CID
2 CNO

NBPM

AT 23/1

CHIEF SECRETARY TO THE TREASURY

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Nicholas Ridley FICE MP
Secretary of State for Transport
Department of Transport
2 Marsham Street
LONDON
SW1P 3EB

20 January 1984

Dear Nicholas

MMC PROGRAMME 1984: BRITISH RAIL REFERENCE

will request if required

You wrote to Norman Tebbit on 16 January proposing that the British Rail Property Board should be the subject of the BR reference in the 1984 programme.

I am generally content with this. I hesitated over whether we should announce this as a reference of the Property Board itself, since I would want to see the terms of reference of the study drawn up to cover all aspects of BR's property management. But I understand that the title which you propose would not be an obstacle, since the MMC could be briefed to look at all the main issues of how the estate is managed and exploited commercially. The terms of reference should make it clear that disposal of unnecessary assets and the involvement, where appropriate, of the private sector are prime requirements.

I am copying this letter to the Prime Minister, to members of E(NI) and to Sir Robert Armstrong.

Yours ever

PETER REES

fte

Mr A. Turnbull

CONFIDENTIAL

Ref. No: TPT(84)3

Date: 20.1.84

Briefing Notes for the Debate on
BRITISH RAIL ENGINEERING LIMITED
Tuesday, 24th January 1984

Contents | Page




Conservative Research Department,
32 Smith Square,
London SW1
Tel. 222 9000

Enquiries on this brief to:
Jeremy Moody
X2508

BRITISH RAIL ENGINEERING LIMTITED

## 1. SUMMARY

British Rail has inherited in British Rail Engineering Limited (BREL) workshops dating from an earlier age. Modern rolling stock, particularly air braked wagon train freight systems, combined with the more efficient use of vehicles this has meant that BREL has excess or inappropriate capacity. This, in large measure, is due to the result of proper investment paying dividends in reduced maintenance.

While BREL was created to separate the building and maintenance of rolling stock from the rail business and BR's 1983 Corporate Plan intends an "arm's length" relationship between the two, BREL's position is perhaps a little awkward. Over 90 per cent of its business is with BR; BR arrangements on industrial relations and investment affect BREL's ability to react as an engineering operation rather than as a subsidiary of a railway company. It has tried to gear its capacity to the anticipated BR workload but would seem to have undercalculated for the late 1970s and overcalculated for the early 1980s. Work for private buyers, domestic and foreign, has formed the residual and variable item, being expected to expand when there is free capacity.

The mismatch of BREL's capacity and demand has led it to proceed in closing four workshops, while on the 11th January 1984 it announced that 3500 jobs out of 27,500 would be lost this year.

This does not represent a failure of investment in BR by the Government nor does it necessarily reflect upon the workforce, but rather on the different problems of newer vehicles on a more modern railway.

---

## 2. BACKGROUND

British Rail Engineering Limited (BREL) is a wholly owned subsidiary of British Rail and builds or overhauls its fleet of locomotives and rolling stock. With the sole exception of Indian Railways this relationship is understood to be unique as all other railways buy from independent companies.

On nationalisation in 1948 the British Transport Commission inherited the workshops of the railway companies which were transferred to BREL on 31st October 1969 following the 1968 Transport Act. The Act also gave the nationalised transport industries the power to manufacture or repair for outside bodies as well as their own needs. BREL was established as a subsidiary limited liability company separate from the subsidised rail business so that competition with private firms could be seen to be fair; the intention being that BREL should break even after private work.

It was agreed with the Labour Secretary of State in 1969 that BR should seek competitive tenders for its own needs "where appropriate" and should place orders with the most "economical" source. "Economics in this context, comprise, however, not only price but such factors as satisfactory delivery or the capacity situation within their own workshops". In 1971 BR decided that the private sector should only be invited to tender when BREL was unable to do the work; tenders for the rolling stock were no longer sought after 1974. Consequently, BREL is almost exclusively BR's sole supplier, with BR accounting for 91-98 per cent of its turnover.

## 3. BREL's PROBLEMS

### (a). CAPACITY AND BR's NEEDS

BREL is, therefore, vulnerable to changes in the nature or volume of its workload stemming from BR decisions.

