Name: Dame Bernadette Kelly

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UK COVID-19 INQUIRY

WITNESS STATEMENT OF DAME BERNADETTE KELLY DCB

I, Dame Bernadette Mary Kelly, DCB, Permanent Secretary at the Department for Transport, Great Minster House, 33 Horseferry Rd, London SW1P 4DR will say as follows.

1. On 17 December 2024, David Hall, the Lead Solicitor for Module 9 of the UK Covid-19 Public Inquiry, wrote to the Department for Transport on behalf of Baroness Hallett. In that letter he made a request under Rule 9 of the Inquiry Rules 2006, for a draft witness statement from the Department.

2. In this statement I provide an overview of the role the Department played in the economic response to the Covid-19 pandemic between 1 March 2020 and 28 June 2022. I have exhibited key documents to my statement and provide an accompanying Index with additional documentation to be shared with the Inquiry.

3. I also exhibit a chronology to this statement at BK/001 - INQ000654247. This brings together the various asks for documentation and meetings related to the scope of Module 9 from the Inquiry.

My background and the structure of this statement

4. At the outset I should say something about my own background, as well as how this statement is structured.

5. I became Permanent Secretary at the Department for Transport on 18 April 2017. Prior to that I had been Director General of the Rail Group in the Department for Transport, which was a post I had held since September 2015. Before that I had been a Director General at the Department for Business, Innovation and Skills from April 2010. However, what is

perhaps most important for the purposes of this statement, is that I was Permanent Secretary at the Department for Transport from the beginning of the Covid-19 pandemic and have remained in that post ever since.

6. Particularly relevant for the scope of Module 9, I was also the Accounting Officer during this time, and later in my statement I provide more information on this role and its importance for managing public money.

7. I have drafted this statement with the support of Departmental officials who were in post during the pandemic. This statement reflects my recollection of, and reflections on what happened, what worked well and the difficulties and challenges. However, I have also been dependent on the recollection of Departmental officials, and the use of documentation, to assist with recalling all detail.

8. Recognising the range of topics that the Inquiry has asked me to address, I have divided my statement into the following sections and sub-sections, as set out below.

Contents

INTRODUCTION

Role of the Department for Transport

9. Before I address the specific role of the Department for Transport during the economic response, it may be helpful if I give an overview of the broader work of the Department and then outline how this changed in relation to the economic response to the pandemic.

10. Transport is largely a devolved policy area. The UK Government develops policy and provides funding for local transport in England, but many funding and policy decisions are made at a local level. Thus, it is at the local level that detailed funding and policy decisions are made in relation to buses, cycling, walking, local road maintenance, and parking.

11. At a national level, the Devolved Administrations of Northern Ireland, Scotland, and Wales have responsibility for transport operations and transport infrastructure within their borders. Maritime and aviation transport are primarily run by the private sector, with ports and airports being privately operated.

12. The Department for Transport is responsible for:

    a. providing policy, guidance, and funding to English local authorities to help them run and maintain their road networks, improve passenger and freight travel, and develop new major transport schemes.

    b. investing in, maintaining and operating around 4,300 miles of the motorway and trunk road network in England through National Highways.

    c. setting the strategic direction for the rail industry in England and Wales – funding investment in infrastructure through Network Rail, awarding and managing rail franchises, and regulating rail fares.

    d. improving English bus services through funding and regulation.

    e. working to make our roads less congested and polluted by promoting lower carbon transport, including cycling and walking.

    f. encouraging the use of new technology such as smart ticketing and low carbon vehicles.

    g. maintaining high standards of safety and security in transport.

h. supporting the maritime sector by producing the overall strategy and planning policy for ports in England and Wales.

i. setting national aviation policy, working with airlines, airports, the Civil Aviation Authority and National Air Traffic Services (the UK's air traffic service).

13. The role of the Department evolved with the spread of Covid-19. Between January and March 2020, as Covid-19 infections increased internationally, restrictions on international travel tightened. The Foreign, Commonwealth and Development Office began to change travel advice, and The Department of Health and Social Care published advice advising travellers returning from high-risk countries to isolate.

14. During this time the Department for Transport supported the Foreign, Commonwealth and Development Office's work to repatriate British Nationals from abroad. This work was initially focussed on supporting British Nationals to return from Wuhan through Government chartered flights and then extended to other countries that implemented early travel restrictions.

15. The tightening of travel advice led to increased financial pressure for the aviation, maritime and international rail sectors as passenger numbers dropped. I exhibit a summary of transport data from March 2020 which sets out the impact of the pandemic on passenger numbers at Exhibit BK/002 - INQ000527724. In response to increased restrictions, airlines cancelled flights, and most cruise operators voluntarily suspended operations. A summary of cancellations and restrictions provided to Ministers in mid-March 2020 is exhibited at Exhibit BK/003 - INQ000527723.

16. The national lockdown announced on the 23 March 2020 had a dramatic impact on passenger numbers on public transport. Departmental transport use statistics exhibited at Exhibit BK/004 - INQ000595618 demonstrated the drop in all public transport modes from mid-March 2020 onwards.

17. The economic response of the Department evolved alongside wider Government priorities. In the initial response, the Department focused on maintaining transport services so that key workers and others who needed to travel could do so. By understanding and tracking the impact of the pandemic on the transport sector and engaging with companies in financial distress. The case for financial support to maintain services was balanced against affordability for taxpayers. The Department's priorities later evolved to restart and recovery from the pandemic, as officials considered how to support the safe resumption of transport services.

18. During the pandemic the Department's role evolved to include:

a) Consideration of how the Department could support transport links to continue to ensure that key workers could travel/work, and that the public could get to school, work and access healthcare as needed.
b) Monitoring the financial robustness of the modal sectors, including engaging with companies to understand their financial position and understand risks.
c) Engaging (in exceptional circumstances) with HM Treasury to make the case for bespoke funding packages to keep transport services running.
d) Agreeing financial measures to support the Department's statutory obligations (such as Transport for London funding packages or rail funding contracts). This is an aspect I address further below at paragraph 104.
e) Providing cross-Government reporting on transport impacts and risks.
f) Advising on the application of wider Government financial support measures to the transport sector.

19. As set out at paragraph 12, prior to the pandemic, the Department set policy relating to the aviation and maritime sectors, while the Maritime and Coastguard Agency and Civil Aviation Authority had specific operational and regulatory responsibilities. However, the Department was not closely involved in financial affairs of private companies and operators. In exceptional circumstances, e.g. when a company went into administration, the Department would respond reactively (for example, the Thomas Cook collapse, when the Department and the Civil Aviation Authority led the repatriation response).

20. Similarly, with local transport (buses, light rail) the Department was usually not directly involved in providing services, rather it provided grants to Local Transport Authorities, or operators, to invest in, deliver, support or enhance these services.

21. The Department had a more extensive involvement in rail services as it directly funded the infrastructure manager, Network Rail, and was responsible for letting rail franchises under which commercial operators contracted to provide rail services. It also has a statutory obligation under the Railways Act 1993 to ensure continuity of rail services.

22. As the pandemic progressed, the Department became more involved, and engaged with, the financial impact on private companies and operators. This was due to the need to ensure key transport services were maintained (e.g. maintaining supply chains of goods and transport links for key workers and other who needed to travel) as passenger numbers and hence revenues dropped very sharply.

Structure of the Department for Transport

23. I will briefly provide an overview of the structure of the Department for Transport which will assist the Inquiry in understanding how engagement on the economic response to the pandemic took place with HM Treasury, other Government Departments, and transport industry stakeholders. This engagement is covered throughout this statement.

24. The Department for Transport is largely split into Director-General led Groups, organised by different modes of transport. I exhibit to this statement organograms setting out the relevant structures at different points throughout the pandemic at BK/005 - INQ000595585, BK/006 - INQ000595527, BK/007 - INQ000595584, BK/008 - INQ000595358, BK/009 - INQ000595583.

25. During the pandemic these were broadly split into five Groups:
    a) Aviation, Maritime, International and Security Group
    b) Roads, Places and Environment Group
    c) Rail Group
    d) High Speed and Major Rail Projects Group
    e) Corporate Delivery Group (which consists of cross-cutting corporate functions such as finance, commercial and, communications functions).
    f) Additionally, DfT Legal, part of the Government Legal Department, is also a cross-cutting function advising the Department.

26. I set this out, as it is useful to understand that during the pandemic, 'modal' transport teams would generally lead on policy and engagement related to their modal sectors (e.g. maritime teams would lead engagement with ports, ferries, cruise companies) but were supported by cross-Departmental corporate functions based in Corporate Delivery Group, who could be having discussions with stakeholders or officials from other Government Departments.

27. The Department for Transport's organisational structure also adapted in response to the pandemic. On 12 May 2020, The Department's Executive Committee agreed to establish a temporary Covid-19 Directorate within the Department's Aviation, Maritime, International and Security Group to continue to ensure a coherent Departmental response to the pandemic. There were four strands to the Directorate's work:

    a) Covid-19 Transport Restart, which would be responsible for the Safer Transport Programme/Restarting Transport, Social Distancing Guidance and Personal Protective Equipment and for testing;

b) Covid-19 Transport Response which would lead cross-cutting policy work, briefing for cross-Whitehall meetings, and provide out of hours cover;
c) Transport Support Unit, coordinating transport support to the wider response; and;
d) Covid-19 Project Management Office to provide project management, secretariat and administrative support to the Directorate.

Processes for Providing Advice to the Secretary of State

28. The Secretary of State for Transport has overall responsibility for the Department and its public bodies. The Secretary of State is supported by Ministers, the Permanent Secretary, Non-Executive Board Members, and executive Directors General and the officials within their business groups.

29. Throughout the pandemic, the Secretary of State for Transport was the Rt. Hon. Grant Shapps who was appointed as the Secretary of State in July 2019 and was in post until September 2022. A list of all Ministers from January 2020 to September 2022, and the policy portfolios they held responsibility for, is exhibited at BK/010 - INQ000049197.

30. Ministers are supported by Special Advisers. A list of Special Advisers in post throughout the pandemic is exhibited at BK/011 - INQ000049190.

31. Throughout the response to the pandemic, the Secretary of State had responsibility for decision-making and setting the policy direction of the Department.

32. The usual method of Ministerial decision-making was through the submissions process. A submission provides written policy advice to Ministers, usually setting out a recommended course of action. Submissions would first go to the relevant junior Minister and Special Advisers, who would give their views on the advice. Special Adviser and junior Ministerial views would be collated by a Private Secretary and then put to the Secretary of State, who would make a final decision. Occasionally urgent advice would go to the Secretary of State directly, in parallel to Ministers and Special Advisers. This process for providing advice was maintained throughout the pandemic.

33. Throughout the pandemic, Ministers additionally received regular updates from Departmental officials on the economic impacts on the transport sector. Regular reporting on the economic impact of the pandemic on different transport modes was put in place from March 2020. In the early stage of the pandemic this reporting was provided daily, moving to weekly in May 2020. Examples of this reporting is provided at Exhibits BK/012 - INQ000595617, BK/013 - INQ000623273 and BK/014 - INQ000623326.

34. Ministers also received information through meetings with officials. Between March and June 2020, the Secretary of State and Ministers held regular (initially daily) meetings to discuss the Department's response to the pandemic. The first of these meetings was on 16 March 2020, and meetings continued until June 2020. In the meeting of 16 March 2020, the Secretary of State discussed the economic impacts of the pandemic including on airlines, cruise lines and the impact on freight. The minute of this meeting is exhibited at BK/015 - INQ000623264. In June 2020 new processes were put in place for reporting to Ministers, whereby updates were provided in writing, rather than via meetings.

35. In addition to advice provided by officials to the Secretary of State, Ministers, and to me, there is specific Departmental governance in place to support decision making. For example, the Investment, Portfolio and Delivery Committee provides oversight and scrutiny of the Department for Transport's most significant and complex projects and programmes. This includes reviewing at significant stages in the life cycles of these programmes and projects, for example, the signing off of business cases before recommendations are made to Ministers and overseeing substantial or novel contracts and investments.

36. I will explain more on governance structures in this statement when I cover meetings (at paragraph 463. I exhibit an organogram displaying the Department's governance structures during the pandemic at BK/016 - INQ000595564.

Role of the Accounting Officer

37. In my role as Accounting Officer for the Department for Transport, I am personally accountable to Parliament for ensuring the requirements set out in the "Managing Public Money" HM Treasury Framework are met. I exhibit a copy of the *Managing Public Money* Framework at BK/017 - INQ000595556.

38. Each organisation within central Government must have an Accounting Officer. As the Principal Accounting Officer for all Department for Transport bodies, I have a personal responsibility to Parliament for ensuring that the financial resources of the Department are used appropriately, to a high standard of probity, and that the organisation maintains appropriate systems and controls. I am held to account by the Parliamentary Public Accounts Committee.

39. As Accounting Officer I personally sign the Department's accounts and annual reports. In addition, I approve budget limits and the associated Estimate Memorandum, which sets out the rationale for the Department's plans for spending, shared with Parliament for authorisation each year.

40. Given this role as Accounting Officer, I would usually clear submissions with substantive financial implications before advice went to the Secretary of State. This contrasts with more routine policy advice, which I would only usually clear prior to submission if it was particularly contentious.

41. In addition, I review and approve Accounting Officer Assessments for each significant, novel and contentious transaction or proposal involving the use of public funds. This Assessment is particularly important where it is not possible to produce a fully developed business case, for example, due to lack of time and/or data, or where the risk environment is higher than usual. Many of the specific interventions made by the Department in response to the pandemic met these criteria. I have exhibited Accounting Officer Assessments for the key areas of funding during the pandemic in the chronology at BK/001 - INQ000654247.

42. In situations where I deem it appropriate to continue with a course of action that does not meet the standards set out in the *Managing Public Money* guidance, then I am required to ask the Secretary of State for a formal written direction to proceed. This is known as a Ministerial Direction.

43. In the early months of the pandemic, Ministers approved unbudgeted, in-year expenditure to support transport services. I therefore requested a Ministerial Direction for 2019/2020 to support this. I exhibit my request at Exhibit BK/018 - INQ000626312. The rationale for this Ministerial Direction was to support the Department's response to the pandemic. Given the stage of the financial year, it was not possible to increase the funds available in-year. Approval for increases in spending in-year would normally be sought from HM Treasury via the Supplementary Estimates process, however this had already concluded at the point at which it became clear that additional emergency funding was required. This necessary, but unbudgeted, spend meant that the Department would exceed the budget approved by Parliament, and I therefore sought direction in relation to Covid-19 costs that would breach the Department's budgetary controls in 2019-20.

44. The request for a Direction highlighted pressures as being 'particularly acute in the Rail sector' and set out the plan to introduce the Emergency Measures Agreements for all Train Operating Companies for 6 months. The Direction request also set out that there could be additional interventions requiring additional spending - noting 'efforts to repatriate UK citizens stranded abroad and those facing difficulties as a result of countries across the world closing their borders, as well as other pressures that might arise in any provision of short-term liquidity support to operators across all modes of transport'.

45. This request was approved by the Secretary of State on 20 March 2020, and I exhibit his response at Exhibit BK/019 - INQ000595375. This was the only Ministerial Direction I requested during the pandemic. I understand several other Departments were required to seek similar Ministerial Directions for this financial year 2019/2020.

Departmental Budgets

46. Departmental spending is agreed through Spending Review settlements managed by HM Treasury, which usually take place every two to four years. Spending Reviews generally only cover expenditure which can reasonably be planned for in advance and set 'Departmental Expenditure Limits'. Departmental Expenditure Limits make up about half of total Government expenditure. Departmental Expenditure Limits are split into Resource Departmental Expenditure Limits and Capital Departmental Expenditure Limits. Resource Departmental Expenditure Limits covers current costs like operating costs. Capital Departmental Expenditure Limits covers investment in fixed assets.

47. The rest of Departmental budgets are made up from Annually Managed Expenditure programmes, which cannot reasonably be managed within Departmental Expenditure Limits, usually because they are large, potentially volatile and demand led. Departments submit regular Annually Managed Expenditure projections to the HM Treasury in the run-up to the Budget (March) and for the Autumn Statement (December).

48. Each financial year the proposed maximum spend for each Department (starting on 1 April), is agreed by the House of Commons. When a department wishes to amend their spend, they must engage with HM Treasury to approve additional funding through the Supplementary Estimate system - this occurred during the Covid-19 pandemic as spending for the Department was significantly higher than normal. The Department's Annual Reports and Accounts (see Exhibits BK/020 - INQ000595531, BK/021 - INQ000595553 and BK022 - INQ000595555) set out the Departmental spend on Covid-19 response by year.

PREPAREDNESS

49. The Inquiry has asked me to provide information on the Department's preparedness and its potential impact on the transport sector. It is helpful for me to address this before I outline the specific financial schemes that the Department for Transport led during the pandemic.

50. I have split this section into pre-2020 planning and then planning from January 2020 onwards once Covid-19 had been identified in Wuhan.

Pre-2020

51. The Department for Transport is responsible for the planning, response, and recovery to security and civil emergencies affecting transport, such as major transport accidents and economic shocks. As a result, the Department takes responsibility for several risks in the National Security Risk Assessment. The National Risk Assessment is a cross-Government assessment of the most serious risks facing the UK or its interest overseas These risks are set out in the National Risk Register - the public facing version of the National Security Risk Assessment - and split into major transport accidents and terrorist attacks on transport systems.

52. Long-term risk and resilience planning before and during the pandemic sat with the Department's Transport Security Operations Centre, within the Transport Security Resilience and Response Directorate. The Transport Security Operations Centre managed the key risks led by the Department and oversaw the Department's response to major incidents which impacted on the transport network.

53. For pandemics, the Department's planning was primarily focused on pan-flu, the highest rated civil contingency risk. The Government's response planning was set out in the Pan Flu Plan and was based on the agreed reasonable worst-case scenarios. Relevant sections of the plan for the Department were focused on planning for initial staff absenteeism and the impact on the transport network, and then the associated impacts of long-term staff absenteeism. Work on pan-flu planning was paused across Government in 2019 due to preparations for the UK's exit from the European Union.

54. As part of wider Government planning, in October 2016, the Department for Transport took part in Exercise Cygnus, a cross-Government exercise to test the UK's response to a serious influenza pandemic. A briefing for the then Secretary of State, who attended the National Security Council, provides an overview of the Department's work relating to Exercise Cygnus

and pandemic-flu preparedness in the transport sector. I exhibit this document at Exhibit BK/023 - INQ000188702.

January 2020 onwards

55. The Transport Security Operations Centre is the central response team in the Department, although modal teams (rail, aviation, maritime and local) also have their own specific resilience teams. The Transport Security Operations Centre focuses on planning for potential crises and supports the Department's response to crises.

56. The Transport Security Operations Centre led the initial response to the pandemic. As the extent of the potential impact of Covid-19 began to be understood, a Departmental Operations Centre (known as a DOC) was formally established on 19 February 2020 and sat within Transport Security Operations Centre. The Departmental Operations Centre was established to formalise and coordinate the Department's work in relation to the Covid-19 outbreak as it became increasingly clear of the impact and duration of the threat. This was in response to a more formalised Cabinet Office 'Battle Rhythm' being put in place, consisting of regular cross-Government meetings and reporting on the Covid-19 outbreak.

57. The Department for Transport is a Lead Government Department for responding to civil emergencies and therefore is used to reacting quickly to crises. Designated Lead Government Departments are responsible for leading work to identify serious risks and ensuring that the right planning, response and recovery arrangements are in place relevant to their Departments. Department Operation Centres had been established to deal with previous responses, such as Operation Matterhorn (the repatriation of Thomas Cook passengers following the airline entering administration) and Yellowhammer (leaving the European Union).

58. The Department was able to use the learning from these previous responses to quickly stand up a response to the Covid-19 outbreak. The way in which the Department was structured at the time, through modal resilience teams who engaged with relevant sectors, resulted in good working relationships and a willingness from the sector to engage with commissions to understand the economic impact of the pandemic on the transport sector at pace.

59. The initial response to the Covid-19 outbreak, from early January 2020, undertaken by the Transport Security Operations Centre, was focused on understanding the impact of significant staff absenteeism on the transport network and critical freight routes. BK/024 - INQ000608247 provides an example of reporting from Aviation Teams to specific planning

assumptions. The Department's response to the Covid-19 outbreak started to widen to identify economic impacts from February 2020 onwards, as the long-term nature of the pandemic became apparent.

60. The Transport Security Operations Centre engaged with other Government Departments to explore the potential longer-term economic impacts of the outbreak. An example of this is provided at BK/025 - INQ000595567 where the Essential Services, Society and Infrastructure Group, led by the Civil Contingencies Secretariat, requested on 27 February 2020 that all Departments provide an assessment of current preparedness, including the potential financial impacts on their sectors.

61. By March 2020, the Department had developed a Covid-19 Impact Plan which I exhibit at BK/026 - INQ000622821. The plan was produced by the Transport Security Operations Centre with input from modal teams, analysts and finance teams. The aim of the Plan was to detail the arrangements that were in place to respond effectively to major disruption to key transport services in the event of an escalated Covid-19 infectious disease pandemic. It set out the transport sector risks and the roles and responsibilities of stakeholders during a response, including economic vulnerabilities.

62. The Department engaged with other Departments to support work in these areas, for example, Departmental officials fed into the Department for Business, Energy and Industrial Strategy-led Covid-19 Business and Economic Intelligence Dashboard, which was used to share the latest on sectors around the UK and for briefing Ministers and informing policy development. An example of this reporting is exhibited at BK/027 - INQ000622871.

63. I was not directly involved in collating information or cross-Government engagement related to the Department's input into the Covid-19 Business and Economic Intelligence Dashboard, which was done at a junior official level. Modal teams in the Department for Transport would update the Dashboard weekly with the latest intelligence received from their engagement with companies in their sectors - there were individual returns from aviation, maritime, rail and road, and passenger and freight transport teams.

64. I was not sighted on how the information shared impacted on the eventual support being provided to the sector. However, in commissioning information, the Department for Business, Energy and Industrial Strategy set out that 'The pack [was] being used to inform EBRIG (Economic and Business Response Implementation Group), as well as by colleagues

working on policy responses at official level.' This email is provided at Exhibit BK/028 - INQ000626314).

CROSS-GOVERNMENT WORKING

Access to relevant meetings, information and analysis across Government

65. The interventions made by the Department during the early response to the pandemic were via the Ministerial Implementation Group structures. The four Ministerial Implementation Groups (General Public Services, Health and Social Care, International, and Economic and Business) were originally set up place to monitor and refine the measures agreed by COBR[1].

66. Ministerial Implementation Groups provided a new structure for decision-making, once regular COBR meetings had ceased. For example, on 7 April 2020, the General Public Services Ministerial Implementation Group (GPS MIG) requested HM Treasury and the Department for Transport work together to agree a public service obligation scheme to maintain capacity on critical freight routes. Exhibit BK/029 - INQ000623282 outlines further detail on the request. Additional information on this scheme is set out at paragraph 363.

67. The Economic and Business Response Implementation Group (known as EBRIG) was set up by Cabinet Office to address the economic and business issues caused by the pandemic on 17 March 2020. The Committee was chaired by then Chancellor of the Exchequer, Rt. Hon. Rishi Sunak MP, with Secretary of State for Business, Alok Sharma, as Deputy Chair. The Secretary of State for Transport was a standing member of the Group. The terms of reference for the Economic and Business Response Implementation Group are exhibited at BK/030 - INQ000595582.

68. Particularly important for the content of this statement is that, at the Economic and Business Response Implementation Group meeting on 26 March 2020, a paper setting out the principles for financial intervention was shared by HM Treasury. The paper set out the specific circumstances under which Government may choose to intervene directly to support businesses in financial distress due to the Covid-19 pandemic. I exhibit a copy of this paper at BK/031 - INQ000622820.

[1] COBR is the Committee that co-ordinates decision making in the event of major or catastrophic emergencies.

69. I consider that the Ministerial Implementation Group structures worked well to provide clear ownership of work, and the Civil Contingences Secretariat[2] effectively managed a coordinated battle rhythm, during the early response to the pandemic.

70. On other interventions, the Department would work directly with HM Treasury, or other relevant Departments to deliver interventions, rather than through Cabinet Committees. The Terms of Reference for the Economic and Business Response Implementation Group made clear that this forum would not cover *'specific support for individual companies, which is a matter for HMT and the relevant sector-owning Department'.* For example, the Transport for London funding packages were agreed between the Department for Transport, HM Treasury and No.10, whilst rail contracts were agreed directly with HM Treasury.

71. The Inquiry has asked me to expand on my Module 2 Statement where I referred to difficulties in gaining access to relevant Covid-O[3] meetings - paragraph 222 of INQ000191302_0062 where I said that *'In some specific cases, it was hard for DfT ministers and senior officials to gain access to relevant COVID-O meetings, including where DfT was likely to lead on implementation. DfT officials did not always receive COVID-O papers, and many papers were only provided in the room, which meant they could not be considered fully. For example, I raised concerns with the Cabinet Secretary over the decision-making process in relation to international travel and the Traffic Light System'*.

72. This reference was in relation to international travel policy, rather than the economic response to the pandemic. The specific instance referred to in the statement, when I wrote to the Cabinet Secretary about this issue, was regarding the Traffic Light System.

73. The Inquiry has asked me whether this difficulty in gaining access to Covid-O meetings was also an issue in the Department's economic response to the pandemic. I do not recall difficulties in gaining access to relevant Cabinet Office meetings in relation to the economic response to the pandemic. Departmental officials have also not been able to locate significant instances of such difficulties. Most of the Department's engagement in relation to the economic response was directly with HM Treasury, rather than via Cabinet Committee meetings, and I set out more information on this below.

[2] The Civil Contingencies Secretariat in the Cabinet Office was the Government unit responsible for preparing for, responding to, and learning lessons from, major emergencies.
[3] Covid-O (Operations) was the key decision-making forum for Covid-19 related policy throughout the pandemic.

Working with HM Treasury

74. HM Treasury was the primary Government partner that the Department for Transport worked with on the economic response to the pandemic.

75. The Department for Transport's role in engagement with HM Treasury throughout the pandemic was:

    a) To identify areas of risk to key transport services - for example, supply chains of goods, transport routes for key workers, or marginal services that could leave communities without transport links.
    b) To work with industry to mitigate these risks- in exceptional cases via funding packages.
    c) To agree financial measures to support the Department's statutory obligations (such as in the case of the Transport for London funding packages or rail contracts).
    d) To share information with HM Treasury, and wider Government, on the economic impacts of the pandemic on transport more widely and consider whether further mitigation measures were viable.
    e) To provide feedback on the cross-Government financial support schemes, how these schemes were being used by the transport sector and any gaps or issues.
    f) To balance supporting transport services against affordability and consider what it was fair and appropriate for taxpayers to fund.

76. The chronology provided at Exhibit BK/001 - INQ000654247 sets out key engagement with HM Treasury during the pandemic. During the pandemic, the Department's engagement with HM Treasury was extensive. I have therefore not provided an exhaustive list of all engagement with HM Treasury, instead I have focused on key documentation, particularly engagement undertaken by Ministers.

77. The Department engages with HM Treasury through its Transport Spending Team, which is split into four areas – spending and strategy, local and international, rail and major projects. This approach did not change during the pandemic; however, HM Treasury did increase the number of staff in these teams during the pandemic.

