

**Badgerline Holdings Ltd and Midland Red West Holdings Ltd  
merger reference**

**Introduction**

1. On 17 October 1988 the Department of Trade and Industry sent to the Commission the following reference:

Whereas it appears to the Secretary of State that it is or may be the fact that a merger situation qualifying for investigation, as defined in section 64(8) of the Fair Trading Act 1973 ('the Act'), has been created, in that:

- (a) enterprises carried on by or under the control of Midland Red West Holdings Limited have within the six months preceding the date of this reference ceased to be distinct from enterprises carried on by or under the control of Badgerline Holdings Limited, and
- (b) as a result, the condition specified in section 64(3) of the Act prevails, or does so to a greater extent, with respect to the supply in the specified area of bus services (as defined in section 159(1) of the Transport Act 1968, as amended by paragraph 1 of Schedule 1 to the Transport Act 1985):

Now, therefore, the Secretary of State, in exercise of his powers under sections 64, 68 and 69 of the Act, hereby refers the matter to the Monopolies and Mergers Commission ('the Commission') for investigation and report within a period of three months beginning with the date of this reference.

In relation to the question whether a merger situation qualifying for investigation has been created, the Commission shall exclude from consideration one of paragraphs (a) and (b) of section 64(1) of the Act if they find the other satisfied.

In this reference, 'the specified area' means the County of Avon, together with all parts of the Counties of Somerset and Wiltshire, and of the County of Gloucester east of the river Severn, which lie within 15 miles of the County of Avon.

(signed) R E ALLEN

*An Assistant Secretary*

*Department of Trade and Industry*

17 October 1988

2. On 18 October 1988, in a press release announcing the reference, the Department stated that the Secretary of State 'considers that the merger raises questions of competition in the Bristol and Avon area especially with regard to Local Authority contract bus services, which deserve investigation by the Commission'.

3. On 27 October 1988 the Chairman of the Commission directed that the functions of the Commission in relation to the reference should be discharged through a group consisting of six members of the Commission, including Mr D G Goyder as Chairman. The composition of the group is indicated in the list of members which prefaces this report.

4. Notices inviting interested parties to submit evidence to the Commission were placed in:

*The Financial Times*  
*Bristol Evening Post*

*Bath and West Evening Chronicle*

5. We received written evidence from two individuals, the County Council of Avon, the County Council of Somerset, nine other local authorities, two organisations representing the views of bus users and from eight bus companies in the Bristol area.

6. We sought evidence and views from local authorities and consumer organizations. We had hearings with the Department of Transport, officials representing Avon County Council, and Badgerline Holdings Ltd. The views of third parties are set out in Chapter 6.

7. A visit was made by members of the group, accompanied by staff, to Bristol to view Badgerline and City Line operations and facilities there.

8. Some of the evidence obtained in the course of our inquiry was of a confidential nature; our report contains only such information as we consider necessary for an understanding of our conclusions.

