

Part II

Background and evidence

3 Background, the companies and the merger

Introduction

3.1. This chapter begins with a description of how the structure of the bus industry has developed since the legislative changes introduced in the second half of the 1980s. It then provides information about the history, ownership and financial performance of the two main parties in the inquiry, A1 Service (and its members) and Stagecoach. Finally, the terms of the merger and subsequent developments are outlined.

Background to the industry

3.2. The bus industry has changed greatly since the early 1980s. At that time most bus services were provided by public sector bodies, viz local authority-owned operators and subsidiaries of the NBC in England and Wales and the SBG in Scotland. Such services as were run by private operators were generally on a small scale.

3.3. In Scotland there were four local authority bus operators, in the cities of Aberdeen, Dundee, Edinburgh and Glasgow. The SBG companies operated in the smaller towns and rural areas outside these cities, with overlapping routes on which the SBG companies' buses travelled into and out of the four cities.

3.4. The 1985 Act altered substantially the legal and administrative framework within which the industry operated. The primary purposes of the changes were to promote competition and efficiency by removing barriers to entry and to limit the use of public monies in the funding of bus operations.

3.5. Under the 1985 Act the NBC was broken up into 72 companies which were then sold off between 1986 and 1988, many to their managers. The Act also provided for the transfer of all local authority bus operations into companies operating at arm's length from their owners. Local authorities have since responded to the Government's incentives by privatizing the majority of the 50 or so municipal bus undertakings. In Scotland the SBG, which had been excluded from the provisions of the 1985 Act, was privatized under the Transport (Scotland) Act 1989. Ten separate companies were formed and sold off in 1990 and 1991.

3.6. The 1985 Act gave further stimulus to the development of market forces by removing quantitative restrictions on the supply of local bus services outside London. An operator wishing to run a new service needed only to register with the Traffic Commissioner for the area, giving not less than 42 days' notice of the intention to set up a service and providing the Traffic Commissioner with certain information (see paragraph 3.9).

3.7. Following the implementation of the legislative changes the industry has undergone a process of consolidation. Under the initial privatization arrangements no single buyer was allowed to acquire more than three NBC subsidiaries (two in the case of the SBG) or to acquire companies operating in contiguous areas; but many of the original NBC, SBG and local authority companies which were sold off, particularly those which were the subject of management and employee buy-outs, have since been acquired by a number of emerging large operators. In 1994, according to figures produced by TAS, nine companies—Stagecoach, Badgerline, British Bus, West Midlands Travel (now part of National Express),

Go-Ahead, Cowie, GRT, SBH and MTL-together accounted for some 56 per cent of the UK bus market measured by turnover. Badgerline and GRT merged to form FirstBus in June 1995. Certain other companies, for example Transit Holdings Ltd and The Yorkshire Traction Company Ltd, have also each acquired bus operators in different parts of the country.

The Traffic Commissioners

3.8. Traffic Commissioners are responsible for granting licences to operators of large goods vehicles (LGVs) and PSVs. They are appointed by the Secretary of State for Transport, and each exercises authority in one of eight defined Traffic Areas in Great Britain. Scotland constitutes one such Traffic Area. Traffic Commissioners are responsible for handling disciplinary cases involving LGV and PSV drivers, and for ensuring that a licensed operator has sufficient working capital and other resources to operate and maintain its vehicles.

3.9. Anyone wishing to provide bus services must apply to the Traffic Commissioner for an operator's licence. Applicants must demonstrate that suitable arrangements for maintenance are in place, that sufficient working capital exists to run the business, and that it will be run by a professionally competent person. Where these conditions are satisfied an operator may register the proposed route and times of the service with the Traffic Commissioner, giving at least 42 days' notice. From the date specified the operator must provide the service in accordance with the registration. The Traffic Commissioner may carry out inspections of vehicles to ensure that safety requirements are met.

3.10. An operator who fails to run services in accordance with the registered details can be penalized by the Traffic Commissioner. The penalty, invoked by attaching conditions to the operator's licence, may, for example, be one of prohibiting the operator from providing services on a particular route. In cases where vehicles are found to be inadequately maintained the Traffic Commissioner may apply other sanctions which can result in the operator's licence being withdrawn.

