

Collapse of Tube Contractor Metronet Could Cost Taxpayer £410m

National Audit Office Report Seen as Indictment of Gordon Brown's Public Private Partnership Scheme to Upgrade London Underground

By Dan Milmo, transport correspondent guardian.co.uk
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The collapse of the biggest contractor in the £30bn public private partnership (PPI) scheme to upgrade the London Underground has lost the taxpayer up to £410m, according to the National Audit Office (NAO).

Metronet entered administration in 2007 after racking up a projected overspend of £2bn on tube maintenance and upgrade work. In a report published today, the government spending watchdog said Metronet's failure had cost the taxpayer between £170m and £410m.

The report is an embarrassment for the beleaguered prime minister, Gordon Brown. When he was chancellor, he imposed the PPP structure on the then London mayor, Ken Livingstone, because he believed it would shelter the taxpayer from the consequences of ruinous overspending. However, the NAO found that the Department for Transport (DfT) was powerless to ensure that the £7bn of expenditure it was underwriting would be spent effectively.

"The department for transport had few formal levers to manage risks to the taxpayer," said the report. "DfT was not a party to the contracts and had no direct influence over performance. While the payment of grants to cover infrastructure modernisation costs was potentially an important lever, the payments could only be made

as part of a block grant to Transport for London [TfL, the mayor's transport authority], without conditions, reducing the direct leverage it gave."

Metronet is now owned by TfL and there is widespread transport industry speculation that a multibillion pound funding gap remains at the heart of Metronet's work programme.

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The DfT was forced to hand TfL £1.7bn in the wake of the Metronet collapse in order to pay off creditors following the default of the company's loans. Metronet's shareholders – Balfour Beatty, Thames Water, EDF, WS Atkins and Bombardier – lost a total of £350m in the collapse, leaving the taxpayer with the largest financial penalty.

The NAO said the £1.7bn was not entirely wasted because some of Metronet's work, covering three-quarters of the tube network, was still beneficial, but it found there

was a shortfall of between £170m and £410m in the amount taxpayers' money spent on Metronet and the value of the work done. In effect, the cost to the taxpayer of Metronet's inefficiency is nearly £500m, which matches the cost in legal and consultant fees of drawing up the PPP structure.

"DfT had to respect the devolution of powers to London Underground, TfL and the mayor of London, which made it difficult to adopt a risk management

strategy commensurate with the risks DfT faced,” said the report. “All parties were hampered by a lack of good quality information.”

However, the watchdog blames Metronet’s structure and management for the collapse: “The main cause of Metronet’s failure was its poor corporate governance and leadership.”

A damning assessment of the company’s set-up claimed Metronet’s supply chain, which was comprised of its shareholders, was able to run rings around the management. “The executive management changed frequently and was unable to manage the work of its shareholder-dominated supply chain effectively. These suppliers had power over some of the scope of work, expected to be paid for extra work undertaken and had better access to cost information than the management.”

The DfT said today that its hands were tied throughout Metronet’s downfall, stating that it had to respect the fact that the London mayor and TfL had devolved powers over transport expenditure. “We accept that there are areas where all the organisations involved could have performed better,” the department said. The acting head of the London Underground, Richard Parry, said TfL could not have prevented Metronet’s collapse. “Fundamentally, it is not clear what TfL and LU could have done differently. These contracts were set up in a way that denied us the information that we needed.”

Opposition parties said the report was a further indictment of the controversial PPP structure.

Edward Leigh, the Conservative MP who chairs the committee of public accounts, said it was baffling that the DfT was left powerless as Metronet stumbled towards administration.

“It is baffling – given how much taxpayer money was at stake – that the Department for Transport sat back and decided not to get involved in trying to sort the Metronet mess out. Instead, the DfT passed the buck to London Underground, and London Underground reciprocated by passing back the bill,” he said.

Caroline Pidgeon, the Liberal Democrat London assembly transport spokesperson, said: “This is simply a devastating report for the architect of the public private partnership contract – Gordon Brown. It is

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Richard Parry, the acting head of London Underground, said: “We are pleased that the NAO’s report confirms our long-held view that Metronet’s collapse was as a result of the failure of its management team and shareholders to properly plan, manage and execute

the maintenance and renewal work that was their responsibility. This led to costs spiralling out of control and, ultimately, Metronet going bust.”

The report comes as the last remaining PPP contractor, Tube Lines, seeks a resolution to a funding dispute with TfL. Both sides are struggling to agree a budget for a work programme that runs from 2010 to 2017, with TfL arguing that it should cost £4.1bn and Tube Lines suggesting a price tag of at least £7.2bn.