

## **Summary of Main Points of Hearing with Officials from Hertfordshire County Council (HCC)**

### **Background to bus services in Hertfordshire**

1. Bus deregulation in 1986 ushered in a period of difficulty for new operators in Hertfordshire, deprived as they were of the financial cushion of garage assets which had been sold off separately. Operators' increasing ability to cope resulted in an upturn in the second half of the 1990s and the generally declining trend in the number of bus passengers resumed thereafter. Key factors responsible include high car ownership, difficulties of operation in the Green Belt and proximity to London increasing the costs of operation and putting upward pressure on fares.
2. Commercial and tendered contract services in Hertfordshire are split roughly 55%:45%, excluding Transport for London (TfL) tendered services. Total bus mileage has increased since the 1986 deregulation. The share for which HCC is responsible has steadily increased since the mid-1990s. A comparison between Hertfordshire and national trends can be derived from the latest annual survey conducted by the Association of Transport Officers of local authorities.
3. All available evidence points to bus fares in Hertfordshire having risen significantly faster than inflation since the 1986 deregulation and thus having contributed to the decline in the number of bus passengers.
4. Combined local authority expenditure on buses in Hertfordshire fell steeply during the 1980s, especially after deregulation, but has increased markedly over the past 10 years. In real terms, a total estimated expenditure of some £6.8 million this year compares with a comparable figure, at current prices, of some £10 million in the mid 1980s.
5. HCC has not made much use of Transport Act 2000 powers. On ticketing, it has introduced one change only, this being a minor improvement of a £7 day ticket for travel round Hertfordshire. HCC has not entered into any statutory quality partnerships or sought to have any quality contracts. It had, however,

set up a voluntary quality partnership with Sovereign on one route in Stevenage which has an element of bus infrastructure, part-funding six new vehicles there on the condition that they remained in Hertfordshire for at least five years. Sovereign had made the approach to HCC who judged the route to be suitable for quality partnership. So far, the vehicle improvement plus some additional frequency seems to have resulted in a 3.5% increase in passenger usage.

6. Because its resources are stretched, HCC are not at present making further comparable funding available. One aim of the funding was to facilitate improvements to help disabled people but this has been overtaken by more stringent statutory requirements. It has also been useful to encourage holding companies like Arriva to give priority to capital investment in the local Hertfordshire company.
7. Bus priority over other traffic is essential to the success of grant aided voluntary quality partnerships. However, in Hertfordshire it commands neither public nor political acceptance, as bus flows are not large relative to car usage. The stability of the bus networks is also insufficient to encourage a bus priority policy.
8. If the Sovereign business were sold to Arriva, HCC would wish the vehicle quality to be maintained. The Arriva record on vehicle quality in Hertfordshire is reasonably good. Under a voluntary partnership arrangement with HCC, Arriva have been known to deploy Hertfordshire vehicles elsewhere, but vehicles of comparable quality were then brought to Hertfordshire. There is nothing to bind a new business owner to an agreement concluded by its predecessor.
9. The HCC role on parking is limited to co-ordination of the policies adopted by the District Councils. A range of initiatives are in place to increase charges locally and to adjust the balance in favour of short term parking. These do not amount to an overall regime to discourage town centre parking. There is no evidence of District Councils pledging parking revenue to improvement of public transport services. Any support for buses is funded from council tax revenue.

10. The requirement in the Transport Act 2000 to introduce concessionary fares made relatively little difference in Hertfordshire where appropriate schemes were already in operation. Each of the 10 district councils decides, after negotiation, on the amount of funding that it is prepared to raise locally, such that operators are neither better nor worse off as a result of providing concessions. Negotiations take place with the Hertfordshire Bus and Coach Operators Association which represents most, but not all, operators. On completion of negotiations, HCC publishes a statutory scheme which is subject to appeal, up to the Secretary of State for Transport if necessary, from any aggrieved party. The right of appeal is a continuing feature. Concern about the dominance of lead players (in the past, Arriva and Sovereign particularly) is understandable.
11. HCC administers the concessionary fare schemes to ensure that concessionary passes issued in any one area are available for travel in other parts of Hertfordshire. Apportionment essentially relates to the scheduled route miles run by each operator. This approach is easy to administer and reasonably correct in terms of the amount of money passed to operators, although because apportionment is not related to usage it has unsatisfactory side effects. It tends to attract competition into the more generously funded areas – notably Stevenage – where reimbursement works out at about 50 pence per mile. It also provides no incentive for operators to provide concessionary travel. Apportionment according to bus usage will only become possible once smart card technology has been introduced across Hertfordshire. Smart card trials have been carried out in three areas so far.
12. New entrants in any area receive their concessionary fare support from the overall fixed amount previously shared between the already existing operators. Those running Stansted Transit and Centrebus (the latter, ex-Arriva employees) have seen the opportunity to target Arriva routes. Objectives within the bus industry include, but can also go beyond, the purely commercial.
13. HCC provides detailed guidance to help bus drivers deal with the considerable complexities of the concessionary fares system. However, bus operators do not seem to regard training drivers for a new area as a problem.

