

Summary of Hearing with Transit Group Ltd and Stansted Transit Ltd

Background to Transit Group and Stansted Transit

1. Sian Morris is the Managing Director and her father, Andre Morris, the Transport Manger of Transit Group and Stansted Transit, both operated in Stevenage. They also operate bus services in Essex, Bedfordshire and Buckinghamshire. Stansted Transit runs its Hertfordshire commercial operations, in Stevenage, from a garage in Buntingford. Once the Traffic Commissioner has granted it a licence (expected the week beginning 04 October) the Hertfordshire operations are going to be taken over by a new company under the same management, called Stevenage Link. CK Holidays was a separate company, owned by a Colin Brown, which ran into financial difficulties and folded. Mr Morris tried to assist Mr Brown, who had run CK Holidays, to get back into bus operations in Stevenage, but Mr Brown decided to retire from operating buses.
2. Three buses in Stevenage Link livery have now started a ten minute frequency service to compete with Sovereign over about 60% of the SB1 main bus route within Stevenage. Running from just after 06.00 hrs to just before 20.00 hrs, they offer the same frequency at the peak, a somewhat better frequency off-peak, and a lower fare than Sovereign. They charge the same flat fares (£1 single, £1.40 return) as on Stansted Transit's five circular town routes in Stevenage.
3. Stansted Transit operates some tendered contracts for Essex County Council, that run into Hertfordshire (the 301,306, 317). A former company, called London Transit, operated a commercial service in Stevenage and some tendered services for Hertfordshire County Council (HCC). It wound up because it was heading towards financial difficulties. Its cash flow as a small business could not cope with HCC payments being delayed for six months, or longer when the single officer checking daily cash takings went sick, or with HCC's authorisation procedures. If the Arriva takeover of Sovereign went ahead, Transit Group would not run HCC tendered services, despite the income attraction, as it is not prepared to jeopardise its company.

4. Stansted Transit's annual turnover amounted to approximately £1.2 million last year. It has about 42 employees and holds, with Transit Group, 35 operating discs (15 Stansted Transit, 20 Transit Group). It owns about 40 vehicles, of which 10 operate in Stevenage.

Bus services in Hertfordshire

5. Sovereign's departure would be a shame since they run a pretty good operation.
6. High car ownership in Hertfordshire makes for difficult bus operations. So does the lack of traffic priority for buses, especially in Stevenage. There is big scope for improving bus services in Stevenage through use of bus lanes, but it is not exploited, possibly because of funding difficulties, possibly because of lack of pressure.
7. Stansted Transit has a 15% to 20% market share in Stevenage. Arriva has about 50%, and Sovereign the remaining 30% to 35% which is accounted for by its one single, high capacity SB1 route. In the normal course of events Stansted Transit would not have entered into competition with Sovereign on the Stevenage route. It has done so because of Arriva's proposed takeover, and to forestall an attempt by a different operator (identity confidential) to start up on that route.
8. Since Stansted Transit charges flat fares on its services, it has no interest in keeping records of the length of passenger journeys.
9. Concessionary fares from Stevenage amount to some £150,000 per annum, against a total Stansted Transit turnover of some £1.2 million which cannot be broken down by area. Concessionary fare income outside Stevenage is insignificant.
10. Stansted Group/Stansted Transit vehicles in Stevenage comprise vehicles that are owned, leased, or on hire purchase. Except on one route, all are low floor buses. All except one new purchase were bought second hand. Leaving aside three J registered buses on the route just started, the oldest vehicle is P registered from 1997.

11. Membership of Intalink costs some £1,000 a year and produces little benefit. Stansted Transit is denied representation at steering group meetings. It accepts a reasonable number of Interlink tickets, and also sells them, but has no record of how extensively they are used across Hertfordshire. Stansted Transit does not have the time and manpower resources to carry out customer surveys. It assesses customer satisfaction from informal feedback (notably Christmas gifts), and the scope for competition from direct roadside observation.

