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COPY NUMBER 1 OF 6.

1600

Prime Minister

Prime Minister
An interesting Policy Unit commentary is attached. Agree that BR submit their report as proposed by Mr Ridley, endorsed by the Policy Unit

MANUFACTURING AND MAINTENANCE FOR BR

When we gave Bob Reid his objectives for British Rail we asked him to conduct a review of the options for the future of British Rail Engineering Limited (BREL), including the options for privatisation. We subsequently agreed that the scope of the review should be widened to take in the whole of vehicle maintenance in BR, including the substantial share that is done in the regional Depots, and also BR's system of spares handling and control.

Bob Reid is now ready to submit a further progress report on the work to date. Once a formal report is submitted he feels he will need to tell his Unions what it says - since otherwise they would use the opportunity to claim to their members that he is hiding something. At that point his recommendations could become public, and so the purpose of this minute is to warn colleagues of the key points that are emerging, in advance of the formal submission of the Report from Bob Reid.

I have discussed this whole maintenance strategy with Bob and his Board members, and I am persuaded that the package proposed is the most sensible way forward. I attach a note prepared by officials giving a summary of the detail of BR's findings. Basically the key points come down to the following.

BR have identified 4 of the works within BREL which could ultimately be candidates for privatisation. They would have the right combinations of capacity and skills to achieve a competitive future serving BR and export markets. But before they can be privatised BR will need to sort out the system of controlling and supplying spares, which is currently handled by BREL on behalf of the whole railway. That is a very substantial task and although BR are already employing consultants to do it, there is no prospect of its being completed before mid-1987.

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BR have also concluded that savings of at least £20m/annum in maintenance costs, and better standards of service, can be obtained if they move to a system of exchanging parts at local depots, rather than maintaining complete vehicles at a distant BREL works. The parts can then be sent away for repair, and that can be made subject to competition.

In view of the declining workload for maintenance - most of which must be expected to occur in any case because of fleet changes - BR's consultants have reached the view that the BREL "core" of the 4 works is the largest new-build/re-build organisation which would be viable in the longer term. But under their revised maintenance system BR will need some additional capacity in the depots to carry out the exchanges of the parts. BR intend therefore to use several of the existing BREL works for that limited purpose, so making best use of existing capital equipment, and avoiding the need for complete run-down of the non-core works. Glasgow (Springfield), Wolverton, Eastleigh, and Doncaster will all be absorbed into BR for this depot role, although they will need substantial slimming in their staffing to bring capacity into line with the new workload. Swindon will be closed, as has already been announced.

Overall the changes will involve a further run-down of maintenance staff within BR of some 2500-3000 men, (additional to the reductions already announced for BREL), and there will need to be additional investment in new capital equipment for depots of about £12m. Against that there is the projected saving of £20m/annum continuing thereafter.

Because the rationalisation that will be needed before 1987 will require a good deal of change from the workforce, both in the numbers employed at different works, and in the nature of the work that they do, Bob Reid and I are agreed that it would be counter-productive to declare now a public commitment to privatisation. That would merely provide a focus for Union opposition to the whole process of rationalisation. I have therefore told Bob that he must proceed with the rationalisation, and the separation of the core works, in such a way as to keep

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open all the different options for the method of privatisation, including the possibilities of selling the core works either separately, or together as a unit. Provided he does that, we will be able to decide nearer the time what will be the best way to carry out the actual privatisation.

Unless you or those to whom I am copying this minute see any objection, I propose to tell Bob Reid to submit his recommendations on these lines within the next couple of weeks. BR have a lot of work to do to implement the next stage of their proposals. They also see that there may be some industrial-relations advantage in being able to let the workforce know during August how they propose to reorganise maintenance work. The NUR are proposing to ballot their members in BREL and the BR maintenance depots in early September on industrial action against supply of rolling stock by private manufacturers. A strike which extended to the maintenance depots would have a much more rapid and damaging effecton rail services, including freight trains, than one restricted to BREL. Bob Reid would like to have available the card of being able to release the reorganisation proposals, if it seemed that that would help him in persuading the depot workers not to support industrial action.

