.19 Members expressed concern at the suggestion that VCE had only been aware of the significant risks and issues of the GTP implementation just two days before the first tutorial had been scheduled. The potential problems had been raised previously, so this appeared to highlight the failure of management to listen and address the concerns raised by the Senate and elsewhere. Management should be able to accept constructive criticism and distinguish it from hostile obstruction to change. The Vice-Chancellor clarified that it was not the first time that VCE had heard of the issues, but it was the first time that it had been made aware of the size of the problem.

8.20 With regard to the nature of the initial report, the University Secretary added that the immediate issue had been whether or not the University would be able to provide any tutorials at all in the first weeks of the presentation. The University had quickly sought an independent review to ascertain whether the reasons for the failure required a greater review and had been for Audit Committee purposes only. The key issue at the end of September had been the failure of IT software, which had been recovered relatively quickly; the system was now stable, but it was not fit for purpose. There was also mismatch between the design of the IT system and the way in which the faculties were implementing GTP, and this was another cause of implementation failures.

8.21 A member commented that it was important that the next report addressed the causes of the problems and not just the solutions. The University Secretary said that there would be several reviews that would look at different aspects of the issue and these would feed into KPMG’s considerations. It would be an inclusive process, including ALs and students, using surveys and workshops, and considering qualitative and quantitative data.

8.22 Based on the discussion, the Chair requested that the initial KPMG report should not be published and should be taken offline, and that copies should remain in the room after the
meeting. The Vice-Chancellor restated a commitment to openness and transparency, but acknowledged that the KPMG report would not be shared with the rest of the OU community based upon the concerns from the Council. These concerns included that the initial report was neither based upon sufficient engagement with key stakeholders to present an accurate representation of the views of the University community nor adequate to present root causes of the difficulties experienced.

8.23 The Chair said that the situation was under control, but acknowledged that there were still deep concerns about how the University faced the forthcoming academic year. He reassured members that they would be kept informed and the matter would be on the agenda for future meetings of the Council.

9 BUILDING AN EFFECTIVE CULTURE PRESENTATION BY PECAN CONSULTANTS

9.1 The University Secretary prefaced the item by announcing that the Director of Human Resources (HR), Nigel Holt, was intending to retire in 2017 and that the role of Group HR Director would be advertised imminently. The new Director would be a member of VCE, reinforcing the importance of people in implementing the University’s strategy. The Chair of the Staff Strategy Committee welcomed the new Director’s membership of VCE; it was essential that cultural issues were discussed at a strategic level.

9.2 The Council had considered a paper on Building an Effective Culture in March 2016 (C-2016-01-03), in the light of the organisation’s structural changes and the impact on staff engagement and morale. Pecan Consultants had been commissioned to undertake a review of the OU culture and to capture a picture of its current state, in order that its impact on the delivery of the strategy could be understood and a way forward developed. Ella Overshott and Penny Loveless of Pecan were welcomed to the meeting.

9.3 Referring to the workshop held in September 2016 on the role of the Council member, Ms Loveless explained that Pecan now wished to engage the Council with the findings of the report and consider how this might impact the Council member role in challenging and supporting VCE. The Council paper was an extract from a fuller report that would be shared across the University, which included more detail about the staff interviews and the sessions with the OU Students Association Central Executive Committee and ALs. Members welcomed the report, which they found both interesting and useful.

9.4 A member observed that some aspects of the OU culture were deep-rooted and asked about the anticipated timescale for change. Ms Loveless responded that, if the approach to shifting the culture was to focus collective effort on doing a few things very well, then it was possible for some change to happen quite quickly and to have a ripple effect across the organisation. However, two years would be extremely fast; three to five years was a more realistic prediction. Ms Overshott commented that lagging indicators, such as staff surveys, would indicate how quickly the culture was shifting.

