FINANCIAL TIMES

October 29, 2012 7:30 pm

West coast report finds damning flaws

By Mark Odell and Jim Pickard

Heavy cuts to staff and budgets compounded by rushed policymaking have left the Department for Transport dysfunctional, according to the findings of a damning report into what went wrong in the West Coast rail tender.

The findings in an initial 19-page report by Sam Laidlaw, chief executive of Centrica and a non-executive director of the department, raised "potentially significant issues about the ability of the DfT effectively to conduct rail franchise competitions".

It lists a catalogue of errors made by officials in overseeing the tender for the West Coast franchise. But Mr Laidlaw found that a number of contributory factors in "my strong initial view . . . caused or contributed to the flaws".

Those include the "late development and clarification of new government policy" on important ways the bid was assessed. This meant the transport department's approach to the evaluation of the financial robustness of the bids in the West Coast franchise process was "developed late, in a hurry and without proper planning and preparation."

Patrick McLoughlin, transport secretary, told MPs that the report made "uncomfortable" reading but that he would not draw any conclusions until Mr Laidlaw had published his full report and recommendations at the end of November.

George Muir, an former banker and former senior rail executive, blamed the budget cuts for the mess, leading to the loss of 25 per cent of staff at the department, including many senior posts, and a block on the use of experienced financial advisers who would normally be used in complicated tenders.

"The department is not fit for purpose now, but it was two years ago before they started axing all the staff and making the changes to franchising policy", said Mr Muir.

The government this month scrapped the decision to award the franchise to FirstGroup after "significant technical flaws" were discovered following a legal challenge by incumbent Virgin Rail, a joint venture between Sir Richard Branson's Virgin Group and Stagecoach.

The report established that there had been a lack of transparency in the bidding process; published guidance was not complied with when bids were processed and there were inconsistencies in the treatment of bidders.

It confirmed there were technical flaws in a model used to calculate the size of the bond the winner bidder would have to submit to protect the taxpayer against any default – a new risk transfer arrangement introduced for the first time.

Labour said the failings exposed in the report went right to the heart of the government, pointing out that three other cabinet ministers had at some point overseen the bid process. Those were the two former transport secretaries – Justine Greening and Philip Hammond – and Theresa Villiers, the rail minister until her promotion to Northern Ireland secretary.

Maria Eagle, shadow transport secretary, also questioned why Mr McLoughlin had previously reassured MPs the franchise process was robust before scrapping the award.

"These interim findings are damning. Experimenting with a risky new franchising policy on the most complex of contracts while cutting the [DfT]'s capacity and axing external scrutiny has seen tens of millions of pounds of taxpayers' money go down the drain," she said.

One of the most uncomfortable findings for ministers is that one of the main contributory factors was a policy decision to introduce the new risk-sharing model in such a complicated franchise as the West Coast, the UK's busiest intercity route.

Additional reporting by Rose Jacobs