Modernisation of BR's needs, notably the High Speed Train and the move to air braked wagon trains from single wagons has thrown into sharp relief the nature of BREL's existing capacity, especially as its staff rose from 32,400 in 1973 to 36,600 at the end of 1980 in anticipation of higher BR demand in the 1980s - the 1981 Corporate Plan foresaw this figure rising to 43,000 by 1985.

The 1983 Corporate Plan noted more realistically, "Progressive reductions in BR's fleets of locomotives, wagons and carriages in recent years, together with unfulfilled forecasts of increased new build traction and rolling stock in successive Rail Plans, led BREL, by the beginning of the 1980s, into a situation of substantial overcapacity and associated underutilisation costs."

The costs sharged to BR in 1981 for overcapacity amounted to £15m of which £9m was long term.

Recent changes in BREL's workload can be illustrated:

| | 1979 | 1980 | 1981 | 1982 |
|---|---|---|---|---|
| New Build | | | | |
| HST | 14 | 10 | 36 | [ |
| | | | | [ 27 |
| Class 56 (freight) | 16 | 17 | 14 | |
| Inter-City coaches | 19 | 78 | 63 | 140 |
| EMUs | 202 | 230 | 166 | 195 |
| Wagons | 1489 | 1373 | 1414 | 832 |

Overhaul

| | | | | |
|---|---|---|---|---|
| Locomotives | 1650 | 1526 | 1070 | 1113 |
| Coaches | 10208 | 9711 | 8588 | 7870 |
| Wagons | n/a | 26453 | 18854 | 14454 |

It is thought that BR's demand for new build wagons will be around only 150 a year for 1983-86.

Repairs have declined with longer intervals between services and the use of modern rolling stock. The 1983 Corporate Plan envisaged them to fall by a further 25 per cent by 1988 though new build should increase significantly with investment in diesel multiple units.

(b) BR/BREL RELATIONSHIPS

The relationship between BR and its subsidiary has not always been helpful to BREL whose management has found it difficult to adjust to meet requirements quickly. BREL has little control over major variables including wages, investment and design capability. In particular, wage negotiations are conducted through the railway negotiating machinery with the unions opposed to separate handling of terms and conditions. As BREL is, to some measure, in competition with other engineering employers for its labour, this has led on occasions to shortages of skilled labour since it has not been able to match terms and conditions.

Other difficulties stem from the lack of clarity over the division of maintenance work between BREL and BR so hindering the allocation of capacity.

4. BREL AND ITS CUSTOMERS

There appears to be some ambiguity in BREL's treatment by BR in that it is unclear whether, at the moment, BREL is a semi-independent engineering firm or an inhouse facility. This stems from their mutual position as monopoly buyer and supplier, which has made it difficult to assess BREL's competitiveness.

The Serpell Report felt that "with the exception of locomotives, there is no prima facie evidence indicating that, for designs submitted, the cost of new build is excessive." The problem of locomotive prices would seem to reflect simply the low level of BREL's output at 20-30 diesel locomotives a year while an American works might produce 1200 units with a similar performance.

In 1981 BREL carried out £229m of vehicle maintenance and repair for BR, 55 per cent of its total maintenance expenditure. Between 1977 and 1981 BREL's total repair costs were roughly constant in real terms while the number of repairs fell. Costs per repair rose in real terms by

- 40 per cent for locomotives
- 35-40 per cent for multiple units
- 25 per cent for HSTs
- 15 per cent for coaches

The Serpell Report accepted that some four fifths of these increases were fairly accounted for by

- larger intervals between repairs
- rising average age of vehicles
- greater vehicle utilisation
- a rise in the work content of certain jobs

but "On this basis the costs in 1981 were some £10m higher than if overall efficiency had not deteriorated."

A recent survey has put turnover per employee in 1982 at £13,000, half the figure for a comparable engineering firm.

When the disparity between capaity and workload became clear BREL reviewed its position with a plan to cut 5500-600 jobs which was reduced by the British Railways Board. The investigations of the Serpell Inquiry threw the question open more fully and so, foreshadowing the "arm's length" arrangements of the 1983 Corporate Plan, the 1982 Report announced that BREL would be expected to compete for business while its relationship with BR over contractual arrangements, design, supply, personnel and finance should be redefined. It also noted that the reduction in capacity had already saved £ 14m in overheads.

