

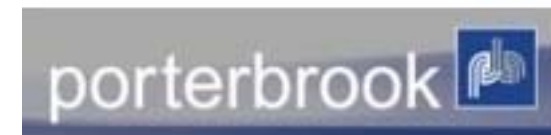


# The Role, Responsibilities & Benefits offered by Rolling Stock Leasing Companies

David Jordan: May 2018

# EPTTOLA Members & Assets

- Circa 18,000 vehicles:
  - 14,300 Passenger vehicles
  - 2,700 Freight wagons
  - 1000 Locomotives
- Wide range of locomotive products
- All types of heavy rail passenger stock
- Customers range from small private operators to National Railways



# EPTTOLA Operational Coverage



# A Brief History of UK Rail: 1993 onwards

- UK government sought to privatise British Rail in order to reduce the net public subsidy paid to an industry which was considered to be in terminal decline.
- In order to foster competition, a franchise model was adopted whereby franchise durations were “short” but required the use of “long” lived assets (i.e. rolling stock, track based infrastructure & stations).
- Consequently, responsibility for train operation was split and rolling stock owners were established. UK Government adopted an operating leasing model, similar to that which existed (and still exists) in aviation, as the interface between rolling stock owners and operators.



# What Benefits do Rolling Stock Leasing Companies provide?

## Macro-Economic Benefits:

- Rolling Stock Leasing Companies are owned by global investors who are investing in UK passenger rail services and rolling stock.
- Rolling stock is considered to have “infrastructure characteristics”, where long dated assets generating long-term cashflows can be matched against pension funds with long dated liabilities (to pay pensioners).
- Investors benefit from investing in a portfolio of assets, rather than a single asset, thus offering diversification and risk mitigation.
- Rolling Stock Leasing Companies are able to purchase rolling stock assets from a range of manufacturers. In return, some manufacturers have (or intend to) invest in manufacturing facilities in the UK.



# What Benefits do Rolling Stock Leasing Companies Provide?

## Financial Benefits:

Off Balance Sheet financing; for the government/transport authority but not for the Lessee (IFRS 15 & 16).

Tax advantages through Capital Allowances; government can control the financial incentives for investment in rolling stock and the wider socio-economic benefits available, through the effects of lease pricing.

Residual Value Risk transfer; an operating lease is where “*the risks and rewards of ownership vest with the owner*”. This is a critical consideration in the context of liberalisation and significantly lowers barriers to entry.

# What Benefits do Rolling Stock Leasing Companies Provide?

## Operational Benefits:

Our service offering can be tailored to the commercial and operational requirements and capability of the operator; ranging from a dry lease with a Quiet Enjoyment Covenant to a full maintenance solution.

We act as a counter-balance to short-term behaviours and seek to reduce whole life costs of rolling stock and equalise costs appropriately. This requires asset management expertise.

We provide technical engineering expertise and support for rail vehicles which no longer qualify for manufacturers warranties.

We can support statutory responsibilities on behalf of the operator e.g. the Entity in Charge of Maintenance, and the homologation of rail vehicles.





# What Benefits do Rolling Stock Leasing Companies Provide?

## Commercial Benefits:

A disciplined approach to new train procurement (public sector experience has been mixed at best).

Procuring types of trains which have high utility and transferability i.e. they can provide a range of roles after the initial deployment.

Standardisation of rolling stock where appropriate, thus reducing unit costs and improving performance.

An informed and competent buyer.





# What Benefits do Rolling Stock Leasing Companies Provide?

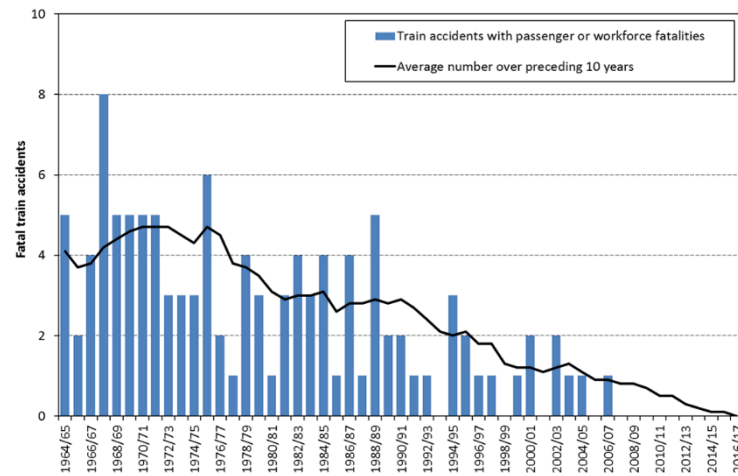
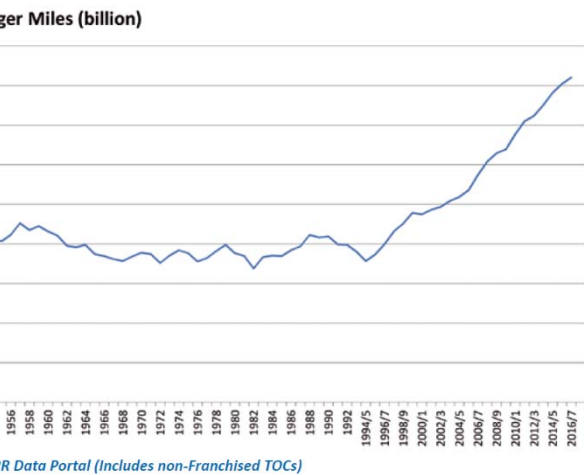
**Barriers to a successful operating leasing market:**

Prescriptive tenders from franchising authorities, which prescribe inputs rather than desired outcomes. We appreciate the need to address quality as well as cost.

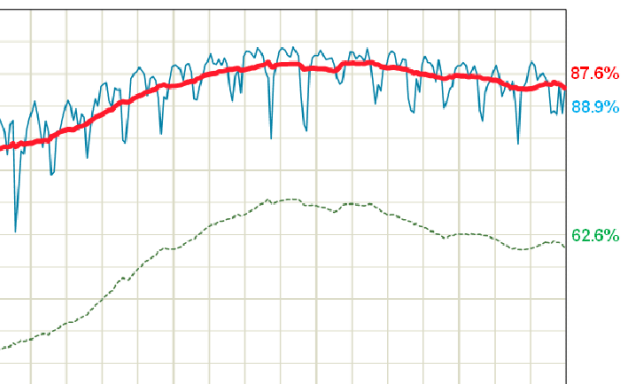
Stability of transport policy, and government favouring its own “champion”.

Bespoke assets and a lack of standardisation, reducing the liquidity of the market.

# Has Liberalisation of Rail been a success in the UK?



Performance 2002-2018



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## Summary

The role of Rolling Stock Owners has been a success in the UK, also Germany, the Netherlands and Sweden, where the market has been opened.

Rolling Stock Owners are a key constituent, facilitating new operators and encouraging a competitive and dynamic market.

Operating Leasing is a very viable and helpful option provided by Rolling Stock Owners for meeting the objectives of the Fourth Railway Package, offering a broad range of benefits to enable competition under the PSO.

However, operating leasing is not a panacea.

There is an established market for rolling stock ownership in Europe, and this expertise is available to you.

Any questions?

<http://www.epttola.eu>

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