

5 Views of third parties

5.1. This chapter summarizes views received from The Scottish Office, the DOT, the Traffic Commissioner for Scotland, local government, bus operators, associations and professional bodies, Members of Parliament, local schools and members of the public. In view of our decision to exclude Dumfries & Galloway from the area designated for the purposes of the inquiry (see paragraphs 2.27 to 2.34) we have omitted from this chapter the views received from parties in that region.

The Scottish Office

5.2. The Scottish Office said that it was difficult to judge the competition aspects of localized mergers such as Stagecoach/A1 Service. Although bus mileage might be the best available means of assessing competition on a statistical basis, this means of measurement might not be the most appropriate in this case. By virtue of the distribution of routes, the merger would result in little loss of actual competition in route terms. Although, inevitably, it would result in a loss of potential competition, there were other operators in the main areas of operation or in contiguous areas which were able to offer competition where the opportunity arose.

5.3. Commenting that economies of scale would probably allow Stagecoach to undercut competitors and still remain profitable, The Scottish Office nevertheless thought there were likely to be benefits to passengers in the form of improvements in service and in the standard of vehicles. If Stagecoach abused its position by increasing fares, other operators would be able to exploit that opportunity. Conversely if Stagecoach reduced fares, thereby engaging in predatory pricing, its actions would presumably come to the attention of the OFT. Similar factors would apply in relation to tendered services.

Department of Transport

5.4. The DOT said that the views of The Scottish Office should take precedence over its own comments when considering developments in Scotland.

5.5. It noted that the acquisition of A1 Service consolidated the Stagecoach interests stretching from the Mersey to the Clyde. Apart from that, the DOT saw little objection to the geographical division that had taken place in Scotland-the FirstBus companies across the middle of the country now prevented Stagecoach from linking together its holdings in north-west England and south-west Scotland with those in Fife and the north-east of Scotland.

5.6. The acquisition appeared to be the result of the owners of A1 Service wanting to leave the industry and as far as the DOT was aware there had been no anti-competitive behaviour by Stagecoach. The DOT said that it was uncertain as to the extent to which it should inhibit the usual ebb and flow of ownership in the bus and coach industry, given that this could make it difficult for an owner to obtain the best possible price for the assets. It would only be seriously concerned if there were no new entrants to the market and if the local authority found that there was no competition for tenders.

5.7. The DOT wondered whether, if the MMC recommended that Stagecoach should divest itself of A1 Service, there would be potential buyers. It suggested that, as a possible alternative to divestment, Stagecoach might be required to undertake that it would operate A1 Service and Western Scottish as

separate companies which would bid separately for tendered services put out by SPTE, in similar fashion to the Badgerline/Bristol Cityline companies in Avon.

Traffic Commissioner for Scotland

5.8. The Traffic Commissioner said that the structure of A1 Service, with the operator's licences being held by a co-operative 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 led to 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 if it appeared at an inquiry again a serious view would be taken and its licence could be revoked.

5.9. There had been an improvement in standards since that hearing, but the vast majority of the fleet was old and of generally poor standard. A maintenance investigation by the Vehicle Inspectorate in April 1995 had revealed continuing problems in the condition of vehicles and preventative maintenance systems. The situation had been discussed with Stagecoach which had already recognized the problems and was currently dealing with them: 21 new vehicles would be delivered by the end of August 1995 and a number of 'mid-life' vehicles were being transferred from London for schools contract work. Stagecoach had also improved maintenance, including the training of drivers to report defects. It proposed to invest in depot redevelopment and replacement. The Traffic Commissioner felt that all this would lead to a better service to passengers and improved road safety.

5.10. The Traffic Commissioner said that A1 Service had not been a direct competitor with any Stagecoach company, including Western Scottish. A1 Service and Western Scottish did not operate on the same routes. There had been no significant registration changes as a result of the merger, and although two of A1 Service's former component firms continued to operate in their own right, they provided no registered services.

5.11. The Traffic Commissioner therefore welcomed Stagecoach's acquisition of A1 Service. Stagecoach would set standards for others to match, and he believed this would be of general benefit.

Local government

Strathclyde Passenger Transport Executive

5.12. SPTE gave written evidence and attended a hearing. (See paragraphs 3.14 and 3.15 for a description of this organization.) It said that within Glasgow and its immediate environs SPTE was responsible for seeing that an overall network of services, including rail, was provided to meet the total transport needs of the area. Throughout the remainder of Strathclyde SPTE acted as the Regional Council's agent in all public transport matters. Consequently in Ayrshire, where A1 Service operated, it followed the Council's policies and implemented them.