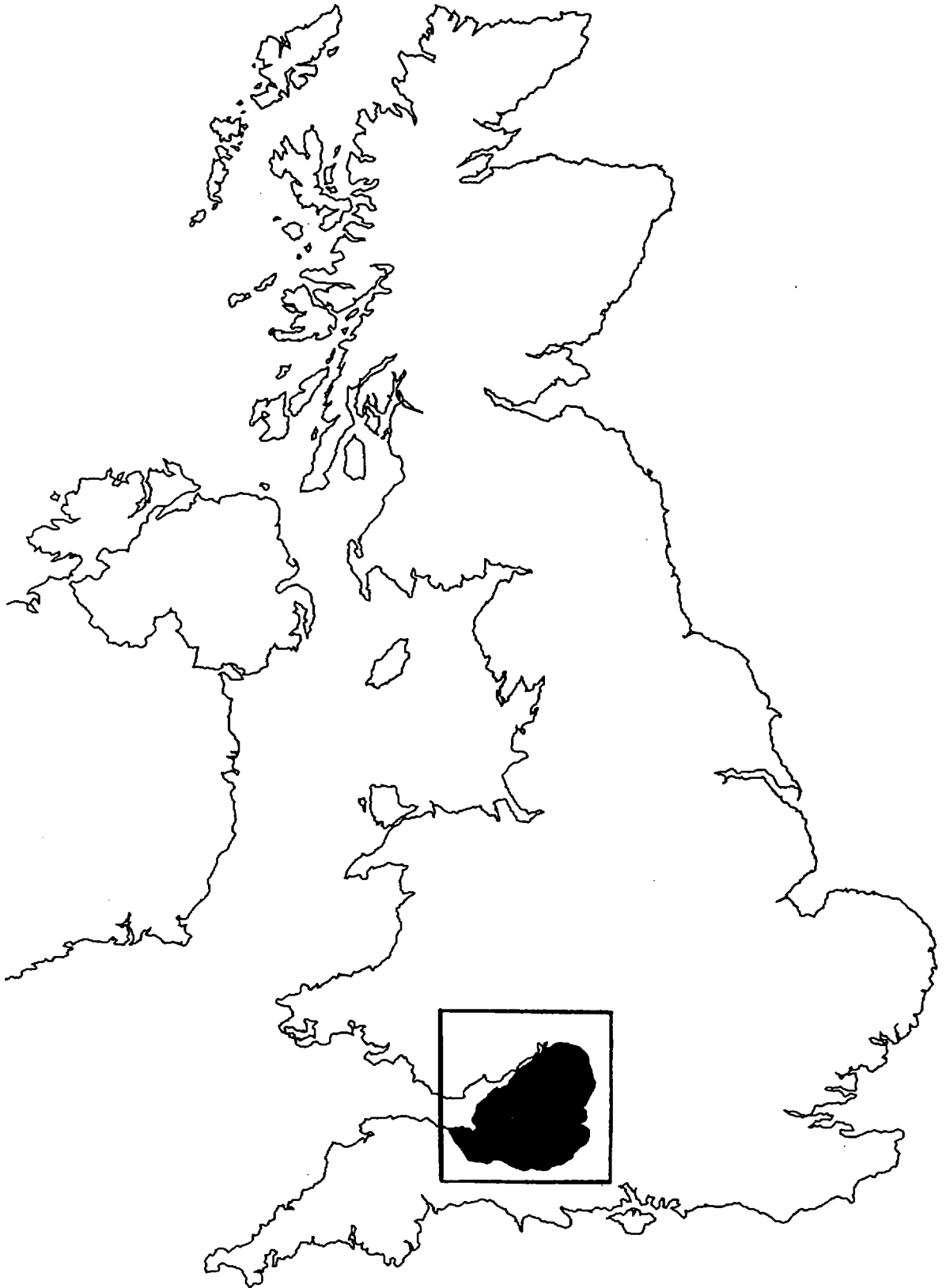
9. We should like to thank all those who helped us in our inquiry, particularly the two companies principally involved.

### **List of interested third parties**

Avon County  
Bakers Coach Travel and Holidays  
Bath City Council  
Bristol City  
Bristol Public Transport Users Committee  
Brutonian Bus Company  
Clapton Coaches Ltd  
Cotswold District Council  
Councillor E J Compton  
C F Field Ltd  
C T Transport Contact Services  
Gloucestershire County Council  
Kennet District Council  
Kingswood Borough Council  
Mendip District Council  
National Federation of Bus Users  
Norman Coaches  
North Wiltshire District Council  
Public Transport Consortium of Non-Metropolitan Counties  
Salisbury District Council  
Somerset County Council  
Smiths Coaches  
Wakes Services (Sparkford) Ltd  
Councillor J R Scragg