3.11. Regulations which came into effect on 1 February 1995 strengthened the powers of the Traffic Commissioners in areas experiencing traffic congestion. Traffic Commissioners can now regulate the number of buses operating on any particular route if requested to do so by the relevant traffic authority; and where demand cannot be demonstrated, they are able to ban the use of duplicate buses from particular routes.

The role of local authorities in the reference area

3.12. The reference area comprises eight of the 19 local authority districts of Strathclyde region and the whole of Dumfries & Galloway region (which contains four districts): see the map at Figure 4.1. In view of our decision to exclude Dumfries & Galloway from the area for assessing the merger (see paragraphs 2.27 to 2.34), we do not deal with that region in this report.

3.13. Under the 1985 Act the Roads and Transportation Committee of Strathclyde Regional Council is designated as the Passenger Transport Authority for a defined Passenger Transport Area in the Glasgow conurbation. This area consists of 11 of the 19 districts in the region. The Authority has responsibility for formulating public passenger transport policies within its area. In the other eight districts of Strathclyde region, the Regional Council has responsibility for securing tendered (subsidized) local services, delegating this to the Roads and Transportation Committee. Concessionary travel for the elderly and disabled is made available throughout the region by the Regional Council. The Council's Education Committee is responsible for securing the provision of free school transport for those entitled to it. In this report we use for convenience the term Strathclyde Regional Council (or the Regional Council) to refer to the bodies described in this paragraph.

3.14. The executive functions required to implement the policies of the Passenger Transport Authority are carried out by SPTE, a statutory body. The functions of Passenger Transport Executives generally are laid down in successive Transport Acts. In the rest of Strathclyde SPTE acts as the agent of the Regional Council and its role throughout all 19 districts of Strathclyde is broadly the same. Its main

activities in respect of bus services are inviting tenders and awarding contracts for tendered and school services; providing infrastructure such as bus stations, bus shelters, bus stops and timetable information; general promotional activities; and administering concessionary fares. In respect of rail services it specifies services, fares and standards on the local ScotRail network, manages the Glasgow underground and provides financial support for these services on behalf of the Regional Council. It also administers multi-modal, multi-operator ticketing schemes.

3.15. The statutory position of SPTE will change in April 1996 with the introduction of changes to the structure of local government; but at this stage it seems likely that its current functions will continue by agreement with the new unitary authorities, albeit with slightly modified boundaries.

A1 Service and its members: history and financial performance

3.16. A1 Service was founded in 1926 as a co-operative venture of local bus operators with a dozen or so members. Regulation of the bus industry in 1930 led such co-operatives to run their joint arrangements in a more formal way and on 27 May 1931 a limited company was incorporated under the title of Ayrshire Bus Owners (A1 Service) Ltd. The company was limited by guarantee and had no share capital. Twenty-two firms were in membership at its inception, each with one share. In the 1950s agreement was reached that shares of members leaving the business would be sold or otherwise transferred only to their families or to other members, but at various times shares were sold to highest bidders other than immediate families and other members. By the end of 1994 the number of shares in the business was 21 but the number of members had fallen to ten. One member had five shares, two had three shares each, three had two shares each and the remainder had one share each. Every member was obliged to guarantee the debts of the company up to an amount not exceeding £50. In this report we use the term 'A1 Service' to refer to this company or to the whole of the business acquired by Stagecoach, according to the context (see following paragraphs).

3.17. The objectives of A1 Service on incorporation were wide but essentially related to passenger-carrying bus operations. It was originally intended that the company should acquire the businesses of the members with a view to managing them as going concerns. Over time, the position evolved so that individual members became responsible for providing and maintaining the vehicles for use on the agreed routes and retained the revenues from the operations. It was intended that these routes should periodically be interchanged among members to ensure fairness. We were told, however, that some administrative and operational changes occurred in the years prior to the merger with Stagecoach: in particular, the interchanging of routes was not always adhered to. Most payroll costs were incurred by the members, although the company paid some staff and casual labour costs. Company staff became responsible primarily for administrative matters, such as the negotiation of tenders and contracts, and all costs incurred by the company were recovered from the members on a non-profit-making basis.

3.18. Thus the A1 Service company in itself was of little substance. Its accounts for the year to end-May 1994 show turnover of some £250,000, consisting entirely of members' contributions to cover administrative costs; and net assets of some £42,000. The latter comprised fixed assets of £61,000-of which £50,000 was for land and property (a small bus stand and office building at Ardrossan)-less net current liabilities of some £19,000. The company had no depot and the members made their own arrangements for parking the buses when not in use.