5.13. SPTE provided us with information on tenders it had received for school services over the last three years. It told us that it had recently monitored such contracts. Between August 1994 and January 1995 40 complaints had been received about the 50 contracts held by A1 Service; 29 of these were found to be justified, compared with 52 justified complaints between January and June 1995. This represented an increase in service failures from approximately six to nine a month following the take-over (see paragraph 5.80).

5.14. SPTE had not been notified by either Western Scottish or A1 Service of any fare changes since May 1994 and it therefore appeared that there had been no increase as a result of these acquisitions. Neither had there been any significant improvements to the bus service network. There had been some improvement in the fleet when the first new buses were delivered in July 1995.

5.15. The acquisition was of concern because of its impact on the provision of bus services in the area, particularly on competition for subsidized local services and schools services. Stagecoach appeared to be moving to a position where it would control the supply of local bus services and limit the extent of real competition for contracted services. Although Ayrshire was a relatively small part of the UK, the situation had to be considered in the context of Stagecoach being the dominant operator in a band of country extending through north-west England, Dumfries & Galloway and beyond Ayrshire into Argyll & Bute. Although other major bus operators were present in the west of Strathclyde, their spheres of operation were separated from that of Stagecoach either by the Firth of Clyde or by the belt of open country between the Greater Glasgow conurbation and Ayrshire. This aspect had been emphasized by the recent closure of Clydeside Buses' depot in Largs with a reduction in the presence of the British Bus group in Ayrshire. SPTE could not envisage that any safeguards other than divestment would allay its concerns over the acquisition. Appendix 5.1 gives further details of evidence submitted by SPTE and Stagecoach's response on its comments.

Cunninghame District Council

5.16. Cunninghame District Council provided written evidence and attended a hearing. It told us that the low level of car ownership in parts of its district was an indication of the importance of local bus services. Tendered services accounted for a very small percentage of bus services operated within the district except on the islands of Arran and Cumbrae where the majority of services were subsidized. The Council told us that little had changed since deregulation, but there was increased competition from smaller operators.

5.17. The merger did not appear to have affected the level of competition in Cunninghame district. Although Western Scottish operated widely throughout south-west Scotland, there was little overlap between its services and those which had been provided by A1 Service in the Kilmarnock-Irvine-Ardrossan area. Generally these services complemented rather than competed with one another.

5.18. The Council told us it had been informed by Stagecoach that there had been no fare increases since the acquisition, but it was concerned that the existing fare levels should be maintained. Although the Council had no responsibility to monitor quality of buses or services provided, it commented that it had received no complaints from the public about any deterioration in service.

Kilmarnock and Loudoun District Council

5.19. Kilmarnock and Loudoun District Council, which gave written evidence and attended a hearing, told us that from the time of Stagecoach's acquisition of Western Scottish in July 1994 the Council had expressed concerns about Stagecoach's acquisition policy in several instances. When Stagecoach had acquired Western Scottish the Council had been concerned about diminishing competition in the area and about the maintenance of services, particularly to the more outlying areas of the district. It was similarly concerned over Stagecoach's take-over of A1 Service.

5.20. The Council's main concern was that Stagecoach's acquisitions were leading to a situation which was contrary to that envisaged by the Government's deregulation policy and did not result in an increase in choice, range and quality of service to the consumer but in an overall monopoly situation. There was no effective competition from rail within the district. The Council did acknowledge, however, that with its take-over of Western Scottish, Stagecoach had generally improved the quality of service by replacing old buses with new. It assumed, therefore, that A1 Service vehicles would enjoy a similar improvement.

5.21. Stagecoach's acquisitions had resulted in it now being the only significant provider of commercial bus services in the area and there was no real competition within a reasonable distance. Stagecoach's acquisition policy had made it so powerful that other operators were withdrawing. Stagecoach had indicated that it placed more emphasis on the commercial viability of individual routes than on public service and had withdrawn certain services after acquiring Western Scottish; it assumed

that subsidies would be provided for routes which the Passenger Transport Authority deemed necessary for the maintenance of public service. Stagecoach had indicated that it would only tender for such services if they carried a sufficient level of subsidy to make them commercially viable. The Council feared that, as the district was left with no other significant operators, some services might not be tendered for at all.

5.22. The Council's other concern was at the lack of consultation by Stagecoach. New routes had been planned, and old ones cancelled, without the Council being informed. Although Stagecoach had consulted Strathclyde Regional Council (the transport authority), the District Council was criticized for not informing the public.

5.23. The Council was not convinced that divestment was the solution. Instead it felt that Stagecoach should be required to take account of the public's views and honour any promises made to them and to consult with the Council with regard to its plans for its services. In addition, the Council felt that the methods by which subsidized bus services were tendered needed to be addressed to ensure that Stagecoach could not exploit its monopoly position.

