House of Commons

Work and Pensions and Treasury Committees

The Motability Scheme

First Joint Report of the Work and Pensions and Treasury Committees

Fifteenth Report of the Work and Pensions Committee of Session 2017–19

Thirteenth Report of the Treasury Committee of Session 2017–19

Report, together with formal minutes relating to the report

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Work and Pensions Committee

The Work and Pensions Committee is appointed by the House of Commons to examine the expenditure, administration, and policy of the Department for Work and Pensions and its associated public bodies.

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Contacts

All correspondence should be addressed to the Clerk of the Work and Pensions Committee, House of Commons, London SW1A 0AA. The telephone number for general enquiries is 020 7219 8976; the Committee's email address is workpencom@parliament.uk.

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Contacts

All correspondence should be addressed to the Clerk of the Treasury Committee, House of Commons, London SW1A 0AA. The telephone number for general enquiries is 020 7219 5769; the Committee's email address is treascom@parliament.uk.

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Summary

The Motability scheme is the brainchild of Lord Sterling of Plaistow, Lord Goodman, and the late Alf Morris (later Lord Morris). Since its creation, millions of disabled people have had their lives greatly enhanced by the mobility the scheme has granted them. The Motability scheme, designed by these gifted entrepreneurs, provides disabled people with access to a vehicle, in return for some of their welfare payments. This valuable service, which has a long and distinguished history, currently helps 629,000[1] disabled people live more independently. The people who lead the scheme and its associated organisations are clearly deeply invested in Motability's honourable objectives. Yet it is difficult to square the high levels of executive pay and significant financial reserves at Motability Operations, the company that runs the scheme, with its charitable objectives and the wider context of pressures on welfare expenditure. Motability badly needs a new roadmap for how it manages the scheme's finances.

Three organisations are involved in the scheme's delivery and oversight:

- Motability Operations, a company which buys and leases vehicles;
- Motability, a charity, responsible for oversight of the scheme and making grants in support of its objectives;
- Motability Tenth Anniversary Trust, also a grant-making charity.

None of the three organisations receives direct funding from Government. But Motability Operations is the only private organisation entitled to receive welfare payments for the leasing of vehicles. It has received this privilege from Motability without a competitive tender. The benefits it receives provide a substantial and reliable source of income. No other vehicle leasing company is dependent on public funding. Motability Operations—via the DWP—also benefits from substantial Value Added Tax (VAT) and Insurance Premium Tax advantages to which no other vehicle leasing company is entitled. Potential competitors cannot compete with Motability Operations. It is, in effect, a monopoly supplier sustained by public money.

The scheme's unique status imposes unique expectations on the organisations that run it. Motability Operations' reserves have grown continuously for the last 10 years, far faster than the value of the vehicles it owns, and stand at £2.4 billion. The company claims it needs large reserves because it cannot diversify its customer base or increase its prices. It is dependent on Department for Work and Pensions (DWP/the Department) policies for the continuation of its business model. But, given its privileged market position, its reserves are out of proportion to the risks it faces. Motability Operations could well afford to reduce its prices or make very substantially higher charitable donations.

While under no obligation to do so, Motability has committed £175 million in transitional support to scheme users previously on Disability Living Allowance (DLA) who would otherwise lose their vehicle following an assessment for Personal Independence Payment

1 As of September 2017

(PIP). It is clear the Department for Work and Pensions expected them to pay more, and indeed pressed Motability to extend its original transitional support proposal. Many claimants will be very glad the Department did so.

The Chief Executive of Motability Operations received total remuneration of £1.7 million in 2017. Motability Operations told the Committees it benchmarks its pay against FTSE 250 companies—though given its unique status and income, it is subject to few of the fundamental risks and challenges faced by such companies. As a private company, pay at Motability Operations is a matter for shareholders and board members. But given its government-conferred advantages and the wider context in which it operates, this level of reward is totally unacceptable.

Motability provides an extremely valuable service to disabled people. That should not, however, exempt it from scrutiny. The issues raised in this report merit further attention. We are therefore pleased that the Committees, DWP and Motability are all in agreement that the National Audit Office (NAO) should conduct a review of the scheme and the organisations running it. It is imperative that this inquiry has full access to information. The Committees recommend that DWP ask the NAO to carry out a review under s6(3)d of the National Audit Act 1983. Motability, given its privileged position, the absence of competitive tendering, its reliance on public funds, and the question marks over its approach, has a clear responsibility to accept. The Committees will consider the review's conclusions carefully.

1 Structure and governance

The Motability scheme

1. The Motability scheme is designed to provide people entitled to mobility welfare payments with access to a vehicle.[2] The scheme involves transferring an individual's mobility welfare payments to Motability Operations. The company provides the individual with a leased vehicle, usually for three years, along with insurance, maintenance and road-side assistance. Three organisations are involved in the delivery and oversight of the scheme:

- Motability, an independent charity, founded in 1977, responsible for the strategic direction and oversight of the scheme. The charity was co-founded by Lord Sterling of Plaistow and Lord Goodman, in conjunction with Alf Morris (later Lord Morris) in his capacity as Minister for Disabled People. Motability ensures that the scheme delivers a high level of service and value for its beneficiaries—disabled people—in a sustainable manner. It also makes grants in accordance with its objectives;[3]
- Motability Operations, a company established in 1978 to administer the scheme and assume the commercial risk of its operation. In this capacity, it enters into leasing contracts with customers, finances the purchase of vehicles, and manages other commercial matters such as insurance, maintenance and the sale of used cars.[4]
- Motability Tenth Anniversary Trust, an independent charity, established in 1989 to support Motability by making grants to scheme customers and investing in projects to support mobility needs.[5]

There are currently 629,000 disabled people using the scheme.[6] Many of those customers would struggle to purchase a vehicle without the service the scheme provides.

2. When summarising the success of the scheme over 40 years to the Committees, Lord Sterling, who remains Chair of Motability, explained that:

> It was an idea that began with how we might find a way of helping [disabled] people to be on the road.[7]

And that:

> Coming up towards the end of this year we will have put over 5 million cars on the road. We have looked after the mobility requirements of millions of disabled people and their families and friends, and put them on the road to freedom.[8]

2 All references to "vehicles" in this report refer to the cars, scooters and powered wheelchairs which Motability provide.
3 Correspondence from Motability Director, to the Chairs of the Treasury and Work and Pensions Select Committees regarding Motability submission, 16 March 2018, paragraph 1.4.1
4 Correspondence from Motability Director, to the Chairs of the Treasury and Work and Pensions Select Committees regarding Motability submission, 16 March 2018, paragraph 1.4.2
5 Ibid, paragraph 7.2
6 As of September 2017, Motability Operations Group PLC, Annual Report and Accounts 2017, page 24
7 Q13
8 Q12

3. The Committees launched an inquiry into Motability in light of concerns about the scale and size of executive pay and financial reserves at Motability Operations, the company that runs the scheme. These issues are addressed in greater detail in the subsequent chapters. Motability operates in the context of DWP decisions on benefit eligibility and resourcing. Those issues have not been considered in this report, but will be returned to by the Work and Pensions Committee.