For the reasons I have mentioned, the report itself will remain silent on the question of privatisation. But BR will have to be ready to handle the questions from their workforce. They will say that no decision has been taken on the future ownership of BREL core. The change in maintenance strategy will be presented on the basis of its industrial logic - and it will be emphasised that it is a matter for management decision by BR and not by Government.

In view of the sensitivity of the industrial relations issues, I am giving this letter only a limited circulation, to Nigel Lawson, Norman Tebbit, Tom King, George Younger and to Sir Robert Armstrong.

R. A. Allan (Private Secretary)

for Nicholas Ridley (approved by the Secretary of State and signed in his absence.)

2 August 1985

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OPTIONS FOR BREL

BACKGROUND

1. The Government's objectives for BR asked the Chairman to complete the rationalisation of BREL excess capacity as soon as possible, and to complete a review, by the middle of the next year [ie 1984] of the options for the future of BREL, including the options for privatisation. The objectives went on to say that railway rolling stock should be procured wherever possible by competitive tendering; and the railway equipment industry should continue to be allowed the opportunity to offer design solutions to meet BR's requirements.

2. The Chairman provided a progress report in November 1984, which explained that the work was taking longer than had been envisaged. It had been found necessary to broaden the scope of the review to cover maintenance of rolling stock undertaken at the railway Depots, (which are not part of BREL), and also to consider the treatment of spares. He said therefore that he intended to submit progress reports from time to time as particular aspects of the study were completed, and meanwhile to continue with the rationalisation of BREL without closing options for the future.

3. We understand that the Chairman is now almost ready to submit such a further progress report, and this note summarises what we understand it is likely to say.

THE PRESENT POSITION

4. At present BR undertakes the maintenance of its rolling stock in two main ways. Day-to-day maintenance, and replacement of minor spares eg. brake-blocks, is undertaken at Depots which are scattered geographically over the country, and are managed as part of the railway. More major maintenance, and repair work, is undertaken at the various BREL works. Each works deals with particular fleets of vehicles and will carry out the full

range of repair and maintenance work for that type of vehicle.

5. Vehicles are sent to BREL, every 2-3 years, on the basis of a pre-planned programme, and at that stage components are maintained, or replaced, according to a specified schedule, irrespective of their actual condition. Because the vehicle will not be returning to BREL for another two years, any parts that might be likely to fail during the next two-year period will be replaced. Because the vehicles have to travel to the relatively distant BREL works from their normal service location, and because of the wide range of different jobs to be carried out at each such overhaul, they will be kept out of service for a time measured in days and weeks rather than in hours.

6. BREL at present is also responsible for controlling and handling all the spares for the railway, including the spares for the Depots. The spares inventory is exceptionally large, amounting to about 300,000 items (cf. Austin-Rover with 70,000).

THE REVIEW

7. BR have looked across the whole range of activities conducted by the Depots and BREL, including spares handling, and have tried to identify separately those kinds of activity that could in principle be controlled entirely by a contractual relationship between BR and a supplier, and those kinds of activity that need of necessity to be under the day-to-day control of the railway.

TIME-SENSITIVE ACTIVITIES

8. The railway is a complex and integrated system which depends critically on the availability and reliability it gets from its vehicles. It cannot afford to have many of its vehicles unexpectedly out-of-service because of mechanical failures. Thus an ability to get the vehicle back into service very quickly - within a matter of hours - is a major requirement, and

that is inevitably something that needs to be under direct railway management control. If BR were relying on a contractor for this kind of work, and he fell down on the job, there would be no time to start looking round for another before the railway was in serious operational difficulties.

9. BR have also reached the conclusion that it is not cost-effective to have whole vehicles out of service for several weeks during a BREL overhaul. They have therefore decided that it would improve their system if they were to provide facilities for replacing more major components, at the normal service locations of the vehicles, ie the Depots, and then sent only the components away for repair. That would have two advantages. It would get the vehicle back into service in a matter of hours, and it would allow the timing of the component replacement to be governed by the particular condition of that item when it was inspected, rather than being tied to a pre-determined cycle imposed by the 2-3 yearly visit to the BREL works. Some - fairly limited - additional investment would be needed in the Depots to provide the facilities for this component exchange.