Kyle and Carrick District Council

5.24. Kyle and Carrick District Council was concerned that the merger would leave AA Buses as the only other bus company besides Stagecoach operating in its area. The limited competition was likely to result in increased fares and in rural communities being vulnerable to withdrawal or reduction of services. The Council therefore did not consider the merger to be in the public interest.

Renfrew District Council

5.25. Renfrew District Council told us that it did not consider that the proposed acquisition would have major implications for operations in its area. However, as Ayrshire bordered Renfrew district, it was concerned about the possible implications on future competition for bus routes and for local services and schools contract services in its district.

Bus operators

Former members of A1 Service

5.26. We invited the former members of A1 Service to give their views on the acquisition and the comments we received are summarized below.

Andrew Hunter

5.27. This firm felt that there would be no benefit to the public if Stagecoach was required to divest A1 Service as the routes were already served by other bus companies.

James McKinnon Jr

5.28. James McKinnon Jr said that commercial services in the area could only be profitable for one company and this had led to the decision to sell the business. A1 Service had found it increasingly difficult to operate loss-making off-peak services. Stagecoach had indicated that it would continue to run these services. It was unlikely that any other operator was able to or would wish to become a competitor to Stagecoach on the routes previously operated by A1 Service-although AA Buses currently operated on parts of these routes, apparently successfully.

J McMenemy & Co Ltd and J & J McMenemy

5.29. J McMenemy & Co Ltd and its partner firm J & J McMenemy told us that they had been pleased to sell their businesses to Stagecoach. In the light of the difficulties in the industry, particularly those in the A1 Service business, the take-over by Stagecoach should improve the quality of service to the public in the area, especially as it was running much newer buses than those previously operated by A1 Service. The firms were unable to see how divestment of A1 Service by Stagecoach could improve services in any way.

R Meney & Sons

5.30. R Meney & Sons did not think that the acquisition was against the public interest as Stagecoach had continued to run the services previously operated by A1 Service.

Parkhouse Garage Ltd

5.31. Parkhouse Garage Ltd (Parkhouse) said that the acquisition by Stagecoach had been the most appropriate solution for A1 Service at the time because of difficulties within the business and the advanced age of some of the owners. The approach and initial discussion had been initiated by members of A1 Service and was not the result of any hostile activity by Stagecoach. Parkhouse did not think the acquisition by Stagecoach could be detrimental or that there would be any advantage in requiring it to divest its interest in A1 Service.

Robert B Steele

5.32. Robert B Steele said that the Stagecoach service which had replaced that of A1 Service was not as good. He believed Stagecoach would continue to cut local services.

Local bus operators

5.33. We undertook a questionnaire survey of 205 bus operators in the designated area. The questionnaire sought to obtain information concerning actual competition in the local bus market, potential competition and views on the acquisition. Three operators who completed questionnaires were also invited to hearings.

5.34. Chapter 4 draws on the factual information provided in response to our survey. The comments of respondents who gave views on the merger are summarized below.

Ashton Coach Hire

5.35. Ashton Coach Hire (see paragraph 4.36 for a brief description of the company) runs the 585 Coastline service from Greenock to Ayr. It said that Stagecoach's dominance was resulting in a monopoly situation. The company believed this would be detrimental to competition as it would be difficult for small operators to compete with major operators with large resources. It was concerned that such operators could either price small operators out of business or run anti-competitive services to force them off particular routes. Until the merger, no operator had provided a through service from Greenock to Ayr. The introduction of the Coastlink 535 service (see paragraph 4.52) suggested primarily that Stagecoach was interested in controlling bus services by removing competition.

5.36. Ashton Coach Hire said that it had sought an interdict in the Court of Session against AA Buses, A1 Service and Clyde Coast Coaches, each of which was alleged to be 'passing-off' on 585 Coastline's main route of Greenock-Ayr via Largs. Clydeside Buses was operating the Coastlink 535

service from Greenock to Largs via Gourock which, whilst being on a route operated by Ashton Coach Hire, was not its main route. Separate legal action would have been required in that circumstance, and Ashton Coach Hire decided not to pursue that at that stage.

5.37. When Ashton Coach Hire's petition was heard and an interim interdict granted, all four consortium members stopped using the Coastlink 535 markings and painted their coaches white. No further legal action ensued because a remedy had been effected to the contents of the petition.

Clyde Coast

5.38. Clyde Coast (see paragraph 4.33 for a brief description of the company) gave written evidence and attended a hearing. It told us that it operated mainly in the Cunninghame district from a depot in Ardrossan. Until September 1994 it had also operated in Kilmarnock & Loudoun where it had taken over another small operator, but it had discontinued its operations there because of high costs. Its longest service in terms of distance was one from Ardrossan into Glasgow-a distance of about 35 miles.

