

Witness Name: Edward Walker
Statement No: 1
Exhibits: EW/01 – EW/20
Dated: 11th September 2025
Reference: M9/R9R/TGUK

**UK COVID-19 INQUIRY
MODULE 9
CORPORATE WITNESS STATEMENT OF
EDWARD WALKER**

I, EDWARD WALKER, of Transport UK Group, St Andrews House, 18-20 St Andrew Street, London EC4A 3AG **WILL SAY** as follows:

- 1 I am the Chief Corporate Officer of Transport UK Group, a role I have been in since January 2023 when Transport UK Group was formed in readiness for the management buyout of Abellio UK. Prior to this, I was General Counsel of Abellio UK from March 2020. I am a solicitor and have been since March 2001.
- 2 I make this statement on behalf of Transport UK Group in response to the request from the UK Covid-19 Public Inquiry (**the Inquiry**), dated 24 March 2025, under Rule 9 of the Inquiry Rules 2006 (SI 2006/1838) (**the Rule 9 Request**), requiring Transport UK Group to provide the Inquiry with a witness statement in respect of specified matters (as set out in Annex A to the Rule 9 Request (**Annex A**)) relating to Module 9.
- 3 This witness statement is made by me and from my perspective, as requested in the Rule 9 Request. However, in order to fully answer all the questions posed to Transport UK Group, I have sought input and assistance from colleagues within Transport UK Group. In particular:
 - 3.1 John Sturgeon, East Midlands Railway's Finance Director, has assisted me with the provision of financial information, and
 - 3.2 Will Rogers, the Managing Director of East Midlands Railway, has assisted with the provision of information for various parts of this statement.
- 4 Transport UK Group is a dynamic private sector transport operator serving millions of rail and bus passengers every day across the UK. It operates:

- 4.1 through its Train Operating Companies, the East Midlands Railway, Greater Anglia and West Midlands Trains passenger rail franchises on behalf of the Department for Transport;
- 4.2 the Merseyrail passenger rail concession for Merseytravel; and
- 4.3 11% of London's bus routes on behalf of Transport for London.

Transport UK Group is the only UK-owned, UK-financed and UK-managed public transport group, following the management buyout of the UK business from Dutch rail operator NS Groep N.V. (**NS Groep**) in February 2023. Prior to the management buyout, Transport UK Group was known as Abellio UK.

- 5 By way of background, East Midlands Railway is the only Train Operating Company which is solely owned by Transport UK Group. Transport UK Group is the majority shareholder (with Mitsui & Co Ltd as minority shareholder) in both Greater Anglia and West Midlands Trains. Transport UK Group is the 50:50 shareholder (alongside Serco Group PLC) for Merseyrail.
- 6 The Inquiry has asked for information about the emergency financial support that Transport UK Group received from the Department of Transport to operate the East Midlands Railway franchise during the pandemic.
- 7 East Midlands Railway is the trading name of Transport UK East Midlands Limited. The company name previously, until April 2024, was Abellio East Midlands Limited. For ease of reference, in this statement I refer to Transport UK East Midlands Limited and Abellio East Midlands Limited as 'East Midlands Railway'.
- 8 East Midlands Railway entered into a franchise agreement with the Department for Transport on 9 May 2019 (**East Midlands Railway Franchise Agreement**) which I exhibit to this statement as [EW/01 - INQ000618028]. As I explain in further detail below, the East Midlands Railway Franchise Agreement was amended in March 2020 by the Emergency Measures Agreement and then again in September 2020 by the Emergency Recovery Measures Agreement. Both the Emergency Measures Agreement and the Emergency Recovery Measures Agreement were entered into by the same parties and are exhibited to this statement as [EW/02 - INQ000618029] and [EW/03 - INQ000618030].
- 9 East Midlands Railway currently provides over 450 train services per day, connecting customers and communities across South Yorkshire and the East Midlands. The

services are currently delivered under the terms of a National Rail Contract with the Secretary of State for Transport dated 4 October 2022 which I exhibit to this statement as [EW/04 - INQ000618031].