78. As set out at paragraph 26 of this statement, engagement with HM Treasury happened across multiple teams at both an official level and ministerially. Engagement would be undertaken at an official level before escalation to Ministers. Modal teams would generally lead on policy and engagement related to their modal sectors – including with HM Treasury.

However, particularly relevant for the economic response, modal teams were also supported by cross-Departmental corporate functions, such as Corporate Finance.

79. The Department for Transport shared transport information, data and economic analysis with HM Treasury. This was considered standard practice as the Department for Transport was best placed to provide information on the impact of the pandemic on the transport sector. I set out more information on the type of information which was provided when I cover data, advice and analysis at paragraph 432 of this statement. HM Treasury provided the Department for Transport with guidance and information on key cross-Government financial schemes, as exhibited at BK/032 - INQ000595380 and BK/033 - INQ000595381.

80. The way the Department engaged with HM Treasury did not change significantly during the pandemic, although HM Treasury naturally was under increased pressure (as were all Departments) given the impact of the Covid-19 pandemic and increased requests for financial support from all sectors.

81. Although there is a natural tension between Departments seeking funding to support their policy objectives, and HM Treasury's role in maintaining control over public spending, both I, and my officials, consider that engagement with HM Treasury was positive during the pandemic. Departmental officials felt that HM Treasury counterparts were engaged and constructive, particularly with all of Government facing significant pressures during the pandemic.

82. Overall, both I and my officials consider that the Department for Transport worked effectively with other Government Departments on economic decision making during the pandemic. Any challenges (which I discuss elsewhere in the statement) must be considered in the context of an unprecedented situation and requirement to deliver at pace and under sustained pressure for a period of two years.

ECONOMIC OBJECTIVES

83. Before providing information on individual funding schemes, I should discuss the Department's economic objectives during the pandemic.

84. During the pandemic it was necessary, in order to minimise wider impacts on the economy, health and society, for people to able to travel safely, including key workers. The Department's economic interventions were therefore principally focussed on ensuring that transport services continued to operate, in a way that allowed people to observe social distancing rules. In general, financial interventions were focused on maintenance of essential transport services, rather than supporting individual companies in distress. These objectives evolved throughout the pandemic, as the wider context evolved (e.g. initial lockdown, restarting the economy). Ensuring support was efficient and was consistent with the principles of Managing Public Money were also key considerations.

85. At the beginning of the response Departmental objectives were focused on maintaining transport services. The objective of this funding was to ensure that key workers and others who needed to travel could do so in a way which was consistent with social distancing rules.

86. The impact on freight was another early concern- leading to the establishment of the cross-Government Critical Freight Taskforce, led by the Department for Transport, in March 2020. The Department established the Taskforce, whose work was then endorsed at the General Public Services Ministerial Implementation Group. It was essential to maintain supply chains, given that many of the UK's critical goods and components, including food, medicines and medical equipment, are imported from overseas. Preserving freight links was important, not only to the functioning of the UK's economy, but also to support the health response to the pandemic.

87. The Department's response developed alongside the cross-Government support schemes being developed by HM Treasury. On 17 and 20 March 2020 the Chancellor announced packages of support for businesses. This package included the financial schemes that the Inquiry has asked me to cover in the statement - the Coronavirus Job Retention Scheme (also referred to as 'furlough'), loans to businesses, including the Bounce Back Loan Scheme, Coronavirus Business Interruption Loan Scheme, the Coronavirus Large Business Interruption Loan Scheme and the Covid Corporate Financing Facility.

88. In the early economic response to the pandemic, before cross-Government schemes were put in place by HM Treasury from late March 2020, the Department was contacted by many

companies facing financial challenges, across all transport modes. The Department began to consider a range of ways to provide financial support for the transport sector, including direct financial support. Exhibit BK/034 - INQ000595364 provides an example of the options considered, and this is set out further at paragraph 125.

89. The first request that the Department for Transport sought HM Treasury support for was for the Emergency Measures Agreements for Train Operating Companies in March 2020. The Secretary of State wrote to the Chief Secretary to the Treasury requesting emergency support for Train Operating Companies on 18 March 2020. This letter is exhibited at BK/035 - INQ000595367. This followed the Department receiving a first Force Majeure letter from the East Midlands Rail Franchise operator on 5 March 2020, see Exhibit BK/036 - INQ000595362.

90. On Monday 23 March 2020, it was announced that train operators would have the opportunity to transition temporarily on to Emergency Measures Agreements. More information on the support provided to Train Operating Companies is provided at paragraphs 141-220 below. This was followed by the announcement of other support schemes throughout April. Support for bus funding was announced on 3 April 2020. Support for lifeline ferry services and freight routes was announced on 24 April 2020.

91. The Department's interventions were also developed in line with wider Government objectives of reopening the economy and supporting restart. On 11 May 2020 the Government published 'Our plan to rebuild- the Government's Covid-19 recovery strategy' which launched the conditional plan for coming out of lockdown.

92. The Inquiry has asked me to explain how the Department's economic policies considered the recovery stage of the economic response to the pandemic. The Department began to consider the recovery stage of the economic response relatively early in the pandemic. As early as April 2020 Departmental officials were engaged in Covid recovery work, and advice exhibited at BK/037 - INQ000595410 set out to Ministers a proposed recovery work programme.

93. In addition, one of the four strands to the work of the Covid-19 Directorate (set out at paragraph 27) was the Covid-19 Transport Restart, which would focus on the Safer Transport Programme - how there could be a safe restart of transport services.

94. Modal teams also had teams focusing on recovery, and various plans were published throughout the pandemic to support the safe recovery of individual transport sectors. For

example, the publication of the Flightpath to the Future, exhibited at BK/038 - INQ000595549, focusing on aviation, or the Maritime Recovery Route-Map, exhibited at BK/039 - INQ000595550.

95. Another economic objective related to supporting the long-term sustainability of the transport sector. For example, as part of the Government's restart plans, domestic travel reopened more quickly than international travel. The Department considered how to support the sustainability of regional airports, and this was an objective of the Airport and Ground Operators Support Scheme. More information on the Scheme is set out at paragraphs 221-268.

96. The Department also considered ways to support the safe restart of international travel, via policy mechanisms (such as Travel Corridors and the Traffic Light System) rather than through financial support. Given the focus of Module 9 on economic interventions, I do not cover this policy work in this statement. However, it is important to note that measures supporting a return to international travel were considered important to mitigate the social and economic impacts of travel restrictions, including on freight and the supply of goods.

How objectives were identified

97. The Inquiry has requested that I outline how economic objectives were identified. From February 2020 onwards, the Transport Security Operations Centre worked with modal teams and sector operators to identify the economic impacts of the Covid-19 outbreak on the transport sector. This was based on the agreed worst-case scenario at the time – three months to reach the peak of the outbreak and three months for recovery.

98. A commission shared with all modal teams on 5 March 2020, and exhibited at BK/040 - INQ000595360, considered financial impacts, in the context of an evolving situation relating to the outbreak, for example, the impact on different parts of the transport sector, share price moves, cash position and general financial health. It included short term and long impacts on operators and noted specific vulnerabilities. This information was used to build up an overall 'stability RAG' to inform where interventions might be required. In additional, modal teams were asked to confirm the top 15 worst impacted operators to support reporting to Cabinet Office and other relevant Departments. The Department also used information from external consultants, such as Moody's, to provide analysis on the potential impact on economic activity, see BK/041 - INQ000595361.

99. In addition to proactively undertaking horizon scanning activities, the Department also responded to issues as they emerged. For example, the support packages were developed to ensure lifeline ferry services to the Isle of Wight and Isles of Scilly.

Targeted support

100. The Inquiry has asked how the Department made decisions on which transport sectors received targeted support, and which were directed towards generally applicable cross-Government support schemes.

101. Generally, the Department did not provide targeted financial support solely because a sector or company was in financial distress. HM Treasury had made clear that bespoke funding would have a high bar and had set out the principles for Government intervention over and above the cross-Government support schemes. These principles are exhibited at Exhibit BK/031 - INQ000622820 and set out that '*The first port of call, in almost all cases, for a business facing cashflow issues should be established market mechanisms, such as bank lending and commercial finance. Companies would be expected to have implemented all reasonable restructuring, cost reduction, and revenue generating measures before seeking further assistance.'*

102. The paper, then continued to explain certain circumstances where Ministers may decide to directly support businesses or groups of business (see Exhibit BK/031 - INQ000622820). The following conditions applied:

    i. *'Businesses can reasonably be expected to have a viable long-term future.*
    ii. *Businesses are facing short-term and temporary difficulties directly due to Covid-19.*
    iii. *Businesses' failure or financial distress could cause disproportionate harm to the economy or society.*
    iv. *Businesses have exhausted all other financing options, including both loan and equity options.'*

103. The Department for Transport's interventions particularly related to condition iii - that disproportionate harm could be caused to the economy or society as a result of a company failure. The Department's priority was ensuring that transport services were able to continue, to ensure that key workers and others who needed to travel could do so and that the supply of goods (including food, medicines, medical equipment) was maintained.

104. The Inquiry has asked me specifically about the funding package for Transport for London, as well as rail contracts, as areas which '*received targeted support over other areas*'. Both packages were put in place primarily to protect transport services. However, there were also statutory obligations for the Secretary of State (and in turn Department for Transport) to

provide support in these cases. The Secretary of State has a duty to provide a grant to Transport for London under the Greater London Authority Act 1999. Similarly, the Secretary of State has an obligation to ensure continuity of rail services in England[4] under Section 30 of the Railways Act 1995. More information on the support provided for Train Operating Companies and Transport for London is set out in paragraphs 141-220 and 269-320 in this statement.

105. The Department received a significant number of requests for funding from companies across the sector. Concerns raised by companies varied depending on individual circumstances. However, as general themes, early in the pandemic individual companies raised concerns about the financial impact on their business from a drop in passengers and hence revenues caused by the pandemic. Once the cross-Government support schemes were announced companies would contact the Department to seek clarification, or changes to schemes, and, in some cases, access bespoke or transport specific financial support. In responding to these requests, it was necessary for the Department for Transport to balance the objectives of keeping transport services running, while also ensuring efficient and appropriate use of public funds.

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[4] The Section 30 duty for the Secretary of State relates to those franchises the Secretary of State lets, which includes cross border services but not Wales-only or Scotland-only services.

USE OF OTHER FINANCIAL SUPPORT SCHEMES BY THE TRANSPORT INDUSTRY

106. I will now turn to the cross-Government financial support schemes - the Coronavirus Job Retention Scheme (also referred to as 'furlough'), loans to businesses, including the Bounce Back Loan Scheme, Coronavirus Business Interruption Loan Scheme, the Coronavirus Large Business Interruption Loan Scheme and the Covid Corporate Financing Facility.

107. The Department for Transport did not have a role in the design of these financial support schemes, which were led and developed by HM Treasury. The Department was not significantly consulted on details of the schemes or how those details might impact transport specifically prior to schemes being announced. Given the fast pace of the development of the schemes, and the fact that they had to work to support different sectors across the country, I recognise that there was not sufficient time for extensive consultation with Departments. However, as set out in paragraph 79, the Department for Transport had been sharing information across Government, including with HM Treasury, of the impact of the pandemic on the transport sector transport operators.

108. Requests for financial support from transport operators were usually directed to these cross-Government schemes in the first instance. To ensure consistency of interpretation of the schemes, the Department's Corporate Finance team kept central logs of how different modes were accessing support. Corporate Finance also engaged with modal teams as HM Treasury announcements were made, and provided advice on the schemes, any transport implications and our interpretation to modal transport teams. Corporate Finance Teams would also compile lists of clarification questions for HM Treasury on the schemes to understand their suitability for the transport sector, as evidenced at Exhibit BK/042 - INQ000595403.

109. The Department was undertaking extensive engagement with the transport sector, and companies in financial distress would share information, which the Department would log as part of its regular reporting. This information was shared with the Department's Investment, Portfolio and Delivery Committee. The Department engaged with the transport sector either in writing or via online meetings. Companies would often write, or request meetings, to discuss their specific circumstances. Given the scale of communication from companies, the Department established new forums to engage with industry. A full list of engagement forums held with industry is provided at paragraph 431 in this statement.

110. Not all information about companies accessing cross-Government schemes was publicly available. Some information was published, such as on those companies accessing the Covid Corporate Financing Facility. Others, such as companies utilising furlough, were not published. It was assumed that all companies who could access this support would do so.

Project Birch

111. In line with the principles for intervention, exhibited at Exhibit BK/031 - INQ000622820, individual companies were usually directed towards generally applicable funding schemes. However, before these schemes were announced in March 2020, initial support was also considered through Project Birch.

112. Project Birch was introduced in early 2020. It was developed by HM Treasury and the Department for Business, Energy and Industrial Strategy[5], and was designed to monitor and assess individual firms, cohorts of firms and sectors to understand the impact of the pandemic and determine, what if any, Government intervention was required. The first formal record the Department for Transport can locate referring to the Project Birch process is dated 25 March 2020. On 20 March, Departmental officials received information from the HM Treasury Enterprise and Growth Unit setting out the process of 'last resort'. This was followed by an email on 25 March setting out that this process would now be known as 'Project Birch'. This email is exhibited at Exhibit BK/043 - INQ000626311. In communicating the scheme HM Treasury was clear that there would be a high bar for intervention, in line with the principles for Government intervention (as set out at paragraph 101).

113. The Department supported several requests under the Project Birch, the majority of which came from the aviation sector. Under Project Birch companies were required to have exhausted the cross sectoral support schemes in place and all other funding options, including with their own shareholders and commercial debt providers, such as the Covid Corporate Financing Facility, Coronavirus Large Business Interruption Loan Scheme and UK Export Finance support, before additional support would be considered by Government.

114. The Department worked with companies to understand where they could find support from other sources before and on entering the Birch process, particularly as new cross sectoral support schemes were announced. It is important to explain that these schemes were being developed in parallel, which meant a company could enter the Birch process, and then be

[5] The Department for Business, Energy and Industrial Strategy (BEIS) was replaced by the Department for Business and Trade (DBT) in February 2023

redirected to another scheme if it was considered more appropriate. My understanding is that ultimately only one company (Celsa Steel UK) received funding via Project Birch.

115. The Department's Aviation team worked with the Corporate Finance to create a template to request support from HM Treasury. The form, provided at Exhibit BK/044 - INQ000623268 was focused on identifying the impact on key businesses, to provide clarity around what support they were looking for, and the amount and timing of the support sought. Companies also needed to be clear about their role in furthering wider Government priorities such as connectivity, levelling up and sustainable economic growth.

116. The forms were also reviewed using set criteria, with the support from relevant teams across the Department, and by the UK Government Investments[6]. UK Government Investments and HM Treasury reviewed the triage forms and provided additional financial insights into companies during those early months of the pandemic, with HM Treasury making a final decision on whether a request for support was approved or not.

117. In terms of challenges, the Birch process was detailed and required a significant amount of sensitive financial information to be provided by companies entering the process. This was a lengthy process for companies, the majority of which did not receive bespoke funding. However, this extensive process must be balanced against the protection of public funds. In the event no transport companies received funding through this route, in part due to other sectoral support mechanisms set out in this statement.

118. My view is that, while I understand companies who sought support will have been disappointed not to receive it, the Birch process served a useful function in providing a consistent gateway to bespoke support across Government. Birch was developed alongside the other cross-economy support schemes, which meant that companies entering the Birch process could be redirected to other schemes as they opened. The process enabled Departmental officials to be transparent and consistent in communicating with companies applying for support. The information requirements were important in ensuring there was a rigorous process of assessment and a high bar for bespoke intervention was appropriate, given the wider cross-economy support schemes and modal transport support schemes in place.

[6] Owned by HM Treasury, UK Government Investments provides expertise in corporate finance and corporate governance to government departments, advising in support of their policy objectives. UK Government Investments works across government advising and interacting with Ministers, Parliament and Whitehall departments.

What worked well and where there were challenges

119. Overall, the Department considered that the timing and approach of the cross-Government schemes worked well. It was helpful to have a consistent, transparent approach cross-Government to be able to share with transport operators. It also allowed the Department to understand where there would be gaps in support and to focus efforts on the bespoke schemes (set out at paragraph 138 to protect flow of goods and transport links). There were however areas where there were difficulties, which I discuss below.

120. One challenge related to information sharing and duplication cross-Government. Given that companies in distress were sharing commercially sensitive information, this information was not routinely shared between Departments. This sometimes led to duplication with transport companies approaching different Departments for financial support. To mitigate this, in May 2020, HM Treasury began to provide information on transport companies accessing the Covid Corporate Financing Facility. This information was sent on a weekly basis, to a restricted list of named recipients – including myself as Permanent Secretary. Department for Transport officials could not recall instances of HM Treasury providing information on companies accessing schemes other than the Covid Corporate Financing Facility. While it would have been helpful to receive this information, the Department's direct engagement with the sector meant that it was often already aware of companies accessing other support schemes.

Areas where there were challenges in accessing support

121. The aviation sector raised early concerns with accessing the cross-Government support measures. Advice exhibited at BK/045 - INQ000595369 set out to Ministers that *'new Bank of England measures [were] unlikely to be applicable to much of the sector'* and that officials considered it would need bespoke liquidity support. The Secretary of State raised the issues the aviation sector was facing directly with the Chancellor in a meeting on 19 March 2020. The readout is exhibited at BK/046 - INQ000595370.

122. One of the concerns for airports and airlines was that, while the Covid Corporate Financing Facility could work for a small number of the biggest companies, there was uncertainty about applicants who did not have a public credit rating. Even for those companies with a public credit rating, their financial structure could mean that they were limited in the amount they could access. For example, if accessing larger amounts, companies might require approval from their current investors.

123. Another area of concern was a number of smaller regional airports within the UK that are owned by and/or receive significant financial support from their Local Authority or relevant Devolved Administration. These airports had difficulties in accessing the cross-Government liquidity support measures. Entities where regional or Local Authorities could directly or indirectly exercise a dominant influence by virtue of their ownership, financial participation or governance were not eligible for the Covid Corporate Financing Facility. Airports also reported challenges accessing the Coronavirus Business Interruption Loan Schemes. This was the context of the development of the Airport and Ground Operations Support Scheme, which focused on providing proportionately greater assistance to smaller regional airports and is set out in more detail in this statement at paragraph 221.

124. Departmental officials, supported by Corporate Finance teams and external consultants, undertook engagement with the aviation industry to consider support options, including through Project Birch. Examples of advice provided to Ministers on this issue is exhibited at Exhibit BK/045 - INQ000595369, BK/047 - INQ000595621 and BK/048 - INQ000610353. Other measures outlined at paragraphs 321 onwards, such as airline slots alleviation, and support for the Air Travel Organisers Licence, were designed to alleviate financial pressure in the aviation and international travel sectors.

125. Department officials considered a range of support options throughout the course of pandemic as the needs of the aviation sector evolved. This included direct financial support such as an aviation bespoke liquidity-support mechanism and the Airport and Ground Operations Support Scheme, alongside other policy interventions such as deferrals of taxes and rates or UK Government subsidies to various charges faced by airlines and airports. There was a dedicated workstream to explore various mechanisms to support the aviation sector. This work was done in close partnership with HM Treasury to agree what options would be taken forward.

126. The Department also worked with UK Export Finance to support aviation companies to secure loans via the Export Guarantee Scheme. UK Export Finance launched the Export Development Guarantee in July 2020, which allowed eligible exporters to take a loan of a minimum value of £25 million, 80% guaranteed through the scheme, over a repayment period of up to 5 years. In December 2020 British Airways received commitments for a 5-year term-loan Export Development Guarantee Facility of £2bn, partially guaranteed by UK Export Finance. In January 2021 EasyJet secured a similar five-year term loan facility of £1.4bn. This followed engagement between Departmental and HM Treasury officials, as well as support from external commercial consultants.

127. The cruise industry also raised concerns about accessing the cross-Government support schemes. Cruise companies reported difficulties in accessing the Coronavirus Large Business Interruption Loan Scheme, due to the difficulty of passing a post-Covid based credit assessment. Project Birch was also difficult for the cruise sector to access as there was not a clear strategic rationale for intervening in a sector which essentially provides a discretionary service and for some companies there was complexity around overseas ownership. For the cruise sector therefore, the Department for Transport focused on a policy-based approach, undertaking extensive engagement with the Department of Health and Social Care and the Foreign, Commonwealth and Development Office to support the safe restart of cruising.

128. Areas where the Department sought to expand the eligibility criteria or scope of the schemes to support the transport sector are set out below.

Enabling seafarers to access the Coronavirus Job Retention Scheme

129. UK shipping companies use offshore employment agencies to support UK seafarer employability in the highly competitive international labour market for ships' crews. This practice is standard within the maritime industry, where, subject to fulfilling criteria set by HM Revenue and Customs, companies are exempt from employer National Insurance contributions. Companies operate a UK PAYE scheme and are expected to be in full compliance with HM Revenue and Customs.

130. When the Coronavirus Job Retention Scheme was implemented, there was a 'UK-based' requirement. The Department for Transport engaged with HM Treasury to ensure that seafarers could be included in the scheme. In April 2020, HM Treasury confirmed that all firms that operated a UK PAYE scheme as of 28 February 2020, and with a UK bank account, were eligible for the Coronavirus Job Retention Scheme.

Employment Support Scheme for the International Travel Sector

131. As the Coronavirus Job Retention Scheme was being wound down from September 2021, the Chancellor instructed HM Treasury officials to work with the Department for Transport to develop an employment support scheme for the international travel sector as a contingency option. The scheme was intended to maintain a core international travel capability and protect connectivity, so a competitive and resilient sector could quickly scale up as restrictions were lifted, see Exhibit BK/049 - INQ000595524.

132. The Department engaged with the Department for Business, Energy and Industrial Strategy, HM Treasury, Cabinet Office, No.10 and HM Revenue and Customs (see Exhibit BK/050 -

INQ000608249) to draw up the proposal under the title of 'Project Jupiter'. This was a contingency option to ensure that those firms providing international services to/from the UK would retain jobs and remain viable after the Coronavirus Job Retention Scheme ended on 30 September 2021. The agreed option was a grant scheme to apply to firms operating across the aviation, maritime and international rail sectors with UK employees or providing UK infrastructure to cover employee wage costs. The firm needed to have operated a UK PAYE scheme and have claimed under the Coronavirus Job Retention Scheme. It was anticipated that about 230 companies would be within scope, including non-UK firms who had UK-based employees. The scheme was to last for an initial period of six months. The intention was for the Department to deliver and administer the scheme, including engagement with companies and the eligibility assessments, see Exhibit BK/051 - INQ000622847.

133. From October 2021 testing requirements were reduced for eligible fully vaccinated travellers travelling to England, supporting the recovery of the international travel sector. This removed the need for this bespoke contingency funding and Project Jupiter was not implemented.

Rail Emergency Working Principles

134. Most transport companies were able to directly to access support through the Coronavirus Job Retention Scheme.

135. Most of the rail sector did not utilise furlough support, as many staff were required to run the core services provided during the pandemic[7]. The Department also considered that it was more appropriate for public money to be used to keep employees working and providing necessary services, rather than on furlough. Emergency Working Principles (see Exhibit BK/052 - INQ000595390 - Annex A) were agreed to ensure that there was a consistent approach to how Train Operating Companies were managing employees and operating services.

136. The Rail Industry Coronavirus Forum[8] agreed the Emergency Working Principles. The Principles set out that staff would not be furloughed, necessary training would continue and there would be flexibility around working location and role, meaning that staff could be re-deployed where necessary. The Department also agreed with Trade Unions that there would

[7] Some open access rail operators (services which are operated on a commercial basis by private companies) did access furlough support

[8] The RICF was established in March 2020 to enable cross sector dialogue between the rail employers (NR, TOCs) and trade unions, ASLEF, RMT, TSSA and Unite.

be no overtime pay or rest-day working, a pay freeze and a recruitment cap, during the Covid-19 response.

137. This approach enabled the application of a consistent set of safe working practices for rail staff. It also meant that the rail sector could respond to changes to service levels depending on the Covid-19 restrictions in place at the time. The Emergency Working Principles were shared with the Rail Minister on 30 March 2020, who endorsed the approach, see exhibits BK/052 - INQ000595390 and BK/053 - INQ000595389.

OVERVIEW OF ECONOMIC INTERVENTIONS

138. The Inquiry has asked me to provide a list of all economic interventions to support the transport sector in response to the pandemic. Below I provide two tables summarising of each of the interventions in which the Department for Transport was involved. The first focuses on the three areas where the Inquiry has requested detailed information on - rail contracts, Transport for London funding and the Airport and Ground Operations Support Scheme (see paragraphs 141, 221 and 269). The second on the other economic interventions that the Department introduced, where I then provide some high-level information on each scheme (see paragraph 321). I would be happy to provide further information on any of these areas as required by the Inquiry.

Key economic interventions:

Date introduced	Title	Summary	Cost (£m)
March 2020 (EMAs), September 2020 (ERMAs)	Rail emergency measures	Emergency Measures Agreements, and then Emergency Recovery Measures Agreements, with Train Operating Companies to mitigate the financial impacts resulting from the pandemic and ensure that rail services could continue to operate.	13944
May 2020	Services in London	A funding and financing package for Transport for London to safeguard services based on a series of conditions. The first package was agreed in May 2020, and the final package during the pandemic ended in June 2022.	5093
January 2021 (AGOSS 1), AGOSS 2 (June 2021), AGOSS 3 (December 2021)	Airport and Ground Operations Support Scheme	Financial support for commercial English airports and the ground handlers serving them. The support addressed fixed costs and was equivalent to the business rates liabilities of each business, capped at a certain amount per site, and subject to certain conditions	163

Other economic interventions

Date introduced	Title	Summary	Cost (£m)
March 2020	Safeguarding Great Britain to Northern Ireland air links	Temporary funding to support airlines and airports, which allowed them to continue running air passenger services along two routes from Belfast City and City of Derry to London during the pandemic. Support ran between March and July 2020.	1.9
3 April 2020	Support for bus, tram and light rail services	Funding for bus operators to protect and increase local bus, tram and light rail services.	1941
24 April 2020	Supporting critical freight routes	Support to protect critical freight routes covering the English Channel, the Short Strait, and the North Sea, as well as five sea freight routes between Northern Ireland and Great Britain.	8.5
24 April 2020	Lifeline services to the Isle of Wight and Isles of Scilly	Emergency funding to support lifeline transport links to the Isle of Wight and the Isles of Scilly. This support measure ran between April 2020 and May 2021.	16.7
April 2020	Funding to support statutory functions of the aviation regulator- Civil Aviation Authority	The Civil Aviation Authority's income fell due to the reduction in air travel during the Covid-19 pandemic. This funding was to support and enable the Civil Aviation Authority to continue its statutory duties.	84
May 2020	Cycling and walking infrastructure	Funding for Local Authorities to support cycling and walking infrastructure, as well as the Fix Your Bike Scheme which provided vouchers to the public for £50 towards the cost of repairing a bicycle. This funding was provided between May 2020 and March 2021	238.4

June 2020	Cover of the Air Travel Organisers' Licensing scheme refunds	Government backed the Air Travel Organisers' Licensing protection scheme, which provided cover for refund credit notes offered by travel providers if holiday packages that include a flight were cancelled because of Covid-19.	N/A
Summer 2020	Airports slot allocation waiver extension	Legislation ensuring that airlines did not have to operate flights at least 80% of the time to retain their slots at airports. Ran between Summer 2020 - March 2023	N/A
August 2020	Heavy Goods Vehicles Road User Levy suspension	The Heavy Goods Vehicles Road User Levy applies to heavy goods vehicles of 12 tonnes or more and aims to ensure these vehicles contribute to reducing the wear and tear of the road network. It was suspended until August 2023.	N/A
December 2020	Winter Coach Support	Funding was made available to provide up to 80,000 more seats on coach services over the Christmas 2020 travel window (23-27 December 2020).	3
September 2021	Funding for transport tech start-ups	Innovative transport start-ups with a focus on decarbonisation or Covid-19 recovery could bid for a share of £1 million in Department for Transport funding.	0.2

KEY INTERVENTIONS

139. The Inquiry has asked that I provide detailed information on:
    a) Rail contracts - Emergency Measures Agreements and Emergency Recovery Measures Agreements
    b) Airport and Ground Operations Support Scheme
    c) Transport for London funding

140. These interventions could not be covered by existing Departmental budgets and required additional funding from HM Treasury through Supplementary Estimates.

