



THE COUNCIL

Minutes of the meeting of the Council held on Tuesday 1 March 2011 at The Open University, Walton Hall, Milton Keynes

- Present: Lord Haskins (Chair), the Vice-Chancellor, Mr E Briffa, Mr H Brown, Dr S Ding, Mrs R Evans, Mrs I Falconer, Prof J Fortune, Dr A Freeling, Dr M Hopkins, Mr R Humphreys, Mrs C Ighodaro, Dr C Lloyd, Ms S Macpherson, Mr P Mantle, Ms C McEwen, Ms L Murphy, Dr T O'Neil, Mrs R Spellman, Mr M Steen, Prof W Stevely
- In Attendance: Pro-Vice-Chancellor (Curriculum and Qualifications), Pro-Vice-Chancellor (Learning, Teaching and Quality), Interim Pro-Vice-Chancellor (Research and Enterprise), Director, Students, Finance Director, University Secretary, Senior Assistant Secretary (Central Secretariat), Assistant Secretary (Central Secretariat), Director of Business Development
- In Attendance for part of meeting: Director of Development, Director of Human Resources, Director of Strategy,
- Apologies: Mr S Barnett, Mr H Brown, Mr A Peck

1 WELCOME

The Chair welcomed Professor Alan Bassindale, Interim Pro-Vice-Chancellor (Research and Enterprise) to this meeting of the Council.

2 DECLARATION OF INTEREST

Prof Joyce Fortune remarked that all those employed by the University would have an interest in paper C/11/1/6 - Future Retirement Age Policy. The University Secretary said that where staff members of the Council had no more interest than the general staff then there would not be a conflict of interest.

3 MINUTES

C/10/4/M

The Council **approved** as a correct record the minutes of the business meeting held on Tuesday 23 November 2010, subject to an alteration to the list of those present. Mr Andrew Peck had been recorded as present, but had been absent.

4 VICE-CHANCELLOR'S REGULAR REPORT

- 4.1 The Vice-Chancellor, Mr Martin Bean, welcomed the Council to its first meeting in Milton Keynes and the first of 2011. It would be a challenging year across all four nations of the UK and this meeting would prepare members for the important decisions that the Council would have to take later in 2011.
- 4.2 Despite the difficulties, The Open University (OU) continued to do amazing work. The Senate minutes outlined some of the good news from across the University. One highlight was that the U101 *Design Thinking* course had received a prestigious award at the Institute for IT Training annual award ceremony on Thursday 3 February 2011, which recognised the significant achievements in online learning pioneered through U101 and established the OU as a leading provider of IT Training Services to industry.
- 4.3 The UK political landscape and funding environment affected most of the items being presented to the Council. The debates concerning the balance of private and public contribution to higher education (HE) provision, and the drive to reduce levels of public expenditure, were covered more fully in paper C/11/1/2 – The UK Political Landscape. The Vice-Chancellor said that he would take questions on the paper together with any on his report.
- 4.4 There were three main areas for consideration:
- a) the current state of play with funding and the external environment across the four nations of the UK;
 - b) the anticipated impact on the OU; and
 - c) the key principles and tests that the University should adopt and seek public support for as part of its engagement with the ongoing reviews.
- 4.5 Devolution had been a major topic for discussion at the Council for some years, but the issue was becoming more prominent, particularly in relation to government funding. In Scotland, a cut of approximately 10% had been announced for general teaching grants and announcements on further funding cuts were expected after the Scottish elections in May 2011. In December 2010, the Green Paper had been published which had put forward broad suggestions on alternative funding models to be implemented for 2012/13, together with a range of issues related to HE. The University had recently responded to the paper, focussing primarily on how part-time study should be incentivised and whether fee loans should be available to part-time students in the long-term.
- 4.6 In Wales, the Higher Education Funding Council for Wales (HEFCW) had announced an expected in-year cut in grant for the current academic year of 4%. New fee loans would come into force for students on new courses in Welsh universities in September 2012, with basic tuition fees being charged at £4000. In November 2010, Leighton Andrews, the Welsh government Minister for Education, announced that Welsh full-time students would be protected from tuition fee rises so that they paid no more than the current fee level of just under £3500, with a non-means tested grant to cover the balance of higher fees. The Minister had also confirmed that part-time students would be able to access a tuition fee loan depending on the level of intensity of their course, although the precise nature of fee arrangements and support for part-time provision had yet to be decided. The Director, the OU in Wales, Mr Rob Humphreys, and his team were engaging directly with the Minister to discuss the implications of this. There was a move towards more regionalism in Wales, which meant that the OU in Wales had to ensure that it was part of the dialogue across all the regions in Wales, as funding would follow the regions.