Part A: Financial impact of the pandemic on Transport UK Group

- 10 Immediately prior to the pandemic, Transport UK Group (then known as Abellio UK) operated:
 - 10.1 five UK rail franchises (Greater Anglia, Merseyrail, ScotRail, West Midlands Trains and East Midlands Railway), and
 - 10.2 around 8% of London bus services.
- 11 The rail franchises and bus services gave Abellio UK a combined revenue of €3.15bn.
- 12 Immediately prior to the pandemic, East Midlands Railway operated 476 train services per day, in the South Yorkshire and East Midlands regions.
- 13 Transport UK Group's financial position entering the pandemic was strong. As a subsidiary of NS Groep it had the ultimate backing of the Dutch Ministry of Finance (the sole shareholder in NS Groep). As noted in the relevant sections of NS Groep's Annual Report 2019 (exhibited to this statement as [EW/05 - INQ000618032]) 2019 had been a year of growth for Abellio UK. East Midlands Railway had launched on 18 August 2019 and the business had invested £3.1bn in new trains (across all franchises).
- 14 This financial position meant that Transport UK Group was well placed to manage what might be described as normal or precedented economic challenges. However, a do not travel mandate and consequent loss of farebox income, as I describe below, was unprecedented and East Midlands Railway could not continue to operate in those circumstances without an intervention from government.
- 15 As noted above, East Midlands Railway entered into the East Midlands Railway Franchise Agreement in May 2019 for a period of 8 years. This agreement was competitively tendered and was on standard industry terms in that after factoring in an agreed level of public subsidy, East Midlands Railway took full revenue and cost risk for the operation of the services and had agreed to deliver a number of initiatives during the life of the agreement. As a new entity, 100% owned by Transport UK Group, East Midlands Railway acquired the assets of the East Midlands Trains business from

Stagecoach Group and was supported by group procured performance bonding and parent company funding arrangements.

- 16 East Midlands Railway's financial position was strong entering the pandemic, as noted in the relevant sections of the Annual Report exhibited at [EW/05 - INQ000618032]. The franchise was relatively new, and revenue and costs were broadly in line with the franchise forecasts. Whilst East Midland Railway's financial position at that time was appropriate for dealing with normal rail operations in a normal environment, it did assume that the general public would be allowed by the government to travel on its trains and utilise its services, therefore enabling East Midlands Railway to collect revenue to cover its costs and make an appropriate profit. Therefore, despite being in a strong financial position, it was difficult to manage the unprecedented economic challenges that followed caused by significantly reduced demand.
- 17 The economic impact of the pandemic on Transport UK Group would have been severe without government intervention. On 20 March 2020 the government instructed the general public to only use public transport for essential travel (see announcement exhibited at [EW/06 - INQ000618034]). As part of the first national lockdown announced by the Prime Minister on 23 March 2020, the public was ordered to stay at home and only travel for a limited number of essential reasons. This obviously hit the transport industry very hard. Even when some of the restrictions eased, for example in May 2020 when the Prime Minister said those who could not work from home should return to the workplace, travel on public transport was still discouraged. The relaxation of the first lockdown started in June 2020 but the UK then went through a series of local and further national lockdowns alongside the "tier system" which meant that the use of public transport was discouraged for most of 2020 and the first half of 2021. For example, in the "Roadmap" announced in February 2021 (exhibited to this statement at [EW/07- INQ000089798]), it was still government policy that travel should be minimised as part of Step 2 which started on 12 April 2021.
- 18 In the short term, this led to a dramatic reduction in farebox income (i.e. the revenue generated from passenger fares). The continuing costs of leasing and maintaining trains, paying Network Rail for access to tracks, buying electricity and diesel, paying staff and other business costs of rail operations could not be sustained by the agreed base subsidy levels in the franchise agreements. As an immediate result, without farebox income, all of Transport UK Group's franchised rail operations with the Department for Transport became financially unsustainable.

