

**Rt Hon. Vince Cable MP and Rt Hon. David Willetts MP**

Ministerial Correspondence Unit  
Department for Business, Innovation & Skills  
1 Victoria Street  
London SW1H 0ET

**Cost neutral amendment to core and margin to better respond to student demand**

Dear Dr Cable and Mr Willetts,

I am writing as Chair of University Alliance to request that consideration is given to making minor, cost neutral adjustments to the core and margin policy for 2013/14 in order to mitigate serious concerns we have about rolling this approach forward in its current form for another year.

Alliance universities are strong supporters of the Government's intentions to put students at the heart of the system, introduce more competition into higher education and tackle social mobility. We do, however, have serious concerns about rolling forward core and margin in its current form. Having carefully analysed these proposals, we believe that these mechanisms are in danger of restricting rather than expanding diversity and choice across the sector as well as having a detrimental impact on social mobility.

To be clear, the existing £7,500 threshold will cause polarisation of the sector if it is continued for a second year. The result will be a false divide of the market with higher level of resource directed towards a small number of universities (those with the lowest proportion of students from low-income families) whilst nearly all mainstream universities will be forced below the £7,500 threshold and will have to operate at a lower level of income. Not only will this result in an inverse pupil premium, it will also create false 'clumping' of universities under £7,500 that won't reflect the existing diversity of the sector as driven by student demand. The type of high-cost activity that makes Alliance universities distinctive and successful such as business-engagement, STEM-related provision, placement opportunities, professional accreditation and out-reach work are not sustainable at this lower level of resource over a longer period of time.

This is not in the interest of social mobility and not in line with the Government's stated intentions in the White Paper for a diverse, competitive market. There are many legitimate market positions between £9,000 and £7,500 and we believe that it is in the interests of students and the UK economy that some institutions are allowed to operate in this space.

To mitigate the unintended consequences outlined above and to ensure that the White Paper is truly able to deliver against the intentions it set out we strongly urge you to consider the following cost-neutral adjustments to core and margin for 2013/14:

- **Option A: a tapered approach**

We would recommend allocating the 20,000 'margin' numbers through a more gradual/tapered mechanism to reflect the different markets in higher education (e.g. 20% allocated to £8,500 fee places, 20% to £8,000, 20% to £7,500, 20% to £7,000, 20% to £6,500). These numbers are only illustrative but they would avoid the false 'cliff edge' at £7,500 and allow a market to continue to exist between £7,500 and £9,000 whilst averaging out at the same cost for the public purse overall.

- **Option B: a flexible approach**

In this option, there would be a certain percentage of numbers available for redistribution above £7,500 and a certain percentage available below £7,500. For illustrative purposes, this could be 40:60 but even this ratio does not need to be set in advance. This approach would allow HEFCE the flexibility to respond to the quality of bids and, in particular, to student demand wherever it exists whilst maintaining overall control of the redistribution process. HEFCE would be able to set the ratio in such a way as to ensure a cost-neutral outcome.

We are aware that the impact of core and margin across the sector also depends on whether the AAB+ threshold is adjusted but on this matter we would refer to our previous correspondence on this issue. Given that the Government's ultimate stated aim is to increase dynamism and reduce control, HEFCE should continue to look at options for a radical reduction of the AAB+ threshold in year three (2014-15) and beyond. In particular, careful consideration should be given to whether this can be achieved in one step, as a gradual reduction would be likely to cause more problems and instability as different institutions are affected year on year.

**We look forward to discussing our proposals for adjustments to core and margin at our meeting with you next week.**

**With all best wishes,**



**Professor Janet Beer**

Chair of University Alliance

Vice Chancellor of Oxford Brookes University