10. It would be an essential feature of this system that spares were controlled by BR and not, as now, by BREL, and that they could be distributed rapidly and efficiently to the Depots as they were needed. Since some of the items would be major components, careful control of the spares inventory would be important in financial terms.

NON-TIME-SENSITIVE ACTIVITIES

11. On the other side of the coin, for all those activities that do not require the very rapid turn-round time, BR see the opportunity to take advantage of competitive tendering, since they could rely on contracts to control their relationship with a supplier. In such cases, if the supplier failed to meet his contract terms, BR would have sufficient time in which to make alternative arrangements before the railway ground to a halt.

12. These non-time-sensitive activities comprise firstly the repair of the components replaced in the Depots, and secondly the major rebuilds of complete vehicles, which are currently undertaken every 8-10 years by the BREL workshops. BR also recognise that retention of ownership of the workshops carrying out these activities would make it that much more difficult to achieve genuine competition.

13. Although the control of the Depots would need to be tied in with the day-to-day management of the railway - for the reasons noted above - that would not preclude the possibility, in the longer term, of encouraging better management of the Depots by competition for a management contract.

SEPARATION OF MAINTENANCE FROM NEW BUILD/REBUILD

14. As a result of all these studies BR have reached the conclusion that BREL's existing activities can, and should, be separated into maintenance, and new-build/rebuild, and that while the time-sensitive maintenance activities must remain within the control of the railway, the new-build/rebuild should be separated out in a way that would permit BR to divest itself of those activities, if that is decided to be the right way forward.

15. As has been mentioned, each BREL works currently contains a mixture of each of these kinds of activity, because they cover all the levels of maintenance for particular fleets of vehicles. BR's study has shown that in making the separation it would create the most efficient units if new-build/rebuild is concentrated into four specialist works, which they have called the BREL 'core'. These are:-

Crewe - loco building and rebuilding;

York - multiple units and coaching stock building and rebuilding;

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[redacted]

Derby Litchurch Lane - multiple unit and coaching stock building and rebuilding;

Derby loco - diesel engine maintenance, and bogie manufacture and maintenance.

16. The remaining BREL works would either be closed (Swindon), or taken back into BR. Some (eg Springburn) would be substantially reduced, and adapted to form part of the system of specialist Depots needed to undertake the component replacement works. Some others (eg Eastleigh and Doncaster) would continue with their existing pattern of maintenance work during the transitional period while the existing fleets are still in use and the new system of maintenance is not fully operative. Eventually they would need to be run-down, or adapted to new uses. As a result of the immediate changes there would be dramatic reduction in the overall number of existing BR depots, and a sizeable saving in staff [2,000 to 3,000 more than currently planned from BREL numbers]. BR estimate that adopting the new system would save some £20m per annum in maintenance costs; would produce a reduction in fixed costs, because of improved fleet utilisation; and would provide a better and more reliable service.

THE NEXT STEPS

17. BR will need to announce the change in maintenance strategy, and to effect the separation of new-build/rebuild within BREL from the rest. They will also need, in parallel, to set up a new, and reliable spares organisation, under BR control, which will be operational on the same timescale as the BREL changes. There is no latitude for shake-down time, because of the railway's need to maintain the availability of its vehicles. So the changes must be made to work first time. BR are satisfied that this could not be done before the middle of 1987, and in view of the major changes required, that looks a realistic timescale.

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18. Thus although the core-BREL works will be being restructured in a suitable form to permit their sale, they will not be separate, and capable of being sold until the middle of 1987.

19. BR will face difficult industrial relations problems in achieving the change in maintenance practice, since it will result in a transfer of jobs from one part of the organisation to another. Although privatisation of the core is recognised to hold a number of attractions, the view of the BR Board is that it is not an immediate option until separation is achieved, and there would be no advantage in reaching a formal decision and announcing any such aim publicly at this stage, since it would merely provide a political focus for union opposition. It would be better to leave that as an open question for people to draw their own conclusions about: the changes can then be presented purely on the grounds of their industrial logic.