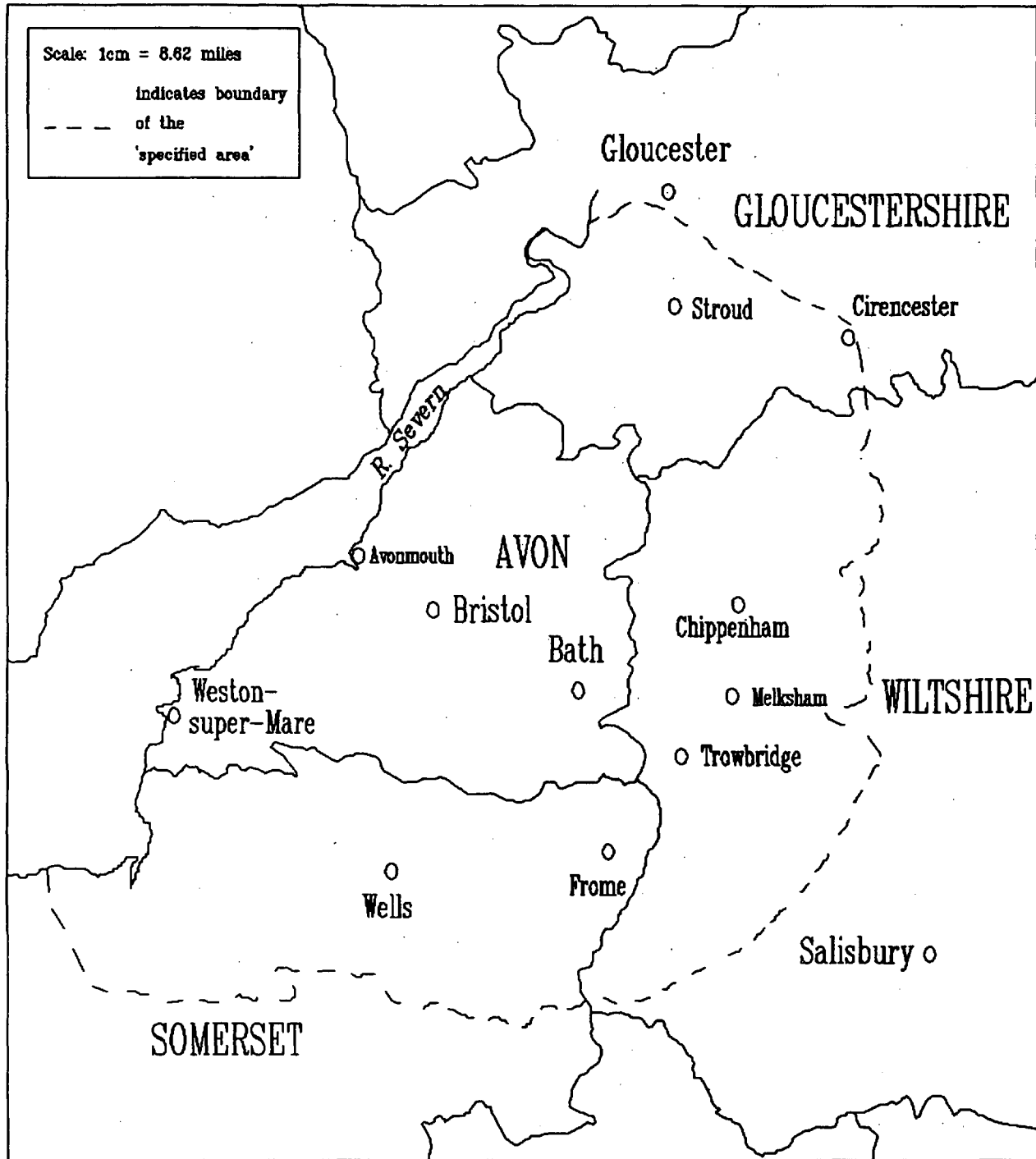
APPENDIX 2.1 (a)  
(referred to in paragraph 2.3)

**Location of the 'specified area'**



APPENDIX 2.1 (b)  
(referred to in paragraph 2.3)