- 19 In the long term, the reduction in passenger numbers has taken years to recover to pre-pandemic levels. I include here a table of data put together by John Sturgeon showing annual East Midlands Railway passenger journey figures by rail year since 2018/2019.

| RSP Year | |
|----------|------------|
| 2019 | 26,453,962 |
| 2020 | 25,168,617 |
| 2021 | 5,106,554 |
| 2022 | 17,867,432 |
| 2023 | 25,476,711 |
| 2024 | 28,941,347 |
| 2025 | 31,511,813 |

This table has been compiled using data sourced directly from the industry LENNON data warehouse. This table shows that passenger journey figures were not at pre-Covid levels for East Midlands Railway until 2023.

- 20 Overall revenues are yet to return to pre-pandemic levels across the Transport UK Group. In 2019 East Midlands Railway generated revenues of €193,100,000 (August 2019 – December 2019) and Transport UK Group generated revenues of €3,150,900,000 (see the Annual Report exhibited at [EW/05 - INQ000618032]). In 2023 to 2024 East Midlands Railway and Transport UK Group generated revenues of £500,071,000 and £2,300,000,000 respectively.

- 21 In addition, and as I explain in this statement, the move away from franchise agreements to the risk minimisation and cost reduction approach of the Emergency Measures Agreements and Emergency Recovery Measures Agreements meant that some of our major committed obligations and investments were delayed significantly. So, for example, in Part 1 Schedule 6.2 of the East Midlands Railway Franchise Agreement exhibited at [EW/01 - INQ000618028] there were the following obligations:

21.1 paragraph 15.2(b)(ii) states that 5-car Bimodal Multiple Units should be in service by no later than 31 December 2022;

21.2 paragraph 13.4(a) states that the C170 fleet refurbishments should be completed by 28 February 2022; and

21.3 paragraph 13.5(a) states that the C360 fleet should be completed by 31 March 2021.

At the date of making this statement, the status of these commitments is:

- 21.4 It is likely that the 5 car Bimodal Multiple Units will be in service by September 2025;
- 21.5 The C170 fleet refurbishment programme has commenced earlier this year, and
- 21.6 The C360 fleet programme has yet to begin.
- 22 Industry fare income fell to £2.2 billion in 2020-21, a drop of £10.2 billion from the previous year, please see exhibit [EW/08 - INQ000618036] which is the Office of Rail and Road's table of franchised passenger operator finances from April 2015.
- 23 The Office of Rail and Road table I have exhibited at [EW/08 - INQ000618036] shows that East Midlands Railway's fare income dropped to £71.1 million in the year April 2020 to March 2021 from £452.9 million in the preceding year. This table also shows that fare income for the year ending March 2024 has still not reached pre-pandemic levels.

Part B: Financial support for Transport UK Group during Covid-19

- 24 In March 2020, East Midlands Railway engaged with the Department for Transport as the pandemic rapidly developed and the implications for rail started to become clear. On 5 March 2020, East Midlands Railway wrote to the Department for Transport to notify them that we considered Covid-19 to be a force majeure event under the terms of the East Midlands Railway Franchise Agreement (see document exhibited at [EW/09 - INQ000621541]). On 13 March 2020, the Department for Transport responded [EW/10 - INQ000621543] requesting a copy of East Midlands Railway's Business Continuity Plan and impact assessment. In response to East Midlands Railway's notification of a force majeure event, the Department for Transport stated that:
- 24.1 consideration as to whether or not Covid-19 constituted a force majeure event under the East Midlands Railway Franchise Agreement (and other public contracts) was subject to a cross-governmental approach which was currently being determined and that the Secretary of State's rights as to how to assess and determine claims for relief under the East Midlands Railway Franchise Agreement were reserved; and

