Passengerfocus
putting rail passengers first

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Dear Mr Brahmbhatt

Rolling stock market investigation

Passenger Focus welcomes the opportunity to comment further on ORR's rolling stock market investigation. These comments clarify the points raised at our meeting on 8 August.

Passenger Focus has specific concerns about the operation of the market for 'second-hand' rolling stock. We believe that there are a number of factors that prevent a purely market-driven process from operating and which beg the question of whether it is a case of inefficiencies within the existing market or one of the market structure itself being fundamentally flawed.

Such issues are of great relevance to passengers. Higher than necessary lease charges, for instance, reduce the amount of money available for investment elsewhere and will ultimately be passed back to passengers in the form of higher fares. Yet we know through research and through the National Passenger Survey that passengers already feel that they do not receive value for money.

Failure in the rolling stock market also contributes to overcrowding – either as a consequence of additional stock simply not being available or through the prohibitive cost of leasing it. This is at a time when there are numerous examples of overcrowding on routes served by two or three car length trains. For example:

- Transpenine Express class 175 services that turn up as two-car units in the peaks, e.g. the 16.27 from Manchester International Airport to Barrow is full and standing from Manchester Piccadilly if it's a two-car service. Ditto Arriva Trains Wales's service to Chester/Llandudno.
- Overcrowded two-car trains in the Manchester area at peak times.
- Research in 2004 (The Mainline They Couldn't ignore – Rail Passengers Committee) revealed evidence of overcrowding on the morning and evening peaks on South Coast to Bristol and South Wales routes - leading to Ministerial intervention to secure strengthened train sets.
- Recent Passenger Focus research has also identified overcrowding in peak periods on cross-Bristol services, especially those between Worle and Bristol Temple Meads. The

same research also highlights cases of passengers being unable to board two-car trains because of overcrowding.

- Lincolnshire, where single Class153s always struggle in the peaks.

There is also a lack of transparency within the leasing market. We understand that there is a commercial interest between the ROSCO and the TOC but when the product concerns a public service it is right and proper that there is adequate transparency and accountability to the fare payer as well as the taxpayer.

We note (and welcome) the conclusion by both the NAO and the SRA that the market for new builds of train is competitive and has led to falling prices. Our interest is therefore, as mentioned above, more on the ‘second-hand market’. We understand the argument advanced by ROSCOs about the residual risk involved in being left with a train than no-one wants to lease. Indeed, we have supported the concept of longer franchise terms and/or the use of Section 54 (1993 Railways Act) undertakings to reduce this element of risk and, hence, the lease cost of such stock.

However, we must question whether this element of risk is being over-played. Differences in power supply, the need for individual route clearance, and the different characteristics of the market (i.e. commuter, longer distance and regional) mean that rolling stock in Great Britain is not fully interchangeable: you cannot simply substitute one type of unit for another. Additionally not all ROSCOs currently lease all types of trains. Therefore, if a TOC is looking for extra provision of a particular type then they do not have a genuine choice of supplier. For instance, Thameslink has recently imposed evening peak restrictions as a method of reducing and controlling overcrowding. The solution is to lease additional rolling stock but it is reliant on a cascade of Class 319 rolling stock from Southern. Thameslink passengers face continued overcrowding and higher prices until this can be resolved.

In addition there is also a very limited pool of rolling stock to choose from. For example, a recent press release from Christine Chapman, Welsh Assembly Member for Cynon Valley, referred to a discussion with Arriva Trains Wales in which she was told “…that there was not enough railway stock to supply four carriages on all of their peak morning services when the network is operating at its full capacity. Therefore, Arriva’s policy is to share the stock around the Valleys Lines so that all such busy services have four carriages most of the time. For example, Mrs Chapman was told that the 7.22 service from Aberdare to Cardiff has four carriages “70-80”%” of the time”.

The effect of all of this, therefore, is to limit the potential for competition in rolling stock provision and make it more unlikely that a ROSCO will be ‘stuck’ with an asset it cannot lease. A bigger pool of stock with greater inter-operability in terms of where it could run and standardisation of design could help to promote the benefits of competition and enable TOCs to be more responsive to demand. Until then, however, we feel that ROSCOS are unlikely to experience much residual risk and will benefit from steady, and virtually guaranteed, income streams.

This in turn begs a number of other questions about the current structure of the rolling stock market:

- The deals on rolling stock are effectively locked in. Why can re-financing not take place?
- The treatment of dilapidations does not seem to conform to practice in other markets. Why is this?
- Why do prices remain so high when the assets have already been paid for?
- The government, taxpayer and passengers seem to be cut out from these deals. Could some form of concession agreement, like that currently being negotiated in New South Wales be tried? At the end of the concession the rolling stock remains the property of the government. This after all is how station leasing fundamentally works with Network Rail remaining as the freeholder.

Our questions in these areas have been informed by outline discussions with contacts with experience in financing PFI and other deals.

If you would like to discuss this in any more detail then please do not hesitate to contact me.

Yours sincerely

Mike Hewitson
Senior Policy Adviser