9.5 With reference to the widely held belief in the purpose of the University, its mission and social justice, a member commented that, at times of change or stress, the characteristic ‘care deeply’ could become divisive, as people had different interpretations of what it meant in practice. It was important to assure the University community that members of the Council also believed strongly in these values. Ms Loveless observed that another cultural trait was described as ‘tribe of tribes’: different groups only heard what they wanted to hear. The recommendation for shifting this cultural characteristic was regular, positive and open communication. It would take time to make this change but it should be made a priority.

9.6 A member commented that culture change initiatives were difficult and often only worked if there was a need for existential change. The purpose of the organisation was robust,
but the case for change needed to be communicated in a way that meant something for individuals. The Executive had a crucial role to play in listening to people and articulating the strategy in a meaningful way. The student and AL voice should be woven throughout the transformation. Ms Loveless replied that, although Pecan had only met with a small percentage of the University community, people appeared to understand that change was essential for the survival of the organisation. However, individuals needed more impetus to engage with change and to do something different. The proposed approach was to focus on pioneer units that could make the case for change relevant to the individuals in those teams. Pecan would work with VCE and the Senior Team to articulate the strategic narrative in language that everyone could relate to and to set the context for change.

9.7 A member observed that the University had introduced change successfully in the past; for example, with electronic tutor-marked assignments (TMAs). It had done so by creating champions or ‘buddies’, who were able to explain the benefits of change to other stakeholders. This had worked well when there had been only one change to deal with, but it was unclear how this approach would succeed in the face of so many changes. Ms Loveless explained that as the pioneer units experienced successful change, they would communicate the benefits through their interactions across the University. They would become champions by demonstrating the impact of well-managed change.

9.8 The Chair of the Staff Strategy Committee commented that change champions should be drawn from across the organisation, and should be appropriately supported and developed. It was essential to begin to model the leadership behaviour required across the organisation, balancing both intellectual (IQ) and emotional (EQ) engagement. Psychometric testing might be appropriate, to ensure that the change champions were able to engage people and engender trust. Ms Loveless responded that some change champions had already been identified via the Strategy and Information Office (SIO) and ALs.

9.9 A member observed that the culture reflected in the report was not unlike that in many other higher education institutions (HEIs). However, a major difference was that teaching at the OU was undertaken by ALs, a critical group that should be at the forefront of the Students First strategy. However, the extent to which ALs felt part of the OU community and the level of investment that they had in the University was unclear. Members responded that there was a considerable variation in the time individual ALs spent working for the OU, but that the amount of teaching time did not necessarily equate to the level of commitment to the organisation. Many ALs were keen to see change and would invest time to engage in the change process if they believed it would yield results.

9.10 Referring to the cultural characteristic ‘status conscious’, a member said that he did not recognise the trait ‘deference to hierarchy’ and suggested that this issue was more nuanced than it appeared. If people did not feel heard, then they might stop raising issues and simply accept the status quo. Ms Loveless responded that the workshops had revealed a perceived deference to high status roles. Another member said that he recognised the characteristic in part: within the local unit, there was no sense of hierarchy, but rather of everyone working towards a common goal; however, outside the unit, interactions began to feel different, and there was certainly a perception that some members of the Executive were unapproachable.

9.11 A member commented that the Vice-Chancellor, VCE and Senior Team had vital roles to play. The Vice-Chancellor was commended for making a personal visit to the SRSCCs, as small actions often had a big impact on organisational culture. The engagement of VCE and the Senior Team in Phase One was crucial, including the implementation of symbolic changes, such as new ways of working. It would be helpful if the Vice-Chancellor and his Executive were more visible across the University.
9.12 The Chair observed that the ability of the Executive to listen had been raised previously as a contributory factor in respect of recent failures. However, the evolution of the Students First strategy showed that the organisation was capable of wide consultation. Ms Overshott observed that there was an important distinction between being listened to and feeling heard. It was important to close the loop, by letting people know that the Executive had considered the views expressed and explaining how it would respond.