4. **The Motability scheme is a valuable service. It has a long and distinguished history, currently helping 629,000**[9] **disabled people live more independently. Since its creation, millions of disabled people have had their lives enhanced by the mobility the scheme has granted them. The Committees recognise that there is an overwhelming need for disabled people to have affordable access to mobility aids. Many disabled people would struggle to access a vehicle without the service and advantages Motability currently provides. Ensuring disabled people remain able to access this social lifeline is of paramount importance. The Committees' concerns about the way the current scheme is run should not be taken as doubt over the need for such a service as a whole. The people leading the scheme and its associated organisations are clearly deeply invested in Motability's honourable objectives. Yet it is difficult to square the high levels of executive pay and financial reserves at the company that runs the scheme with its charitable objectives and the wider context of pressures on welfare expenditure. Motability badly needs a new roadmap for how it manages the scheme's finances.**

Motability Operations

5. In order to participate in the Motability scheme, members must be in receipt of one of the following specific mobility welfare payments:

- The Higher Rate Mobility Component of the Disability Living Allowance (DLA), paid at £60 per week depending on the effects of an individual's impairment or health condition on their mobility. In August 2017 there were 1,088,684 individuals in receipt of this allowance;
- The Enhanced Rate of the Mobility Component of the newly introduced Personal Independence Payment (PIP), paid at £60 per week. In August 2017 there were 699,176 individuals in receipt of this allowance;
- Either the War Pensioners' Mobility Supplement (WPMS) or the Armed Forces Independence Payment (AFIP).[10] In March 2017 there were 11,514 individuals in receipt of WPMS. In October 2017 there were 980 individuals in receipt of AFIP.

Of the 1.8 million people are in receipt of mobility allowances, one third lease a vehicle through the Motability scheme.[11]

6. If an eligible claimant wishes to lease a vehicle through the scheme, their mobility welfare payment is redirected to Motability Operations. The payments are transferred, at the recipient's request, directly from the DWP to Motability Operations, without being paid to the recipient first. In some cases, individuals will have to pay an additional sum of money upfront if their welfare payments are insufficient for the vehicle they wish to lease.

9 As of September 2017
10 Motability Operations Group PLC, Annual Report and Accounts 2017, page 4
11 Motability Operations Group PLC, Annual Report and Accounts 2017, page 4

In 2017, there were 360 models of vehicle which did not require an additional deposit over and above the welfare payments that a recipient was redirecting to Motability Operations as part of their use of the scheme.[12] Leases usually run for three years, unless a claimant loses eligibility for the qualifying benefit during that time.

7. Motability Operations is owned by four major shareholders, the four biggest UK retail banks: Barclays Bank, HSBC, Lloyds Bank and the Royal Bank of Scotland (RBS).[13] Motability Operations' Annual Report states that "shareholders have no entitlement to ordinary share dividends".[14] The Scheme Agreement between Motability and Motability Operations states that Motability Operations shall "remain a not for profit organisation, providing services to Customer within the terms of this Agreement; […] [and shall] not pay any dividend or other distribution to its shareholders".[15] The returns made by the banks through their ownership of Motability Operations are covered in chapter 3 of this report.

8. Motability [the charity] states that "any amounts [financial surpluses] not required [by Motability Operations] are transferred to Motability or to the Motability Tenth Anniversary Trust".[16] Since 2011, Motability Operations has donated £265 million to Motability the charity and £80 million to the Motability Tenth Anniversary Trust.[17]

Motability and Motability Tenth Anniversary Trust

9. Motability provides "charitable grants to disabled people who would not otherwise be able to afford the vehicle or adaptations they need".[18] These grants are principally funded from Motability Operations and from The Motability Tenth Anniversary Trust.[19]

10. The Motability Tenth Anniversary Trust is a separate registered charity. Its purpose is to hold and disburse funds to support Motability's charitable objectives. It does this principally by providing grants to existing, and prospective members of the scheme, and grants to other charitable organisations engaged in projects related to mobility for disabled people.[20] Motability states that the Trust's "principal charitable purpose means that its interests and Motability's are, to a large extent, aligned."[21]

11. None of the Motability parties, (Motability Operations, Motability, or the Trust) legally are in direct receipt of public funds.[22] Money does pass directly from DWP to Motability Operations, but this is a re-direction of individuals' money, rather than the Government choosing to allocate public money to the company itself. £2.2 billion (52

12 Motability Operations Group PLC, Annual Report and Accounts 2017, page 12
13 Motability Operations Group PLC, Annual Report and Accounts 2017, page 28
14 Ibid, page 26
15 Motability, Scheme Agreement, Clause 8.2.9
16 Correspondence from Motability Director, to the Chairs of the Treasury and Work and Pensions Select Committees regarding Motability submission, 16 March 2018, paragraph 1.6
17 Correspondence from Motability Operations Chief Executive, to the Chairs of the Treasury and Work and Pensions Select Committees regarding Motability submission, 16 March 2018, page 10
18 Motability, Annual Report and Accounts 2016–17, page 2
19 Ibid
20 Motability Tenth Anniversary Trust, Annual Report and Financial Statements March 2017, page 4
21 Correspondence from Motability Director, to the Chairs of the Treasury and Work and Pensions Select Committees regarding Motability submission, 16 March 2018, paragraph 7.4
22 Letter from Lord Sterling, Director, Motability, to Sir Amyas Morse, Comptroller and Auditor General, National Audit Office, 8 March 2018

per cent) of its revenue is generated from the sale of its vehicles once the vehicle's lease period has expired. The remaining £2 billion (48 per cent) of revenue is generated from individuals' welfare payments being paid to the company.

12. **Neither Motability Operations, Motability (the charity) nor the Motability Tenth Anniversary Trust receive any direct funding from Government. Motability Operations buys its vehicles, however, secure in the knowledge that Government welfare payments will provide—in the vast majority of cases—three years of secure funding to pay for the leasing of those vehicles. Motability Operations is heavily dependent on Government welfare payments for the continuation of its business model.**

Governance of the schemes

13. Motability Operations as a company is governed by a board of Directors. Both Motability and the Motability Tenth Anniversary Trust, as charities, are governed by Trustees. Lord Sterling of Plaistow is the Chairman of the Tenth Anniversary Trust, as well as being Chairman of Motability the charity. Sir Gerald Acher is on the Board of Trustees of the Trust and is Vice-Chairman of Motability. The three organisations are, however, legally separate, independent entities.[23]

14. Motability assesses the performance of Motability Operations against a set of "Key Performance Indicators (KPIs) related to customer service, value for money, affordability and sustainability, and service targets".[24] Motability receives monthly updates on performance against these KPIs. It also receives the same management information provided to Motability Operations' non-executive directors for monthly board meetings.[25]

15. Motability scrutinises the performance of Motability Operations directly at quarterly meetings. Motability told the Committees that:

- A Committee of four Governors, known as the Scheme Oversight Committee (SOC) and chaired by Motability's Vice-Chairman Sir Gerald Acher, meets quarterly. This Committee is supported by three members of Motability's staff: the Director, Finance Director and Scheme Oversight Manager;
- Each quarter, the SOC reviews Motability Operations' performance against the KPIs and appropriate actions are taken in the event of any shortfalls in performance;
- The CEO and Finance Director of Motability Operations attend SOC meetings in order to account for Motability Operations' performance.[26]

16. When awarding the contract for the administration of the scheme, Motability did not hold a competitive tender process. In its submission to the Committees, it stated it did not think this was in the scheme's best interests. Motability told the Committees that the "particular features" of Motability Operations' market mean that conditions under which

23 Correspondence from Motability Director, to the Chairs of the Treasury and Work and Pensions Select Committees regarding Motability submission, 16 March 2018, paragraphs 1.1.1, 7.1
24 Ibid, paragraph 2.6.1
25 Ibid, paragraph 2.6.4
26 Correspondence from Motability Director, to the Chairs of the Treasury and Work and Pensions Select Committees regarding Motability submission, 16 March 2018, 2.6.2

competition would drive good value and ensure competitive pricing "do not apply".[27] The absence of a competitive tender is covered in more detail later in the report at paragraph 24.

