Rt Hon Frank Field MP  
Chair, Work and Pensions Committee  
Rt Hon Nicky Morgan MP  
Chair, Treasury Committee  
House of Commons  
London  
SW1A 0AA  

16th March 2018  

Dear Mr. Field and Mrs. Morgan  

Work and Pensions Committee & Treasury Committee additional evidence request  

Further to your letter of 6th March and in response to your request for additional evidence, I am pleased to enclose copies of the following documents:  

- Minutes and papers relating to Motability Operations Group remuneration;  
- Profit analysis; and  
- Customer Insurance assessment  

Also enclosed are various appendices with supplementary information that relate directly to questions raised in the committee on 5th March which I hope will be useful in your inquiry.  

We are happy for you to publish the submission however we would request that the minutes and papers relating to remuneration are excluded.  

If I can be of any further assistance, please don't hesitate to contact me.  

Yours sincerely,  

Mike Betts  
Chief Executive
## CONTENTS

### SECTION 1: Response to additional evidence request as set out in the letter from the Work and Pensions Committee & Treasury Committee dated 6th March 2018

1. Motability Operations Group remuneration

2. Profit analysis

3. Customer Insurance assessment

### SECTION 2: Appendices

<table>
<thead>
<tr>
<th>Transcript Ref.</th>
</tr>
</thead>
<tbody>
<tr>
<td>A. Minutes and papers relating to remuneration</td>
</tr>
<tr>
<td>B. Capital Reserves and Liquidity Requirements</td>
</tr>
<tr>
<td>C. Financial Conduct Authority</td>
</tr>
<tr>
<td>D. Customer Investments and Charitable Donations</td>
</tr>
<tr>
<td>E. Bond Yields</td>
</tr>
<tr>
<td>F. Hyundai Kona Lease Cost Comparison</td>
</tr>
<tr>
<td>G. Transformation Timeline</td>
</tr>
<tr>
<td>H. 2007 NAO Report</td>
</tr>
<tr>
<td>I. Tax</td>
</tr>
<tr>
<td>J. Provision of False Information Claim: Rebuttal</td>
</tr>
<tr>
<td>K. UK Institute of Customer Service</td>
</tr>
<tr>
<td>L. Oxford Economics Report</td>
</tr>
</tbody>
</table>
SECTION 1:

Response to additional evidence request as set out in the Work and Pensions Committee & Treasury Committee letter dated 6th March 2018
Select Committee additional evidence request NUMBER 1, please provide:

- All board, remuneration committee, or sub-committee minutes and papers relating to Motability Operations Group remuneration for the last ten years. Please ensure that this includes the names of all attendees for each meeting, whether attending as participants or observers

Background

One of the matters raised by the Joint Committee was the topic of executive remuneration. The relevant extracts from the requested committee minutes and papers are set out in Appendix A. Where documents have been redacted, these relate only to information which constitutes personal data and is not in the public domain, or is personal information and such information does not relate to the questions of the Joint Committee.

We would ask the Joint Committee to note that our Data Retention and Destruction Policy provides that paper documents will be retained for a period of not more than 3 years, unless the data is covered by a specific statutory retention period or where the papers are necessary in order to understand the minutes of Governance or Board Committees. The Remuneration Committee papers provided are therefore limited to those meetings held since 2015.

The narrative below is intended to supplement the submission to provide additional context and rationale.

As noted by the Company's Chairman, Neil Johnson, during the course of the Hearing, the Company is satisfied that it uses the appropriate criteria in order to determine executive remuneration and follows a robust process which aims to ensure that, whilst the Company is a unique organisation, executive remuneration is appropriately benchmarked against a number of other organisations with operations of similar size and complexity.

As further noted by Neil Johnson, the current management team is largely made up of those individuals who were responsible for transforming the Company from what was described in the 2014 Annual Report of the Company as "a lacklustre delivery mechanism with low customer satisfaction" to an organisation which currently achieves a 98% customer satisfaction rating.

The 2014 Accounts also stated that "no organisation, however successful, can afford to be complacent or to stand still and, as part of our normal business review cycle, we will seek to ensure that we continue to provide an efficient service delivery model properly aligned with effective remuneration structures". In order to achieve this, a full review of the Company's remuneration policy was commenced in 2015. Further detail of that review is set out below.
**Remuneration Review**

The remuneration review was overseen by a project team comprising the Company’s Chairman, Senior Independent Director and a new Remuneration Committee Chairman who joined the Company Board in September 2014 and was appointed following the meeting of the Remuneration Committee that took place in March 2015.

The review was broad in scope and was intended to ensure that:

1. the operating model for the business continued to be appropriate in delivering value to the disabled customer (this included face-to-face discussions with bodies and individuals representing the disabled community and with other stakeholders including the Charity and shareholder banks);

2. the roles of the executive directors were those required to deliver the required operational model; and

3. the levels and the component parts of remuneration for each executive director role were consistent with market benchmarks for equivalent roles in the private sector.

As an initial step, a competitive assessment was conducted of independent remuneration advisers, subsequent to which New Bridge Street was selected to replace the Company’s previous advisers and to provide a fresh perspective on remuneration issues. New Bridge Street assisted the Company in reviewing all aspects of its remuneration policy, including advising on the use of appropriate benchmark data and providing guidance on the latest best practices in the private sector.

As well as retaining New Bridge Street, the Company also appointed two international search firms – Odgers Berndtson and Korn Ferry – to conduct a shadow recruitment exercise whereby they identified individuals who would be appropriate target applicants should the office of CEO be vacated. They also identified the estimated remuneration, at that time, of those individuals. By this means, the Company sought to identify the level of remuneration required to recruit an individual of appropriate experience to replace the CEO of the Company.

**Remuneration Review Outcome**

Prior to the review, the component parts of executive director remuneration were as follows:

1. base salary;

2. bonus;

3. long term incentive plan (this included awards deferred over three years, with performance criteria and an annual ratchet linked to meeting a series of key performance indicators); and

4. pension and benefits.
In summary, the findings of the review were as follows:

i. the operating model of the Company remained appropriate and received positive feedback from representatives of the disabled community;

ii. the roles of the executive directors remained appropriate to deliver all aspects of the operating model notwithstanding that the company no longer required fundamental transformation; and

iii. in light of the fact that, as set out at (ii) above, there was no longer a significant need for business transformation, the component parts and levels of executive director remuneration required amendment to reflect this.

These findings were shared with shareholder banks and the Charity and were also considered by the Remuneration Committee in October 2015 together with appropriate benchmark data provided by New Bridge Street; and, in respect of the CEO role, the findings were calibrated against the input from the international search firms which had carried out the shadow CEO recruitment exercise. The Remuneration Committee unanimously agreed that it was appropriate to recommend to the Board that the component parts of remuneration be amended to include:

i. base salary;

ii. bonus (half of which would be deferred for a period of three years and subject to a wide range of performance criteria); and

iii. pensions and benefits.

The Remuneration Committee considered that it was no longer appropriate to operate a long term incentive plan and concluded that after awards made in respect of the financial year ended September 2015, no further awards would be made (although awards that had been made in respect of the preceding three financial years would be paid as they fall due as long as performance criteria continued to be met).

The above changes were considered and unanimously approved by the Board in December 2015 and were applied with effect from 1st October 2015. Further details of the remuneration review can be found at pages 45 and 46 of the Company’s 2015 Annual Report.

Impact of changes to remuneration policy

In order to apply the new remuneration policy, total remuneration for each executive director role was banded using benchmark data provided by the Company’s remuneration advisers for equivalent roles across the private sector. The Remuneration Committee then considered the position of each individual executive director within these market bands depending on experience, performance in role and based on a number of detailed personal and collective business criteria.

The impact of this detailed assessment and the implemented changes was that the total remuneration for all executive director roles decreased and, in the case of the Chief Executive Officer, the decrease was approximately 20%. In practice, this reduction will take effect once the final payments are made in relation to the long term incentive plan in December 2018.
Since the adoption of the new remuneration policy, the Remuneration Committee has continued to obtain advice from New Bridge Street, including the provision of appropriate benchmark data.

In addition, where there are changes to the membership of the management team, pay is assessed on a case-by-case basis taking account of the relative experience of the relevant individual. This has, for example, led to a decrease in the level of remuneration paid to the Company's CFO.

**Conclusion**

As stated in the Company's letter to the Secretary of State dated 15th February 2018, the customer is at the heart of everything that the Company does. It is therefore essential that the Company is able to offer levels of remuneration that attract and retain executives capable of running a business of its size and complexity and delivering the levels of service that are of paramount importance to its customers.
Select Committee additional evidence request NUMBER 2, please provide:

- The average profit margin and average profit that Motability Operations Group has made per vehicle in each of the last ten years

Profit Margin over the last Ten Years (Financial Years ended September 2007-2017)

Background

Motability Operations prices a profit margin into its leases in order to generate capital reserves in the context of its Economic Capital Requirements (to provide the business with protection from the myriad of risks it faces, thereby underpinning the sustainability of the proposition for customers and providing protection from economic or market shock) and to underpin the stability of customer pricing. Motability Operations’ only mechanism for generating capital is organically through retained post-tax profit.

From 2003, following the financial challenges facing the business in 2002, an Economic Capital model was deployed to assess capital requirements to ensure that Motability Operations was capable of withstanding economic shock. This was particularly important in the context of the increased risk exposure now faced, with Motability Operations now carrying residual value and maintenance risk for its vehicles (previously borne by the manufacturers and car dealers). A number of other structural changes have also been made which, over time, have elevated the Group’s risk profile (such as refinancing risk and insurance risk). Further detail on Motability Operations’ Capital Reserves and evolving risk profile are set out in Appendix B.