9.13 The Chair asked members to consider the role that the Council should play as the culture change programme was executed. A member commented that members of the governing body at another HEI were actively engaged in listening to students and staff; there was much more that OU Council members could do. The President of the OU Students Association invited all Council members to meet with the Association.

9.14 The University Secretary thanked Pecan Consultants for their input. The programme was at its early stages and members were invited to propose ways in which the Council could engage with ALs and students. Building an Effective Culture would be on the agenda for the Council meeting in March 2017, at which time information on the progress made in the pioneer and enabling units should be available. In the meantime, the University would find ways to update the Council on the latest developments.

10 TEACHING EXCELLENCE FRAMEWORK

9.15 Minute items 10.1 to 10.12 are presented in C-2016-05-CM (Confidential Minutes).

11 STRATEGIC PERFORMANCE REPORT

11.1 The Director of Strategy introduced the paper, which reported on the University’s performance against its strategic measures of success. The timing of the report had been brought forward to the autumn, but this meant that little had changed since the Council approved the high-level performance measures and targets in July 2016.

11.2 The targets were divided into two categories: the first included the top five priority measures; and the second incorporated other success measures. The executive summary slides illustrated a mixed picture in the University’s performance against these measures, and indicated the correlation between the confidence in achieving the targets and the level of stretch the targets required.

11.3 The Council noted the Strategic Performance Report

12 RISK MANAGEMENT DELIVERY PLAN

12.1 The Director of Strategy introduced the paper, which provided an update on the University’s progress in building its risk management capability. A risk maturity exercise had been undertaken since the last meeting of the Council and the findings were attached to the paper (Appendix 1). The Council was being asked for a broad endorsement of the approach being taken and to agree to the plan for a risk management development session to be run at the Council meeting in March 2017.

12.2 The Chair added that a particular observation of the Council Governance Review was that the way in which the Council approached risk needed to be strengthened. The work undertaken by the Strategy and Information Office was welcomed, although it exposed an organisation that was relatively weak in terms of its risk management.

12.3 A member observed that policy, process and training were the key to good risk management; leadership brought it to life. The cultural embodiment of risk management took time. The Director of Strategy responded that VCE had acknowledged its leadership role in implementing a risk management framework, and development activities would
support members of the Senior Team in improving their understanding of their responsibilities regarding risk. However, there was a gap between the stated risk appetite and how this was perceived across the organisation, and more work was required. The situation that had arisen with the Group Tuition Policy provided an opportunity to accelerate this work. In response to a query from a member, the Director of Strategy confirmed that the University followed the classic ‘three lines of defence’ model for governing risk: there was a programme to improve the approach to risk in unit business planning, a change project in S&IO to review the risk management framework, and internal audit would provide further assurance.

12.4 Members commended the excellent work undertaken by S&IO. One member observed that the paper was a good example of the way in which the CGR had focussed the Council on some important matters. It also illustrated some of the issues raised in the paper on culture, such as the tendency to work in silos. Another member commented that it would be interesting to receive more information regarding the differences between academic and academic-related staff with regard to their view of risk. A member of Audit Committee said that the Committee had been impressed with the rapid journey made to date; it would continue to monitor progress.

12.5 The Council agreed:

a) the risk development session should be held at the Council in March 2017; and

b) the activities that S&IO had proposed to develop risk management capability further.

13 LOCAL FOOTPRINTS PROJECT  C-2016-05-07

Minute items 13.1 to 13.5 are presented in C-2016-05-CM (Confidential Minutes).

14 AUDIT COMMITTEE’S ANNUAL REPORT TO THE COUNCIL  C-2016-05-08
AND THE VICE-CHANCELLOR, INCLUDING THE CHIEF AUDITOR’S REPORT 2016

14.1 The Chair of Audit Committee introduced the report, highlighting his summary remarks at the front of the paper. The financial statements had been produced under a new financial reporting standard, but no difficulties had been encountered during the process. HEFCE would note a large surplus in the accounts but, if the VAT payment was excluded, the operating result was much lower and the cash flow statement showed that there had been an operational cash outflow. The challenges around student numbers and other uncertainties meant that the University’s ongoing business performance should be kept under careful review. The Audit Committee had reviewed the consolidated financial statements in the presence of the Finance Committee and the external auditors, PricewaterhouseCoopers (PwC), and had recommended that they be approved by the Council.