- 24.2 in any event, to determine whether the conditions under the East Midlands Railway Franchise Agreement for establishing a force majeure event and, if so, whether East Midlands Rail would be entitled to relief, it would require as much supporting information as possible including detailed particularisation and substantiation of the effect or anticipated effect of the alleged force majeure event.
- 25 On 17 March 2020, Peter Wilkinson at the Department for Transport wrote to all Train Operating Companies in relation to the latest guidance from Public Health England regarding social distancing [EW/11 - INQ000621545]. The letter advised that all Train Operating Companies were expected to apply this guidance to minimise risks to staff and passengers. These public health requirements were to take precedence over contractual commitments in franchise agreements, we were told, and we were invited to write to Department for Transport setting out the implications of this. On 19 March 2020, all Train Operating Companies were sent a letter from Peter Wilkinson which I exhibit to this statement at [EW/12 - INQ000621546]. This letter approved a reduction in the level of services by Train Operating Companies starting with a reduction in weekday service from 23 March 2020. On Friday 20 March 2020, Will Rogers had conversations with the Department for Transport about the proposed Emergency Measures Agreement. Later that evening, he received from the DfT a letter and proposed heads of terms, see the documents exhibited at [EW/13 - INQ000621547]. This letter confirmed that the government planned to vary the terms of the East Midlands Railway Franchise Agreement to suspend revenue and cost risk for the franchisee, and instead of receiving profit East Midlands Railway would be paid a management fee.
- 26 I exhibit at [EW/14 - INQ000595604] the announcement made by the then Minister for Transport, Grant Shapps a few days later on 23 March 2020. This confirmed that the government were providing train operators with the opportunity to temporarily transition to Emergency Measures Agreements in order to mitigate the financial impacts of the pandemic and ensure that rail services could continue to operate for key workers.
- 27 As referred to above, on 31 March 2020 East Midlands Railway entered into an Emergency Measures Agreement with the Department for Transport [EW/02 - INQ000618029]. This Emergency Measures Agreement was due to last until 20 September 2020 (unless terminated earlier). The Emergency Measures Agreement suspended or amended the operation of specific provisions and introduced additional requirements into the East Midlands Railway Franchise Agreement. The stated

purpose of the Emergency Measures Agreement was to ensure that operational performance and the provision of passenger services were maintained and to insulate, but not overcompensate, the Train Operating Companies.

- 28 On 21 September 2020 the Department for Transport announced that Emergency Recovery Measures Agreements were being introduced [EW/15 - INQ000613679]. These new agreements represented renewed support for the rail industry during the pandemic.
- 29 Two days prior to this announcement, on 19 September 2020, East Midlands Railway had entered into an Emergency Recovery Measures Agreement with the Department for Transport [EW/03 - INQ000618030]. The Emergency Recovery Measures Agreement further suspended, supplemented and/or amended the East Midlands Railway Franchise Agreement in light of the ongoing impact of the pandemic on rail travel. The stated purposes of the Emergency Recovery Measures Agreement were similar to those of the Emergency Measures Agreement in that the Emergency Measures Recovery Agreement was to ensure the continued provision of passenger services. However, the Emergency Recovery Measures Agreement also sought to incentivise operators to maintain or improve standards and performance by the introduction of a more stringent performance-based fee structure.
- 30 Following the announcement of the do not travel mandate in March 2020, the directors of the East Midlands Railway franchise were faced with a difficult choice. The continued provision of the East Midlands Railway Franchise Agreement terms without government support was not compatible with their statutory duties as directors of a private limited company. This was because the company could not sustain the loss of farebox income which would result from the do not travel policy and therefore would have become technically insolvent.
- 31 Section 30 of the Railways Act 1993 (**the Act**) places a statutory duty on the Secretary of State to continue the provision of railway services. If a Train Operating Company is no longer able to operate a railway franchise, the Secretary of State must act as the Operator of Last Resort in order to meet its duties under the Act. If the Emergency Measures Agreement had not been accepted by EMR, the business would have been transferred by the Secretary of State to the Operator of Last Resort utilising his transfer scheme powers in accordance with the Act. At that point the business would have been fully nationalised, with the government not only taking full revenue and costs risk but also becoming responsible and accountable for direct oversight of all of East Midlands