Emergency Measures Agreements and Emergency Recovery Measures Agreements

141. I will first provide some context on how the Department was organised in regard to rail.

142. Prior to the pandemic, most rail services were run by Train Operating Companies under franchising agreements with the Government, in line with the 1993 Railways Act. Rail franchising usually involves private sector companies bidding through a competitive process for the right to operate a franchise to specifications and requirements set out by the Government. The Government awarded a franchise to whichever company best met the procurement criteria. Procurement criteria were focussed on securing good services for passengers whilst delivering the best value for money to the taxpayer, see Exhibit BK/054 – INQ000610331. Train Operating Companies profit margins varied but were generally 5% or less at the start of 2020. Typically, a franchise agreement would include a range of 'Committed Obligations', i.e. contractual terms to deliver outputs agreed during the franchise process.

143. The franchises were set up so that the Train Operating Companies retained the risk on passenger revenue and, depending on the terms of the franchise, Train Operating Companies would either pay the Department a premium based on their profits or receive a subsidy if they made a loss. As set out in Exhibit BK/055 - INQ000595496, even before the impact of the Covid-19 pandemic growth in passenger numbers was slowing, leading to financial pressure on rail franchises. This had already resulted in two operators reverting to the Department's Operator of Last Resort (DfT Operator of Last Resort Holdings Ltd). The Operator of Last Resort (OLR) operates services, on behalf of the Secretary of State, where a private sector train operating company is no longer able to do so. These operators were London North Eastern Railway which reverted to Operator of Last Resort on 24 June 2018 and Northern Trains Limited which reverted on 1 March 2020.

144. Pre-pandemic engagement with Train Operating Companies was undertaken by the Department's Passenger Services Directorate, which sat within the Rail Group. The Directorate's function was to provide rail services, working with Train Operating Companies and other rail industry bodies, such as Network Rail, the Rail Delivery Group, the Office of Rail and Road and the Devolved Administrations. Train Operating Companies running train services for Devolved Administrations, such as Scotrail and London Overground, were managed by those Administrations directly.

145. Within Passenger Services Directorate there were Markets teams responsible for each of the Train Operating Companies. The Market teams managed the contracts with the operators and other relevant stakeholders and monitored the operator's performance against their contracts. There were cross cutting teams focused on passenger experience, contract and commercial issues, resilience and mobilisation, and the monitoring of forecasts for the overall financial position of the Department's Train Operating Companies (see Exhibit BK/056 – INQ000610350).

The introduction of Emergency Measures Agreements / Emergency Recovery Measures Agreements

146. The Department became aware in early 2020 that a prolonged outbreak of Covid-19 could have a significant impact on the rail services. The early response work undertaken by the Transport Security Operations Centre throughout February 2020 considered the impact of the pandemic on all modes of transport. However, the first record the Department holds of a specific work stream considering the financial impact of the pandemic on rail services was on 3 March 2020. This commission is provided at Exhibit BK/057 - INQ000626318. Exhibit BK/058 – INQ000595359 sets out initial work of the Rail Passenger Services Finance team to consider the contractual and commercial position if Covid-19 seriously affected either demand for rail travel or Train Operating Companies' ability to run services.

147. At about the same time, a Joint Executive Oversight Team was set up by Network Rail and the Rail Delivery Group, the principal industry body for the sector, to co-ordinate the industry-wide response to the pandemic. It included representatives from the Department.

148. There were 1.7bn passenger journeys for 2019-2020. This fell to 0.4bn in 2020-21, (see Exhibit BK/059 - INQ000595603.) This equates to a c.70% drop in passenger numbers with an even higher drop during the initial lockdown period.

149. Train Operating Companies generally had relatively high fixed costs which could not be easily reduced, even temporarily, to compensate for the loss in revenue. These included the lease of trains and charges paid to Network Rail to maintain National Rail's tracks and stations. As most Train Operating Companies carried a substantial risk for passenger fare revenue, they were unable to absorb a downturn in passenger numbers of the scale caused by the Covid-19 pandemic for any significant period of time.

150. Franchisees' owning groups had contractual obligations to loan funds to their Train Operating Companies where necessary to sustain their financial viability (known as 'Parent Company Support'), but only up to a certain value specified in the associated Funding Deed, agreed as part of the franchise award. Once loans had been provided up to that value, the Train Operating Company would be in default of its franchise agreement and the franchise would fail (unless the owning group chose to inject further funds in the hope of sustaining the business and returning it to profitability).

151. This would trigger the Department's obligation to ensure continuity of rail services under Section 30 of the Railways Act 1993[9]. Under the Act the Department for Transport may secure the operation of railway services, on behalf of the Secretary of State, when a train operating company is no longer able to do so. In these circumstances the Department becomes the Operator of Last Resort.

152. On 12 March 2020 officials advised Ministers that modelling indicated many Train Operating Companies would not withstand a prolonged severe revenue downturn (see Exhibit BK/060 - INQ000623262), with at least one Train Operating Company failing within a few weeks, and several others within a few months, see Exhibit BK/061 - INQ000622817. The Department's assessment was that this could lead to the need for rapid, unplanned and high-risk mobilisation of the Operators of Last Resort function to take over services from multiple failing franchisees simultaneously.

153. Initial discussions about possible interventions to support the rail sector started in early March 2020. The Department had also received Force Majeure Events notifications from several Train Operating Companies, asking the Department to treat the pandemic as an 'act of god'. Exhibit BK/036 - INQ000595362 is an example of a letter from East Midlands Railway. The response that the Department for Transport sent to this letter is provided at Exhibit BK/062 - INQ000626320.

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[9] The Railways Act 2005 amended the 1993 Act

154. The rail franchise agreements contain force majeure provisions, which protect the franchisee from being in breach of contract if a 'Force Majeure Event' prevents them from performing their obligations. 'Force Majeure Event' was defined in the franchise agreements by reference to specific events and categories of events, which did not include pandemics or epidemics. The Department's conclusion, by reference to that definition, was that the Covid-19 outbreak did not fall within this scope. It was therefore necessary to consider the case for providing financial support by alternative means.

155. In March 2020 the Department wrote to franchisees outlining how the Department intended to deal with contractual matters under the Franchise Agreement, setting out the priority of provision of passenger services, balanced with the safety of employees and passengers (see Exhibit BK/063 - INQ000595363). The Department also requested a copy of Train Operating Companies' Business Continuity Plans and impact assessments to show how they intended to operate services. This was so the Department could approve reasonable delays or alterations to obligations where Train Operating Companies were able to demonstrate that such amendments were necessary to address, and were directly attributable to, the effects of the pandemic.

156. With endorsement from the Joint Executive Oversight team, the Department wrote to all operators stating that public health guidance took precedence over contractual terms, and this was followed by a letter to all Train Operating Companies on 19 March 2020 (see Exhibit BK/064 – INQ000595368) setting out a staged approach to reducing services in a managed and sustainable way. The Department also shared information with Train Operating Companies focused on protecting the health and safety of staff and passengers, see Exhibit BK/065 – INQ000595384.

157. Other interventions to support the rail network were considered. Officials held a workshop on 5 March 2020 to explore potential options to support the maintenance of rail services. Exhibit BK/066 – INQ000608189 sets out the various options considered, such as relief from certain specific costs or an injection of cash for Train Operating Companies and the pros and cons associated with each option. Emergency Measures Agreements were recommended as offering the least implementation risk and the most flexibility for Government once implemented.

Emergency Measures Agreements (commonly shortened to EMAs)

158. Emergency Measures Agreements were developed at speed over a three-week period by a team of in-house finance, commercial, legal and analytical staff, with the support of external lawyers.

159. Under the Emergency Measures Agreements, the existing Train Operating Companies' franchise agreements would remain in place but would be subject to amendments whereby the Government would reimburse the operator's legitimate costs and receive the revenues earned (i.e. cost and revenue risk would be borne by the Government). This in turn necessitated a much greater role for Government in managing Train Operating Company expenditure and costs, to ensure efficient use of public money.

160. Due to the speed and uncertainty of the policy development, a quantitative value for money exercise was not conducted. Instead, consideration was given to ensuring the continuation of essential rail services while minimising costs. As set out in the Accounting Officer Assessment (see Exhibit BK/067 - INQ000622819), the calculations were based on the Government's planning assumptions at the time, which allowed for 2-3 months for Covid-19 to hit peak transmission and then 2-3 months for recovery. As a result, the initial plan was to cover a six-month period with the option to extend. The Department also drew on *Managing Public Money* guidance, with the aim of minimising additional costs to the taxpayer as far as possible, and to avoid precedents being set for other transport modes or sectors.

161. The Department made clear that operators would not make any profit on operations under the Emergency Measures Agreements but would be shielded from losses and would receive a small management fee. The Agreements were intended to ensure that service continuity was not threatened by multiple unplanned transfers to the Operator of Last Resort. The proposal assumed a return to the existing franchise system once the six-month period was over. The Emergency Measures Agreements included clauses to ensure coordination and cooperation with other Train Operating Companies, Network Rail and other rail industry bodies.

162. HM Treasury's support for the Emergency Measures Agreements was subject to the Department removing costs and non-essential 'Committed Obligations' during the Emergency Measures Agreement period. As set out in Exhibit BK/068 - INQ000608203, the Department agreed to undertake a review of the Committed Obligations including whether these should continue, be delayed, suspended or reduced to lower the Department's costs during the Emergency Measures Agreements period.

163. The Emergency Measures Agreements only covered rail franchises let by the Secretary of State. There was regular senior engagement with the Devolved Administrations about the introduction of the Emergency Measures Agreements as they were facing the same issues. The Devolved Administrations went on to introduce similar agreements with their Train Operating Companies.

164. The Department engaged with officials in the Scottish and Welsh Government, sharing information on the plans for Emergency Measures Agreements. Officials did not engage with Northern Ireland Executive officials on rail measures, as the Emergency Measures Agreements would not have been relevant for Northern Ireland. The engagement was generally conducted by informal correspondence. Rail was also covered at the Four Nations Transport Response Group (more detail in relation to that Group is provided at paragraph 391 in this statement). Examples of information-sharing correspondence with the Devolved Administrations are provided at Exhibit BK/069 - INQ000626309 and BK/070 - INQ000626308. Minutes of the Four Nations Transport Group when rail was discussed are exhibited at BK/071 -INQ000654246 and BK/072- INQ000654245.

165. Issues raised by the Devolved Administrations related to coordination, both in terms of timings of timetable changes, and in trying to align terms of contracts, where possible. A joint announcement was made on 20 March 2020, on a new reduced rail timetable, which included quotes from the Scottish Transport Secretary and Welsh Government Minister for Economy and Transport. This is provided at Exhibit BK/073 - INQ000626323. Department for Transport officials shared information with the Devolved Administrations to enable them to understand and replicate provisions in the Emergency Measures Agreements. This is demonstrated in correspondence exhibited at BK/074 - INQ000626324 and BK/075 - INQ000626310.

166. On 18 March 2020, the proposal to introduce Emergency Measures Agreements was presented to an extraordinary meeting of the Department's Investment Portfolio and Delivery Committee (more information on the Committee is set out at paragraph 469). The meeting was attended by an HM Treasury senior official to simplify and expedite decision-making. The Investment, Portfolio and Delivery Committee accepted the strategic case for intervening in the rail sector and agreed that the proposal should be submitted to with Ministers and HM Treasury for approval. Advice went to the Secretary of State on 18 March 2020 and is provided at Exhibit BK/061 - INQ000622817. Approval was received from the Secretary of State and the Rail Minister the same day and is exhibited at Exhibit BK/076 – INQ000610332.

167. On 19 March 2020, the Secretary of State for Transport wrote to the Chief Secretary of the Treasury setting out the need for funding and asking for support transitioning franchises onto Emergency Measures Agreements. This letter is provided at Exhibit BK/035 - INQ000595367. The Chief Secretary to the Treasury responded on 20 March 2020, with the Heads of Terms, which outlined the Emergency Measures Agreement contract terms (see Exhibit BK/077 - INQ000595376). These were sent to Train Operating Companies and owning groups that evening, asking them to indicate acceptance by the evening of 22 March 2020, which they all did.

168. On 20 March 2020 officials advised the Secretary of State that the Department would need to exceed its annual budgetary controls due to proposed significant expenditure across all modes in regard to Covid-19 (see Exhibit BK/078 - INQ000595372). This led to the Ministerial Direction, which I referred to earlier in my statement at paragraph 43.

169. On 23 March 2020, the Secretary of State announced the start of the Emergency Measures Agreements. The document at Exhibit BK/079 - INQ000595604 formally announced that normal franchise agreements would be suspended, with all revenue and cost risks being transferred to the Government. The Department then worked with Train Operating Companies to customise the Emergency Measures Agreements for each Train Operating Company.

170. The Department also engaged with the EU Commission. On 24 March 2020 the Department wrote setting out the rationale for the proposed funding (see Exhibit BK/080 – INQ000622822). The Department made clear that the Emergency Measures Agreements did not constitute state aid, but were an emergency measure, without which there was a real and imminent risk that train services in the UK would cease. The EU endorsed the approach on 27 March 2020, see Exhibit BK/081 – INQ000595563.

171. It was made clear to Train Operating Companies that this was a temporary model and was designed to maintain services in a cost-efficient way. Under the Emergency Measures Agreements cost and revenue risk remained with the Department and operators would receive a management fee set at a maximum of 2% of the cost base of the franchise before the pandemic began. This was made up of a 1.5% fixed fee and a 0.5% performance-based element. This was to incentivise operators to continue to meet reliability, punctuality, and other targets. This maximum fee that operators could receive was set at a level below their recent profits. The Emergency Measures Agreements were offered on a 'take it or leave it' basis with no substantive negotiation, and a public-sector Operator of Last Resort would be mobilised rapidly to step in if required.

172. Departmental officials could not recall Train Operating Companies raising concerns about the use of Emergency Measures Agreements as a means of financial support. As noted in the statement, Emergency Measures Agreements were offered on a 'take it or leave it' basis, with no substantive negotiation. However, this approach did not meet with major concerns from the Train Operating Companies. Officials' recollection was that Train Operating Companies wanted to get agreements in place as soon as possible, given the serious financial situation they were facing as a result of the pandemic. The commercial terms of the Agreements were a deviation from those the Train Operating Companies had been accustomed to under franchising (limiting their opportunity for earning profits). However, there was an understanding that the Agreements provided a lifeline to companies that would have otherwise have rapidly become insolvent, while also ensuring rail services continued to operate for key workers.

173. Train Operating Companies did raise various operational and policy issues in relation to the Emergency Measures Agreements. An issue tracker provided at Exhibit BK/082 - INQ000626321 sets out the frequency and type of issues escalated to the Senior Reporting Officer Advisory Panel, with ticketing and staffing the most common issues. A Policy Statements Compendium, exhibited at Exhibit BK/083 - INQ000626322, demonstrates some of the issues raised by industry, as well as the Department's responses, which were communicated to Train Operating Companies. Examples of issues include station rent deferral for station lessees, timetabling, refunds of tickets and guidance on marketing.

174. On 31 March 2020 the Emergency Measures Agreements Deed of Amendment was entered into by all the Department's contracted Train Operating Companies, except for London and South Eastern Railway (LSER) and Great Western Railways (GWR). London and South Eastern Railway entered its Emergency Measures Agreement on 27 March as the Department was already negotiating a replacement agreement, which needed to be in place ahead of 31 March 2020. For Great Western Railways, its existing franchise agreement expired on 31 March 2020 and a new agreement was signed to start on 1 April 2020, on the understanding an Emergency Measures Agreement would be negotiated in the following weeks (see Exhibit BK/084 – INQ000595378). Financial provisions were back dated to 1 March 2020 due to the revenue losses already experienced.

Governance

175. New governance arrangements were introduced to ensure consistency of delivery and value for money under the Emergency Measures Agreements. This included the creation of a Coordination and Planning Group, which led on the management of all Emergency Measures Agreement related issues and tasks. A Senior Responsible Owner Operational Advisory

Panel was established. The Terms of Reference, exhibited at Exhibit BK/085 – INQ000595571, set out the role and membership of the Panel. The Panel met twice a week and had the delegated authority to consider all Emergency Measures Agreement issues. It provided advice and assurance to the Senior Responsible Owner (the Managing Director for Passenger Services). Membership included senior rail officials within the Department, legal, finance and analysis representatives and a member of HM Treasury.

176. In tandem, the Emergency Measures Agreement Hub was created to address day-to-day queries about the Emergency Measures Agreements, and it established a process to track, manage and resolve issues in a consistent way. The Hub brought together finance, policy and commercial colleagues across Rail Group to resolve issues that were contentious, wide ranging or had a significant impact. The work was supported by the creation of new guidance to assist those working on the Emergency Measures Agreements within the Department and the Train Operating Companies, see Exhibit BK/086 – INQ000595525.

177. The Hub was an administrative mechanism, effectively acting as the first 'filter' for new issues faced under Covid operating procedures and their commercial/operational and contractual implications. The Senior Responsible Owner Operational Advisory Panel then provided advice and assurance to the Senior Responsible Owner, the Managing Director for Passenger Services. These mechanisms were essential governance instruments, and enabled effective escalation of issues that required senior, cross-Department or cross-Government resolution

178. A independent review of the 'In Life Management Arrangements Emergency Measures Agreements', undertaken by an external consultant, concluded that the new processes introduced for the Emergency Measures Agreements (the Senior Responsible Owner Operational Advisory Panel and Issues Resolution Panel) 'clearly provided an effective and auditable issues resolution process which was set up very quickly and despite some resource challenges has been largely effective in resolving issues, clarifying and implementing policy. The Resolution Panel dealt effectively with the immediate issues arising from the EMAs and SOAP provided an escalation and decision-making group allowing for policy decisions to be taken as required.'. The relevant extract from this report is exhibited at BK/087 -INQ000626325.

179. The processes outlined above addressed the following types of queries:

a) Cross cutting issues that set a precedent in terms of spend or policy, for example, pay rises for train crew.
b) Novel or contentious issues, such as free parking for NHS workers.
c) Financial decisions with an enduring impact, which required engagement with HM Treasury.

d) Additional spend that fell outside of business-as-usual expenditure, for example - fitting of screens at onboard shops to reduce the COVID-19 risk to staff.

180. Monitoring was carried out using performance metrics set out in a scorecard. Expert evaluators were selected from consultancies, such as Arup and Winder Phillips, to support this process and were provided with relevant training, see Exhibit BK/088 – INQ000595590.

181. Exhibit BK/089 - INQ000610344 sets out the three metrics used – Operating Performance, Customer Experience and Acting as a Good and Efficient Operator. The scorecard was used to ensure efficient performance. For the assessments carried out every four weeks, it was the responsibility of the Train Operating Company to provide relevant evidence for each metric, which was then assessed by independent evaluators.

182. Following the evaluation, the Department created an Evidence Report which was shared with the Train Operating Companies. Train Operating Companies had the opportunity to suggest additional evidence relevant to the scorecard criteria and, if the commercial team agreed, it was added to the evidence base for the evaluation. This was then followed by a Franchise Performance Meeting where the scorecard results were discussed.

183. Train Operating Companies were encouraged to focus on performance and customer satisfaction within the context of the ongoing pandemic, and an element of the management fee was linked to the outcome of each Company's review. Train Operating Companies were required to refresh their budget each period (every four weeks) so that the Department could understand the costs being incurred and any changes within the period, for example, any additional cleaning. The Department also agreed to publish data on payments made to the Train Operating Companies, as illustrated in Exhibit BK/090 - INQ000595612.

184. HM Treasury initially provided £2.9bn for the impact of Covid-19 on passenger rail operators, including the Emergency Measures Agreements (see Exhibit BK/091 - INQ000622833). This was included in the Department for Transport's Main Estimate for 2020/21 and HM Treasury committed to provide budgetary cover of the 2020/21 financial year. The total amount of operational subsidy paid to all 14 Department for Transport-contracted operators across the 14 rail periods, from the start of the Covid-19 pandemic to 31 March 2021, was £8.62bn. Of this, the total amount paid in relation to Emergency Measures Agreements was £4.50bn. This figure covers operational support and operator management fees, and any performance payments earned, were additional to this.

Assessment of the funding approach

185. The Inquiry has asked me to comment on which areas of this funding package worked well and where there were challenges.

186. By making an early decision to intervene the Department avoided the risk of an uncontrolled financial collapse of rail operators during a period of national emergency. The Emergency Measures Agreements ensured that key rail services could still run, meaning that key workers, and others who needed to, could travel and rail routes for critical goods were maintained. The approach taken also preserved the ability to maintain and restore rail services quickly and efficiently post pandemic.

187. The arrangements were flexible allowing the Department to instruct rail operators to quickly increase or decrease services to reflect the different periods of lockdown and the resulting impact on demand without the need for commercial negotiations.

188. For example, when the Government announced the national lockdown on 23 March 2020, rail services were reduced to between 30-50% of a normal week-day service. This level of service was considered sufficient for key workers to travel, and for social distancing requirements to be maintained. Following the end of the lockdown, from May 2020 onwards, as part of staged return to normal services levels, rail services were increased to around 70% depending on the operator (see BK/092 - INQ000595404). A further increase to 85% coincided with the relaxation of Covid-19 restrictions from 4 July 2020 (BK/093 - INQ000595426), and an increase to 90% in September 2020 with the reopening of schools and the ending of the requirement to work at home.

189. Lower services meant operators were able to continue to operate a reliable service with appropriate social distancing even during periods of high staff absence. Exhibit BK/094 – INQ000595580 sets out customer satisfaction scores drawn from Wavelength[10] survey scores. This shows that customer satisfaction and trust rose during the period of Emergency Measures Agreements and were significantly above pre-Covid levels.

Emergency Recovery Measures Agreements

190. Most of the Emergency Measures Agreements were put in place by April 2020 and were due to expire on 20 September 2020. However, rail revenue remained suppressed due to the continued impact of the pandemic and there was significant uncertainty in revenue forecasts. As a result of advice to Ministers, see Exhibit BK/091 - INQ000622833, was that if Emergency Measures Agreements ended then Train Operating Companies were at risk of failing very rapidly thereafter.

191. Emergency Recovery Measures Agreements were developed to replace Emergency Measures Agreements. These were intended to ensure the continuation of essential services

[10] Wavelength is the rail industry customer service monitoring and measuring tool.

at best value to the taxpayer while also signalling a change from the traditional approach to rail franchising.

192. The work to develop Emergency Recovery Measures Agreements was split into two stages. Phase One was to establish a credible shortlist of commercial structures that could be applied to the existing contracts from 21 September 2020. This would identify a medium-term solution to deliver services. Phase Two was intended to deliver the planned longer-term transition away from the pre-Covid franchising model, which had already been under strain pre-pandemic, towards a new model of rail contracting. At this point, work was already well advanced on wider rail reform which eventually resulted in the Williams-Shapps Plan for Rail published in May 2021, see Exhibit BK/095 - INQ000595605. This plan included a plan for a new form of Passenger Service Contract.

193. For Phase One options were assessed against the agreed objectives in three workshops using a simple traffic-light-style assessment. Annex A in Exhibit BK/096 – INQ000608250, which sets out the agreed objectives and a summary of each option proposed.

194. Emergency Recovery Measures Agreements were selected as the preferred option as they provided an exit route from the existing franchising contracts towards the new contracting model then under development as part of wider rail industry reform.

195. In preparation for the introduction of the Emergency Recovery Measures Agreements, papers were presented to Investment Portfolio and Delivery Committee on 9 July, 6 and 10 August 2020 setting out the business case for the Emergency Recovery Measures Agreements (see Exhibits BK/097 – INQ000622831 and BK/098 – INQ000623294). Emergency Recovery Measures Agreements were to be offered to all Train Operating Companies currently on Emergency Measures Agreements (except London and South Eastern Railway and Great Western Railway which were on bespoke Emergency Measures Agreement arrangements).

196. The Accounting Officer Assessment for the Emergency Recovery Measures Agreements, exhibited at Exhibit BK/099 - INQ000622836, outlined the potential benefits of the Agreements. These included the in-life flexibility and powers to drive efficiencies and implement certain efficiency focussed reforms more effectively.

197. There was engagement with HM Treasury from August 2020 on the design and proposed implementation of the Emergency Recovery Measures Agreements. The Secretary of State wrote to the Chief Secretary to The Treasury on 20 August 2020 setting out the aims of the Emergency Recovery Measures Agreements. This letter is exhibited at BK/100 - INQ000622834. The response from HM Treasury on 26 August 2020 gave agreement for the

Department to approach operators to begin formal negotiations (see Exhibit BK/101 – INQ000595447).

198. On 10 September 2020 Departmental officials briefed the Rail Minister on the key terms of the Emergency Recovery Measures Agreements (see Exhibit BK/102 - INQ000595449). Ministers agreed to the introduction of the Emergency Recovery Measures Agreements on 16 September (see Exhibit BK/103 - INQ000622835), with the Secretary of State officially announcing the launch of the scheme on 21 September 2020, see Exhibit BK/104 - INQ000595606.

199. As with the Emergency Measures Agreements, the Emergency Recovery Measures Agreements only covered rail franchises let by the Secretary of State. At this point the Department was undertaking less direct engagement with the Devolved Administrations on rail, as they had moved in different policy directions on rail support. For example, the Scottish Government was in the process of transitioning ScotRail into public ownership. However, both the Department for Transport and Devolved Administrations attended the regular Joint Executive Oversight Team meetings (led by Network Rail and Rail Delivery Group -as outlined at paragraph 147) and provided updates at this forum.

200. The Emergency Recovery Measures Agreements had the same commercial model as the Emergency Measures Agreements in that revenue and cost risk sat almost wholly with the Department. However, they incorporated a range of changes to support the recovery of rail and the implementation of efficiency reforms. These included a lower base management fee of 0.5%, a shift towards a greater overall proportion of the fee being purely performance based to focus the incentives on cost savings and / or revenue recovery, and a broader duty of cooperation. The performance fees of up to 1% were not guaranteed and were subject to evaluation against pre-set targets. As a condition of entering into the Emergency Recovery Measures Agreement (as opposed to reverting to pre-pandemic terms), operators were required to meet the terms by which the original franchise agreement would be terminated, including where appropriate a fee to be paid to the Department linked to termination. If the termination fee was not agreed by a certain date, then when the Emergency Recovery Measures Agreement ended, the Train Operating Company would revert to pre-pandemic terms.