As noted in the NAO’s 1996 Report on the Scheme:

"It is normal business practice to build in a contingency margin into the prices paid by customers to create a contingency reserve to provide against the risks of running a commercial operation. Setting the appropriate level for this contingency reserve is a matter of business judgment".

Consequently, from 2003, profit margins were set in order build towards a position of capital adequacy. As identified in the 2008 Annual Report and Accounts, by September 2008 capital reserves had successfully been built to a position of £568m, which was deemed to be adequate at 104% of the calculated capital requirement given the risk profile at that time (this risk profile has evolved significantly since then).

From this position of capital adequacy the priced profit margin was reduced to a level which was just sufficient to keep pace with incremental capital requirements (growing fleet; higher asset values; changing structural risk profile; insurance insourcing), and to ensure that there was a level of inbuilt margin in leases to rebuild capital in the event of market shock. This is crucial in underpinning the stability of prices for customers through the economic cycle, given that profitability is Motability Operations’ only mechanism for rebuilding capital.
reserves. Retaining an appropriate level of profit is also essential for maintaining the confidence of credit rating agencies. This is important because Motability Operations’ credit rating is key in enabling access to cost-effective financing for the business (which in turn provides value for money for customers). Consequently, in the context of the considerations above, the priced profit margin was reduced to a target of 1.5%-2.5% Return on Assets (chart 1.1).

This combined with a range of cost efficiencies which have been realised since 2002, enabled prices to be reduced from 2009 which had a number of effects:

- The number of vehicles available at "nil advance payment" (where the customer’s assigned allowance alone was sufficient to cover the all-in cost of the lease) increased from c.300 to c.500 (chart 1.2). Since 2007, whilst the enhanced rate DLA/PIP has increased from £45 per week to £58 per week (a 29% increase), the average value of vehicles available at "nil advance payment" has increased from £10.4k to £14.6k, an increase of 40%. This £4,200 increase in vehicle value, when adjusted for inflation in the allowance represents a £2,028 increase in real terms - a 20% increase in value for money for customers/purchasing power;

- It was possible to make a number of investments into the customer proposition (such as subsidising the 27,000 Wheelchair Accessible Vehicles (WAVs) on the Motability Scheme; providing free vehicle adaptations; investing in continuous mobility initiatives (such as free hire cars and taxis in the event that a customer’s vehicle was off the road) and a Good Condition Bonus payable to customers at the end of their lease. As set out in chart 1.3, these investments have totalled over £737m since 2007, with an annual run-rate of £113m by 2017 (further detail of these customer investments are set out in Appendix D – Customer Investments & Charitable Donations); and

- To the extent that reported annual profitability (net of these customer investments) has exceeded target levels i.e. where the growth in capital reserves outstripped capital requirements, then it has also been possible to make charitable donations to Motability and the Motability Tenth Anniversary Trust. Between 2009 and 2017 there has been significant buoyancy in the used-car market and consequently reported profitability has outstripped target levels, thereby enabling Motability Operations to afford a number of charitable donations. Since 2007 Motability Operations has donated £265m to Motability and £80m to the Motability Tenth Anniversary Trust (chart 1.3).
The four charts below show:

- Chart 1.1: the downward path of the priced profit margin per lease since 2007;
- Chart 1.2: the increase in the number of vehicles available at “nil advance payment” since 2007, and the average asset value of the vehicles with “nil advance payment”;
- Chart 1.3: the cumulative customer investments and charitable donations made by Motability Operations since 2007; and
- Chart 1.4: the reported profit (per the Annual Report and Accounts) on a per lease basis. This also shows the underlying profit per lease before any charitable donations and before exceptional effects such as any upside/downside in car values. This can be seen to be tracking in line with target levels.

**Chart 1.1 Priced Post-tax Profit margin per lease (% Return on Assets)**

**Chart 1.2 Average number and asset value available at “Nil Advance Payment”**
Chart 1.3 Cumulative customer investments and charitable donations

[Graph showing cumulative customer investments and charitable donations from 2007 to 2017.

Chart 1.4 Profit Margin per lease before and Underlying Profit per Lease

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Pre-Tax Profit</td>
<td>101.8</td>
<td>33.0</td>
<td>283.3</td>
<td>261.7</td>
<td>233.2</td>
<td>259.7</td>
<td>269.5</td>
<td>251.3</td>
<td>261.6</td>
<td>125.9</td>
<td>258.0</td>
</tr>
<tr>
<td>Post-Tax Profit</td>
<td>71.1</td>
<td>52.8</td>
<td>203.8</td>
<td>202.0</td>
<td>205.9</td>
<td>234.3</td>
<td>259.7</td>
<td>204.7</td>
<td>210.0</td>
<td>129.6</td>
<td>212.7</td>
</tr>
<tr>
<td>Return on Asset (Post-tax)</td>
<td>2.2%</td>
<td>1.3%</td>
<td>5.1%</td>
<td>4.4%</td>
<td>3.8%</td>
<td>4.0%</td>
<td>4.3%</td>
<td>3.1%</td>
<td>2.8%</td>
<td>1.7%</td>
<td>2.5%</td>
</tr>
<tr>
<td>Closing fleet</td>
<td>466,279</td>
<td>501,347</td>
<td>523,836</td>
<td>561,560</td>
<td>592,610</td>
<td>622,878</td>
<td>636,651</td>
<td>645,816</td>
<td>657,918</td>
<td>647,958</td>
<td>628,984</td>
</tr>
<tr>
<td>Post-Tax Surplus per lease</td>
<td>£m</td>
<td>457</td>
<td>316</td>
<td>1,167</td>
<td>1,079</td>
<td>1,042</td>
<td>1,129</td>
<td>1,224</td>
<td>951</td>
<td>958</td>
<td>600</td>
</tr>
<tr>
<td>Adjusted for Charitable Donations and Exceptional impacts (before Tax)</td>
<td>£m</td>
<td>-19.3</td>
<td>-147.4</td>
<td>78.6</td>
<td>57.3</td>
<td>74.1</td>
<td>97.6</td>
<td>134.4</td>
<td>62.5</td>
<td>79.7</td>
<td>-32.9</td>
</tr>
<tr>
<td>Underlying Pre-Tax Profit</td>
<td>£m</td>
<td>121.1</td>
<td>180.4</td>
<td>204.7</td>
<td>204.4</td>
<td>159.1</td>
<td>162.1</td>
<td>135.1</td>
<td>188.8</td>
<td>181.9</td>
<td>158.8</td>
</tr>
<tr>
<td>Underlying Post-Tax Profit</td>
<td>£m</td>
<td>84.8</td>
<td>129.9</td>
<td>147.4</td>
<td>147.1</td>
<td>117.7</td>
<td>123.2</td>
<td>104.0</td>
<td>149.2</td>
<td>145.5</td>
<td>127.1</td>
</tr>
<tr>
<td>Underlying Post-Tax Profit per lease</td>
<td>£m</td>
<td>454</td>
<td>777</td>
<td>844</td>
<td>786</td>
<td>596</td>
<td>594</td>
<td>490</td>
<td>693</td>
<td>664</td>
<td>588</td>
</tr>
<tr>
<td>% Return on Assets</td>
<td>4.0%</td>
<td>3.5%</td>
<td>3.0%</td>
<td>2.5%</td>
<td>2.2%</td>
<td>2.1%</td>
<td>1.7%</td>
<td>2.3%</td>
<td>2.1%</td>
<td>1.7%</td>
<td>1.8%</td>
</tr>
</tbody>
</table>

Motability Operations Group plc additional evidence to the Work and Pensions Committee and Treasury Committee: March 2018
Select Committee additional evidence request NUMBER 3, please provide:

- Your assessment of how much higher Motability Operations Group’s customers’ insurance would be if they were not part of the scheme and an explanation of why this is so

**Headline Summary:**

Motability Operations calculates that on average, insurance costs for customers would be £258 a year higher (or £774 over a 3-year lease) if sourced outside the Scheme.

This would typically mean that lease costs would be around 8% higher; but it would be far higher than that for some customers who for reasons of location, age or profile, represented elevated insurance risk.

We also estimate that just over a third of customers would struggle to obtain insurance, either because of their profile, or because their premium would likely be unaffordable at £1,500 or more.

Customers would also have to pay a far higher excess on each claim; Motability customers pay £100, compared to £250 or more in the market.

The reduced cost is achieved through savings on insurance premium tax (£111 a year); no requirement for retailer profit (£31); no interest payments for spreading payments (£91); and the inclusion of additional administration charges such as driver changes and legal expenses cover within the premium (£48).

**Background: Motability Scheme Insurance Proposition**

Insurance is provided to all customers as part of the Motability scheme. As a product it is unique as it complements all elements of the 3 year car lease:

- Insurance costs are fixed for 3 years, whereas typically in the retail market they are limited to annual policies. This insulates the customer from premium increases during the entire life of the car lease with this longer risk carried by Motability Operations.

- Insurance is available universally across the scheme and priced irrespective of demographic factors, such as age or geography. As a result there is cross subsidisation across the customer base with customers paying an average cost based price.