Railway's operations. Transport UK Group was of the view that the Emergency Measures Agreement was a temporary support programme from the government and that, following a short period, travel and public life would return to pre-pandemic norms. Accepting the Emergency Measures Agreement terms avoided the risk of insolvency due to the supposedly temporary events of the pandemic and related government action and also avoided the disruption of a transfer scheme.

- 32 The government gave East Midlands Railway less than 48 hours to make the decision as to whether it would accept the Emergency Measures Agreement or not, see the deadline in the letter exhibited at [EW/13 INQ000621547]. Given the short timeline for making the decision, the assumed temporary nature of the Emergency Measures Agreement and the pandemic, and the legal duties on directors to ensure that their businesses remained solvent, the Emergency Measures Agreement was accepted. This was true across the industry: no Train Operating Company chose to remain on a Department for Transport franchise agreement. All accepted the Emergency Measures Agreement. I consider that, in the circumstances of a national crisis, the time given by the government for East Midlands Railway to decide whether to accept the Emergency Measures Agreement was reasonable and I would not have expected a longer period of time to have been given. In any event, I do not consider that East Midlands Railway would have decided not to accept the Emergency Measures Agreement had additional time been given to take that decision.
- 33 The Emergency Measures Agreement was a time limited contractual overlay arrangement that sat on top of the East Midlands Railway Franchise Agreement. All assets and liabilities remained owned by East Midlands Railway, the employees remained in place, the contracts remained with that entity and industry mechanisms for calculating and distributing farebox income remained in place. The Emergency Measures Agreement, and subsequently the Emergency Recovery Measures Agreement, merely added a financial mechanism to allow for the Department for Transport to pay operational support payments to keep East Midlands Railway "financially whole" when revenue did not meet costs and to in effect pay performance fees on top – see paragraph [35] below. This financial mechanism is set out at 3.1 of Schedule 8A of the Emergency Measures Agreement (see page [103] of exhibit [EW/02 - INQ000618029]). In short, the way in which East Midlands Railway was kept "financially whole" can be seen in the definition of the Franchise Payment which equals an amount equal to the Budgeted Costs minus Estimated Revenue.

- 34 Given the increased control and level of oversight by the Department for Transport, financial operations slowed down during the pandemic. East Midlands Railway's financial and commercial teams were shadowed by officials from the Department for Transport. In addition, cost reduction and revenue enhancing activities were not prioritised in the way they were pre-pandemic. Given revenue and cost risk had been transferred to the Department for Transport, the Department for Transport's priorities moved to minimisation / elimination of risk at the expense of revenue or cost reduction and new initiatives or projects.
- 35 During the period of the Emergency Measures Agreement, East Midlands Railway was entitled to a fixed Management Fee of £514,000 per railway reporting period. In addition, it could earn a performance-based fee (called a Performance Payment) assessed on 3 metrics over the period of the Emergency Measures Agreement: operational performance, customer experience and acting as a good and efficient operator (see Section 2 of Appendix 3 to Schedule 1, Schedule 8B of the EMA exhibited at [EW/02 - INQ000618029]). The Department for Transport scored each of these 3 metrics using a scorecard approach assigning either a "1", "2" or "3" to each metric. Score 3 was £400,000 for the entire Emergency Measures Agreement period, score 2 £160,000, and score 1 £0. Similar arrangements were replicated in the Emergency Recovery Measures Agreement and had effect until the new National Rail Contract was agreed in October 2022. These fees equated to up to 1.92% of the East Midlands Railway cost base pre-pandemic, see the table below provided by John Sturgeon for this statement:

