



National Audit Office

Comptroller and Auditor General
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Rt Hon Frank Field MP
Chair
Work and Pensions Committee

Rt Hon Nicky Morgan MP
Chair
Treasury Committee

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Dear Nicky and Frank,

TAX RELIEFS BENEFITING THE MOTABILITY SCHEME

In your letter of 28 January 2019, you asked me to comment on the objections raised by Lord Sterling in his letter of 24 January 2019 relating to our estimated value of tax concessions from which the Motability scheme benefited in 2017, and to confirm that the NAO's findings were agreed by Motability prior to publication.

Only Lord Sterling has raised these objections. The Department for Work and Pensions and Motability Operations both agreed the factual accuracy of the full report, and the estimate was shared with Her Majesty's Revenue & Customs prior to publication, with no objections or comments raised. The estimate is broadly similar in magnitude to that provided in evidence to your committees by the Department for Work and Pensions in May 2018, at which point I am not aware of any similar objections being expressed.

I consider that Lord Sterling continues to understate the uniqueness and significance of the tax concessions from which the Motability scheme benefits, which are not available to other participants in the vehicle leasing market. The tax concessions represent a significant contribution to the scheme's scale and affordability, which is why I considered it necessary to quantify their scale.

I would also suggest that Lord Sterling's assertion that the entire benefit of these tax concessions has been passed direct to customers is difficult to reconcile with the facts presented in our report. We identified a large increase of more than £2 billion in reserves levels in the last 10 years and payments in kind to third parties of more than £500 million for indirect customer support in the same period without evidence that this investment has improved customer experience. It is also the case that any administrative inefficiencies at Motability Operations, including high levels of executive remuneration, would suggest this assertion to be inaccurate.

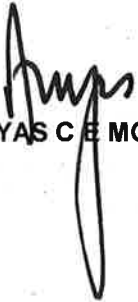
Turning to the specifics of your letter, on the nature of the estimate, our report is clear that the £888 million is an estimate of the maximum value in 2017 of three tax concessions: zero rating of VAT for vehicle leases; zero rating of VAT on the sale of vehicles at the end of their lease period; and exemption from insurance premium tax. The report notes that the estimate is based on a scenario where these three concessions are not in place, and that there would be no impact on volumes of scheme customers as a result of lease prices increasing in the absence of tax concessions. This is why we describe the value as a maximum.

I am not aware of any robust alternative assumptions relating to potential impacts of price rises on customer behaviour, and therefore do not accept either Lord Sterling's characterisation that the figure is "essentially meaningless", nor do I consider any alternative value to be any better grounded in evidence. The Department for Work and Pensions provided evidence to your committees in May 2018 that it considered the value of the

two VAT concessions to be in the range of £600 million to £700 million, a value of a broadly similar magnitude.

Regarding the clearance of our report, we shared our estimate - and the basis behind its calculation - with HM Revenue & Customs, who confirmed it had no comments or concerns. During clearance, we also discussed our analysis with Motability Operations, whose own estimate of the value was higher than the above-referenced DWP estimate, but lower than our maximum estimate. Motability Operations' Chief Executive wrote to us on 27 November 2018 confirming that its Board was content with the facts in the report. The Director of Motability wrote to us on the same date confirming that Motability did not contest the facts in the report, but that letter - and Motability's subsequent press release - both referred to Motability's governors maintaining reservations about the way certain facts were presented. It is disappointing, therefore, that Lord Sterling has continued to refuse to accept a position that is agreed by all, including others within the scheme.

I hope this letter is helpful in clarifying the above points.



AMYAS C E MORSE