201. Train Operating Companies were not obliged to accept the Emergency Recovery Measures Agreements, but if they decided not to do so they would revert to their previous franchise agreements. They would also revert to their old franchise if they did not accept the termination fee included in the Emergency Recovery Measures Agreements.

Termination Fee

202. Termination fees represented the estimated payments that the Department would have received if the pandemic had not occurred. The policy intention was not to penalise Train Operating Companies for the effect of the pandemic on their businesses but to ensure that the Department for Transport did not offer support to Train Operating Companies which would relieve them from losses they would have otherwise incurred (see Exhibit BK/098 – INQ000623294).

203. L.E.K., a consultancy, was asked to assess the potential likelihood of Train Operating Companies defaulting if the pandemic had not happened and the ranges of fee payment that the Department could have reasonably expected to receive. L.E.K used the 'Non-Covid Trajectory Model', developed by the Department for this, see Exhibit BK/102 - INQ000595449. The model used the Train Operating Companies' 2020/21 projections to estimate the likely range of financial performance Train Operating Companies could have reasonably forecast over the remaining life of the franchise if the pandemic had not happened.

204. To support this work, Train Operating Companies were asked to provide documentation and to respond to clarification requests from the Department. The operators were given the opportunity to ask for clarifications or to make reasonable representations which they felt should be taken into consideration in this process. The Department received £262 million from Operators through termination fees, see BK/021 - INQ000595553.

205. The Emergency Recovery Measures Agreements were also used to incentivise Train Operating Companies to work with the Department on certain obligations, for example, to share data openly with the Department and Network Rail (see Exhibit BK/102 - INQ000595449).

206. Unlike the Emergency Measures Agreements which ran for a period of six months, Emergency Recovery Measures Agreements were designed have varying durations ranging from six to eighteen months (see Exhibit BK/105 - INQ000608209). There was also some discretion to allow the Department to prepare for rail reform. The contracts had staggered end dates to allow a manageable schedule of contract competitions in the future.

Governance

207. The Senior Responsible Owner Operational Advisory Panel was retained for the Emergency Recovery Measures Agreements, to provide advice and assurance to the Senior Responsible Owner. The Panel acted as the escalation point, oversight body and governance forum for

Emergency Recovery Measures Agreements. The Panel initially met once a week but then reverted to monthly as standard. Membership included relevant senior rail officials, legal, finance and analysis representatives and a member of HM Treasury. The Terms of Reference for the Panel is provided at Exhibit BK/106 – INQ000595579.

Monitoring

208. As with the Emergency Measures Agreements, the Emergency Recovery Measures Agreements used a scorecard approach in which the Department rated Train Operating Company performance. Monitoring was carried out through an independent assessment of the performance of operators. Scorecard findings determined the Performance Based Fee paid, ranging between a score of 3 (Good), 2 (Acceptable standard) or 1 (Below acceptable standard). The Performance Based Fee mechanism was designed to provide performance incentives which encouraged Train Operating Companies to deliver high quality customer service, manage risk and deliver value for money.

209. Independent evaluators assessed evidence provided by the operators to support evaluation of their performance against the four criteria - financial performance, operational performance, collaborative behaviours and customer experience. Train Operating Companies then had the opportunity to review the narrative 'rationale' statements which provided context for the scores awarded and provided feedback. This feedback was considered by the Department's commercial teams and external evaluators. Where necessary, meetings were convened to revisit scores and rationales. Exhibit BK/107 - INQ000595511 sets out how the process was designed. Scores were made public and are available at Exhibit BK/108 - INQ000595613.

210. The primary aim of the financial performance criteria was to incentivise Train Operating Companies to maintain high standards of financial management during the pandemic. By linking performance payments to these criteria, the Department sought to ensure that public funds were utilised efficiently and that operators remained accountable for their financial performance. Emergency Recovery Measures Agreements included detailed cost budgets, meaning Train Operating Companies had limits within which they were expected to operate. Any overspending against these limits required the Department's approval and was scrutinised. This incentivised operators to be cautious in their budgeting and forecasting, and to only incur costs that they were likely to be reimbursed for.

211. The Government Internal Audit Agency carried out a review of the Emergency Recovery Measures Agreement scorecard evaluation process in September 2021. This was agreed as part of 2021/22 audit plan by the Department's Executive Committee and Group Audit and Risk Assurance Committee (see Exhibit BK/109 - INQ000595526). The Government Internal

Audit Agency had ‘substantial confidence” of adequate governance and internal controls in key areas for the Emergency Recovery Measures Agreement scorecard evaluation process.

212. £5.1 billion in funding was provided for Emergency Recovery Measures Agreements and National Rail Contracts in financial year 2021-22. A full table of the transactions between the Department and is exhibited at BK/021 - INQ000595553 (pages 285-6).

Assessment of the funding approach

213. Emergency Recovery Measures Agreements ensured that essential services continued to run and avoided a succession of operator failures. As a result of transferring cost and revenue risk to Government, the Government was able to direct operators to implement necessary changes quickly and effectively, without the need for extensive prior commercial negotiation about the financial impacts.

214. Passenger satisfaction increased during the pandemic. Exhibit BK/110 – INQ000595518, ‘*Return to Rail: What do passengers want?*’ was a study published by Transport Focus in July 2021, which highlighted that commuters were generally more positive overall during the pandemic than they usually were. The report found that most people travelling in 2020 reported that their experience of using a train was at least as good, if not often better than expected. It should be acknowledged however that this was largely due to much lower passenger numbers and fewer, therefore more reliable, services.

National Rail Contracts

215. Most Emergency Recovery Measures Agreements ended by 2022 and National Rail Contracts were introduced, ending the prior franchising system and facilitating the transition to the contractual arrangements set out in the *Plan for Rail*, exhibited at BK/111 - INQ000608241. National Rail Contracts remain in place for rail services which continue to be delivered by private Train Operating Companies.

216. The last Emergency Recovery Measures Agreement to conclude was with the West Coast Partnership which ended in September 2023. This was due to a specific set of circumstances, linked to poor performance on specific routes, which meant the Government decided it was more appropriate to extend West Coast Partnership’s Emergency Recovery Measures Agreement until October 2023, rather than enter into a longer-term National Rail Contract at that time. On 19 September 2023, the Department awarded Avanti West Coast a long-term National Rail Contract. This resulted in the end of the Emergency Recovery Measures Agreement regime.

217. The Government retains revenue and cost risk under National Rail Contracts. The Department pays the Train Operating Company a fixed fee and an additional performance-based fee, to deliver a business plan, run services, reduce costs and grow revenue, within a capped cost budget each year. The National Rail Contract model is adaptable, with contractual levers for change and an annual business planning cycle where the plan/budget can be altered in life to facilitate and incentivise reform, efficiency, and other improvements to reflect the Department's key priorities.

218. Under the National Rail Contracts, a Train Operating Company submits an Annual Business Plan in response to high-level requirements issued by the Department each year. The Train Operating Company is expected to deliver the contents of that plan across the year, together with a number of base-level obligations. This annual cycle is intended to allow both the Department and the Train Operating Companies to respond quickly to changes in passenger demand, customer needs and the financial health of the industry. Quarterly reviews are held where Train Operating Companies are required to provide updates, including on revenue and cost forecasts.

219. On 7 December 2020, the Department's Investment, Portfolio and Delivery Committee approved the overarching business case for the National Rail Contracts, see Exhibit BK/112 – INQ000623324. The Secretary of State approved the award of the first three National Rail Contracts in May 2021, see Exhibit BK/113 - INQ000595607 and all National Rail Contracts were in place by October 2022.

220. Ten National Rail Contracts remain in place today; however, following the Passenger Railway Services (Public Ownership) Act, see Exhibit BK/114 - INQ000595586, which received Royal Assent on 28 November 2024, the Government is implementing a programme to bring rail services into public ownership as part of a wider process of rail reform.

Airport and Ground Operations Support Scheme

Introduction of the Airport and Ground Operations Support Scheme

221. On 24 November 2020 the Department announced the introduction of the Airport and Ground Operations Support Scheme (commonly shortened to AGOSS), see Exhibit BK/115 - INQ000595608. This was a business rates grant scheme designed to provide support to commercial passenger airports and ground handlers.

222. Airports and ground handlers were amongst the first sectors to experience the impact of the Covid-19 pandemic on their businesses, due to the collapse in demand for travel. This was alongside having to maintain high levels of fixed costs during the 2020/21 financial year - such as business rate liabilities, insurance premiums and essential maintenance costs (e.g. Air Traffic Control and Fire Services, which would not be scaled back during the pandemic). The temporary financial support scheme had the objective of protecting national infrastructure and the continuation of air transport services, including lifeline routes, by reducing cash spending and potentially unlocking additional shareholder and lender support.

223. The Airport and Ground Operations Support Scheme also focused on providing proportionately greater assistance to smaller regional airports, which aligned with Government's objective of supporting regional transport. The aim was not to stimulate demand, rather it was deemed essential that these services should remain operational and to maintain the future long-term viability of airports and ground handlers in England, thereby protecting UK connectivity and the associated economic benefits.

224. The unprecedented drop in demand due to the pandemic had an immediate financial impact on airports and ground handlers providing essential passenger and freight services. Although self-help measures had been taken to mitigate against low revenues, the nature of these businesses meant that they face high fixed costs. While capital expenditure projects, security upgrades and non-essential maintenance could be paused, and terminals temporarily closed, many essential services and fixed costs such as air traffic control, fire, security, policing, business rates liabilities and essential maintenance were required to maintain operations, and many are not scalable to match the level of passenger demand.

225. The aviation sector had also been able to draw upon support from UK Export Finance and schemes such as the Covid Corporate Financing Facility, and the Coronavirus Large Business Interruption Loan Scheme. However, there was nothing specific to support smaller regional airports, where their business rates remained a large part of their fixed costs. As it

became clear that the Covid-19 pandemic was going to be long lasting, the decision to introduce a grant scheme was developed along the same lines as support for the leisure and tourism trade.

226. Exhibit BK/116 – INQ000623305 sets out the full rationale for the support. This was based around the assessment that:

a) The aviation sector had experienced an unprecedented and prolonged shock as a result of Covid-19. BK/116 - INQ000623305 sets out that 'In Spring 2020, aviation experienced a near cessation of activity (-99%) which had persisted with activity during the usually profitable summer season still very low (c. –78% on 2019 levels).'
b) The aviation sector had not previously received bespoke Government support, unlike other transport sectors (rail, bus, tram, ferries, Transport for London).
c) Due to the proportionately greater material impact of business rates on smaller regional airports who generally have a higher proportion of fixed costs compared to passenger volumes, targeted support was judged necessary to ensure regional airports – which play an important part in the wider economy of their regions - were not hit disproportionately hard and could be sustained post-pandemic.
d) Supporting airports with their business rates costs would be consistent with the relief offered by the Government to the retail, leisure and hospitality sectors.
e) It was important to provide support to ground-handlers who provide a range of vital services that support freight and passenger operations at airports. BK/116 - INQ000623305 sets out that 'It would not be possible for airports to function fully without these services and ground handlers have been heavily financially impacted by the reduction in passenger demand and flights to service'.

227. The Scheme would also give parity to the support being offered by the Devolved Administrations who had introduced their own benefit packages to airports. Exhibit BK/117-INQ000622856 provides more information on the Devolved Administration's support packages, for example, in May 2020, the Northern Ireland Executive provided 100% rates relief to Belfast International, Belfast City and City of Derry Airports until 31 March 2021 (£2.2m) and in July 2020 the Scottish Government provided 100% rates relief for airports, handling services, and Loganair (due to the unique role it plays in providing connectivity to the Highlands and Islands) for 12 months.

228. The Inquiry has asked me to explain why the Scheme first opened for applications in January 2021, and why this did not happen sooner. The Department for Transport had been monitoring the impact of the pandemic on the aviation sector from March 2020, following the collapse of the airline FlyBe. From March 2020 onwards the Department's engagement with

HM Treasury was focused on sharing the impact of the pandemic on the aviation sector and understanding the range of potential financial support packages available for aviation. This included considering how the aviation sector could benefit from the cross-Government support schemes, outlined in this statement at paragraph 106.

229. Prior to the announcement of the Airports and Ground Operations Support Scheme, there was a dedicated workstream to explore various mechanisms to support the aviation sector. This work was done in close partnership with HM Treasury, at an official level, to agree what options would be taken forward. This was a process to weigh-up different options, and to consider the detail of how any support would be delivered. Support with business rates was one of the options considered as part of this work.

230. On 18 September 2020 the Secretary of State wrote to the Chancellor proposing a stabilisation package of measures for the aviation sector, see Exhibit BK/118- INQ000622837. This was following an assessment of potential measures to support the aviation sector, exhibited at Exhibit BK/119 - INQ000623297. This letter set out the rationale for intervening at this time 'The outlook for UK airlines has materially worsened since our 14 July meeting. Demand over the summer months has been worse than expected and forward bookings for autumn are very low. This has been reflected in recent cuts to already limited airline schedules. The forthcoming winter period is likely to see continued travel constraints, which in turn may reduce passenger confidence in making bookings for next year's critical summer season'. A request for support for business rates, which later became the Airport and Ground Operations Support Scheme, was one measure set out in that package. Following this engagement, the Department worked with HM Treasury on the Airport and Ground Operations Support Scheme throughout October, developing detailed plans for the application process.

231. On 18 November 2020 HM Treasury confirmed their support for the grant scheme to the sum of £85m, see Exhibit BK/120 - INQ000608221, based on an anticipated £64m for 24 airports and £20m for four ground handlers (see Exhibit BK/121 - INQ000595491). The amount of support was capped at £8m per application and this was based on HM Treasury/Valuation Office Agency advice on the average cost of business rates for airports. This struck an appropriate balance of supporting those airports and ground handlers in financial distress while minimising the impact on the Exchequer (see Exhibit BK/122 – INQ000608215). This was significant support for most airports, although for the larger rate payers (Heathrow, Gatwick) this did not materially mitigate their business rate costs (e.g. Heathrow pays c.£120m), and for Manchester and Stansted it covered around half of their costs. Any additional cost of the scheme would need to be sourced from within the

Department's existing budget and any anticipated spend beyond the current financial year would require further HM Treasury approval.

232. Once HM Treasury confirmed their support for the scheme in November 2020, the Department worked at pace to progress through various governance mechanisms, such as securing clearances from the Industrial Development Advisory Board and Complex Grants Advice Panel, as well as my own Accounting Officer Assessment, which contributed to the timescales. During this period, officials also finalised operational details and procedures to ensure an efficient launch in January 2021. Whilst obtaining HM Treasury endorsement of the scheme did add time to the overall process, this along with the other governance mechanisms outlined, were all integral to ensuring that Government balanced support for the sector against protecting public money.

233. The Scheme was announced in November 2020 by the Secretary of State, with the application process opening in January 2021. It is also worth explaining that, for the first Scheme, support was retrospective. Therefore, while applications opened in January, this support covered losses for earlier in the pandemic, in the financial year 2020-2021.

Approval for the Airport and Ground Operations Support Scheme

234. As the Airport and Ground Operations Support Scheme was a grant scheme, it required approval from the Complex Grants Advice Panel, which sits within the Government Grants Management Function[11]. The Complex Grants Advice Panel reviewed the application on 8 January 2021, see Exhibit BK/123 – INQ000608248, where the scheme received approval to proceed but with the recommendation that the Airport and Ground Operations Support Scheme Team consider the Complex Grants Advice Panel's advice before proceeding. For example, the Panel recommended the use of the Spotlight Due Diligence tool, provided by Cabinet Office. The tool carries out pre and post award checks to highlight risk, economic crime and national security concerns and inform effective risk-based grant making decisions on the allocation of funding.

235. As the payments were made using powers in Sections 7 and 8 of the Industrial Development Act 1982, the Scheme required the consent of the Department for Transport's and HM Treasury Ministers, as well as the Industrial Development Advisory Board[12], see Exhibit

[11] The Complex Grants Advice Panel is an independent, cross-government expert panel, co-ordinated by the Cabinet Office Government Grants Management Function.

[12] The Industrial Development Advisory Board is an advisory non-departmental public body, sponsored by Department for Business, Energy and Industrial Strategy (now the Department for Business and Trade). The Industrial Development Advisory Board advises Ministers on applications from companies proposing to start capital investment projects in the Assisted Areas in England, where regional aid can be offered and who have applied for regional selective assistance under the Grant for Business Investment scheme or the Regional Growth Fund.

BK/124 - INQ000623306. On 12 December 2020 the Scheme's business case was presented to the Industrial Development Advisory Board, where the proposal received positive feedback, and on 13 December agreement was received to proceed using powers under the Act, see Exhibit BK/125 - INQ000608227.

236. I approved an Accounting Officer Assessment for the scheme on 18 December 2020. This was to ensure that there was enough time to deliver to scheme. This Assessment is exhibited at BK/126 - INQ000622841. The Aviation, Maritime, International and Security Investment Board[13] also approved the business case for the scheme on 18 January 2021, ahead of Ministerial sign off on 28 January 2021, see Exhibit BK/127 – INQ000595482. The Airport and Ground Operations Support Scheme was launched on the 29 January 2021 and Aviation Minister Robert Courts, wrote to the aviation industry on that day, following the announcement of the Scheme. This letter is exhibited at BK/128 – INQ000595572.

237. Once the Scheme was announced Heathrow Airport Ltd. wrote to the Department questioning the £8m cap. The correspondence from Heathrow, and the Department's response is exhibited at Exhibit BK/129 -INQ000626316 and Exhibit BK/130 – INQ000626317. In addition, correspondence was received from international rail operators (Eurotunnel, Eurostar and HS1) and some maritime groups seeking expansion of the scheme to additional modes of transport. The Department had developed a robust evidence base and policy rationale, recording why airports and ground handlers needed targeted support, as a coherent set of distinct economic operators, who were distinguishable from other travel operators and why smaller airports were in greater need of support, see Exhibit BK/116 - INQ000623305. Conditions were written into the Scheme to prevent direct, or indirect as far as is possible, transfer of benefits to airlines or consumers, so as to prevent competition distortion.

Application Process

238. The application process was thorough and was managed through a portal set up by Jaggaer (an online procurement portal). There was a strict process and criteria that the applicants had to follow- including providing business rates bills from the relevant Local Authority for financial year 2020/21, evidence of passenger figures for 2019 (airports only) and contract to provide ground handling services (Ground Handlers only). Exhibit BK/131 -INQ000595483 provides more information on these requirements. The Department set out a clear timetable for applicants and created a rigorous system to review the applications, drawing upon support from Commercial, Group Finance and Departmental legal teams.

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[13] The Aviation, Maritime, International & Security Investment Board is responsible for reviewing and approving investment projects within the Group.

239. The inconsistency of information within airport documents did result in some issues for the team. For example, some airports had numerous sites that they could claim for and therefore had to provide extensive supporting documents. In other instances, the trading names of applicants, did not match with the evidence provided. There were a few instances where some airports worked with local councils to get trading names on business rates bills changed to fall within the scope.

240. There was also a process in place for appeals. Applicants had to notify the Department for Transport through the application portal within five working days of their intention to appeal the decision and then had a further ten working days to provide all reasons and evidence for appealing the decision, see Exhibit BK/132 - INQ000595573 for details of the full appeals process.

241. In the request for this statement the Inquiry referred to criticism of '*bureaucratic hurdles'* in accessing the Scheme. As outlined above, the Department does acknowledge that the application process for the Scheme was rigorous. However, the Department has a duty to manage public finances appropriately and to protect the UK taxpayer. It was therefore proper that applicants accessing Government financial support provided necessary evidence and that applications were subject to appropriate assurance. This process was kept under review, for example the application workbooks were amended to make them easier to navigate and complete by providing clearer instructions. New tabs were also introduced so that supporting evidence could be collated more easily to reduce the administrative burden on companies, while still ensuring careful assessment of applications.

Monitoring

242. Successful applicants were also required to submit a Monitoring and Reporting quarterly return to demonstrate how the grant award had been utilised. At the end of the funding period the applicants were required to provide independent assurance that the grant had been used solely towards eligible expenditures. Exhibit BK/133 – INQ000595574 is an example of the template that companies had to complete.

243. 21 commercial airports and 17 ground handling companies were successful in obtaining grants from the first Scheme, see Exhibit BK/134 - INQ000610347. The total spend for the first Scheme in grants was £86,925,171.00, split between commercial airports receiving £65,075,462.00 and ground handling operators receiving £21,849,709, see Exhibit BK/115 - INQ000595608.

244. The Department's engagement with industry suggested that without further Government intervention, some airports and ground handlers would reduce services, or face insolvency, see Exhibit BK/135 - INQ000622844. Restrictions remained on domestic and international travel, keeping passenger numbers low. Airports were making use of cross-Government support schemes, such as the Coronavirus Job Retention Scheme, but this was due to end in September 2021. Other Government support schemes such as, the Coronavirus Large Business Interruption Loan Scheme and Covid Corporate Financing Facility, had also closed to applicants. This resulted into the introduction of a second Airport and Ground Operations Support Scheme - Summer Renewal (known as AGOSS 2).

245. As part of the planning for the second Scheme, the team carried out lessons learned workshops with policy, commercial, analytical and legal colleagues, see Exhibit BK/136 – INQ000595575. Key reflections were that the team had underestimated the number of Ground Handling Operators that were eligible, reflecting the large number of services that fell within international definitions for ground handling services. This put pressure on the team to process all the applications and payments by 31 March 2021 deadline. A further learning point was on modifying scheme instructions to ensure the second Airport and Ground Operations Support Scheme remained focused on providing support to airports and ground handlers and applicant documentation to provide maximum clarity for applicants.

Second Airport and Ground Operations Support Scheme – Summer Renewal (Known as AGOSS 2)

246. As part of the Spring Budget, on 3 March 2021 the Chancellor announced the renewal of the Scheme. The second Scheme would operate under the same basic principles of the original Scheme and be open to commercial airports and ground operators who provided services. The key differences were that the Scheme would cover the first six months of the financial year 2021/22, rather than the full year, and grants would be capped at £4million per applicant, rather than £8million. The second Scheme was launched on 28 May 2021 and the window for applications closed in June 2021.

247. As Accounting Officer, I undertook an Accounting Officer Assessment of the Scheme in May 2021 - this is exhibited at Exhibit BK/137 - INQ000608229. Approval was also sought from the Department for Business, Energy and Industrial Strategy Industrial Development Advisory Board on 11 May 2021, and the AMIS Board on 18 May 2021. Approval from Ministers was received on 4 May, see Exhibit BK/138 – INQ000595498 and then Parliamentary approval was sought to use the powers under Section 8 of the Industrial Development Act 1982, see Exhibit BK/139 - INQ000595501.

248. To guard against fraudulent requests, applicants were asked to estimate their costs during that period. A Stage 1 payment accounting for 70% of the total grant was awarded by the end of the summer. This was followed by a Stage 2 payment for the remaining 30% of the total grant amount. This payment was only authorised once the successful applicants had provided their actual costs to the Department. I exhibit at Exhibit BK/140 – INQ000610351, the Fraud and Error Register which was created to set out eligibility risks, individuals fraud risks and steps taken to address them. The Fraud and Error Register was a tool used to combat and guard against fraudulent risks as well as to record the manner in which fraud and error was being managed by the Department of Transport during the operation of the scheme. It was a risk register to highlight where fraud or errors could occur – but also helped the Department to consider what steps were needed to mitigate against fraud.

Third Airport and Ground Operations Support Scheme - Winter Renewal (Known as AGOSS 3)

249. The Department's intelligence from industry engagement suggested airports and ground handlers would continue to experience a challenging operating environment over the winter period. The sector was relying on an improved summer 2022, however this was uncertain and other challenges including potential wage increases, a competitive employee market which could result in a shortage of staff, energy price increases and the repayment of debt could negatively impact recovery.

250. Airports continued to incur maintenance costs, against a backdrop of low demand. The winter period was predicted to be a second low traffic winter in a row, with Department for Transport forecasts and forward flight booking figures suggesting passenger numbers would be over 40% down on the comparable period in 2019. Airports also faced the additional costs associated with starting early preparations for the 2022 summer period, for example reopened previously mothballed buildings.

251. In light of this, advice provided to Ministers on the status of the aviation sector at that time was that there was not sufficient recovery in place. This is exhibited at Exhibit BK/141 – INQ000622853. The Chancellor announced, as part of the Autumn Budget, the renewal of the scheme – known as AGOSS 3 -Winter Renewal, for a further six months, see exhibit BK/142 - INQ000595609. The Business Case for the third Scheme, is exhibited at Exhibit BK/143 – INQ000622857. HM Treasury financial support was agreed to the sum of £44million as per the previous iteration of the Scheme. Any additional costs of the Scheme would again need to be discussed with HM Treasury or sourced from within the Department's budget.

252. The rationale for the third iteration of the Scheme was that it would provide a funding bridge until the end of the financial year in advance of the summer peak, where a significant number of airports and ground-handlers make the vast majority of their revenue. Some airports were at maximum exposure as they ramped up operations, incurring additional costs without the certainty of increased footfall. The third Airport and Ground Operations Support Scheme allowed airports to plan with confidence on basis of this support.

253. Ministers agreed that the third Scheme would operate under the same basic principles of the previous iterations and be open to commercial airports and ground operators who provide services. It would also continue to cover the business rates liabilities or Covid-19 losses for the period in question, subject to a cap and conditions. The Scheme would cover the second half of the financial year 2021/22, to cover the winter season and grants would again be capped at £4m per applicant. The Department also considered how the Devolved Administrations were approaching the same issue, see Exhibit BK/143 – INQ000622857. The Scottish Government had confirmed that Scottish airports and Ground Handlers would get 100% rates relief to be directly applied to bills by the relevant local authority. This support would remain in place and be available to eligible businesses until at least 31 March 2022.

254. Approval for the third Airport and Ground Operations Support Scheme Winter Renewal received the necessary clearances to launch in December. On 29 November 2021, Parliament approved the use of the Industrial Development Act 1982 powers to extend the Scheme and pay out grant funding above the £30m threshold, see Exhibit BK/144 - INQ000622851.

255. An Accounting Officer Assessment was agreed on 18 November 2021, alongside approval from the AMIS Tier II investment board on 3 December 2021, and the Industrial Development Advisory Board on 8 December 2021, see Exhibits BK/145 – INQ000595533, BK/146 – INQ000622849 and BK/147 – INQ000622858. Approval was sought from the Department's Investment, Portfolio and Delivery Committee on 13 December 2021 and official sign off from HM Treasury on 13 December 2021, see Exhibit BK/148 – INQ000608237. Approval for the Airport and Ground Operations Support Scheme 3 - Winter Renewal was launched on 21 December 2021 and closed in January 2022.

256. The Scheme was not renewed after January 2022 as the aviation sector was starting to show signs of recovery. With the removal of all testing requirements for fully eligible travellers from 11 February 2022 it was also expected passenger numbers would increase again. Therefore, HM Treasury indicated to the Department that they would not support another iteration of the Scheme, this was set out in advice exhibited at Exhibit BK/149 - INQ000608243.

257. A sector engagement exercise undertaken by Rothschild, on behalf of the Department for Transport, in March/April 2022 highlighted that a top ask from the airlines/airports was 'Continued support for regional/smaller airports via AGOSS scheme or similar.' This slide is exhibited at Exhibit BK/150 - INQ000626319.