- We estimate that just over a 1/3rd of our customers would be in demographic groups that would prevent them either obtaining insurance in a retail environment or where their typical annual premiums would be in excess of £1,500 and as such is likely to be unaffordable.
• Critically the scheme allows young customers to obtain insurance that would not be available in the retail market at an affordable level providing mobility and access to education, social and employment opportunities. By way of example, a typical 18 year old customer in Birkenhead would pay £6,300 (Comparethemarket.com) to insure a Ford Kuga for a year and £1,969 (Comparethemarket.com) in Loughborough. In Birkenhead this is 8 times higher than the Motability scheme price.

• At £100 the Motability scheme insurance excess is significantly lower than typically seen in the retail market where excesses are normally set at least at £250. The lower excess means customers aren’t deterred from making claims for smaller accidents or from coming onto the scheme because of worries about being able to afford the excess in the event of an accident.

• Many additional services such as driver changes, legal expense cover and the ability to spread payments over the life of the lease are available at no extra cost, whereas they typically attract additional charges in the retail market.

• Customers benefit from the fact that no Insurance Premium Tax (IPT) is payable on scheme insurance with the saving being fully passed through to customers in lease pricing.
How much higher would costs be if insurance was not part of the scheme?

Motability Operations prices on the basis of actual incurred insurance costs. These are currently running at £772 per vehicle per annum.

Assuming that these costs would be the same for insurance provision outside the scheme, then the additional elements would be as follows:

<table>
<thead>
<tr>
<th>Price Component</th>
<th>Retail Cost Increment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retail Insurer profit margin</td>
<td>£31</td>
</tr>
<tr>
<td>Costs of spreading payments</td>
<td>£91</td>
</tr>
<tr>
<td>Legal Expenses cover</td>
<td>£25</td>
</tr>
<tr>
<td>Driver changes</td>
<td>(Estimate £23 per change of driver)</td>
</tr>
<tr>
<td>IPT</td>
<td>£111</td>
</tr>
<tr>
<td>Overall Incremental Cost</td>
<td>£258</td>
</tr>
</tbody>
</table>

- Insurers would add a retail profit margin to the insurance costs. We estimate this would equate to an additional £31 per annum.
- No interest is charged to cover the cost of spreading payments for Motability customers. In the retail market a risk premium of 11% would be charged for a typical scheme customer. This would add £91 to the cost per annum.
- Legal expenses cover is included as part of the Motability scheme insurance but would typically be charged for separately and would add an additional £25 per annum.
- No additional charges are made for Motability customers to changes drivers whereas in the retail market a charge of £23 per change would be levied. This hasn’t been included in the overall incremental cost total as it depends on the number of changes.
- IPT costs of £111. This would be made up of £93 on the equivalent scheme costs and £18 on the incremental costs.

In total this would mean that scheme insurance costs would be £258 per annum higher or £774 per customer lease (increasing lease costs by 8%).
SECTION 2:

Appendices
Appendix A:

Board & Remuneration Committee minutes and papers
Appendix B:

Capital Reserves and Liquidity Requirements
Appendix B: Motability Operations’ Capital Reserves and Liquidity Requirements

Transcript Ref: Q29-47, Q52, Q125

Capital Reserves

As at September 2017, Motability Operations’ Capital Reserves (which are restricted and not distributable to shareholders) stood at £2.4 billion. These Capital Reserves are generated organically from the retained post-tax profit of the business (net of c.£800m in Corporation Tax). These reserves are capital and not cash (the section below goes on separately to describe Motability Operations’ cash/liquidity requirements).

The Capital Reserves serve three important purposes:

i. Provide Protection from Risk

Motability Operations faces a myriad of significant risks and needs to hold capital to ensure that it is capable of withstanding the manifestation of these risks. There have been a number of significant structural changes to Motability Operations’ operating model since the first National Audit Office (NAO) review in 1996, which have resulted in the importation of a range of significant risks.

The structural changes to date were noted in the 2007 NAO Review (report included as Appendix H). Whereas the 1996 NAO report had identified that the biggest risk faced by the Scheme at the time was in relation to prospective changes in corporation tax rates, The 2007 NAO review noted that much had changed since 1996:

“... at the same time as this growth in the Scheme its structure has altered. In particular the risk profile of the Scheme has changed ... From March 1999, Motability Operations purchased cars without the guaranteed buy-back arrangement, a change that lowered the prices at which cars could be sourced. This required Motability Operations to develop a used car sale operation. It also massively increased the direct risk to the Scheme of reductions in residual values.” (emphasis added)

Since 2007 other changes which materially affect Motability Operations’ risk profile include:

- Insurance Risk is now managed in-house;
- Increases in Cyber Risk and Operational Risk; and
- Since 2007 the fleet volume has increased by 35% and the average used-car value, which Motability Operations underwrites, has increased by 58%.

In determining the capital requirement to protect against these risks, Motability Operations utilises a best-practice Economic Capital model which has been subject to regular independent review (most recently in 2017).

As noted in the 1996 NAO Report on the Scheme:

"It is normal business practice to build in a contingency margin into the prices paid by customers to create a contingency reserve to provide against the risks of running a commercial operation. Setting the appropriate level for this contingency reserve is a matter of business judgment".
ii. **Reduce the level of Debt required to Finance the Scheme**

Motability Operations' Capital Reserves also reduces the borrowing requirement. The Capital Reserves are not held as cash, but are invested in the purchase of vehicles, so reducing the financing cost of the fleet. Each pound of capital held by Motability Operations (which is invested in the purchase of new vehicles) reduces the amount borrowed and so also the interest cost to customers. By way of illustration, it would cost over £80m in annual interest costs to borrow an incremental £2.4 billion at 3.5%, increasing lease costs by c.£400 or 4%.

iii. **Reduce the Cost of Debt by enabling access to Competitively Priced Bond Finance**

In practice, it would not be possible to even access competitively priced market-based financing without an adequate capital base. Capital Reserves are crucial underpinning Motability Operations’ investment grade credit rating; without such rating Motability Operations would be unable to access competitive, cost-effective funding from the debt capital markets (bonds). Rather like a mortgage, the Capital Reserves act like the deposit against which lenders are willing to invest in the business. This is particularly important as this lending is on an unsecured basis.

**Liquidity Requirements**

Quite distinct from its capital requirements, Motability Operations has to ensure that it retains appropriate levels of liquidity to operate the business. Whilst the £2.4 billion Capital Reserve is, in its entirety, invested in the purchase of new cars and so in part finances the fleet, Motability Operations has to borrow the balance of c.£4.1 billion. Approximately 90% of this borrowing is in the form of bond finance, with ten bonds currently in issue, with varying maturity dates.

Motability Operations needs to ensure that it holds sufficient liquid cash to meet any upcoming bond repayments (such as the £425m paid back in November 2017 and the £326m due in November 2018) and at the same time retain the liquidity to operate effectively and pay suppliers in a timely manner. By way of context, Motability Operations spends c.£300m on vehicle purchases every month.

Holding an appropriate level of cash headroom to manage these operational and refinancing requirements represents prudent liquidity management.
Appendix C:

Financial Conduct Authority
Appendix C: Financial Conduct Authority

Transcript Ref: Q37, Q42, Q44, Q47

Background

Following a request for clarity by Lord Sterling as to the entities Mr Bailey was referring to in his letter to John Mann MP dated 1st March 2018, Mr Bailey has acknowledged that Motability (the “Charity”) and Motability Operations Limited (Motability Operations Limited) are two separately authorised firms. Motability Operations is a firm authorised to conduct regulated consumer credit activity, the Charity is a credit broker and is the entity referred to in Mr Bailey’s letter of 1st March 2018.

The FCA’s requirement of Motability Operations in respect of its financial resilience is set out in paragraph 4 of their letter dated 1st March 2018, which states “...all FCA-authorised firms are required to have adequate resources. It is an obligation of the firm and its management to ensure that they have sufficient financial resources to meet their liabilities as they fall due. When the responsibility for regulating the consumer credit market transferred from the Office for Fair Trading (OFT) to the FCA in April 2014, a decision was taken not to set out a detailed set of rules and guidance on top of this fundamental requirement.”

Therefore the assessment of the appropriate level of restricted reserves is a matter for Motability Operations to determine and, other than that set out above, is not subject to regulation in respect of its capital requirements. Other than assessing the adequacy of its financial resources against the Threshold Conditions at the time of authorisation, at no point has the FCA audited the Motability Operations Economic Capital model or policy.

As noted in the 1996 NAO Report on the Scheme:

"It is normal business practice to build in a contingency margin into the prices paid by customers to create a contingency reserve to provide against the risks of running a commercial operation. Setting the appropriate level for this contingency reserve is a matter of business judgment".
Thank-you for your letter dated 14 March 2018.

As your letter sets out, there are two Motability organisations that are authorised by the Financial Conduct Authority: Motability (the charity) and Motability Operations Limited. Motability is authorised by the FCA as a credit broker and Motability Operations Limited is authorised by the FCA to enter into regulated consumer hire agreements.

Each firm, in order to be given and to retain its permission, is required to satisfy, and continue to satisfy, the FCA’s threshold conditions set out in Part 1B of Schedule 6 to the Financial Services and Markets Act 2000 (the FCA’s threshold conditions are not relevant since the firms are not dual regulated). The threshold conditions include a condition that a firm has appropriate resources, both financial and non-financial. Guidance in relation to these matters is available in COND¹ (see COND 2.4 (appropriate resources) for guidance specifically relating to the appropriate resources threshold condition).

The firms are not subject to separate prudential requirements.

