

Subcontractors

Overview of the subcontracting business model

1. Scottish Citylink does not operate buses or coaches itself. Its services are run by other operators under two contractual models:
 - (a) *Franchising*: this model is limited to: service 958 (between Inverness and Thurso) which is franchised to Rapsons; route 923 (between Glasgow and Stanraer) which is partly franchised to Ulsterbus; and services 901 and 906 (between Glasgow and Gourock and between Glasgow and Largs) which are franchised to DJ International.
 - (b) *Subcontracting arrangements*: all other services are operated under this model.
2. The operation of route 923 (between Glasgow and Stanraer) involves a hybrid contractual arrangement between Scottish Citylink and Ulsterbus: one service is subcontracted by Scottish Citylink to Ulsterbus; the other one is franchised. Ulsterbus is responsible for ticket sales in Northern Ireland, whilst Scottish Citylink handles ticket sales in Scotland. However, Ulsterbus retains overall control of this service.
3. [REDACTED]

TABLE 1 Breakdown of contracted mileage

Top three subcontractors	miles million		
	31 December		
	2003	2004	2005*
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

Source: Scottish Citylink.

*[REDACTED]

4. In 2003, Stagecoach was a large subcontractor to Scottish Citylink: it operated [REDACTED] per cent of Scottish Citylink's total contracted mileage and [REDACTED] of the services between Glasgow and Edinburgh, [REDACTED]. The acquisition of Motorvator by Stagecoach in September 2004¹ prompted Scottish Citylink to cancel its contract with Stagecoach in relation to the Glasgow–Edinburgh route. Other contracts with Stagecoach were not renewed upon their expiry. Following the creation of the joint venture, Stagecoach was reinstated as a subcontractor to Scottish Citylink, initially for the megabus and Motorvator services. Certain Scottish Citylink branded services operating on the trunk routes (services M9 and M91) have now been subcontracted to Stagecoach Fife and Stagecoach Bluebird.

¹Legal documents dated June 2004.

5. Stagecoach told us that, in contrast to Scottish Citylink, it owns and operates all its services.
6. 80 per cent of the services of NEG, the largest coach operator in the UK, are subcontracted or franchised to an estimated 38 individual operators. The remaining 20 per cent, predominantly in the South-East and on the Birmingham to London corridor, are operated in-house. NEG's Scottish operations are operated predominantly by local operators, [REDACTED].

The contractual arrangements

Subcontractors

7. The terms of subcontractor agreements do not appear to have changed as a result of the joint venture. Under such agreements: [REDACTED].²
8. The agreements do not restrict the subcontractors' right to: [REDACTED].³
9. [REDACTED]⁴
10. Scottish Citylink told us that contract agreements varied in length from [REDACTED].

Franchisees

11. Scottish Citylink told us that franchisees were entirely free to operate their franchised services and that Scottish Citylink did not control levels of fare or service in relation to franchised routes. [REDACTED]
12. [REDACTED]⁵
13. [REDACTED]
14. [REDACTED]
15. [REDACTED]

Remuneration of subcontractors

16. Subcontractors of scheduled services are typically remunerated on a cost per mile basis, although we note that [REDACTED] and some smaller subcontractors ([REDACTED]) are paid on a weekly cost basis. [REDACTED]
17. Subcontractors [REDACTED] told us that rates are reviewed on an annual basis. This was confirmed by Scottish Citylink, who added that negotiations were informal and that other subcontractors would only be considered if costs became unattainable.
18. [REDACTED]⁶

²[REDACTED]

³Scottish Citylink Competitive Strategy, November 2004.

⁴This is not an exhaustive list. Only the relevant items have been included.

⁵Ulsterbus told us that the passengers using route 923 could only purchase tickets between Belfast and Glasgow. Scottish Citylink clarified that tickets can be purchased for some parts of the Belfast–Glasgow journey, for example: between Glasgow and Stanraer and between Ayr and Stanraer, but that tickets cannot be purchased between Ayr and Glasgow.

⁶We note that [REDACTED] ceased to operate this service as of 7 May 2006.

19. Average rates over the last three years have evolved as follows:

TABLE 2 **Average rates of remuneration paid to subcontractors**

	Calendar years		
	2004	2005	2006
All services	()	
Rural services			
Trunk road services			
Commuter services			✂
Service 900			
Service 905			

Source: Scottish Citylink.

Note: 2006 data is only for the first three months of the year.

20. [✂]⁷

TABLE 3 **Agreed rate for the Stagecoach operations**

(✂)
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Source: [✂].

21. [✂]

22. [✂]

23. [✂]

7[✂]