

# 6 Views of third parties

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## Introduction

6.1. We invited views on the acquisition from the DOT, local government, other bus operators, trade and consumer associations, trade unions, newspaper publishers and other interested parties. This chapter summarizes the evidence we received.

## Department of Transport

6.2. The DOT pointed out that OK was the last remaining sizeable non-group bus company in the north-east of England. OK had a fleet of some 200 vehicles, many of which were purchased new, and it competed vigorously with other operators both on commercial services and for local authority tendered services. The DOT thought the loss of such a long-established and successful operator was very much to be regretted. OK had shown that an independent company could thrive, and indeed grow, in the deregulated market-providing

real competition with new services run with new vehicles.

6.3. The DOT added that, as far as it was aware, there had been no complaint of anti-competitive behaviour by Go-Ahead-OK went freely to Go-Ahead. In terms of the impact on competition, the merger would be a significant concern only if new entries dried up and if the local authorities found there was no competition for tenders.

6.4. As to suggested remedies, the DOT doubted whether the suggestion put forward by the DGFT that Go-Ahead should divest itself of OK's Gateshead operation was practical, or indeed necessary. To focus on the combined market in Gateshead alone as being particularly relevant within the Tyne & Wear conurbation was somewhat misleading. In Tyne & Wear as a whole there was more than adequate potential competition to Go-Ahead/OK. Three other large group operators-Northumbria (owned by British Bus), Busways (Stagecoach) and United (National Express/West Midlands Travel)-all had garages in the near locality, and well within the 15- to 20-mile range normally taken as being close enough to provide competition. The DOT stressed that whether there was *actual* competition between these operators was not the point-they could not be forced to compete-but the potential was there and for that reason divestment of the OK business within Tyne & Wear was not sustainable.

6.5. The DOT agreed that there were more grounds for concern about the position outside Tyne & Wear and the future level of bidding for county council tendered services following the demise of OK. After the merger only two major companies remained in the more rural areas south of the built-up area and the Cleveland boundary: Go-Ahead/OK and United. The DOT understood that a number of the local tendering authorities had also expressed concern about the passing of OK for this reason. They had commented that OK had actively pursued work in the tendered sector and that it had a good reputation and generally lower fares than its competitors.

6.6. Accordingly, the DOT suggested that it would be preferable in this case to seek an undertaking from Go-Ahead to the effect that it would keep OK as a separate entity which would continue to bid separately for tendered work put out by Tyne & Wear PTE and Durham and Cleveland County Councils.

## **Local government**

### ***Tyne & Wear Passenger Transport Executive***

6.7. Tyne & Wear PTE explained that OK had expanded rapidly since deregulation in Tyne & Wear, due largely to its success in winning the PTE's service contracts. OK had been a consistently successful tenderer since 1986 and had to some extent been influential in setting the 'going rate' for tenders. Many of these services were developed by OK and then registered commercially, with an expanded patronage base, after a period of secured service operation. The PTE explained that it had achieved significant savings in its secured service budget through OK, Go-Ahead and other operators expanding their commercial networks.

6.8. The PTE stated that it did not expect the merger to have any significant impact on the commercial bus network. Some rationalization might take place in corridors where OK and Go-Ahead currently both operated, but this had to be seen in the light of current service frequencies in excess of those operated within the planned network prior to deregulation, when user levels were some 30 per cent higher overall than at present.

6.9. The PTE argued that whilst overbussing could cause environmental disbenefits, the introduction of co-ordinated timetables could achieve substantial benefits for both passengers and non-bus users, provided that sufficient competitive pressures remained to ensure that operators were not in a position to act unreasonably. The PTE added that it was concerned that competition for tendered bus services could be reduced if Go-Ahead adopted a Group-wide tendering strategy, although the company had indicated that OK would continue to tender separately. However, the PTE thought the impact of any reduction in competition for tendered services could be mitigated by the PTE maintaining its current tendering strategy, supplemented as necessary by any conditions set by the MMC. The PTE concluded by saying that it would also be concerned if Go-Ahead attempted to increase unit tender prices significantly more than inflation.

## ***Cleveland County Council***

6.10. Cleveland County Council said that as neither Go-Ahead nor OK ran many services within Cleveland, it did not expect the merger to have any significant effect within the county.

## ***Durham County Council***

6.11. DCC gave written and oral evidence. It explained that since deregulation OK had played a major role in developing the market for bus services and had expanded significantly from its original core operation area of Bishop Auckland. OK had sought to avoid head-to-head competition with established commercial services and instead had been resourceful in finding and exploiting gaps in the commercial networks of other operators to introduce its own services. A number of services which were initially arranged as county council or PTE contracts were now operated by OK as entirely commercial ventures.