5.39. Clyde Coast was a party to a joint bus service between Greenock and Ayr-the Coastlink 535 service-together with Stagecoach A1 Service (which subsequently withdrew), AA Buses and Clydeside 2000 (see paragraph 4.52). It rented two buses for this purpose from Western Scottish on commercial terms. The companies had registered the service in response to action taken by Ashton Coach Hire which had been running its buses in front of those operated by all four companies and attracting their passengers. For the Coastlink 535 service each of the four operators ran vehicles on a joint timetable, kept the revenue earned by its own vehicles and was responsible for meeting all costs associated with its operation of the service. They each accepted return tickets issued by any of the other three operators of the service. Clyde Coast said that the reason for starting a joint operation with a common identity was to present the public with a co-ordinated service, rather than four separate services. It was therefore essential that return tickets could be freely used on all the operators' buses.

5.40. The company said that it had had a working relationship with both A1 Service and Western Scottish which went back many years. For example, Western Scottish had leased part of Clyde Coast's premises for use as its Ardrossan depot from 1981 to 1987. In common with other bus operators Clyde Coast entered into subcontracting arrangements, and bought and sold materials and services, with most adjoining operators, including Stagecoach. This was common practice throughout the industry.

5.41. Clyde Coast thought that Stagecoach's acquisition of A1 Service would probably lead to an improvement in service and, as A1 Service's fares were high and Stagecoach tended to keep fares low, a reduction in fares. The merger would also result in an improved standard of vehicles. Clyde Coast had no concerns over the acquisition. If it had known that A1 Service was for sale, and it had been able to raise the necessary finances, Clyde Coast would have made an offer for the business. If Stagecoach was required to divest, Clyde Coast said that it would be interested in the purchase of A1 Service, but again subject to being able to raise the necessary finance.

5.42. During our inquiry Clyde Coast agreed with Western Scottish that the latter would take over all its local bus services except for the Coastlink 535 service, where Clyde Coast would take over Stagecoach A1 Service's part in the joint operation (see paragraph 4.34).

Clydeside Buses

5.43. Clydeside Buses (see paragraph 4.30 for a brief description of the company) is a subsidiary of British Bus and operates mainly to the west of Glasgow. Clydeside Buses was one of the joint operators of the Coastlink 535 service on which it ran two vehicles from its existing fleet. It told us that there were no financial arrangements between itself and Stagecoach and there had been no discussions between the two companies about any alterations to routes, services or timetables.

5.44. Regarding the closure of its Largs depot, Clydeside Buses said that that depot had been used solely as an outstation for six buses and the company felt there would be no operating disadvantage in

servicing these vehicles from its Johnstone depot.

5.45. Clydeside Buses said that it had reduced its service between Glasgow and Largs as most passengers did not travel past Kilbirnie. The demand for the route between Kilbirnie and Largs was minimal and Clydeside Buses found, therefore, that it was not commercially viable. SPTE was now responsible for deciding whether this service would be tendered.

5.46. Clydeside Buses told us that it sought to expand its operations in any area where there were profitable opportunities. At present it did not plan to extend further into Ayrshire but might in the future reconsider this decision.

Delta Coaches

5.47. Delta Coaches, which operates in Renfrew, expressed concern about the emergence of large operators in the west of Scotland which would leave little opportunity for competition from the smaller operators.

Dodds of Troon Ltd (trading as AA Buses)

5.48. AA Buses (see paragraph 4.32 for a brief description of the company) is the biggest remaining independent operator in north Ayrshire. In written evidence and at a hearing it told us that it operated services in the Kyle & Carrick, Cunninghame, and Cumnock & Doon Valley districts from its depot in Ayr. The main change to its services within the last few years had been the introduction in March 1995 of a 15-minute service between Ayr and Dalmellington which it had started after Western Scottish had been banned from the route (see paragraph 4.32). AA Buses said that the ban had been as a result of a complaint against Western Scottish by Carrick Coaches. This latter operator still ran buses on the Ayr-Dalmellington route and continued to run them immediately ahead of AA Buses—a practice which it had previously carried out in respect of Western Scottish buses. AA Buses had complained to the Traffic Commissioner but had been told that the two companies should sort it out between themselves. It believed the Traffic Commissioner was more lenient with small operators. Before starting this service AA Buses had sought Stagecoach's reactions to its intention as Stagecoach was not an operator to fall out with. Stagecoach had said that it had no objections so AA Buses went ahead. There was no understanding between AA Buses and Stagecoach as to what would happen when the ban on Western Scottish ended.