17. **Motability, the charity which oversees the scheme, attests that Motability, Motability Operations, and the Motability Tenth Anniversary Trust are separate, independent entities. Motability and the Tenth Anniversary Trust, however, both receive donations from Motability Operations when Motability Operations deem it has surplus resources. Motability—the charity—does not put its contract for the administration of scheme out to competitive tender. It also oversees the effectiveness of Motability Operations. Were these three entities fully independent of one another with full autonomy, it is unlikely that they would choose to donate their surplus reserves to one another, and it is unlikely they would choose to award contracts to one another without a competitive process. The Committees are not convinced that Motability, Motability Operations, and the Motability Tenth Anniversary Trust are separate, independent entities in practice. From the evidence the Committees have seen, it is difficult to see how the three organisations can reasonably maintain their independence of one another.**

18. **Both the Chairman and Vice-Chairman of Motability the charity are also the Chairman and trustee of the Motability Tenth Anniversary Trust. The two charities receive donations from the same source, serve the same purpose (helping disabled people access vehicles), and have the same leadership. It is unclear how the provision of donations from Motability Operations to the Charity over the Trust is decided, or why there is a need for two charities at all.**

27 Correspondence from Motability Director, to the Chairs of the Treasury and Work and Pensions Select Committees regarding Motability submission, 16 March 2018, paragraph B 1.1

2 Government support and absence of competition for Motability Operations

19. In his evidence to the Committees, Mike Betts, Chief Executive of Motability Operations, said that Motability Operations does not face competition for customers in the same way as other companies competing in a competitive market:

> This is where the scheme is unique. No, we do not compete for customers in the open market. It is solely the responsibility of Government to decide who is eligible for the scheme.
>
> […] In terms of competition, we regard ourselves as competing for people's disposable income. If they want a new car, it would be very difficult for someone to compete against us with our scale and with that assignment. However, thousands of people do buy used cars in private sales or thousands of outlets across the UK.[28]

20. Motability Operations estimates that leasing a vehicle using its scheme is "45 per cent cheaper" than sourcing a vehicle on the open market.[29] It is able to achieve this in part because of its scale, and in part because of two tax exemptions that Motability scheme users are able to access.

21. Under the Value Added Tax Act 1994, a motor vehicle leased to a disabled person who is in receipt of a mobility allowance can be zero rated, and therefore have no VAT levied. Furthermore, the first sale of an ex-lease vehicle as part of the scheme once it is no longer being used by a member can also be zero rated and therefore not subject to VAT.[30] In addition, under the Finance Act 1994, an insurance contract supplied to the person leasing the vehicle is exempt from Insurance Premium Tax (IPT).[31] The VAT exemption provides a 20 per cent discount on the value of the vehicle, and the IPT exemption provides a 12 per cent discount on the insurance element of leasing the vehicle.

22. HMRC wrote to the Committees explaining that these two tax reliefs are not limited to the Motability scheme, and that "any supplier who meets all the specified conditions can supply the lease to a qualifying person at the zero rate for Value Added Tax (VAT), or provide recipients insurance which is exempt from IPT."[32] However, in order for the reliefs to be applied, the individual hiring the vehicle needs to have their mobility allowance "transferred directly to the supplier by the DWP. Under current legislation, the DWP only has the power to transfer mobility allowance to Motability for these purposes."[33] Therefore in practice these reliefs can only apply to Motability Operations.

23. Section 44 of The Social Security (Claims and Payments) Regulations 1987 specifically identifies Motability Operations as the only company or charity with whom the Secretary of State for Work and Pensions "may arrange that any mobility allowance payable to the beneficiary shall be paid in whole or in part on behalf of the beneficiary".[34] Motability

28 Q22
29 Q23
30 Letter from Jon Thompson, Chief Executive, HMRC, 20 March 2018
31 Ibid
32 Ibid
33 Ibid
34 The Social Security (Claims and Payments) Regulations 1987, Section 44

Operations is therefore the only company with these advantages. Kerstin Parker, Deputy Director for Disability Benefits, DWP, told the Committees that the VAT exemption for Motability costs the Government between £600 million and £700 million per year, and the IPT exemption £55 million per year.[35]

24. Motability Operations therefore has monopoly access to tax reliefs that insulate it from external competition on the grounds of price, for the provision of vehicles to recipients of mobility payments. As noted in paragraph 16, it has also faced no competition when re-tendering to operate the Motability scheme on behalf of Motability the charity. The Committees wrote to Motability asking it to set out its "assessment of whether the awarding of this contract was on an arm's length basis."[36] In its response, Motability stated that it did not believe competition was appropriate when tendering its contract. It therefore chose not to hold a competitive tender:

> Competition is undoubtedly a means of driving value, and competitive pressure can help to ensure that services are priced competitively. However, this is only true where there is genuine potential for competition in the given market, and where competition ensures that all the customers in that market can be served. The particular features of Motability Operations' market mean that these conditions do not apply.[37]

In justifying this decision Motability stated that:

> Motability Operations' not for profit status enables it to reinvest profits in the scheme for the benefit of customers (principally through improved customer service, a wider and more comprehensive range of services, and value for money) [and] is able to provide the unique level of service required by disabled people and their families, and can also subsidise certain customers, for example customers requiring wheelchair accessible vehicles (WAVs) or adaptations, in a way that profit-distributing companies would find difficult, if not impossible.[38]

Motability further noted that "neither in 1996 nor in 2007 did the NAO recommend that the arrangements with Motability Operations be opened up to a tendering process".[39] This is not the case, however. The NAO's 1996 report stated that in 1994, Motability itself was of the view that "competitive pressure should be introduced in to Motability's relationship with all those supplying services to the scheme".[40] In the NAO's view, "open competition for the provision of administration and finance to the scheme would provide further assurance to Motability that the total cost of these services are reasonable."[41] In its 2007 follow up report, the NAO stated that its conclusion that "Motability should review the

35 Q128
36 Letter to Motability from joint Chairs, 7 March 2018
37 Correspondence from Motability Director, to the Chairs of the Treasury and Work and Pensions Select Committees regarding Motability submission, 16 March 2018, paragraph B 1.1
38 Ibid, paragraph B 1.2
39 Ibid, paragraph B 1.8
40 National Audit Office, Motability, 16 July 1996, Paragraph 3.60
41 National Audit Office, Motability, 16 July 1996, Paragraph 3.63

scope for increasing the level of competition for the financing and administration services provided by Motability Operations" had only been "partially met" in the intervening years.[42]

25. **Tax exemptions on vehicles make them affordable to many more disabled people than would otherwise be the case. To the extent that the tax breaks enable the provision of low cost mobility aids, they are an appropriate use of public money.**

26. **Potential rivals cannot compete with Motability Operations. This is because it receives substantial tax breaks from the Government to which no other company is entitled. Nor does it face any competitive pressure when tendering for the contract to run the scheme on behalf of Motability. Without any competitors on an equal footing, it is impossible to know whether disabled drivers would be able to access better loans elsewhere.**

27. **Through secondary legislation, the Department for Work and Pensions provides Value Added Tax and Insurance Premium Tax relief that is uniquely available to Motability Operations. It comes at a cost of around £700 million per year. Motability Operations does not have to competitively tender for this unique assistance from Government. For the Government to provide tax reliefs to one company alone, especially without requiring the company to competitively tender for such reliefs, makes it, in effect, a monopoly supplier sustained by public money. The Department for Work and Pensions must explain why providing such state assistance in the absence of competition is an appropriate use of public money.**

42 Correspondence from Motability Operations Chief Executive, to the Chairs of the Treasury and Work and Pensions Select Committees regarding Motability submission, 16 March 2018, page 53

3 Motability Operations' reserves

Accumulation of reserves

28. A company's equity or reserves are accounted for as the sum of all the company's assets, less its total liabilities. Motability Operations' latest set of accounts, dated 30 September 2017, show that Motability Operations had assets of £8.4 billion, and liabilities of £6 billion. It therefore had reserves of £2.4 billion.[43]

29. Of its £8.4 billion assets held at year end, £6.4 billion was made up of vehicles that it was leasing and £1.17 billion was held in cash. The remaining £0.8 billion was made up of various debts owed to the company and other negligible assets.

