

The supply of bus services in the north-east of England



MONOPOLIES AND MERGERS COMMISSION

The supply of bus services in the north- east of England

**Presented to Parliament by the Secretary of State for
Trade and Industry by Command of Her Majesty
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¹These members formed the Group which was responsible for this report under the chairmanship of Mr P H Dean.

Note by the Department of Trade and Industry

In accordance with section 83(3) and (3A) of the Fair Trading Act 1973, the Secretary of State has excluded from the copies of the report, as laid before Parliament and as published, certain matters, publication of which appears to the Secretary of State to be against the public interest, or which he considers would not be in the public interest to disclose and which, in his opinion, would seriously and prejudicially affect certain interests. The omissions are indicated by a note in the text.

Contents

Page

Part I-Summary and Conclusions

<i>Chapter</i>	1	Summary	3
	2	Conclusions	5

Part II-Background and evidence

3	Local bus services: general	39
4	Local bus services in the reference area	52
5	The companies: history and finance	65
6	Developments in the bus market in Darlington	84
7	Developments in the bus markets in South Shields and Sunderland	95
8	Developments in the bus market in North Durham	104
9	Views of third parties	112
10	Views of Stagecoach and Busways	137
11	Views of Go-Ahead	155
	List of signatories	164

Appendices (The numbering of the appendices indicates the chapters to which they relate.)

1.1	The reference and background	165
2.1	OFT Press Notice	167
3.1	Changes in market share by turnover in the UK bus industry since 1989	168
3.2	Market capitalization of listed companies with local bus operations 22 May 1995	169
3.3	Trends in local bus services	170
3.4	Accidents involving buses and coaches 1986 to 1993	171
4.1	The reference area	172
4.2	Population centres in the reference area	173
4.3	Journeys per person in the North planning region by main mode and purpose, 1991 to 1993	174
4.4	Principal operators of local bus services in the reference area	175
4.5	Tyne & Wear PTE-supported rail services	176
4.6	Mode of transport used for travel to work (1991 census)	177
5.1	Ownership and principal areas of operation of the main operators in the reference area, mid-May 1995	178
5.2	Chronology of changes among operators in the reference area from May 1987 until mid-May 1995	179
5.3	Map showing the operations of Stagecoach, mid-May 1995	181
5.4	Acquisitions by Stagecoach, April 1987 to mid-May 1995	182
5.5	Stagecoach's subsidiaries: financial summary	183
5.6	Map showing the operations of Go-Ahead, mid-May 1995	184

5.7	Acquisitions of bus operators by Go-Ahead from May 1987 to mid-May 1995	185
5.8	Go-Ahead subsidiaries: financial summary	186
5.9	North East Bus subsidiaries: financial summary	188
5.10	Northumbria: financial summary	189
5.11	Hylton: financial summary	190
5.12	Redby: financial summary	191
5.13	Classic Coaches: financial summary	192
5.14	Stanley Taxis: financial summary	193
5.15	DTC: financial summary	194
5.16	Yorkshire Traction: financial summary	195
6.1	Chronology of events in Darlington	196
6.2	Timetable for sale of DTC	199
6.3	Summary of DTC information memorandum	200
6.4	Recruitment advertisement in <i>The Northern Echo</i> , Thursday 27 October 1994	201
6.5	Offer acceptance and starting dates of DTC employees recruited by Busways for Stagecoach Darlington in 1994	202
6.6	Costs to Busways of setting up Stagecoach Darlington	203
7.1	Tyne & Wear and North Durham showing the location of South Shields and Sunderland	204
7.2	Hylton: bus routes in South Shields	205
7.3	Bus routes between South Shields and Sunderland	206
7.4	Bus routes by operator in South Shields, February 1995	207
7.5	Chronology of events in South Shields	208
7.6	Passenger journeys for Busways' divisions	210
7.7	Passenger journeys and revenue for Busways' South Shields division	211
7.8	Busways' service 18/18A	212
7.9	Busways' service E6	213
7.10	Net profits of Busways' South Shields division	214
7.11	Profitability of Hylton services in South Shields	215
7.12	Busways: bus routes in Sunderland	216
7.13	Details of bus services in Sunderland	217
7.14	Busways' reductions in return fares in Sunderland	219
7.15	Passenger journeys, revenue and profitability of Busways' services in Sunderland affected by fare cuts	220
7.16	Comparison of trends in revenue and profitability of Busways' routes in Sunderland	221
8.1	Map of the relevant area	222
8.2	Summary of competition on nine commercial routes registered by Classic Coaches	223
8.3	The registration of routes by Classic Coaches and Go-Ahead's response	224
8.4	Go-Ahead: route costing information on selected routes in competition with Classic Coaches	227
8.5	Stanley Taxis: route information summary	229
8.6	Go-Ahead average weekly cost and revenue figures (four weeks commencing 28 January 1995)	230
8.7	Stanley Taxis: analysis of average weekly profitability of relevant routes for the four weeks commencing 28 January 1995	231
	Index	232

Part I

Summary and Conclusions

1 Summary

1.1. In a reference dated 25 November 1994 (see Appendix 1.1) the Director General of Fair Trading asked us to investigate and report on the supply of bus services in the north-east of England (defined as the counties of Cleveland, Durham, Tyne & Wear and part of Northumberland).

