

# Evidence to the House of Commons Transport Committee Inquiry into Competition in the Local Bus Market

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## 1. Introduction

- 1.1 Passenger Focus is the statutory watchdog for bus passengers in England (outside London).
- 1.2 This response draws from our evidence to the Competition Commission's original inquiry and our subsequent submission on their draft recommendations.

## 2. Competition Commission Remedies

### 2.1 Ticketing

- 2.1.1 The Competition Commission suggests a number of potential remedies under the following three categories:
  - increasing the number of multi-operator ticketing schemes
  - increasing the effectiveness of multi-operator ticketing schemes
  - additional measures to prevent multi-operator ticketing schemes from being undermined.

#### *Number of schemes*

- 2.1.2 Passenger Focus supports the provisional conclusion that something needs to be done to increase the availability of multi-operator ticketing. The availability of multi-operator tickets is one of bus passengers' top priorities for improvement. In March 2010, Passenger Focus published Bus passenger priorities for improvement, a report on the findings of a survey of 3,800 passengers in England outside London: <http://www.passengerfocus.org.uk/bus/news-and-publications/document-search/document.asp?dsid=4393>. Passengers ranked as their fourth highest priority "tickets and passes are available that entitle you to travel on all bus services in your local area, not just those operated by a specific bus company".
- 2.1.3 This research showed a widespread desire to address the issue across the country. Passengers in every English region rated the availability of multi-operator tickets and passes as a high priority: passengers in Eastern England rated it 3rd; passengers in the North West rated it 8th.
- 2.1.4 Improving the availability of multi-operator tickets is a higher priority for passengers in metropolitan and urban areas than those in rural areas; however, even rural passengers rated it as a relatively high priority.

2.1.5 Bus services are, by definition, local. So, while we would encourage the development and sharing of best practice, it is not important per se that common standards should be established. However, many passengers, particularly those living close to a local authority boundary and whose nearest town centre lies within a different local authority area, would benefit more from schemes which took this into account, and this is likely to require a level of cooperation and consistency between neighbouring authorities and operators.

2.1.6 We are aware of bus routes in Greater Manchester and West Midlands on which daytime services are operated by one large company, with services after 6pm operated by a different, much smaller company: commuters have found that, in the absence of a multi-operator ticket, they are forced into the expensive option of buying two singles.

*Effectiveness of schemes*

2.1.7 We believe there is little point in increasing the number of multi-operator ticketing schemes if passengers do not know about them, or find them unattractive.

Passengers want:

- ticketing products to be available which correspond to the journeys they wish to make and which enable them to catch the first bus that comes along, thus negating the inconvenience of having to buy another ticket.
- to be aware of the existence of those ticketing products.
- a clear understanding of the terms and conditions of the ticket.
- to be able to buy it as easily as the single-operator ticket with which it is competing.
- to be able to buy it at a cost which reflects, in a fair way, the value to the passenger of the additional flexibility and convenience of being able to travel on any bus.

2.1.8 In determining the range and pricing of multi-operator ticketing products, care should be taken to ensure that operators cannot undermine the multi-operator ticket with single-operator tickets for which there is no close multi-operator equivalent. We support the idea of placing conditions on multi-operator tickets to make them attractive, if as seems likely, this cannot be consistently achieved on a voluntary basis. The conditions should reflect the principles outlined above. Consideration may need to be given to an appeals mechanism should the operators be unable to agree how much to charge for a multi-operator ticket.

2.1.9 We are not clear how it is proposed that a multi-operator bus ticket or pass would work in an area with an existing LTA multi-modal ticket. In our Bus Passenger Priorities for Improvement research, passengers rated the availability of multi-modal

tickets as their 9th highest priority for improvement. The benefits of any such multi-modal ticket should be preserved and extended by the introduction of any multi-operator scheme.

*Preventing multi-operator ticketing schemes from being undermined*

- 2.1.10 The Competition Commission identified the need to consider restrictions on large, incumbent operators should they attempt to undermine the impact and viability of multi-operator ticketing schemes. Possible measures are:
- restrictions on the pricing of individual multi-journey tickets in relation to comparable multi-operator ticket.
  - restrictions on the ability to issue particular types of ticket, especially where there is a similar multi-operator ticket in existence.
- 2.1.11 We recognise the right of operators to compete with each other on price as well as on quality of service. Genuine competition between operators creates choice for passengers. So it would seem reasonable for passengers to have a choice between a multi-operator ticket offering travel on any operator's bus and a cheaper version offering travel on a specific operator's buses. Passengers would be poorly served by a requirement which created a disincentive for operators to reduce the price of their own tickets.
- 2.1.12 On the other hand, however, choice and competition would not be delivered if operators were able to add a disproportionate premium on the multi-operator ticket, either by setting the cost of the multi-operator ticket high in the first place or by virtue of significantly undercutting it by reducing the cost of a single-operator product.
- 2.1.13 Much depends therefore on the motive behind an operator's actions – and while we recognise that it can be difficult to determine a process that takes motive into account, we believe that this is something will need to be considered.
- 2.1.14 For us, the overriding principle to be followed is one of delivering sustainable, long-term benefits to passengers. Operators are free to reduce their fares now. One might question their motives were they only to reduce them under competitive pressure from multi-operator tickets. This might bring a short-term benefit for passengers but, having 'seen off' the competition from the multi-operator ticket (and from the other operators who rely on its attractiveness to support their entry into, and continued existence in, the market) would the large incumbent operator simply be able to put up fares again, unconstrained by competition? The price cut would only be a real benefit if it could be sustained.