- 4.7 On 8 February 2011, the Northern Ireland (NI) Minister for Employment and Learning had announced that annual student fees at the two conventional universities in Northern Ireland should rise to a maximum of £5,750. He had been speaking in advance of a consultation on full-time student finance, which would commence in March 2011. This consultation would be on the reworking of the Stuart report, an independent review of variable fees and student finance arrangements in Northern Ireland, which in October 2010 had recommended that full-time fees should be frozen. The University was currently funded for its work in Northern Ireland through the Higher Education Funding Council for England (HEFCE), which added another complexity to the University's involvement in this dialogue.
- 4.8 The University would not know for some time what its funding for 2012-14 in England would be, but it was planning for all scenarios. It was known that Government had cut 6% from the HEFCE budgets for 2011/12 and the University expected this to be passed on through cuts to its teaching grant. The publication of the White Paper would set out how the Government planned to bring the results of the Browne Review and the Comprehensive Spending Review (CSR) into force in England. It was likely that this would now be delayed until May 2011. The Government was finding it difficult to reconcile the cost of the current model as proposed with the Treasury's expectations. Several institutions had already declared that their fees would be set at £9000, but the Treasury's modelling had been predicated against average fees of £7500.
- 4.9 Over the past few months, through engagement with the Government, the University had not only influenced, but also helped to shape policy by:
- a) securing cross-party support for the principle of parity between full-time and part-time higher education. This was not universal: there was still a battle to be fought in Scotland, but great progress had been made in Northern Ireland, Wales and England;
 - b) having the Minister, David Willets, confirm, on the record, that the tariff point system proposed for England was "unworkable". This had opened the door to alternative models;
 - c) gaining a line in the Department for Business Innovation and Skills (BIS) letter to HEFCE that reads "for 2011/12 the top policy priorities for targeted funding should be supporting widening participation and fair access". The £372 million that had been considered at risk was now not only protected for the year, but was also considered to be a most important priority. Of that £372 million, the OU received £37 million;
 - d) the Government recently announcing that part-time students earning more than £21,000 per year would only be expected to begin repaying their fees 3 years after they had started their course, when many had expected this to be after 1 year. In relation to price sensitivity and students' desire to participate, this cushion was very important.
 - e) the Government also announcing, in February 2011, that the National Scholarship Programme, which consisted of £150 million of new money, would be open to part-time and mature learners. It had originally been targeted at bright young people from poor backgrounds and only those institutions charging more than £6000 would have been able to participate in the programme. However, the University had argued that those HEIs charging less than £6000 should also be able to participate. This had been agreed, together with the further concession that those institutions charging less than £6000 would be able to participate at a discounted match rate. Moreover, participation in the programme would no longer be bound by age. Further details of the entry requirements for participation in the programme were as yet unknown.

- f) persuading the Government to reduce the intensity level at which part-time students received support from 30% to 25%, or 30 credit points. This major concession would help a further 19,000 OU students.

4.10 There were still a number of open questions on which the University would continue to press the Government:

- a) the importance of retaining HEFCE funds for widening participation, improving retention and supporting students with disabilities after 2012;
- b) transitional arrangements in moving to the new funding model;
- c) the needs of specific groups such as Equivalent or Lower Qualification (ELQ) students, OU students studying at full-time rates, and offender learners. A conversation was due to take place with the Minister and BIS officials, which would suggest that the ELQ policy should be recast in order that ELQ students studying strategically important and vulnerable (SIV) or Science, Technology, Engineering and Mathematics (STEM) subjects, those receiving unemployment benefits, and other targeted populations that needed reskilling should get access to student loans.

The University's aim was to secure the best possible financial settlement for the OU and for its enduring mission.

4.11 To make sure that the University responded quickly and appropriately to the changes, three work streams had been established to assess and react to the challenges of the new environment:

- a) Market, Students and Pricing
- b) Cost Reduction and Efficiency
- c) New Income Streams

The first two were covered elsewhere on the agenda in papers C/11/1/3 and C/11/1/8 respectively, whilst the third was dealt with in the appendix to the Strategic Planning and Resources Committee (SPRC) minutes (C/11/1/14).

4.12 A member commented that a report had been published in Scotland the previous day which tried to identify the likely funding gap between Scotland and England by the end of the current spending round (2013/14). It made several assumptions, including an average fee in England of £7500. If this were the case, then the funding gap would reach approximately £200 million per annum, which was well beyond the amount that might be contributed by business or philanthropy. It was therefore likely that there would be a move towards a graduate contribution of some kind. Something would have to be put in place soon after the elections in May 2011 in order to find a solution for the longer term. The OU in Scotland's response included the proposal that there was a move to credit based funding. However, the recognition of the importance of part-time education was slow in Scotland.

4.13 The Director, the OU in Wales, Mr Rob Humphreys, commented that the Welsh Government had been the most supportive of part-time HE, but there were signs that this might be at risk, not because of the political will, but because of the availability of funding. The proposal was that full-time students, including those who went to study in England or Scotland, should only pay the current fee of £3500 and that the Government would make up the difference up to a notional £7500 or even £9000. This represented a significant amount of money, so the Government had suspended any discussion of part-time education until after the election. Universities in Wales were under pressure to engage in

discussions on mergers and reconfiguration. The OU was not involved in this, but the pressure to work in collaboration with others was greater than ever.

- 4.14 The Chair, Lord Haskins, enquired whether Wales and Scotland were working towards implementation in September 2012. The English universities were under pressure to set their fees in order that they could publish their prospectuses for 2012/13. Mr Humphreys said that, to some extent, Welsh universities were waiting to see what happened in England. There was still time before these universities had to go to press: the full-time fee was known; it was only the part-time fee that was still to be agreed. A member commented that the concept of a 'fee' was not recognised in Scotland. There would be a graduate contribution for Scottish students going to Scottish universities, but there was more time to decide what that might be. It was expected to be of the order of £12,000 if it went ahead. A student member responded that in the Republic of Ireland the words 'tuition fee' were not used. However, registration charges were of the order of 2500 Euros.
- 4.15 Lord Haskins observed that the politics were extremely complex. The Scottish election would decide many of the outcomes in Scotland. In England, the coalition Government was in some difficulty and its policies in areas such as the NHS, defence and welfare reform were high risk. Its work with higher education was further advanced, but there were still a huge number of questions to be answered. The OU was in the fortunate position of not having to make a decision about its fees immediately, whereas other universities would have to decide within the next few weeks.
- 4.16 A member commented that the OU would have to be agile to changes in government policy. Another member was concerned about the hiatus that might occur: the OU was preparing its financial modelling, but how would the University cope with such a reduced level of funding? There were likely to be opportunities in the middle of this situation, but it was difficult to see them at present. Lord Haskins observed that the Treasury wanted to reduce the Government's financial exposure and would require some radical rethinking of funding methods if the figures did not balance. The Vice-Chancellor said that the popular consensus was that there would no great savings, but some balance sheet adjustments: the goal of reducing the debt in the short term would not be met.
- 4.17 Lord Haskins observed that the OU had made great progress in influencing the HE agenda and was seen as a pioneer for many of the changes that were taking place.