| EMA / ERMA / NRC Fees (£'000) | EMA | | | ERMA | | | |
|---|--------------|----------------|----------------|----------------|----------------|----------------|-----------------|
| | 2019 /20 | 2020 /21 | Total EMA | 2020 /21 | 2021 /22 | 2022 /23 | Total ERMA |
| Performance Based Fee | 171.4 | 1,028.6 | 1,200.0 | 1,809.8 | 3,279.9 | 2,250.9 | 7,340.6 |
| Management Fee / Fixed Fee | 514.0 | 3,084.0 | 3,598.0 | 1,197.0 | 2,223.0 | 1,197.0 | 4,617.0 |
| Total | 685.4 | 4,112.6 | 4,798.0 | 3,006.8 | 5,502.9 | 3,447.9 | 11,957.6 |
| Total cost base* | 253,967.0 | 214,020.0 | 467,987.0 | 214,020.0 | 450,609.0 | 449,923.0 | 1,114,552.0 |
| % of total cost base | 0.27% | 1.92% | 1.03% | 1.4% | 1.2% | 0.8% | 1.1% |
| *2019/2020 was a part year and 2020/21 was split between EMR and ERMA, pro rata on that basis | | | | | | | |

- 36 Whilst lower than the margins a fully commercial operator could have expected to earn pre-pandemic whilst retaining revenue and cost risk, given the impact of government policy on travel on the rail network during the pandemic and the potential solvency of its Train Operating Companies, the fee basis met with Transport UK Group's financial expectations during this time, albeit that operationally each Train Operating Company was hampered by the double-teaming and risk minimisation required by the Emergency Measures Agreement and Emergency Recovery Measures Agreement contracts. For example, the Emergency Recovery Measures Agreement contained provisions requiring Department for Transport consents for various processes such as approval of our business plan. This level of oversight has slowed everything down, as I refer to below in paragraph [46].
- 37 Operational support payments, as I have explained in paragraph [33] above, are defined as the difference between cost and revenue during the Emergency Measures Agreement and Emergency Recovery Measures Agreement periods and they exclude management fees and performance-based fees earned.
- 38 East Midlands Railway received a total of £616,914,367 by way of operational support payments under the Emergency Measures Agreement and Emergency Recovery Measures Agreement. These were paid periodically, partly in advance and partly as a "wash-up" payment two periods after the event. I exhibit at [EW/16 - INQ000618039] an excel put together by John Sturgeon which sets out the total subsidy receipts under the Emergency Measures Agreement and Emergency Recovery Measures Agreement.
- 39 East Midlands Railway received a total of £16,755,600 by way of management and performance-based fees under the Emergency Measures Agreement and Emergency Recovery Measures Agreement during the four-year period 2019/20 to 2022/2023. The full breakdown can be seen in the table at paragraph [35] above.
- 40 Given East Midlands Railway was protected from revenue and cost risk, payment of the management and performance-based fees was not made by the Department for Transport to East Midlands Railway until a period of review and assessment had taken place. See below a table prepared by John Sturgeon which sets out the relevant dates of payment of fees.

| Contract: | Fees paid | Date fees paid to East Midlands Railway from Department for Transport | Date Emergency Measures Agreement or Emergency Recovery Measures Agreement ended |
|---------------------------------------|-----------|---|--|
| Emergency Measures Agreement | 4,798,000 | 1/04/2022 | 20/09/2020 |
| Emergency Recovery Measures Agreement | 3,006,754 | 1/04/2022 | 16/10/2022 |
| Emergency Recovery Measures Agreement | 5,502,938 | 16/10/2023 | 16/10/2022 |
| Emergency Recovery Measures Agreement | 3,447,938 | 05/02/2023 | 16/10/2022 |

