

FIRSTGROUP/SB HOLDINGS REMEDY REVIEW

Summary of hearing with SEStran, Falkirk Council and East Lothian Council on 10 December 2015

Introduction

1. South East of Scotland Transport Partnership (SEStran) is a Regional Transport Partnership responsible for planning and delivering transport solutions at a regional level, bringing councils together to help them act collectively and strategically over a larger area. SEStran covers eight regional authorities, which are: Fife, Clackmannanshire, Falkirk, West Lothian, Midlothian, East Lothian, Edinburgh and the Scottish Borders.
2. SEStran told us that it was surprised it has taken so long for FirstGroup to request a review because the situation had been quite apparent for some time that it had difficulty operating as a normal operator. SEStran told us that some of the actions taken by FirstGroup to cope with the situation were not in the best interests of the councils. It withdrew wholesale from Midlothian and largely from East Lothian in 2012, which caused a great deal of concern to the councils. Lothian Buses stepped in to fill some of those routes, which SEStran did not believe was agreed beforehand.

Competition and entry

3. SEStran told us that there was healthy competition on its tenders in West Lothian and the Borders, typically receiving five bids each. Those councils had a good group of smaller operators that drove tender prices down.
4. Falkirk Council said that it had seen a decrease in operators tendering for services in Falkirk. The lack of companies tendering for routes left Falkirk Council with less operators to choose between, which increased prices. In East Lothian there was a route only suitable for FirstGroup to run due to depot location. East Lothian Council explained that the price for that tender increased dramatically because FirstGroup knew that it would not face competition on this particular route. East Lothian Council told us that depot location was the main restriction on operators bidding for tenders on this route.

5. Falkirk Council said that depot location was a barrier to entry; however, it noted that it had plenty of coach-based operators that could run routes. Falkirk Council told us that the fundamental problem (Edinburgh aside) was that there were not enough passengers to support more than one bus company; this was echoed by East Lothian Council. Passengers had been declining, and Falkirk Council said it did not believe there were enough passengers even on some of FirstGroup's routes to split with more than one operator.
6. East Lothian Council told us that Lothian Buses competed with FirstGroup as well as stepping into its routes following FirstGroup's withdrawal in areas on a commercial basis. When FirstGroup withdrew in East Lothian, Lothian Buses stepped in shortly after creating a wholly owned subsidiary called Lothian Country Buses, which ran further east in East Lothian now on a commercial basis. Lothian had moved from single-deckers to double-deckers recently. East Lothian Council told us that Lothian had the ability to enter because it offered a higher quality of service and high quality fleet, whereas FirstGroup received the cascade vehicles from other areas. Falkirk Council told us that FirstGroup received cast-offs from Aberdeen because it understood FirstGroup's depots in Central Scotland had been running at a loss and had not been able to invest in new vehicles.
7. On the South Queensferry to Edinburgh corridor, which is in Edinburgh but outside of Lothian's area, SEStran told us that it had suspicions that Lothian was concerned about competing head-to-head with Stagecoach. SEStran told us that it believed Lothian was happy to compete against FirstGroup. Stagecoach entered the very profitable Queensferry corridor and FirstGroup pulled out as soon as it could.

Other modes of transport

8. Falkirk Council told us that Falkirk had two mainline rail stations with high frequency services to Edinburgh and Glasgow. Falkirk Council said that passengers tended to take rail despite the option of a bus due to its shorter journey time. East Lothian indicated that the rail routes from East Lothian were close to capacity.

Undertakings

9. SEStran said that it was apparent for some time that FirstGroup had difficulty operating as a normal operator in many ways as a result of the undertakings. Some of the actions FirstGroup had taken to cope with the situation had not been, necessarily, to the best for councils in the area.

10. Falkirk Council said that it had heard, anecdotally, that FirstGroup was maintaining mileages in places where a normal operator would not maintain mileage because of the mileage floor. Falkirk Council speculated whether some of the (much increased) prices it was having to pay for tendered services was cross-subsidising maintaining that floor somewhere else in the region. East Lothian confirmed this, and when First Group was operating Scotrail this had a further impact on routes that could not be altered.
11. Falkirk Council said that zonal fares within the Falkirk operating area were based on the original fare zones that were locked down by the undertakings, meaning that the cost of journeys to settlements just outside the fare zones could be high. The boundaries had no relation to where the geographic pool of that settlement was located.
12. Falkirk Council said that it did not think that fares would increase markedly if the undertakings were removed because if FirstGroup were to increase fares, for example in Falkirk, it would lose the business. There was not the elasticity in the market in Falkirk for further substantial fare rises.
13. SEStran said it could not see the attractiveness of FirstGroup, as a large operator, investing in the east of Scotland because, all the restrictions being there, it would be nervous about spending money where the outlook of obtaining a return on the money was pretty low. SEStran said that there were clearly some rural routes with not many people on them that were being maintained by FirstGroup because of the mileage floor.
14. On the subsidised parts of those services that Falkirk Council was paying high prices to maintain, it would be advantageous if FirstGroup gave up the little bit of commercial service during the day, because Falkirk Council could do much better with one contract to cover the whole service. If the undertakings remained, it was difficult to see what would happen. If the undertakings were removed, there would likely be some withdrawal of services. But, if Falkirk Council was then left with a more stable network going forward, that might be something Falkirk Council could deal with. It might be easier tendering an all-day service (and be of interest to more competitors) than tendering a service for only part of the day. Falkirk Council said that it could, overall, potentially save money doing this.
15. Falkirk Council told us that there would almost certainly be some reductions in service if that mileage floor was taken away. It said that it believed that all operators should be on a level playing field, but it must protect the passengers and council tax payers. It said that if FirstGroup was to reduce its commercial network by 10 to 20% at short notice, the councils would not have the

financial resources to cope. It suggested that a sliding scale mileage floor could be introduced to limit the impact on customers.

16. SEStran said it was concerned whether, if FirstGroup withdrew in scale, there would be sufficient alternative operators available to come in and take over the routes. It suggested a phasing out of the mileage floor over a period of, say, six to eight years with a monitoring regime in place to adjust the mileage floor as required over the transition period. SEStran suggested that a monitoring system should be put in place alongside all other information that local authorities collect.