- 2.1.15 Ultimately, passengers are saying they want multi-operator tickets. In determining a process to deliver them, it will be important for the Competition Commission to guard against the law of unintended consequences.
- 2.1.16 We would not support the suggestion that restrictions should be placed on operators' ability to issue particular types of ticket. As a general rule, and so long as the principles which we outlined above are adhered to, passengers should benefit from more choice, not less.
- 2.1.17 Passenger Focus plans to commission more research into bus passengers' attitudes to fares and tickets in the coming financial year. We also hope to work with the Department for Transport on a major piece of research looking at smartcards and new ticketing technology. We believe that this work will shed much more light on passengers' attitudes and expectations when buying tickets.

## 2.2 Restrictions on operator behaviour

- 2.2.1 The Competition Commission is considering the following measures:
- large incumbent operators increasing service frequency in response to new entry
  - large incumbent operators making substantial reductions in fares in response to new entry, especially those reductions that are specified to the routes on which entry has been experienced rather than network wide
  - stand-blocking and other forms of 'cheap exclusion'
  - actions taken by an operator that undermine the viability of a municipal or independent operator during a sales process.
- 2.2.2 Passenger Focus supports the intention of bringing about sustainable improvements to bus services for passengers, particularly where they reflect passenger priorities.
- 2.2.3 In our report on Bus Passenger Priorities for Improvement bus passengers rated "buses run more frequently at times when you want to use the bus" as their second highest priority for improvement. Naturally the priority accorded to frequency varies from one region to another, but it is in the top five in all areas.
- 2.2.4 Our research also demonstrates that passengers favour stable services. In our research 'Bus Service Changes'<sup>1</sup> we found that 66% of bus passengers did not find it acceptable to make changes to bus services more than twice a year:  
<http://www.passengerfocus.org.uk/bus/news-and-publications/document-search/document.asp?dsid=4714>

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<sup>1</sup> Bus Service Changes. Passenger Focus. September 2010

2.2.5 So we would support measures which resulted in sustainable improvements in frequency. It follows that we would not support the introduction of measures designed to block such increases, i.e. a new power for the Traffic Commissioners to refuse to accept frequency improvements from large incumbent operators. It also follows that we would support the suggestion that the Traffic Commissioners should be given the power to refuse to accept subsequent changes (e.g. to reduce frequency on the route) following the exit of a new entrant. The introduction of such a measure would make a large incumbent operator think twice about increasing frequency in the short term in order to see off a rival, by preventing them from subsequently reducing service frequencies in the wake of their competitor's exit from the market. New entrants should have to play by the same rules and be subject to the same constraints should they see off the incumbent.

2.2.6 We would also not wish to see regulation preventing operators from co-operating when this would be beneficial to passengers. As said, the important feature should be one of sustainable improvements for passengers.

*Substantial reductions in fares in response to entry*

2.2.7 The CC is also considering whether any restrictions are needed to prevent large incumbent operators bringing in short term fares reductions in the hope of seeing off a new rival.

2.2.8 Our Bus Passenger Survey<sup>2</sup>, published in July 2010, found that passengers in the 14 areas surveyed were generally significantly less satisfied with value for money (ranging from 46-68% satisfied) than they were with their journey overall (84-92% satisfied). And our Bus Passenger Priorities for Improvement research found that passengers rated "bus fares, tickets and passes that offer better value for money" as their 6th highest priority for improvement; those paying for their journeys rated it 2nd.

2.2.9 So, as with frequency, we would not support measures designed to constrain operators from lowering fares. We would be concerned if this were a short-term tactic and that the incumbent operator were free to raise fares again once they had seen off the competition. Any action should be targeted at ensuring that fares cannot be raised for a significant period of time after a rival operator has exited the market.

## 2.3 Franchising and Partnerships

2.3.1 The franchising model appears to work well in London where bus patronage is much higher than in other parts of the country and has risen significantly in recent years, on the back of high levels of investment. Passenger satisfaction levels have always been lower in London than in many other parts of the country, but there are some

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<sup>2</sup> Bus Passenger Survey - Spring 2011. Passenger Focus

suggestions that this may reflect a different user base and correspondingly higher levels of expectation.

- 2.3.2 The evidence of how such a contractual model might work in other parts of the country – with a different user base and travel patterns and with lower levels of investment – is inconclusive.
- 2.3.3 However, in general we accept the argument that it would be appropriate to introduce a franchise model where it can be demonstrated that on-road competition has not met passengers’ needs and improved services over a sustained period of time. The best way of testing this is to ask the passengers. Any such passenger satisfaction research would need to distinguish between those elements of the bus service which are under the control of operators and those which are the responsibility of the local authority.
- 2.3.4 The Transport Act 2008 has made it easier for Local Transport Authorities to introduce quality contract schemes<sup>3</sup>. Before doing so the LTA has to be satisfied that the quality contract will
- increase the use of local bus services
  - bring benefits to people using them through the provision of services of a higher quality
  - contribute to the implementation of the authority’s local transport policies,
- We welcome the emphasis placed on quality of service for passengers. We strongly believe that any quality contract schemes should include performance targets reflecting passengers’ priorities. We also believe that passengers should then have a role in monitoring performance against these targets.
- 2.3.5 Regular testing of passenger satisfaction would also help to determine the relative impact that a partnership approach, a quality contract or a competitive environment has on passengers.

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<sup>3</sup> It removed the requirement for quality contract schemes to be the “only practicable way “ of implementing policies set out in LTA’s bus strategies.