3.19. The Traffic Commissioner for Scotland told us that in his opinion the structure of A1 Service, under which the operator's licence was held by the company whilst each member owned and maintained its own vehicles, had never been a totally satisfactory arrangement. Maintenance problems had arisen at various times and a series of warnings had culminated in the last renewal of the licence being considered by the Traffic Commissioner's deputy at a public hearing in December 1993. The licence was renewed, but with a formal warning regarding future maintenance standards. The company was told that any further problems would result in the licence being revoked.

3.20. Of the ten members at the time of the merger, three were limited companies and the remainder were partnerships or individuals. Most of the members were also involved in other activities, eg private coach hire, outside the framework of the A1 Service business. Under the Articles of Association the business was managed by a Council of Management numbering between five and seven representatives.

The member firms at the time of the merger were as follows:

Members

James Brown & Son	Robert B Steele Limited
Parkhouse Garage Limited	T & E Docherty
A Hunter	James McKinnon Jnr
J McMenemy & Co Limited	R Meney & Sons
J & J McMenemy	Stevenston Motor Company

The representatives were authorized by the members to attend meetings, make representations and exercise voting rights on their behalf.

3.21. At the time of the merger A1 Service's operator's licence allowed it to use up to 93 vehicles. In practice 81 buses were used in the business and there were four spares. About 30 buses were used on school contracts and the remainder on local bus services. Two hundred and six staff were employed overall, of whom 134 were employees of the member firms and 72 were employed by the company. Of this latter group, only five were office workers including two Youth Training Scheme trainees. Ten were described as inspectors, and the remainder were spare crew members. The members' employees included drivers, conductors, cleaners, mechanics, attendants for school contracts and office staff. A1 Service's operations were predominantly in the districts of Cunninghame and Kilmarnock & Loudoun, with a small presence in the district of Kyle & Carrick.

3.22. Stagecoach was not able to provide any financial figures relating to the A1 Service operation as a whole before the merger apart from a single turnover figure for the 12 months to December 1993. Because of the complexities of the co-operative nature of the activities of A1 Service, and as no management accounts or other records (apart from annual reports covering the A1 Service company only) were made available to us, it was not possible for us to obtain financial information direct from source documents. The company's former Secretary provided us with the information set out in Table 3.1. We understand that this was derived by combining the results of the company itself with those of certain member firms (but excluding member firms' activities which were outside the framework of A1 Service's operations), together with estimates for the remaining members for which figures were not available. The information corresponds, we believe, with the business acquired by Stagecoach.

TABLE 3.1 A1 Service and its members: financial summary

	<i>£'000</i>			
	<i>Year ended 31.3.1993</i>	<i>Year ended 31.3.1994</i>	<i>10 months to 31.1.1995</i>	<i>10 months to 31.1.1995 converted to an annual rate</i>
Turnover	3,498	3,658	2,918	3,502
Operating profit before interest	341	82	95	114
Interest payable	68	68	57	68
Profit after interest	273	14	38	46
				<i>per cent</i>
Operating profit (before interest) as a percentage of turnover	9.7	2.2	3.3	3.3

Source: A1 Service.

3.23. We have compared A1 Service's operating costs with those of other operators, and for this purpose we used the Department of Transport's (DOT's) Annual Bus and Coach Statistics. The results, shown in Table 3.2, indicate that A1 Service's total operating costs per kilometre during 1994/95 were broadly in line with the average for Scottish operators.

TABLE 3.2 Average operating costs per kilometre

	<i>Year ended</i>	1993	1994	1995
Scotland	31 March	0.77	0.77	N/A
Western Scottish A1 Service	30 April	N/A	N/A	0.73*
	31 March	0.68	0.77	0.75†

Source: DOT statistics, A1 Service and Stagecoach.

*Based on results for the nine months since acquisition by Stagecoach on 31.7.94.

†Based on results for the ten months before acquisition by Stagecoach on 29.1.95.

Stagecoach said that operating costs in its subsidiaries Fife Scottish and Bluebird were £0.62 per kilometre and £0.59 per kilometre respectively.

Stagecoach group: history and financial performance

3.24. Stagecoach is the only one of the UK's three quoted bus companies (FirstBus, Go-Ahead and Stagecoach) whose senior management has its origins in the private rather than the public sector and which has established significant overseas operations (mainly in Africa and New Zealand). In the UK the group now (September 1995) operates some 5,800 vehicles and employs almost 14,000 people. Overseas Stagecoach operates over 900 buses and employs some 5,500 people.

