Local bus services – reasons for the market study

5 March 2009

OFT1066reasons

Summary

1 The OFT has decided, on its own initiative, to launch a market study into local bus services.

2 The purpose of the study is to gain further insight into why certain local bus markets operate as they do; to improve our understanding of the relationship between competition, investment, prices and quality of service; and to deepen our knowledge of the role played by local authorities and coordination of timetables and ticketing.

3 The study was prompted by two particular points of view that are routinely brought to the OFT’s attention:

   • The view that there is too little competition between bus operators that has lead to increasing real fares, falling service standards and a growing burden on the public purse to subsidise local bus services.

   • The view that competition has had a largely negative effect on local bus services, driving out investment and encouraging the worst forms of competitive behaviour amongst bus operators.

   • There is an obvious tension between these two views. The relationships between the various factors at work are complex and not necessarily the same in every local market. Rather than consider this trade-off separately in individual cases that come to the OFT’s attention it is appropriate to consider these issues looking at the range of circumstances across the country. The market study will aim to develop a broader, richer understanding of the arrangements that deliver benefits to consumers and the arrangements that do not.
The scope and focus of the study

4  There are numerous local markets for bus services and significant differences between them. There are also complex relationships between public and private sector players that need to be understood. Accordingly, we have allowed ourselves until October to publish our findings. The initial focus and proposed timescale of the study are described below. These are indicative: we do not exclude the possibility of other issues being considered as a result of evidence presented to the OFT during the course of the study.

The focus of the work

5  The study concerns local bus services across the UK. It will cover the regulated services in London, services in Northern Ireland and the deregulated services in England, Scotland and Wales. It will consider both commercial and tendered services.

6  The study will examine:

   • The extent of competition that currently exists between bus operators paying attention to 'on-the-road' competition and competition 'for the market'. We will also look at the effects of those two different types of competition on bus users.

   • Whether markets are contestable, looking in particular at the attitudes of larger and smaller operators to investing in service frequency and reliability under different market conditions.

   • The effect that infrastructure provision, such as depot access, bus lanes and traffic reduction measures play in these investment decisions and whether or not that relationship is changed by the presence of rival operators in the market.

   • The link between value for money in tendered services, the number and identity of rival bus companies bidding, and the organisation of the tendering process.

   • The common routes for entry into the industry, paying particular attention to the toe-hold effect created by tendered contracts.

   • The effect of previous bus company acquisitions on local competition.

   • The relationship between co-ordination and competition and how they interact in affecting the services and value for money for consumers.
There are a variety of outcomes to a market study. If no material concerns are identified the outcome may be a clean bill of health. Market studies may also lead to enforcement action under competition and/or consumer legislation. The outcome may also be recommendations or guidance to Government and Local Authorities. If the OFT has material concerns following its investigation, and has identified features of the market(s) which it has reasonable grounds for suspecting prevent, restrict or distort competition, the OFT may make a market investigation reference to the Competition Commission.

Issues which are outside the OFT’s focus or remit

Our considerations and expertise are focussed on promoting competitive markets which benefit bus users. We will take as given the constraints on the market resulting from, for example, the regulatory regime, the planning regime and environmental legislation. In this study, issues such as regulation, planning permission or environmental impact will only be considered insofar as they affect competition.

Timetable and process of the market study

Indicative timescale

The initial phase of the project involves evidence gathering and analysis to build up a picture of competition across the many local bus markets throughout the UK. Further work will depend on the outcome of that initial phase. The OFT currently intends to provide an update on the timetable in the summer of 2009 and that any further work as part of the market study will be completed by the end of 2009.

Possible outcomes following the market study include one or more of the following:

- giving the relevant market a clean bill of health
- publishing information to help consumers
- encouraging firms to take voluntary action
- encouraging an industry code of practice
- making recommendations to Government or to sector regulators
- investigation and enforcement action against companies suspected of breaching consumer or competition law
A market investigation reference to the Competition Commission.

Contacting the OFT

11 We propose to conduct this study by gathering and analysing information provided by and meeting with firms, trade associations, central and local government, and independent experts. We envisage that the co-operation of these interested parties will enable us quickly to obtain the information required for the study.

We will be directly contacting specific bodies to obtain the information we need but we welcome relevant submissions on this topic and submissions should be sent to:

Local bus services Market Study (2C)
Office of Fair Trading
Fleetbank House
2-6 Salisbury Square
London EC4Y 8JX

or can be emailed to: localbusmarketstudy@oft.gsi.gov.uk.

12 Contact details for the team are as follows:

   Team Leader: James Macbeth (020 7211 8958, james.macbeth@oft.gsi.gov.uk)

   Project Director: Peter Lukacs (020 7211 8473, peter.lukacs@oft.gsi.gov.uk)

   Senior Responsible Officer: Heather Clayton (020 7211 8826, heather.clayton@oft.gsi.gov.uk)

13 It will assist the case team if submissions are laid out as follows:

- a summary of the main points you would like the OFT to consider
- a more detailed explanation of these points
- evidence to support the views being made:
  - if this includes data or financial figures, precise definitions, the dates and source of the data should be provided
  - if this includes detailed calculations, an annexe or spreadsheet which allows the OFT to replicate these calculations should be provided
- if this includes specific examples of events, a chronology and background to the events should be provided

- if this includes comparators, the reasons why you consider the comparator to be appropriate should be provided

- if you are willing to answer questions further to your submission, a named point of contact and contact details including telephone number, whom the case team can contact should be provided.

  - Please clearly indicate which (if any) specific parts of the submission are confidential and should not be made publicly available.

  - If the submission is representing a business:

    - the company name and ultimate ownership

    - a brief summary of the activities of the company

    - details of any other interests in bus services either in the UK or abroad as a supplier, owner, customer or business partner.

14 The OFT recognises that it is not always the case that evidence is available to companies to support their views. Companies may be able to suggest information the OFT should seek out. However, the OFT may not be in a position to pursue all avenues of study. Where no evidence is provided, the weight the OFT can place on the views is lower than where evidence is provided.

15 The deadline for comments is 8 May 2009.