Andrew Bailey
Chief Executive

¹ https://www.handbook.fca.org.uk/handbook/COND.pdf
Appendix D:

Customer Investments and Charitable Donations
Appendix D: Customer Investments and Charitable Donations

Transcript Ref: Q28, Q54-58

Background

The discussion in the Joint Select Committee touched on the scope for returning ‘surplus’ funds to customers and the prospect of future charitable donations. Relevant extracts from the transcript are copied below:

Q54  Charlie Elphicke: Mr Betts, the variables all seem to be “up, up and away” every year since 2011. Each year you give Lord Sterling’s excellent charity £45 million. Do you not think you could afford to be a little bit more generous than just £45 million and give more money to good causes, as my colleague, Rushanara, was saying?

Mike Betts: Since 2011, because you mentioned that, we have put £970-odd million, most back into investing in the customers, and last year—

Charlie Elphicke: I am talking about charitable contributions.

Mike Betts: The charitable contributions since then are £265 million. This journey to get to reserves sufficiency, which we are now at, will mean you will see those numbers increase.

Q55  Charlie Elphicke: How much?

Mike Betts: It really depends on what the board’s view of risk is as we reach each year end. I would not like to put a number on it. If the 1.5% is exceeded then we would certainly be able to consider that amount as a donation.

Investment of Surplus Reserves

As a not-for-dividend company, any retained profitability over and above that required to underpin the business’s capital requirements is available to either reinvest in the customer proposition (for the benefit of existing and future customers) or to disburse by way of charitable donation to Motability or the Motability Tenth Anniversary Trust to deploy for the benefit of disabled individuals.

This is exactly what has happened to surplus reserves over recent years. Since reaching a point of capital adequacy in 2007 (vis a vis the assessment of risks faced by Motability Operations at that time), management have taken a number of actions to reduce profit levels and to reinvest back into the customer proposition. Since 2007, lease prices have reduced (improving affordability) and at the same time the quality of the customer offering has been enhanced. The table below highlights a range of initiatives which have been implemented since 2007, and the associated investment made. This has been achieved whilst simultaneously improving affordability for customers.
Charitable Donations

Where annual profitability has crystallised above target levels and the growth in capital reserves has outstripped the growth in the capital requirement (see further Appendix B for further detail) Motability Operations has also approved a number of Charitable Donations to both Motability (£265m) and the Motability Tenth Anniversary Trust (£80m). The table below also sets out the donations made to date.

Direct Customer Investments and Charitable donations

<table>
<thead>
<tr>
<th></th>
<th>FY07</th>
<th>FY08</th>
<th>FY09</th>
<th>FY10</th>
<th>FY11</th>
<th>FY12</th>
<th>FY13</th>
<th>FY14</th>
<th>FY15</th>
<th>FY16</th>
<th>FY17</th>
<th>FY07-FY17</th>
</tr>
</thead>
<tbody>
<tr>
<td>ii. Adaptations</td>
<td>2.9</td>
<td>4.6</td>
<td>4.8</td>
<td>5.8</td>
<td>7.5</td>
<td>9.8</td>
<td>9.7</td>
<td>11.7</td>
<td>15.6</td>
<td>19.1</td>
<td>17.2</td>
<td>108.6</td>
</tr>
<tr>
<td>iii. WAV Subsidy</td>
<td>-</td>
<td>-</td>
<td>3.2</td>
<td>4.9</td>
<td>7.4</td>
<td>10.8</td>
<td>15.7</td>
<td>11.6</td>
<td>12.2</td>
<td>12.6</td>
<td>15.2</td>
<td>93.5</td>
</tr>
<tr>
<td>iv. Continuous Mobility</td>
<td>7.5</td>
<td>5.9</td>
<td>5.4</td>
<td>6.3</td>
<td>7.9</td>
<td>9.8</td>
<td>10.8</td>
<td>12.6</td>
<td>16.8</td>
<td>20.3</td>
<td>108.5</td>
<td></td>
</tr>
<tr>
<td>v. Foregone Income</td>
<td>0.1</td>
<td>0.1</td>
<td>0.1</td>
<td>3.3</td>
<td>3.6</td>
<td>2.0</td>
<td>2.1</td>
<td>1.2</td>
<td>-</td>
<td>1.2</td>
<td>8.4</td>
<td>12.4</td>
</tr>
<tr>
<td>vi. Other (RDP, Grants support)</td>
<td>-</td>
<td>-</td>
<td>0.5</td>
<td>0.6</td>
<td>0.6</td>
<td>0.8</td>
<td>1.1</td>
<td>1.0</td>
<td>7.3</td>
<td>9.8</td>
<td>12.9</td>
<td>32.6</td>
</tr>
<tr>
<td>Total</td>
<td>11.9</td>
<td>13.7</td>
<td>15.0</td>
<td>15.7</td>
<td>15.6</td>
<td>15.7</td>
<td>15.6</td>
<td>15.6</td>
<td>15.6</td>
<td>15.6</td>
<td>15.6</td>
<td>15.6</td>
</tr>
<tr>
<td>Charitable Donation</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>30.0</td>
<td>50.0</td>
<td>150.0</td>
<td>25.0</td>
<td>45.0</td>
<td>45.3</td>
<td>345.3</td>
</tr>
<tr>
<td>Donation &amp; Direct Customer Invest.</td>
<td>22.4</td>
<td>24.3</td>
<td>29.0</td>
<td>77.1</td>
<td>54.8</td>
<td>68.0</td>
<td>77.0</td>
<td>75.2</td>
<td>92.2</td>
<td>101.9</td>
<td>115.6</td>
<td>737.4</td>
</tr>
</tbody>
</table>

i. **Good Condition Bonus**: Customers are eligible for a payment of £250 at the end of lease providing that the vehicle is returned in appropriate condition

ii. **Adaptations**: Investment to subsidise a wide range of vehicle adaptations. Many are now provided free-of-charge, with the more expensive adaptations being heavily subsidised

iii. **WAV Subsidy**: The pricing of Wheelchair Accessible Vehicles (WAVs), which require extensive and expensive modifications are subsidised by over £4,000 per lease

iv. **Continuous Mobility**: Investment in the provision of free hire cars; adapted hire cars and where appropriate taxis, in the event that a customer’s car is off the road due to an accident or repair, thereby ensuring the continuous mobility of our customers

v. **Foregone Income**: In the event of a customer’s disability allowance being stopped, Motability Operations allows customers remain in their vehicle for a period beyond the cessation of the allowance. In more recent years this includes the additional support provided to customers who have lost eligibility to the Scheme following the DWP’s reassessment of their condition as part of the roll out of PIP. The support package allows customers to remain in their vehicles for 8 weeks following the cessation of their allowance, and up to 26 weeks for those undertaking a judicial appeal of the DWP’s decision

vi. **Other**: Primarily consists of the subsidisation of the lease price where the customer is also seeking grant funding from Motability. This tends to relate to vehicles requiring significant modification
Looking Ahead

Motability Operations’ response to questions on the prospect of future charitable donations (copied below) is very clear. Motability Operations and Motability concur with the view of the Select Committee that any profit or capital reserves which is determined by the Board of Motability Operations Group plc to be above required levels should be donated to Motability or associated charities for the benefit of disabled customers. That is precisely what has happened since 2007. Looking ahead, management’s view is that the steep growth in the risk profile (and so capital requirement) seen in recent years as the business has gone through various transformations will flatten, providing scope for a higher value and frequency of charitable donations in the future.

Q57 **Chair:** How can you explain Charlie’s graph? If you are only there to use your profits to give to the charity, all Charlie’s questions to you have been why are you not giving more.

**Neil Johnson:** Chairman, that is exactly the point I am trying to make. We are very happy to make charitable donations provided we can see the sustainability of the scheme going forward. As Lord Sterling very eloquently expressed earlier, there are some real concerns in the car market at the moment about the residual values. We have had a sustained run of very high values. Cyclically that always comes to a pretty abrupt end. I wouldn’t like to forecast exactly when it is going to happen but we are pretty clear it is going to, so we need to be certain we have sufficient reserves around. **What is an absolutely valid point to make is that this is a company, a business, which is capable of making sustained and sustainable profits. There needs to be a mechanism, via the charity, which we are very happy with, to distribute those.**
Appendix E:

Bond Yields
Appendix E: Motability Operations Group plc Bond Yields

Transcript Ref: Q40, Q41

Background
Further to the question raised by Mr Mann in the Select Committee on 5th March (copied below), Motability Operations considers it useful to provide some supplementary narrative by way of response:

Q40 John Mann: Is it not true that some of your bonds have negative yields?

Q41 John Mann: A negative yield means that if someone invests in you their money is safer with you than in the bank. Therefore the market is saying that you are not risky, that you are incredibly safe.

Headline Summary

Motability Operations currently has ten bonds in issue, one of which currently reflects a marginally negative yield. All of Motability Operations’ bonds are priced with a risk premium (credit spread) included. However, given the negative interest rate environment in Europe currently, it is not unusual for short-dated EUR bonds (those nearing maturity) in particular to reflect negative yields. The negative yields exist primarily due to the negative Deposit Facility rate established by the ECB (currently -0.4%). The effect can be clearly seen in German government debt which has sub-zero yield for all maturities under-five years; a significant and prolonged period. It is this structural shift in the European interest rate environment which has tipped a number of EUR bonds (particularly those nearing maturity) into negative yield.