5.49. AA Buses told us that it had operated a service between Ardrossan and Ayr. Ashton Coach Hire had then started the 585 Coastline service on the same route with a similar coloured livery and had run its buses immediately before those of AA Buses. Ashton Coach Hire had also parked on double yellow lines outside the bus station in Ayr and attracted AA Buses' passengers. AA Buses had complained to the Traffic Commissioner and Ashton Coach Hire was called to a public inquiry. Ashton Coach Hire had subsequently forfeited one-fifth of its previous quarter's fuel tax rebate but was not banned from the route as Western Scottish had been for similar action on the Ayr-Dalmellington route. AA Buses, Stagecoach, Clydeside Buses and Clyde Coast then started a joint service from Greenock to Ayr—the 535—to compete with the 585 service. AA Buses operated two vehicles on the route—both drawn from its existing fleet and owned by rental companies. Each company had registered a portion of the timetable and kept the fares it took. The fares charged were the same as those on the 585 service. AA Buses had no financial arrangement with Stagecoach or any of its subsidiaries in connection with the 535. Apart from this joint service and an arrangement whereby it had rented space in the Western Scottish bus station, AA Buses had no other business links with Stagecoach or its subsidiaries and had never discussed the sale of all or part of its business to Stagecoach.

5.50. AA Buses had not known that A1 Service was for sale but any possible interest it might have had in acquiring the business would have depended on the asking price and on AA Buses' ability to raise the capital required. It had not been aware of any aggressive action by Stagecoach. AA Buses had no concerns over the acquisition of A1 Service—in fact it welcomed the entry of a strong operator into the area. The competition which it faced from A1 Service had reduced since the acquisition.

Marbill Coach Services Ltd

5.51. Marbill Coach Services Ltd (Marbill), which operates from Beith to Kilmarnock, felt that Stagecoach had improved the standard of vehicles and service in the area. We asked Marbill about the services it had registered in October 1994 and subsequently withdrawn before they were due to begin (see Appendix 5.1, point 4). It said that after registering the services it had obtained several schools contracts in the Kilmarnock area at peak operating times. Its fleet was not large enough to cope both with these contracts and the registered services and it had decided to withdraw from the latter. The decision had been a commercial one taken unilaterally and there had been no prior discussions with Stagecoach. As to Stagecoach being a potential competitor on the registered routes, Marbill said that in registering the routes it had been aware of the implications of running the services.

McGill's Bus Service Ltd

5.52. McGill's Bus Service Ltd, which operates in Glasgow and Renfrew, told us that it had no objection to the acquisition providing the A1 Service firms had sold willingly. Many operators which had started businesses in the deregulated 1920s were angry with the Government's policy in reintroducing deregulation by the 1985 Act and some were now keen to leave the industry. They felt they were being forced back into an unacceptable situation where competition was wasteful and aggressive and diminishing revenues made it increasingly difficult to reinvest.

Neill's Buses

5.53. Neill's Buses operates in the Kilmaurs area, where the firm is in competition with Western Scottish. Mr Neill said that his buses operated a quarter-hourly service in a small housing scheme and through Kilmaurs main street. Competition from Western Scottish had the effect that, including Neill's Buses, seven buses an hour served the small scheme and 13 buses an hour went through Kilmaurs main street. Neill's Buses was to begin new services in Shortlees and Bellfield on 30 October 1995, and it expected Western Scottish to offer competition there too. The company was fearful that small operators would cease to compete with Western Scottish, leaving it as the single operator in the area.

SBH

5.54. SBH (see paragraph 4.31 for a brief description of the company) told us that it had not been active in the acquisitions market at the time of the A1 Service acquisition and was therefore unaware that the business was for sale. If SBH had been aware, it would probably have considered bidding for A1 Service, although given the size of the business and the lack of contiguity and synergy between it and SBH, an acquisition would not have been very logical. SBH would also have been concerned about taking over an apparently disparate organization whose fleet would have required upgrading.

5.55. Although SBH would always consider entering an area where an existing operator was providing a poor service, it saw Ayrshire as relatively poor bus territory and a little too far removed from SBH's existing area of operation. It believed the part of Ayrshire where A1 Service operated could only reasonably be served by one quality operator. Any other scenario was likely to perpetuate inadequate fleet investment and a lack of service co-ordination and quality.

Shuttle Buses

5.56. Shuttle Buses (see paragraph 4.35 for a brief description of the company) gave written evidence and attended a hearing. It had commenced operations in 1990 in Cunninghame, Kilmarnock & Loudoun and Kyle & Carrick districts from depots in Kilwinning and Galston with the intention of serving markets which were either not served at all or were poorly served. Initially there had been fairly strong competition from Western Scottish, particularly in Kilmarnock. Shuttle Buses had complained to the OFT about Western Scottish's practice of running buses immediately in front of Shuttle Buses' and about a

fare saver ticket which Western Scottish had introduced only on buses which competed with those of Shuttle Buses. The OFT did not consider there to be any justification in its complaint. The saver ticket was withdrawn shortly afterwards and although Western Scottish increased the frequency of buses on the main corridors, it left Shuttle Buses to operate on the sections of routes it had sought to develop for itself. Shuttle Buses had also faced some competition from A1 Service but this had diminished over the last four years.