- 41 Following payment to East Midlands Railway, a further period of review and assessment was required before the Department for Transport authorised the payment of a dividend of these fees to Transport UK Group. I provide here a table prepared by John Sturgeon which sets out the dividends relating to the Emergency Measures Agreement and Emergency Recovery Measures Agreement for years ending March 2021, 2022 and 2023.

| Y/end | Earning type | Gross dividend | Less tax at 19% | Net dividend |
|-------------------------------|---|----------------|-----------------|--------------|
| 31/03/2021 | Emergency Measures Agreement | 4.8 | (0.9) | 3.9 |
| | Emergency Recovery Measures Agreement | 3.0 | (0.6) | 2.4 |
| 31/03/2022 | Emergency Recovery Measures Agreement | 5.5 | (1.0) | 4.5 |
| | Disallowables (Project ATOLL and Sch 7) | (3.4) | 0.7 | (2.8) |
| 31/03/2023 | Emergency Recovery Measures Agreement | 3.4 | (0.7) | 2.8 |
| Total Dividend Request | | 13.3 | 2.5 | 10.8 |

The payment of these fees was not approved by the Department for Transport until 28 February 2024, see the letter from the Department for Transport exhibited at [EW/17 - INQ000621552].

- 42 I understand from the Secretary of State's statement exhibited at [EW/14 - INQ000595604] that the management fees payable under the Emergency Measures Agreements were based on the cost base managed by each Train Operating Companies, subject to determination by the Department for Transport and capped at a maximum of 2% of cost base. I understand from the Secretary of State's later statement exhibited at [EW/15 - INQ000613679] that the management fees payable under the Emergency Recovery Measures Agreements were also based on the cost base of each Train Operating Company, however capped at 1.5% of pre-pandemic cost bases and subject to tougher performance targets.
- 43 The only example of a similar financial support initiative which Transport UK Group is aware of is the revenue support system which was implemented in 2008 in response to the global financial crisis. This was a "cap-and-collar" system meaning that the franchise holder bore the risk of revenue shortfalls alone over the first four years of a contract, but from year five onwards, relatively small percentage shortfalls in revenue could lead to significant reimbursements from Department for Transport. The converse was also true so that the government took a share of profits if revenues were above target.
- 44 In or around February 2023, it was clear to Transport UK Group that the control environment of the Emergency Measure Agreement / Emergency Recovery Measures Agreement period and subsequently the introduction of the National Rail Contracts was not helping to return passenger numbers to pre-pandemic levels. The Emergency Measures Agreement / Emergency Recovery Measures Agreement financial support mechanisms did not incentivise operators to grow farebox income. Transport UK Group therefore worked with an industry body, Rail Partners, to propose that additional performance fees be offered in which operators were incentivised to grow revenue above a baseline, I exhibit the proposal at [EW/18 - INQ000621553]. This led to the Department for Transport proposing a new revenue incentive on which Transport UK Group and others provided feedback. These proposals eventually became an industry wide additional incentive mechanism called Revenue Outturn Mechanism. The Revenue Outturn Mechanism was incorporated into the National Rail Contracts via amended agreements, I exhibit East Midlands Railway's amended National Rail Contract at [EW/19 - INQ000621554], entered into in November 2023.
- 45 As noted above, the speed of implementation of Emergency Measures Agreements and Emergency Recovery Measures Agreements ensured that the UK railways continued to operate during the pandemic for key workers without loss of staff, whilst

maintaining safety and without the uncertainty and disruption of furlough schemes. The changes to franchise agreements avoided the insolvency of world-leading public transport groups and, by being structured as an overlay contract, avoided undoing complex existing contractual and financial arrangements.