Bond Coupons, Pricing and Yield

Bond coupons, when being priced, combine the current government debt interest rates with a risk premium specific to the issuing company. GBP bonds reference UK Gilts and EUR bonds reference German Bunds. The risk premium, referred to as the Credit Spread, reflects the market’s assessment of the risks that the company faces and an assessment of the company’s its ability to manage these risks. Investors will not invest without a Credit Spread – the risk premium to cover their risk exposure. Motability Operations Group plc has issued 12 bonds to date, the pricing of which includes a Credit Spread.

Over a period of years Motability Operations Group plc’s Credit Spread has fallen as investors become more familiar with the company’s strengths and grow increasingly confident in its performance. A lower credit spread results in a lower coupon and hence better value for customers. Investors consider yields when analysing bonds, especially in the secondary markets. The yield represents the return an investor will receive given the current bond price, the coupon rate and the interest rate environment.

Currently Motability Operations Group plc has ten bonds in issue (two have matured). Nine of these have positive yields. One of MO’s EUR bonds has a marginal negative yield (c.-0.15%). Negative yielding bonds are common in the EUR markets at present; especially when that bond is close to maturity. A negative yield does not reflect a change in the investor’s risk assessment of the issuing company, nor does a negative yield indicate a zero-risk issuer either.
The negative yields exist primarily due to the negative Deposit Facility rate established by the ECB (currently -0.4%). This has created the negative rate environment. The effect can be clearly seen in German government debt which has sub-zero yield for all maturities under-five years; a significant and prolonged period. It is this structural shift in the European interest rate environment which has tipped a number of EUR bonds (particularly those nearing maturity) into negative yield.

The negative yield showing on Motability Operations Group plc’s shortest dated EUR bond reflects a combination of the overriding negative rate environment, the bond’s strong rating, and the bond’s short term to maturity (November 2018). The current yield illustrates the bond has more risk than equivalent dated German Bunds for example, but less risk than bonds for lower rated entities where the return remains positive. The bond yield absolutely still prices in Motability Operations Group plc’s risk premium (as it does for all Motability Operations Group plc’s other bonds). The bond has remained in the same position on the risk spectrum; the yield arises due to a shift in the overall market return spectrum.
Appendix F:

Hyundai Kona Lease Cost Comparison
Appendix F: Hyundai Kona Lease Cost Comparison

Transcript Ref: Q93, Q94

Background

A question was raised in the Joint Select Committee by Ruth George in relation to the comparability of an open market quote for a Hyundai Kona, and the Motability Scheme price (copied below along with Mike Betts’ response). Motability Operations thought it useful to provide some additional context.

Q93  **Ruth George:** That is quite interesting. Googling something like a Hyundai Kona on leasehold options shows that it is, without VAT, £190 a month over three years on the open market, whereas you are charging customers £250 a month, but with the options of your enormous amounts of scale that you are able to bring to that. Are you making a profit on these people?

[...]

**Mike Betts:** Every now and again we find a deal where it would appear very competitive. When we get closer to the deal, it often has big exclusions in it, it often has excess charges in it for things like mileage, so it is very rarely a like-for-like comparison. Also, typically it would be a loss leader for a manufacturer on a very small car, which are not that popular in the scheme. What we try to do is put the effort into the really popular cars. They are often the larger ones and the ones that suit disability needs: automatics and so on. There will always be one example but across the piece it is 45% cheaper than you can get on the open market?

Headline Summary:

It is estimated that the total like-for-like three-year cost for a Hyundai Kona 1.0T GDi Blue Drive S 5dr would be £968 cheaper when provided through the Motability Scheme (assuming 8,000 miles per annum) and over £4,000 cheaper per lease if the customer were to drive 20,000 miles per annum
Additional Information

Hyundai Kona vehicle information

The Hyundai Kona is a small crossover vehicle (competitor to the more popular Nissan Juke), released to market and priced on the Motability Scheme in late-2017. There are just 15 Hyundai Konas on the Motability live fleet with a further 20 on order.

LeasingOptions quotation

Given that ‘Leasehold Options’ was not a company that appeared in any Google search that we undertook, we have assumed that Ruth George was referring to LeasingOptions, which offers a Hyundai Kona 1.0T GDi Blue Drive S 5dr at £189.99 per month (excluding VAT) in addition to a £1,139.94 ‘initial rental’ (equivalent to 6 rentals upfront) for a 3 year business lease, plus a ‘processing fee’ of £165.83¹. This lease excludes maintenance, and allows customers to drive just 8,000 miles per year. Over 3 years, this equates to £7,955.42.

Motability scheme price

The same Hyundai Kona 1.0T GDi Blue Drive S 5dr² is available to lease through the Motability Scheme for £58 per week (£251.33 per month), with no initial rental, over 3 years³. The Motability lease is inclusive of maintenance, insurance, a 20,000 mile per year allowance, breakdown cover through the RAC, and no ‘processing fee’. Over 3 years, this equates to £9,048.00 (156 weekly payments of £58.00 per week).

Quotation differences

There are a number of key differences between the LeasingOptions lease and a Motability lease. To make the two leases more comparable, some key additions must be added to the LeasingOptions lease:

1. Mileage allowance

The mileage allowance for a Motability lease is 20,000 miles per year. Increasing the LeasingOptions lease to 20,000 miles per year adds £31.81 to LeasingOptions’ monthly lease cost and £190.86 to the initial rental⁴, taking the total cost up by £1,304.21 over 3 years versus the 8,000 mile lease. For most open market leasing companies (including LeasingOptions), excess mileage fees are typically applicable due to additional depreciation on a higher mileage vehicle.

¹ See figure 1a
² Although the Motability website describes the car as a ‘Hyundai Kona 1.0 T-GDi S 5dr’ (excluding the ‘Blue Drive’ naming convention), figure 2 (a screenshot from CAP) shows that only ‘Blue Drive’ variants are produced
³ See figure 3
⁴ See figure 4a
2. Servicing and maintenance

Motability leases include all maintenance. LeasingOptions’ customers can opt to select a maintenance package via LeasingOptions; for an 8,000 mile lease, this adds a further £13.71 to the monthly lease cost, and an additional £82.26 to the initial rental \(^5\) (£562.11 in total), while for a 20,000 mile lease, it adds a further £45.11 to the monthly lease cost and a further £270.66 to the initial rental \(^6\) (£1849.51 in total). If the customers did not service the vehicle as required, they could be liable for large fees for damage to the vehicle relating to improper maintenance.

3. Insurance

Motability leases include fully comprehensive insurance for all customers, which LeasingOptions’ customers would legally need to source separately to the cost of their lease; Fully-comprehensive annual insurance quotations have been sourced via MoneySupermarket for a typical Scheme customer \(^7\) for both 8,000 and 20,000 miles per year. In both cases, Liverpool Victoria offered the least expensive quote, at £499.50 per year \(^8\) and £649.59 \(^9\) per year respectively; insuring the car for the duration of a 3 year lease would equate to £1,498.50 or £1,948.77 respectively.

4. Breakdown cover

Motability leases include comprehensive breakdown cover via the RAC, including European cover, key replacement, and hire car.

Hyundai offer a ‘Roadside Assistance Programme’ \(^10\) including home-start for five years with their new vehicles. While it is not clear whether Hyundai’s offering includes key replacement or hire car costs, European cover could cost considerably more, depending on the duration of the cover.

---

\(^5\) See figure 1b
\(^6\) See figure 4b
\(^7\) Typical Scheme customer: 59 year old unemployed, married male living in Liverpool (L18). Full UK manual license, 7 years no claims, £250 voluntary excess, no convictions, social driving only, parked on driveway
\(^8\) See figure 5a
\(^9\) See figure 5b
\(^10\) “As part of the 5 Year Unlimited Mileage Warranty package, our Roadside Assistance Programme provides five years of free, 24-hour roadside assistance should your car break down anywhere in the UK or Channel Islands - even at your home address.” – Hyundai.co.uk
5. Other worry free elements

Other less-quantifiable elements are detailed below:

<table>
<thead>
<tr>
<th>Motability scheme</th>
<th>Retail offerings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lease costs</td>
<td>Lease costs between £9,000 and £10,000 over 3 years</td>
</tr>
<tr>
<td>Credit</td>
<td>No credit checks</td>
</tr>
<tr>
<td>Maintenance</td>
<td>Full cover for servicing, maintenance and tyres</td>
</tr>
<tr>
<td>Breakdown cover</td>
<td>Full cover, including Home Start and European cover</td>
</tr>
<tr>
<td>Insurance</td>
<td>Full comprehensive cover</td>
</tr>
<tr>
<td>Adaptations</td>
<td>Wide range at no extra cost</td>
</tr>
<tr>
<td>Early termination</td>
<td>No penalty for reasonable needs</td>
</tr>
<tr>
<td>Mileage limits</td>
<td>66,000 at no charge</td>
</tr>
<tr>
<td>Excess mileage</td>
<td>5p per mile charge only after 60,000 miles</td>
</tr>
<tr>
<td>Geographical coverage</td>
<td>Available UK-wide</td>
</tr>
<tr>
<td>Customer support</td>
<td>Single telephone number - ‘Worry-free’ proposition, achieving 98% satisfaction</td>
</tr>
</tbody>
</table>