5.57. In 1992 Shuttle Buses had encountered financial difficulties, which had resulted in the company being advertised for sale. It had been unable to reach a satisfactory deal with any of the interested parties and had offered the company to Western Scottish (which was owned by its management and employees). The offer had been declined and there had been no subsequent discussions with Western Scottish or with Stagecoach about the sale of all or part of Shuttle Buses or about financial arrangements of any description between the companies.

5.58. In the autumn of 1994 Shuttle Buses had decided to withdraw its local services in Kilmarnock mainly because the cost of operating the network 12 miles from its Kilwinning depot was too high. It had given the required 42 days' notice of cancellation but had withdrawn immediately and the services had then been provided by Western Scottish.

5.59. Asked about the background to this, Shuttle Buses said that whilst the network in Kilmarnock had been predominantly commercial there had been a small element of tendered mileage operated under a three-year contract to SPTE. Under the conditions of the contract, if Shuttle Buses had deregistered the tendered mileage there would have been a re-tender and the company would have been responsible for any additional costs incurred by SPTE during the remaining life of the contract, which in this case could have been substantial. Shuttle Buses had consulted Western Scottish with a view to its either taking over operation of the contract or operating the contracted mileage without subsidy, in which case the contract would have been automatically terminated. Western Scottish decided to adopt the latter course of action—presumably, Shuttle Buses said, because it considered it worth a small increase in its operating costs to ensure the withdrawal of a competitor. Western Scottish had then decided to register all the services previously operated by Shuttle Buses in Kilmarnock. Shuttle Buses agreed that it would withdraw before its registrations were cancelled and that Western Scottish would provide the registered service indicating on the buses that they were on hire to Shuttle Buses until its own registrations took effect.

5.60. Since its withdrawal from Kilmarnock there were no areas where Shuttle Buses regarded itself as competing directly with Western Scottish or with A1 Service, and it had no plans to alter its routes, services or timetables as a consequence of any discussions with Stagecoach or its subsidiaries. As its current level of operation was both profitable and sustainable, Shuttle Buses was unlikely to consider expanding its route network. There were few areas where commercial services could be introduced without competing with Stagecoach, AA Buses or Clyde Coast from each of which Shuttle Buses would anticipate a robust response.

5.61. Shuttle Buses was not surprised by the sale of A1 Service to Stagecoach but was surprised by the amount it paid. If Stagecoach was required to divest, Shuttle Buses would not be interested in purchasing the A1 Service business as a whole because of the size of its operations, but it would be interested in purchasing certain sections of the business.

5.62. Shuttle Buses did not anticipate any major change in the level of competition in the specified area over the next four years. Based on Stagecoach's acquisition of Western Scottish it would expect a slight reduction in bus frequencies on the old A1 Service routes and a substantial improvement in the quality of vehicles. Shuttle Buses was not concerned by the acquisition of A1 Service because there was still sufficient competition from other operators. However, it would be concerned if Stagecoach increased its market share in the area further either by acquisition or by competition. As far as schools contracts were concerned the number of competitors was already fairly small and shrinking.

Other large operators

British Bus

5.63. British Bus said that it was not affected by the merger but felt that any acquisition which consolidated the number of operators in any given area was not necessarily against the public interest. It felt that consolidation often led to increased efficiency with consequent benefits to consumers through increased investment in the bus fleet and related services. However, it felt that any abuse of monopoly power such as unjustifiable fare increases must be policed, and if safeguards were considered necessary they should be confined to ensuring a reliable, good-quality service at a reasonable fare.

5.64. British Bus said that it been unaware that A1 Service was for sale, but even if it had known, it was unlikely that it would have made an offer. This was due largely to a number of other projects demanding its time and resources.

FirstBus

5.65. FirstBus told us that only one of its subsidiaries, SMT Omnibuses Limited, operated in the area affected by the acquisition, and then only to the extent of about three journeys a day. It understood that compared with Stagecoach's total operations in south-west Scotland, turnover in this area was low and the areas served were fairly rural.

5.66. FirstBus felt that due to the small size of operation and the rural location, A1 Service would not have been able to commit sufficient funds to renew its fleet and to improve its service to passengers. Stagecoach, on the other hand, was able to do this even in less densely populated areas. FirstBus considered, therefore, that the acquisition was in the public interest and did not see any need for safeguards or divestment.

5.67. FirstBus said that it had not known that A1 Service was for sale. It was unlikely to have considered making an offer without detailed financial and operational information about the company.

