

CITY OF PLYMOUTH

Subject: Plymouth CityBus Limited Shareholding
Committee: Scrutiny - Project Task and Finish group
Date: 1 October 2009
Cabinet Member: Cllr Pengelly
CMT Member: Director for Corporate Resources
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1. Introduction

On 2nd June 2009 the cabinet resolved that –

- Authority is given to seek, and negotiate proposed terms with, potential purchasers of shares in Plymouth CityBus subject to full Council approval of any final recommendation for sale
- This matter is referred to the Overview and Scrutiny Commission.

The project was placed on the Resources & Performance overview and scrutiny panel for the 10th June. This scrutinized the allocation of funds from the TCP Reserve to the project.

Overview and Scrutiny Commission considered the item on the 11th June and recommended that “the progress of the project be monitored by the Growth and Prosperity Overview and Scrutiny Panel who could consider inviting the Chair and Vice Chair of the Support Services Overview and Scrutiny Panel”

The project was then called-in under our procedures and that call-in was considered at the Overview & Scrutiny Commission on the 24th June. The recommendation from the Commission was that the Cabinet decision should not be referred back.

2. Task & Finish Group

On 2nd September 2009 the Overview and Scrutiny Management Board approved the PID regarding monitoring of ‘Plymouth CityBus Limited Shareholding project’. The Aim is to ensure that the process set out in the original decision is adhered to (2/6/09 Cabinet Report).

3. Process

3.1 Process to date

The project is divided into three distinct phases which can be summarised as follows:

	Planned From	To	Actual/ <i>Projected</i>	
-	02/06/2009		02/06/2009	Cabinet authority to proceed
1	30/06/2009	01/09/2009	11/09/2009	Advertise for interest in acquiring shares and invite bids. Initial assessment of bids.
2	11/09/2009	27/10/2009	27/10/2009	Stage 1 review. Negotiate and invite final bids. Receive final bids
3	27/10/2009	30/11/2009		Stage 2 review. Negotiate and make recommendations
-	30/11/2009			Presentation of report and recommendations to full Council

The advertisement inviting expressions of interest in acquiring all or part of the equity shareholding was published in the local and trade press on 2nd and 3rd July. The Council received 11 expressions of interest. All those expressing an interest were required to complete a pre-qualification questionnaire and the Director for Corporate Support in consultation with the Project Board Members approved shortlisting of 10 bidders to receive the bid document. All bidders signed confidentiality agreements in respect of the information they were to receive.

A commercially confidential bid document known as an "Information Memorandum" was issued to the shortlisted bidders, on 10th August. This provided information on business operations, the Plymouth market, opportunities for growth, company assets, suppliers, customers and financial information.

On the 19th August First Group plc wrote to the Council stating that they were not going to submit a bid. First Group have assured us that they had not read the bid documents prior to returning them. Officers are of the opinion that it was unlikely that First Group would be allowed to purchase all of the shares in PCB without significant restrictions being imposed by the Competition Commission.

Bids were submitted by the 11th September 2009 from five bidders. A variety of reasons were given for the withdrawal of bidders (including that they could not bid in the time given; Plymouth was too remote from their other operations). However not all those invited provided reasons.

Officers are now in a position to confirm that the Council has received a significant number of bids well in excess of £10m.

3.2 Competition in Plymouth and the Competition Commission

Currently operating in the bus market in Plymouth there are two main providers with some other limited competition. The principal providers are Plymouth CityBus and First Group, who between them have approximately 98% of the market. Target Travel, Stagecoach and Western Greyhound are operating a small number of services in the city. Target Travel has recently increased the number of subsidised service routes that it is contracted on but it is not anticipated that this will have a significant impact on the aggregate 98% market share of Plymouth CityBus and First Group.

In August 2009 the Office of Fair Trading published a national investigation into the local bus services market. They have identified that:

- Across the country there is often monopoly or near-monopoly at the route, local and regional level.
- There are barriers to new operators offering services, including aggressive response to competition that is intended to damage the incoming rival.
- There are higher fares in those areas where operators are not challenged by a large well resourced rival.
- That the concessionary fares regime (which is paid for by the tax payer) may be distorting the market. The OFT have concerns that bus operators have been able to manipulate the regime to increase the amount they are paid for providing concessionary services.
- That in some areas supported services receive low numbers of bids in response to tenders.

The Office of Fair Trading is referring the operation of the national bus market (excluding London and Northern Ireland) to the Competition Commission which will then conduct a detailed public investigation and reach its own conclusions about the market. The Competition Commission has the power to impose remedies. At the current time there is no timetable for the conclusion of the competition enquiry; however the enquiry will not commence before 15th October.

The bus industry has experienced a number of situations over recent years in which a concerted effort by one operator has had a seriously detrimental effect on another operator. The Competition Commission has investigated some of the recent acquisitions by Stagecoach of small bus companies that arose as a result of this type of action in both Preston and Eastbourne.

The Competition Commission has concluded that the two acquisitions reduced competition and they are currently considering remedies. These remedies could include a requirement to sell parts of the acquired businesses, measures to encourage new entry of other operators, as well as controls on fares and requirements to maintain service levels.

The Competition Commission is conducting a market enquiry that is likely to take approximately one to two years starting no earlier 15th October 2009. The

Council is mindful of the market enquiry but at this stage cannot see the impact on this project.

3.3 Public Interest

Since the announcement of the project in June 2009 there has been a public response. The Council has received approximately 200 letters objecting to the sale and has responded to those individually where possible.

A petition with in excess of 19,000 signatories has been received by the Council in August 2009. It is intended that the petition will be noted in the report which will be presented to Council together with the recommendations from Cabinet.

3.4 Budget Monitoring

The Cabinet in June 2009 approved a budget of £946,000, split into the three stages:

Stage		Budget	Expected Spend to end of stage	Variation
		£000's	£000's	£000's
1	Advertise for interest in acquiring shares and invite bids. Initial assessment of bids.	499	406	- 93
2	Stage 1 review. Negotiate and invite final bids. Receive final bids	144	-	
3	Stage 2 review. Negotiate and make recommendations	303	-	
-	Total	946		

The reduction in expenditure incurred against budget is because of lower than projected professional fees from external consultants.

4.0 Recommendation

- 4.1 That the Task and Finish Group notes this report and the progress made to date.
- 4.2 That a further report on the project be provided to the Task & Finish Group on 29th October 2009.