30. When the Committees asked Mike Betts, Chief Executive of Motability Operations Ltd, why Motability Operations had built up such a large cash reserves, he stated that this was not the case:

> The reserves are not cash. The reserves, right now, are being driven around in your constituencies or parked on driveways. We have to fund £6.5 billion-worth of cars. […] We had an abnormal cash balance. The cash is on top of reserves. The reserves are all in cars. This is an extra amount on the balance sheet that is cash. The cash balance at the year end was £1.168 billion.[44]

31. When the Committees challenged Mr Betts on this evidence, as to whether its cash balance was in addition to its "reserves"—which was in contradiction to Motability Operations' accounts—Mr Betts reiterated that the £1.16 billion in cash was held on top of its reserves. He went on to say that £425 million of the excess cash in the accounts at year end had been used in subsequent months to pay off bonds that were due to mature. The cash was "liquidity […] the reserves are the shock absorber, that is the £2.4 billion and that is invested in cars."[45]

32. Motability Accounts show that as at year end 30 September 2017, there were the following current liabilities which would be due to fall within one year:

Table 1: Motability Operation's current liabilities as at year end 30 September 2017

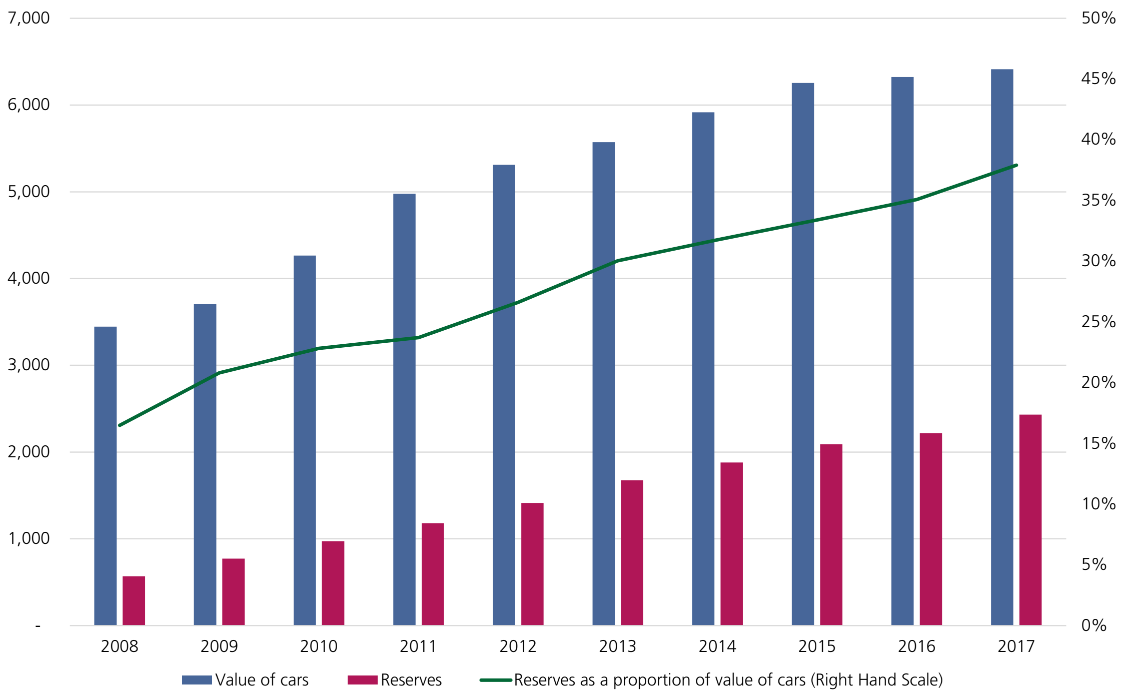
Category of liability	£'million
Financial liabilities	503
Insurance payables	338
Trade payables	250
Corporation Tax payable	16
Total	1,107

Source: Motability Operations Annual Report and Accounts 2017

43 Motability Operations Group PLC, Annual Report and Accounts 2017, page 62
44 Q31
45 Q32

33. Motability Operations' reserves have grown from £568 million in 2008 to £2.4 billion in 2017, a 328 per cent increase. During the same period, Motability Operations' vehicle pool grew in value from £3.4 billion to £6.4 billion, an 88 per cent increase. Therefore, Motability Operations' reserves as a proportion of the value of vehicles it owns have grown substantially over this period. This is shown in Chart 1 below:

Chart 1: Motability Operations Reserves (£ million)



Source: Motability Operations Accounts, from 2008 to 2017.

Risks of the business and necessity of reserves

34. Motability Operations justified its large reserves on the basis that they were necessary in order to maintain the sustainability of the scheme. It stated the reserves are in response to the unique risks the scheme faces due to its business model and constraints. Mr Betts stated:

> We cannot diversify out of our one product and one customer base. […] [due the targets set by Motability] If we do have some sort of shock, we cannot increase customer prices to recover.[46]

Mr Betts explained that the company is very exposed to second-hand car market retail prices and changes in the performance of the economy. He told us the effect that the 2008 financial crisis had on Motability:

> In 2008, used car values dropped 22 per cent. If that was to happen today that would cost us £1.1 billion. We have a £2 billion turnover in that highly

46 Q19

> competitive used-car market. […] We buy and sell 650 cars a day, seven days a week. That means we are turning over £14 million a day. If that starts to go wrong that can very quickly escalate into something quite bad.[47]

35. Motability Operations does not face credit risk from its customers, because the welfare payments that users of the scheme use to hire their vehicles are passed directly on to Motability Operations from government. This is acknowledged in Motability Operations' own accounts, which state:

> The Group's principal source of income is the Department for Work and Pensions, through the assigned allowances received by customers of the Group, and therefore the credit risk is considered to be very low.[48]

36. In March 2017, Motability Operations issued an eight year €500 million Eurobond with an interest rate of 0.875 per cent. In March 2017 eurozone inflation was 1.5 per cent,[49] meaning that the bond issued was providing a negative real rate yield to investors. Borrowing at such favourable rates would ordinarily be seen in companies or governments that are deemed to have a very low risk of default.

Dividend policy and charitable donation policy

37. The accumulation of reserves or equity in a business is a natural consequence of a company generating a profit year-on-year. If a company continues to make a profit over a sustained period of time, it will by default build up equity through its retained earnings or reserves. In most cases, a company will reduce this accumulated equity through the distribution of dividends to its shareholders. Due to Motability Operations' ownership structure, which rules out ordinary dividend payments, Motability Operations does not have the ability to reduce its equity or reserves through this method. Therefore, Motability Operations can only reduce its reserves by operating at a loss, or donating reserves. Motability [the charity] states that "any amounts [surpluses] not required are transferred to Motability or to the Motability Tenth Anniversary Trust".[50] As detailed in paragraph 8, since 2011, Motability Operations had donated a total of £345 million to Motability and the Tenth Anniversary Trust, 24 per cent of the £1.4 billion that it generated in profits over the same period. During the same period, its reserves grew from £1.1 billion to £2.4 billion.[51]

38. In its own submission to the Committees, Motability Operations stated that it makes an average of £338 per lease per year, or £1,014 per lease over the lease period.[52]

39. **Motability Operations' reserves have grown continuously year-on-year for the past 10 years. In part this reflects its ever-increasing pool of lease vehicles rising in line with a growing customer base, and vehicle price inflation. The value of the reserves as a proportion of the value of the vehicles owned has also increased substantially,**

47 Q19

48 Motability Operations Group PLC, Annual Report and Accounts 2017, page 96

49 Eurostat inflation database

50 Correspondence from Motability Director, to the Chairs of the Treasury and Work and Pensions Select Committees regarding Motability submission, 16 March 2018, A 1.6

51 Motability Operations Annual Report and Accounts, 2011 through to 2018.

52 Correspondence from Motability Operations Chief Executive, to the Chairs of the Treasury and Work and Pensions Select Committees regarding Motability submission, 16 March 2018, page 12

however, from 16 per cent in 2008 to 38 per cent in 2017. The continued growth in value of reserves may allow the company to raise finance at a cheaper rate. It is also seen as a very safe company to lend money to, which is to be commended.