1.2. Over 90 per cent of bus services in this area are supplied by subsidiaries of four large groups. We found that two of these groups, The Go-Ahead Group PLC (Go-Ahead) and Stagecoach Holdings plc (Stagecoach), each supplied over 25 per cent of the total, the level at which a scale monopoly situation is taken to exist. Stagecoach's share arises from the acquisition of Busways Travel Services Limited (Busways) in July 1994 and of two other former municipal operators in the reference area in November and December 1994.

1.3. Our inquiry centred on complaints about five separate situations. Three of these concerned Busways, in Darlington, South Shields and Sunderland respectively; and two concerned Go-Ahead in North Durham.

1.4. The events in *Darlington* received widespread publicity and were the main reason for the reference being made to us. The local authority put up for sale its municipal bus operation, Darlington Transport Company Limited (DTC), in July 1994. In an open competitive tender The Yorkshire Traction Company Ltd (Yorkshire Traction) emerged as the preferred bidder on 24 October 1994. On the failure of its own bid, Busways rapidly recruited the great majority of DTC's drivers, offering bonuses of £1,000 a head and a guarantee of three years' employment. It registered services on all DTC's commercial routes and began to operate on a 'free fares' basis on 7 November, five weeks before its registered services were due to come into operation. Yorkshire Traction withdrew its bid for DTC, the local authority was unable to find another buyer and DTC went into administration on 10 November.

1.5. Busways argued that DTC had been gravely weakened by many months of predatory behaviour on the part of United Automobile Services Limited (United), by mismanagement and by the council's failure to privatize the company earlier. The workforce had become disillusioned, had no confidence in Yorkshire Traction's ability to pull DTC round, and had therefore offered themselves to Busways, which had made clear its intention to enter the Darlington market whether or not it succeeded in buying DTC. Busways submitted that its actions had prevented United from establishing a complete monopoly and had created a much healthier situation in the market, eliminating the overbussing and congestion which had plagued Darlington for some years.

1.6. It is true that the people of Darlington have suffered the effects of bus wars and overbussing for a long time, and we acknowledge that before being put up for sale DTC was indeed in a weak and declining financial state for reasons unconnected with Busways. But there was keen interest in the sale, Busways itself bidding over £1 million. It was the combination of Busways' actions in recruiting so many of DTC's drivers so quickly, registering services on all its routes and running free services which caused DTC's final collapse. We find these actions

to be predatory, deplorable and against the public interest. The adverse effects which we identify are the disruption of the orderly sale of DTC and the deterrence of future competitive entry into local bus markets where Stagecoach is present, with implications not only in the reference area but elsewhere.

1.7. In order to protect future sales of municipal bus companies we propose a moratorium on the registration of competing services during the period of sale. We also propose that action be considered to prevent the running of unregistered services. We decide on balance against recommending divestment of the newly-established Stagecoach operation in Darlington. This would be a disservice to the long-suffering townspeople. There is no power for us to recommend the imposition of a penalty on Busways.

1.8. In *South Shields* a small operator, Hylton Castle Motors Limited (Hylton), complained that Busways had threatened to force it out of the market if it would not sell its business to Busways. It alleged that Busways had cut fares on its weekly tickets and registered new services on Hylton's best routes in order to give force to this threat. Busways denied threatening or targeting Hylton and said that its fare reductions had been an experiment in market pricing in an attempt to halt a fall in patronage.

1.9. We believe that Busways did threaten Hylton and that its price cuts, which had the effect of reducing Busways' revenue, were predatory and against the public interest. We make recommendations designed to deter Busways from predatory pricing.

1.10. A similar complaint against Busways' actions in *Sunderland* was not borne out. These actions did not amount to predation.

1.11. In *North Durham* a small operator, Classic Coaches (Continental) Ltd (Classic Coaches), complained that in its attempts to establish new services it had encountered anti-competitive tactics by Go-Ahead. Go-Ahead said that Classic Coaches had not set out to provide useful new services but had merely targeted Go-Ahead's most profitable routes with a view to persuading Go-Ahead to acquire it at an inflated price. Much of Classic Coaches' activity appears designed to provoke Go-Ahead rather than to benefit passengers. Nevertheless we consider that Go-Ahead's responses were predatory and against the public interest. We make recommendations to deter or prevent Go-Ahead from engaging in predatory action.

1.12. Go-Ahead responded in a similar way to services introduced by another small operator in *North Durham*, Stanley Taxis, but accepted that it had over-reacted and withdrew the new services which it had itself introduced.

1.13. This inquiry has shed useful light on the current operation of the deregulated bus market, raising questions about the extent and nature of competition in the industry. We take the view that in a deregulated market competition, actual or potential, is the main safeguard against higher fares and lower levels of service. We find evidence of competition where small bus operators are involved but little between large operators. In a rapidly consolidating industry that is a matter of concern, particularly as it is easy for a large operator to target a small one. It is important that barriers to entry into the industry should remain low, so that new operators can help to keep established large players on their toes. We supplement our formal conclusions on the matters referred to us with several suggestions aimed at improving the competitive working of the market to the benefit of the travelling public.