14. Last year HCC overspent slightly on support for buses, and both HCC and certain District Councils were threatened with shortfall under their joint funding arrangements (75% HCC: 25% District Council). The key factors for this were providing tendered services to replace withdrawn commercial services and significant tendered price increases – some 20% to 25%. HCC internal finance prefers to cater for cost increases that have actually occurred rather than advance funding against prediction. As a result, various economies on school buses and evening services were, after consultation, effected. This year HCC has reduced, if not eliminated, its problems when setting its budget, taking into account in particular the now known tender price increases.
15. Roughly 50% of bus company turnover in Hertfordshire this year will derive from local authority funding. There is a distinction between concessionary fare schemes which are a subsidy to the passenger passed through the operators, and direct subsidy to the operators themselves. District council concessions to the elderly and the disabled are likely to cost about £5 million with HCC running a wider scheme for about £1.3 million. The cost of running subsidised services looks likely to exceed £6 million, of which the district councils' share would be around £1 million.
16. HCC receives on average around three bids for each tender offered. It would welcome more bidders provided they were of sufficient quality. For a variety of reasons, not all tenders are awarded to the lowest bidder. By law the HCC must publish the results of tenders, including the reasons why any award has gone to a bidder other than the lowest.
17. HCC tendered contracts last for five years – the maximum permitted under the Transport Act 1985 – and provide for an annual increase to the operator in line with the RPI. With transport costs increasing at some 4% or more above inflation, a re-tendered contract is some 20% to 25% more costly than its predecessor. HCC is looking at a more scientific annual indexation which would smooth out increases and avoid a huge jump every five years.
18. While Arriva may welcome removal of their main competitor from certain tendered evening routes, they are likely to be constrained by their knowledge that HCC resources are limited. Operators realise that there is no point in pushing up their price to the point where HCC on value for money grounds will

no longer award the contract. Mutual self-interest in co-operating across a range of bus activities avoids deadlock on any single one. HCC has a quite reasonable budget of £6 to £7 million, and is under pressure from the public and elected members to provide the best service possible within this, taking into account the realities of usage, available funds, the commercial bus world, and fitting its larger strategic plan.

19. For some operators, running evening services can be attractive not just in terms of the return on their contract but also because this can contribute to the entirety of their business. That situation is unlikely to change.
20. Arriva and Sovereign have tendered for some contracts but not others. On some routes, Arriva run a day-time commercial services and Sovereign an evening tendered service. No immediately visible long term trend seems to emerge. The year-on-year pattern seems to remain fairly steady.
21. Tendered services provide a means for new entrants to enter the bus market. It does not follow, however, that they will make the transition to the commercial market, especially since few routes can sustain significant on-road competition.
22. Arriva have won certain contracts for education routes, but Sovereign never bid for them. Arriva's potential acquisition of Sovereign would therefore have no impact on the education market.
23. Arriva holds some 40% by value of tendered local authority bus contracts in Hertfordshire, Sovereign some 10%. The proposed acquisition gives rise to a marginal degree of concern in relation to evening, or in some cases Sunday, routes. For a variety of operational reasons, smaller bus companies tend to leave the field on such services to the larger Arriva, Sovereign, UniversityBus or Centrebus companies. Otherwise, HCC sees enough competition for quite a lot of the other types of work and is more relaxed about the proposed acquisition than might have been expected. Alternative scenarios would have caused it more concern.
24. Intalink is a voluntary partnership between HCC, the District Councils and bus and train operators. It aims to promote bus services to the public as a co-ordinated operation rather than as separate operations run by individual

companies. It provides, via a contractor, appropriate roadside publicity including timetables and the national travel line phone number at bus stops, all of which are owned by HCC and maintained by the same contractor. The contract is put out to tender from time-to-time, most recently in early 2004. Arriva, the former contractor, did not win the tender on this occasion, although this was not a reflection on their, satisfactory, performance. HCC resolves any problems over priority use of space at bus stops and provides Intalink's annual funding of some £0.3million to £0.4 million, though operators also pay a subscription related to the number of vehicles they own. Intalink displays timetables covering all operators, including non-members, who would not, however, benefit from its promotional activity.