6.12. DCC explained that at deregulation there had been increases in frequencies of service on some of the main urban and inter-urban corridors. In some cases these had been sustained. In other cases, the introduction of minibus networks into some of the smaller towns, a main theme in the late 1980s, had not proved to be viable and a considerable degree of retrenchment had since taken place amongst operators. Overall, there had been an increase in services since deregulation, whilst fare levels had tended to increase above inflation.

6.13. DCC added that during this period a consolidation amongst bus operators in the area had also taken place. A number of smaller operators had been acquired by larger groups. Currently there were ten independent operators in the county running their own commercial services. Five were long-established bus operators, while the remainder were established coach operators which had started bus services since deregulation.

6.14. DCC considered that there were no particular barriers to entry in terms of access to bus stations. DCC controlled a number of bus stations on behalf of their owners and allocated stands within them. It expected to be able to accommodate new entrants without too much difficulty, although it was reluctant to displace an existing operator. In such cases its decisions were governed by a code of practice. DCC pointed out that competition between operators could cause congestion at certain stands. In such cases competition created instability of services and caused difficulties in providing service information. Bus users were often confused about the services provided. In such circumstances competition was not altogether in the public interest.

6.15. Regarding tendered services, DCC said that it had been impressed by the large share (about 50 per cent by value) of tenders awarded to OK in the last major tendering exercise (May 1994). Since deregulation Go-Ahead had been the largest supplier of the county's tendered services. Its share had now shrunk considerably. The new contracts, mainly for four years' duration, had a more demanding vehicle specification incorporating the Government's DPTAC recommendations. OK had submitted extremely competitive tenders and had invested heavily in renewing its bus fleet. DCC added that it was satisfied at the level of competition for tenders which averaged about five bids for each contract.

6.16. DCC said that OK was the only operator which competed for both tendered and commercial services across the whole of the reference area, and the only operator prepared to introduce services into different areas and hence compete with the established operators in those areas. Go-Ahead and North East Bus tended to remain in their traditional territories and not to compete with one another. OK had an excellent reputation for the quality and reliability of its services. Fares on its own care services were lower than those typically charged by the major operators in County Durham. DCC hoped that Go-Ahead would continue to run OK operations and compete in this way and expressed concern that Go-Ahead might not be prepared to accept the lower profit margins previously accepted by OK on its services. DCC was, however, unaware of any changes in approach imposed by Go-Ahead or changes in OK's fare structure since the merger. DCC thought possible benefits from the merger might be the rationalization of certain contract services and the availability of season tickets for use on both operators' services.

### ***Northumberland County Council***

6.17. Northumberland County Council (NCC) considered that the possible effect of the acquisition on competition in the supply of commercial and tendered bus services in Northumberland would be minimal. OK operated very few services in Northumberland on a commercial basis and was only really active in the tender field in those parts of Northumberland districts immediately adjacent to the Tyne & Wear PTE area.

6.18. NCC added that the level of fares in the area was also unlikely to be significantly changed by the acquisition. Fare levels appeared to be very locally affected by competition between operators. Changes in costs appeared to affect local operators in similar ways, resulting in them increasing fares by similar and, in many cases, identical amounts.

### ***South Tyneside Metropolitan Borough Council***

6.19. South Tyneside Metropolitan Borough Council (South Tyneside) emphasized its continued support for public transport. A move away from private transport would improve fuel efficiency and road safety and reduce traffic congestion, emissions and general environmental intrusion. The promotion and improvement of public transport services therefore formed a key element of the council's transport strategy.

6.20. South Tyneside said that since deregulation the Government's policy had been that competition between various operators should provide the public with cheap, efficient and customer-friendly bus services. Any reduction in the number of bus operators would lower the level of competition and threaten the advantages a competitive market should provide for the public. The council therefore concluded that the merger of Go-Ahead and OK could have a detrimental effect on the supply of commercial bus services and would not receive its support.

### ***Sunderland City Council***

6.21. Sunderland City Council (SCC) said that both Go-Ahead and OK played significant roles in the provision of public transport within the city. It was likely therefore that the merger would have some impact, although the precise effect would vary across the city.