- 46 Control and monitoring of the contracts by the Department for Transport was a strength in terms of temporary control to protect the Treasury during a temporary pandemic. However, the changes brought about by government policy to minimise risk, as outlined above, represent what I would now describe as a systemic weakness in the system. The franchise agreements allowed Train Operating Companies to manage their businesses with little intervention from the Department for Transport, particularly around costs. Trade union agreements and financials were reported against the original franchise model, with updates made on an annual basis. The changes brought about by the Emergency Measures Agreements and the Emergency Recovery Measures Agreements (and subsequently the National Rail Contracts) changed the system of approvals and financial planning to a yearly approval process. This means that East Midlands Railway are unable to continue with spending in a financial year until it has business plan approval. A number of key decisions, for example people decisions (set out in chapter 2 of the National Rail Contract), Key Contract decisions, and industrial relations/pay decisions cannot be made without consent from the Department for Transport. This elongated process has had knock on effects in terms of slowing down aspects of business such as projects and procurement.
- 47 These changes have taken commercial acumen out of the railway and led to a culture of decision-making that is centred around eliminating risk at the expense of reward and there has been an increase in bureaucracy in control frameworks. This has led to inefficiency and delay in implementation of key rail projects.
- 48 At the end of the Emergency Recovery Measures Agreement period all operators were given a choice to transition to a similar but longer-term arrangement named a National Rail Contract, if they bought themselves out of the underlying franchise agreements. The end of the Emergency Recovery Measures Agreement period for East Midlands Railway was 16 October 2022, after the period of the Emergency Recovery Measures Agreement was extended from the original end date of 1 April 2022. A complex settlement process was undertaken by the Department for Transport and its advisers of trying to value what losses an operator would have made had they remained on the original franchise agreement without Emergency Measures Agreement and Emergency Recovery Measures Agreement support. Payment of this termination

payment was the price of entering into the new National Rail Contract. East Midlands Railway eventually entered into a National Rail Contract in October 2022, which was about a year after some other Train Operating Companies signed their National Rail Contracts. For example, Abellio East Anglia signed a National Rail Contract with the Secretary of State for Transport in September 2021. Unfortunately, the manner in which this process was undertaken to achieve the maximum fee led to a number of international investors pulling out of the UK railway industry at the expense of retaining that expertise for the recovery period.

Part C: Lessons Learned and Reflections

- 49 Transport UK Group unfortunately feel that the main lessons learned for us as a company are around the revenue risks of entering into government contracts without upfront contractual protection for government action during a pandemic. Our company did not foresee that the government would effectively order a no travel policy during a pandemic. This was something unprecedented, and in hindsight we did not have the proper contractual protection in place when we agreed with the government to take on a level of revenue risk.
- 50 Abellio UK undertook an internal lessons learned exercise in November 2020, and I exhibit at [EW/20 - INQ000618040] the document which summarises this exercise and the key lessons learned.
- 51 Transport UK Group and the whole of the railway industry has learnt a great deal from the pandemic from an operational perspective. Plans are now embedded into business as usual but will need to be refreshed as memory of the pandemic lessens.
- 52 Financially, Transport UK Group is prudent in terms of its cash management and access to credit facilities to ensure it is able to manage through a pandemic, as well as regularly reviewing the flexibility of its contractual arrangements and the impact of force majeure clauses on its businesses.
- 53 Transport UK Group is of the view that the government needs to carefully consider how to balance the conflicting priorities of managing the impact upon the wider economy of a pandemic against the need to protect life and prevent the spread of a virus. The UK railway industry learnt a lot from the Covid-19 pandemic which should stand it in good stead to operate a full service safely during the next pandemic, without the need for a sudden blanket government “do not travel” mandate. Operators, investors and employees of the railway need certainty that the government will not take

such a draconian step again without full consideration of the potential impact on the economy so that it can ensure that impact is mitigated as far as possible next time.

Statement of Truth

54 I believe that the facts stated in this witness statement are true. I understand that proceedings may be brought against anyone who makes, or causes to be made, a false statement in a document verified by a statement of truth without an honest belief in its truth.

Dated: 11th September 2025

Edward Walker

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Personal Data