Market definition

12. Up to 80% of Stansted Transit customers are women, who probably do not have access to the family car during the day. About 20% of Stansted Transit passengers are children. A high proportion of the rest are senior citizens, who appreciate the company's friendly drivers. The HCC shares out income for carrying senior citizens between bus operators according to route mileage, which is an easily administered system, under which the HCC make timely payments. Income allocation according to passenger usage would be feasible if smart cards were introduced. This would be more remunerative within Stevenage, and less so in rural areas. It would have the disadvantage of needing a system of revenue checks which would entail delays.
13. Taxis and mini cabs are competitors to buses, especially since they are cheaper than buses for two or more persons travelling together.
14. Parking in Stevenage is plentiful and cheap – £2 per day or as low as 60 pence per hour.
15. About 40% of tickets sold are multi-tickets. About 25% are returns. Larger operators can price multi-journey tickets more competitively because of their greater route coverage. Quite a lot of passengers use the Transit Group buses to get to the centre of Stevenage, and then change to another service, especially to get to Lister Hospital.

Competition

16. Transit Group's Hertfordshire operations are confined to Stevenage - the new route competing with Sovereign's SB1. Arriva, spurred by competition, has become more competitive over the past six months, though not in terms of fares. Arriva's timetabling does not match its own performance criteria. Arriva's quality checks at the Stevenage bus station improve its timetabling, which actually helps to increase Stansted Transit's takings. When checks are not carried out, Arriva's timetabling falls below standard,
17. Stansted Transit does not compete against UniversityBus or CentreBus, the new entrants in the area. One further new entrant, Grant Palmer, has just won an HCC contract for a route into Stevenage.
18. Stansted Transit believes it can compete strongly against Arriva if the takeover goes ahead, especially if Arriva fails to improve its quality of service. Arriva grew large through acquisition rather than by doing a good job, and is not the only disappointing operator. The bus industry as a whole is complacent about substandard services.
19. Sovereign's management of the Stevenage bus station causes no problems. A bus operator, however, is not the right choice as manager. Transit Group would not welcome a switch of management from Sovereign to Arriva. The style of management at Harlow bus station by somebody connected with Arriva gives grounds for concern about replication of the same behaviour at Stevenage. Safety and other issues are such that the bus station would be best managed independently or by the council. Stansted Transit would find it acceptable to pay a nominal extra fee to achieve this, although on the face of it the money paid to Sovereign could be used to fund direct council employees.

Barriers to entry and expansion

20. Entry into the bus market is very difficult. It requires financial backing and quality office support. Tendered services can be a way in. Stansted Transit started by taking people to a night club, but passengers trashed its bus. In the wake of the Hatfield rail accident, it provided rail replacement services remunerative enough to fund bus purchases for contract work, but not

attractive now because of the demands on staff and the ad hoc nature of the work.

21. Depots are extremely difficult to acquire in Hertfordshire, particularly because of the problem of obtaining planning permission. In Stevenage, the industrial estate is the only new site likely to be granted planning permission for this use. Cost is also a major consideration. A depot with facilities for maintenance but not for bus wash and refuelling, would cost some £0.75 million for 25 buses, and around £1 million for 50 buses. A bus wash could cost up to £50,000 and give rise to difficult environmental issues. Stansted Transit's drivers mostly refuel at petrol stations, obtaining receipts so as to claim fuel rebates.
22. Recruiting drivers is a barrier. Stansted Transit now trains its own drivers and pays £9 per hour, probably one of the highest rates outside London. It pays more than Arriva but does not attract Arriva drivers, partly because of Stansted Transit's location, partly because of unfounded rumours that it is about to fold up, and about which it has reassured its own staff. Drivers are the key to giving the public a good standard of service.

Effects of the merger

23. Stansted Group is not opposed to Arriva taking over Sovereign. It foresees an opportunity to compete more effectively as a company that cares about quality of service to passengers, against Arriva, a company interested only in shareholder returns. If the takeover went ahead, Stansted Transit would, as is normal, have to give 56 days notice to the Traffic Commissioner to switch routes. It prefers to avoid making changes to its operations. Stansted Transit is capable of running more services and can raise the necessary finance. Stansted Group is currently looking at acquiring another depot in the Stevenage area.
24. Stansted Group expressed interest in purchasing Sovereign about a year ago but was told that Sovereign was not for sale. Stansted Transit's accountant was wary of making any bid but advised on a purchase figure. In his view, Arriva are now paying up to 14 times too much for Sovereign. If the takeover falls through, the Stansted Group would be interested in buying Sovereign's Stevenage operation, including depot, buses and routes.