Policy Briefing

6 October 2021

Train leasing companies pay out nearly £1 billion in dividends during the pandemic

Introduction

As Britain's railways struggle, the pandemic profiteering in rolling stock continues unabated with almost £1 billion in payouts to offshore owners. In this briefing we look at the Roscos' dividend payments, where their money is going and whether their claims to be major investors in the railways hold any water.

While passengers face service cuts and a new period of Beeching-style axe-wielding, and staff endure pay cuts and attacks on their jobs, one thing has remained absolutely unchanged during the pandemic: the ongoing looting of the railways by the rolling stock companies (Roscos).

Pandemic payouts

As Table 1 shows, during the year in which the Coronavirus devastated Britain, the three Roscos paid out dividends worth £950 million.

£950 million is equivalent to 50% of the passenger revenue generated during the pandemic year and 23% of the total government support to the Train Operating Companies over the financial year 2020-21.[1]

- During the pandemic year of 2020 Eversholt, paid a £46.5 million dividend.
- Porterbrook recently announced that it was paying £80 million to its overseas owners.
- Angel Trains's main UK operation (Angel Trains Limited) didn't pay an ordinary

[1] Passenger revenue was down to £1.9 billion in 2021-22. https://dataportal.orr.gov.uk/media/1946/passenger-rail-usage-2020-21-q4.pdf; Government support through EMAs and ERMAs in 2020-21 amounted to £8.3 billion - DfT payments to passenger rail operators under emergency agreements - GOV.UK (www.gov.uk)

dividend to its UK parent company this year. However, the UK parent company that sits at the top of the UK operations and receives dividends from Angel Trains Limited, did choose the pandemic year in which to pay out a thumping dividend of £822 million to its overseas parent. The dividend was paid out as part of a restructure leaving Angel Trains Group Ltd a dormant company. The dividend went to Angel’s overseas parent company (Figure 1).

Figure 1: Extract from Angel trains Group Ltd Annual accounts, December 2020

The Company has one class of ordinary shares which carry no right to fixed income.

15. Dividends

	Year ended 31 December 2020	Year ended 31 December 2019	Year ended 31 December 2020	Year ended 31 December 2019
	Pence per share	Pence per share	Total £'000	Total £'000
Dividends paid	1,371,503,333.33	175,000,000.00	822,902	105,000

Dividends were distributed during the year to settle net inter-company assets and liabilities outstanding as a result of the Group restructure The accounts receivable assets were distributed as a dividend to the company's parent.

16. Parent companies

The Company's immediate and ultimate holding company, ultimate controlling party, and the parent of the largest group into which the Company is consolidated is Willow Topco Limited which is incorporated and registered in Jersey. The registered office is 27 Hill Street, St Helier, JE2 4UA, Jersey.

The dividends are only part of the story of the Roscos’ value extraction. Because they are primarily financing vehicles, they act as banks for themselves, raising money from the bond markets and then lending to their subsidiaries often at rates of around 7% interest. These transactions are difficult to unpick because of the complexity of group structures, but company accounts for Eversholt show that in 2020 it paid £48 million in interest payments to its overseas parent company. Over the last 10 years it has paid £424 million in interest on this loan.[2]

Where has the money gone?... overseas and into the low tax zones

As Table 3 shows, all the Roscos have overseas owners. But they also all have immediate parent companies based in low tax jurisdictions. The pandemic payouts have mostly disappeared not just overseas but into the murky world of Luxembourg’s low tax regime and the offshore tax haven of Jersey.

- Angel’s bumper £822 million dividend payment was made to Willow Topco Ltd, based in St Helier, Jersey (Figure 1).

[2] Eversholt Investment Ltd Security Group, Annual accounts, Companies House, 2012-2020

- Eversholt's £46.5 million dividend was paid to its UK parent Eversholt UK Rails Ltd, which then distributed £41.5 million of that to its Luxembourg-based parent and controlling party UK Rails S.a.r.l. Eversholt's £48 million inter-group interest payments were made to the Luxembourg-based company, Eversholt Investment Group.