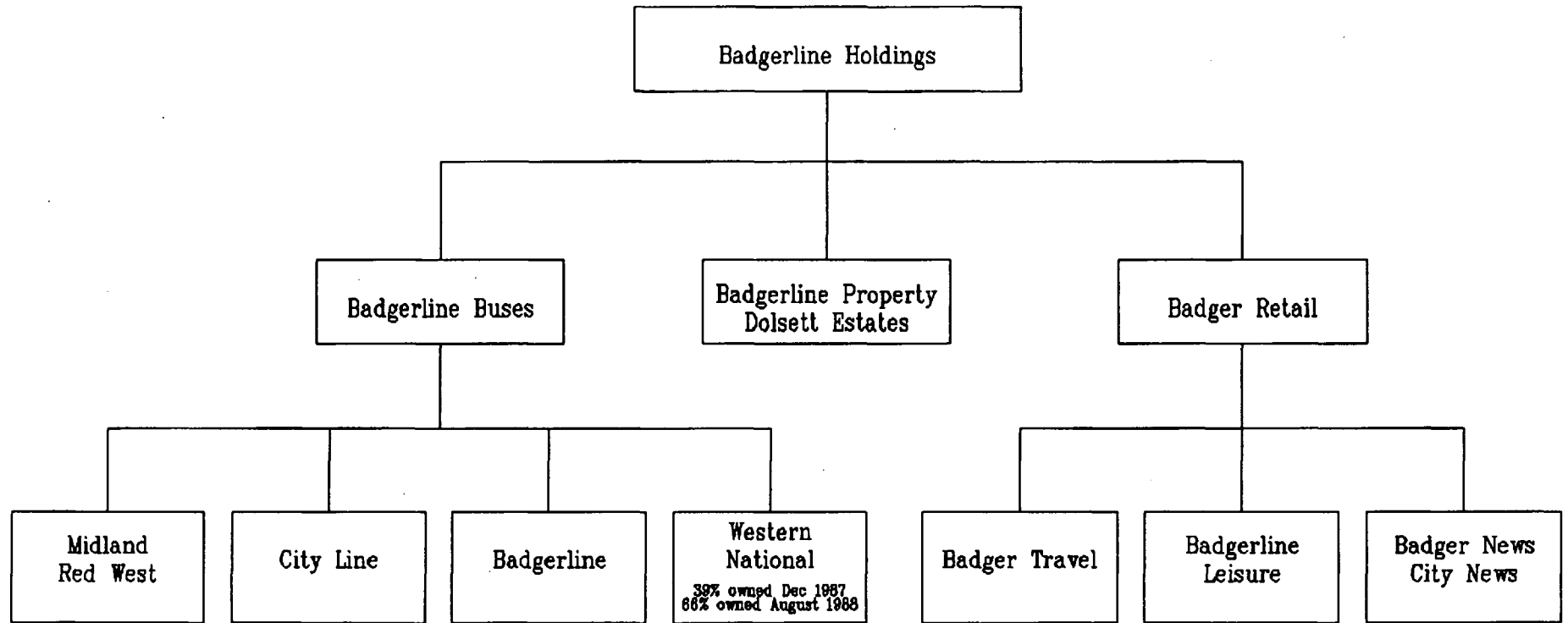
Map of the 'specified area'



Source: MMC.

APPENDIX 4.1  
(referred to in paragraph 4.1)

**Badgerline Holdings Organization Structure**



Badgerline South Bus Station Limited and Bristol Bus Station Limited are wholly owned subsidiaries of Badgerline Holdings.

Source: Badgerline.

APPENDIX 4.2  
(referred to in paragraph 4.2)

**Badgerline Holdings Ltd: consolidated profit and loss accounts**

	<i>18.6.86- 31.12.86</i>	<i>£'000 Year to 31.12.87</i>
Turnover	4,888	18,989
Operating profit/(loss)	527	(660)
Share of profits of associated companies	-	150
Interest payable	(64)	(373)
Profit/(loss) on ordinary activities before taxation	463	(883)
Taxation	(184)	7
Extraordinary items*	279	(876)
Minority interests	(189)	454
Retained profit/(loss) for the period	<u>90</u>	<u>(432)</u>

*Source:* Badgerline Holdings.