258. I consider the final iteration of the Scheme, which closed for applications in January 2022, to have been an appropriate time to end the Scheme. The aviation sector was showing signs of recovery with travel restrictions having been lifted and was forecasting an improved Summer 2022 with passenger demand rebounding closer to 2019 figures (Exhibit BK/147 – INQ000622858). The final iteration of the Scheme was designed to provide stability through the winter season and enable airports and ground handlers to get through to the improved summer. Airport and Ground Operations Support Scheme 3 received a total of 28 applications, which was a decrease of 11 applications from the Airport and Ground Operations Support Scheme Summer Renewal and 44 from the first Airport and Ground Operations Support Scheme. Those eligible for the Scheme that chose not to apply cited they failed to meet the financial requirements of evidencing Covid-19 loss, further supporting the Department's view that the sector was recovering and less reliant on funding via the Scheme (Exhibit BK/151 - INQ000608243).

What worked well and where there were challenges

259. The Scheme ensured that essential services remained operational and the future long-term viability of airports and ground handlers in the UK was maintained. By making sure that these airports and ground handling operations remained viable, this in turn aided the recovery of the aviation sector, which also protected UK connectivity and its associated economic benefits.

260. The Scheme included clear monitoring and reporting processes. Lessons were identified and implemented for each iteration of the scheme. The Department used effective stakeholder engagement, alongside financial and commercial monitoring, to provide a clear rationale for the Scheme. The team was able to use this monitoring to justify why the Scheme should be extended and when it was no longer required.

261. The team acknowledged that it would have been easier to combine the second and third iterations of the Airport and Ground Operations Support Scheme to cover a full financial year and only have one application and award process. However, the aviation industry had not recovered as expected by the end of the second Summer Renewal Scheme, and therefore a further third Winter Renewal Scheme was required.

262. The Scheme received praise from the Complex Grants Advice Panel and the team was asked to present at the Grants Best Practice Network organised by Cabinet Office, to share their learning with others, see Exhibit BK/152 - INQ000595576.

263. In the request for this statement, the Inquiry set out that *'One criticism of the AGOSS scheme is that the eligibility criteria were 'restrictive', including that it excluded smaller airports.'* The Inquiry asked me to explain the policy rationale for the eligibility criteria and why some airports were excluded.

264. The Scheme was designed to support smaller airports. In general, the reduction in passenger demand was largest at the smaller airports. For example, Humberside saw a 76% reduction in passenger demand compared to the same point in 2019, and Newquay saw an 84% reduction in the same time period. As a counter Heathrow airport saw a 70% reduction with only Land's End (providing lifeline services to the Isles of Scilly with only a 46% reduction over 2019) and Luton airport (67% reduction over 2019) seeing a smaller impact. Larger airports also managed a larger amount of air freight, with around 90% of the UK's air freight coming in through Heathrow, East Midlands, Manchester and Stansted Airports.

265. The Department's evidence indicated that business rates made up a material portion of airports operational cost base. Pre-pandemic business rates comprised 3-12% of the cost base with an average of 7%, although as airports had been reducing operational costs in response to Covid-19, the range was estimated to have increased to a range 3-14% with an average of 8%. 7 Smaller airports had materially higher exposure to business rates in their operational cost base.

266. Due to the proportionately greater material impact of business rates on smaller regional airports, who generally had a higher proportion of fixed costs compared to passenger volumes, targeted support was designed to support the Government goal of supporting the regions, while an £8m cap ensured value for money for the taxpayer.

267. The smaller airports that were unable to access the Scheme tended to be from the general aviation and business aviation sector, which encompasses non-commercial aviation operations, including private and recreational flights. General aviation airports were unable to access the Scheme due to the requirement to operate scheduled commercial services, which was assessed as airports that had operated 12 scheduled flights in 2019. Companies applying to the Scheme as ground-handlers also had to meet the definition of ground-handler set out in European Directive 96/67/EC. This meant that some companies that applied, for example, car hire and taxi companies that would ferry flight crew to their hotels, were not

eligible for the Scheme.

268. The Department did additionally explore the possibility of targeted support for the general aviation sector, with both the Secretary of State, and Minister Kelly Tolhurst, writing to the Chief Secretary to the Treasury to ask for funding to support an Airfield Rescue Fund for general aviation. These letters are exhibited at BK/153 - INQ000595439 and BK/154 - INQ000623289. The Chief Secretary to the Treasury's responses, exhibited at BK/155 - INQ000595434 and BK/156 - INQ000595443, indicated that an Airfield Rescue Fund would not be an economic priority, given the significant pressures on public finances and high-bar for sector-specific support.

Transport for London Funding

269. Transport for London is the integrated transport authority responsible for running the London public transport network and managing London's main roads. Transport for London is a statutory body created by the Greater London Authority Act 1999 and the Act gives the Mayor of London a duty 'to develop policies to promote and encourage safe, integrated, efficient and economic transport facilities and services to, from and within London'. For further information see BK/157 - INQ000595610.

270. Transport for London has a unique status, because although it is constituted as a local authority, it is also listed on the stock market. To date, London remains the only city in the UK with its own devolution legislation, making its legal status more akin to that of the Devolved Administrations. Prior to the Covid-19 pandemic, Transport for London had not received any direct Government funding since 2017/18. However, the Government had allowed the Mayor of London to retain a greater percentage of business rates– which was to replace the Government 'investment' grant. At the start of the pandemic, Transport for London held £2 billion of cash in reserve.

271. Following the publication of Government advice to limit travelling to essential journeys only, which took place following the first lockdown on 26 March 2020, passenger numbers on London transport saw a sharp decrease. Tube journeys were down by over 90% and bus journeys by around 80%.

272. Before 2020, Transport for London's usual annual income from fares was around £5 billion. On average it costs over £6 billion per annum to run the transport network in London at full-service levels. At the start of the pandemic Transport for London also announced it would suspend all road charging in London (i.e. Low Emission Zone, Ultra Low Emission Zone and Congestion Charge). This suspension was to support key workers travelling by car during the pandemic but resulted in a further reduction in income revenue and added to the significant financial challenges for Transport for London.

273. Additionally, although services had been significantly reduced, Transport for London still had financial commitments which included (though not limited to):

a) running the network safely;

b) significant long term contractual/ commitments for rolling stock, signalling and major infrastructure projects (including Crossrail);

c) servicing its existing debt.

274. Transport for London therefore required Government support to continue operating.

275. The economic objectives of the funding package were to maintain the operation of the London transport system to ensure that key workers, and others who needed to travel, could travel as required during the pandemic. London has lower levels of car ownership than other parts of the country- 46% of households in London do not have access to a car- and this means that there is a greater reliance on public transport.

276. The funding was also important to ensure Transport for London's sustainability and the recovery of London's economy, beyond the pandemic. Transport for London plays an important role in the economy of London, as well as the wider Southeast.

277. As requested by the Inquiry, I provide copies of key advice related to the package of support in the accompanying chronology, exhibited at BK/001 - INQ000654247. Given the extensive number of documents related to Transport for London funding, my officials have tried to provide the Inquiry with the most relevant and key documentation, rather than every document. However, the Department would be happy to provide the Inquiry with any further documentation as required.

Statutory Obligations

278. It is also important to consider the statutory relationship between the Department for Transport and Transport for London. Under the Greater London Authority Act 1999, the Secretary of State for Transport has a duty to provide a grant to the Authority *'for the purposes of Transport for London'*. This is called the GLA Transport Grant, and I exhibit the relevant legislation at BK/158 - INQ000595611. This is a grant which had been provided to Transport for London prior to the Covid-19 pandemic. This meant that during the pandemic, there was already an existing route through which the Department could support Transport for London.

279. Transport for London must produce a balanced budget each year. Under the Local Government Finance Act 1988, the Chief Financial Officer must issue a report under Section 114 in the event they are unable to balance their budget in any given year. Section 114 (3) it provides: '*The Chief Finance Officer of a relevant authority shall make a report under this section if it appears to him that the expenditure of the authority incurred (including expenditure it proposes to incur) in a financial year is likely to exceed the resources (included sums borrowed) available to it to meet that expenditure'*.

280. Once issued, the Authority must meet to determine what (if anything) to do because of the Section 114 report. This could include imposing immediate restrictions on spending as well as reducing services to the statutory minimum. Should Transport for London have filed a Section 114 report, it may have needed to reduce services to a statutory minimal level.

281. On 2 April 2020, advice to the Secretary of State explained that Transport for London's Chief Financial Officer was concerned that he would not be able to balance Transport for London's budget. This advice is exhibited BK/159 - INQ000623272. This meant that the Chief Financial Officer was facing a statutory obligation to serve a notice that Transport for London's expenses would exceed their resources. Given the escalating uncertainty around Covid-19, Transport for London considered it essential to have reassurance from Government that it would provide funding for Transport for London to run the transport network.

282. In response to this submission on 9 April 2020, the Secretary of State agreed to send a letter to Transport for London that set out, in the first instance, the Department would expect Transport for London to draw down substantially on its cash reserves. The letter also explained that the Government accepted that Transport for London was likely to need access to additional resources to deliver essential transport services and that the Department would commit to work with Transport for London on a package of one-off funding and temporary financing arrangements to support this. This letter is exhibited at BK/160 - INQ000610333.

283. Further advice was sent throughout April providing updates on Transport for London's financial situation. On 29 April 2020, Department officials provided further advice to the Secretary of State. This provided an update on work with HM Treasury to agree a clear set of principles for financially supporting Transport for London, whilst continuing to push Transport for London to maximise income and cost efficiencies. This advice is exhibited at Exhibit BK/161 - INQ000608192.

284. On 8 May 2020, officials set out the design of the proposed funding offer in advice to the Secretary of State, which recommended a grant be provided to Transport for London, given the existing legal route for providing financial support, that would be match funded though borrowing. This advice is exhibited at Exhibit BK/162 - INQ000623283. The funding was recommended to be provided alongside terms for Transport for London to ensure long term sustainability of Transport for London.

285. HM Treasury and No.10 were closely involved in agreeing the settlement. The funding package required HM Treasury agreement as the Department for Transport was unable to cover the cost through the Department's existing budgets. The Chief Secretary to the

Treasury gave agreement for the funding package on 14 May 2020, and set out the funding *'is critical for maintaining essential services, supporting the Government's economic restart strategy and securing a review into Transport for London's financial position and sustainability.'*. This letter is exhibited at BK/163 - INQ000608197.

286. In total there were four funding packages during the period covered by the Inquiry.

First Funding Agreement (known as H1): May 2020 – October 2020

287. The first funding settlement was for the period between May 2020 to October 2020. The funding consisted of a £1095m grant and an additional £505.2m in Transport for London borrowing from the Public Works Loans Board[14]. A surplus of £260m was later paid back to Government at the end of the second funding agreement period.

288. The full breakdown of the support and terms was set out in a letter from the Secretary of State to the Mayor of London, Sadiq Khan, which is exhibited at BK/164 - INQ000595415.

289. This first emergency settlement applied the following terms to the funding:

a) Transport for London committed to supporting a Government-led review of its finances. This review was concluded in summer 2020 and was used as the basis for much of Government's policies going forward, particularly around new income generation and pension reform. The review concluded that there was a 'funding gap' and Transport for London's income would not meet expenditure without cost reducing or income increasing (or both).
b) Transport for London continued to deliver its planned active travel programme – as well as introducing new temporary cycling and walking schemes.
c) Transport for London to consider limiting the use of concessionary travel – for example, temporarily pausing free under-18s travel as a demand management tool.
d) Transport for London to reinstate road user charges and bring forward proposals to extend their use.

290. As part of the decision to provide the grant funding to Transport for London, I undertook an Accounting Officer Assessment to demonstrate that issues of regularity, propriety, value for money and feasibility had been properly considered. I exhibit this Assessment at BK/165 -

[14] The Public Works Loans Board lending facility is operated by the UK Debt Management Office on behalf of HM Treasury and provides loans to local authorities, and other specified bodies, from the National Loans Fund, operating within a policy framework set by HM Treasury.

INQ000623312. This assessment was particularly important given the high costs involved and the potential significant impact on the Department's accounts. The assessment set out that the rationale for the funding was to '*ensure Transport for London [could] continue to operate vital transport services in the capital and maintain a balanced budget under their statutory obligations*'.

Second Funding Agreement (Known as H2): October 2020 – March 2021 (Extended to 28 May)

Total funding - £850m (when calculated as H2 grant support, with H1 repayment surplus funding), £95m (TfL borrowing), £850m ('top up' revenue funding)

291. The emergency funding package agreed in May 2020 was for six months, and due to end on 17 October 2020. During this funding period KPMG had undertaken a review of Transport for London's financial position. Utilising some, but not all, of the recommendations made during the review, officials proposed a further six-month funding deal which would last until 31 March 2021. Advice exhibited at BK/166 - INQ000623298 provides an overview of the Department's considerations and strategy for this settlement.

292. Following engagement at official level, and correspondence between the Secretary of State and the Mayor of London, the Secretary of State wrote to the London Mayor on the 31 October 2020· This letter is exhibited at BK/167 - INQ000595480 and sets out the terms of the funding agreement. This letter covered the funding period between 18 October until the 31 March 2021 and was intended to recognise both the short term and longer-term objectives of the funding– particularly ensuring Transport for London's long-term financial sustainability. The agreement supported the maintenance of essential transport services in London, allowing Transport for London to contribute fully to the Government's economic restart programme.

293. My Accounting Officer Assessment for this settlement is exhibited at BK/168 - INQ000608224.

294. The terms under this settlement included Transport for London to:
   a) Work with Government to produce a plan to become financially sustainable. This was to include a medium and long-term plan for capital maintenance and investment
   b) Provide a plan to accelerate their existing modernisation plan, thereby generating savings earlier.
   c) Produce a capital efficiencies plan.
   d) Set an in-year savings target of £160m.

e) Work with Government to investigate the introduction of driverless trains.

295. This settlement introduced the concept of the Mayor bearing financial responsibility for policy choices, such as maintaining concessions for certain groups of Londoners which were more generous than in other areas of the country, for example, the 60+ Oyster Card. This condition continued through all subsequent settlements.

296. This second settlement also introduced a 'top up' mechanism, whereby Government provided grant funding based on Transport for London's determination of need but with the ability to 'top up' funding if passenger levels were lower than had been forecast. Department for Transport analysts provided a range of passenger revenue scenarios based on trends and outlook (such as Covid-19 case numbers and potential restrictions on travel). This gave Government a reasonable expectation of Transport for London's revenue income for each 4-week period. If that level of income was not reached, a top-up funding amount would be provided. This type of funding arrangement gave flexibility to adapt to changes in the pandemic without reopening funding settlements every few weeks, ensuring taxpayer money was only spent on critical costs.

Third Funding Agreement (known as D3) – May 2021 to December 2021

Total funding - £1080m (grant), £171m (top up)

297. On the 1 June 2021 the Secretary of State issued a letter to the Mayor of London, setting out the third funding and financial package for Transport for London. This letter is exhibited at BK/169 - INQ000595505. The settlement was to support Transport for London in delivering its essential services for the period from 29 May 2021 to 11 December 2021.

298. The third settlement continued with the funding mechanism of grant funding, plus top up for revenue loss, and set the following terms:

a) Transport for London was to identify how to generate £500m-£1bn revenue per annum by April 2023.
b) Transport for London was to provide a plan to achieve £400m of in year savings.
c) Transport for London agreed to implement their plan to accelerate modernisation savings.
d) Transport for London was to agree a capital plan with Government.
e) The Mayor/Transport for London was to develop a commercial property development company to increase housing on Transport for London land.
f) The Mayor agreed to carry out a review of Transport for London pension scheme.
g) Continuation of ongoing work on Hammersmith Bridge and driverless trains.

299. This settlement introduced the concept of a longer-term deal should Transport for London meet the requirements of these funding settlements. During this funding period, Ministers submitted a bid to HM Treasury to increase the capital funding available to Transport for London through business rates. The bid was rejected, and the level retained at the same level it had been since 2015.

300. My Accounting Officer Assessment for this settlement is exhibited at BK/170 - INQ000608235.

Fourth Funding Settlement (Known as D4) – 24 February to 3 August 2022

Total funding - £200m (grant), £127m (top up). Total funding for all four settlements- £5093m

301. The fourth funding settlement was for the period between February to August 2022. The funding consisted of a £200m grant and £96m top up.

302. This settlement continued terms on Transport for London pensions, new income and capital workstreams with the aim of building towards a longer-term capital funding settlement. This included Transport for London to:

a) Agree a capital plan with Government in conjunction with any long-term settlement and report to the Department on delivery, including realisation of capital efficiencies as set out in the capital efficiencies plan.
b) Provide a commercial operating structure and business plan for its commercial property company.
c) Support a joint programme, led by the Department, the implementation of Driverless Trains on the London Underground
d) Continue to carry out a review of its pension scheme and reform options with the explicit aim of moving the Pension Fund into a financially sustainable position.

303. The Settlement Letter sent to Transport for London, and my Accounting Officer Assessment are exhibited at BK/171 - INQ000595541 and BK/172 - INQ000623323 respectively.

304. The total funding for the four packages during the pandemic was £5093m.

Monitoring

305. Several governance and monitoring structures were put in place to monitor the funding agreements, particularly progress and implementation of terms set out in the settlement

letters.

306. KPMG was procured to provide regular reporting on Transport for London's financial position to the Department. An example of this reporting is provided at Exhibit BK/173 - INQ000623290.

307. A Department for Transport-led Oversight Group was established to monitor the progress and implementation of terms of the settlement. The Group was chaired by the Director for Regions, Cities and Devolution from the Department for Transport and attended by officials from the Department for Transport, HM Treasury, No.10 and Transport for London as well as No.10 Special Advisers and Greater London Authority representatives. The Group first met on 26 November 2020 and the Terms of Reference for the Group is exhibited at BK/174 - INQ000608217. The Group's role was also set out in the settlement letters for the funding.

308. One of the terms of the extraordinary funding and financing agreement for Transport for London in May 2020 and October 2020 was the appointment of two Department for Transport Special Representatives to attend the Transport for London Board, and for one of those representatives also to attend all meetings of the of the Finance Committee and Programmes and Investment Committee. Their role was providing assurance that Transport for London was delivering the objectives of the funding deal, communicating the Government's expectations to Transport for London and helping to ensure that the Government and its external advisors received the information required to monitor the delivery of the terms of the deal.

Assessment of the funding approach

309. The Inquiry has asked me to explain whether alternative mechanisms of support were considered and discounted in the formulation of the package, and how did the Department for Transport, whether independently or in conjunction with other Government bodies, assess which would be more effective.

310. As set out above, the Secretary of State has a statutory duty to provide a grant to Transport for London in order the run the transport network. Consequently, this was the primary mechanism considered for supporting Transport for London. Given Transport for London's significant losses from passenger revenue, the Department considered this to be the only realistic mechanism to cover the quantum of funding required. There was no real prospect of depleting cash reserves or additional borrowing being sufficient.

311. Early in the process, on 12 April 2020, I wrote to Mike Brown, Commissioner at Transport for London, setting out that, while the Department would work with Transport for London to agree an appropriate funding package, we would expect it to draw heavily on its cash reserves to support revenue loss. This letter is exhibited at Exhibit BK/175 - INQ000595402.

312. One of the terms of the settlements was that KPMG would carry out a review of Transport for London's finances and propose options as to how Transport for London could be put on a more financially sustainable footing in the long-term.

What worked well and where there were challenges

313. The Inquiry has asked me to explain what areas of this funding package worked well, and where there were challenges.

314. The funding package achieved its principal objectives to keep the London transport network operating and support the restart and recovery of the economy. During the pandemic the London transport network did not shut down.

315. Negotiations for each funding package were undertaken at a time of unprecedented pace and pressure. However, the Department now has stronger and more collaborative relationships with Transport for London due to the work undertaken on the funding package during the pandemic. This work has led to an established mechanism, and agreed ways of working, to determine and agree significant capital settlements for Transport for London which would not have been possible beforehand.

316. My colleagues have also reflected that the Department now has much better understanding of Transport for London's finances and structures. Pre-pandemic the Department was not involved in the detail of Transport for London's finances (as Transport for London was largely funded by fare revenue and did not receive Government support. Having a Department for Transport representative attending the Transport for London Board (which did not happen before the pandemic) has continued since the funding package, and this is helpful for joint working.

Challenges

317. The political environment made negotiating the funding settlements challenging. Given the high-profile nature of the packages, and high costs involved, funding agreements had to be agreed with No.10 and HM Treasury before being discussed with Transport for London.

Gaining internal Government agreement could be a long process and often led to a need for extensions to deadlines on funding settlements.

318. The long process was in part due to Departments having different priorities. As an example, the then Chief Secretary to the Treasury asked for detailed efficiencies to be included in the deal. The Department for Transport and the Secretary of State considered that this undermined a key principle of the settlement- that the Mayor and Transport for London should make decisions on how to work within an overarching funding envelope. Advice on this issue is exhibited at BK/176 - INQ000610346. Reconciling the prioritisation of the different views was time-consuming.

319. Another challenge was the short-term nature of the funding, which was provided in six-month settlements. Initially this was due to the uncertainty around how long the pandemic would last. However, it meant complex negotiations had to be repeated for each period and reduced the amount of funding and hence planning certainty for Transport for London. A longer-term funding settlement was put in place from August 2022 until March 2024.

320. It is worth adding that the Department continues to work with Transport for London to date, but funding support is now limited to capital programmes, rather than providing revenue support.

OTHER ECONOMIC INTERVENTIONS

Safeguarding Great Britain to Northern Ireland air links

321. In April 2020, the drop in demand for air travel, caused by the pandemic, had a significant financial impact on the airports and airlines that provided key air services between Northern Ireland and Great Britain. For example, Belfast International Airport closed its passenger terminal and only remained open for freight. Great Britain-Northern-Ireland air links are important for connectivity within the Union. On 3 April 2020 Northern Ireland Minister for Economy, Diane Dodds wrote to the Aviation Minister, Kelly Tolhurst MP, setting out the impacts of Covid-19 on Northern Ireland air connectivity, see Exhibit BK/177 - INQ000608190. Without support these routes would have ceased running, and airports would have been mothballed, impacting on the economy and key workers of Northern Ireland.

322. The Department worked closely with the Northern Ireland Executive to develop a support package to ensure that passenger flights between Northern Ireland and Great Britain were maintained. More information on how the Department worked with the Northern Ireland Executive on this support is outlined at paragraph 397. On 9 April 2020 the Secretary of State wrote to HM Treasury (see Exhibit BK/178 - INQ000595396) with a business case (see Exhibit BK/179 - INQ000623277) setting out a request for support to protect these connections. The Northern Ireland Executive also engaged with HM Treasury directly to highlight the importance of maintaining these airlinks.

323. Chief Secretary to the Treasury, Rt. Hon. Steve Barclay MP wrote to the Northern Ireland Minister for Finance, Conor Murphy MLA, on 15 April 2020 setting out the agreed package. This letter is exhibited at BK/180 - INQ000595400. Support was given to International Airlines Group (Aer Lingus) to maintain the Belfast to London route and increased subsidies were provided to Loganair to continue operating the City of Derry Airport to London route. Support was also provided to Belfast City Airport and City of Derry Airport to provide airport services for flights. Exhibit BK/181 - INQ000595399 explains that half of the funding was provided by the Northern Ireland Executive, with the remaining amount split between HM Treasury and the Department for Transport budgets. The package was jointly announced the Department for Transport, the Northern Ireland Executive and the Northern Ireland Office on 1 May 2020, see Exhibit BK/182 - INQ000595598.

324. In June 2020 advice to Ministers, exhibited at BK/183 - INQ000623288, confirmed that the commercial services between Belfast and London were becoming stable and sustainable. Department for Transport Ministers met with the Northern Ireland Office and Northern Ireland Executive Ministers to discuss terminating the contract in early July 2020. Ministers were

content to terminate the contracts, and on 7 July 2020 the termination notices were served to Belfast City Airport and IAG Group (BA/Air Lingus), with support ceasing on 21 July 2020, exhibited at Exhibit BK/184 - INQ000595433.

Funding to support statutory functions of the Civil Aviation Authority

325. Under Sections 12/16 of the Civil Aviation Act 1982, the Civil Aviation Authority received funding to continue its regulatory activities, such as licensing commercial pilots and flight crew, air traffic controllers and service providers, maintenance engineers and organisations, aircraft of all types and aerodromes. This are important for air safety, security and consumer protection.

326. In a normal year, approximately 80% of the Civil Aviation Authority's total income comes from the services that it provides to industry and for which it charges. For example, regulating airport charges to ensure passengers and other airports benefit from fair charges and services. A fall in that income from the impact of Covid-19 on the aviation industry had a significant impact on the Civil Aviation Authority's cash flow and created a risk of insolvency, with a consequent risk that it would not be able to deliver its statutory duties.

327. The Civil Aviation Authority initially received £5.3 million in grant funding through Sections 12 and 16 of the Civil Aviation Act 1982[15], for work commissioned that would usually be paid in arrears in early April 2020. Following this, a further payment of £10 million in Section 12 grant funding was made at the end of April 2020, as the Civil Aviation Authority was still experiencing cashflow issues, see Exhibit BK/185 - INQ000622825. The Civil Aviation Authority did not furlough staff, due to the risk of those staff finding employment elsewhere. This loss of expertise would have had a severe impact on the Civil Aviation Authority's ability to support the recovery of the aviation sector post pandemic.

328. As the pandemic progressed, further funding was provided to the Civil Aviation Authority through Section 12 grant funding – a further £41million for 20/21, £24.8 million for 21/22 and £24.8 million 22/23, see Exhibits BK/186 - INQ000608225 and BK/187 – INQ000595548.

[15] Sections 12 and 16 of the Civil Aviation Act 1982, permits the Department to provide the Civil Aviation Authority with grant funding for specific activities.

The Air Travel Organisers License

329. The Air Travel Organisers Licence is a statutory scheme that provides insolvency protection for package holidays involving a flight, and for some 'flight only' sales. The scheme was established in 1972, and it is administered by the Civil Aviation Authority on behalf of the Secretary of State for Transport. Travel operators pay a fee of £2.50 per booking to the scheme to protect each passenger booking in cases of insolvency. The money, which is held in a fund managed by the Air Travel Trust, is used to refund, repatriate or reimburse travellers for the cost of repaying for the affected parts of their trip.

330. In April 2020, the Air Travel Trust Trustees raised concerns about the risk of a sudden mass increase in Air Travel Organisers Licence claims due to the pandemic. Following the collapse of Thomas Cook the balance in the fund was almost completely depleted. The Department for Transport worked with HM Treasury on this issue and Government agreed to support the Air Travel Trust Fund and to provide financial support if it became necessary to do so. Advice on this issue is exhibited at Exhibit BK/188 – INQ000622824.

331. The Secretary of State wrote a Letter of Comfort to the Air Travel Trust Trustees confirming this decision and explaining that any support would only come after exhausting any existing reserves, and it would be in the form of a loan. This letter is exhibited at Exhibit BK/189 - INQ000622848. This commitment allowed the Trustees of the Air Travel Trust to extend Air Travel Organisers Licence protection to Refund Credit Notes that were being issued by travel organisers when holidays were cancelled due to the pandemic. These Air Travel Organisers Licence Protected Refund Credit Notes ensured consumers were protected during this challenging period.

332. Ultimately these offers of support were not called upon and the availability period for the proposed loans expired in September 2022. I include this example in the statement as funds were agreed with HM Treasury in case of need.