14.2 With reference to risk assessment, a member observed that an internal audit had been undertaken on ‘IT Development – offshoring/outsourcing’ and had been graded ‘green’ (Audit Committee Annual Report, C-2016-05-08 Appendix 1 Annex 3). However, the LEM system, which was offshore, had been a key issue in the GTP implementation. The member asked whether there were any lessons to be learned. The Chair of Audit Committee replied that this was not an issue for Audit Committee. The University Secretary added that the issues with LEM would be subject to the review by KPMG. Problems had arisen because the University had changed what it wanted to implement and the original specifications had been unable to cope; the fact that the system was offshore had not been an issue. The University had reviewed its arrangements with offshore partners.
14.3 The Council and the Vice-Chancellor noted Audit Committee’s Annual Report for 2015/16.

15 ANNUAL ACCOUNTABILITY RETURNS 2016, INC ANNUAL ASSURANCE RETURN (ANNEX A)

The Council approved the contents of the Annual Accountability Returns 2016 and agreed that the Vice-Chancellor should sign Parts 2 and 3 of the Annual Assurance Return (Annex A) on its behalf.

16 CONSOLIDATED FINANCIAL STATEMENTS 2015-2016

16.1 The Finance Director introduced the paper, which presented the first set of financial statements prepared under Financial Reporting Standard 102 (FRS 102). The results for the year were dominated by the exceptional gain of £53.3m following the Court of Appeal judgement in favour of the University in the long-running legal dispute with Her Majesty’s Revenue and Customs (HMRC) regarding VAT. The results were also impacted by costs of £12.3m relating to the location changes in England.

16.2 As noted by the Chair of Audit Committee, these exceptional items, together with non-operational movements in investments and the new provision for pension recovery plan contributions, meant that the reported surplus of £58.4m was not a good measure of the underlying trading position. The adjusted surplus for operating activities, £10.4m, was a better measure of sustainable performance and, consequently, was the measure now being used in the University’s financial strategy.

16.3 The adoption of FRS102 had resulted in several transition-related disclosures. This had impacted minimally on the net current asset trend information (p 27), but significantly on the surplus/deficit trend information (p 28), where a reported deficit of 8.1% of total income last year and a surplus of 12.4% this year equated to an adjusted deficit from operating activities of 2.5% last year and a surplus of 2.5% this year. These differing perspectives had resulted in both measures being shown in the financial highlights (p 2); and a careful description of the differences between the two measures (p 24) and of the University’s performances (pp 23–28). The going concern and long-term sustainability issues had been dealt with at a similar level of detail as last year (pp 29–31).

16.4 The covering paper specified how the Council’s responsibilities had been discharged, particularly in respect of governance and going concern disclosures. The paper also summarised sections of the Strategic Report. In preparing the financial statements, the Finance Division had aimed to ensure that they were fair, balanced and understandable, and provided the information necessary to understand the University’s performance, business model and strategy. It was important that the OU continued to change the way it operated to best meet the needs of students and ensure sustainability.

16.5 The Treasurer confirmed that both Audit and Finance Committees had scrutinised the financial statements and had met with the external auditors, PwC, who had not raised any matters of significance. It was pleasing to note that the adjusted surplus for operating activities of 2.5% of total income exceeded the target of 2%. However, the budget for next year would be challenging. The future financial scenarios considered by the Finance Committee underlined the University’s dependence on the delivery of the strategy to increase student numbers. A decision to reduce strategic expenditure would be damaging, but a reduction in ongoing expenditure would also be difficult.