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\* Analysis of extraordinary items:

Profit on sale of freehold property		610
Redundancy and severance payments	(164)	(127)
Goodwill written off	(85)	(73)
Deferred taxation	60	44
	<u>(189)</u>	<u>454</u>

APPENDIX 4.3  
(referred to in paragraph 4.2)

**Badgerline Holdings Ltd: consolidated balance sheets**

	31.12.86	31.12.87
		<i>£'000</i>
		<i>per cent</i>
Tangible assets	6,217	12,534
Stocks and debtors less liabilities (other than borrowings)	<u>(571)</u>	<u>276</u>
	5,646	12,810
Investments in associated company	-	458
Net borrowings	<u>(2,875)</u>	<u>(8,058)</u>
	2,771	5,210
Capital and reserves	2,454	4,991
Deferred taxation and minority interest	<u>317</u>	<u>219</u>
	<u>2,771</u>	<u>5,210</u>
Gearing (net borrowing/capital, reserves and deferred tax)	103.8	154.7
<i>Source: Badgerline.</i>		

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APPENDIX 4.4  
(referred to in paragraph 4.3)

**Midland Red West Holdings Ltd: consolidated profit and loss  
account for 1987**

	<i>£'000</i>
Turnover	<u>20,082</u>
Operating profit	1,013
Interest payable less interest received	<u>(90)</u>
Profit on ordinary activities before taxation	923
Taxation	<u>(122)</u>
	801
Extraordinary item (costs relating to the acquisition of subsidiary companies)	<u>(49)</u>
	<u>752</u>

Source: MRWH.

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*Note:* The results include 12 months' operations of Midland Red West Ltd and Midland Red Coaches Ltd and the result of Bristol Omnibus Company Ltd since its acquisition by MRWH in September 1987.

APPENDIX 4.5  
(referred to in paragraph 4.3)

**Midland Red West Holdings Ltd: consolidated balance sheet  
since December 1987**

	<i>£'000</i>
Tangible assets	8,637
Stock and debtors less creditors	<u>(1,855)</u>
	6,782
Net borrowings	<u>(2,119)</u>
	4,663
Capital and reserves	4,396
Deferred taxation	<u>267</u>
	<u>4,663</u>
	<i>per cent</i>
Gearing (net borrowing/capital reserves, deferred tax)	45.4

Source: MRWH.

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APPENDIX 4.6  
(referred to in paragraphs 4.6 and 4.15)

**Bristol Omnibus Company Ltd: summarized profit and loss accounts**

	1984	1985	1986	1987
Turnover	27,315	30,188	16,018	15,569
Operating profit	2,232	1,313	493	160
Interest (payable)/receivable	(582)	(481)	(27)	(48)
Profit on ordinary activities before taxation	1,650	832	466	112
Taxation	(59)	(202)	(330)	69
Profit before extraordinary items	1,591	630	136	181
Extraordinary items*	-	(1,282)	(892)	-
Retained profit/(loss)	1,591	(652)	(756)	181

Source: BOC.

\*Analysis of extraordinary items:

Provision for deferred taxation	(1,232)	
Adjustment to deferred taxation resulting from additional depreciation		480
Additional depreciation on change in basis of calculation of depreciation on buses		(1,372)
Company pension scheme	(50)	
	(1,283)	(892)

Note: 1984 and 1985 include the Avon country services transferred to Badgerline Ltd on 1 January 1986. 1986 and 1987 are the results of the City Line operation.

APPENDIX 4.7  
(referred to in paragraph 4.6)

**Bristol Omnibus Company Ltd: summarized balance sheets**

	31.12.84	31.12.85	31.12.86	£'000 31.12.87
Tangible assets	9,282	13,876	3,865	4,185
Stocks and debtors less creditors	<u>(1,446)</u>	<u>(4,571)</u>	<u>(4,461)</u>	<u>716</u>
	7,836	9,305	(596)	4,901
Net borrowings	<u>(7,683)</u>	<u>(7,498)</u>	<u>(1,426)</u>	<u>(4,203)</u>
	<u>153</u>	<u>1,807</u>	<u>(2,022)</u>	<u>(698)</u>

*Source:* BOC.

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*Note:* The results for 1984 and 1985 include the Avon country routes which were transferred to Badgerline Ltd on 1 January 1986. 1986 and 1987 include only City Line routes.