20. However in setting up the separation the ultimate opportunity for privatisation needs to be kept clearly in mind. For example, when the point of considering a sale is reached, it could well turn out that it would be preferable to have the ability to offer the 4 core works as separate entitities, rather than as a single whole. That might attract a better overall price, and it could help to achieve more competition in the railway supply industry for the longer term. BR therefore intend to keep all such options open by arranging the process of separation of new-build/rebuild from maintenance, in such a way that the individual entitities are separately identified from the outset. The precise means of doing that will require further study, which BR are about to commence. One possible model would be to create a core BREL holding company with 4 operating subsidiaries.

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9 July 1985

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PRIME MINISTER 5 August 1985

BREL

For decades the building, rebuilding and maintenance of BR's rolling stock has been a cosy, in-house activity, cocooned from external market forces, unresponsive to the need for progressive adaptation and therefore endemically inefficient. The first draught of fresh air was introduced in 1983 when, on becoming Chairman, Bob Reid was given the objective wherever possible to procure new rolling stock by competitive tender. As a logical extension of this new philosophy, he was also asked to review the strategic options for BREL with a view to privatisation.

The report shortly to be submitted formally to the Government marks the belated fulfilment of that remit. Nicholas Ridley forewarns us that a new 'industrial logic' is now driving this aspect of BR's operations towards greater efficiency and productivity. In the front is not the privatisation of BREL, but a radical new strategy for the maintenance of BR's rolling stock.

It is tempting to be cynical. Why is it only now after the privatisation of BREL has been proposed that the industrial logic of a new maintenance strategy becomes evident and compelling? Surely this is no more than a ruse for stalling the troublesome task of privatising BREL? Yet in spite of these reservations, we are drawn to the same conclusions as Nicholas Ridley. The underlying industrial logic is sound. The fact that it has only recently become obvious is probably rooted in the fundamental change of BR's business culture, brought about over the last two or three years.

We now have a Chairman and a management team who see their primary role not as building, running and maintaining trains, but in providing an efficient, appealing transportation service for consumers; a management which recognises that railways face increasingly tough competition from other forms of transport, and that they have no pre-ordained right to a share of the market. The objectives set by the Government in 1983 reinforce this market-orientated approach; so does the restructuring of BR into discrete business sectors, each accountable for its integrated business performance.

Given this radically different framework, the new industrial logic falls readily into place:

- Trains can no longer, as it were, be regarded as thoroughbred horses, each needing individual attention at specialist workshops. Like any other industrial plant or equipment, they are assets which must earn a return through high utilisation. Today's fleet of rolling stock achieves less than 70% availability for operational service, whereas BR should be aiming for at least 90%.

- When BR changed from steam to diesel and electric traction roughly 25 years ago alternative designs from many different manufacturers were put into service with the minimum of prior evaluation. Little thought was given to maintenance, overall life-cycle costs and, for example, the benefits of standardisation. Nor was it felt necessary to restructure BREL from a huge manpower intensive relic of the great days of steam.

- However, the forces of change are irresistible. BR's new diesel multiple units, for example, require 50-60% less maintenance. Modern designs are modular so that defective components can easily be replaced in BR's front-line maintenance depots. The benefits are compounded by the fact that defective rolling stock can thereby be put back into service in hours rather than being sent away for weeks to a specialist BREL workshop.

- So far these considerable advantages apply only to the new generation of rolling stock. But the motley collection of rolling stock which replaced the old steam trains is progressively due to be replaced by modern equipment. (See figure 1 facing).

- This means that if the potential benefits of low-maintenance rolling stock are to be realised in full, BR's maintenance strategy must be brought up to date.