6.22. SCC considered that the main impact of the acquisition would be felt in the Houghton and Hetton areas of the city where Go-Ahead would operate approximately 95 per cent of services, creating a virtual monopoly position. SCC explained that Go-Ahead had traditionally enjoyed a monopoly position in the Washington area but it was unaware of any abuse of this situation. SCC argued that the acquisition would not necessarily operate against the public interest for the following reasons:

- (a) the most important element of competition was not between individual bus operators but between bus and private car;
- (b) in Houghton-le-Spring, the removal of 'head-to-head' competition and rationalization of services might assist in reducing environmental problems associated with the volume of bus traffic in the town centre; and
- (c) larger operators could take advantage of economies of scale in vehicle and equipment purchase which would assist investment in new vehicle stock and fleet replacement.

SCC added, however, that it had some concern over future fare levels on corridors where competition had effectively been eliminated. To date this had not happened possibly because another local operator, Redby, had introduced a number of services in competition with Go-Ahead in the Washington and Sunderland areas.

6.23. In transportation policy terms, SCC suggested that the most important issue was the need to increase the bus share of the total passenger transport market by creating an attractive alternative to the private car. Whilst the highway authority could assist by improving operating conditions for buses, it was also important that operators had the confidence to invest in their businesses. The creation of larger groups, whilst not conforming with the spirit of the 1985 Act, assisted in this process.

## ***Teesdale District Council***

6.24. Teesdale District Council told us that OK had provided a very good service in the Teesdale district-particularly the north-eastern part of the district-dating back to 1912. The council said that it was not opposed to the merger provided the existing route network was maintained at the same level, and the existing fare structure was maintained for a reasonable time (at least for five years).

## **Bus operators**

### ***Bob Smith Travel Ltd***

6.25. Bob Smith Travel Ltd (Bob Smith) alleged that Go-Ahead had operated unregistered services duplicating its own in an attempt to hamper Bob Smith's operations. It gave us details of the vehicle registration numbers and the times of their departure and arrival at Langley Park on a particular date. We put this allegation to Go-Ahead and its response is set out in paragraph 5.53.

### ***British Bus PLC***

6.26. British Bus said that generally it did not regard mergers of bus companies as being against the public interest, provided that the operator took a responsible attitude towards quality of service and fare levels. British Bus argued that local monopolies of services in many areas were essential if the required level of investment was to be made to maintain or improve standards in local operators' bus fleets.

### ***Busways Travel Services Limited***

6.27. Busways, part of the Stagecoach group, said that Go-Ahead was the largest bus operator in the reference area and the acquisition of OK would further increase its size. Despite this, Busways believed the acquisition would not make any appreciable difference to Go-Ahead's market dominance, particularly with three other major bus groups present. Additionally, Busways pointed out that Tyne & Wear Metro, together with the Sunderland-Newcastle railway, was a major competitor in the northern part of the reference area. Busways stressed that there were few other areas of the UK in which four other major transport operators were present in such a significant manner.

6.28. As to contracted services, Busways said that in its experience the majority of tenders were contested by at least three operators. It was therefore unlikely that the merger would have any detrimental impact in this sector. Busways concluded that, in the circumstances, and in view of the continued tendency of the industry to consolidate, the merger would not adversely affect competition for the supply of bus services within the reference area.

### ***Classic Coaches (Continental) Ltd***

6.29. Classic gave written and oral evidence, emphasizing that its evidence had not changed since the MMC inquiry into bus services in the north-east of England. Since it entered the local bus market in 1992 Go-Ahead had continually mirrored its operations. Its behaviour had included replicating Classic's services by registering similar services a few minutes ahead, or by adjusting the times of its existing services to run ahead of Classic's. Wherever Classic had withdrawn, Go-Ahead had followed suit. Go-Ahead's main intention had been to seek to eliminate Classic from the routes involved. Since it had begun operating local bus services Classic had introduced ten new commercial services, nine of which had been replicated wholly or partly by Go-Ahead. In response to this intensive competition Classic had introduced some services which replicated Go-Ahead's. In each case Go-Ahead had retaliated. Classic said that, since the merger with OK, Go-Ahead's behaviour had not changed, the only difference being that different coloured (OK) buses now also ran ahead of Classic's buses on some routes.

6.30. Classic said that Go-Ahead had introduced half-price fares on some of its routes pitched at a level to compete with Classic's similarly priced introductory fares. In some cases Go-Ahead had matched these fares for up to three months. Neither operator could be expected to cover its costs in the face of such competition. On other routes Classic had had to increase its fares in an effort to cover its costs and compensate for the loss of passengers. Classic added that it was very conscious of the disadvantages of having grown to its current size (some 40 vehicles) and the effect that this had had on larger competing operators such as Go-Ahead.

6.31. Classic explained that the situation at bus stations, where Go-Ahead had monopolized stands and blocked Classic's buses, had improved somewhat since the previous inquiry, particularly in the bus station controlled by DCC, though OK's additional presence at some stands had also exacerbated the situation.