APPENDIX 7.1  
(referred to in paragraph 7.43)

**Undertakings offered by Badgerline Holdings Ltd**

First, BHL undertakes that, in circumstances where:

- (a) Badgerline or City Line deregisters a bus service; and
- (b) Avon County Council in consequence invites tenders for a subsidized service to replace the service so deregistered in whole or in part;
- (c) Badgerline or City Line submits a tender pursuant to such invitation; and
- (d) the contract for the subsidized service in question is awarded by Avon County Council to an operator other than Badgerline or City Line,

then neither Badgerline nor City Line will register for commercial operation a bus service which substantially duplicates such subsidized service without first giving notice to the Avon County Council of its intention so to do, such notice to be given at least three months prior to the date on which Badgerline or City Line (as the case may be) commences operation of that commercial service.

Second, BHL undertakes:

- (a) on behalf of each of Badgerline and City Line that, when the Avon County Council invites tenders to operate bus services on a subsidized basis, the company concerned will individually submit a tender for every such service as it can economically operate;
- (b) that the price quoted by Badgerline and City Line (as the case may be) in each such tender will be so calculated as not to exceed the sum of (i) the direct costs reasonably expected to be incurred in the operation of the service in question less the revenue reasonably expected to be earned in operating the same, and (ii) a contribution towards overheads and profit equal to no more than 20 per cent of the amount determined pursuant to (i) above;
- (c) that if requested to do so by Avon County Council and in circumstances where Badgerline and/or City Line have been the only companies submitting a tender for the service in question BHL will provide to an independent auditor ('the auditor') to be appointed by agreement between Avon County Council and BHL (or failing such agreement to be nominated by the President of the Institute of Chartered Accountants) such information as the auditor may require sufficient to enable him to verify and certify to Avon County Council, that the price so tendered has been determined in accordance with paragraph (b) hereof (subject to the agreement of the auditor not to disclose to any person, including Avon County Council, confidential information so provided by BHL); and
- (d) that BHL will pay the fees of such auditor as may be appointed or nominated pursuant to paragraph (c) hereof,

**Undertakings which the Commission recommend should be provided by  
Badgerline Holdings Ltd**

First, BHL undertakes that, in circumstances where:

- (a) Badgerline or City Line deregisters a bus service;
- (b) Avon County Council in consequence invites tenders for a subsidized service to replace the service so deregistered in whole or in part; and
- (c) the contract for the subsidized service in question is awarded by Avon County Council to an operator other than Badgerline or City Line,

then neither Badgerline nor City Line will register for commercial operation a bus service which substantially duplicates such subsidized service without first giving notice to the Avon County Council of its intention so to do, such notice to be given at least three months prior to the date on which Badgerline or City Line (as the case may be) commences operation of that commercial service, and such notice not to become effective until at least 12 months have elapsed since the relevant deregistration.

Second, BHL undertakes:

- (a) on behalf of each of Badgerline and City Line that, when the Avon County Council invites tenders to operate bus services on a subsidized basis, the company concerned will individually submit a tender for every such service as it can economically operate;
- (b) that the price quoted by Badgerline and City Line (as the case may be) in each such tender will be so calculated as not to exceed the sum of (i) the direct costs reasonably expected to be incurred in the operation of the service in question less the revenue reasonably expected to be earned in operating the same, and (ii) a contribution towards overheads and profit equal to no more than 20 per cent or such lower per cent as the Director General of Fair Trading may prescribe of the amount determined pursuant to (i) above;
- (c) a record should be kept of the revenue estimated for each successful tender for a contract service and of the actual revenue of that service and that each year if actual revenue exceeds the estimated revenue the excess and the attributable contribution to overheads and profit will be refunded to Avon County Council in respect of all such services;
- (d) that if requested to do so by Avon County Council BHL will provide to an independent auditor ('the auditor') to be appointed by agreement between Avon County Council and BHL (or failing such agreement to be nominated by the President of the Institute of Chartered Accountants) such information as the auditor may require sufficient to enable him to verify and certify to Avon County Council, that the price so tendered and the refunds made have been determined in accordance with the terms of this undertaking and if they have not, to specify what adjustment needs to be made in order to give effect to the undertaking retrospectively (subject to the agreement of the auditor not to disclose to Avon County Council or anyone else, other than the Director General of Fair Trading, confidential information so provided by BHL);
- (e) that BHL will pay to the County of Avon such adjustment as the auditor may have specified; and
- (f) that BHL will pay the fees of such auditor as may be appointed or nominated pursuant to paragraph (d) hereof.