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Consultancy cuts blamed for rail bid mess

By Mark Odell, Rose Jacobs and Jim Pickard

A decision to save £1m in consultants' fees led to problems that forced the government to scrap the West Coast main line contract, critics have said. The fiasco has left the transport department in crisis and the taxpayer facing costs that could run into hundreds of millions of pounds.

The cancelling of the contract to FirstGroup came after a legal challenge by incumbent Virgin Rail. That forced the transport department to carry out due diligence of the tender process, which threw up "significant technical flaws".

The Department for Transport said last week those flaws were confirmed by a team from PwC. Days later, Patrick McLoughlin, transport secretary, scrapped the contract.

Ministers have blamed officials for the failings and suspended three civil servants.

However, officials and consultants involved in rail franchises told the Financial Times that much of the blame lay with Francis Maude, cabinet office minister, who had led a drive to cut the use of consultants across Whitehall.

George Muir, former director-general of the Association of Train Operating Companies, said: "I am told that it is all about austerity and the DfT trying to do as much of it in-house and spending as little as possible on consultants."

Mr Muir added: "It is certainly true that if they had spent some more money on consultants they wouldn't have made these arithmetical errors."

Another person familiar with the franchising process said: "Without an outside financial or commercial adviser, they [the department] would be completely outgunned. A bidding company wouldn't dream of going for a franchise without an adviser's help."

Louise Ellman, who chairs the transport committee, said of the lack of financial consultants advising the DfT: "This could be very significant and we need to know more about what happened in this respect."

The department was split over whether to hire a financial adviser for the West Coast and other forthcoming contracts, said one person close to the process. The DfT eventually

decided to hire WS Atkins and Eversheds, technical and legal advisers.

The West Coast award was the first big rail franchise let without the DfT using one of the big financial consultants, such as Ernst & Young, KPMG or PwC.

The DfT had typically racked up fees of £700,000 to £1m using financial consultants to oversee rail franchise competitions.

At the very least, £40m in bid costs will be returned to the four groups that sought to run the line. But transport experts believe the U-turn could lead to further costs including potential legal action from FirstGroup, compensation claims from those bidding for future franchises, and lower revenues due to less aggressive bids on future rail franchises.

Doubts about the DfT's ability to manage complex procurement has raised concern about other contracts.

Mr McLoughlin will have to address these when he faces MPs at the end of the month after being summoned before the transport committee to answer questions about what went wrong with the West Coast process.

Ms Ellman has written to Mr McLoughlin to ask him to explain how the fiasco will affect the rest of his department's work, including the controversial award of the Thameslink rolling stock contract to [Siemens](#).

Last week, the lobby opposing HS2, the proposed high-speed rail line between London and the north, seized on the chaos to renew its calls for a review of the project. The government is due in court in December to face five requests for judicial reviews of the line.

Mr McLoughlin has ordered two reviews of the West Coast debacle. One will look at what went wrong and is due to produce an initial report by the end of the month. The second will look at the wider rail franchising process that is due to report by the end of the year.

As a result of the West Coast debacle all franchise competitions have been put on hold, at a time when the government was embarking on the busiest period of retendering since privatisation in the mid-1990s.

The DfT said: "The independent review will establish what happened and report back before the end of the month."

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