25. The HCC refers complaints about services to the relevant operator. On tendered services, it discusses the complaint with the operator and where appropriate, makes a deduction from payments. It has no role in complaints about commercial services. Where these are justified, the Traffic Commissioner has been known to vigorously exercise its power to impose penalties.

### **Market definition**

26. The price of bus fares are of little or no attraction to car users, although evidence suggests that a significant increase in fares leads to bus passengers making fewer journeys. This is particularly the case for leisure travellers. A high proportion of bus users appear to be a captive market entirely separate from car users. This may be deceptive in for example, the case of school transport where there is evidence of parents combining a car run where they are dissatisfied with the level of bus fare increases or the adequacy of bus services.
27. Frequency reductions are not necessarily an alternative to fare increases. Operators can rarely effect the reduction in the number of vehicles and drivers needed to save a whole day's costs. Reductions in off-peak frequencies save little in staff wages, which is the largest single cost component. As savings from dispensing with underused services are not significant, operators tend to keep services running all day even if there are relatively few people travelling.

28. Rail may offer competition on some point-to-point routes. HCC does not, however, have sufficient information about rail travel patterns (or about the entirety of bus usage) to justify making a judgement. It does seem, however, that bus and rail may be serving two different markets; and that where a bus service has tapped into latent demand, it probably has had no adverse effect on the train service. Different types of public transport operation – slow bus, express bus, coach, rail – tend to complement, and not to substitute for, one another.
29. Taxis offer no effective competition to bus services despite anecdotal evidence of groups of people arranging for a return journey by taxi because it is cheaper. The taxi industry is reluctant to commit itself to offer scheduled services, even with HCC financial support, for fear that it would sacrifice its flexibility of operation.

### **Competition**

30. Sovereign's post-deregulation difficulties were compounded by the University of Hertfordshire deciding around the time of its creation in 1993 to run its own bus service, called Universitybus. The University had plans for rationalising its sites on to one campus. BlazeField, Sovereign's parent company, may well have kept the financially disappointing Sovereign business going in the hope of gaining University transport business once the single campus solution had been achieved. However, around 18 months ago the University made clear its commitment to continuing UniversityBus for the foreseeable future, as evidenced by its new garage in Hatfield, which is used by Sovereign. This seems to explain Sovereign's subsequent disposal of its St. Albans garage in January 2004, followed by the current proposal to sell its Hertfordshire operations to Arriva.
31. UniversityBus is seemingly a wholly owned subsidiary of the University but run as an arm's length, profit making, trading organisation. Its results are not published and its target rate of return is not known. It tenders actively for HCC services, mostly but not exclusively related to transport of students. It also operates directly, apparently with some University financial support, certain commercial services so as to cater for student flows. The University also funds student concessions available for travel only on UniversityBus. Sovereign has

just initiated a concessionary scheme for students using Sovereign services. This is a response to UniversityBus's recent decision to run certain services partly duplicating those provided by Sovereign. HCC is by law debarred from offering concessions to students aged 19 years or above.