16.6 In response to a member’s query regarding the return on investment in FutureLearn (p 68), the Finance Director said that the University had commissioned consultants to review the subsidiary’s performance and business model and that the report would be discussed
by Finance Committee. Currently, FutureLearn was operating within the overall funding envelope agreed by the Council, but it was a high risk investment.

16.7 Observing that staff costs accounted for a significant proportion of the University’s expenditure, and that the renegotiation of the AL contract would have a big implication for those costs, a member enquired whether future projections assumed an outcome that resulted in increased expenditure or one that would be cost neutral. The Finance Director replied that increased costs had been built in to future forecasts, but that the University was balancing various options to ensure the best service to students. The recent structural changes would enable the OU to reduce its expenditure on buildings and allow expenditure to increase on front-line services and student-facing staff. Consequently, as the proportion of non-staff costs decreased, the proportion of expenditure on staff could increase. However, it was important to ensure that the University achieved its target of a 2% operating surplus on a consistent basis, despite any contractual changes.

16.8 In response to a member’s query regarding the valuation of the pension deficit liability, the Finance Director said that the provision had been based on the current deficit recovery period of 17 years. The Universities Superannuation Scheme (USS) was undertaking an assessment of the employer covenant and was likely to conclude that a more reasonable recovery period might be 30 years, which would ease cash flow. It was possible that the deficit would increase, but the situation was volatile. Significant changes might be introduced after the next valuation.

16.9 The Council:

   a) approved the University’s consolidated financial statements for the year ended 31 July 2016;

   b) authorised the Chair of Audit Committee, Vice-Chancellor and Finance Director to sign on its behalf the University’s consolidated financial statements for the year ended 31 July 2016; and

   c) noted the audit representation letter that will be signed on its behalf by the Vice-Chancellor and Finance Director.

17 ANNUAL ACCOUNTABILITY RETURNS 2016 - C-2016-05-11

17.1 Introducing the paper, the Finance Director explained that, as in the previous two years, the requirement for forecast information had not been required. Consequently, the return dealt only with the year 2015/16, which had been discussed in the previous paper (C-2016-05-10). The variance from the return submitted in July 2016 had arisen in the last quarter as previously discussed and was summarised in Appendix 2 (Table 1 & para 5).

17.2 The Treasurer added that the paper had been discussed at Finance Committee, which had recommended that the Council approved the financial return and commentary.

17.3 The Council approved, on the recommendation of Finance Committee, the financial commentary for submission to HEFCE by 1 December 2016.
18 STRATEGIC PLANNING AND RESOURCES COMMITTEE  C-2016-05-12

18.1 The University Secretary introduced the SPRC paper, which included a number of key items for the Council to consider.

Nation Strategies

18.2 The University Secretary explained that versions of the Student First strategy had been developed in each Nation to suit the local context and to support the OU’s work within the devolved administrations. Each strategy now required approval by the Council.

18.3 A member welcomed the individual strategies, which reflected an important aspect of the OU’s work within the devolved funding administrations.

18.4 The Council:

a) approved the Nation Strategies (Appendix, Annexes 1-4) as recommended by SPRC (SPRC-2016-04-M, minute 6);

b) noted that the Strategic Performance Report was dealt with elsewhere on the Council agenda (C-2016-05-05); and

c) noted the unconfirmed Minutes from the meeting (SPRC-2016-04-M).

Minute items 18.5 to 18.17 are presented in C-2016-05-CM (Confidential Minutes).

19 FINANCE COMMITTEE  C-2016-05-13

The Council noted the unconfirmed minutes from the meeting held on 1 November 2016 (F-2016-04-M).

20 AUDIT COMMITTEE  C-2016-05-14

The Council noted:

a) that the Risk Management Delivery Plan had been dealt with elsewhere on the Council agenda (C-2016-05-06);

b) that the Committee had confirmed to the Council that, by considering the University’s audited 2015/16 consolidated financial statements in the presence of the external auditors, it had discharged its responsibilities under the Higher Education Funding Council for England (HEFCE) Memorandum of Assurance and Accountability;

c) the Committee’s recommendation that the Council approved the University’s consolidated financial statements for the year ended 31 July 2016 (C-2016-05-10); and

d) the unconfirmed minutes and confidential minutes of the meeting held on 1 November 2016.

