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Residual value key to direct train procurement

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The Rail Delivery Group, the Department for Transport and rail franchise owning groups have begun discussions which could lead to train operating companies purchasing new trains directly rather than leasing them from rolling stock leasing companies.

The discussions are focusing on the DfT providing guarantees that would enable operators to recover the residual value of trains when new franchise contracts are let.

The DfT is considering the move to curb the prices charged by the ROSCOs. It is understood that the DfT believes leasing prices have been inflated by the ROSCOs following the sale of all three companies between 2008-10 in order to cover the costs of the acquisitions.

In addition, operators have expressed concern that the DfT's programme of short term franchise extensions and direct awards will offer limited, if any, options to consider sourcing alternative rolling stock. As well as exacerbating peak crowding, operators consider that the situation could provide the opportunity for ROSCOs to increase their charges.

The DfT's intention is to create a new market in rolling stock supply through offering guarantees that would enable operators and other new entrants to finance rolling stock. Potentially, this could enable operators to buy new trains during the period of short term direct contract awards. It is envisaged that operators would require lower returns than those built into the rates charged by the ROSCOs.

First Group has indicated that it would consider purchasing trains during the planned 33-month Great Western direct contract award if the DfT is able to convince the Treasury that the government should stand behind the deal.

"We need more trains, and we've made this plain to the government, and they have got to allow this to happen," said Tim O'Toole, chair of the Rail Delivery Group and chief executive of First. "The secretary of state is up for it, they get it, it's just a question of the pressures they're put under by the Treasury, and whether we - working with them - can, in creative ways, bring capital."

O'Toole added: "This is really a simple point: it's all about the government resolving its views on residual value, and if you can have a residual value mechanism, this can go forward pretty simply."

First: considering placing direct train order to support 33-month Great Western contract



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