6.32. Classic stressed that its biggest fear was that Go-Ahead would succeed in driving it out of business before the undertakings recommended in the MMC's earlier inquiry could be implemented. The merger with OK strengthened Go-Ahead's position and was therefore against the public interest.

### ***Cleveland Transit Limited***

6.33. Cleveland Transit, also a part of the Stagecoach group, said that it was responding as a major operator within Stockton and Middlesbrough, and also on behalf of Stagecoach operations within Darlington and Hartlepool. Cleveland Transit explained that within Cleveland and south Durham the majority of local bus services were provided by North East Bus, a subsidiary of National Express; Cleveland Transit (including Stagecoach Darlington) and Hartlepool Transport, both subsidiaries of the Stagecoach group; with a small number of local and inter-urban services being provided by Go-Ahead and OK. The various Go-Ahead subsidiaries, including OK, were generally larger than the individual Stagecoach subsidiaries to the south of the reference area. Cleveland Transit believed the merger would not affect competition for the supply of bus services within the reference area as a whole.

### ***EYMS Group Limited***

6.34. EYMS Group Limited (EYMS) said that although it had recently acquired a small Teesside coach business, which operated exclusively in the leisure market, it had no other involvement in the areas served by Go-Ahead or OK and therefore it was not directly affected by any competition issues resulting from the merger.

6.35. EYMS, however, expressed concern over what it saw as the continued consolidation of the bus industry into several large groups. In EYMS's view, there was no doubt that these developments made the remaining small operators extremely wary of increasing competition from these groups and concerned about their own future.

6.36. Although currently Go-Ahead was not one of the largest operators, EYMS hoped that ways could be found to ensure that small operators who merely wished to run a business in a particular area could continue to do so without constant threat, real or imagined, of aggressive competition from some of the larger groups. Smaller companies with much more limited resources often appeared to have no response to such sustained competition from larger groups.

### ***Hylton Castle Coaches***

6.37. Hylton Castle Coaches (Hylton) was concerned that large bus groups were acquiring medium-sized bus operators and achieving virtual monopolies throughout the North of England, to the detriment of smaller local bus operators. Having established themselves as monopoly suppliers the larger groups then employed predatory pricing tactics and manipulative retiming of services to reinforce their position. Hylton considered that the merger under consideration came within this category.

6.38. Hylton added that healthy competition already existed within the Tyneside area. Any reduction in competition which would lead to a monopoly situation would be very much against the public interest.

## ***Another operator***

6.39. A North Tyneside operator believed mergers such as the one in question only benefited the buyers and sellers and not, generally speaking, the travelling public. In fact job losses often occurred, as well as service reductions and depot closures. The operator referred to several recent acquisitions by larger bus companies of smaller bus companies operating in the North-East. It argued that the merging of such companies created a situation which contradicted the underlying reasons leading to deregulation. The main bus companies had grown larger and flexed their muscles every time an operator wanted to expand. The operator gave as an example an attempt it had made last year to expand one of its services. Although the majority of the route extension used roads not previously served by any other operator, Go-Ahead had forced it to withdraw its application by registering a duplicate service which was to run slightly ahead of the operator's proposed service.

6.40. The operator thought the merger would create a situation whereby two large companies, Go-Ahead and Stagecoach, would dominate bus services in the Newcastle area. It considered that this would be detrimental to the industry as a whole and submitted that the only sensible solution in this situation would be for Go-Ahead to divest itself of OK.

## **Newspapers**

### ***Star series***

6.41. Star, part of Northeast Press Limited, publisher of seven weekly *Star* titled newspapers within the North-East, said that a significant number of readers, particularly in the Peterlee area, were concerned that the merger would be detrimental to local bus services in the area. Star considered that these concerns were based not so much on hard evidence as on a general fear that a national company would not show the same level of commitment or understanding to the local community. Since deregulation, many rural services had suffered, and travellers were under the impression that this decline would continue under the control of larger, market-led companies.

### ***Sunderland Echo***

6.42. Sunderland Echo, also part of Northeast Press Limited, said that it had received complaints from the public on two counts: that deregulation had put too many buses on the same roads; and that the larger bus operators were trying to force smaller bus operators out of business by duplicating services on the same routes. The Echo took the view that market forces were rationalizing the situation, though it added that it would like to see the survival of the smaller bus operators.