21 ESTATES COMMITTEE  C-2016-05-15

21.1 The Chair reported that the Chair of Estates Committee, Bill Monk, had tendered his resignation from the Council, which he had accepted with regret.
21.2 The Council noted:

a) the minutes of the meeting held via correspondence on 10 June 2016; and

b) the unconfirmed minutes of the meeting held on 26 October 2016.

22 **STAFF STRATEGY COMMITTEE**

22.1 The Chair of Staff Strategy Committee commented that the deep-dive workshop on Reward and Recognition had recognised the need to stay within budgeted expenditure, so had focussed on achieving better value by recognising and rewarding the right behaviours. This resonated with the aims of building an effective culture. Progress could be achieved through simple changes, such as the clarification of roles and responsibilities and the recognition that benefits should not be based on ‘one-size fits all’ approach. The Committee would refine its proposals and then seek feedback.

22.2 The Council noted the unconfirmed Minutes of the meeting held on 25 October 2016.

23 **THE SENATE**

23.1 The Vice-Chancellor observed that several of the items discussed at the Senate had been raised elsewhere on the Council agenda. The debate on the Academic Strategy had been constrained by the time available and would be on the agenda for further discussion in January 2017.

23.2 A Senate member of the Council highlighted the extensive discussion of the Group Tuition Policy at the Senate meeting and the level of concern, which had been reflected during the earlier part of the Council meeting.

23.3 The Vice-Chancellor confirmed that the Chair would sign the statement of assurance required by SFC and HEFCE on behalf of the Council.

23.4 The Council:

a) endorsed the statement of assurance required by the Scottish Funding Council and the Higher Education Funding Council for England on the recommendation of the Academic Quality and Governance Committee (AQGC);

b) noted the assurance statement set out in the report on the effectiveness of the University’s academic governance arrangements in 2015/16; and

c) noted the report of the following items discussed at the meeting of the Senate held on 19 October 2016:

i) Group Tuition Policy

ii) Academic Quality Report

iii) Academic Strategy

iv) Academic Governance Assurance Report

24 **PREVENT (COUNTER-TERRORISM) DUTY – ANNUAL IMPLEMENTATION REPORT**

24.1 The University Secretary introduced the paper, which described the actions taken by the OU to comply with the Prevent Duty. The Chair would sign the Annual Report Governing Body Declaration (Appendix 2) on behalf of the Council.
24.2 A member asked whether there were any prayer rooms on campus, which might accommodate external speakers. The University Secretary responded that the University’s prayer room was a small facility that was unlikely to accommodate a group; however, confirmation of the controls placed on the use of the room would be sought.

Action: University Secretary

24.3 Another member asked whether the University would be aware if a tutor invited an external speaker to participate in a tutorial event. The University Secretary replied that the University should be informed; however, there was more work to be done and ongoing communications were essential.

24.4 The Chair observed that the case studies were particularly helpful.

24.5 The Council noted the Annual Report on Implementation of the Prevent (Counter-Terrorism) Duty.

25 OU STUDENTS ASSOCIATION ANNUAL REPORT AND FINANCIAL STATEMENTS 2015-2016

25.1 The President of the OU Students Association introduced the paper, with thanks to his predecessor and previous team for their work in developing the Association’s strategy, underpinned by the four objectives highlighted in the paper (p 2). Activity had been focussed on communications, and there had been a significant growth in the use of social media, radio output and the student magazine. There had also been a change in the arrangements for electing representatives, with an implementation of one-member-one-vote, to replace the Conference-based voting system.