Like for like price comparison

Using the Hyundai Kona 1.0T GDi Blue Drive S 5dr as an example, the total 3 year cost to a Motability customer would be £9,048, inclusive of all maintenance, insurance, and breakdown cover. Once a LeasingOptions customer has paid for maintenance (proper upkeep of the vehicle is required to avoid potentially large damage fees) and insurance (a legal requirement), the total cost of a 3 year, 8,000 mile lease could equate to £10,016.03, while the more comparable 3 year, 20,000 mile lease could cost £13,057.91. As such, the total cost for Motability customers for the Hyundai Kona 1.0T GDi Blue Drive S 5dr could be £4,009.91 less expensive than a comparable lease from LeasingOptions:

<table>
<thead>
<tr>
<th>Leasing Options: 3yr, 8k miles per year, Excluding maintenance</th>
<th>Leasing Options: 3yr, 8k miles per year, Including maintenance</th>
<th>Leasing Options: 3yr, 20k miles per year, Including maintenance</th>
<th>Motability Lease</th>
</tr>
</thead>
<tbody>
<tr>
<td>Initial Rental</td>
<td>£1,139.94</td>
<td>£1,222.20</td>
<td>£1,601.46</td>
</tr>
<tr>
<td>Monthly payments</td>
<td>£189.99</td>
<td>£203.70</td>
<td>£266.91</td>
</tr>
<tr>
<td>No. of monthly payments</td>
<td>35</td>
<td>35</td>
<td>35</td>
</tr>
<tr>
<td>Processing Fee</td>
<td>£165.83</td>
<td>£165.83</td>
<td>£165.83</td>
</tr>
<tr>
<td>Total Lease Cost</td>
<td>£7,955.42</td>
<td>£8,517.53</td>
<td>£11,109.14</td>
</tr>
<tr>
<td>Maintenance (source: Leasing Options)</td>
<td>not included</td>
<td>included</td>
<td>included</td>
</tr>
<tr>
<td>Insurance (source: MoneySupermarket)</td>
<td>not included</td>
<td>included</td>
<td>included</td>
</tr>
<tr>
<td>Breakdown Cover (source: RAC)</td>
<td>Hyundai included</td>
<td>Hyundai included</td>
<td>Hyundai included</td>
</tr>
<tr>
<td>3 year Total Cost</td>
<td>£7,955.42</td>
<td>£10,016.03</td>
<td>£13,057.91</td>
</tr>
</tbody>
</table>
*n.b. LeasingOptions’ customers must keep the car maintained and insured. With that in mind, the leftmost quote is for illustration purposes only, but does not represent the total outlay required by the customer to drive the car*

**APPENDIX:**

**Figure 1a:** 8k miles, excluding maintenance

**Figure 1b:** 8k miles, including maintenance
**Figure 4a: 20k miles, excluding maintenance**

---

**Figure 4b: 20k miles, including maintenance**

---

Motability Operations Group plc additional evidence to the Work and Pensions Committee and Treasury Committee: March 2018
Figure 5a: 8k miles per year

Figure 5b: 20k miles per year

Motability Operations Group plc additional evidence to the Work and Pensions Committee and Treasury Committee: March 2018
Great news David, we've found 36 quotes for comprehensive cover on a 2018 HYUNDAI KONA without no claims discount protection, voluntary excess of £250 and paying annually for you to choose from.

You can check your policy details to make sure we've got all the right details.

<table>
<thead>
<tr>
<th>Insurer</th>
<th>Annual Price</th>
<th>Excess</th>
<th>Legal expenses</th>
<th>Personal accident</th>
<th>Breakdown cover</th>
<th>Windscreen cover</th>
<th>Towage cap</th>
</tr>
</thead>
<tbody>
<tr>
<td>LYE</td>
<td>£649.99</td>
<td>£250</td>
<td>£24.40</td>
<td>Tick</td>
<td>Tick</td>
<td>Tick</td>
<td>Tick</td>
</tr>
<tr>
<td>LYE PLUS</td>
<td>£669.99</td>
<td>£250</td>
<td>£24.40</td>
<td>Tick</td>
<td>Tick</td>
<td>Tick</td>
<td>Tick</td>
</tr>
<tr>
<td>LYE</td>
<td>£889.99</td>
<td>£250</td>
<td>£24.40</td>
<td>Tick</td>
<td>Tick</td>
<td>Tick</td>
<td>Tick</td>
</tr>
</tbody>
</table>

Figure 6:
Appendix G:

Transformation Timeline
Executive summary

- Founded in 1978, the Motability Scheme is a social enterprise that sees public and private sectors working together, with a financial services company operating the Scheme under contract to Motability, the Charity.

- In its early days, while the Scheme did meet the objective of providing a mobility solution to those in receipt of the relevant allowances, customer service was inconsistent, choice was limited, there was little focus on specific disability needs.

- These views were echoed in the findings of the 1996 National Audit Office (NAO) report on Motability, which identified the need to focus on value for money, to better leverage purchasing power, to consider introducing more competition into financing arrangements and to address inadequacies in the suitability of vehicle adaptations.

- In 1999 Motability Operations (then Motability Finance Ltd) assumed the responsibility for the residual value risk and resale of vehicles on its fleet, with the first of these vehicles due back in 2002 following the three year lease. By 2002, the finances of the Scheme were in a precarious position.

- Given this challenge and in order to address the wider issues identified in the 1996 NAO report, there was recognition among stakeholders that fundamental change was needed. Consequently in 2002, following representations from Motability, a new management team was brought in from commercial businesses to lead the transformation of the organisation.

- The team have since built Motability Operations into a highly successful business, with a modern, commercial, customer-centric model which delivers outstanding results for its customers.

- The 2007 NAO Report into progress against the 1996 recommendations noted that the risk profile and structure of the business had changed and that Motability Operations had “adopted a more customer-centric attitude, focussing on value for money and customer service”.

- The business buys around 10% of the new cars purchased in the UK every year, and plays a significant role in the UK economy. According to an independent report by Oxford Economics in 2018, the Car Scheme generated significant tax revenues of £619 million in 2015/16 and directly created employment for more than 11,140 people in 2015/16, as well as helping more than 629,000 disabled customers.
Customer service is now world class, there is an exceptional level of car choice and affordability, and over £1bn has been generated to invest directly for the benefit of customers.

This £1bn includes £345m of charity donations and direct customer investments, such as providing free adaptations on the Scheme, that in 2017 cost £16m.

The business is run on a commercial basis with tight cost control; admin costs were independently recognised by EY as reducing by 28% between 2002 and 2013.

The business receives no public money; its income comes from customers who choose to use their allowance to lease vehicles and from the sale of over 650 vehicles per day into the highly competitive used-car market.

Background

Through the Scheme, Motability Operations buys around 220,000 cars a year, and leases them back to customers, in a package that includes insurance, servicing, maintenance and breakdown cover.

Originally, a buy-back arrangement existed, whereby dealers and manufacturers carried the risk of used-car values and also underwrote vehicle maintenance costs. They also had significant control over the types of cars offered, which restricted choice.

In 1999, this all changed. Under pressure from manufacturers, who were unhappy with this commitment, and to provide more direct control of the fleet, Motability Operations took over responsibility for underwriting the value of all vehicles. This also required the development of a used car operation from 2002. Both aspects imported significant risk into the Scheme.

This structural change was noted in the 2007 NAO Report. Whereas the 1996 NAO report had identified that the biggest risk faced by the Scheme at the time was in relation to prospective changes in corporation tax rates, the 2007 NAO review noted that much had changed since 1996:

“... at the same time as this growth in the Scheme its structure has altered. In particular the risk profile of the Scheme has changed ... From March 1999, Motability Operations purchased cars without the guaranteed buy-back arrangement, a change that lowered the prices at which cars could be sourced. This required Motability Operations to develop a used car sale operation. It also massively increased the direct risk to the Scheme of reductions in residual values”

This huge change for the business came at a time of low customer satisfaction, and criticism of the Scheme’s value for money – as well as a collapse in used-car values that created a financial crisis for the Scheme.

Motability identified that an expert management team was needed to address this crisis. The team were sourced from competitive businesses, including successful commercial leasing companies, and they set about averting the immediate problems.
The turnaround

The new team looked to deliver sustainable change: transforming customer service; enhancing value for money; and establishing financial sustainability.

A guiding principle was that customers, who pay for services through their allowances, should expect, and receive, first-class service in line with commercial models. The most effective way to do this was to build critical expertise in house, to cover key drivers of customer value, such as residual values and insurance, as well as improving relationships with key business partners.

Based on the team’s experience in commercial leasing, this led to a far-reaching set of structural, cultural and operational changes, with dramatic impact on all measures of satisfaction and choice.

Some headline indicators in terms of the success of the business transformation since 2002 are summarised below:

<table>
<thead>
<tr>
<th>Key Facts Over Time</th>
<th>1996</th>
<th>2002</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customer Numbers</td>
<td>288,000</td>
<td>394,000</td>
<td>629,000</td>
</tr>
<tr>
<td>Customer Penetration</td>
<td>24.2%</td>
<td>25.7%</td>
<td>35.2%</td>
</tr>
<tr>
<td>Renewal Rates</td>
<td>66.0%</td>
<td>70.0%</td>
<td>91.0%</td>
</tr>
<tr>
<td>Customer Satisfaction</td>
<td>95.0%</td>
<td>93.0%</td>
<td>98.0%</td>
</tr>
<tr>
<td>% Cheaper than Benchmark</td>
<td>30.0%</td>
<td>40.0%</td>
<td>45.0%</td>
</tr>
<tr>
<td>Customer Investments &amp; Donations (cumulative)</td>
<td>£34.7m</td>
<td>£34.7m</td>
<td>£1,150m</td>
</tr>
<tr>
<td>Manufacturers on Scheme</td>
<td>19</td>
<td>24</td>
<td>35</td>
</tr>
<tr>
<td>Choices of vehicle models</td>
<td>59</td>
<td>97</td>
<td>168</td>
</tr>
<tr>
<td>Choices of vehicle derivatives</td>
<td>560</td>
<td>964</td>
<td>2,680</td>
</tr>
</tbody>
</table>

Overhead efficiency and culture

During 2002/3 an overhead cost reduction and restructuring programme was carried out which resulted in a 30% reduction in headcount, and restructure of all departments. At the same time, there was a strong focus on engaging employees, and developing a facilitating, customer-centric approach.

