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Treasury Chambers, Parliament Street, SW1P 3AG
 The Rt Hon Lord Young of Graffham
 Secretary of State
 Department of Employment
 Caxton House
 Tothill Street
 London
 SW1H 9NA

6 December 1985

Dear David,

TRAINING LOANS

Thank you for your letter of 15 November with your proposals for a new training loans pilot scheme.

The experiment, if it goes ahead, will be an interesting one. My predecessor expressed some scepticism about the extent of the market, and it will be crucial to ensure that we learn about this from the experiment. But there is one aspect of it which concerns me very much and which I think bears directly on its prospects for success. I understand that Department of Health and Social Security officials have advised that borrowers are not likely to be treated as available for work and will not therefore be entitled to benefit. This means borrowers will be worse off than those getting grants. In principle I prefer loans to grants and greatly dislike disincentives to loans in the system. Is there anything we can do about it?

On other aspects of the scheme, I do not like the 100 per cent guarantee for individual loans although I welcome the portfolio limit. But since you have made it clear that there is no prospect of renegotiating the pilot, I am prepared to agree in order to get this scheme off the ground, provided that it is made clear to the banks that there could be no commitment to maintaining the 100 per cent guarantee if eventually, after evaluation, we decided that the scheme should be extended. Moreover, I should make clear that the Treasury would be unlikely to agree to extension without both a portfolio guarantee and a less than 100 per cent guarantee for individual loans.

There are also some areas of concern which will need to be covered carefully in the detailed rules and policing methods of the scheme: the possibility of (subsidised) loans

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being made in part for living expenses to those who do not need such support; or of employers agreeing with their employees that the employee should accept a loan for a training course which the employer would otherwise finance wholly, on condition that the employer refinances the (subsidised) interest and repayments; or, finally, that trainees may evade the requirement to put up their 20 per cent share.

I gather that your officials have been in touch with mine about the evaluation procedures. As you know, I attach great weight to proper evaluation of such pilots, and I would like to ask for a joint report from our officials within the next few months on the aims and procedures of evaluation, and the likely timing of results. We should ensure that we have evaluated the results thoroughly before there is any question of extension. There is of course no commitment on the part of the Treasury to agree to any extension, and we should take care in presenting the pilots not to say anything which could imply such a commitment.

I gather that the pilot would if agreed start in April 1986, and would cost, according to the estimates in Annex B to your note, less in each of the Survey years than the sums set aside for the purpose. That implies that the £5 million available for this scheme in 1985-86 is now not needed; nor is about £1.5 million in 1986-87, and £1.2 million in each of 1987-88 and 1988-89. These sums should be ring-fenced as savings, to be surrendered in the absence of specific agreement that they can be used for any other purpose.

In sum, I think that your proposals represent an imaginative experiment; I would be content to agree that you should seek to finalise the details with the banks and to set up a pilot scheme on the basis set out in this letter. I would be most grateful if your officials could agree with mine the date and method of announcement, and clear the terms of the statement and briefing.

I am sending copies of this letter to the Prime Minister, members of E(A), Keith Joseph and to Sir Robert Armstrong.

Yours,
John

JOHN MacGREGOR

Education: Student loans Mar 81.