The proposed approach is right. Integrate front line maintenance with operations and make the same manager responsible for maintenance and operations, ie for maximising the availability of his fleet. Achieve this by adopting a system of rapid parts replacement in front-line maintenance depots. At the same time place the responsibility and cost of holding spare parts on operations managers, and use modern computing techniques as an aid to efficiency and cost saving. Segregate the core of BREL's resources for building and rebuilding rolling stock. Tender competitively for all new build and rebuild contracts. Privatise BREL to compete freely in this market and, from that springboard, win overseas business on competitive merit.

Conclusion

In the case of BREL the principal aim of privatisation is not revenue to the Exchequer or wider share ownership. It is the achievement of a big step towards reducing BR's costs through modern rolling stock design, efficient maintenance techniques, and above all competitive tendering in this field. The proposed maintenance strategy is sound; so too is putting the implementation of that strategy before the privatisation of BREL. What is more, the maintenance before privatisation approach is less likely to run foul of union opposition on doctrinaire grounds. We would let BR formally submit their report.

JW

JOHN WYBREW

POTENTIAL DEMAND FOR NEW LOCOMOTIVES

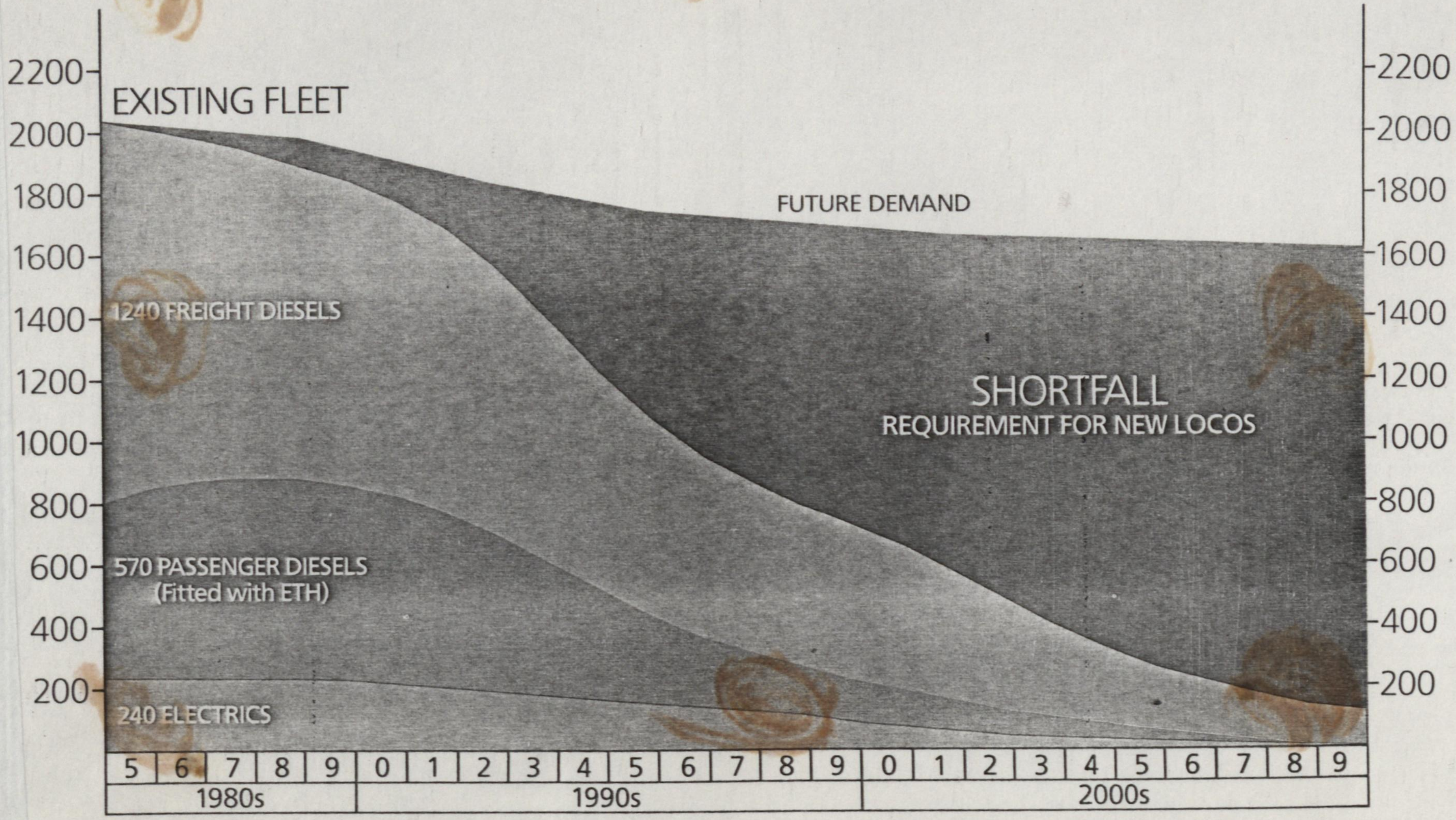

FIGURE 1

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10 DOWNING STREET

From the Private Secretary

8 August 1985

Dear Richard,

The Prime Minister has now seen your Secretary of State's minute of 2 August about manufacturing and maintenance for British Rail. Subject to the views of colleagues, she was content with the approach proposed by your Secretary of State.

I am copying this to Rachel Lomax (HM Treasury), John Mogg (Department of Trade and Industry), David Normington (Department of Employment), John Graham (Scottish Office) and Richard Hatfield (Cabinet Office).

Yours ever

Tim Flesher

Tim Flesher

Richard Allan Esq
Department of Transport.

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NBPM

PRIME MINISTER

MANUFACTURING AND MAINTENANCE FOR BRITISH RAIL

Nicholas Ridley wrote to you on 2 August outlining the proposals to be included in the forthcoming report by Bob Reid. The proposals seem sensible and I have no objection to them, provided that all the options for privatising BREL are kept open and that the four core works are organised so that they are clearly identifiable as separate entities. I know from discussions Norman Lamont has held with major private sector railway equipment