40. **Motability Operations claims that its large reserves are necessary, owing to its inability to diversify from its single customer base or to increase prices. But, given its privileged market position, its reserves are out of proportion to the risks it faces. It has now generated reserves so large that, by its own admission, it could survive a similar sized financial crisis to that which occurred in 2008. Motability Operations could well afford to reduce its prices or make higher charitable donations.**

Returns made by the Banks

41. While no ordinary dividends are paid, as set out in Motability Operations' annual report, Motability Operations does pay out preference share dividends. However, these preference shares are redeemable. Therefore in line with accounting standards, these dividends are treated as interest rather than ordinary dividends. The partner banks own a total of £9.95 million of preference shares in Motability Operations, which pay a dividend of 7 per cent a year.[53] Therefore, £696,500 is paid to the partner banks each year in dividends, irrespective of financial performance.

42. In addition to the preference share dividend, the Scheme Agreement states that Motability Operations (previously known as Motability Finance Limited) "shall be permitted to pay a management fee of £150,000 per annum to each of the Partner Banks".[54]

43. As well as preference share dividends and fees, the banks receive interest income from the funds they lend to Motability Operations. The weighted-average interest rate on borrowings from the banks for 2017 was 1.2 per cent on bank loans of approximately £400 million as at the September year end.[55]

44. **The four retail banks that own Motability Operations receive a return on their investment each year of almost £700,000, plus management fees and interest. This payment—guaranteed come what may—should be seen in the context of years of sustained pressure on the welfare budget, particularly on benefits for disabled people. It does not sit comfortably with the Committees that the big four banks have made such significant profits from a virtually risk-free investment in a charitable scheme.**

53 Motability Operations, Annual Report and Accounts 2017, page 89
54 Motability, Protocol to the Scheme Agreement, Paragraph 8
55 Motability Operations, Annual Report and Accounts 2017, page 89

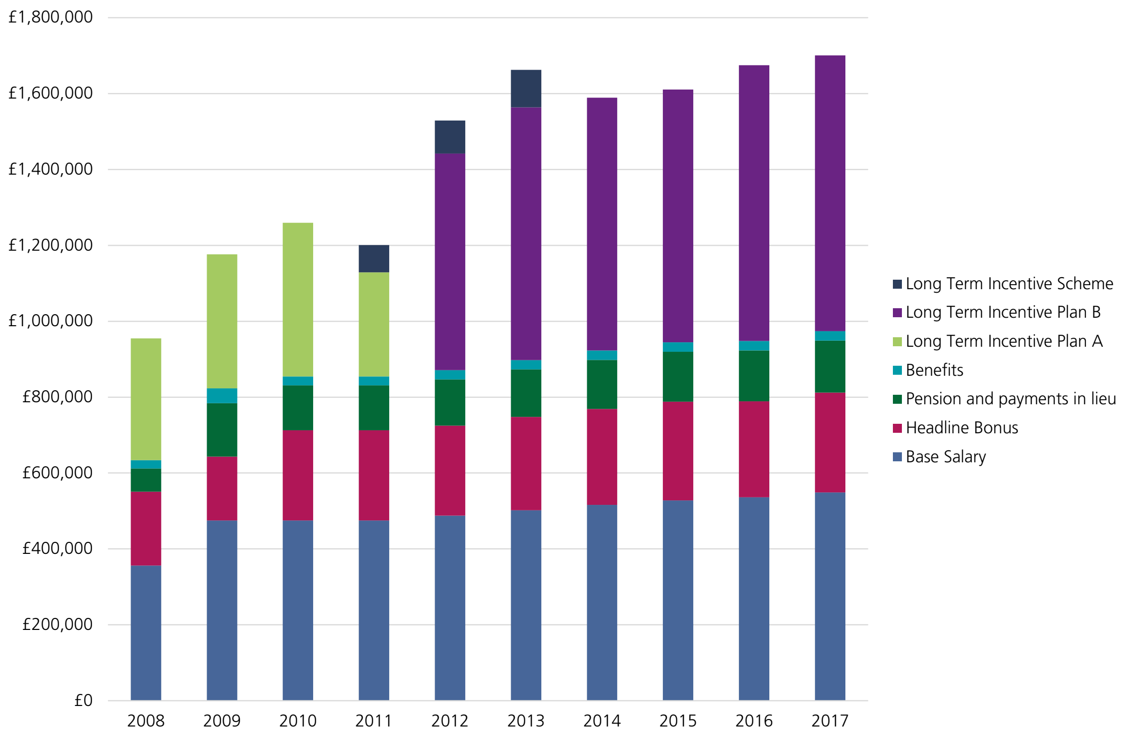
4 Remuneration

45. In 2017, Mike Betts, Chief Executive of Motability Operations, received a total remuneration package of £1.7 million.[56] In 2008, his total remuneration package was £954,000, an increase of 78 per cent over nine years. Neil Johnson told the Committee:

> In 2014 my board and I announced a review of remuneration within the business because we had then been up that ramp of turnaround and salvage, as it were. That review was finished in 2015. It will result in a reduction of about 20 per cent in senior executive pay next year when the long-term incentive programme falls away.[57]

The Committees note that the Motability Operations annual accounts, published in January 2018, had already stated that due to the Long Term Incentive Plan ceasing, senior executive total remuneration (including salary, bonus, pensions and long term incentives) would fall in 2019–20. Future decisions have not yet been made. The full detail of Mr Betts' pay is shown in the chart below:

Chart 2 Remuneration package of Mike Betts



Source: Motability Annual Reports from 2008 to 2017.

56 Motability Operations Group PLC, Annual Report and Accounts 2017, page 95
57 Q77

Source: Motability Operations annual reports

46. Neil Johnson, Non-executive Chair of Motability Operations, explained to the Committees that the pay of Motability Operations' management board is based on a number of comparators:

> We compared against mutuals of similar size and complexity, against FTSE 250 businesses in the same sector, and against private entities in the same sort of sector.[58]

47. The table below compares the Chief Executive of Motability Operations to other roles:

Table 2: Comparison of salaries to Chief Executive of Motability Operations

Organisation	Individual and role	Total remuneration	Notes
Motability Operations	Mike Betts	£1,700,617	Including pension.
Department for Work and Pensions	Esther McVey, Secretary of State	£147,223	Responsible for annual departmental budget of £180 billion. Not including pension.
Government	Theresa May, Prime Minister	£155,275	Not including pension.
FTSE 250		£1,800,000	Average salary. Not including pension.
Esure Group		£1,360,000	Insurance company with £1.7 billion balance sheet in FSTE 250. Including pension.
Bank of England	Mark Carney, Governor	£880,000	In charge of organisation with balance sheet of £517 billion. Including pension.

