



P.01348

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PRIME MINISTER

Training Loans: Proposal for Pilot Scheme

(E(A)(84)42)

BACKGROUND

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In E(A)(84)42, the Secretary of State for Employment proposes to issue a consultative document in the Summer with a view to introducing in 1985-86 a pilot scheme of training loans. The possibility of such a scheme was referred to in the Green Paper 'Training for Jobs'.

2. The pilot scheme on which Mr King proposes to consult is outlined in the Annex to E(A)(84)42. He envisages that a bank or banks would administer it and provide at least 50 per cent of the loan finance involved. There would be no ceiling on individual loans, which would be available for course fees and maintenance and would be repayable over three years or possibly more.

3. The banks already lend - though how much is not known - to individuals to finance training. The intention of the scheme would be to make loans available to a wider range of borrowers than banks would normally treat as eligible.

MAIN ISSUE

4. The only issue that can be decided now is whether a consultative document should be published. Mr King also asks for his colleagues' agreement to the establishment of a pilot scheme in 1985-86 'subject to the outcome of this consultative exercise'; but there will be no real value in such an agreement when the outcome of the consultations must be very uncertain.

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5. In reaching their conclusions the Sub-Committee will wish to consider the following questions.

(i) What degree of Government involvement does Mr King contemplate?

(ii) Does the scheme as outlined in E(A)(84)42 seem likely to be attractive enough to both the banks and potential borrowers to be worth pursuing?

(iii) Are there any implications for other Government programmes, especially student awards?

Degree of Government involvement

6. The only firm proposal in the Annex to E(A)(84)42 is that the Government would provide part of the loan; and that this should not exceed the bank's share. If the trainee contributed 20 per cent of the total cost, the Government's maximum involvement would then be 40 per cent. But the final paragraph of the Annex mentions the possibility of subsidising the interest rate; and paragraph 3 of the main paper mentions, without dismissing, the possibility of a Government guarantee. How far does Mr King think it would be reasonable to go?

7. The issues discussed in the following two paragraphs of this brief also seem likely to be relevant. If the scheme as outlined in E(A)(84)42 proves unattractive there will be pressure to increase the take-up by making its terms more generous. The arguments about some of the special employment and training measures discussed in E(A)(84)41 illustrate the process.

Attractiveness to the banks

7. It is suggested that the banks would provide only part of the loan and should charge a rate of interest which

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might be a little above the rate for personal loans. There is no obvious reason why the banks should not do business on such terms. The question is rather whether they have not already secured all such business as is likely to be available.

Attractiveness to borrowers

8. Similarly, it is not easy to see why any substantial number of new borrowers should come forward, unless there is to be some sort of subsidy or guarantee. A loan covering only 80 per cent of the total costs, repayable over 3 years, and at a rate of interest of rather more than 20 per cent does not seem overwhelmingly attractive.

Implications for other programmes

9. The Annex to E(A)(84)42 says that loans would not be available for courses for which mandatory student awards are available. We understand that this has been inserted at the instance of DES officials, who are anxious not to strengthen pressures for a system of student loans to be set up. But the dividing line between education and training is far from clear; and it may seem paradoxical to refuse to make loans available for courses for which the Government is willing to provide grants. The Sub-Committee will wish to consider whether the difference of treatment could be justified.

HANDLING

10. You will wish to invite the Secretary of State for Employment to present his paper. The Secretary of State for Education and Science and the Chief Secretary, Treasury are likely to wish to comment. The Secretary of State for Trade and Industry may also have comments on the likely demand for the scheme and on its potential usefulness.

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CONCLUSIONS

11. You will wish the Sub-Committee to reach a conclusion on whether to issue a consultative document about training loans on the basis proposed in E(A)(84)42. If the Sub-Committee favour publication you will probably wish to invite the Secretary of State for Employment:

(a) to agree the document in draft with the Secretary of State for Education and Science, the Chief Secretary, Treasury and other other colleagues who may express an interest;

(b) to bring forward specific proposals in due course for a pilot scheme in the light of the response to consultations.

PLG
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