5 REFRESH OF OU FUTURES

C/11/1/1

- 5.1 The Director of Strategy, Mr Guy Mallison, introduced the paper. The current review of *OU Futures* had commenced with the Council Residential Weekend, at which some of the external threats facing the University had been considered. The Council's approval of the changes made to some of the Focus Areas (FAs) in response to these threats (paragraph 3.1), would conclude the process.
- 5.2 The University had taken the opportunity to revise some of the strategic intent statements for the major strategic programmes within the Focus Areas (paragraph 4.1). Brief summaries of each of the strategic programmes, describing what they were intended to achieve and how, were included as Appendix 2 to the paper.
- 5.3 Section 5 outlined the on-going work to strengthen, adapt and prepare the University for the new world of HE. The outputs from these work streams would be delivered to the Council in July 2011. Reports on the current position for each work stream were included elsewhere on the agenda as papers C/11/1/3 – UK Market Led Strategy, C/11/1/8 – Cost Reduction and Efficiency, and as Appendix 3 to C/11/1/14 - Strategic Planning and

Resources Committee (SPRC): International Strategy. By March 2012, the outputs of the work streams would have been incorporated into a potentially more fundamental revision of *OU Futures*.

- 5.4 A member was concerned that Government Funding had been removed from the Focus Areas, just as its importance as an area for strategic focus was increasing. Mr Mallison explained that the FA framework was not best suited to supporting the University's lobbying and influencing work and that this would be more effectively managed and supported within a different infrastructure. The Vice-Chancellor clarified that the External Relations Strategy Group, led by the University Secretary, Mr Fraser Woodburn, now met formally every month, rather than quarterly, and informally every week, and that this work was still a high priority for the University. Mr Woodburn observed that whilst Government Relations did not need to be managed as a Focus Area, it was still a central part of *OU Futures* and should have its own distinct place within the strategy. The member said that this would remind the Council to take a strategic rather than an operational view of such activities.

Action: GM

- 5.5 With reference to Appendix 2, particularly with regard to FA 1 – 3 and possibly 4, a member commented that the main tasks and timetable did not appear to include an evaluation of the effects of the work on the student experience. In respect of FA 4, the Director, Students, Mr Will Swann, said that the purpose was to enhance the student experience and thereby increase the proportion of students who progressed towards their long-term goal. There was a range of fundamental measures associated with enhancements in the student experience. If improvements were not being achieved, then this would show up through a decline in student progression. The member thought that there should be an explicit statement regarding the evaluation of the student experience, because it might be impacted by factors outside the measure of progression. The Vice-Chancellor agreed that the University, as it executed *OU Futures*, needed to monitor the quality of the student experience and it would analyse and report back on the outcomes. Referring to FA2 – Learning and Teaching Efficiency, another member supported the view that it was extremely important that when dealing with areas that had a direct impact on students, such as module production and presentation, that the quality of the student experience was monitored closely to ensure that quality was maintained.
- 5.6 Another member commented that it was important to consider the interaction between the Focus Areas if the whole strategy was to be optimised, particularly as there would be a lag in some areas before the consequences were understood. For example, student progression would not be apparent in the short term. Mr Swann said that there was a risk that responding to the short term need to reduce funding, by withdrawing services that were valued by students, would be greatly disadvantageous in the long term in a world where the quality of the student experience drove the University's success in a more competitive environment. It was necessary to be cautious, but there were opportunities to increase efficiency in such a way that the student experience would also be improved. There might also be areas in which the University would need to invest more, for example careers support, which would become more significant in the future. Some contingency work was currently being carried out to develop services that would be more expensive and higher quality than were currently being offered.
- 5.7 The Pro-Vice-Chancellor (Learning, Teaching and Quality), Professor Denise Kirkpatrick, commented on the complex interactions across and within the Focus Areas. There was considerable work being done to explore and take account of the interdependencies between the FAs. For example, the Pro-Vice-Chancellor (Learning, Teaching and Quality) was the Senior Responsible Officer for both FA2, which was concerned with increasing efficiency and reducing costs, and its counterpoint, FA3, which was concerned with developing pedagogy, as well as having responsibility for Quality and Quality Assurance.

The University was moving into an uncertain time, particularly with regard to its potential future markets and the expectations of future students in comparison to the current cohorts, but it was trying to prepare and plan for the future. The sub-projects within each FA had an evaluation component attached to them. These evaluations would look at individual dimensions, but the broader work would be looking across the piece at the student experience.

- 5.8 A student member observed that the performance indicators were linked to the Focus Area Dashboard, and enquired whether this could be made accessible to Council members. Mr Mallison responded that the Dashboard was a transparent mechanism for looking at the performance of the University and picked up on the key measures of the student experience. It was available on the intranet, but it would be necessary to look at how it might be made available to external members.