3.25. Stagecoach started in 1976 as a small self-drive motor caravan and minibus rental business. In the early 1980s it diversified into long-distance express coach services. It also operated a local bus business in Perthshire and a number of limited stop services between the larger Scottish towns and cities. With deregulation in 1986 the company decided to concentrate its future activities in the local bus market rather than in the more seasonal and less profitable long-distance services. In 1987 it acquired three of the privatized NBC companies, the maximum permitted under the privatization arrangements.

3.26. Stagecoach's UK growth has been achieved primarily by an extensive programme of nationwide acquisitions and an ability to reverse the fortunes of poorly-performing companies. The standard approach adopted by Stagecoach to the acquired businesses has been to improve labour force productivity, review the bus networks and introduce new services and destinations, reduce overheads and invest in new buses. This programme has led to significant improvements in profits. The extent of Stagecoach's UK operations as at September 1995 is shown in Appendix 3.1 and a list of acquisitions since April 1987 is shown in Appendix 3.2. Some of the acquisitions have been the subject of references to the MMC and this is noted in Appendix 3.2.

3.27. Up to 1988 Stagecoach's growth and acquisitions were principally financed through family capital and bank facilities. In 1988 an institutional share placing combined with hire purchase and additional bank facilities provided the company with the financial resources to continue its acquisition programme and to invest in new vehicles. In 1989 Stagecoach sold its long-distance coach business to National Express Ltd for approximately £1.1 million.

3.28. By 1991 Stagecoach was increasingly benefiting from the improved cash flow from its local bus operations and embarked on further expansion, including the acquisition of two of the SBG companies (see paragraph 3.32). In the same year Stagecoach introduced an ESOP within the UK group. At 30 April 1995, its most recent reporting date, over 10,000 of Stagecoach's 14,000 UK employees held a total of 10.1 million shares under the ESOP scheme, representing some 7.0 per cent of Stagecoach's issued share capital.

3.29. In April 1993 Stagecoach made a placing and offer for sale of ordinary share capital and acquired a listing on the London Stock Exchange. The issue provided Stagecoach with additional capital of £20.6 million (net) which was available to repay borrowings and to finance further acquisitions and investment in new vehicles and facilities. In the offer for sale document Stagecoach expressed continued

interest in the opportunities which could arise from the privatization of publicly-owned bus companies. Following the sale and share issue Mr Brian Souter and his sister Mrs Ann Gloag, who had together developed the company from the early 1980s, remained the principal shareholders with 49 per cent of the shares beneficially held between them. Later share issues have diluted this percentage and by September 1995 their combined beneficial holdings amounted to some 39 per cent of the shares in issue.

3.30. Between the flotation in April 1993 and the end of September 1995, Stagecoach made a further 14 acquisitions of UK bus operators and acquired 20 per cent stakes in two more. Stagecoach has not confined its interest to bus undertakings owned by local authorities. The company has acquired a number of other operators which were already privatized, increasing its geographic spread and signalling an expansion into the larger conurbations of the UK. Until 1994 the company's growth had been mainly in rural areas, small and medium-sized towns and inter-urban services, reflecting its foundation on acquisitions of former NBC and SBG companies. In the second half of that year it acquired several urban operators, notably Busways, the principal operator in Tyne & Wear, and two of the bus companies sold as part of the privatization of London Buses in 1994. It also acquired 20 per cent stakes in two companies, Mainline of Sheffield and SBH of Glasgow. Both of these acquisitions were referred to the MMC, and were held to be against the public interest. The Secretary of State requested the DGFT to secure undertakings from Stagecoach to divest itself of the holdings. Both reports are currently the subject of judicial review proceedings.

3.31. In Scotland the original Stagecoach bus operation began in the early 1980s based around Perth, in Tayside region. Stagecoach's first major trading activity in Strathclyde region was the launch of a subsidiary company, Stagecoach (Scotland) Limited, trading as Magicbus, which commenced operations in Glasgow in October 1986. The turnover of Magicbus grew to some £1 million but in April 1992 the business was sold to Kelvin Central Buses Limited, a former SBG company.