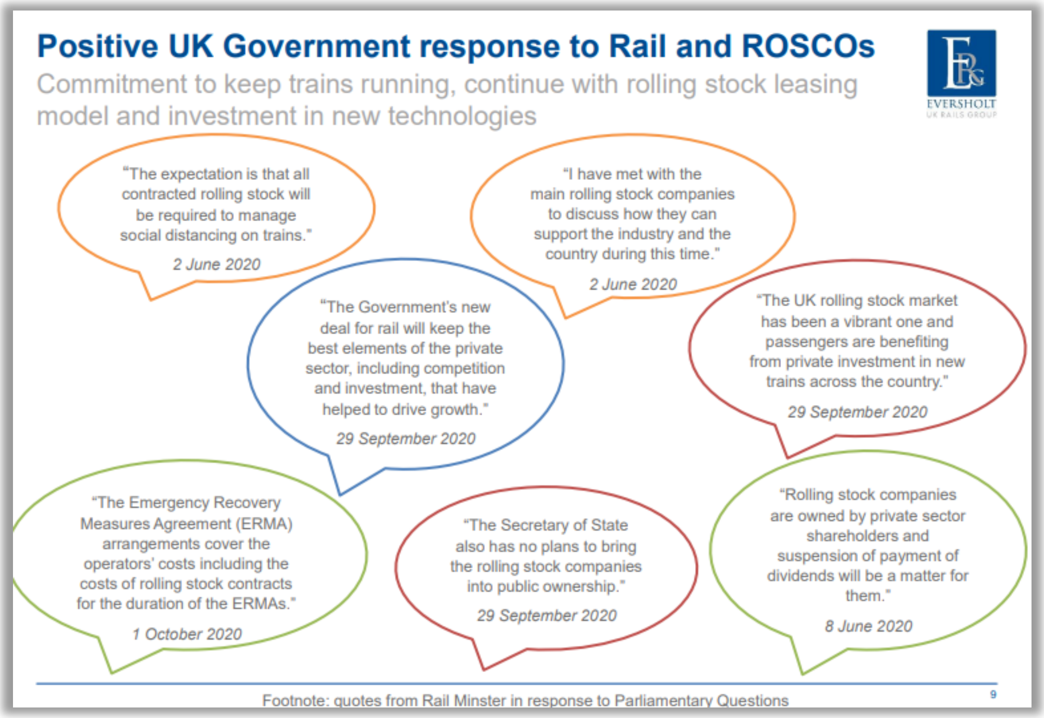
- 30% of Porterbrook's £80 million dividend will have flowed out to its Allianz infrastructure, a Luxembourg-based subsidiary of Allianz Capital Partners.

How the government has helped keep the capital flowing (out)

The Roscos are dependent on the government for their profiteering. As RMT has shown before, the government has stepped in and guaranteed that the Roscos' lease payments will continue to be paid in full and has made no attempt to control either lease charges or dividend payments.[3]

This support is very reassuring for the Roscos. As RMT revealed recently, one of them, Eversholt, is using an infographic of Heaton Harris's answers to reassure investors that the dividend payment will keep flowing.

Figure 2: Extract from Eversholt Rails investor presentation, December 2020[4]



Eversholt's accounts show that the company had a good pandemic year, noting that because of the government support, "the Directors do not believe that COVID-19 presents any material risks to the Group".

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3 https://www.rmt.org.uk/news/minister-confirms-that-the-public-pay-for-railway-profiteering/
4 Investor Presentation - Dec 2020v.3.1 - Table of Ext v2 (eversholtrail.co.uk)

This support is also vital for the Roscos' ability to raise bond finance. As the ratings agency Moody's noted in a recent examination of Angel, one of the reasons Angel's credit rating could remain high was that

> *"Angel Trains' vehicle lease income is not linked to asset usage or passenger volume. All rental payments have been received from train operating companies2 (TOCs) as scheduled. TOCs have been supported by the government as described below, which has allowed them to meet their lease obligations…The DfT support enabled TOCs to continue paying vehicle lease costs even during a period of reduced passenger revenue."*[5]

The rolling stock racket

The rolling stock racket is a long-established scandal on the railways. As Table 1 shows, in the last 10 years, the Rolling stock companies have paid out £2.7 billion in dividends to their owners. These dividends typically represent around 100% of their pre-tax profits. The average dividend payment is around £260 million each year. As Table 2 shows, on average this extraction of profit represents around 13% of what the Train Operating Companies – and now the government – pay to the Rolling Stock companies. It represents an average of 2.8% of total expenditure by Train Operating companies.

Big investors?

The ROSCOs like to claim that they are big investors in the railways. In their press response to reports of their dividend payment, they said:

> *"Porterbrook invests billions ... in Britain's railway, spending over £100 million a year supporting the UK supply chain and 7,000 jobs. Our shareholders provide the funding that allows us to maintain these high levels of investment and innovation, as shown by the launch of the UK's first hydrogen-powered train."*[6]

But this would appear to be a major overstatement of their investment. As Table 4 shows, over the last five years Porterbrook's rolling stock asset base has grown modestly, by around £250 million in value. In the last three years their addition of rolling stock averaged between £60 and £65 million each year. By contrast, their revenue is consistently between £450 and £500 million and their long-term borrowing has actually fallen. This is unsurprising from one perspective as their bond covenants require them to maintain a certain ratio of Earnings Before Interest Taxation Depreciation and Amortisation (EBITDA) to their long-term debt.

So Porterbrook are not borrowing to finance risk taking. They are spending a relatively small amount on trains, an amount that is more than covered by lease revenues, paying and still enabling the extraction of a solid £80 million in dividends for each of the last three years, not to mention to payment of around £90 million in finance costs, much of which is

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5 Moodys-Credit-Opinion-Baa2-Rating-2020.pdf (angeltrains.co.uk)

[6] Payday for train leasing giant Porterbrook despite pandemic hit to railways | Business | The Sunday Times (thetimes.co.uk)

intercompany lending. This is not innovating capitalism, it is rentier parasitism.

