

## **FIRSTGROUP/SB HOLDINGS REMEDY REVIEW**

### **Summary of hearing with SPT on 10 December 2015**

#### **Introduction**

1. Strathclyde Partnership for Transport (SPT) told us that competition had changed fairly significantly since 1997 and that competition had been growing since deregulation. Competition started off with the large operators, Strathclyde Buses and the Scottish Bus Group companies. Following deregulation, small operators started to form and created niche market type services serving the housing schemes more than the large bus operators.
2. Into the 2000s there was some consolidation in the market. Stagecoach entered the Glasgow bus market a number of times from 1986. At that time it used old London Routemasters and conductors. In 1997, Stagecoach entered significantly with an aspiration to get approximately 200 vehicles within Glasgow city. That did not happen and there was some retrenchment and consolidation in which Stagecoach only held on to one or two routes. A small operator, Dart Buses, took on some of the services from Stagecoach on a franchised basis, but that operator then went out of business around 2001/2002. First Glasgow immediately registered those services and took them into its own operation.
3. SPT told us that First Glasgow had a very efficient set of driver schedules due to its strong focus on costs. SPT said that it believed First Glasgow faced constraints from competition, patronage loss and fares due to the undertakings. The undertakings made it very difficult for First Glasgow to run its business without a very tight focus on efficiency and cost control. SPT said that the undertakings were putting First Glasgow in a different position from the other operators.
4. SPT told us that the undertakings made it difficult for First Glasgow to set its fare structure. SPT said that it thought First Glasgow's season tickets had become distorted due to the undertakings because new tickets were introduced that did not have the same correlation to tickets that were already being sold.
5. SPT said that First Glasgow likely faced restrictions when planning its future budgets as it could not predict the Scottish CPT index. Despite this SPT told us that First Glasgow operated an extensive network with a strong presence

on evening and Sunday services. In January 2016, First Glasgow closed its depot in Parkhead in order to make further efficiencies.

6. SPT said that it believed smaller operators fell away due to three reasons: the 2008 global recession; concessions going smart; and because there were five Statutory Quality Partnerships (SQPs) in the SPT area, which required an investment in better vehicles. SPT said these were the only SQPs in Scotland. SQPs were where a Local Authority invested in infrastructure and in turn it was expected that the operators improved their vehicle quality and driver training.

## **Competition**

7. SPT told us that its options got smaller in the tendered market after 2008. When there were more operators, the cost base was lower, and those operators could generally bid for contracts at a lower level. A lot of those smaller operators were consolidated into other businesses or disappeared, which affected the price on the tendered contracts. In turn, contract prices increased. This varied upon area as there was still competition in certain areas. In rural areas, larger operators tended to be more dominant; however, in Glasgow there were enough small operators to provide a range of prices.
8. SPT told us that First Glasgow was always good enough to compete in Glasgow. There were skirmishes, but they settled down. SPT told us that it didn't believe First Glasgow was fearful of competition from large operators such as Stagecoach or Arriva (now McGill's) because they all operated on a similar cost base as they all had similar management structures. SPT said that Stagecoach had recently increased its network in Glasgow, but was not going head-to-head with First Glasgow, although routes did cross in certain locations.

## **Other modes of transport**

9. SPT told us that in 2004 when First won the ScotRail franchise there were approximately 50 million passengers a year using that service. That figure was more than 80 million a year in 2015. Glasgow had the biggest suburban rail network outside of London, and its lines and station numbers were increasing. SPT told us that very competitive rail fares did prevent First Glasgow in combating competition from rail.
10. SPT said that rail and car usage had been increasing, and that at the same time bus journey speeds had reduced from 10 miles an hour to 7 or 8 miles an hour. This increased vehicle/driver resources by up to a third in some places. An example was given of a route that previously had 21 buses on it running a

10 minute service would then need 28 buses for the same 10 minute service. SPT said that was partly driven by the introduction of Smart concessions. SPT said that green driving also increased journey times, but noted it was likely that it increased customer satisfaction and reduced injuries/collisions.

## **Undertakings**

11. SPT said the undertakings put First Glasgow in a position where it could only react to falling patronage by controlling costs, which usually meant reducing services as it did not have the same opportunity as other operators to make good some of the difference through the fare box.
12. The undertakings had led to a distortion in fares between different ticket types as some tickets were caught by the price cap while others were not.
13. If price caps were released, SPT said that Transport Scotland would likely resist any substantial increase in the adult single fare as this drove concession reimbursement. SPT told us that this would only relate to what Transport Scotland was prepared to pay for concessionary fares, and FirstGroup could still increase the adult single fare if it so wished.
14. SPT said that if the fares were too low as a consequence of the undertakings, then it would not be worthwhile anybody entering the market, because they were not going to get the required rate of return. The undertakings were introduced to make sure that fares did not skyrocket, but it was possible that they were having the reverse effect.
15. SPT told us that it was sceptical that the removal of the undertakings would have any significant impact on competition because there was little evidence of potential entry from operators, apart from on certain key corridors.
16. SPT said that, on balance, it would probably be better to release FirstGroup from the undertakings, because the consequences for the travelling public of not lifting the undertakings could ultimately be worse.