3.32. In 1989 Stagecoach acquired certain assets of Inverness Traction Limited, a small independent company operating in Inverness which at that time was in receivership. Later, as part of the privatization of the SBG companies, Stagecoach acquired Northern Scottish for £5.7 million in March 1991 and Fife Scottish for £9.1 million in July 1991. No further acquisitions were made in Scotland until July 1994, when Stagecoach acquired the former SBG company Western Scottish for £6 million. Western Scottish provides bus services principally in the towns of Ayr, Dumfries, Kilmarnock and Stranraer and throughout the mainly rural area stretching from the south of Strathclyde to the Solway Firth. Shortly after acquiring Western Scottish Stagecoach took over two of the independent operators in the same area, namely Arran Transport, acquired in October 1994 for £0.5 million, and A1 Service, the subject of this merger inquiry (see paragraphs 3.36 to 3.53). In March 1995 it employed some 830 staff and operated 340 buses and coaches (excluding those used on A1 Service routes).

3.33. The financial performance of Stagecoach over the last five years is summarized in Table 3.3.

3.34. It will be noted that the ratio of total operating profit to turnover, which Stagecoach regards as a key performance indicator, increased slowly until 1995 when it declined slightly. These figures, however, mask the effects of acquisitions in 1994 and 1995 whose operating margins were low and which involved the group in substantial restructuring costs. Margins earned on continuing businesses amounted to 14.6 per cent in 1993/94 and 17.3 per cent in 1994/95. These results compare with Stagecoach's profitability target of 18 per cent for core businesses. Gearing has been generally high but interest cover has strengthened considerably since 1991.

3.35. Since A1 Service is now operated as a division of Western Scottish (see paragraph 3.44), we have briefly summarized the financial results of Western Scottish in Table 3.4.

TABLE 3.3 Stagecoach: financial summary

	<i>Years ending 30 April</i>					<i>£'000</i>
	1991	1992	1993	1994	1995	
Turnover	103,354	140,672	154,311	191,034	337,717	
Total operating profit	9,581	15,661	18,328	23,175	39,789	
Profit on ordinary activities (before interest and taxation)	10,642	15,735	18,113	23,205	40,978	
Interest payable	8,140	7,434	5,159	4,283	8,363	
Profit on ordinary activities before taxation	2,502	8,301	12,954	18,922	32,615	
Net operating assets	73,703	74,722	81,986	122,514	224,548	
Average net operating assets	67,488	74,212	78,354	102,250	173,531	
Net debt	56,073	46,897	43,048	54,942	118,508	
						<i>per cent</i>
Total operating profit as a percentage of turnover	9.3	11.1	11.9	12.1	11.8	
Profit on ordinary activities (before interest and taxation) as a percentage of average net operating assets	15.8	21.2	23.1	22.7	23.6	
Year-end borrowings as a percentage of net assets	190.4	134.8	94.9	111.3	142.0	
						<i>times covered</i>
Ratio of profit on ordinary activities to interest charges	1.3	2.1	3.5	5.4	4.9	

Source: Stagecoach.

TABLE 3.4 Western Scottish: financial summary

	<i>Years ending</i>				<i>£'000</i>
	31.12.90	29.12.91	3.1.93	2.1.94	<i>16 months to 30.4.95</i>
Turnover	33,717	29,350	15,918	15,589	21,715
Profit/(loss) on ordinary activities (before interest and taxation)	(2,726)	(4,777)*	(466)	(538)	1,544
					<i>per cent</i>
Operating profit/(loss) on ordinary activities as a percentage of turnover	(8.1)	(16.3)	(2.9)	(3.5)	7.1

Source: Western Scottish.

*Includes an exceptional cost of £3,315,000 arising on the disposal of the Clydeside division, which had been merged with Western Scottish in 1989 but was sold off to a new company, Clydeside 2000, immediately after privatization in October 1991.

The merger

3.36. We received copies of the minutes of various meetings of A1 Service's members, including meetings with Stagecoach representatives. A meeting on 3 November 1994 noted that Stagecoach was now operating on A1 Service's route, and that there had been a loss of customers although turnover had increased. We took this reference to Stagecoach as meaning Western Scottish, which Stagecoach had acquired in July 1994. The Chairman of the Council of Management, Mr Docherty, confirmed to the meeting that Mr Souter, Stagecoach's Executive Chairman, had told him that Stagecoach might be interested in acquiring A1 Service from its members. Mr Docherty, accompanied by another member

and A1 Service's company secretary, was deputed to meet Mr Souter and discuss the matter further.