Action: GM

- 5.9 A member supported the focus on Employer Engagement, as working with employers would drive new potential growth in OU activity. Continuing Professional Development (CPD) would increasingly become a requirement of people in work, so ways in which CPD could be accessed on a part-time basis through the OU was a key issue to explore with employers and employer groups such as the Confederation of British Industry (CBI), Federation of Small Businesses and Chambers of Commerce.
- 5.10 Several members supported the new FA on people and culture, as it was so important to the strategy and for all those who worked for the University.
- 5.11 A member enquired where in the *OU Futures* refresh process the University was developing or updating the vision that guided the strategic response work in the changing political situation. For example, the number of definitions of 'open' had grown over the years and would continue to do so. The Vice-Chancellor said that the Council had approved a three year strategy in 2010 and that a refresh exercise, to review what was or was not working, was good practice. The OU's mission, vision and values had remained the same. However, following the outcomes of the work done by Monitor and the decisions to be made by the Council in July 2011, a more radical review was likely to take place between August 2011 and January 2012, which would then be presented to the Council in the first quarter of 2012. With greater knowledge of the market and the investment necessary to seek its targeted populations, the University would be able to review its vision. In parallel, the Director, Students, Mr Will Swann, was leading a review of the Widening Participation strategy in the light of the new funding environment and the work being done by the institution, which would also inform the vision going forward. The definition of 'open' was not static: throughout the 41 years that the University had been in existence, the core mission had been interpreted in different ways according to the environment in which the University found itself operating, and this would continue to be the case. A positive outcome of the current situation was that the University would be more in control of where it chose to invest in order to widen participation and attract those populations that suited its strategy and goals, rather than having to follow Government agendas, money and stimulus. Another member said that he was encouraged by the Vice-Chancellor's remark, as whilst the paper was a technically efficient document about how the University should reduce costs, improve effectiveness and strengthen competition, the reason that the University was doing this had been lost. Mr Mallison said that the paper was mainly concerned with the changes to the strategy, because the 'why' had already been established.
- 5.12 A member commented that the timescale for producing a definitive response to the new environment in time for the Council meeting in July 2011 was very challenging, particularly in areas such as International Business. It would help the Council to understand progress if

an interim report was produced for the May 2011 meeting of the Council. The Vice-Chancellor responded that International Strategy had been revisited in the SPRC meeting and was reported in paper C/11/1/14. Various vehicles were being used to maintain momentum with regard to the International Strategy and scrutiny occurred through SPRC. It would come back to the Council at the appropriate time.

5.13 The Council:

- a) **approved** the amendments and additions to the range of Focus Areas (paragraphs 3.1 and Appendix 1);
- b) **noted**:
 - i. the updated statements of strategic intent for each of the new and existing Focus Areas (paragraph 4.2 and Appendix 2);
 - ii. the ongoing work to develop the University's Strategic Response to the Browne Review and the Comprehensive Spending Review through to July 2011 (paragraph 5.5).

6 THE UK POLITICAL LANDSCAPE AND FUNDING ENVIRONMENT C/11/1/2

6.1 This item had been discussed during the Vice-Chancellor's Regular Report.

6.2 The Council **noted** the content of this paper.

7 STRATEGIC RESPONSE: UK MARKET STRATEGY C/11/1/3

7.1 The University Secretary, Mr Fraser Woodburn, introduced the paper. This element of the strategic response work was concerned with developing a fact-based UK Market Strategy for a future fees and funding environment that would be very different from that currently in operation and very different across the four nations of the UK. Monitor, a strategy consultancy, had been appointed against competition because of the quality of their approach and the strength of their engagement with the project.

7.2 The project had commenced on 10 January 2011 and was now well underway. However, the purpose of the presentation to the Council was not to present any preliminary findings, but to demonstrate the approach being taken and allow the Council to question that approach. The outcome of the project would be presented to the Council in July 2011, but a substantial update to the May 2011 meeting of the Council would also be considered. SPRC would receive updates at each of its meetings.

7.3 David Maggs, a Senior Partner and Head of Monitor's London Office, who was working as part of the project team, introduced his organisation and his colleagues: Beth Davidson, a Principal who was an expert in generating insights into consumers; and Mauricio Schonenberger, Case Team Manager; and spoke about Monitor's approach to the project.

7.4 The higher education sector in the UK was entering a period of profound transformation, driven by changes to the regulatory and funding regimes, which would have significant implications for students, competitors and the economics of the sector. It was apparent that the OU wanted to get ahead of the disruption in the sector and establish how it would play in the future market, rather than to wait and react as changes happened. This would involve making a series of strategic choices about which parts of the market to focus on

and how to differentiate the OU from its competitors in a way that was economically sustainable. Monitor would help the University to do this in three ways. First, it would establish a fact-base on students, competitors and sector economics, which would analyse their behaviour now and seek to anticipate how it might change in the future. Deep insights into the market would not only inform the University's strategic choices, but also provide a strong foundation on which to build an integrated strategy. Second, Monitor would provide tools and techniques to help evaluate the choices to be faced: segmentation of the potential market; tools to understand the value of HE to different types of students and the implications of this on pricing; and a financial model to assess the economic sustainability of the strategies considered. Third, Monitor would act as a sounding board for the strategic choices made by the University by listening impartially to the views and opinions of stakeholders, by surfacing the trade-off between the different options, and by informing the choice making process through its experience in other client settings. Monitor would not make the choices. This would be the responsibility of the University, who owned the strategy. Monitor's role was to inform and support the decision making process.

- 7.5 Beth Davidson then updated the Council on the progress of the project to date. The field research and the segmentation of the general population were complete, and Monitor was now starting to think about the segmentation model. Many stakeholders had been interviewed; the existing research in strategy and marketing had been audited; and the competitive landscape had been mapped to include both traditional players and some potential new players coming into the market. Working with the Finance team, a financial cost model had also been built to understand whether solutions would be economically viable.
- 7.6 Mapping the competitors had demonstrated that the market place for HE was confusing and complex, and becoming more complex. As students embarked on the purchasing process, it was difficult for them to navigate their way through the many options in this market place and the pricing varied enormously.
- 7.7 The project had still to undertake two pieces of quantitative research. The first would look specifically at current OU students and how they would react to the funding changes. The second piece of research was on value and price sensitivity in the general population
- 7.8 A member observed that there was a tension between the aspects of the University's mission that were concerned with social responsibility, and market forces. The competitors coming into the market were not likely to be motivated by social factors, but would target the lucrative sections of the market in order to make profit. It was important to identify how the OU would manage this issue. The Vice-Chancellor responded that the University was becoming more comfortable with the notion of a double bottom line. Although it was a mission led organisation, it would be difficult for the OU to have any impact on society unless it was economically viable. This piece of work was concerned with economic viability and how the OU might replace the shift in government funding across the four nations and make smart choices about re-pricing. At the same time, the Director, Students, Mr Will Swann, was leading some work on Widening Participation which would identify those unique and distinctive characteristics of the OU that would enable it to target and open up education to populations that would not normally have access to it.
- 7.9 Mr Swann said that the University wide consultation on the Widening Participation strategy was about to be launched and would be completed before the Council considered its response to the Monitor work in July 2011. A broad view was being taken of where the University sought to be. The two bottom lines were not necessarily in tension. It was possible to create a Widening Participation strategy that would give the University competitive advantage.