Source: Motability Operations Annual Report and Accounts 2017, Cabinet Office Salaries of Members of Her Majesty's Government from 9th June 2017, Deloitte press release, 2 November 2017, Esure Annual Report and Accounts 2017, Bank of England Annual Report and Accounts, 2017

48. **Motability Operations bases its pay on a comparison with FTSE 250 companies. Motability Operations does not, however, face a number of fundamental risks and stresses that FTSE 250 companies face:**

- **Motability Operations exists as a state-supported monopoly. The Government provides it with VAT and IPT tax breaks worth £700 million per year, to which no other vehicle hire company is entitled. This makes its vehicles significantly cheaper than those of any other competitor. It will never struggle to attract clients.**

58 Q79

- **It does not need to compete for its single customer contract as service provider to Motability, because Motability "does not think competition is in its best interests". Therefore, Motability Operations is guaranteed to retain its only major strategic service contract.**

- **It faces no shareholder pressure because its shareholders are not seeking either an income return in the form of dividends or a capital gain in the form of share price growth.**

- **It faces no credit risk from its customers because its customers payments are paid straight from Government.**

49. **As a private company, it is up to Motability Operations' Board and shareholders to determine the salaries it offers its staff. Given the substantial and unique support that Motability Operations receives from the Government—as a monopoly provider—however, and the wider context of restrained welfare spending in which it operates, the level of its executives' pay is totally unacceptable.**

5 Motability's relationship with DWP

50. Eligibility for the Motability scheme is determined by receipt of a qualifying benefit. Until 2013, the main qualifying criteria was receipt of the Higher Rate Mobility Component of Disability Living Allowance (DLA). From 2013, DLA began to be replaced by a new benefit, Personal Independence Payment (PIP). As part of the PIP introduction process, all existing claimants were to be reassessed to establish the level of support they need. The Department expects this process to result in 280,000 fewer PIP claimants qualifying for higher rate mobility support than would have done so under DLA.[59] This process is ongoing. Around half of reassessments have resulted in claimants receiving a lower or nil award.[60]

51. Claimants who lose eligibility for the Higher Rate Mobility Component of DLA following reassessment also lose eligibility for the Motability scheme. They therefore risk losing access to a vehicle unless they can afford to hire one on a commercial basis. To help manage this risk, Motability provides transitional support to claimants ineligible for the scheme (see Box 1). Motability has allocated a total of £175 million for this purpose, of which it had distributed £70 million by March 2017.[61]

Box 1: Motability transitional support

Customers who joined Motability before 2013 and return the vehicle within eight weeks of their final DLA payment receive a one-off payment of £2,000. Alternatively, they can choose to keep the vehicle for 26 weeks from the date of the final payment and receive a reduced payment of £500.

Customers who joined the scheme during 2013 and return the vehicle within eight weeks of losing entitlement can receive a transitional support payment of £1,000. Alternatively, they can keep the vehicle for 26 weeks and receive a reduced payment of £250.

Customers who joined the scheme after 1 January 2014, when more information on PIP became available, receive a standard £250 payment if the vehicle is returned within eight weeks.

The timeframes above apply irrespective of whether claimants choose to dispute DWP's decision on their PIP entitlement. The 26-week provision was introduced in 2017, to help enable claimants awaiting the outcome of a Mandatory Reconsideration or appeal to retain their vehicle in the meantime.

Source: https://www.motability.co.uk/about-the-scheme/personal-independence-payment/q-and-a-transitional-support-package#payments

59 Department for Work and Pensions, Disability Living Allowance reform, May 2012, pages 8–9

60 The Department aimed to complete reassessment of DLA claimants by October 2018. By the end of October 2017, almost one million DLA claimants had been reassessed. Of those, 42% had received an unchanged or increased award. 47% received a lower or nil award. This is lower than the Department's 2012 forecast of 55%. Source: DWP, Personal Independence Payment: official statistics, March 2018.

61 Motability Operations Group PLC, Annual Report and Accounts 2017, page 4

52. DWP and Motability have given differing accounts of the origins of transitional support. During an Urgent Question in February 2018, preceding the Committees' inquiry, the Rt Hon Esther McVey MP, Secretary of State for Work and Pensions told the House that during her previous tenure as Minister for Disabled People in 2013, she had "summoned" Motability to explain their "excessive pay and bonuses" and the "sums of money held in reserve".[62] She said that despite Motability's insistence that these were necessary, she "pursued the matter with the Department" and "ensured that the funds were used to benefit disabled people. The result was that £175 million was used for transitional support for [reassessed DLA] claimants." The current Minister for Disabled People reiterated this version of events to the Committees.[63] The Secretary of State suggested in response to questioning about disabled people losing their vehicles that "these are matters that need to be pursued, and the trustees [of Motability] need to be held to account".[64]

53. Motability disputed this version of events. Motability reasserted their independence as a charity, and hence the lack of control the Department has over how the organisations involved in the scheme are run. Lord Sterling contended Motability had been "deeply concerned" about the effect the transition to PIP might have on its customers. It had proactively approached the Department and disability charities in 2012 to discuss transitional support through its "own volition, and with the Company's full support".[65] Motability told the Committees that it did so more than two months before the former Minister for Disabled People (now Secretary of State) was appointed.[66] Motability further explained that although the then-Minister for Disabled People had suggested transitional support might be provided only up to 2015–16, Motability "made clear at the time that it would provide support to disabled people […] over the full period of the DWP's reassessments".[67]

54. In efforts to resolve these apparent inconsistencies, Motability and the Department supplied the Committees with meeting records. The Department noted there are "some gaps" in its notes, which Motability accordingly supplied documents to fill.[68] The correspondence showed:

- In April 2012, Lord Sterling raised with the Department concerns that the proposed PIP eligibility criteria were too restrictive. Motability suggested "some level" of transitional support might be provided for claimants undergoing reassessment. The then Secretary of State agreed.[69]
- In November 2012, Motability told the Department it would "provide the right transitional support" to claimants losing eligibility.[70]
- Motability set out their initial proposal in March 2013. This was less generous that the package that was eventually agreed.[71]

62 HC Deb, 8 February 2018, col. 1643
63 Q81 Sarah Newton
64 HC Deb, 8 February 2018, col 1647
65 Motability to Secretary of State for Work and Pensions, 16 March, p.5
66 Ibid, 16 March, p.5
67 Motability to Secretary of State for Work and Pensions, 16 March, p.13
68 Letter from the Minister for Disabled People to the Chair of the Work and Pensions Committee, 19 March, p.1; Letter from Motability to the Chairs of the Committees, 27 March
69 Letter from Motability to the Chairs of the Committees, 27 March, p.2
70 Ibid, p.3
71 Ibid, p.7–8

- DWP notes from April 2013 state that Motability felt three issues needed consideration in determining transitional support: "commercial implications, compassion and moral hazard". Motability Operations' Chair had questioned whether "the Department was making cuts and expecting others to pick up costs".[72]

- An email from Motability to the Department in July 2013 indicated the Department had proposed an increase in transitional support to £3,000 per claimant, alongside an alternative option of allowing claimants to keep their car until the end of its life before making their own alternative arrangements. The Department felt transitional support should enable claimants to buy a vehicle outright. Motability felt access to information and the ability to make a down-payment was sufficient.[73]

- Disagreement continued until September 2013. The Department maintained Motability could "afford to do more".[74] Motability argued that its proposed package was generous and had been well received by disability stakeholders. It also said that providing a larger, front-loaded package (i.e. over three years instead of five, and on a more generous basis) might cause a shock to Motability's reserves, damaging its credit rating and perhaps its sustainability.[75]

- The broad features of the initial support package as it was implemented were agreed in September 2013.[76]

55. **The correspondence the Committees received shows that Motability proactively engaged with the Department on transitional support. That it did so is to be noted, especially given its independence from the Department and lack of input into its policy decisions. Equally it is clear that the Department pressured Motability to increase its initial package of support to claimants. Many of those claimants will be very glad it did so.**