Airline Slots Alleviation

333. An airport slot is permission to use the airport infrastructure (runway, terminal, gates, etc.). These are necessary to operate an air service at an airport on a specific date and time for the purpose of landing or take-off. There are eight slot coordinated airports in the UK, and slot allocation is managed by Airport Coordination Ltd, which is an independent body. Slots are normally allocated twice a year in conjunction with the summer and winter seasons. No direct monies are exchanged between Government and the airlines, but these slots can have

significant economic value for the airlines who hold them, particularly at the most constrained airports.

334. Airport slots operate under an 80:20 slot use rule, which requires airlines to use a slot for at least 80% of their given slot series and if they do, they can continue to use the same slot in the next equivalent allocation period. Due to the reduction in passenger demand during the Covid-19 pandemic, airlines were concerned that they would be faced with a choice between losing valuable slots or continuing to comply with airport slots regulations by flying empty or virtually empty aircraft, at significant environmental and financial cost.

335. Although the UK had left the European Union on 31 January 2020, during the implementation period (until end of December 2020), the UK still had the requirement to continue to apply and comply with European Union law, as if it were a member state- including slot regulations. In response to Covid-19, the EU Commission fully waived the 80:20 rule for the remainder of the Summer 2020 season. This waiver was also extended for the Winter 2020/21 season as well.

336. Following the UK's exit from the European Union, the Department for Transport needed a mechanism in place by early 2021 to continue to provide alleviation from slots rules, if necessary. Using the powers in The Airports Slot Allocation (Amendment) (EU Exit) Regulations 2021, the Government extended full alleviation of the slot usage rules for the Summer 2021 season.

337. As these powers were limited and could not be exercised after 2 April 2021, new powers were needed to ensure that slot rules could be tailored to support the industry during the pandemic. This resulted in an amendment to the Air Traffic Management and Unmanned Aircraft Bill 2021, which was already in the House of Lords for debate ahead of receiving Royal Assent. This amendment granted the Secretary of State a range of temporary powers, including the right to amend airports slot rules where, due to Covid-19, there has been a reduction in air traffic.

338. Using these powers, and following consultation with the aviation industry, Ministers agreed that the Winter 21/22 season slot usage should be set at 50:50, see Exhibit BK/190 - INQ000595481. Further slots alleviation was required for the Summer 2022 season, with the usage ratio at 70:30, as well as strengthening rules around Justified Non-Use (rules to allow that if flights were cancelled due to the introduction of additional of new Covid restrictions, then they would not count towards the ratio.). A final slow alleviation was agreed in the Winter 2022 season. Ministers decided to retain the 70:30 usage ratio and to allow airlines to

hand back up to 10% of their slots at an airport before the start of the season, see Exhibit BK/191 - INQ000608242.

339. From 26 March 2023 the 80:20 rule was reintroduced, so airlines needed to again use their slots 80% of the time to retain them. The Government allowed airlines to hand back up to 5% of slots before the start of the season to help with resilience and maintained the strengthened Justified Non-Utilisation provisions to act as a safety net if new Covid-19 restrictions were introduced.

Support for bus, tram and light rail services

Bus Funding

340. The Department develops policy for funding for buses in England outside London. Under section 154 of the Transport Act 2000, it has the power to award grants towards the costs of operating services. Local Transport Authorities[16] have the power to use funding to secure the provision of specific public passenger transport services in their area. At the time of the pandemic, all bus services in England outside London were de-regulated, which meant that bus operators decided where and when to run most of their services and set fares.

341. Bus services are registered with Traffic Commissioners, who are responsible for the licensing and regulation of those who operate heavy goods vehicles, buses and coaches, and the registration of local bus services. There is generally with a minimum 70-day notice period before any changes to services can be made. Where services are considered necessary but are not considered commercially viable by operators they can be tendered or supported by Local Transport Authorities.

342. Prior to Covid-19 the main funding the Department provided to commercial bus companies was through the Bus Service Operators Grant, which helped them recover some of their fuel costs. The Bus Service Operators Grant provides funding for many bus operators in England, helping to increase the commercial viability of marginal services, and supporting Government objectives to increase networks, and keep fares affordable for passengers. The Grant is managed by the Department for Transport and is paid directly to the bus operator by the Government, apart from Greater Manchester where the administration is devolved. The funding is based on fuel used and payment rates are set a pence per rate depending on the fuel type. The grant is not means-tested, and any eligible operators can receive it.

[16] For the purposes of this statement Local Transport Authorities are local authorities, county councils, combined authorities and Mayoral combined authorities which have responsibility for making decisions on local public transport provision.

343. Lockdown and social distancing guidance introduced as a result of Covid-19 meant that passengers numbers reduced, impacting the viability of services. On 27 March 2020 Ministers were advised that bus usage was down 87% outside London in England, see Exhibit BK/192 - INQ000595385.

344. In March 2020, the Department confirmed initial measures that the Government was taking to support the bus industry. This included the ongoing payment of Bus Service Operators Grant at pre-Covid-19 levels with the focus on maintaining some services, allowing those who relied on buses, including key workers, to be able to access work, shops or healthcare whilst maintaining social distancing. On 25 March the Secretary of State for Transport wrote to the Confederation of Passenger Transport, Urban Transport Group, Local Authorities, Local Authority Transport Officers and Association of Local Bus Managers setting out this approach. An example of a letter can be found at Exhibit BK/193 – INQ000608206.

345. The Department identified a further gap, arising from significant reductions in fare revenue, which if left unfilled, would have resulted in essential services ceasing. As set out in the case study for funding for the bus industry (see Exhibit BK/194 – INQ000610349), the loss of these services would have disproportionately impacted on key workers and their ability to access work, particularly those in isolated communities where bus travel was the only option available. This provided a clear rationale for the development and implementation of the Covid-19 Bus Service Support Grant.

346. The Covid-19 Bus Service Support Grant was open to all operators and local authorities who received the Bus Service Operators Grant in England and who accepted the set of terms and conditions for the grant. It provided funding to bus operators to secure up to 50% of services and £30 million reallocated to safeguard services. The initial £167m package of support was announced by the Secretary of State for Transport on 3 April 2020, see Exhibit BK/195 - INQ000595593.

347. All operators who accepted this payment were initially expected to maintain sufficient capacity to operate up to initially 50% of services. This was later increased to 100% of their services. There was also a requirement to agree with relevant local authorities the services they were providing. The proposal was not designed to support failing companies but to ensure that it was financially viable for companies to continue running essential services during the pandemic.

348. The Covid-19 Bus Service Support Grant was initially set to run until August 2020, however, due the continued impact of Covid-19 on passenger numbers, this was extended until

September 2021 with rolling funding of up to £27.3 million per week, see Exhibit BK/196 - INQ000595594.

349. On 5 July 2021, the Department recommended to Ministers that the 8-week notice period to end the funding was triggered given that the acute phase of the pandemic was deemed to be over with the sector showing signs of recovery. This advice is exhibited at BK/197 - INQ000622845. However, the Department recognised that support was still needed for bus services and proposed moving from emergency funding to recovery schemes. This would allow operators to return to having greater freedom to set cost bases and fare levels. It would also reintroduce commerciality back to the sector, rather than continuing to hold companies at a break-even level as Covid-19 Bus Service Support Grant did through reconciliations. This funding would be via the Bus Recovery Grant.

The Bus Recovery Grant

350. On 6 July 2021, the Department announced £226.5 million in Government funding to help ensure bus operators continued to run services as Covid-19 restrictions were lifted, see Exhibit BK/198 - INQ000595595. This funding was made available to all bus operators with a Bus Service Operators Grant number as per the Covid-19 Bus Service Support Grant, known as the commercial funding, and to Local Transport Authorities. A letter from Baroness Vere to bus operators and Local Authorities, sharing information of this funding is exhibited at BK/199 - INQ000595513.

351. The Bus Recovery Grant moved funding from the emergency footing it was on under Covid-19 Bus Service Support Grant to focus more on recovery of the sector as Covid-19 restrictions were lifted and patronage recovered. The funding provided allowed operators to run services as close as possible to 100% of overall scheduled services each month. It was originally intended to last 6 months but was eventually extended several times through to June 2023, due to the continued impact of the Covid-19 pandemic on passenger numbers.

Light Rail

352. There are six light rail systems in England outside London - Sheffield Supertram, Manchester Metrolink, Blackpool Tram, Nottingham Express Transit, Midland Metro, Tyne and Wear Metro. There are two light rail systems in London - Croydon Tram, and Docklands Light Railway.

353. Light rail statistics published by the Department for Transport in March 2019 showed that light rail operations accounted for 272.4 million passenger journeys with £384.1 million

annual revenue. At the height of the pandemic, light rail operators experienced over 90% fall in patronage and therefore significant revenue losses. Most light rail systems reduced their timetable but continued services to accommodate key workers. One, Blackpool, ceased services before restarting them on a reduced service on 19 July 2020.

354. To ensure that these services for key workers could continue, following engagement with HM Treasury and Local Authorities, the Secretary of State and Baroness Vere approved the proposal for a Light Revenue Grant in April 2020. The Secretary of State wrote to the Chancellor on seeking agreement on the funding (see Exhibit BK/200 - INQ000595405), which was approved by HM Treasury on 1 May 2020 (see Exhibit BK/201 - INQ000608194).

355. The Grant enabled operators to maintain minimal service provision to support essential journeys during lockdown. The funding was capped at £30m over an initial period of 12 weeks and was assigned to five light rail systems (Tyne and Wear Metro, West Midlands Metro, Manchester Metrolink, Sheffield Supertram and Nottingham Express Transit) based on evidence of their required service levels and corresponding revenue shortfalls. The Grant was announced at the beginning of May and funding was backdated to 17 March 2020.

356. In May 2020, the economy began to enter a period of restart and reopening, with the lifting of some restrictions on travel resulting in an increase in demand for public transport. This necessitated an increase in capacity, to ensure that public transport users could comply with the then 2 metre social distancing requirement. To increase light rail service levels and capacity, so that people could safely access non-essential businesses, workplaces and other venues as they began to reopen, further funding was required. HM Treasury agreed to provide up to an additional £29 million to the Department for light rail services until 3 August, and this funding supported service levels of up to 100%. This funding was known as the Light Rail Revenue Restart Grant and was extended several times during the pandemic.

357. A final package of support was announced on 1 March 2022 of £150 million further support for local transport, included recovery funding for light rail, see Exhibit BK/202 - INQ000595596. The allocation for English light rail systems outside of London was £37.8 million. Funding was conditional on light rail operators using a universal fare evasion monitoring method on their systems.

358. No further pandemic-related funding was provided to English light rail systems outside of London after October 2022. The Department for Transport has not traditionally subsidised devolved light rail operations and it is for local authorities to manage systems finances in the long-term. This is a key difference with local bus services, where the Department for Transport has always provided the Bus Service Operators Grant.

Winter Coach Support

359. Following the announcement from Government on 24 November 2020 that up to three households could form a Christmas bubble, there was work across the Department for Transport to ensure that all transport modes were ready to facilitate people travelling over the period, particularly during the student travel window. During this period there were still rules on capacity on the public transport network with restricted social distancing. To ensure there was sufficient capacity and resilience in the transport network, Ministers agreed that financial support should be made available for coach travel.

360. On 12 December 2020 the Government announced up to £3million for 80,000 more seats on coaches during the Christmas travel period. The £3m figure was estimated on data from National Express and Stagecoach/Megabus at the time on assumptions from costs and expected revenue yields. The funding enabled scheduled coach operators to deliver up to 75% of pre-pandemic services – with the aim of helping more people travel safely to their Christmas bubble should they wish.

361. On 19 December 2020, the Government announced Tier 4 lockdown restrictions, in response to an increased number of infections from a new Covid variant (which would later be known as the Alpha variant). These restrictions set out that '*People should not enter or leave Tier 4 areas, and Tier 4 residents must not stay overnight away from home. Where people cannot work from home, they should still travel to work, for example in the construction and manufacturing sectors', see* Exhibit BK/203 - INQ000595600.

362. As the coach scheme had already been put in place, and tickets had been sold, a refund scheme needed to be set up for those who no longer wanted to travel. On 20 December 2020, a read out from No.10 confirmed that the Prime Minister supported the Departmental view that cash refunds on rail and coach services, plus start-up costs for coaches should be provided, however these should be funded via Departmental budgets, see Exhibit BK/204 - INQ000622840. The refunds were funded by the Department as part of an underspend on the Covid Bus Services Support Grant (further information provided above at paragraph 340).

Supporting Critical Freight Routes

363. The UK relies on the international and domestic freight network (maritime, air, rail and haulage) for a high proportion of our goods including food, medical supplies, manufacturing, energy and retail - over 50% of medicines are imported, and three-quarters of the medicines come through the Short Strait.

364. As set out in paragraph 86, the Department for Transport established a Critical Freight Taskforce in March 2020 to bring greater focus on maintaining freight flows and supporting goods to continue to come into and leave the UK. The Taskforce was cross-modal and brought in other relevant Departments and the Devolved Administrations. A full list of the membership and remit of the Taskforce is exhibited at Exhibit BK/205 - INQ000595616.

365. By April 2020, multiple international and intra-UK operators (including Great Britain-Northern Ireland) had cut back services on critical ferry and air routes to levels that threatened supplies of goods, as a result of an 80%+ fall in passenger demand (on mixed passenger and freight services). Analysis on minimum service levels undertaken by the Department for Transport, and exhibited at BK/206 - INQ000595615, estimated that a minimum ~60% of pre-Covid levels of freight capacity needed to be maintained on critical routes to prevent shortages of supplies.

366. On 24 April 2020 the Secretary of State for Transport announced a financial package to support the flow of goods on up to 31 routes between Great Britain-Northern Ireland and Great Britain-mainland Europe. Public Service Obligations were placed on 16 routes, and contracts signed with six operators. The Public Service Obligations lasted nine weeks from 11 May 2020 - expiring as planned on 12 July 2020.

367. The Public Service Obligations were designed to ensure that services carrying important goods continued to run. Operators were reimbursed for fully variable costs, plus an appropriate amount to cover other costs where they would otherwise have made a loss. The aim was both to safeguard freight flows and to minimise the overall cost to taxpayers. Only routes assessed to be at risk of becoming commercially unviable (and, so, at risk of closure) due to the impact of the pandemic were considered for funding.

368. Each operator and route were subject to rigorous checks and analysis by commercial and technical experts. Actual payments to operators varied according to agreed costs, revenue and freight volumes. Information on all the operators that received funding was published, including contracts, and is exhibited at Exhibit BK/207 - INQ000595597.

Lifeline Services to the Isle of Wight and Isles of Scilly

369. In April 2020 emergency funding was provided to support lifeline transport links to the Isle of Wight and to the Isles of Scilly. More than 140,000 people live on the Isle of Wight and 2,200 live on the Isles of Scilly. The island communities rely on ferry services for access to medical services on the mainland and for supplies.

370. The Covid-19 pandemic had a major impact on all three lifeline commercial operators in the Isle of Wight (Wightlink, Red Funnel and Hovertravel), who faced a sudden drop in passenger numbers. This caused serious cashflow issues, affecting the viability of the operations. The same was true of the Isles of Scilly Steamship Group and Penzance Helicopters who ran lifeline services to the Isles of Scilly.

371. The Department for Transport engaged with HM Treasury and agreed an emergency package of up to £10.5 million for the continuation of passenger ferries to the Isle of Wight as well as sea and air links to the Isles of Scilly. This followed the temporary suspension of competition law to allow ferry operators in the Isle of Wight to work together to continue to run essential services. The support measure eventually ran between April 2020 and May 2021, with further funding agreed in December 2020, bringing the overall figure of support of £16.7m.

Funding to support cycling and walking infrastructure

372. During the pandemic Government provided funding to support cycling and walking. This was particularly important as cycling and walking were methods of transport where people could socially distance and therefore could travel with less risk of contracting Covid-19. The Government provided around £235.5m of additional funding to support cycling and walking during the pandemic.

373. The £250m Emergency Active Travel Fund was announced by the Secretary of State on 9 May 2020. The grant funding supported Local Authorities with the installation of temporary, and in some cases permanent, measures to mitigate for the lack of public transport capacity, such as pop-up bike lanes with protected space for cycling, wider pavements, safer junctions, and cycle and bus-only corridors. Local Authorities were invited to prepare bids by 7 August 2020, which were then assessed and moderated by Sustrans and Department for Transport officials. The full allocation of funding is provided at Exhibit BK/208 - INQ000595599.

374. The £50m Fix Your Bike voucher scheme was set up in July 2020 to encourage more people to cycle as a means of travel during the pandemic. The Scheme allowed members of the public to receive a voucher worth up to £50 towards the cost of repairing a bicycle. It was open to anyone in England who had a cycle in need of a repair. Vouchers could be used with bike repairers or mechanics that were registered for the scheme in England. Vouchers were released in several tranches, and the scheme was administered for the Department by the Energy Saving Trust. There was an underspend on funding, largely because many people

claimed vouchers that they did not then use, which meant that ultimately a total of £10.5m was spent on this scheme.

Heavy Goods Vehicles Road User Levy Suspension

375. The Heavy Goods Vehicle Road User Levy applies to all Heavy Goods Vehicles of 12 tonnes or more and applies to both UK and foreign-registered vehicles. The Levy aims to ensure these vehicles financially contribute when using the UK road network. Payments for the Levy are collected by the Driver and Vehicle Licensing Agency. UK registered vehicles pay Levy costs at the same time, and in the same transaction, as Vehicle Excise Duty. Foreign vehicles pay via an online portal.

376. The Levy was introduced in 2014 and re-designed in 2019 to better meet the environmental objective of improving air quality. The Levy was suspended for a year from first 1 August 2020 to support the haulage sector, and to support pandemic recovery efforts. The suspension also gave Government the opportunity to consider making further changes to the Levy. The suspension was subsequently extended for a total period of 36 months. The additional length of the suspension allowed a reformed Levy to be introduced from August 2023. Since Levy revenue goes to the Consolidated Fund, the Levy suspension had no impact on the Department for Transport's budgets.

377. The Driving and Vehicle Licensing Agency additionally suspended Vehicle Excise Duty enforcement action between March – August 2020. The Driving and Vehicle Licensing Agency usually collected around £7bn a year in Vehicle Excise Duty on behalf of HM Treasury. With the impact of the pandemic becoming apparent in early 2020, the Secretary of State for Transport agreed to curtail enforcement activity in order to protect key workers and the vulnerable. Therefore, from the end of March 2020 enforcement action was suspended. Some enforcement was resumed in August 2020 over a phased basis throughout subsequent lockdown periods. The curtailment of enforcement activity had an impact on revenue over 2020-21, with revenue from fines and penalties amounting to only £32million – a reduction of 64% compared to 2019-20 revenue.

Transport-Technology Research and Innovation Grants

378. Transport – Technology Research Innovation Grants (usually referred to as the acronym T-TRIG; later, 'Technology' was dropped and the acronym shortened to TRIG) were first launched by the Department for Transport in 2014. They enable the Department to fully fund proof-of-concept research projects (that demonstrate whether an idea is feasible and viable) in support of innovative ideas or concepts that facilitate a better transport system.

379. The 2020 T-TRIG call was delivered in partnership with the Connected Places Catapult and resulted in £900k of Government grants across 23 six-month projects, covering three themes: decarbonising the transport system (12 projects), Covid-19 (7 projects) and an open call (4 projects).

380. This was a relatively small amount of funding with around £200k spent on Covid related projects. Information on the successful projects was published publicly and is exhibited at Exhibit BK/209 – INQ000595528.

Haulier testing

381. Following the sudden closure of the French border on Sunday 20 December 2020 due to the identification and spread of a new variant of Covid-19 (the Beta variant first detected in South Africa).

382. Although initially paid for by the Department for Transport, the Department of Health and Social Care later paid for all costs associated with the testing. I therefore do not include this intervention in the table of Departmental funding above.

383. Whilst Covid testing was a Department of Health and Social Care policy, at the time it did not have the resources to identify, stand up and run mass haulier testing sites to clear this backlog and deliver future testing. Therefore, the Department for Transport became responsible for haulier testing. This was because of the urgency of the border crisis to restrict the transmission of the virus both domestically and across the UK's borders, whilst ensuring that the number of unready hauliers entering Kent was kept to a minimum. By introducing a robust and mandatory testing regime approved by the French Government, it sought to minimise the risk of the spread of new variant. Testing hauliers was deemed essential to maintain the flow of priority goods, to mitigate the effect on supply chains and to retain and protect skilled hauliers.

384. Two days later, on 22 December 2020, a Protocol was agreed between the French Government and the UK Government to allow the resumption of travel across the borders, Exhibit BK/210 - INQ000049245. The Protocol included the need to obtain a negative Lateral Flow Test result prior to boarding transport destined for the European Union and applied regardless of nationality. The approach to use a Protocol was supported as hauliers presented a low risk to public health from Covid-19 transmission as they are generally solitary workers, who have limited interactions with the wider public and public spaces.

385. The haulier testing system was designed to make testing accessible and convenient, using existing and trusted structures that were already familiar to the haulage community. The Department had been providing face-to-face support to hauliers since October 2020 through a network of Information and Advice Sites across the UK as part of preparations for the end of the transition period and leaving the European Union on 31 December 2020. Providing Covid-19 testing for hauliers at Information and Advice Sites provided hauliers with a one stop shop for both their border readiness for Brexit and Covid-19 testing. The locations of the Information and Advice Sites were easy to reach and access for hauliers and their heavy goods vehicles.

386. The Department initially provided Covid-19 testing for hauliers leaving the UK with the assistance of the military via a Military Aid to the Civil Authorities request to the Ministry of Defence, see Exhibit BK/211 - INQ000528087. This cost was also borne by the Department. The Military Aid to the Civil Authorities was used to stand up the testing and driver welfare efforts at extremely short notice, in Dover and the M20 until February 2021.

387. A key part of the service was that it was free of charge to hauliers. Hauliers typically have very low profit margins (industry reports at the time confirmed a profit margin of 1-3%) and are often self-employed, so any costs would be absorbed directly by drivers themselves. Making testing expensive, harder to access and more onerous would inevitably have resulted in non-compliance. Drivers would have avoided the UK altogether, causing significant disruption to supply chains and exacerbating labour supply shortages within the haulage industry.

388. By January 2022, almost one million hauliers had been tested at more than 40 testing locations across England with positivity rates remaining low, between 0.1-0.6% throughout the testing programme, see Exhibit BK/212 - INQ000527785. Ministers agreed that for as long as border readiness was required the Department would maintain responsibility for haulier testing. Following on from the Government announcement of 'COVID-19 Response: Living with COVID-19' on 21 February 2022 and the removal of remaining legal restrictions on 24 February 2022, the Department's Haulier Outreach Programme ended on 31 March 2022, with Department of Health and Social Care taking on the lead on any future testing needs.

STAKEHOLDER ENGAGEMENT

389. I will now explain how the Department worked with key partners during the pandemic, including the Devolved Administrations, local government, and the transport industry.

Devolved Administrations

390. As set out at paragraph 26 of this statement, modal Department for Transport teams would lead engagement for their policy areas, including with Devolved Administration officials. The Department's Union Team, which sat within the Regions, Cities and Devolution Directorate also supported engagement by bringing together a regular forum to engage more broadly on transport issues across the Department- via the Four Nations Transport Response Group. The organisation charts exhibited at BK/005 - INQ000595585, BK/006 - INQ000595527, BK/007 - INQ000595584, BK/008 - INQ000595358, BK/009 - INQ000595583 outline the structures of where the team sat within the Department.

391. The Four Nations Transport Response Group forum was made up of senior transport officials from Scotland, Wales, and Northern Ireland. It was intended to provide a forum for discussion of latest issues and positions, allowing policy officials to share potential policy direction. The first of these meetings occurred on 24 March 2020. Discussions in this forum tended to be at a high level, with bespoke engagement on detailed policies undertaken at the modal team level. The Four Nations Transport Response Group meetings still continue to this day, although the forum is now broader than responding to the pandemic, and is used to discuss matters of mutual interest, to share knowledge and intelligence and to seek support and collaboration where appropriate. Meetings generally take place monthly, and the next meeting of the forum is due to take place in September 2025.

392. In March 2020 the Secretary of State for Transport asked Minister Rachel Maclean to lead the Department for Transport's Ministerial engagement with the Devolved Administrations on the Covid-19 response. Alongside the official level Four Nations Transport Response Group, a Ministerial forum was created that was chaired by Minister Maclean. This forum met every fortnight and the first of these meetings occurred on the 15 April 2020.

393. The last meeting date of the Ministerial Forum took place on 22 October 2020 with Baroness Vere. Following this meeting Baroness Vere wrote to Devolved Administration counterparts to suggest the creation of a broader forum to discuss issues wider than the pandemic response. An example of the letter sent to Ministers in the Devolved Administrations is provided at Exhibit BK/213 - INQ000626315. This group was known as the Interministerial Group for

Transport Matters and continues to meet quarterly. Regular communiques from the Interministerial Group are published publicly on gov.uk.

394. The main difference between the Ministerial forum and the Four Nations Transport Response Group was the attendee level, with Ministerial discussions taking place at a high level, and official-level meetings generally focusing more on the detail. The issues covered in each meeting were similar. As an example, the Ministerial forum meeting on April 16, 2020 (readout provided at BK/214 -INQ000595401) covered freight routes, support for regional air connectivity and PPE for transport workers. These issues had been discussed at the official meeting earlier in the month- with minutes exhibited at Exhibit BK/215 - INQ000626313.

395. In the chronology exhibited at Exhibit BK/001 - INQ000654247, I provide minutes of meetings where the economic response to the pandemic was discussed in these meetings.

396. The Inquiry has asked me to identify any particularly successful or challenging relationships with the Devolved Administrations on the economic response to the pandemic. I provide two examples below.

Great Britain-Northern Ireland air links

397. As set out at paragraph 321, in May 2020 a support package was announced by the Department for Transport, Northern Ireland Office and Northern Ireland Executive to ensure passenger flights between Northern Ireland and Great Britain were maintained during the Covid-19 pandemic response period.

398. All three Devolved Administrations raised issues around regional air connectivity with the Department for Transport, as passenger demand was significantly reduced due to the pandemic. Great Britain-Northern Ireland air links support economic and social connectivity, and, so during the pandemic, were important in ensuring critical key workers and those who needed to travel could continue to do so.

399. The Department's Airports Policy Team already had established relationships with the Devolved Administrations ahead of the pandemic, as airport policy is a reserved matter, covering areas like safety regulation; economic regulation; aviation security; competition issues; and international aspects of aviation policy. Pre Covid-19 the Department was already working with the Devolved Administrations using Public Service Obligations to fund specific routes, such as the City of Derry to London route, which has boosted trade, travel opportunities and supported Northern Irish jobs. In addition, the Team was aware of the

impact of the collapse of FlyBe, in early March 2020, would have on the Devolved Administrations, for example, the collapse particularly impacted Belfast City Airport.

400. The Department led on the engagement with relevant airports and the Northern Ireland Executive to set out the case for this support. One of the key challenges that the Department faced was that there were three Departments in the Northern Ireland Executive that needed to be involved in this planning - infrastructure, finance and economy. These Departments were led by Ministers from three separate parties as there was a power sharing agreement at that time. The Department for Transport encouraged the collaboration of all these Departments to ensure that this funding was put in place. For several weeks, both the teams in the Department and the Northern Ireland Executive worked seven days a week to ensure that this situation could be resolved.