25.2 The focus for the current year would be similar, but with greater emphasis on agreeing ideas and priorities that led to action. The invitation to Council members to meet with the OU Students Association was reiterated.

25.3 On behalf of the Council, the Chair thanked Ruth Tudor for her contribution as President. A student member added that Ms Tudor had moved the Association forward significantly and it owed her a huge debt of thanks.

25.4 The Council noted the OU Student Association:

a) annual report of activities for 2015-16;

b) plans for 2016-17 and beyond;

c) compliance statement (Appendix 1), which indicated that elections taking place during 2015-16 had been conducted fairly and in compliance with its Constitution;

d) audited accounts for 2015-16 (Appendix 2), which had been previously presented to the Finance Committee at its meeting on 1 November 2016, and details of donations and affiliations as detailed in the compliance statement;

e) the OU Students Association Strategy (Appendix 3); and

f) the OU Students Association’s operational budget for 2016-17 (Appendix 4).

26 GOVERNANCE AND NOMINATIONS COMMITTEE

26.1 The Chair introduced the paper, which presented the minutes of the Governance and Nominations Committee. The Committee had been developed from the former Membership Committee: it would now consider the effectiveness of Council governance,
as well as member appointments, and its own membership had been increased and broadened.

26.2 The Committee had discussed two key issues arising from the report of the Council Governance Review: the size of the Council and the Council substructure. However, the Senate’s discussion of the CGR report had been deferred to January 2017 and the Committee would consider the Senate’s views before making any recommendations to the Council in March 2017.

26.3 A member said there was an ongoing concern about the possible disestablishment of SPRC. The value of the Committee’s scrutiny had been illustrated during the current meeting and the Council should be cautious about removing it.

26.4 The Council noted these unconfirmed Minutes.

27 DECLASSIFICATION OF COUNCIL PAPERS

27.1 The Chair confirmed that the following papers should remain confidential:

a) C-2016-05-02 Group Tuition Policy
b) C-2016-05-03 Building an Effective Culture (until wider communication to all stakeholders).
c) C-2016-05-04 Teaching Excellence Framework
d) C-2016-05-07 Local Footprints Project
e) C-2016-05-12B SPRC confidential minutes
f) C-2016-05-12 Appendix 1: SPRC-2016-04-03 2017/18 Fees and Financial Support Strategy
g) C-2016-05-12 Appendix 2: Apprenticeships Strategy
h) C-2016-05-14B Audit Committee confidential minutes
i) C-2016-05-17B Senate confidential minutes

27.2 However, the following papers could be declassified:

a) C-2016-05-08 Audit Committee report
b) C-2016-05-11 Annual Accountability Return 2016 – Financial Commentary

28 CHAIR’S ACTION C-2016-05-21

28.1 The Chair introduced the paper, which reported on action taken on behalf of the Council to approve:

a) amendments to the appointment procedures for non-professorial central academic staff and staff tutors;
b) amendments to the constitution and membership of the Governance and Nominations Committee; and
c) appointments of Council members to the Governance and Nominations Committee.
28.2 The Council noted the action taken by the Chair on behalf of the Council since the last meeting held on 27 September 2016.

29 COUNCIL MEETING DATES 2017 & 2018

The Council:

a) noted the dates of the meetings in 2017;

b) agreed the programme of meetings for the 2018 calendar year.

30 NEXT MEETING

30.1 The next ordinary business meeting of the Council will be held on Tuesday 7 March 2017. The Chair confirmed that the meeting would be held in the OU Wales office in Cardiff, where members would have the opportunity to meet staff. There would be a formal dinner on the evening before, with guests to whom the OU could be showcased.

30.2 A student member requested that the OU Students Association representative in Wales be added to the guest list. A member proposed that the Minister for Education in Wales should also be included.

31 REVIEW OF THE MEETING

On behalf of the Council, both the Chair and the Treasurer thanked Miles Hedges for his contribution to the University, not only as Finance Director, but also more recently as Acting Chief Operating Officer.

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