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~~CC NO~~ 2P25
R/SR via Treasury
response
AF 23/10

PRIME MINISTER**TRAINING LOANS**

E(A) at its 20th meeting agreed that a training loans scheme was both interesting and attractive. At the sub-committee's request we have studied further the issues raised by the scheme in consultation with other departments. There is general agreement and I am therefore writing to you and E(A) colleagues about the outcome and what I now propose.

2 The aim of the scheme would be to provide encouragement and assistance to adults who want to undertake training of their own choice at their own expense. They would in many ways be similar to the sorts of people we are helping to set up their own businesses through the Enterprise Allowance Scheme - well-motivated self-starters. Unlike young people entering training or further or higher education, adults currently receive very little by way of support.

3 Our recent White Paper "Training for Jobs" made it clear that the Government expects individuals to take more responsibility for investing in their own training. A loan scheme is one way of achieving that.

4 Why loans? A system of loans can deliver more training per pound of public money invested than a system of grants, simply because most of the money involved should eventually be repaid by the trainee. Moreover, a loan emphasises that training is an investment: it can generate sufficient additional earnings

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to pay for itself. Loans are also in accordance with our philosophy of encouraging self reliance. For the same reason the borrower should make some contribution to the training costs. I therefore propose that the loan should cover 80% of the cost. A loan scheme involving the banks has the additional advantage of bringing the market to bear more closely in the whole training area and minimising bureaucracy.

5 What should be the Government role? One obvious role would be for Government to act as guarantor for loans made by the banks. Since, however, this would require enabling legislation it seemed to me sensible that we should first of all establish by means of a pilot scheme whether there is likely to be a reasonable demand from trainees for loans on the terms that could be offered under such a scheme. It is extremely unlikely that the banks would expand their present limited portfolios of training loans without some form of Government participation in the risk. What I am therefore proposing as a pilot is a shared loans scheme. The bank would assess the trainee's ability to repay, make the advance and collect the repayments. The Government would put up a share (probably half) of the loan funds required. The total loan would be no more than 80 per cent of the trainee's needs.

6 It is likely that the price of bank participation will be insistence that they should be the preferential creditors in the event of default. The public expenditure incurred because of failure to repay would be the price we would be paying to secure the training of all those who repaid their loans. The extent of this risk can only be determined by experiment.



7 The proposed scheme is set out in detail in the attached draft consultative document. In summary, a loan could be made at the bank's discretion to anyone over 21 resident in Great Britain taking any course of vocational training lasting one year or less full-time although part-time courses could be longer.

8 I am proposing that all administration should be handled by the banks (as agents of the Government in respect of the Government's share). The rate of interest to be charged should reflect the bank's judgement of the risk involved. The bank and the Government might charge different rates on their respective shares of the loan, but in order to minimise substitution the borrower should not be charged a rate below the normal personal loan rate. (This could entail the Government lending at a much higher rate than it could borrow).

9 In my view a training loans scheme could fill a gap in our training system. A pilot scheme on the suggested lines could establish the scale of the demand and the necessary administrative procedures and I am writing to seek colleagues' agreement to my issuing the consultative document. Subject to the outcome of the consultations, I would propose thereafter to establish a pilot scheme in 1985/86 costing up to £5m, for which there is room within my reduced public expenditure provision agreed with the Chief Secretary.



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10 I am copying this minute to other members of E(A) and to Sir Robert Armstrong. It would be helpful to have a response by the end of the month so that an announcement can be made in any Debate on the Address should this be necessary

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☒ Tuesday's debate might be better

T K

October 1984

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TRAINING LOANS - A CONSULTATIVE DOCUMENT

Introduction

1. Training is an investment for the country, for businesses and, above all, for the individual. The Government consider it vital that opportunities for training should, wherever possible, be increased and improved.

2. The main responsibility for this rests, as the recent White Paper "Training for Jobs" (Cmnd 9135) made clear, with employers. It is up to them to train their workers in the skills that their businesses require. The Government also contributes massively through the training services of the Manpower Services Commission and through the education system in general.

3. There is also an important place for individual enterprise. Individuals are generally the best judges of how their own careers should develop, and if they want to undertake training on their own initiative, independently of either their employer or the state, they should be encouraged and enabled to do so. The Government therefore announced, in "Training for Jobs", that it would examine the feasibility of a loan scheme for adults who want to finance their own training.

4. This proposal is to be seen as opening up an additional route, complementary to and separate from existing training schemes.

5. This paper outlines a pilot proposal on which all interested individuals and organisations are invited to comment, before the Government decide whether to introduce such a scheme, and the precise form that it might take.

Background

6. Most people who now finance their own training use their savings, or borrow from family or friends. Sometimes they can borrow from the organisation that is running their course, and some borrow from banks or other financial institutions.

7. This last form of finance for training is, however, comparatively limited. Personal loans are normally granted on the basis of a person's current earnings or assets, and both banks and trainees may be reluctant to enter into a commitment that depends, as a training loan often would, on the borrower's future potential earnings.

8. This reluctance, is understandable. Nevertheless the advantage that a loan for training has over a loan for a car or holiday is that it can generate its own repayments by improving the borrower's earnings potential. From the lender's point of view therefore it can be seen not as a normal personal loan, but as a loan which otherwise may not be possible for an investment which is expected to produce a profit.