Go-Ahead

5.68. Go-Ahead told us that it had not considered operating in this area of Scotland and therefore would not be directly affected by the acquisition. It had been unaware that A1 Service was for sale but this was not unusual in the sale of privately-owned business. If it had known, however, it would have sought to obtain an information memorandum in order to consider the acquisition of the business. An offer would have depended on the financial characteristics of A1 Service and whether it fitted Go-Ahead's preferred urban focus. Go-Ahead said that it would be more concerned by the disposal of publicly-owned assets without contest than by the disposal of a privately-owned business in this way.

5.69. From its limited knowledge of public transport in Ayrshire, Go-Ahead believed the acquisition would be beneficial in terms of ensuring the maintenance of stable services and a proper level of reinvestment into the future. It felt that any safeguard on the merger was unnecessary and that divestment would be inappropriate.

Associations and professional bodies

Association of Local Bus Company Managers

5.70. The Association of Local Bus Company Managers told us that it had no membership in the affected area and had no direct interest in the acquisition. However, it felt that consideration should be given to the possibility that within a few years two or three major bus operating groups would dominate

the provision of bus services in the UK. This, it felt, might be against the public interest and might eventually force an increase in fares and charges made to local authorities for tendered services.

Glasgow Chamber of Commerce

5.71. Glasgow Chamber of Commerce told us that although Glasgow was not directly affected by the acquisition, it had many members within Ayrshire on which the merger would have a direct impact. The Chamber was keen to see that Stagecoach did not become a monopoly provider of bus services in Ayrshire and was concerned about the effect the merger would have on competition, fares, employment and the range and quality of services provided.

Members of Parliament

Mr B H Donohoe MP

5.72. Mr Donohoe, MP for Cunninghame South, said that there was no doubt that the acquisition of A1 Service had created a monopoly within north Ayrshire which, in the longer term, would affect service to the public.

5.73. Stagecoach had already cancelled some of the services previously operated by A1 Service, particularly in the early morning, eg the 6.45 am weekday service from Bourtree Hill near Irvine into the town centre. Mr Donohoe was also concerned about Stagecoach's actions against small operators. He had received complaints that it was running buses immediately before and behind small operators' buses in the Kilmaurs area and was aware that it was behaving similarly elsewhere. He also told us about two local operators (Valley Buses which had lost its operators' licence, and Wynter-M whose routes had been suspended pending action against it). Stagecoach had already offered employment to these companies' drivers and was operating services on their routes in the interim. Mr Donohoe said that AA Buses and Clyde Coast were operating buses on routes registered by Stagecoach and he believed there was an undisclosed relationship between them.

5.74. Mr Donohoe thought the acquisition was against the public interest and the only satisfactory way in which competition could be maintained was to require Stagecoach to divest A1 Service.

Mr W McKelvey MP

5.75. Mr W McKelvey, MP for Kilmarnock and Loudoun, said that Stagecoach had gained a reputation for 'killing off' competition. He felt that a monopoly which could not be regulated was of little benefit to bus users. Regular, reliable and cheap public transport was essential and either competition or a regulated monopoly was needed. The A1 Service acquisition would provide neither and routes that were not profitable were liable to be cancelled. Stagecoach alone would be left to decide how many buses would service a route and what fares would be charged.

Mr B Wilson MP

5.76. Mr B Wilson, MP for Cunninghame North, objected to the acquisition as he felt that it was detrimental to competition within his constituency and the area formerly covered by Western Scottish. He felt that the trend towards concentration of ownership made a mockery of the aims of privatization and deregulation, and had resulted in a series of monopolies operating as a cartel.

5.77. The MMC inquiry should take account of Stagecoach's relationships with other operators, particularly in north Ayrshire, not just the acquisition of A1 Service. Stagecoach's acquiring interests in other companies had resulted in an effective monopoly throughout a large area in the west of Scotland. To illustrate this, Mr Wilson cited the 535 service between Greenock and Ayr which passed through his

constituency and in which Stagecoach had joined forces with Clydeside Buses (controlled by British Bus, another large beneficiary of privatization) and the remaining local independents, Clyde Coast and AA Buses. Mr Wilson said that it was widely believed in the industry that there was a financial connection between Stagecoach and the local companies which again meant a diminution in competition.

5.78. In Mr Wilson's view the Greenock-Ayr service was a typical Stagecoach practice aimed at driving present operators off the road. Further tactics included using similar names and livery for buses as its competitors in order to confuse the public. The Coastlink 535 service had been so called to compete with Coastline 585 operated by Ashton Coach Hire and Stagecoach had adopted a similar green and white livery.

5.79. Mr Wilson was concerned as to whether competition law offered any protection to small operators against the giants.