32. Sovereign at one point is believed to have taken legal advice as to whether the University Bus competition was fair. It appears to have been advised that there is nothing to prevent the University from having a trading company to trade and run services.
33. There is very little on the road competition between Arriva and Sovereign. Overlaps between Stevenage and Hitchin are partly a product of history, and partly reflect where their natural territories lie. Neither wants to upset the status quo. This was illustrated by Sovereign's reluctance, despite passenger demand and to HCC's frustration, to re-route an existing service through rather than round Harpenden and compete with an Arriva service there. It was unwilling to upset Arriva and thus invite retaliation. Subsequently, Sovereign's sale of certain bus operations in January 2004 to Centrebus has resulted in the new owner agreeing to divert the service. Centrebus has, however, lost some passengers because their tickets are valid for a smaller network compared with the former Sovereign network.
34. Of the larger bus companies, Stagecoach are very much at the fringes in Hertfordshire; First Group have withdrawn and shut their local garage. The large companies appear to have become much more geographically concentrated.
35. Cllr. Chris White's letter to the CC diagnosed the existence rather than the absence of competition as a problem. This reflected the views of his St Albans constituents, who complain that each company generally accepts only its own tickets, meaning passengers cannot benefit from the overall frequency of services. Steps towards inter-available ticketing in any area are hampered by Office of Fair Trading (OFT) insistence on the participation of all, not just some, companies, and on operators having to offer tickets for their own services only, as well as inter-available tickets. The consequent complexity of ticket pricing for drivers and companies is excessive.

36. HCC's perception is that an operator on a commercial route who loses some business to a competitive newcomer looks to offset the reduction in revenue by dropping marginally successful services elsewhere. As when Sovereign withdrew from rural North Hertfordshire, the HCC is left to pick up the off-loaded services.
37. The HCC would not discourage on-road competition, but it would not encourage another operator to compete with Arriva if the proposed acquisition eliminated competition in any particular area. As the current Sovereign services in Hemel Hempstead have little impact on Arriva, the HCC would have no problem with the acquisition giving Arriva a 96% market share there. If a 96% market share operator were to drop some marginal services there, the HCC would probably come to their support, with the understanding that it might have to drop services elsewhere and / or look to increase tax on residents.
38. Some existing Sovereign services are marginally viable. Their future may yet lie in becoming contracted HCC services again, as they were in 1986.
39. Bus companies operating in South Hertfordshire will be placed under additional pressure once the London mayor's proposal for free travel for all under-18s takes effect across the boundary in Greater London. Any resulting withdrawal of commercial services could involve the HCC providing replacements. Its elected members are likely to press Government for financial assistance to help match the public sector resources available for transport in London.

### **Barriers to entry and expansion**

40. Would-be new entrants into the bus industry in Hertfordshire have real difficulty in gaining access to depots because of planning constraints, high land prices and shortage of available land. District councils' tendency to block diversification of farm land and buildings into bus depots appears to be a fairly rigid determination of planning use. Existing operators, large and small, suffer from the same problems. A particular concern arises over whether any purchaser of Sovereign will manage to lease from UniversityBus, as Sovereign have so far done, a part of the new depot at Hatfield. Although the depot has considerable excess capacity, it is unclear where UniversityBus see their interest lying.

## Effects of the merger

41. If Arriva were not permitted to proceed with purchasing Sovereign, HCC would be concerned at the prospect of Sovereign giving 56 days notice to de-register their services. In all likelihood Sovereign would, at least on their most attractive routes, seek to sell on and avoid redundancy costs. It might well seek other bids for its whole operation. HCC are already concerned about the viability of the St Albans services taken over by Centrebus after Sovereign had been making losses on them. A Centrebus purchase of the remaining Sovereign services would raise a further concern about survival, given Sovereign's public performance figures. Any purchaser, however, is going to have to look rather closely at those Sovereign services that are fairly marginal.
42. An Arriva takeover would probably lead to some integration, rationalisation or withdrawals of services once the sums have been done. Problems would arise from the company giving 56 days notice of withdrawals and leaving HCC to pick up the pieces. HCC would prefer operators to plan ahead, and Arriva offers more chance of forward planning. It would, however, be likely to reorganise its Hertfordshire network as a whole and would prefer to do so from the starting point of a larger operation than their present one. HCC has misgivings about certain of their services which seem in due course inevitable candidates for deregistration.
43. HCC would not have any particular problem with UniversityBus taking over Sovereign. It might be in the HCC interest to have a number of medium sized companies.
44. An HCC analysis of market shares based on mileage over Hertfordshire as a whole, broken down by district council area, shows Arriva as having 51%, Sovereign 12% and Centrebus and UniversityBus 9% each. Mileage does not necessarily reflect market position but is easy to calculate. There is no ready way of obtaining the numbers of passengers carried, although these would probably be a better guide to the relative sizes of the bus companies.
45. The underlying HCC concern, whatever the outcome of the present fairly fluid situation, centres on having to deal with withdrawn commercial services.