The looting has to stop

RMT believes that this broken model of train procurement needs to be finally swept away. The public should buy and own our trains directly, rather than paying extortionate rents to these three companies.

As an immediate step the pandemic profiteering must be curbed. We are calling on the government to use its Comprehensive Spending Review to announce a windfall tax on profits of the Rolling Stock companies and use the proceeds to help fund a fare rebate for passengers and a fair pay deal for staff.£I billion pounds in profits is more than enough to pay for a decent pay rise for rail workers.

Contact:

Jonathan White,
National Policy Officer, RMT
Email: j.white@rmt.org.uk
Tel: 02075298287

Table 1: Rosco dividends 2012-20

£m	2012	2013	2014	2015	2016	2017	2018	2019	2020	TOTAL	AVERAGE
Angel Trains	£115.1	£18.0	£85.0	£145.0	£130.0	£145.3	£147.0	£105.0	£822.9	£1,713.3	£190.4
Eversholt	£40.0	£0	£50.0	£20.7	£14.7	£43.0	£40.1	£41.5	£46.5	£296.7	£32.9
Porterbrook	£70.0	£35.0	£35.0	£100.0	£120.0	£85.5	£80.0	£80.0	£80.0	£685.5	£76.2
TOTAL	£225.1	£53.0	£170.0	£265.7	£264.7	£273.8	£267.7	£226.5	£949.9	£2,695.5	£299.5

Source: Annual Reports for Angel Trains Group Ltd, Eversholt Investment Ltd Security Group, Porterbrook Holdings 1 Ltd, 2012-2020

Table 2: Rosco dividends as a proportion of TOC costs

£m	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
TOC spending	£5,617	£6,107	£9,529	£10,143	£10,237	£12,105	£12,574	£12,857	£14,448	£12,502
Staff costs	£2,055	£2,183	£2,302	£2,453	£2,603	£2,801	£2,937	£3,079	£3,303	£3,575
Rolling stock charges	£1,404	£1,491	£1,460	£1,269	£1,329	£1,419	£1,816	£1,990	£2,450	£2,856
Franchise payments	NA	NA	£1,241	£1,255	£1,564	£3,019	£3,212	£2,934	£2,884	NA
Corporation tax	£70	£86	£57	£64	£67	£81	£67	£53	£59	NA
Other including Network Rail charges	£3,788	£3,564	£3,849	£4,514	£4,112	£4,196	£4,148	£4,419	£5,194	£6,070
Rosco dividends	£190.7	£225.1	£53	£170	£265.7	£264.7	£273.7	£267.1	£226.6	£949.4
Rosco dividend as a % of TOC spending	3.4%	3.7%	0.6%	1.7%	2.6%	2.2%	2.2%	2.1%	1.6%	7.6%
Rosco dividend as a % of rolling stock costs	13.6%	15.1%	3.6%	13.4%	20.0%	18.7%	15.1%	13.4%	9.2%	33.2%

Table 3: The ROSCOs' overseas parent companies

Rosco	Major shareholder	Registered	Ultimate Parent
Porterbrook	Allianz Infrastructure Luxembourg I	Luxembourg	Allianz Capital Partners, the investment of arm of Allianz Group, the German multinational insurance and financial services giant.
	PIP4 Thomas LP on behalf of AIMCo	Canada	AIMco is the Alberta Investment Management Corporation which is an investment vehicle for Alberta pension funds and endowments.
	Utilities Trust of Australia International Pty Ltd	Australia	Utilities Trust of Australia (UTA) was set up as an infrastructure investment fund by Hastings Funds Management, now Vantage Infrastructure. In 2018, UTA appointed New Zealand based infrastructure investment fund Morrison and Co to manage their investments, including Porterbrook.
Angel Trains (Willow Topco Ltd – registered in Jersey)	AMP Capital Investors (Angel Trains Topco) S.a.r.l	Luxembourg	AMP Capital Investors owns 65% of Angel Trains. AMP Capital Investors is part of AMP Capital, an investment arm of the Australian financial services firm AMP Group Ltd. AMP Capital also has a minority holding from the banking arm of Mitsubishi.
Eversholt Investment Ltd Security Group	UK Rails S.a.r.l.	Luxembourg	UK Rails S.a.r.l. was, until this year jointly owned by CK Infrastructure Holdings Limited and CK Hutchison Holdings Limited, which is registered in the Cayman Islands. UK Rails S.a.r.l. is now the controlling party.

Table 4: Porterbrook's rolling stock assets, purchasing and funding

	2015	2016	2017	2018	2019	2020
Rolling stock assets	£3,207.6	£3,383.7	£3,550.8	£3,602.0	£3,606.9	£3,469.3
New rolling stock	£363.2	£238.9	£194.8	£60.2	£67.0	£66.7
Revenue	£522.7	£486.7	£477.4	£475.8	£482.3	£453.6
Long-term debt	£2,488.2	£2,595.7	£2,560.5	£2,277.3	£2,051.5	£2,192.7

Source: Annual reports for Porterbrook Holdings 1 Ltd, 2015-2020

Figure 1: Porterbrook's rolling stock assets, purchasing and funding