Schools

5.80. We wrote to 18 schools in the designated area asking about the way in which schools contracts had been carried out by A1 Service before and after the acquisition. The comments we received from the ten schools which replied were mixed. While some expressed satisfaction with the new ownership, others took a contrary view. Overall, it appeared that although there had been some initial difficulties after the acquisition, these had mostly been resolved.

The public

Local meetings

5.81. On 14 July 1995 the MMC held two sets of meetings at which members of the public were invited to express their views. Open meetings were held with groups totalling about 55 people in Ardrrossan and 15 in Irvine in addition to some private discussions. The main theme emerging from the meetings, which were predominantly hostile towards Stagecoach and its acquisition of A1 Service, was concern about what was seen as an attack by Coastlink 535 on 585 Coastline. The latter was portrayed as being a friendly and efficient service, with drivers always willing to help elderly customers, whilst the Coastlink 535 consortium was staffed by inconsiderate drivers. Coastlink 535 accepted return tickets issued by 585 Coastline. Customers saw this as an element of the 535 service's duplicity, linking it to the similar livery of the 585 Coastline service, and the similarity in their route numbers and timetable formats. Several people present had caught the Coastlink 535 service in mistake for its rival. They were all staunch supporters of the 585 Coastline service and said that they would never knowingly catch a Coastlink 535 bus. Many people were annoyed that Coastlink 535 services ran a minute or two ahead of the 585 Coastline services.

5.82. Among other points made at these meetings were the following:

- (a) Stagecoach A1 Service had lengthened the interval between buses, notably after 6 pm or so at night. Some services had been reduced from a five-minute to a 15-minute frequency, while others which had run at ten-minute intervals were now half-hourly.
- (b) Some services had been withdrawn. These references were usually to a service to an ASDA superstore introduced experimentally in November 1994 (see paragraph 4.29).
- (c) In some circumstances a fare which had been paid for a particular journey now had to be paid in two parts, when a service terminated at a particular point and then continued as a separate service: an increase in the overall fare was a feature of this.
- (d) Some fares had been increased.

5.83. Comments were made that small operators were being 'run off the road', in particular Wynter-M and Valley Coaches (but see Appendix 5.1 points 11 and 13). There was a general feeling that Stagecoach was a big company which would have the capacity, and the aim, to freeze competitors out. Fare increases would ensue and the public would have no option but to pay. There was appreciation for the smaller companies, particularly those which were running services into areas which had not previously benefited from bus services. There were criticisms, too, of companies associated with Stagecoach in the Coastlink 535 venture: Clyde Coast printed a timetable but did not follow it; it took buses off registered routes at particular times in order to meet schools contracts; and AA Buses had surly staff. Western Scottish, not part of the Coastlink 535 service but a Stagecoach subsidiary, ran vehicles which discharged excessive fumes and paid little heed to bus safety.

5.84. There were several references to long delays between buses, and then three or more arriving at once. By contrast, it was said, the old A1 Service had always run to time. One member of the public felt that, in counterbalance, it was probable that Stagecoach was maintaining its buses better than the old A1 Service had.

An individual

5.85. Another member of the public, living in Irvine, wrote to us expressing concern about the decline in the quality of service since the acquisition. He told us that Stagecoach was operating former A1 Service routes using liveries from A1 Service, Western Scottish, London Buses and East Midland Buses. The destinations of some of the buses were not always made clear, and this caused confusion. The state of repair and cleanliness of the buses on the former A1 Service routes was poor. It appeared that Stagecoach A1 Service and Western Scottish did not have full workshop facilities.

5.86. Stagecoach was now running a daytime service in Perceton, in competition with AA Buses which had previously provided daytime and evening services. AA Buses had since reduced the frequency of the evening service, and the witness felt that this was probably because revenue from the daytime service had fallen and was therefore not available to subsidize the evening service. He was concerned that the evening service could be withdrawn altogether. (Both Stagecoach and AA Buses said that these allegations were not true.)

5.87. The witness told us that Stagecoach had withdrawn several former A1 Service routes including the ASDA services and had reduced the frequency of others such as the Irvine Magnum route.

Stagecoach employees

5.88. At the meetings in Ardrossan and Irvine we saw several Stagecoach employees who told us that the acquisition had been beneficial in the following ways:

- (a) Stagecoach had retained all A1 Service's drivers and had advertised for more.
- (b) Stagecoach had offered all staff the opportunity to learn to drive a bus.
- (c) New shift patterns had been introduced which enhanced earnings and brought greater, and welcome, discipline to working hours.
- (d) The buses were cleaner and better-maintained than A1 Service's had been.
- (e) Stagecoach had recruited staff who had previously been unemployed, and had promoted a number of ex-A1 Service personnel.
- (f) Several new buses had been purchased. This would not have happened under the old ownership; the belief had been that A1 Service was winding down its activities rather than expanding them.