401. The Department gained longer term benefits through this work. The Devolved Administrations were later engaged with the various recovery support schemes put in place, including the Devolved Administration's own schemes and the Department's Airport and Ground Operations Support Scheme at the end of 2020, and Airport Policy teams continue to have a good relationship with the Devolved Administrations post the pandemic.

Freight Routes

402. Ministers and officials in the Northern Ireland Executive raised concerns with Department for Transport Ministers on the resilience of the Great Britian to Northern Ireland critical freight routes. Similar concerns were also raised by officials and Ministers in the Welsh Government.

403. As set out at paragraph 363, the Department took steps to ensure freight continued to travel on routes into and across the UK, announcing, on 24 April 2020, support for up to 31 Ro-Ro[17] freight routes (sea and Eurotunnel) between the UK and mainland Europe and between Great Britain and Northern Ireland.

404. This announcement was followed on 18 May 2020, that the Department had signed contracts for 16 freight routes between Great Britain and Northern Ireland and Great Britain and mainland Europe, see Exhibit BK/216 - INQ000595601. The Department worked with the Northern Ireland Executive on this who provided 40% funding for the three Great Britain to Northern Ireland routes, which was estimated to cost up to £5.5m.

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[17] Roll-on/Roll-off refers to the action of vehicles driving on and off a ferry on their own wheels.

405. The Inquiry has asked whether there were any challenges identified whilst working with the Devolved Administrations. As outlined in both examples above, the engagement with the Devolved Administrations was positive and resulted in support for key air and freight routes.

Local Government

406. I will now explain how the Department worked with Local Government on the economic response to the pandemic.

407. Pre Covid-19, engagement with local government was primarily carried out by the Regions and Cities Partnership and Delivery Directorate. The Directorate is made up of four divisions - Local Infrastructure and Delivery Division, London Partnerships and Delivery Division, Regional Partnerships and Delivery - Midlands, South-West, South-East and East Division and Regional Partnerships and Delivery – North Division.

408. The Directorate leads the Department's strategic relationship with Local Authorities, Mayors and Combined Authorities, Transport for London, the Greater London Authority and Sub-National Transport Bodies on the development of local transport policy.

409. The Directorate works collaboratively across the Department with relevant teams, including policy teams, to gather and apply place-based intelligence to enhance transport policy, planning and investment decisions. During the pandemic this approach changed, due the need to implement changes at pace, the Regions Directorate worked alongside the Local Transport Directorate, this was particularly successful with the development and implementation of bus funding.

410. In March 2020 the early response from the Department was focused on confirming with Local Government and stakeholders the initial measures that the Government was taking to support the bus industry. This included the ongoing payment of Bus Service Operators Grant at pre-Covid-19 levels with the focus on the maintaining some services, allowing those who relied on buses, including key workers, to be able to access work, shops or healthcare whilst maintaining social distancing.

411. On 25 March 2020 the Secretary of State wrote to the Confederation of Passenger Transport[18] , Urban Transport Group[19] , Local Government Authorities, Local Authority

[18] CPT is a group and trade association which represents UK bus and coach operators. As well as providing services to its members, it engages with government on national and international legislation, local regulations, operational practices and engineering standards.
[19] UTG is the UK's network of city region transport authorities

Transport Officers and Association of Local Bus Managers setting out this approach. An example of the letter sent to the Local Transport Authority Transport Officers and Chief Executives is exhibited at Exhibit BK/193 – INQ000608206.

412. The Department was aware of the pressure on local authorities to ensure that key bus routes remained active in areas where this form of transport might be the only option available. Exhibit BK/194 – INQ000610349 shows that Covid-19 would have had long term implications for tendered services and isolated communities and would have required operators to significantly cut back their services in the long term.

413. Alongside information from the bus operators and Local Transport Authorities, the Regions team also shared Area Leads' intelligence dashboards produced by the different regions, (see Exhibit BK/217 – INQ000610352 and Exhibit BK/218 – INQ000610338), these provided vital information around levels of patronage on public transport but also driver absenteeism and concerns around school transport to support policy and funding initiatives. The teams also drew on their relationships and detailed knowhow of places to advocate for places with particular challenges. This information highlighted how important it was to develop and implement funding to ensure that key bus routes were maintained during the pandemic. This resulted in the introduction of Covid-19 Bus Service Support Grant - further information about the funding scheme can be found at paragraph 340.

414. Various means of communication were used to engage with stakeholders on the proposed funding. In April the Department set up the Local Transport Steering Group, a weekly meeting, usually led by a Director, which included representatives from ADEPT, Urban Transport Group, Local Government Authorities, Confederation of Local Transport, Local Transport Authorities and bus operators. It also included representatives from the Regions teams, who would engage with the stakeholders outside of the meetings to answer any questions specific to their areas. The Local Transport Director held, from April, weekly calls with the Confederation of Passenger Transport and, most weeks, the heads of transport in the Mayoral Combined Authorities outside London. It was a forum for stakeholders to ask questions and where the team could provide further information on the funding. These meetings also proved to be a good way of sharing information efficiently with the bus operators and wider stakeholders.

415. The Department also worked with other Government Departments, for example attending the Ministry of Housing, Communities and Local Government led-led Local Economic Recovery Group from April 2020, which was also attended by the Local Government Authorities, nine metro mayors and Local Enterprise Partnership to promote recovery outside of London.

416. The Department also signed a Memorandum of Understanding with the Local Transport Authorities to formalise the working relationship and the delivery of the Covid-19 Bus Service Support Grant. It set out the responsibilities of both the Department and the Local Transport Authorities. This document is exhibited at Exhibit BK/219 – INQ000595489.

417. Key individuals who the Department engaged with during this period were - Jonathan Bray Director – Urban Transport Group, Hannah Bartram, Chief Executive Officer – ADEPT, Mark Kemp, Vice President – Association of Directors of Environment, Economy, Planning and Transport, Cathy Knight Co-Vice Chair – Association of Transport Co-ordinating Officers and Graham Vidler, Chief Executive – Confederation of Passenger Transport.

418. Ministers also engaged with industry - from April onwards Baroness Vere, Minister for Local Transport at the time, held weekly calls with the Bus and Coach sectors (National Express, Stagecoach, Arriva, GoAhead, First and SME) and met with the nine Metro Mayors monthly from March 2020.

419. The greatest engagement on the funding was with the Urban Transport Group, which represents and supports city region transport authorities, for example Transport for Greater Manchester, Transport for London and Transport for Wales, see Exhibit BK/220 - INQ000595602. This was likely due to their focus on transport and as a result of them being the largest transport hub outside of London. The Department found it more challenging to engage with the smaller local authorities due to the remit of their responsibilities to respond to the Covid-19, which covered many areas not just transport.

Data gathering and sharing

420. The Department worked closely with the Confederation of Passenger Transport to support the development of Covid-19 Bus Service Support Grant. At the start of the pandemic, the Department agreed to share modelling, which used published statistics and industry intelligence. The Confederation of Passenger Transport agreed to review and look at why the Department's grant estimates were different to theirs. This allowed officials to come to a quick agreement on the scope of Covid-19 Bus Service Support Grant. During the later stages of the pandemic, the Confederation of Passenger Transport would engage with their members and test assumptions or gather data from them to support the case for further funding to HM Treasury. This was ad hoc and not done through a formal agreement.

421. As the funding was designed to ensure bus operators would break even, rather than make a profit or loss whilst running services, discussions were held with relevant stakeholders about the scope of the proposed funding, what it would cover and how payments would be assessed. It was agreed that for the Covid-19 Bus Service Support Grant operators to

provide specific data to the Department, for example revenue, direct and semi-direct costs and overhead costs for each period. See Exhibit BK/221 – INQ000595569 for all the data that bus operators were required to submit as part of the scheme. These were agreed and set out in the Covid-19 Bus Service Support Grant Reconciliation Revenue and Costs Guidance, see Exhibit BK/222 – INQ000595568.

422. Once the scheme was in place, the local transport analysts worked with the Corporate Finance team to review the data and confirm the subsequent payments, see Exhibit BK/223 – INQ000654244. Directors were kept up to date on the spend through the Funds Tracking Pack (see Exhibit BK/224 – INQ000623313) which set out how Bus Service Operators Grant, Covid-19 Bus Service Support Grant and Light Rail and Tram Recovery Grant funds were being allocated.

Reflections on stakeholder engagement

423. The Inquiry has asked me to set out any challenges in working with Local Government. Having taken into account the views of colleagues, I consider that engagement with Local Authorities was broadly effective. However, engagement was inevitably with representative bodies and their members – given there were around 80 Local Transport Authorities, over 100 Local Highway Authorities and over 260 taxi licensing authorities. The Department recognises that inevitably this engagement did not always capture every nuance of local circumstances.

424. The bus funding team worked well with the Regions teams, drawing on their existing relationships and insights from the regions to answer questions about the Covid-19 Bus Service Support Grant, and as associated funding was developed and then implemented. Proactive engagement with the Local Transport Authorities and bus operators to identify the funding gap, was key to the rapid introduction of the Covid-19 Bus Service Support Grant in April 2020. It was challenging to obtain the relevant data from the bus operators required by the scheme at a time where they were facing other issues associated with the Covid-19 pandemic.

425. The pandemic did result in strengthening of relationships with certain stakeholders, particularly the Mayoral Combined Authorities, which has continued after the pandemic.

426. The pandemic changed the way in which Local Transport Analysts engaged with their stakeholders. Regular drop-in sessions with bus operators were useful during Covid-19 in being able to manage expectations around on future funding packages and this open relationship has remained with many bus operators post the pandemic.

Engagement with Transport Sector

427. Throughout the pandemic, Departmental officials engaged regularly with the transport industry. As set out in paragraph 26, the engagement was largely undertaken by modal teams in line with the Department's structures.

428. I provide an overview below of the structures and key stakeholder groups that the Department for Transport used during the pandemic. This was alongside regular individual meetings with companies across all parts of the transport sector.

429. I consider that the Department's engagement with industry was effective and enabled the Department to understand the economic impact of the pandemic on the transport sector, as well as any concerns from industry. Departmental officials also reflected that the engagement deepened their commercial understanding of parts of the transport sector, notably in aviation. When considering the asks and concerns from industry, the Department had to balance the objectives of ensuring public safety and keeping an appropriate level of transport services running, against also ensuring efficient and appropriate use of public funds.

430. One area of engagement that the Department did find more challenging was in relation to the taxi/Private Hire Vehicle sector, due to its scale and diversity. Whilst there are a few large operators, the vast majority of operators are SMEs/individuals and unlike buses and coaches (and most other transport modes), there are multiple different groups representing the sector.

431. I would be happy to provide any additional information to the Inquiry on the groups set out in the table below.

Mode	***Group***	***Dates***	***Description***
Transport Operations	Devolved Administrations weekly catch up with Transport Operations team	March 2020 onwards	Aim was to discuss the initial response to Covid-19. The Group looked at issues by mode and those that were cross cutting, to understand where work overlapped or to raise issues/concerns
Devolved Administrations team	Covid-19 4 National Transport Weekly Teleconference	March 2020 onwards	The Group looked at issues by mode and those that were cross cutting and relevant to the Devolved Administrations, to understand where work overlapped or to raise issues/concerns.

Devolved Administrations team	Weekly Ministerial 4 Nations call with Devolved Administrations	15 April 2020 onwards	The meeting was used to discuss Covid-19 issues which related to transport in Scotland, Wales and Northern Ireland
Aviation	Airport Policy Devolved Administrations Round Tables	18 March 2021 onwards	Chaired by Deputy Director, Airport Policy. The meeting was proposed at a previous Devolved Administrations Four Nations meeting. It was attended by the Devolved Administrations, the Department's Airport Policy and Union Connectivity Review teams, as well as the Territorial Offices. The meeting offered attendees an opportunity to expand their networks and understand the key issues facing each Government/Executive.
Aviation	Strategic Aviation Special Interest Group (SASIG)	Already in place pre Covid-19	Forum for Local Authorities and other regional representatives to come together to share information and resources on regional aviation issues. It is attended by representatives from the Department.
Aviation	Expert Steering Group	6 May 2020 onwards	Set up by the Department to bring together interested parties from across government and industry to generate solutions to the significant impact of Covid-19, with the focus on helping restart and recover UK aviation. The aim of the Group was to make decisions, with several smaller subgroups, focusing on specific issues such as airbridges.
Aviation	Heathrow Leadership Group	Already in place pre-Covid-19	The Group works to improve the end-to-end passenger experience at Heathrow, to provide leadership on changes to improve service quality and operational effectiveness and to act as a forum to

			encourage senior level collaboration during disruption. It is not a decision-making body. DfT is not a formal member of the Group but attends at Director and Director General level.
Aviation	Minister Kelly Tolhurst calls with airlines, airports and ground handlers	March 2020 - Weekly, then fortnightly	Discussions around the impact of Covid-19 on the sector, including funding sources.
Aviation	Director level calls with airlines and airports	March 2020 - Weekly, then fortnightly	The discussion of operational issues such as discussion of red list countries – chaired by Director, Airports and Infrastructure and Director, Aviation from the Department.
Aviation	Minister Kelly Tolhurst/Minister Robert Courts calls with airlines	March 2020 - weekly	Discussions around the impact of Covid-19 on the sector, including funding sources
Local Transport	Transport for London - Oversight Group	November 2020 - continued post Covid-19	Chaired by Director – Regions, Cities and Devolution, attended by Transport for London, Greater London Authority, No.10 and HM Treasury. It met every 4 weeks. Aim was to oversee the effective implementation of the measures agreed in the extraordinary funding and financing packages
Local Transport	Baroness Vere calls with Graham Vidler, Confederation of Passenger Transport	March to June 2020 (weekly)	Objective of these calls were to ensure a continual flow of information from industry on issues they are having, as well as communicate information on financial support from Government.
Local Transport	Baroness Vere calls with Bus and Coach sectors (Confederation of Passenger	March to June 2020 (weekly)	Objective of these calls were to ensure an exchange of information with the coach and bus sector on issues they are having, as well as communicating requests for support to Government.

	Transport, National Express, Stagecoach, Arriva, GoAhead, First Group, Transdev and Stephensons of Essex		
Local Transport	Director calls with Confederation of Passenger Transport	April 2020 - weekly	Focused on discussing key issues affecting bus operators and industry as a result of Covid-19. Also shared information around funding approaches.
Local Transport	Local and Regional Transport Restart – Stakeholder Steering Group.	April 2020 - weekly	Chaired by Director, Local Transport Group. Attended by representatives from across the Department, including the Regions Engagement team. Plus the Urban Transport Group, Local Transport Authorities, bus companies and professional and consumer groups, for example Transport Focus. Aim was to work with partners across government and the transport sector, on options to safely increase capacity across the transport system and manage demand as and when current lockdown requirements/social distancing measures were changed.
Local Transport	MHCLG Local Economic Recovery Group	21 April 2020 onward.	Led by MHCLG included Local Government Authorities, Metro Mayors and Local Enterprise Partnerships.
Local Transport	Baroness Vere calls with Metro Mayors	March 2020 - monthly	A mix of group and individual calls Aim of the meetings/calls was to discuss Covid-19 related transport issues, specific to their regions or cross cutting
Local Transport	Urban Transport Group meetings	March 2020 - Twice weekly initially,	Led by Director, Local Transport - discussions focused on initial response to Covid-19, lockdowns and funding.

		moving to weekly and then monthly as required	
Maritime	Minister Kelly Tolhurst/Minister Robert Courts calls with ports, shipping and cruises	March 2020 - weekly	Discussions around the impact of Covid-19 on the sector, including funding sources.
Maritime	Officials calls with relevant ports and ferry operators	March 2020 - fortnightly	Discussions around the impact of Covid-19 on the sector, including funding sources.
Freight	Minister Andrew Stephenson Ministerial calls with cross freight trade associations	March 2020 - monthly	Aim was to highlight the Associations importance in maintaining freight flows, to secure cross modal approach to freight and agree data sharing to inform the Department's response.
Domestic Rail	Minister Chris Heaton Harris – calls with Rail Delivery Group	May 2020 - monthly	To discuss issues caused by Covid-19, including industrial relations, timetable uplift and union engagement.
Domestic Rail	Minister Chris Heaton-Harris – calls with Train Operating Company Owning Groups	May 2020 - monthly	To provide updates on topics such as the Emergency Measures Agreements, impact of social distancing measures and rail recovery.
Domestic Rail	Minister Chris Heaton-Harris, calls with Rail Delivery Group and Network Rail	May 2020 – Weekly, then monthly	To discuss impact of Covid-19 on rail and impact of updated guidance etc
Domestic Rail	Minister Chris Heaton Harris – calls with Network Rail	March 2020 – weekly, then monthly	To discuss impact of Covid-19 on rail, such as testing, timetabling and status of the network

Domestic Rail	Joint Industry Concessioning Group	1 October 2020 onwards - fortnightly	Chaired by Managing Director, Passenger Services, plus representatives from the Department and Network Rail. Aim was to provide industry oversight and assurance of the commissioning process for EMAs, ERMAs and NRCs
Consumer Groups	Minister Rachel Maclean calls with Consumer Groups	April -June 2020 (monthly)	Attendees included - Sustrans, Transport Focus, Money Savings Expert, Which?, Campaign for Better Transport, Northern Irish Consumer Council. Group was set up following a proposal by the Secretary of State to engage with the main consumer groups. Aim of the meetings was to discuss the steps the Department was taking to benefit consumers considering the impact of Covid-19, and to ensure the Department understands the issues of most interest to consumers.

DATA, MODELLING, ADVICE AND ANALYSIS

Use of Data

432. Starting from the early stages of the pandemic, the Department's Analysis and Science Directorate began to coordinate data inputs across different modal teams within the Department for Transport. A sample summary list is included at BK/225 – INQ000049237. The data gathered would then be fed into a draft data pack used to brief the Cabinet Office and enable the preparation of slides for the Government's televised evening briefing. Initially, data packs would be provided as often as two or even three times per day, but this eventually settled down to a daily then weekly process. Publication of the weekly indicator table continues to this day.

433. Modal teams also had support from analysts that were embedded in their teams. These roles provided advice and guidance to support teams as they developed specific interventions, helping with strategic business cases and providing insights on the impact to the country if a company no longer existed.

434. The key sources of data used by the Department for Transport were:

a) Transport use data and statistics The Department produces statistics on domestic transport; road traffic, rail passenger journeys, Transport for London tube and bus travel in Great Britain (excluding London) each day. This data is all published and publicly available.
b) Data from Transport operators and key industry groups – Modal teams were regularly engaging with industry and receiving data and intelligence.
c) Social and Behavioural Research – The Department's Social and Behavioural Research team sits alongside the Office for Science as part of the Central Research Team, and within the Analysis and Science Directorate. Throughout the pandemic Departmental officials provided advice on people's behaviour to inform the Department's response to the Covid-19 pandemic. The team also developed social research trackers on travel and intention to travel which were published publicly.
d) Market Intelligence – Desk monitoring of media and news stories related to the transport sector.
e) External Data Sources – Examples of other sources of data used by the Department, included flight schedules and flight traffic data, Civil Aviation Authority data, Advanced Passenger Information data, collected and managed by the Home Office, HMRC ferry manifest data, data on bookings, maritime industry indices such as average container

earnings and data from the Baltic Exchange Dry Index.

435. I exhibit to this statement some examples of the modal and cross modal data packs that were produced by Department analysts during the pandemic:

a) Maritime Restart and Recovery Data Pack – Exhibit BK/226 – INQ000595578
b) Passenger Demand Scenarios- Exhibit BK/227 - INQ000623328
c) Aviation Weekly Trends- Exhibit BK/228 – INQ000595467
d) Aviation Commercial Indicators-Exhibit BK/229 - **INQ000623335**
e) Rail Group – Exhibit BK/230 – INQ000623327
f) Cross modal data trends - Exhibit BK/231 – INQ000610345

436. The Department developed new sets of data to respond to the pandemic. Examples of this included:

a) Data collection on the cruise industry, monitoring outbreaks on domestic cruises to assess whether cruise restart internationally would be safe. An example of this data pack is provided at Exhibit BK/226 – INQ000595578.
b) Teams undertook sharing agreements to access Ferry Manifest Data (HM Revenue and Customs owned data) and Advanced Passenger information (Home Office owned data) via a Palantir tool (Cabinet Office led, and various Departments, including the Department for Transport, funded), this allowed live access to passenger and freight data of improved temporal granularity.
c) Data collection from ports, which pre-pandemic was undertaken on a quarterly basis, was increased to weekly to monitor freight movements through major UK ports. This happened at the beginning of the pandemic but was later stopped when access to other Government datasets was made available and served the purpose of monitoring freight – particularly Heavy Goods Vehicles this reduced the reporting burden on ports.
d) Pre-pandemic, bus travel data relied on surveying bus operators quarterly. During the pandemic, the Department worked with Ticketer, a company that supplies most smart ticketing systems to buses throughout the UK. The electronic ticketing machines record how many passengers board each bus, along with information on timings and location. Departmental officials were able to analyse these data to provide hourly estimates of travel patterns. Stagecoach (who are the only large operator to use machines from a different supplier) supplied data directly to the Department. This meant that the Department had data on patronage trends within 24 hours.
e) The Department already accessed an aviation delays and cancellations dataset via open procurement. During the pandemic, the Department procured an additional

bespoke dashboard to monitor live how many flights at different airlines and airports were being cancelled (because airlines didn't have enough staff back to run flights at the time) in Summer 2022.

f) From June 2020, there was a requirement that everyone entering the UK should complete a Passenger Locator Form before entry. Passenger Locator Forms provided data on exemptions and vaccination, and compliance.

g) The Department also commissioned additional work to support and understand the economic contribution of transport sectors. An example is the '*Developing a Framework for the Local Economic Impact of Airports'* undertaken by York Aviation in 2020 and published publicly.

437. There were some areas where gaps in data were identified. These were:

a) Understanding indirect routes, and transfer passenger movements, into and from the UK from areas with high rates of Covid-19. No single data source covered indirect routes, and officials had to connect flight data with departing passenger survey data. The Civil Aviation Authority assisted officials to match flights data to major hub airports to understand indirect routes.

b) Comparisons between the UK and other countries – in particular European countries. Although some information was available through Eurostat[20] or Eurocontrol[21], this was relatively limited and time-lagged in comparison to the borders data.

c) Understanding journey purposes during the pandemic. Pre-pandemic, the Civil Aviation Authority undertook a departing passenger survey. This was cancelled during the pandemic, and the main source of journey purpose data was lost until the survey was restarted in 2022.

d) Initially, there was only high-level information around the proportion of costs that were related to business rates, primarily from conversations with airports, to develop the Airport and Ground Operations Support Scheme. This dataset was improved after the first Scheme thanks to the data required to apply to the scheme, and this was used to refine the Scheme for later iterations.

Reviews of Data

438. The Department has not carried out a formal review of its access to data, advice or analysis during the pandemic. However, learning from the pandemic response has been built into the Department's use of data. As set out above, the Department has continued to produce datasets that were first developed during the pandemic.

[20] Eurostat is the statistical office of the European Union, responsible for publishing Europe-wide statistics and indicators.
[21] The European Organisation for the Safety of Air Navigation, commonly known as Eurocontrol.

439. Reviews of individual data sets have been undertaken at a local level. For example, the maritime team undertook a review of analysis team's short-term demand model for short-sea leisure passenger journeys, comparing model projections with actuals between October 2021 to December 2022. A summary of this evaluation is exhibited at BK/232 – INQ000595592.

440. Aviation analysts frequently reviewed the demand estimates for the aviation sector. This enabled analysis to account for the latest policy developments, trends in travel demand, and actuals data. This permanent process of review ensured the analysis reflected the latest developments when traditional approaches were not appropriate. The Department's aviation demand analysis was used by HM Treasury, Cabinet Office, The Department for Culture, Media and Sport, and Department for Business, Energy and Industrial Strategy to better understand the health of the sector. This analysis was eventually utilised in the published 2022 *Jet Zero Strategy*.

Monitoring

441. The Department developed various products to monitor the impact of the pandemic on different transport modes. Modal teams monitored the impact of the pandemic on their sector, from direct engagement with companies they were speaking to, as well as tracking media and industry reporting. Regular updates were provided to Ministers, with maritime and aviation reporting being provided daily throughout April 2020. Updates were then provided weekly, then reduced to monthly. Examples of this reporting is exhibited at BK/233 - INQ000623270 and BK/234 - INQ000623278.

442. The central Corporate Finance team also set up sector monitoring systems for each sector and would engage with modal teams requesting summaries of the latest financial positions of relevant companies (see Exhibit BK/014 – INQ000623326). Corporate Finance also created a central watchlist of companies the Department was concerned about (see Exhibit BK/235 – INQ000595570). From April 2020 onward Corporate Finance formed Programme Management office and produced a tracker of all financial interventions, exhibited at BK/236 – INQ000623280, and this was presented at regular Investment, Portfolio and Delivery Committee meetings throughout the summer of 2020.

443. The Department's monitoring was also reported cross-Government to HM Treasury, Cabinet Office and the Department for Business, Innovation and Skills so that Government had a full picture of the impact of the Covid-19 pandemic on industry. The Aviation Indicators pack, exhibited at BK/229 - **INQ000623335** started in April 2022, was also shared with HM Treasury and UK Government Investments as part of the wider commercial engagement.

International Comparisons

444. The International Comparators Joint Unit assessed the UK's response to the pandemic in relation to international comparators and produced helpful analysis which Departmental officials used to make relevant comparisons for the transport sector[22]. This was particularly useful for monitoring international travel restrictions. For example, in March 2021 the International Comparators Joint Unit assessed that England's measures were of 'medium stringency' in line with Canada and Israel, but stricter than the European average, with countries such as Germany, France as the USA classed as 'lower stringency'. This is exhibited at BK/237 - INQ000527771. By September 2021, the assessment had changed to mark England's measures as 'lower stringency', in line with the USA, France and Germany. This assessment is exhibited at BK/238 - INQ000527783.

445. In relation to the economic response to the pandemic, Department for Transport officials monitored the measures being implemented internationally and provided information on comparators in updates to Ministers. An area that was particularly relevant was how other Governments were supporting their respective aviation sectors internationally. Exhibits BK/239 – INQ000623296 and BK/240 – INQ000622818 provide examples of how this information was used in briefings provided to Ministers.

How advice was provided to Ministers

446. Information and advice were usually provided to the Secretary of State, and Junior Ministers, via the submissions process, which I explain in more detail at paragraph 32 earlier in this statement. Policy teams would usually lead on drafting of submissions, with analysts embedded in policy teams contributing analytical advice or data as required.

447. Alongside formal advice, Ministers also received regular reporting on the economic impacts of the pandemic on the transport sector and commissioned their own advice. For example, on 4 March 2020 the Secretary of State requested a full economic impact paper setting out to the Covid-19 impacts on all relevant sectors, including revenue losses, insolvencies and mitigations that the Department could provide and what the Department for Business, Energy and Industrial Strategy and HM Treasury could do to support. This work was used to support a briefing for the Secretary of State ahead of a Ministerial COBR on 9 March 2020, where the Secretary of State was briefed to highlight the potential severity of the economic impact of Covid-19 on the transport sector, see Exhibit BK/241 - INQ000623263.