- 7.10 Commenting on the research methodology concerning purchase and consumer, the Director, the OU in Wales, Mr Rob Humphreys, asked whether the qualitative research was flexible yet robust enough to accommodate more complex and generous views of why people might choose to invest in education. Ms Davidson acknowledged that the research for the project was challenging. The initial qualitative research had been simple in order to understand the language that students used with respect to education and the criteria that they considered in choosing an institution. Monitor's brainstorm had produced approximately 35 criteria, but the initial feedback indicated only two or three, such as location and course content. The respondents had not considered an institution's accreditations, its research profile or the number of study hours. Monitor had previously worked in other industries, such as travel, where it was necessary to immerse people in the possibilities of a new world before asking them questions about it. It had initially been assumed that the segmentation and pricing would be one large piece of research, but it was now proving necessary to break it up, as lessons were learned and the project refined.
- 7.11 Mr Maggs added that, in both the qualitative and quantitative research, a broad view had been taken of what motivated students in respect of education. Different people in different segments had very different motivations. For some it was about the experience, an interest in subject matter or their self worth, for others it was about the outcome, the qualification, their skills and knowledge, and what it would allow them to do in their career or social network. It was important to understand how these individuals would react to a system in which they felt that they would have to fund themselves.
- 7.12 A student member enquired whether Monitor would be asking the OU Students' Association (OUSA) for opinions. Ms Davidson replied that they were aware of OUSA, but that the existing student survey would not be put into the field without a communications plan. A foreword would be prepared explaining the context in order to avoid any serious reaction to some of the pricing scenarios.
- 7.13 Another member asked whether the 1900 students studied so far were representative. The OU had 220,000 students, most of whom were on-line, so it should be easy to survey them if it had not been done already. Ms Davidson confirmed that the 1900 people had been managed to ensure that the group was representative of the general population. A second piece of research would survey current students.
- 7.14 The student member observed that at least 10% of OU students were disabled. The research appeared to miss a huge sector, which if lost would totally change the OU's student profile. Ms Davidson responded that the survey had specifically asked whether there were any constraints which would stop students attending a campus based university, for example dependent relatives or disability. Mobility had been a driving force for students not attending a traditional institution, as well as a preference for a more flexible programme that could be done at a time and pace to suit them. The disabled population was very much on the agenda.
- 7.15 The Vice-Chancellor said that the key word to describe this presentation was "illustrative". It aimed to show how the segmentation map might be drawn, rather than what it would look like when the work was complete. The map was designed to build up the fact-base to enable decision-making. There were no pre-conceived ideas about areas on which to focus, and the University was aware that it ignored particular populations at its peril.
- 7.16 Mr Maggs confirmed that the concern that the OU would not play in the non-profitable market was not a reflection of Monitor's thinking. The piece of research that would target 6000 existing OU students could be designed to ensure that particular populations of the student base (defined by age, disability, etc) could be weighted to ensure that more insight was gained in these areas. The objective in working with the OU was not to optimize the

University's profitability, but to ensure that the choices it made regarding its role and its activities in the market were economically sustainable.

- 7.17 In response to an enquiry from a member, Ms Davidson said that the survey had sampled for all four nations. In general, people from the different countries had similar attitudes to education, but their attitudes towards pricing would be different because they would be considering it within different contexts.
- 7.18 A member asked if courses would be categorised by price sensitivity. Originally, the government had thought that elite institutions would charge £9000, whilst others would charge less. Price competition might vary according to whether a course was perceived to be at the elite end of the market or lower down. Mr Maggs said that this was broadly true, although the first phase of work would not go to the level of individual courses. Combinations or sets of courses would be identified that were geared towards specific segments, would be compared to other competitors where appropriate, and a price level recommended for them.
- 7.19 The Chair, Lord Haskins, observed that young people would turn to others to help them with the big decisions regarding HE. It was important to understand who these other people were and how the University could influence them. Mr Maggs responded that the survey tried to discover who the influencers were. As an institution, the OU had an important role to play in helping students and those considering HE to become more sophisticated in how they assessed the choices about education – what to study, where and how to study and why to study. At present the consumer base was relatively unsophisticated.
- 7.20 Mr Woodburn said that the final report would be delivered at the end of May 2011 and, based on that report, the executive would present a UK Market Strategy to the meeting of the Council in July 2011. Lord Haskins commented that it would inevitably be an interim final report, since so much was still uncertain. Mr Woodburn responded that the report would not be sufficiently granular to allow the University to set the course prices. This work would begin in parallel with the current research and would come to the Council in the autumn 2011. Monitor would leave the University with a set of tools and capabilities, and ensure that it fully understood the data base and approach, so that the University could continue to update the research. It was important that the University was able to do this because attitudes would continue to shift as people came to understand the new fees and funding regime. The report could not be conclusive, but it was necessary to get to 2012/13 and decide how the University would price at that point.
- 7.21 The Council **noted**:
- a) The brief for the UK Market Strategy work;
 - b) The slide pack giving an introduction to the Monitor Consultancy Group, their experience and their approach to the project.

