Q&A: Local Bus Services final decision Jan 2010

1. What are the main findings from the final study?

We've concluded that neither the commercial nor supported parts of the markets appear to be working well for bus passengers or the taxpayer.

On commercial services:

- We found that markets tend to concentration (monopoly or near-monopoly) at the route, local and regional level.
- We found that there were a number of barriers to entry to local markets that make it difficult for new operators to get into these concentrated areas: including that potential new entrants may fear an aggressive response by the incumbent bus operator.
- We also found indicators that operators with a strong market position in an area tend, on average, to charge 9% more than operators in areas facing challenges by a large well resourced rival. Furthermore in areas with limited competitive constraints, the buses tend to be older and less well equipped.
- The concessionary fares regime (which is paid for by the tax payer) may be distorting the market. It is possible that bus operators may have incentives to manipulate the regime to increase the amount they are paid for providing concessionary services.

On supported services:

- We found that in some areas supported services receive low numbers of bids in response to tenders – more bids tends to mean lower prices so this is a worry. Roughly a quarter of all tenders only receive one bid.

2. Why have you decided to refer to the Competition Commission?

The OFT identified a number of features of local bus markets in UK, outside London and Northern Ireland, which it has reasonable grounds to suspect

prevent, restrict or distort competition. We are asking the CC to investigate these concerns thoroughly.

3. What can the CC do that the OFT can't?

If a reference is made, the Competition Commission will conduct a detailed public investigation and reach its own conclusions about the market concerned. During the investigation the CC can compel parties to submit particular evidence, a power which the OFT does not have in a market study. In addition the CC has the power to impose remedies which go beyond the outcomes available from an OFT market study.

4. Who did you consult with?

There was a public consultation both during our research phase and again after we announced our proposed decision. It was open to all. We received submissions from bus operators large and small, Local Authorities, Passenger Transport Executives, the Department for Transport, passenger groups, MPs, the Transport Select Committee, and members of the public.

5. How many people/organisations responded to the consultation?

In total we spoke to and received submissions from more than 80 organisations and businesses across the course of the study including consultation.

6. Why don't you think the Local Transport Act can be used to solve any potential problems in the market?

The Local Transport Act 2008 is not designed to address all the concerns we identify. For example, new entrants' fear of predation, which we think may be a serious concern, cannot be addressed by the new legislation.

7. Why did you launch the study?

The issues which encouraged the OFT to launch its own initiative study included:

- Evidence that suggested that local markets were more profitable once they were monopolised.

- The OFT's investigation of Cardiff Bus for predatory behaviour, and continuing allegations of exclusionary behaviour in a wide variety of bus markets across the UK.

- Concerns about the rising cost of bus services, both for commercial services and for supported services, and whether this may be, in part, related to weak competition.

8. What is the difference between commercial and 'supported' services?

Commercial services are run by the bus operators without requirement for any specific public subsidy.

Supported, or tendered services as they are sometimes known, are those bus routes which are considered socially necessary but which are not provided by commercial operators because they do not regard them as commercially viable. Supported services are usually operated by private bus operators and subsidised by LTAs although there are some municipally owned operators and not-for-profit operators.

9. Who did you speak to?

The OFT spoke to a range of interested parties:

- The major bus operators, First Group plc, Stagecoach Group plc, Arriva plc, Go-Ahead Group plc and National Express Group plc. These operators also made extensive written submissions.

- A public consultation which received information from a wide range of stakeholders including passengers, passenger bodies, foreign bus operators, a trade union and a charity.

- Interviews with the two main industry trade bodies, Confederation for Passenger Transport (CPT) and Association of Local Bus Managers (ALBUM).

- Interviews with a number of local transport authorities (including all the PTEs who are responsible for about 50% of all deregulated local bus travel), supported by data about tendering over the last five years.

10. Why did you exclude London and Northern Ireland?

The market study looked at bus services in the UK, however, none of the evidence which raised concerns that we have about local bus services relate to the markets in London or Northern Ireland and so we have excluded them from the scope of our proposed reference.