This has meant that BREL is beginning to be exposed to competition by tender. In 1983 tenders for a prototype short haul diesel were put out to BREL and Metro Cammell. On 16th January 1984 approval was given for 150 rail-buses for which BREL will be in competition with Metro-Cammell, Marshall Engineering of Cambridge, Walter Alexander of Falkirk and Leyland (who already make some at Workington with BREL).

The NUR has been suggesting that work not placed with BREL should be "blacked".

(b) N~~OW~~N BR TRADE

The 1981 Corporate Plan saw the primary role of BREL as constructing and maintaining vehicles for BR while any spare capacity should be used for export or private party business, and this part of BREL's business has tended to be a residual item.

While Britain once accounted for a large share of the world's rolling stock, it is now only responsible for some 5 per cent of trade of which BREL has but a part. Between 1977 and 1981 non BR customers formed 4 to 9 per cent of BREL's turnover, though this fell below 2 per cent in 1982. BREL wins some 15 per cent by value of the tenders it has submitted and its operating surplus on private party sales has been between nil and 9 per cent.

The 1983 Corporate Plan argued, " The external sales strategy is based on a conscious policy decision by BREL to develop profitable international outside party business" and the 1981 BREL plan foresaw this work rising from £8m in 1982 to £59m in 1986; by trading on quality and reliability against the low cost producers.

However, most developed countries tend to be nationalist in their procurement while third world countries can be elusive - a prized £23m order for wagons from the Congo failed to be implemented and BREL spent two years trying to secure confirmation of a Nigerian order it understood to be promised.

In 1981 BREL formed BRE-Metro in conjunction with the independent maunfacturer Metro-Cammell to help increase exports. BREL is developing a "super coach" with telephones, reclining seats and catering facilities with the hope of selling 100 a year to European and African markets.

While BR is beginning to put work out to tender so BREL is being invited to tender for the first time by London Transport for rolling stocks on the Central Line and has just won an order for £2.5m of EMUs for Northern Ireland Railways.

5. BREL's CLOSURES

In 1981 BREL reviewed its capacity against new estimates of workload and consequently the Ashford works were closed in 1982. Subsequent proposals were brought forward to close Shildon, Horwich and Temple Mills while in January 1984 BREL has proposed further job losses.

(a) SHILDON, HORWICH AND TEMPLE MILLS

These workshops were proposed for a closure on 17th February 1983 and Shildon figured prominently in the Darlington by-election.

Shildon makes and repairs wagons for BR as well as for some private customers and export. Wagon making had been concentrated there with the workforce drawn from the "heavy fabrication trades" rather than vehicle builders or electricians so giving little opportunity to diversify. It has the capacity to build 1500 wagons and repair 15000 a year.

BR's policy has been to build up to a level of 22,000 air braked freight wagons which has been achieved. These new wagons have double the capacity, carry 29 tonnes with greater utilisation at higher speed and represent as investment of £500m. By contrast, BR's freight business of ten years ago required 220,000 shorter lived vaccuum braked wagons. Not only are the modern wagons fewer and more robust but they are relatively new with a working life of 20 years so generating less repair work. BR will still have the capacity to build more than 2000 wagons a year and repair 20,000.

Horwich, solely a maintenance shop, has only a limited work load of its own which has been supplemented with overspill from Eastleigh and Wolverton. However, with the introduction of EMUs these two workshops can handle all their traditional workload and BREL has decided that keeping Horwich open would mean wasteful reduplication of facilities and overhauls.

Temple Mills, in East London, is a single purpose works repairing wagons and containers like Shildon and its workload has been insufficient even for the reduced workforce of some 300.

(b) JANUARY 1984 ANNOUNCEMENT

On 11th January BREL announced the prospective loss of 3500 jobs in 1984, representing a 25 per cent cut from 1982 to a level of 24,000 employees. This includes bringing forward to June the closure of Shildon (except for the foundry) with 960 jobs.

Andy Dodds, the assistant general secretary of the NUR, commented

"to be fair to them (BREL), they have lost two important overseas orders they expected to get from the Congo and Nigeria"

(Daily Telegraph, 12th January 1984)

In addition to the continuing decline in repair work, BREL has decided to cease its £15m programme of stripping the asbestos heat insulation from diesel multiple units and replacing the 300 affected with new build by the agreed date of 1987 for removing the asbestos. This decision is reflected in 750 job losses at Swindon, Doncaster and Derby.