8 COLLABORATIVE PROVISION PARTNERSHIPS AND THE REGULATORY ENVIRONMENT C/11/1/4

- 8.1 The Pro-Vice-Chancellor (Learning, Teaching and Quality), Professor Denise Kirkpatrick, introduced the paper, which provided not only an overview of the forms of collaborative provision engaged in by the University, including the scope and the type of partner, but also of the responsibilities that came with engaging in such collaborative provision. The paper had, in part, been prompted by discussion at the Council meeting in July 2010 about what

were perceived to be the tremendous opportunities available to the University to generate income through engaging in the validation of provision internationally.

- 8.2 The paper summarised the key frameworks within which the University was operating and the expectations that came with engaging in various types of collaborative provision. As the providing institution, the University was clearly responsible for the academic quality and standards of all awards and provision that took place in the OU's name, regardless of where they occurred and who provided them. In June 2011, the Quality Assurance Agency for Higher Education (QAA) would be conducting an audit of the University's collaborative provision. This audit was separate from the usual audit because of the complexity and volume of collaborations in which the OU engaged.
- 8.3 The International Strategy would soon be reconsidered, and would probably feature various forms of partnership and collaboration. This paper would inform the discussion about the various types of collaboration that the University may wish to engage in or to consider more carefully as strategic options for the future. Engaging in collaborative provision provided many opportunities to fulfil the OU mission and the potential to contribute net income, but also required significant investment and resource, both time and money, to ensure proper engagement in such activities.
- 8.4 Referring to the chart of collaborative provision types and numbers attached as an appendix to the paper, a member asked where the opportunities for growth were, or whether there might be any contraction within particular areas. Professor Kirkpatrick said that this was a matter for the discussion of the International Strategy when it was brought before the Council. This table just provided some background information about the framework in which the University operated and the types of collaboration in which it engaged.
- 8.5 The Chair, Lord Haskins, observed that this was an important area of activity and more complicated and demanding than might have been apparent. On the other hand, collaboration was the only serious way to move forward in the international arena.
- 8.6 The Council **noted** the content of this paper.

9 ORGANISATIONAL CHANGES **C/11/1/5**

Confidential minute.

10 FUTURE RETIREMENT AGE POLICY IN THE OPEN UNIVERSITY **C/11/1/6**

- 10.1 The Director of Human Resources, Mr Nigel Holt, introduced the paper. This major change to working life had been signalled for some time, but to date most employers had kept to the default retirement age (DRA) of 65. The Government had now indicated its intention to abolish the DRA, although the transition arrangements were not entirely clear and changes were still being made. However, in view of these plans and the University's previous commitments, the Vice-Chancellor's Executive (VCE) had agreed that abolishing the retirement age in 2011 was appropriate.
- 10.2 The timescale for implementation was tight: the University had until April to notify those individuals who had to retire before 30 September 2011, the last day for compulsory retirement using the DRA. The purpose of this paper was to activate the process, so that these staff could be notified.

- 10.3 All of the issues relating to the abolition of the DRA had been considered by the Staff Strategy Committee, particularly those concerning performance management. The University was in the process of improving its performance management systems for all staff, not just those over 65. USS was also seeking to make changes to the flexible retirement system that would make it more advantageous for individuals to retire early. The Staff Strategy Committee had recommended that the default retirement age should be abolished from 1 October 2011.
- 10.4 A member commented that currently the retirement age could be deferred by exception. This had not been based on merit, but on the needs of management, and the University had lost a number of good associate lecturers (ALs). Leaving the latest compulsory retirement date to 30 September 2011, when the Career Development and Staff Appraisal (CDSA) process was to be finalised by the end of May, did not seem sensible. It might be preferable for the criteria for extension to be changed from the time that the new system was in place. Mr Holt responded that an appeal process would be available for any member of staff. It would also be necessary to retract the notification to ALs who had been due to retire after 1 October 2011 and to make changes for individuals who were applying for posts in advance of that date in anticipation of the new system. Currently individuals could not apply for posts at the age of 64.5 years. Some criteria had already been changed with regard to the ALs, so the main vehicle for those that wished to stay with the organisation would be the appeal process. However, there would be no change to the criteria.
- 10.5 The Council **approved** the retention of the existing default retirement age of 65 until 30 September 2011 and to abolish it thereafter.

11 INSTITUTIONAL RISK REGISTER

C/11/1/7

- 11.1 The University Secretary, Mr Fraser Woodburn, said that the institutional risk register had been revised to reflect the revised strategy set out in *OU Futures* as discussed earlier in the meeting. VCE considered the institutional risk register on a quarterly basis and it had previously been presented to the Council on an annual basis. However, further to the issues raised at the last meeting, the institutional risk register would now be presented to the Council more frequently.
- 11.2 The current version was the result of an annual refresh carried out by the executive in January and February 2011. There were also operational unit risk registers in place and a business continuity risk register, which was concerned with threats to the University's operations in the case of major events. This paper was concerned with the strategic risks.
- 11.3 The risks were similar to those presented on previous occasions, but the risk responses reflected the revised *OU Futures*. It also highlighted an opportunity in terms of generating new income.
- 11.4 A member observed that the fact that owners had been assigned to, and mitigating actions identified for, the main risks made it a more useful document. In terms of the approach to risk management, it was possible either to conduct a binary, tick box exercise that did not really add value, or to properly consider the strategy and the potential events that would prevent or enhance its achievement. For it to be useful, the Council must be able to agree or challenge the risks that might prevent the achievement of the strategy. To this end, any changes should be highlighted in order that the Council might see the movement in thinking. Mr Woodburn responded that the executive had a substantial discussion on the institutional risk register on a quarterly basis; it was not a tick-box exercise. The risk register was another lens on the strategy: if the strategy was right, then the focus should

be on risk responses, which should match the strategic actions. The intention was to present the risk register to the Council more regularly and any changes would be highlighted.