## **Other bodies**

### ***Association of Local Bus Company Managers***

6.43. The Association of Local Bus Company Managers (ALBUM) told us that none of its members had any direct involvement in the potential merger situation. Nevertheless, it wished to express its concern at the present position in the bus industry where the larger bus operating groups were rapidly acquiring smaller operators. Ultimately this led to a monopoly situation in some areas and increased the cost of tendered and commercial services within that area.

6.44. ALBUM was also concerned that decisions to refer bus company mergers to the MMC generally meant that the time taken to complete the subsequent inquiry prevented any retrospective restoration of the pre-merger situation. Major bus groups usually absorbed other operators either by acquisition or through predatory competition. Subsequent reorganization meant that it was impossible to restore the previous competitive situation in any meaningful way.

## ***National Federation of Bus Users***

6.45. The National Federation of Bus Users (NFBU) summarized the views of five of its members living within the reference area.

6.46. The NFBU said that according to all five of its respondents OK had a good reputation for reliability and for the friendliness and helpfulness of its drivers. However, although there had recently been some investment in new vehicles, the company operated its services with buses which, even if well maintained, were generally older and less user friendly than those of Go-Ahead. In some cases rural services were operated with coaches which did not meet the PTE standards for contract journeys. Additionally, tickets issued on OK buses could not be used on the services of other operators and OK was not included in the transfer ticket system. The merger meant that OK's services would be incorporated into Go-Ahead's north-east network with the advantages of inter-group ticketing and a network timetable. One of the NFBU's respondents said that he had already benefited from being able to use his return ticket on other operators' buses. There should also be more investment in modern vehicles.

6.47. The NFBU thought it unlikely that the merger would allow Go-Ahead to dominate the supply of bus services within the area, given the presence of Stagecoach in the North-East. To a large extent Go-Ahead and OK did not compete with each other, and competition that did take place often took the form of a duplication of services, which did not particularly benefit passengers. Smaller bus operators such as Classic had not been deterred from competing on certain routes.

6.48. The NFBU concluded by saying that it thought the merger was generally beneficial to passengers. Unwanted competition had been removed, allowing buses to be used on new routes elsewhere; quality of service had been retained, whilst OK's identity had been preserved and its fleet would now benefit from greater investment and access to Go-Ahead's superior workshop facilities.

## **Members of the public**

### ***Mr R Tindall***

6.49. Mr Tindall, a resident of Low Fell, Gateshead, said that he had been joint owner of Low Fell Coaches until July 1992 when the company was sold to Go-Ahead. He had always enjoyed a good relationship with Go-Ahead, and although they were competitors Go-Ahead had always acted fairly in that competition. On the sale of Low Fell Coaches, Mr and Mrs Tindall had entered into a 12-month service agreement with Go-Ahead from July 1992, continuing thereafter on a three-month notice clause. The employment had in fact ended in July 1995. Mr Tindall said that Low Fell Coaches had operated between July 1992 and July 1995 on exactly the same basis as it had when in his ownership. He had been free to bid for contracts without intervention from elsewhere, he had operated the same cross-Tyne route, and his drivers had continued to work under the same contracts of employment as hitherto. That changed in 1995 when Low Fell Coaches became part of OK under Go-Ahead's structure. From then, OK operated buses in Low Fell Coaches livery, but varied the routes, and sought to effect changes in the drivers' conditions of service. Seven of the drivers left. Mr Tindall said that many bus users had complained of how the change had brought dirty buses and unhelpful and unpleasant drivers dressed in jeans and T-shirts, whose driving 'left much to be desired'. Bus users in Low Fell now had a lack of choice following Low Fell Coaches' absorption into OK. The 'couldn't care less' attitude of the public monopoly before deregulation had been replaced by a private monopoly.

### ***Other local residents***

6.50. A resident of Gateshead complained that Go-Ahead's acquisition of most of its rivals in the Gateshead area denied bus users a choice of operator. This lack of choice would seriously inconvenience bus users, particularly in the event of a strike.

6.51. A resident of Wingate, County Durham, said that in her experience past take-overs of bus operators had inevitably resulted in a reduction in the choice of operators and in local service. She viewed with alarm any further loss of services.

## **Others**

### ***Vale Mill Trust***

6.52. Vale Mill Trust complained that, since the merger, OK had taken over and changed the route of a local bus service which the previous operator had confirmed as a viable route that would be continued. This had in effect isolated a small community and denied the Trust a valuable visitor service for its project.

D G GOYDER (*Chairman*)

I S BARTER

J EVANS

M R PROSSER

J F PICKERING, being a member of the Group, dissents from the conclusion for the reasons set out in the note of dissent included in this report.

A J NIEDUSZYNSKI (*Secretary*)

5 January 1996