FINANCIAL TIMES

October 31, 2012 8:06 pm

McLoughlin defends West Coast pricing

By Mark Odell and Jim Pickard

Patrick McLoughlin, the transport secretary, defended the government's attempt to get the highest price for the West Coast franchise, after it emerged officials had altered key data to keep the top bid in the competition, which was scrapped last month after the discovery of serious flaws

The extent of the problems became clearer as Mr McLoughlin gave evidence to MPs at the Commons transport committee for the first time since he cancelled the award to FirstGroup of a new contract to run the line, ahead of incumbent Virgin Rail.

This week, the government published a damning interim report on the fiasco. It highlighted a catalogue of errors, including the way the Department for Transport reached its decision on the size of the bond – or subordinated loan facility – the winning bidder should put up to protect the taxpayer against default.

The report's author Sam Laidlaw, chief executive of Centrica and a non-executive director of the DfT, said the department should not have taken into account the risk that "the imposition of too high a level of SLF on a bidder might knock that bidder out of the competition".

FirstGroup, which won the tender with a bid worth £13bn against Virgin's £11bn, had the size of its SLF cut by the department towards the end of the negotiations.

Virgin Rail, a joint venture between Sir Richard Branson's Virgin Group and Stagecoach, subsequently sued the government, a process that led to the collapse of the competition.

John Leech, a Lib Dem member of the committee, asked whether the department had reduced the bond "simply to keep First in the field" given its overall offer was higher than the rival bid from Virgin.

Had the department been driven by the "desire to get as much money out of this franchise and therefore the desire not to effectively exclude FirstGroup from the process?" he asked.

Mr McLoughlin said the government was trying to get a good return for taxpayers. "I think we would have been criticised if we hadn't been trying to get as much money out of these operators, they do make a profit out of running these lines," he told the committee.

He clarified that the bids were "anonymised" until quite late in the assessment process, implying there was no suggestion of anti-Virgin bias as officials did not know who had made which bid.

A number of sources have confirmed to the FT that the decision to reduce the size of the SLF was made by officials to keep the highest bid in the competition.

“The key question revolves around the application of commercial judgment which was not within the guidance we published, but I have not seen any evidence of bias or impropriety,” Philip Rutnam, permanent secretary at the department, told the committee.

“I have seen evidence that while officials may have acted wrongly they seem to have been seeking to do so with good intentions.”

Mr Rutnam denied suggestions that there had been emails in the department that suggested a bias against Virgin: “From all I have seen I have no evidence of such emails”.

However, Mr Laidlaw’s inquiry is about to begin an email trawl through the department, it emerged during the committee hearing.

Three officials have been suspended over the West Coast process but Mr Rutnam said this was “precautionary” and did not imply any judgment of wrongdoing.

The transport secretary insisted that the problems with West Coast had no implications for other big projects such as the Thameslink rolling stock order from Siemens or the High Speed 2 line between London and the north. Mr Rutnam added that he had been through the HS2 modelling and had found it to be rigorous.