companies that there is interest in buying individual works. I think this may well be the best way of securing three objectives - competitive sourcing of BR's needs in the UK; consolidation of the home base for the export activities of the existing private sector manufacturers; and of course privatisation itself. Privatisation of BREL as a whole could create too many competitors for the amount of work BR has to offer, and fragment the base for exporting. I was glad to see, therefore, that the option of privatising the four core works separately will be kept open.

2 I appreciate that the changes involved are considerable, and that it may be mid-1987 before much can be done on privatisation. But I hope the possibility of earlier action on particular works will not be excluded : we need to be ready to respond flexibly if any offer is made to purchase one or more of the BREL works before 1987.

3 I am copying this to Nigel Lawson, George Younger, Tom King, Nicholas Ridley and Sir Robert Armstrong.

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~~1~~2 August 1985

Department of Trade & Industry

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Transport; British Rail Pt 8

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PO:

Cc ~~JW~~.

NBPM

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FROM: IAN STEWART
DATE: 7 AUGUST 1985

PRIME MINISTER

BR MANUFACTURING AND MAINTENANCE

with TF?

I have seen the minute dated 2 August to you from Nicholas Ridley.

2. On the face of it, the proposals Sir Robert Reid has in mind to put forward look sensible, but I am concerned that the way in which it is proposed to handle this report will commit us to his favoured option without giving us the chance to consider the detailed arguments. The Reid proposals rule out any early privatisation, as well as privatisation of "non-core" BREL activities. These are important decisions as is the implicit decision that the "core" activities are likely to be candidates for privatisation in due course. Moreover, there is nothing in Nicholas Ridley's minute about how the proposals would be financed.

3. If we proceed as he proposes, therefore, I think that it should be made clear that we are agreeing to the BR proposals only in broad outline and that final decisions on the structure as well as on the division of work between the depots and the BREL core must depend on detailed study by Government of the report and on reaching suitable arrangements for financing them.

4. I am sending copies of this to the recipients of the Secretary of State's minute.

IS

IAN STEWART

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BR Fares: TRANSPORT A8.