The change not only increased employee engagement, but had a positive effect on customer satisfaction, which grew to 9.8/10 over the same period. Employees are passionate about the business and its mission. In the annual staff survey (carried out by Willis Towers Watson), Motability Operations’ employees are the most engaged of any organisation in the UK, (93%), with exceptional customer focus (97%), and in addition exceed many global comparators.
In October 2014, EY were commissioned by Motability to undertake a review of the Motability Scheme overhead cost, and the trend over time. The report concluded:

“EY reviewed Motability Scheme overhead cost information provided by Motability Operations for the period 2002 through 2013. We noted, over this time, the Scheme improved its customer service levels (as independently measured by customer satisfaction scores) to 98%, and the number of models available at nil Advance Payment rose from 62 to 490. Based on the study of the overhead cost information provided, EY conclude that, at the same time as these improvements were achieved, the Scheme also succeeded in reducing its overhead costs per customer by 28% in real terms.”

**Residual value management**

Forecasting vehicle residual values, and achieving the best value for used cars in the market, are some of the most complex and high-risk elements of running the Scheme. In 2002, a high priority was to establish the expertise to set and reforecast values, and deliver a large-scale sales operation capable of selling upwards of 200,000 cars a year.

Today Motability Operations sells around 650 used vehicles per day, seven days a week, generating an annual turnover of over £2.1bn. Brought together, our car purchases and disposals mean we manage transactions worth £14m every day of the week. This activity takes place in the highly-competitive used car market. Sale prices are maximised with c.80% of sales through our value-added channels such as our online e-commerce site, with the remainder through auction.

Motability Operations now manages and underwrites the residual value risk of a fleet of 629,000 vehicles, with an asset value of £6.5bn.

**Financing**

In its early days, Scheme funding was provided by the shareholding banks which own Motability Operations. The 1996 NAO review recommended that “Motability should review the scope for increasing the level of competition for financing [the Scheme]”. Once reserves had built sufficiently to enable this, in 2007 a project was launched to deliver a corporate restructuring to enable funding diversification into the debt capital markets. This progress was noted in the NAO’s 2007 review.

In 2008, the newly incorporated Motability Operations Group plc attained the required investment-grade credit rating, and now maintains a rating of A+/A1 with Standard and Poor’s and Moody’s respectively. Since 2008 the business has issued 12 bonds in the highly competitive debt capital market. Over 90% of our funding is now provided through bond-finance.

The Scheme currently funds £6.5bn worth of vehicles. Around 37% of these assets are ‘self-funded’ through our £2.4bn capital base (‘restricted reserves’), built up through retaining profits. This reduces the need for borrowing to c.£4.1bn. Having our own self-funded contribution means we achieve highly competitive rates, bringing customer costs down. Motability Operations’ most recent bond issuance in 2017 raised €500m 8-year borrowing at an all-in (fully hedged) coupon of 2.061% and £350m over 15 years at an all in coupon of 2.375%.
Motor insurance

Insurance is an integral element of the Motability Scheme customer package, but the Scheme has not been immune to rising costs of premiums.

To offset this, management has put in place arrangements to use the company's capital base to take more of the insurance risk in house. This eliminates the need to pay a return (or profit margin) on insurers’ capital.

In February 2013, the business incorporated MO Reinsurance Ltd (MORL), which uses our own capital and a layered reinsurance structure to enable the Group to retain 80% of all motor insurance risk. This means that we have reduced the Scheme’s motor insurance costs by £40m per annum, and is a highly-productive example of how reserves can be used for the benefit of customers. As well as reducing prices, the new structure has a better spread of risk and the data provided means we can manage this more proactively.

MORL’s turnover is £400m which makes it one of the largest motor insurers in the UK.

Risk management

A business of the scale and complexity of Motability Operations has to handle a range of significant risks:

- Residual Value Market Risk;
- Residual Value Performance Risk;
- Insurance;
- Maintenance Risk;
- Operational Risk;
- Interest rate risk;
- Cyber Risk; and
- Tax risk

While we have comprehensive risk planning in place, it is also critical to us that in the case of a severe economic shock, the sustainability of the Scheme is protected and that customers are cushioned against big price rises.

For this reason, since 2004 Motability Operations has used a best-practice economic capital model to determine capital requirements. This model has been regularly reviewed and independently validated.

The MO financial model is built around being able to withstand a 1 in 10,000 shock, which is in line with the credit rating required to source finance in the debt capital markets.

This rating is important given that Motability Operations has no guarantees from its shareholders or from Government, limited opportunity for diversifying risk and needs to source £4 billion of unsecured long term money.
To provide some context, the table below quantifies the potential impact of a cyclical market shock (a typical shock as opposed to an extreme shock event):

<table>
<thead>
<tr>
<th>Risk</th>
<th>Moderate Stress Sensitivity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Residual Value Index</td>
<td>Inaccurate setting or forecasting of residual values. A 15% error would equate to a £750m exposure</td>
</tr>
<tr>
<td>Residual Value Performance</td>
<td>Failure to achieve the market value of vehicles at the end of lease. A 10% reduction in vehicle sales proceeds = £210m</td>
</tr>
<tr>
<td>Insurance</td>
<td>Unexpected increases in insurance costs/ adverse claims development. Unexpected claims inflation of 10% = £150m</td>
</tr>
</tbody>
</table>

As customer numbers have grown and with the operating model having been transformed, so Motability Operations has taken on more risk. Consequently capital requirements have increased over time. As noted previously this capital serves three purposes:

- to provide protection against shock events;
- to reduce the level of debt required to finance the Scheme; and
- to reduce the cost of debt by enabling access to competitively priced bond finance.

**Risk Transformation timeline**

1999
- Maintenance Risk
  - Motability Operations took on responsibility for underwriting vehicle maintenance risk

2002
- Residual Value Risk
  - Responsible for setting, reforecasting and realising the residual value of the fleet

2008
- Refinancing Risk
  - Corporate restructuring to enable access to the highly competitive debt capital markets

2013
- Insurance Risk
  - In-housing of 80% of fleet insurance risk

2017
- System replacement
  - Successfully replaced core leasing and financial systems
Performance & Proposition

Each step of the transformation of the business has been made with the customer in mind. All customer and financial targets have been consistently met or exceeded over the last 10 years.

Over the past four years, Motability Operations has also invested in new IT infrastructure, replacing its core lease system to increase efficiencies and provide a stable platform for investment in online customer service, supporting the delivery of digital enhancements and self-serve.

Just some examples of the excellent customer outcomes are set out below:

- **Customer Service**
  - 98% Independently measured customer satisfaction;
  - UK’s highest scoring company for customer service in the Institute of Customer Services' UK CSI;
  - 91% Customer renewal rate;
  - 80% calls answered in less than 20 seconds;
  - 94% of customer calls resolved at first contact;
  - 98% trust and 99% of customers recommend the Scheme; and
  - in 2010 an initiative was introduced to route all calls directly through to an adviser, rather than present a recorded menu (removal of the Interactive Voice Recognition system).

- **Value for Money**
  - 45% cheaper than nearest comparable contract hire offering;
  - Over 360 vehicle derivatives available on the price list using only the allowance;
  - Since 2007 Motability Operations has:
    - Invested £737m to subsidise Wheelchair Accessible Vehicles; to provide many adaptations free of charge; to support continuous mobility initiatives and provide a *Good Condition Bonus* which customers are eligible for at the end of each lease; and
    - Donated £345m to Motability to support initiatives such as the Scheme’s Transitional Support arrangements and Specialised Vehicle Fund (previously funded by DWP up to the end of 2015).
Appendix H:

2007 NAO Report
Background

1. **Scope of the work:** This report was prepared by the National Audit Office at the request of the Board of Governors of Motability and with the support of the Department for Work and Pensions (the Department). The examination focused on examining the progress made by Motability against the recommendations set out in the 1996 report by the National Audit Office\(^1\) (NAO), as well as the associated recommendations of the Committee of Public Accounts\(^2\) (PAC). The work was not intended as a full review of the activities of Motability but was prepared solely to provide the Department with an interim assessment of action against these recommendations. The NAO cannot accept responsibility to any other party for any reliance placed on this report for any purpose.

2. **Background:** Motability is a national charity established in 1977 (and subsequently incorporated by a Royal Charter in 1988) to assist disabled people with their mobility needs. Motability directs and oversees the Motability Scheme, which enables disabled people to use the Higher Rate Mobility Component of their Disability Living Allowance or the War Pensioners' Mobility Supplement to purchase or lease a car, powered wheelchair or scooter via the Motability Scheme. For people who choose to join the Scheme, the Department for Work and Pensions, which administers Disability Living Allowance, makes direct payment of customers' benefits to the Scheme. These payments account for most of the income received by the Scheme. In the year ending September 2006, Car Scheme revenue was £993 million.