72 Letter from Minister for Disabled People to the Chairs of the Committee, 19 March, p.7
73 Letter from Motability to the Chairs of the Committees, 27 March, pp.11–14; Letter from the Minister for Disabled People to the Chairs of the Committees, 19 March, p.12
74 Letter from the Minister for Disabled People to the Chairs of the Committees, 19 March, p.12
75 Ibid, p.14
76 Letter from the Minister for Disabled People to the Chairs of the Committees, 19 March, p.14; Letter from Motability to the Chairs of the Committees, 27 March, p.27

6 NAO review of Motability Scheme

56. The Committees asked Lord Sterling, Chair of the Motability charity, whether Motability would be in favour of the National Audit Office (NAO) carrying out an investigation into the scheme's finances. He stated:

> I can give you a very specific response. As you know, when we responded to the Secretary of State's debate, we said we would welcome it. […] When the National Audit Office reviewed Motability in 1996 we did at that time receive some public funds. Today we are not funded by Government in any way, and we have never been public bodies. Therefore, of course, the Secretary of State has no power to require a review. However, we at Motability wish to have a review and indeed wish it to be fully published so that the issues raised in recent weeks can be put to rest once and for all. Mr Chairman, for your benefit and the benefit of everybody here today, we have already been in touch with the NAO to progress such a review.[77]

57. On 8 February 2018, the Secretary of State for Work and Pensions, Esther McVey, announced that she had "asked the NAO to consider undertaking an investigation into this matter. I am keen for the NAO to look at how Motability is using taxpayers' money."[78] The NAO is responsible for scrutinising public spending with departments and associated bodies. As none of the organisations involved in the Motability scheme receive direct public funding, Motability would need to agree to the NAO conducting a review of its finances. Such a review could take two forms:

- An agreement between the Secretary of State and Motability to conduct a review under s6(3)d of the National Audit Act 1983, which would trigger the NAO's full statutory powers. Under this approach, the NAO would determine the scope of the work and would decide what information it reasonably needs access to. Motability would be required to provide information and explanation to support the NAO's work. The outcome would be a report to Parliament, which would attract Parliamentary privilege.

- An agreement between the Comptroller and Auditor General (the Head of the NAO) and Motability. This approach would proceed by agreement. Motability could agree what the NAO examines and the information it can access. Under such an arrangement, there would be no statutory power to report to Parliament.[79]

58. On 8 March, Lord Sterling wrote a letter to Sir Amyas Morse, Comptroller and Auditor General of the National Audit Office, formally requesting "a review of Motability, and Motability Operations Group, such review to include the subsidiaries of both organisations, and also Motability Tenth Anniversary Trust".[80] Within his letter, however, Lord Sterling went on to say that neither Motability nor Motability Operations receive

77 Q100

78 HC Deb 8 February, col 1643

79 The NAO could also choose to look at the value for money aspects of the Government policy to provide tax breaks to Motability Operations alone.

80 Letter from Lord Sterling, Director, Motability, to Sir Amyas Morse, Comptroller and Auditor General, National Audit Office, 8 March 2018.

any public money and that they "are therefore strongly of the view that section 6 of the National Audit Act 1983 is not an appropriate basis for a review. […] We have, however, made clear that a review by the NAO is welcomed, indeed invited."[81]

59. As stated earlier in this report, while Motability and Motability Operations do not receive any direct funding, the Government does provide Motability Operations with tax relief on VAT and IPT. It does not provide these to any other organisation. These reliefs are provided at a cost of £700 million per year. Motability Operations is also the monopoly recipient of direct welfare payments.

60. Section 2.4 of the Motability Scheme Agreement states that were Motability to request that Motability Operations comply with an investigation from an organisation such as the NAO, Motability Operations would do so:

> MFL [Motability Finance Limited as it was then known, now known as Motability Operations] agrees to comply strictly at all times with any request made from time to time by the Secretary of State for Work and Pensions and by any government, regulatory or other authority, whether to MFL or Motability, in relation to the provision of access to information in relation to the scheme, the Services, the scheme Financing or this Agreement.[82]

61. **The Committees, the Department for Work and Pensions, and Motability are all in agreement that a National Audit Office-led value for money inquiry into the Motability Scheme and the organisations running it should be carried out. The Committees recommend that DWP ask the NAO to carry out a review under s6(3)d of the National Audit Act 1983. It is imperative that any such inquiry has full access to all information and papers firstly to ensure that it is capable of fully assessing whether better value for the public purse and the scheme's customers would be achieved if the scheme was opened up to greater competition, and secondly to consider whether boardroom pay and the exponential increase in reserves over recent years are justifiable. Motability, given its privileged position, reliance on public funds, and question marks over its approach, has a clear responsibility to accept. The Committees will consider the review's conclusions carefully.**

81 Letter from Lord Sterling, Director, Motability, to Sir Amyas Morse, Comptroller and Auditor General, National Audit Office, 8 March 2018.

82 Motability, Scheme Agreement, paragraph 2.4

Conclusions and recommendations

Structure and governance

1. The Motability scheme is a valuable service. It has a long and distinguished history, currently helping 629,000 disabled people live more independently. Since its creation, millions of disabled people have had their lives enhanced by the mobility the scheme has granted them. The Committees recognise that there is an overwhelming need for disabled people to have affordable access to mobility aids. Many disabled people would struggle to access a vehicle without the service and advantages Motability currently provides. Ensuring disabled people remain able to access this social lifeline is of paramount importance. The Committees' concerns about the way the current scheme is run should not be taken as doubt over the need for such a service as a whole. The people leading the scheme and its associated organisations are clearly deeply invested in Motability's honourable objectives. Yet it is difficult to square the high levels of executive pay and financial reserves at the company that runs the scheme with its charitable objectives and the wider context of pressures on welfare expenditure. Motability badly needs a new roadmap for how it manages the scheme's finances. (Paragraph 4)

2. Neither Motability Operations, Motability (the charity) nor the Motability Tenth Anniversary Trust receive any direct funding from Government. Motability Operations buys its vehicles, however, secure in the knowledge that Government welfare payments will provide—in the vast majority of cases—three years of secure funding to pay for the leasing of those vehicles. Motability Operations is heavily dependent on Government welfare payments for the continuation of its business model. (Paragraph 12)

3. Motability, the charity which oversees the scheme, attests that Motability, Motability Operations, and the Motability Tenth Anniversary Trust are separate, independent entities. Motability and the Tenth Anniversary Trust, however, both receive donations from Motability Operations when Motability Operations deem it has surplus resources. Motability—the charity—does not put its contract for the administration of scheme out to competitive tender. It also oversees the effectiveness of Motability Operations. Were these three entities fully independent of one another with full autonomy, it is unlikely that they would choose to donate their surplus reserves to one another, and it is unlikely they would choose to award contracts to one another without a competitive process. The Committees are not convinced that Motability, Motability Operations, and the Motability Tenth Anniversary Trust are separate, independent entities in practice. From the evidence the Committees have seen, it is difficult to see how the three organisations can reasonably maintain their independence of one another. (Paragraph 17)

4. Both the Chairman and Vice-Chairman of Motability the charity are also the Chairman and trustee of the Motability Tenth Anniversary Trust. The two charities receive donations from the same source, serve the same purpose (helping disabled people access vehicles), and have the same leadership. It is unclear how the provision of donations from Motability Operations to the Charity over the Trust is decided, or why there is a need for two charities at all. (Paragraph 18)

Government support and absence of competition for Motability Operations

5. Tax exemptions on vehicles make them affordable to many more disabled people than would otherwise be the case. To the extent that the tax breaks enable the provision of low cost mobility aids, they are an appropriate use of public money. (Paragraph 25)

6. Potential rivals cannot compete with Motability Operations. This is because it receives substantial tax breaks from the Government to which no other company is entitled. Nor does it face any competitive pressure when tendering for the contract to run the scheme on behalf of Motability. Without any competitors on an equal footing, it is impossible to know whether disabled drivers would be able to access better loans elsewhere. (Paragraph 26)