At Swindon, where the 1217 announced includes 500 already due to go, the work force has already fallen to 2500 from a peak of 13000. It was considered for closure in the mid 1970s when hydraulics were removed from main line services. The asbestos stripping had been commissioned at Swindon, then removed and had just been recommissioned in November 1983. The maintenance diesel of shunters (whose numbers are declining) forms most of the residual workload. BREL's personnel director has warned that Swindon, once the pride of the Great Western Railway, is "vulnerable". David Mitchell, Under-Secretary of State visits the workshop on 23rd January, the day before the debate.

Other job losses in prospect are at Derby locomotive works (243), Glasgow (242), Wolverton (77) and York (76) as well as Harwich, Crewe and Eastleigh. BREL is also suspending its intake of apprentices for the time being.

(c) BR's ASSISTANCE ON CLOSURE

As David Mitchell, the Under-Secretary, replied in the House,

"At each closure of a BREL workshop special arrangements have been made by British Rail, generally in cooperation with local enterprise agencies, to help create new jobs in these areas."

(Hansard, 16th January 1984, Col 11)

It has consulted with the British Steel Corporation with its wide experience of this kind of problem (notably at Corby) and engaged consultants for the 1983 proposals. BREL worked to start an Enterprise Agency in Shildon and is hoping to find a buyer capable of offering jobs at the present site. Behind this stands the array of Government support for small businesses, new enterprises and assisted areas.

## 6. THE GOVERMENT'S POSITION

In the last debate on BREL in March 1983 the Government amendment recognised

"the need for British Rail Engineering Ltd to rationalise its workshop capacity in the light of changed requirements; and supports vigorous and constructive measures by all concerned to promote alternative and durable employment in the areas affected.'

and, in referring to the Shildon proposals, David Howell, then Secretary of State for Transport, said,

"This is a decision that has been left to British Rail and BREL, to handle the whole question of rationalising British Rail's engineering capacity throughout the country. There is no question of ministerial or official arm twisting in the matter."

(Hansard, 22nd March 1983, Col 733)

When Nicholas Ridley set the Government's objectives for BR on 24th October 1983, he wrote,

"Rationalisation of British Rail Engineering Limited's excess capacity should be completed as soon as possible. You should complete your review by the middle of next year of the options for the future of BREL, including the options for privatisation. 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."
(Hansard, 24th October 1983, Col 47-48)

Speaking in the House he said,

"The Chairman is asked to make sure that BREL becomes highly competitive so that it will win orders from both British Rail and overseas .... It is not for me to say which works should or should not be closed. It is for me to set out the Government's objectives to the railways, and it is for the British Railways Board to run the railways and tak management decisions ... that relationship must be preserved if the railways are to have a real chance to improve their position in the future."
(Hansard, 24th October 1983, Cols 41 & 43)

Replying to Labour allegations of Government malevolence and wilful refusal to invest, David Mitchell amplified,

"British Rail has to carry out closures not because any blame rests with the workforce or management, but because of overcapacity within the railway engineering industry."

"I deplore the way in which the workers at many BREL workshops have been frightened by the suggestions that the Government are not prepared to approve investment proposals made by British Rail. In the past month we have announced two major investment approvals, and I look forward to two more approvals being made."

"There is no intention to run down BREL. The rundown is due to past investment proposals being carried out successfully, resulting in there being less of a requirement for heavy maintenance work because of the efficiency of modern equipment."
(Hansard, 5th December 1983, Cols 10-11)

Recent announcements of investments in rolling stock are

- 21st November 1983 - £30m refurbishment for Fenchurch Street-Southend line of 90 four unit electric trains
- 5th December 1983 - 149 electric multiple units for London commuter services to be built at York By BREL guaranteeing work for most of the 2500 there until late 1985
- 16th January 1984 - 150 lightweight "railbuses" for which BREL will be asked to tender.

The Government has maintained the investment ceiling at the same level in real terms that it inherited from Labour, and while £1600m has been invested between 1979 and 1983 (as against £1100m as from 1974 to 1979) BR has underspent this limit by 23 per cent in 1981 and 37 per cent in 1982.

---