3.37. A meeting for that purpose was held on 21 November 1994, when Stagecoach offered to buy out any individual member and to work alongside any who chose to remain as members. At a meeting of all members of A1 Service later that day it was agreed to sell the business as a whole to Stagecoach on terms discussed with it earlier in the day. Mr Docherty told us that he could not recall any other approaches being made to buy the business and that, having reached an amicable agreement with Mr Souter, the members did not seek a competing bidder.

3.38. Stagecoach was looking to complete the deal by 1 May 1995, but met the request of the members to bring that date forward. Stagecoach announced on 23 December 1994 that it had agreed terms for the acquisition of the business of A1 Service for a total consideration of £4.25 million. The consideration was to comprise £1.7 million payable in cash and the balance in new Stagecoach shares. The value of the shares was based on the closing price on 27 January 1995. The announcement stated that A1 Service operated approximately 75 vehicles and provided local bus services in north and central Ayrshire.

3.39. A breakdown of the purchase consideration shows that the business of A1 Service was acquired for £3,360,000 (calculated as £160,000 for each of the 21 shares held by the members); and 67 vehicles were purchased from the individual member firms for a total consideration of £880,000, together with ticketing machines costing £31,000, giving a combined figure of £4,271,000 (£4,319,000 including expenses). The company itself was acquired for a nominal consideration of £1. The main physical assets of the company were the property at Ardrossan (see paragraph 3.18) and some office equipment. In addition to the purchase price, Stagecoach has invested in new buses (see paragraph 3.46), depot facilities (see paragraph 3.50) and training (see paragraph 3.51).

3.40. The net assets acquired from A1 Service by Stagecoach amounted to £732,000, consisting of £880,000 paid for 67 buses and £85,000 for land and other assets offset by liabilities of £233,000. The rest of the consideration, £3,539,000, represented goodwill. This compares with A1 Service's turnover of around £3.5 million. In the purchase of A1 Service by Stagecoach, the ratio between goodwill and the annual turnover of A1 Service was therefore 1:1.0.

3.41. We compared the amounts paid for goodwill by Stagecoach and by another large company, British Bus, in their acquisitions in 1994 (see Appendix 3.3). We considered that this would provide a reasonable basis for comparison. The comparison shows that the average ratio between goodwill and the annual turnover of the acquired businesses was 1:5.7 for Stagecoach and 1:2.8 for British Bus. If one excludes the acquisitions of bus companies in London (which appear to be atypical), and of A1 Service itself, Stagecoach's goodwill:turnover ratio is 1:3.2, compared with British Bus's 1:2.6. The goodwill element in Stagecoach's acquisition of A1 Service at 1:1.0 was the highest, in relation to turnover, of all the cases examined. Stagecoach's explanation of the price paid is given in paragraph 6.33.

3.42. An analysis of the 67 vehicles acquired together with their respective ages is shown in Appendix 3.4. The fleet was on average 13.3 years old compared with an average age of 9.1 years for Stagecoach's fleet at April 1995. Table 3.5 compares the age of A1 Service's fleet with figures provided by DVLA for Great Britain as a whole.

TABLE 3.5 **Bus and coach age distribution**

	<i>per cent</i>				
	<i>Less than 4 years old</i>	<i>4 to 7 years old</i>	<i>8 to 11 years old</i>	<i>12 years old or more</i>	<i>Total</i>
Great Britain*	19	26	20	35	100
A1 Service	1	15	15	69	100

*Source: DVLA.

3.43. Eleven agreements were entered into on 22 December 1994 to implement the merger: one between Stagecoach and the combined membership of A1 Service and the other ten between Stagecoach

and each of the members respectively. These agreements contained restrictive covenants in which each member undertook not to operate local bus services (as defined in the 1985 Act) in the districts of Cunninghame, Kilmarnock & Loudoun and Kyle & Carrick for three years from 29 January 1995. This meant that the members could operate no commercial or tendered local bus services, but were free to undertake other activities, eg school bus contracts. Notes of a meeting held on 21 November 1994 between representatives of A1 Service and Stagecoach indicated that revenue from commercial bus services for the year ended December 1993 was £3,417,000, with an additional £435,000 from school bus contracts.