Action: A F Woodburn

- 11.5 The member suggested that any risks, post mitigation, that were still above the organisation's risk appetite should also be highlighted. Mr Woodburn responded that the executive had had a substantial debate on risk appetite and risk maturity in February 2011. Risk appetite had not been changed, whilst the target for risk maturity was Level 3, on a scale of 1 - 5. The executive thought that the institution was at Level 3, which was the risk level to be expected of a substantial public body. Some areas of the institution, for example the IT Department, would expect to be at a higher risk level as more substantial controls were necessary due to the potential effect on the business of the institution. A member commented that the University's risk appetite was always likely to be lower than the risk it faced.
- 11.6 Another member suggested that it would be helpful for the Council to have an executive view, on a quarterly basis, of the top three risks faced by the University and to consider the mitigation strategies for those risks. If it were to add any value, the Council needed to focus its attention on those risks that were business critical. The Chair agreed that the Council should concentrate on the big risks, rather than those that were marginal.
- 11.7 Another member commented that big companies were increasingly using scenario planning and that the University executive should be encouraged to use this approach. It was useful to rehearse what would be done if things went wrong.
- 11.8 The Council **noted** the risk assessment set out in the institutional risk register.

12 COST REDUCTION AND EFFICIENCY

C/11/1/8

- 12.1 The Finance Director, Mr Miles Hedges, introduced a brief update on the status of the strategic response work in this area. The two main rationales for focussing on cost reduction and efficiency supported the University's widening access policy and its competitive position (paragraph 4). However, it was also worth noting that in the new environment all the University's costs would have to be justified to its students. Consequently, cost efficiency would be increasingly important in its own right.
- 12.2 Maximum cost efficiency would enable the University to make choices with regard to pricing products, either to keep fees at a minimum for the whole student body or to generate sufficient surpluses to support particular groups of students that it would otherwise be difficult to reach. Those choices would be reflected in the outputs of the work stream on the UK market discussed earlier in the meeting (C/11/1/3).
- 12.3 Being cost efficient would also allow the University to price at a level that enabled it to compete with both traditional universities and commercial providers. Historically, some universities might have priced some courses on a marginal basis, particularly in the part-time arena. Commercial providers did not have the cost base associated with traditional universities in the areas of research and scholarship, and would tend to cherry-pick profitable curriculum areas. The OU needed to be able to price competitively in order to succeed in this market.
- 12.4 Mr Hedges observed that it was one thing to model the costs and keep the score, but another to actually make the savings. The support of VCE colleagues with regard to the progress made to date and the actions in hand was much appreciated.

- 12.5 Commenting on the extraordinary financial situation in which the University found itself, the Treasurer, Mr Michael Steen, said that, in view of the remaining uncertainties and general opaqueness, reasonable medium term financial forecasts were unlikely to become available for at least another 12 months. Consequently, it was extremely important that the University took risk reduction measures, such as reducing costs and building liquidity. This was not simply precautionary: economic viability was key if the University was to be both competitive and fulfil its mission by making a real difference to the lives of a wide range of students. The Finance Committee and SPRC had discussed the paper in this context. Both were fully supportive of the actions being taken and grateful to Mr Hedges for leading the exercise and taking early action. It was important that the savings were not just targeted, but achieved.
- 12.6 The Council **noted** the cost reduction work stream progress report.

13 FORECAST OUTURN

C/10/4/2

- 13.1 The Finance Director, Mr Miles Hedges, introduced the paper, which indicated the University's position in the immediate past and current financial year. On the basis of the first quarter of the financial year, the University was forecasting a surplus of £41 million, which would help to improve the University's liquidity position in a period of great turbulence.
- 13.2 With reference to the bar chart illustrating the 2010/11 October Forecast Variance from Budget (paragraph 2), it was particularly helpful that 60% of the favourable movement related to cost reduction measures, which supported the objectives of the work stream discussed in paper C/11/1/8 and demonstrated that the University was realising cost savings early in the process.
- 13.3 Since the report had been produced, HEFCE had announced an in year reduction of grants for 2011/12, which would be reflected in the next forecast that would be presented to the Council in May 2011. The exact figures were unknown, but it was expected that income would be reduced by approximately £4.5 million, which would impact on the projected surplus.
- 13.4 A member asked about the situation with regard to the BBC and the VAT claim. Mr Hedges responded that Her Majesty's Revenue and Customs (HMRC) had raised several queries and objections in mid-January 2011 to which the University had responded in detail on 18 February 2011. HMRC was still publically committed to settling all the outstanding claims by 31 March 2011, but this did not necessarily mean paying. It was likely that the University would have to go to tribunal to get a ruling on the claim and so the situation would probably not be settled within the current calendar year.
- 13.5 The Council **noted** that the 2011/11 forecast consolidated outturn was a surplus of £41.4 million for the University and all its subsidiary undertakings, which represented a favourable movement of £10.4 million compared to the budgeted surplus of £31.0 million and was subject to the risks identified.

