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John R R MacGregor Esq MP  
Chief Secretary to the Treasury  
HM Treasury  
Treasury Chambers  
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11 September 1985

*Dear Chief Secretary,*

DRIVING EXAMINERS

*with MEA/DON?*

Thank you for your letter of 10 September.

I must come back on it quickly and repeat my clear understanding that Ministers had decided that the emphasis of control over running costs should in future be on a net basis in the special circumstances of the demand-led, fee-earning activities which do not add to public expenditure. The case for the driver testing organisation to be put on a net basis of control has been clearly established. I am in no doubt that the nature of the discussions under the Prime Minister on 11 June and 23 July went beyond the terms you suggest. There was undoubtedly agreement at the E(A) meeting on 23 July that the main focus should be net costs of Government activities rather than on manpower as such. This is stated explicitly in the Prime Minister's summing up. In order to avoid later misunderstandings I specifically asked Nigel Lawson whether gross manning cost controls would be applied in such areas, and he assured me that they would not be. The fee-earning areas generally are the clearest possible case for the application of this principle. I do not accept the gloss that you put on the E(A) minutes as still requiring gross running cost controls for these services.

To repeat the main points: there are no public expenditure implications and there is a political reality of frustrated public demand. In a field such as driving testing this could quite easily cause rapidly increasing criticism which could discredit our overall approach to efficiency and cost saving in the civil service: I yield to no one in my own commitment to this.

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I entirely accept the need to promote efficiency where the Government is a monopoly supplier. This consideration was central to the proposals I put to Peter Rees. It would not be served by an inappropriate gross cost regime, which limits our ability to provide the public with a service for which they are prepared to pay and can distort management priorities. The right instrument of control as I have contended is unit cost and performance targeting.

I trust therefore that tomorrow at our PES bilateral discussion we can agree in principle on my approach and instruct our officials to develop the proposals for the 'L' test area for introduction on 1 April 1986. I am of course quite prepared to discuss on merits my Department's manpower and running cost requirements for other services, but I cannot accept your presumption that increases in the fee earning areas must be met by offsetting savings elsewhere. That is quite contrary to what has already been agreed.

I am copying this to the Prime Minister and to the Chancellor of the Exchequer.

*Yours sincerely,*

*Richard Atkinson*

*(Private Secretary)*

*for* NICHOLAS RIDLEY

*(approved by the Secretary  
of State + signed in  
his absence).*