3.44. The merger was completed on 29 January 1995. The company's name was changed to Stagecoach A1 Service Limited and the services were run in that name, but in practice the business became an operating division of Western Scottish.

Post-merger events

3.45. Stagecoach said that at the time of the merger A1 Service had an operator's licence for 93 vehicles, but that this number was not indicative of the number of vehicles in use since it was common for some vehicles to be retained for spare parts and other reasons. Stagecoach told us that A1 Service's members owned 85 buses of which 81 operated in connection with the company's business and four were spares. Stagecoach acquired 67 of these buses. The rest were retained by the members for retention or disposal as they wished.

3.46. Following the merger Stagecoach quickly sold or scrapped some 20 of the acquired fleet, replacing them with more serviceable and newer vehicles from other parts of the Stagecoach group. It also placed orders for 21 new vehicles, to be delivered by the end of August 1995, for use on A1 Service operations. Stagecoach said that whereas A1 Service had operated 81 buses, Stagecoach operated the business with 71 buses, six having been withdrawn from the former ASDA services (see paragraph 4.29), and four from school contracts, where three buses were now covering six contracts, and where Stagecoach had terminated one contract. Stagecoach told us that the average age of A1 Service's buses had been reduced to under six years by the end of August 1995.

3.47. Stagecoach said that whilst it had made some adjustments to services (see paragraphs 4.27 and 4.29), the merged company operated very much the same services and routes as before. On 28 July 1995 Stagecoach gave signed interim undertakings to the OFT which included provisions that A1 Service would continue to use the livery in use at 6 June 1995; Stagecoach would endeavour to ensure that A1 Service would continue to run on routes and to timetables which operated on 6 June 1995; no amendments would be made to those timetables or routes which would have the effect of merging Stagecoach and A1 Service; no buses or other assets acquired from A1 Service would be disposed of, except where a bus was being replaced with a new or newer bus; and nothing would be done to inhibit or prevent subsequent divestment. The ending of the interim undertakings would be subject to our published findings.

3.48. One of the service changes which Stagecoach made was to participate in running the Coastlink 535 service which started operating between Greenock and Ayr on 8 July 1995. The service was operated by a consortium comprising AA Buses, Clyde Coast, Clydeside Buses and Stagecoach A1 Service, with each company running two buses. Stagecoach withdrew from providing this service on 4 August 1995. Further information about this service is in paragraphs 4.52 and 6.14.

3.49. Staff of the MMC held meetings with the general public in Ardrossan and Irvine in order to take their views on the merger. The bulk of the views expressed related to the consortium's competition with the 585 Coastline service (see paragraph 5.81). These views were given in the context of the effects of the merger, and of a commonly held view of those attending the meeting that Stagecoach had a financial interest in the consortium's members. We investigated that and found no evidence in support of it.

3.50. A1 Service's lack of depot facilities led Stagecoach to lease a site in Ardrossan which it converted into a depot, investing some £100,000 in the development of routine maintenance and cleaning facilities. The Western Scottish workshops at Kilmarnock provide for more demanding maintenance and

repair work.

3.51. Stagecoach said that the merger had led to four or five redundancies of inspectors/controllers whose previous roles were related specifically to the co-operative nature of A1 Service's original structure; but that these had been outweighed by the creation of a substantial number of new jobs. Maintenance staff had increased in the short term. The company had largely harmonized the terms and conditions of employment of A1 Service and Western Scottish employees, and transfers of staff between the two companies could therefore be made with relative ease. The company said that it had made significant expenditure on staff training, both for engineering and driving staff, to ensure that vehicle maintenance standards improved. In the space of two months almost all the drivers at Ardrossan had been put through a DOT course on vehicle inspection and defect reporting.

3.52. Of the ten former members of A1 Service, four told us that they would not be re-entering the market either for local bus services or for school bus contracts. Of the remainder, four said that they had the financial ability to compete locally with Stagecoach. One of these was undecided about doing so, and another said that it would compete only for tendered services. The other two intended to compete for local bus services when the restrictive covenants ceased.

3.53. Three members told us that they still competed for school bus contracts and another said that it intended to do so. Two of these were in the group which intended to return to local bus service provision. Within that group, three said that they had retained vehicles-including double-deckers and several coaches-and various types of depot and servicing facilities. With the exception of one small coach being used on school bus contracts, all these vehicles were currently on private hire work. One of the former members who had left the market altogether said that it had several buses which were used on private hire business.