[22] Established in April 2020 by the Foreign, Commonwealth and Development Office and Cabinet Office, the International Comparators Joint produced analysis on international responses to the pandemic.

Role of Corporate Finance

448. Corporate Finance, which sits in the Corporate Delivery Group played a key role in supporting modal teams in engaging with the transport sector regarding their commercial response. The Corporate Finance team had advisors in the following modes: Aviation, Buses, Maritime (shipping, manufacturing, logistics), Maritime (ports, lifeline, cruise), Road Freight (including motorway service areas), Transport for London, International Rail, Local Infrastructure (Streetlighting and Highways Maintenance) and Trams. This was particularly true at the start of the pandemic, before the cross-Government support packages were announced by HM Treasury in March 2020.

449. The Corporate Finance Advisory team is part of the Corporate Finance Directorate and supports teams across the Department for Transport by advising, assuring and, in some cases, leading on a range of commercial issues including private investment models in infrastructure, PFI portfolio, asset sales, restructuring/company failures, and market monitoring.

450. The team is structured with each Deputy Director having responsibility for a mode/set of modes. Then members of their teams were allocated a portfolio to manage, and they would work with those teams by providing advice, commenting on advice to ministers and reviewing business cases. In addition, Corporate Finance can also present at relevant Boards if required, for example they provided an update to Investment, Portfolio and Delivery Committee on Covid-19 intervention planning on 9 July 2020, see Exhibit BK/242 – INQ000623325. The paper provided a summary of the impact of Covid-19 across the transport modes, the financial interventions and the next steps being taken by the Department. It also set out the potential risks that could arise during the rest of the financial year.

External Advice

451. Where necessary, the Department would procure external advice, and throughout the pandemic commercial specialists supported the Department's economic response to the pandemic. Corporate Finance Teams managed the process for recruiting individual external secondees who then worked with modal teams and procured external financial advice. Corporate Finance also collaborated across government, supporting modal teams to work with UK Export Finance and UK Government Investments (UKGI).

452. One example of where the Department successfully utilised external advice is the example of Aviation Teams working with Rothschild representatives embedded in their teams and supported the engagement with airlines on behalf of the Department. Alongside Rothschild, the Department carried out external engagement with industry, meeting with senior stakeholders every three months to monitor the impact of the pandemic on the sector. This work continued for two years, and the engagement enabled the Department to build knowledge of the financial operation of aviation companies. As set out at paragraph 514a, this commercial capability is an area that has continued since the pandemic.

Equalities Considerations

453. The Inquiry has asked me to set out how the Department considered inequalities in relation to funding schemes during the pandemic.

454. Many of the financial interventions undertaken by the Department were to provide grant funding to keep essential services running rather than directly delivering the service. The Department's focus was on maintaining transport services. This included preserving important community transport links. A number of these interventions had equalities impact considerations, which I set out below.

London Funding

455. My Accounting Officer Assessments for the Transport for London funding packages considered the impact on vulnerable Londoners should the Government not intervene to support Transport for London to keep the London transport system running. It was considered that there would be a negative impact on the most vulnerable economically (i.e. people who are unlikely to have alternative means of transport and jobs that cannot be done remotely) if Transport for London services reduced or stopped altogether.

456. Whilst some of those needing to travel to work or undertake other essential travel would be able to travel by car, 46% of households in London do not have access to a car. Car ownership is also lower amongst women and amongst ethnic minorities. Any disruption would disproportionately impact on these protected groups. Similarly, any reduction in services would have reduced the ability to social distance on services and therefore could have increased transmission rates for the most vulnerable.

Bus and local transport services

457. Equality considerations were particularly relevant in relation to bus, rail and light train funding schemes. In those schemes there was engagement with key industry stakeholders to ensure appropriate service levels and socially necessary services were provided for key workers and for the public. The impact on rural communities was a particular consideration. These services were particularly important to those groups who rely most heavily on bus travel, including women, those aged under 30, or 70 and over, and those in low-income households. A proposal for bus recovery funding, exhibited at BK/243 – INQ000595589, recognised that bus passengers are more likely to be in the lowest socio-economic groups, who are in turn more likely to be unable to work from home.

458. As the pandemic developed, and the UK's vaccination programme progressed, buses were an important transport link for those attending appointments without access to a car. This

was particularly important for older people, who were prioritised for early vaccination, as they were one of the groups who relied on bus travel.

Island Communities

459. I have discussed the support given to island communities earlier in this statement. The Department's support for lifeline ferry services was considered essential to protect the public health of UK islander communities. An interruption to lifeline service operations would have impacted the capability of emergency services across the islands and the mainland to respond to the current outbreak. Islander communities are often not equipped to carry out critical healthcare services on their own, particularly in emergencies.

460. A particular consideration was the older age profile of UK islanders. Approximately 22% of residents across the Scottish Islands, Isle of Wight and Isle of Scilly are over 65, an age group representing 16% of the overall UK population. Islander communities also have more 80-plus residents than the UK average, presenting a higher likelihood of Covid-19 related fatalities compared to the rest of the country.

National Rail Contracts

461. The introduction of National Rail Contracts was used as an opportunity to consider access to rail travel for disproportionately impacted groups. For example, some people who share protected characteristics are less likely to use smart ticketing products, so the Contracts contained provisions ensuring that that Train Operating Companies met the needs of people who cannot access or use smart ticketing technologies. This rationale was set out in the Equalities Impact Assessment exhibited at Exhibit BK/244 - INQ000595497.

462. The Department for Transport did consider disproportionately impacted groups more generally throughout its domestic response to the pandemic in other areas outside the economic response. As examples, the Department identified taxi and public hire vehicle drivers as a disproportionally impacted group, due to their close proximity to passengers, and provided guidance to enable them to mitigate risks when operating services. The Department also ensured that the safer transport guidance, for both transport operators and passengers, considered the needs of vulnerable groups. I would be happy to provide the Inquiry with further information on this work as part of this Module, or in Module 10.

MEETINGS AND USE OF INFORMAL MEANS OF COMMUNICATION

Meetings

463. The Inquiry has asked me to identify core meetings within the Department for Transport where economic interventions were discussed. Interventions were primarily discussed via the Department's existing governance structures. An organogram of the Department's governance structures is exhibited at Exhibit BK/016 – INQ000595564.

464. Ministerial meetings on the economic response to the pandemic would usually be via cross-Government structures, such as the Ministerial Implementation Groups, set out at paragraph 65. Ahead of these meetings Departmental officials would provide written briefings to Ministers.

465. It is probable that additional discussions at a political level did take place between the then Secretary of State, other Ministers and Special Advisers. Departmental officials would not have been privy to these meetings and therefore I am unable to confirm the extent of such discussions during the pandemic.

Department for Transport Board

466. The Departmental Board is an advisory body that supports and challenges both the Department for Transport's Ministers and the Principal Accounting Officer. The Board does not decide policy or exercise the powers of Ministers. Policy matters are decided by Ministers on advice from officials, which is provided through the submissions process, as set out in paragraph 32.

Executive Committee

467. The Executive Committee is a subcommittee of the Departmental Board. It has the following responsibilities:
    a) Shaping strategic policy
    b) Identifying and managing risks
    c) Overseeing financial strategy
    d) Delivering policy and business plans and reporting arrangements to track progress on important items

468. I chair Executive Committee, and other members include the Second Permanent Secretary, relevant Director Generals, Directors and the Chief Scientific Advisor. Executive Committee

meets weekly, and this remained the practice during the pandemic, but extra sessions of Executive Committee were convened as required.

Investment Portfolio and Delivery Committee

469. The Investment, Portfolio and Delivery Committee is a subcommittee of the Departmental Board. It usually meets fortnightly and has delegated authority to provide oversight, challenge and scrutiny of DfT's Tier 1 programmes and projects. These are the most significant and complex projects and programmes in terms of size, scale and investment that the Department is tasked with delivering. They are typically projects above £100-200m, or over £500m for major rail and roads schemes. It also approves recommendations to ministers and the Accounting Officer at significant approval stages in the life cycles of these programmes and projects.

470. I usually chaired the Investment, Portfolio and Delivery Committee during the pandemic, with membership including relevant Director Generals, Directors for finance, analysis, strategy and commercial, and two Department for Transport Non-Executives.

471. The Investment, Portfolio and Delivery Committee is also responsible for scrutinising the Tier 2 investment Boards. During the pandemic the Tier 2 Boards were:
    a) Rail Tier 2 Investment Board
    b) Major Rail Projects Tier 2 Investment Board
    c) Roads and Local Investment Committee
    d) Aviation Maritime International and Security (AMIS) Tier 2 Investment Board
    e) Corporate Delivery Group
    f) Decarbonisation, Technology and Strategy

472. Guidance on the different boards and process for applying for funding was provided to teams through the Department for Transport Investment Approvals Framework, see Exhibit BK/245 – INQ000595558. Before Covid-19 the Investment, Portfolio and Delivery Committee met every two weeks, this moved to weekly during the pandemic to ensure that the Department could respond effectively to emergency funding agreements and fast paced procurement requests. Post pandemic, the Investment, Portfolio and Delivery Committee meetings has resumed its fortnightly rhythm, but every alternate week is retained for emergency use.

473. I outline in the chronology examples of when funding schemes were brought to the Investment, Portfolio and Delivery Committee. Some key examples are:
    a) Transport for London – Example exhibited at BK/246 - INQ000610337
    b) Support for the rail sector- Example exhibited at BK/247 - INQ000623265

c) Light rail - Example exhibited at BK/248 - INQ000595435
d) Airports and Ground Handling Support Scheme- Example exhibited at BK/249 - INQ000622850

474. The Committee did consider different options for interventions. For example, in Accounting Officer Assessments exhibited at BK/250 - INQ000608219 and BK/099 - INQ000595496, alternatives options would be outlined. However, as covered in the statement, often there was only one viable course of action and largely there was not disagreement on the approaches to take. The implications of decisions taken at Investment, Portfolio and Delivery Committee would then be set out to Ministers as part of the submissions process.

Group Audit and Risk Assurance Committee

475. In addition to the Investment, Portfolio and Delivery Committee and the Tier 2 Board, the Group Audit and Risk Assurance Committee supports the Principal Accounting Officer and the Board the Board in carrying out its oversight responsibilities in relation to financial and internal control, risk and governance, financial reporting, internal audit and assurance programme and external audit. Group Audit and Risk Assurance Committee is also responsible for the Department's Annual Reports and Accounts. It is chaired by Non-Executive Director, Richard Keys, and now meets approximately 6 times a year. During the pandemic the Group Audit and Risk Assurance Committee met every 3 months.

476. The Group Audit and Risk Assurance Committee supports delivery of the Department's programmes by overseeing the:

a) strategic processes for risk management, internal control and governance arrangements
b) performance of Government Internal Audit Agency audit and assurance plan
c) acceptability of the Department's Annual Report and Accounts.

Risk Committee

477. The Risk Committee is a formal sub-committee of the Executive Committee. It supports and advises the Executive Committee on assurance of risk management and helps strengthen the Department's risk management maturity and embeds effective risk management across the entire department, including its agencies. The Committee meets monthly and reviews each Group's risks and risk management, which is then shared with the Executive Committee. It played a more prominent role during Covid-19, where it held specific management information sessions and discussed risks that were raised there. For decisions made at senior official led meetings, particularly the Department's Investment, Portfolio and

Delivery Committee, this review of risks would form part of submissions and steers would be included as part of a submission.

478. The Department's governance meetings, as set out above, are not recorded verbatim or digitally, although minutes are recorded. Example minutes of key meetings are set out in the accompanying chronology at Exhibit BK/001 - INQ000654247.

Use of informal or private communications

479. Senior Departmental officials and Ministers, including myself and the Secretary of State for Transport, Rt. Hon. Grant Shapps, did make use of informal communications, such as WhatsApp groups, during the pandemic. However, significant decision-making on design, implementation and delivery of economic interventions did not take place via WhatsApp messaging.

480. As set out throughout this statement, the financial decisions taken were usually made via the submissions process and/or considered at senior governance meetings- such as the Department's Investment Portfolio and Delivery Committee. In developing this statement my officials have been able to locate advice and formal readouts (as provided in the chronology exhibited at BK/001 - INQ000654247 for economic interventions, as well as my Accounting Officer Assessments, which indicate that decisions were made via formal channels.

481. On occasion, usually because of urgency, the Secretary of State would send feedback via WhatsApp to his Private Office. The Private Office would then share this feedback via official channels- usually by email, of which there is a record. The Private Office WhatsApp chats have also been retained. However, as set out above, significant funding decisions would not have been made this way as they would have required formal governance.

Retention Policies

482. The Department has a published Information Management Policy which is available to all staff on the intranet. The published version at the start of the pandemic was dated August 2019 and I exhibit this guidance at Exhibit BK/251 - INQ000595357. While the policy did not specifically mention WhatsApp by name, it covered the use of digital messaging tools, which encompasses WhatsApp. The policy asked staff to consider whether information was of corporate value, regardless of the device or format, and reminded staff that some applications available on their devices were not suitable for managing information of corporate value.

483. Following the announcement of the Covid-19 Inquiry in May 2021, the Department began to undertake preparations to ensure relevant documentation was retained. In July 2021 all Directors were sent an email, exhibited at BK/252 - INQ000595519, sharing guidance on retaining information to aid the Department's response to the Inquiry. The guidance included a reminder that any written documentation relating to official business may be required to be disclosed, and that this included WhatsApp messages. This guidance is exhibited at Exhibit BK/253 - INQ000595520.

484. Ministers were also informed of the need to retain documentation in February 2022. I exhibit the information that was shared with the Secretary of State at BK/254 - INQ000595540 and BK/255 - INQ000595619.

485. In preparation for the Inquiry, the Department identified a group of individuals classed as 'key decision makers'. This was a group of senior officials, who either sat on the Department's Executive Committee during the pandemic, or were considered to have held particularly key positions in the Department's response. These individuals were contacted in May 2022 to inform and asked to take steps to save all relevant information from any device or application, including WhatsApp, whether held on a work or personal device. In April 2023, a further communication was sent to these individuals, with a reminder to ensure they have taken steps to secure any material that may be within scope of the Inquiry, specifically WhatsApp messages.

486. In March 2023, the Cabinet Office published new guidance on using non-corporate communication channels (e.g. WhatsApp, private email, SMS). This guidance is exhibited at Exhibit BK/256 - INQ000595577. The Department for Transport subsequently updated its Information Management Policy to include the updated guidance, which I exhibit at Exhibit BK/257 - INQ000595566.

FRAUD AND RISK

Fraud

487. The Department adopts a zero-tolerance culture in relation to acts of fraud, bribery and corruption, and all reported instances are investigated fully. Where appropriate, disciplinary and/or legal action is taken, in line with Cabinet Office guidelines. The Department works closely with Government Internal Audit Agency to investigate cases of fraud, bribery and corruption, and to engage with Cabinet Office, and senior counter fraud managers from its public bodies, in identifying risks, sharing good practice and dealing with detection activity. Cases of fraud, bribery and corruption are published and reported to Cabinet Office externally and reported to Group Audit and Risk Assurance Committee internally.

488. To build capability and awareness during the pandemic, the Department published counter fraud advice for staff advising that they remained vigilant to new and emerging threats and produced guidance on areas that may be at greater risk to fraud that staff should be aware of, see Exhibit BK/258 - INQ000595591.

489. From March 2020 the Department worked collaboratively with key stakeholders, including the Cabinet Office and other Government Departments, to help manage new and emerging fraud risks from the response to the Covid-19 pandemic. The provision of emergency relief and services created an inherent risk of fraud which resulted in the Department developing a clear action plan of activity to mitigate the risk. This included targeted activity to understand any changes to the risk profile, by undertaking fraud risk assessments for high-risk grant areas. Awareness of this issue was raised throughout the Department and its public bodies to make sure control procedures were reviewed and assessed for continuing effectiveness.

490. Fraud risk assessments were undertaken for grant areas assessed as high risk and awareness raised across the Department to make sure control procedures were reviewed and assessed for continuing effectiveness. Fraud Risk Assessments and additional due diligence was prioritised for Covid-19 schemes to help identify risks and any fraud and error loss to the Department. Where necessary, funding schemes were approved by external boards such as the Industrial Development Advisory Board or the Complex Grants Advice Panel. Funding schemes could also include clauses around claw back, to ensure that the Department was providing value for money to the public.

491. Fraud Risk Assessments were completed for the following schemes:
   a) Covid-19 Bus Service Support Grant (various schemes)
   b) Bike Repair Grant
   c) Ferries: European Routes and GB to NI Grant

d) Talent Retention Solutions Aviation Clearing House Grant
e) Airport Ground Operations Support Scheme

492. The Department's counter fraud team worked with policy teams to assess which grant schemes might be vulnerable to fraud or error, given the Department's need to administer grants to vendors at pace. As a result, the grants included in the post event assurance action plan (provided at BK/259 - INQ000622860) were deemed to be at risk. There were no fixed criteria for identifying high-risk grants; instead, the decision to conduct a Fraud Risk Assessment was informed by ongoing discussions with policy teams and the Government Internal Audit Agency, while considering factors such as grant values, volumes, delivery routes, and overall risk profiles.

493. The post-event assurance plan sets out how specific risks were mitigated. To provide some specific examples:

a) Covid-19 Bus Service Support Grant- The Spotlight due diligence tool was used for all claims and was cross-matched against existing Bus Services Operators Grant data to ensure an operator's license number corresponded.
b) Bike Repair Grant- The Spotlight tool was utilised to undertake pre-payment checks on businesses registering for the scheme. For every claim a VAT receipt had to be uploaded confirming cost, and the cost of the claim was cross-checked to ensure these correspond. There was a checklist developed to be assessed for every claim (business details match, description of work in line with eligibility criteria, photo of bike matched description from customer).
c) Airport Ground Operations Support Scheme- Applicants had to provide invoices and bank statements to evidence how they have spent the grant. This was required on a quarterly basis until the grant has been fully used and the evidenced deemed satisfactory. Costs could also be referenced against prior year actuals if there are concerns over the spend.

494. Following the pandemic there is an expectation for Senior Responsible Owners to maintain Fraud Risk Assessment at a detailed level against all new grants or project spend to allow them to explore specific fraud risks and the organisation's resilience to them, and also to steer the Department's assurance mechanisms to target our highest fraud risks.

Risk Management

495. The HM Treasury *Orange Book: Management of Risk – Principles and Concepts,* exhibited at Exhibit BK/260 - INQ000595554, is the key document setting out the framework for risk management in the UK Government. The framework is intended for all organisations that fall

within the scope of *Managing Public Money* which includes non-departmental public bodies, executive agencies as well as main Departments.

496. The Department has a Central Risk Team who have oversight of risk management and who own the Departmental Risk Policy (see Exhibit BK/261 - INQ000655304), which is reviewed every three years. The Team also provides regular risk training for teams across the Department. The Department's approach to risk is structured to include:

a) Risk identification and assessment to determine and prioritise how risks should be managed.
b) The selection, design and implementation of risk treatment options that support achievement of intended outcomes and manage risks to an acceptable level.
c) The design and operation of integrated, insightful and informative risk monitoring.
d) Timely, accurate and useful risk reporting to enhance the quality of decision-making and to support management and oversight bodies in meeting their responsibilities.

497. During the pandemic defining, assessing, and monitoring risks remained in line with the Department for Transport's Risk Management framework, except that risks were reviewed and discussed more frequently (weekly rather than monthly). The Team also provided regular updates to the Cabinet Office Safer Transport team and had well maintained action logs and governance reviews to ensure the right structures were in place.

498. Below I provide some examples of work undertaken to improve propriety, governance, controls, and due diligence during the Covid-19 pandemic.

Improving Governance

499. Governance arrangements in the Department were tightened to ensure that the Departmental Board and Executive Committee were updated on delivery, costs and strategic risks in Covid interventions. The Group Audit and Risk Assurance Committee provided challenge to ensure propriety, focus and management of risk. The Controls Network Group provided oversight and reviewed Covid related risks and delivery of controls and compliance. The Department for Transport Group Fraud, Error and Debt Group focused on specific fraud risks impacting the Department, shared best practice in handling fraud risks assessments and due diligence activity.

500. The Department's Investment Portfolio and Delivery Committee met 60 times during 2020-21 and 34 times in 2021-22, a notable increase over previous years due to the need to consider and scrutinise Covid-19 related interventions to support the transport system in a fast-paced

and dynamic environment, to ensure that every intervention was justified and met the tests of *Managing Public Money.*

Spending controls and managing Covid-19 interventions

501. The Department published financial control advice for staff as it was important to ensure financial controls were not compromised, which could have increased the risk of fraud and error. The Controls Network Group, comprising senior Subject Matter Experts from Corporate areas and Internal Audit, provided oversight and delivery of robust controls and compliance with HM Treasury, Cabinet Office, and internal controls during the Covid-19 pandemic.

Dealing with critical emergency payments and supplier relief

502. The Department for Transport's procurement process largely remained the same throughout the pandemic. Cabinet Office issued additional guidance reminding procurement teams of what was permissible under public procurement regulations, for example, when procuring goods, services and works with extreme urgency. This advice was outlined in Procurement Policy Notes, see Exhibit BK/262 - INQ000595366, BK/263 - INQ000595371, BK/264 - INQ000595422 which were published publicly.

503. A Supplier Relief Review Board (covering subject matter experts from Group Commercial, Group Finance and Corporate Finance) was established to ensure all applications for advance payments received across the Department were reviewed on a case-by-case basis, that the approach taken was consistent, and that robust due diligence activity was undertaken within the appropriate Business Unit, Executive Agency or Arm's Length Body in line with procurement Policy Note 02/20 (Exhibit BK/262 – INQ000595366) and Departmental policy and processes.

Managing grants and due diligence

504. During the Covid period the Department continued to support grant recipients and ensured the safe administration of grants, with appropriate measures put in place to mitigate against the increased risk of both fraud and payment error. Additional guidance was issued to policy teams to ensure they did not override internal controls in the administration of grants and in adhering to *Managing Public Money.*

505. Risks were assessed as part of the business case process and teams were directed that all funding options must have a risk management strategy, to ensure that all risks have been appropriately identified and managed.

506. The Department kept a record of all key decisions taken in relation to Covid-19 related grants. For example, details were kept of payments made in advance, payments suspended or where terms were relaxed or adjusted outcomes. This allowed the Department to make informed decisions on the prioritisation of fraud risk assessments and increased due diligence.

507. To help reduce losses from fraud and error, the Department for Transport used Spotlight, a Cabinet Office developed automated due diligence tool to support Departmental policy teams to quickly complete due diligence checks on large volumes of grant recipients.

Post Event Assurance

508. The Department for Transport's Financial Control and Counter Fraud Team (based in Group Finance) developed and implemented a Post Event Assurance Action Plan. This detailed activity to mitigate risk following a number of Covid-19 interventions which provided financial support to the transport sector and the provision of emergency relief. Details are contained in Exhibit BK/259 - INQ000622860. The Action Plan supported the Department's ongoing counter fraud activity and post event assurance work helped to minimise the risk of fraud and error in the Department.

509. The Plan provided details on the specific assurance activities around three key themes: Fraud Risk Assessments, Detection Activity and Building Capability and Awareness. It also introduced further due diligence and detection activity prioritised by risk (high volume of applicants or high value of spend) and for high priority areas (media attention). Fraud risk assessments were undertaken for high-risk grant areas and awareness was raised across the Department to make sure control procedures were reviewed and assessed for continuing effectiveness.

510. A range of internal (Finance Business Partners, Grant Managers, Grant Senior Responsible Owners, Policy teams) and external stakeholders (Cabinet Office, Government Internal Audit Agency, other Government Departments) were engaged to ensure delivery against the Plan. That provided assurance to me as Principal Accounting Officer on the propriety and regularity of payments related to the Department's Covid-19 support schemes.

511. The Department also published its own Fraud Risk Assessment policy in June 2022, exhibited at Exhibit BK/119 - INQ000623297.

LESSONS LEARNED

512. The Inquiry has requested information on any internal or external lessons learned exercises or reviews relevant to matters outlined in the Provisional Outline of Scope for Module 9, that the Department has commissioned and/or taken part in.

513. I have sought to cover relevant lessons learned throughout this statement as appropriate, however the Department for Transport has also been involved in several external lessons learned exercises. Those most relevant for the Scope of Module 9 are:

(a) March 2020 - Transport Select Committee – Response to the impact Covid-19 on aviation, rail, freight and supply chains and local transport priorities, see Exhibit BK/265 - INQ000595551.
(b) June 2020 – Transport Select Committee – The Impact of the Coronavirus Pandemic on the aviation sector.
(c) September 2020 - Transport Select Committee – Reforming public transport after the Pandemic
(d) March 2021 – Transport Select Committee – The Impact of the Coronavirus Pandemic on the Aviation Sector: Interim Report
(e) April 2021 – National Audit Office - A Financial Overview of the Rail System in England, see Exhibit BK/055 - INQ000595496
(f) July 2021 – Public Accounts Committee – Overview of the English Rail System, see Exhibit BK/266 - INQ000595557
(g) July 2021 – Public Accounts Committee – Covid-19: Cost Tracker Update
(h) March 2021 – Transport Select Committee - Impact of Covid on the coach industry
(i) April 2022 – Transport Select Committee – UK Aviation: Reform for take-off. Fifth Report of Session 2021-22
(j) July 2022 – Transport Select Committee – UK Aviation: Reform take-off. First Special Report of Session 2022-23

514. In addition to the formal lessons learned reports that I have referred to above, the Department for Transport has also conducted several exercises of a more informal nature in response to particular events or policy changes.

a) As set out at the beginning of this statement (at paragraph 19, prior to the pandemic the Department for Transport was not closely involved in the finances of individual companies- with the aviation and maritime sectors operating as private markets. The extensive engagement with companies during the pandemic developed Departmental knowledge of the financial operation of companies and enabled the

Department to build its commercial capability. Since the pandemic, teams have maintained this commercial engagement with industry, as this engagement demonstrated the importance of understanding the health of transport companies and the impacts of potential risks.

b) Following an internal lessons exercise in February 2025, the Local Transport Covid-19 Division, highlighted several improvements that could support future large-scale responses. This ranged from having clear role profiles and responsibilities and regular reporting on stakeholder engagement, see Exhibit BK/267 - INQ000595588.

c) The Department for Transport's Transport Resilience Division is currently developing a dedicated plan that outlines potential policy measures, anticipated impacts, and key operational considerations for a future pandemic. The Department is also improving how scientific evidence and advice is used to inform the Department's preparations for a future pandemic. The work is informed by internal lessons identified during the pandemic, as well as the findings of the ongoing Inquiry. As part of this, the Department is prioritising the establishment of a 'disease-agnostic' approach to pandemic preparedness, within the Department and the transport sector.

d) The Commercial Aviation Team produced an Airline Insolvency Preparedness Plan, setting out a proposed improved response to future economic crises, and incorporating lessons from the pandemic. The Plan was updated in 2025 and provides an overview of contingency options, communications, and operational response procedures that the Department for Transport should adopt if an UK Air Operator Certificate airline that has been identified as being at risk of failure, or the failure of an overseas airline with significant UK presence. It sets out the roles and responsibilities of each party involved, plus a list of predefined considerations and actions to take in the event of an insolvency, see Exhibit BK/268 - INQ000622859.

STATEMENT OF TRUTH

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 of its truth.

Signed: **Personal Data**

Dated: 14 October 2025