14 FINANCE COMMITTEE

C/10/4/7

- 14.1 The Treasurer, Mr Michael Steen, said that there were three sets of Finance Committee minutes to present to the Council, which was indicative of the amount of activity taking place in this area. The first meeting was a procedural one, finalising last year's accounts in the context of the early retirement scheme; the second concerned the authorisation of the draw down of the £60 million loan; and the third was the usual scheduled meeting for January.
- 14.2 The Finance Committee had agreed that the loan facility could be drawn down and invested in UK Government bonds. This would ensure that the University could take full advantage of the liquid resources available to it as it entered a period of considerable market turbulence. Cash flow would inevitably be squeezed, for example by the later payment of fees under the new regime. The extent of this was unknown, but cash flow was expected to change for the worse. The need to be in a strong position to handle any material financial challenges was the reason for the current exceptionally large cash and gilt balances (F/11/1/M, Minutes 5.7 & 5.8). In response to an enquiry from a member, the Finance Director, Mr Miles Hedges, confirmed that the investment policy for the draw down rested with the Finance Committee.
- 14.3 A member asked whether there was a significant cost to the draw down of the loan facility. Mr Hedges explained that the University had managed to renegotiate the loan facility at fairly advantageous rates just ahead of the financial crisis. Consequently, the costs were quite low. In the short term, because of the maturity profile of the gilts in which the University would be investing, there would be a small arbitrage gain, as rates in the long-term were higher than in the short-term.
- 14.4 Despite representations from the sector, HEFCE was requiring universities to submit five-year financial forecasts (to the nearest £1000) by the 15 April 2011. The Finance Committee had agreed that whilst the University had to comply with this requirement, the figures should be on a pro-forma basis and be qualified as to their usefulness. As the Council would not meet again until May 2011, the Council was asked to delegate to the Finance Committee approval of the University's five-year financial forecasts in this form and related commentary for submission to HEFCE by 15 April 2011. In response to a query from a member, Mr Hedges confirmed that this was a one-off delegation and that members of the Council would be sent a copy of the submission for information.
- Action: M S Hedges**
- 14.5 The Council:
- a) **noted** the minutes of the Finance Committee meetings held on 16 November and 20 December 2010 and the unconfirmed minutes of the Finance Committee meeting held on 25 January 2011;
 - b) **agreed** that the approval of the University's five-year financial forecasts and related commentary for submission to HEFCE by 15 April 2011 should be delegated to the Finance Committee (minute 5).

15 DEVELOPMENT COMMITTEE**C/10/4/8**

- 15.1 The Chair of the Development Committee, Mr Anthony Freeling, said that this was the first report from the Committee, even though it had been set up 3 years ago. The University had had difficulty with the recruitment of a Development Director. However, Ms Edith Prak had now been in post long enough to have produced a strategy and for a governance structure to be established around that.
- 15.2 In the context of economic sustainability, the University had not pulled its weight with regard to fundraising. This would not get any easier in the future, but it would become more important. Ms Prak was therefore working on three strands: an annual fund, legacies and major gifts.
- 15.3 The Council **noted** the unconfirmed minutes of the meeting of the Development Committee held on 23 November 2010.

16 ESTATES COMMITTEE**C/10/4/8**

- 16.1 The Chair of the Estates Committee, Mr Peter Mantle, said that the Estates Strategy had changed significantly over the last year. The focus for the previous 10 years had been on upgrading the estate and making sure it was fit for purpose. HEFCE funding had been available to ensure that 90% of the buildings were in the A and B categories. The focus had now changed to the aggressive management of cost. Where possible, the University had taken advantage of market circumstances to buy freeholds at good prices and to renegotiate leases on good terms. The Estates team was also identifying and managing surplus space on the main campus as effectively as possible, with a view to individual buildings being sub-let in the future if required.
- 16.2 The Treasurer, Mr Michael Steen, commented that the University was fortunate, from a financial perspective, that the Estate was in good shape. At present, the OU would not want to be in a position where it had to spend considerable amounts on its estate.
- 16.3 The Council **noted** the unconfirmed minutes of the meeting of the Estates Committee held on 26 November 2010.

17 THE SENATE**C/10/4/11**

- 17.1 A member commented that there appeared to be a good level of engagement at the Senate meeting. The Chair added that this was particularly encouraging under the current difficult circumstances.
- 17.2 The Council **noted** the report on the items discussed at the meeting of the Senate held on 26 January 2011.

18 STRATEGIC PLANNING AND RESOURCES COMMITTEE (SPRC)**C/10/4/10**

The Council **noted**:

- i) the unconfirmed minutes of the meeting of SPRC held on 9 February 2011;
- ii) the unconfirmed confidential and restricted minutes from the meeting;

- iii) the SPRC recommendation for approval by the Council of the amendments and additions to the range of Focus Areas in OU Futures, as dealt with elsewhere on the agenda (C/11/1/1);
- iv) the paper presented to SPRC on International Strategy
- v) the SPRC recommendation to the Council on Organisational Changes as dealt with elsewhere on the agenda (C/11/1/5A).

19 MEMBERSHIP COMMITTEE**C/10/4/14**

The Council **noted** the unconfirmed minutes of the meeting of the Membership Committee held by correspondence on 26 January 2011.

20 CHAIR'S ACTION**C/10/4/16**

The Council **noted** the action taken by the Chair in respect of:

- a) Membership of the Membership Committee
- b) Terms of reference for the Academic Staff Redundancy Committees;
- c) The appointment of members of the Council to the Pro-Vice-Chancellor Appointment Committee.

21 DECLASSIFICATION OF COUNCIL PAPERS

The Council **agreed** to retain confidential status to the following papers:

- a) C/11/1/3 Strategic Response: UK Market Strategy
- b) C/11/1/5A&B Organisational Changes
- c) C/11/1/14 Appendix 2 SPRC/11/1/M Confidential Minutes
Appendix 3 SPRC/11/1/4 International Strategy

22 NEXT MEETING

The next meeting of the Council will be held on Tuesday 10 May 2011 at the Walton Hall campus, Milton Keynes.

23 REVIEW OF MEETING

The Chair invited members of the Council to reflect on the meeting and suggest whether anything might have been done differently to make it more effective. Members who wished to comment might do so in the meeting, or by speaking to the Chair or the University Secretary after the meeting.

24 FAREWELL AND THANKS

On behalf of the Council, the Chair thanked Ms Sally Crompton and Mrs Roz Evans for their contribution to The Open University.

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March 2011