9. The same is true from the point of view of the borrower. This scheme is intended for those who arrange their own training in the firm expectation that it will improve their prospects including their earnings. This should be regarded by them, as well as by the lender, as an investment, in the same way as if they were buying premises for which a loan would be the normal source of finance.

10. For these reasons the Government wishes to take action to expand the market in loans of this type. If it is successful the advantages for all parties would be considerable. More people will be trained in courses of immediate vocational relevance at very low net cost to the public. There will be

wider economic benefit from allowing market forces to affect the pattern of training. The provision of such courses will be encouraged. The lending institutions, for their part, will be able to develop a new area of business and use it to attract new customers.

11. One way of doing this would be for the Government to provide a guarantee for such loans. This would however require main legislation. In order to test the case for this, the Government therefore proposes, subject to the response to this consultative document, to run a limited pilot scheme, on the basis of shared loans on the lines set out below.

The Pilot Scheme in Outline

12. The Government would invite a limited number of banks and other lending institutions, on a first-come first-served basis, to take part in the project. Those seeking a loan would apply to one of these institutions. They would be required to provide a certain proportion, say 20%, of the required finance from their own resources. If the bank judged that their application was basically a sound commercial proposition the bank would negotiate with them a loan for the remainder providing, say, half from its own resources, the other half being provided by the Government. The whole loan would attract the appropriate commercial rate of interest. Payments of interest and repayments of capital would be made to the bank, according to a timetable negotiated between them and the borrower. The Bank would in turn repay to the Government its share of the loan and interest.

13. The Government is willing to make available up to £5 million in 1985/86 for the pilot scheme. This is expected to enable some 10,000 loans, of varying amounts, to be made.

Who Could Apply?

14. It is of the essence of the proposal that the scheme should be as open as possible. It is therefore proposed that the pilot scheme would be open to anyone over the age of 21, who is resident in Great Britain and who does not receive any other form of public support for the course in question.

What Type of Course will be Covered?

15. In principle the scheme is intended to cover any kind of course which will improve the applicants' earning capacity more than sufficiently to re-pay the loan with interest. It will be up to the applicant to identify such a course and then to convince the bank that it represents a sound commercial proposition. To that extent the scheme will encourage training institutions to provide and market relevant courses. The training might be full-time or part-time, taken at a college or through "distance learning" methods. Loans would not be available for very short courses lasting, say, less than 2 weeks, nor for those lasting more than a year full-time. Loans would not be available for any course in an institution of higher education for which a student award is available, or a part-time equivalent.

What would the Loan cover?

16. The loan would cover payment of fees and in the case of full-time courses any necessary element for maintenance.

Administration

17. The Government would consider proposals from any UK bank or other UK financial institution to take part in the scheme, either singly or as part of a consortium. Those selected would be expected to undertake all marketing and administration of the scheme recovering their costs through their charges. They would be responsible for assessing and granting loans, again on a first-come first-served basis, within the amount of Government money allocated to them.

Terms of the loan

18. It would be for the banks to assess the risk and determine the terms on which they would be prepared to offer the loan, including the period of repayment and rate of interest, acting on a commercial basis in competition with one another having regard to the degree of Government funding which would be available. It is envisaged that most training loans would be repayable over a period of 2-3 years after completion of the course, or recommencement of employment. The rate of interest will vary with circumstances but is unlikely to be less than the banks' usual personal loan rate.

19. It is emphasised that the scheme would be intended to provide loans, not grants. Interest would be incurred from the beginning, and payment must take place in the end. While the lender might be willing to delay or suspend repayments in special circumstances, the debt would not be cancelled. In cases of default the lender would be expected to apply its normal procedures.

Scale of the Pilot Scheme

20. The Government is prepared to allocate £5 million to the pilot scheme in 1985/86. This would be allocated to participating financial institutions, and passed on by them in the form of

loans, on a first-come first-served basis. With matching contributions from the financial institutions this would enable some 10,000 loans averaging around £1,000 to be made.

21. When a decision could be taken whether or not to extend the experiment or to proceed with the introduction of a permanent scheme will depend on the degree of take-up, the nature and particularly the length of courses for which loans are made. These factors will determine how soon it will be possible to assess the long-term viability of such a scheme. The operation of the pilot scheme would be closely monitored and further decisions made as soon as possible.

Where to send Comments

22. The Government accordingly invites views on:

(a) whether there is a need for a training loans scheme;

(b) whether a Government shared loan or, in the longer term, a loan guarantee scheme would be a sensible way to encourage such loans;

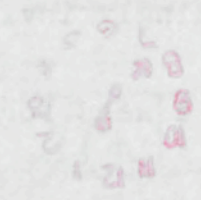
(c) the proposed features of the pilot scheme set out in this paper.

23. Comments should be sent by 31 January 1985 to Mrs R Davison, MP1A1, Department of Employment, Caxton House, Tothill Street, London SW1H 9NF.

Manpower ATIO
S/EMR

The following information is for your reference. The total number of employees in the Department is 1,000. The number of employees in the ATIO section is 500. The number of employees in the S/EMR section is 500. The total number of employees in the Department is 1,000. The number of employees in the ATIO section is 500. The number of employees in the S/EMR section is 500.

Management Information



23 OCT 1984

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