7. Through secondary legislation, the Department for Work and Pensions provides Value Added Tax and Insurance Premium Tax relief that is uniquely available to Motability Operations. It comes at a cost of around £700 million per year. Motability Operations does not have to competitively tender for this unique assistance from Government. For the Government to provide tax reliefs to one company alone, especially without requiring the company to competitively tender for such reliefs, makes it, in effect, a monopoly supplier sustained by public money. The Department for Work and Pensions must explain why providing such state assistance in the absence of competition is an appropriate use of public money. (Paragraph 27)

Motability Operations' reserves

8. Motability Operations' reserves have grown continuously year-on-year for the past 10 years. In part this reflects its ever-increasing pool of lease vehicles rising in line with a growing customer base, and vehicle price inflation. The value of the reserves as a proportion of the value of the vehicles owned has also increased substantially, however, from 16 per cent in 2008 to 38 per cent in 2017. The continued growth in value of reserves may allow the company to raise finance at a cheaper rate. It is also seen as a very safe company to lend money to, which is to be commended. (Paragraph 39)

9. Motability Operations claims that its large reserves are necessary, owing to its inability to diversify from its single customer base or to increase prices. But, given its privileged market position, its reserves are out of proportion to the risks it faces. It has now generated reserves so large that, by its own admission, it could survive a similar sized financial crisis to that which occurred in 2008. Motability Operations could well afford to reduce its prices or make higher charitable donations. (Paragraph 40)

10. The four retail banks that own Motability Operations receive a return on their investment each year of almost £700,000, plus management fees and interest. This payment—guaranteed come what may—should be seen in the context of years of sustained pressure on the welfare budget, particularly on benefits for disabled people. It does not sit comfortably with the Committees that the big four banks have made such significant profits from a virtually risk-free investment in a charitable scheme. (Paragraph 44)

Remuneration

11. Motability Operations bases its pay on a comparison with FTSE 250 companies. Motability Operations does not, however, face a number of fundamental risks and stresses that FTSE 250 companies face:

- Motability Operations exists as a state-supported monopoly. The Government provides it with VAT and IPT tax breaks worth £700 million per year, to which no other vehicle hire company is entitled. This makes its vehicles significantly cheaper than those of any other competitor. It will never struggle to attract clients.
- It does not need to compete for its single customer contract as service provider to Motability, because Motability "does not think competition is in its best interests". Therefore, Motability Operations is guaranteed to retain its only major strategic service contract.
- It faces no shareholder pressure because its shareholders are not seeking either an income return in the form of dividends or a capital gain in the form of share price growth.
- It faces no credit risk from its customers because its customers payments are paid straight from Government. (Paragraph 48)

12. As a private company, it is up to Motability Operations' Board and shareholders to determine the salaries it offers its staff. Given the substantial and unique support that Motability Operations receives from the Government—as a monopoly provider—however, and the wider context of restrained welfare spending in which it operates, the level of its executives' pay is totally unacceptable. (Paragraph 49)

Motability's relationship with DWP

13. The correspondence the Committees received shows that Motability proactively engaged with the Department on transitional support. That it did so is to be noted, especially given its independence from the Department and lack of input into its policy decisions. Equally it is clear that the Department pressured Motability to increase its initial package of support to claimants. Many of those claimants will be very glad it did so. (Paragraph 55)

14. The Committees, the Department for Work and Pensions, and Motability are all in agreement that a National Audit Office-led value for money inquiry into the Motability Scheme and the organisations running it should be carried out. The Committees recommend that DWP ask the NAO to carry out a review under s6(3)d of the National Audit Act 1983. It is imperative that any such inquiry has full access to all information and papers firstly to ensure that it is capable of fully assessing whether better value for the public purse and the scheme's customers would be achieved if the scheme was opened up to greater competition, and secondly to consider whether boardroom pay and the exponential increase in reserves over recent years are justifiable. Motability, given its privileged position, reliance on public funds, and question marks over its approach, has a clear responsibility to accept. The Committees will consider the review's conclusions carefully. (Paragraph 61)

Formal minutes

Wednesday 16 May 2018

Work and Pensions Committee

Members present:

Frank Field, in the Chair

Heidi Allen	Steve McCabe
Jack Brereton	Nigel Mills
Alex Burghart	Chris Stephens
Neil Coyle	

Draft Report (*The Motability Scheme*), proposed by the Chair, brought up and read.

Ordered, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 61 read and agreed to.

Summary agreed to.

Resolved, That the Report be the Fifteenth Report of the Committee to the House.

Ordered, That the Chair make the Report to the House.

Ordered, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134.

[Adjourned till Wednesday 23 May at 9.15 am

Treasury Committee

Members present:

Nicky Morgan, in the Chair

Charlie Elphicke	Mr Alister Jack
Stewart Hosie	John Mann

Draft Report (*The Motability Scheme*), proposed by the Chair, brought up and read.

Ordered, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 61 read and agreed to.

Summary agreed to.

Resolved, That the Report be the Thirteenth Report of the Committee to the House.

Ordered, That the Chair make the Report to the House.

Ordered, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134.

[Adjourned till Tuesday 22 May at 9.00 am

Witnesses

The following witnesses gave evidence. Transcripts can be viewed on the inquiry publications page of the Committee's website.

Monday 5 March 2018

Question number

Neil Johnson OBE, Non-executive Chair, Motability Operations Ltd, **Mike Betts**, Chief Executive, Motability Operations Ltd, **Lord Sterling of Plaistow GCVO CBE**, Chair, Motability Charity, and **Declan O'Mahony**, Director, Motability Charity — Q1–102

Sarah Newton MP, Minister for Disabled People, Health and Work, **James Wolfe**, Director for Disability Employment and Support, **Kerstin Parker**, Deputy Director for Disability Benefits — Q103–138

Published written evidence

The following written evidence was received and can be viewed on the inquiry publications page of the Committee's website.

MTB numbers are generated by the evidence processing system and so may not be complete.

1 Motability (MTB0002)

List of Reports from the Work and Pensions Committee during the current Parliament

All publications from the Committee are available on the publications page of the Committee's website. The reference number of the Government's response to each Report is printed in brackets after the HC printing number.

Session 2017–19

First Report	Universal Credit: the six week wait	HC 336
Second Report	A framework for modern employment	HC 352
Third Report	Protecting pensions against scams: priorities for the Financial Guidance and Claims Bill	HC 404
Fourth Report	PIP and ESA assessments: claimant experiences	HC 355
Fifth Report	Universal Credit Project Assessment Reviews	HC 740
Sixth Report	British Steel Pension Scheme	HC 828
Seventh Report	PIP and ESA assessments	HC 829
Eighth Report	European Social Fund	HC 848
Ninth Report	Pensions freedoms	HC 917
Tenth Report	Assistive technology	HC 673
Eleventh Report	Universal Credit: supporting self-employment	HC 997
Twelth Report	Carillion	HC 769
Thirteenth Report	Employment support for carers	HC 581
Fourteenth Report	Appointment of Professor Sir Ian Diamond as Chair of the Social Security Advisory Committee	HC 971
First Special Report	Child Maintenance Service: Government's Response to the Committee's Fourteenth Report of Session 2016–17	HC 354
Second Special Report	Self-employment and the gig economy: Government Response to the Committee's Thirteenth Report of Session 2016–17	HC 644
Third Special Report	Disability employment gap: Government Response to the Committee's Seventh Report of Session 2016–17	HC 652

List of Reports from the Treasury Committee during the current Parliament

All publications from the Committee are available on the publications page of the Committee's website. The reference number of the Government's response to each Report is printed in brackets after the HC printing number.

Session 2017–19

First Report	Appointment of Sir Dave Ramsden as Deputy Governor for Markets and Banking at the Bank of England	HC 472
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