3. The car leasing operator behind the Motability Scheme was founded in 1978 as Motability Finance Limited (now trading and referred to as Motability Operations) and is currently owned by the five major clearing banks - Barclays, HBOS, Lloyds TSB, HSBC, and the Royal Bank of Scotland. Motability (the charity) oversees the activities of Motability Operations. The banks also provide the funding required to purchase cars for the Scheme. At the end of September 2006, this funding was £2.3 billion.

4. The charity administers the Government’s Specialised Vehicles Fund which provides financial assistance for customers who need to travel in their wheelchairs, either as a passenger or driver. It also raises funds to provide financial assistance to Scheme customers who would otherwise be unable to afford the type of car and adaptations that they need. Motability undertakes research and promotes standards for specialised vehicles and for the supply and fitting of adaptations.

5. The Higher Rate Mobility Component of the Disability Living Allowance (the Allowance) acts as a passport to the Motability Scheme and **any person** in receipt of this benefit can make use

---

1 Comptroller and Auditor General, Motability, HC552, Session 1995-96
2 Committee of Public Accounts, Motability, 12th Report 1997-98
of the Motability Scheme to lease a new car. A wide range of the cars available through the Scheme can be obtained using just the Allowance. In cases where this amount is insufficient, users have the ability to make a small up-front additional payment that covers the difference. This flexibility allows users to pick cars from the Motability list to suit their personal tastes and circumstances.

6. The National Audit Office reported on Motability in 1996. In that report and the subsequent PAC report there were a number of recommendations on how Motability might improve its governance and performance. This report sets out what action has been made against those recommendations.

**Key changes to the Scheme since 1996**

7. The Scheme has grown considerably since 1996 (see Figure 1), with more than 200,000 additional customers. In 2003, Motability and Motability Finance Limited developed distinctly separate roles. Motability has refocused its activities on setting the policy, direction and oversight of the Scheme, fundraising and managing grants for adaptations to vehicles. Motability Finance Limited took on the day-to-day activities associated with the funding and operation of the Scheme for customers, including the processing of applications and early terminations – activities previously handled by Motability. At the same time, Motability Finance Limited began to trade as Motability Operations. Since 2003, Motability Operations has adopted a more customer-centric attitude, focussing on value for money and customer service.

**Figure 1: Summary of key changes since 1996**

<table>
<thead>
<tr>
<th>Criterion</th>
<th>1996</th>
<th>Current (April 2007)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of customers</td>
<td>246,000</td>
<td>460,000</td>
</tr>
<tr>
<td>Proportion of eligible base taking up the Scheme</td>
<td>20%</td>
<td>26%</td>
</tr>
<tr>
<td>Level of satisfaction</td>
<td>Not recorded</td>
<td>96%</td>
</tr>
<tr>
<td>Renewal rate</td>
<td>66%</td>
<td>92%</td>
</tr>
<tr>
<td>Mobility Equipment Fund now called the Specialised Vehicle Fund</td>
<td>£3 million</td>
<td>£9.1 million (estimated to rise to £12.8 million)</td>
</tr>
<tr>
<td>Car scheme revenue</td>
<td>£431 million</td>
<td>£993 million</td>
</tr>
<tr>
<td>Car Scheme Funding</td>
<td>£1.3 billion</td>
<td>£2.3 billion</td>
</tr>
<tr>
<td>Reserves</td>
<td>£46.2 million of Contingency Reserves and £5.5 million of reserves from early termination profits</td>
<td>£438 million (see section on changes in risk profile and use of reserves and surpluses)</td>
</tr>
</tbody>
</table>
Changes to the risk profile

8. At the same time as this growth in the Scheme its structure also altered. In particular, the risk profile of the Scheme has changed, with Motability Operations now taking on more of the Scheme risks from car manufacturers and dealers.

9. At the time of the NAO report in 1996, Motability Finance Limited purchased vehicles on terms which required the either the manufacturers or dealers to buy back the vehicle at the end of the lease period at a guaranteed price. This arrangement left the bulk of risk with manufacturers and dealers, and the price was levied accordingly. At that time, reserves of £19.3 million were judged to be adequate to protect the Scheme from other commercial risks such as changes in Corporation Tax rates. From March 1999, Motability Operations purchased cars without the guaranteed buy-back arrangement, a change that lowered the prices at which cars could be sourced. This required Motability Operations to develop a used car sale operation. It also massively increased the direct risk to the Scheme of reductions in residual values. Following the large reduction in the value of used cars in 1999-2000, Motability Operations concluded that this was not an insurable risk. Using an economic capital model, Motability Operations estimated in 2004 that capital of £450 million should be maintained to protect the Scheme from unexpected risk events. Having reviewed the model with advice from independent experts, Motability agreed with this conclusion.

On the use of competition to reduce internal costs

Motabili ty should review the scope for increasing the level of competition for the financing and administration services provided by Motability Finance Limited. (NAO Report, 1)

The review finds that the requirements of this recommendation have been partially met.

Financing

10. The unique nature of the current arrangements with Motability Operations do not allow for external competition of similar financing arrangements. Motability believes that the benefits to Motability and to its customers from the existing system of a single service provider, responsible both for funding and operating the Scheme, outweigh the potential benefits of having more providers. Motability contends that the most compelling arguments in favour of the current single scheme provider are that this mechanism ensures the long-term commitment of the banks to the Scheme, protects the scale and purchasing power of the Scheme on behalf
of customers, and delivers a consistent service to customers. In the absence of multiple service providers, Motability has sought to ensure that competitive pressures are applied in the Scheme's relationships with all those supplying services to it, generally by competitive tenders and negotiation. Motability also seeks to ensure the competitiveness of the services provided by Motability Operations to the Scheme through scrutiny of their budgets and external benchmarking.

11. Financing arrangements are currently under review, as a result of which Motability expects to have recourse to additional means of financing, including the use of bonds, which is discussed in paragraphs 20 to 24 below.

Non-finance costs

12. Motability aims to encourage improved performance and reduced costs in Motability Operations, and both organisations acknowledge that costs have shown considerable improvements over recent years. Motability encourages active competition of certain key cost elements, for example insurance, coupled with benchmarking against comparator organisation in the car leasing market.

13. The current cost structure of Motability Operations is illustrated in Figure 2.

Figure 2 Motability Operations cost structure

Adminstration

14. Benchmarking exercises against six companies have shown Motability Operations to have an average administrative cost per car of £112, compared to an industry figure of £264. Despite the difficulties of making such comparisons between the Scheme and commercial contract hire companies, Motability accepts this data as an indicator that Motability Operations'
administrative costs are being effectively controlled. In addition, Motability now reviews the annual budget of Motability Operations at the beginning of each financial year.

Depreciation

15. Motability’s activities depend primarily on the state of the UK used car market and the rate of depreciation of the underlying assets (cars). As a result, the treatment of depreciation impacts heavily on Motability’s reported performance. Substantial discounts negotiated by Motability Operations with car manufacturers on list prices have helped reduce the effects of depreciation and residual value risk.

16. Depreciation figures show marked volatility over the past three years compared to other operating expenses. In part this is because in 2004 Motability Operations reclassified depreciation from being finance to operating leases. This accelerated the depreciation rate of leases written before the reclassification period. Most leases are for three years and so the effects of this change in policy will be fully unwound by the end of the 2007 financial year.

Insurance

17. Fleet insurance is tendered competitively on a regular basis. The level of service offered to customers has improved. The emphasis is no longer on returning a pristine, practically unused car at the end of the lease period but on facilitating disabled people’s mobility needs, a cultural shift that Motability acknowledges was necessary. Bonuses are payable to customers who return their cars in good condition at the end of the lease period, an incentive to customers that also enables insurance costs to be held down.

On using purchaser power to deliver a good deal for customers

Motability should ensure that Motability Finance Limited use their considerable purchasing power to drive the best bargains they can for disabled people (PAC Report, (iii)).

The review finds that the requirements of this recommendation have been met

18. Over the last three to four years Motability Operations has used the leverage of its large purchasing power and competition between manufacturers to deliver better value for disabled customers while maintaining and improving standards of customer service. At present, the Motability Car Scheme prices are approximately 30% less than other leasing companies, compared to the 10% reported in 1996 (excluding the benefit of the VAT exemption).

On reducing finance costs

Motability should undertake regular reviews of finance costs, along the lines of the 1995 exercise, to monitor the appropriateness of the profit margin. (NAO Report 2)
The review finds that the requirements of this recommendation have been partially met and work on the remainder is ongoing.

19. The cost of funds is principally determined by the prevailing inter-bank lending rate in effect at the time the agreement was signed. Arrangements need to be reviewed regularly in order to ensure that the Banks are making an appropriate but not excessive margin. The challenge of ensuring that the Scheme is structured in such a way as to secure funding at a fair price has been ongoing.

20. Motability consider that where this figure lies is a judgement which needs to take into account the open-ended nature of the Banks' commitment, their willingness to provide managerial support and expertise, and the levels of any reserves held by Motability Operations against various risks.

21. Transferring the residual value risks of the Scheme from manufacturers and dealers to Motability Operations has led to a lowering of insurance and dealer costs as well as an increase in interest in the Scheme from dealers. But this shift has increased the exposure of the Scheme to risk.

22. In 2004, a review was conducted that recommended the establishment of an economic capital framework setting out how much capital should be held by Motability Operations to protect the Scheme and its customers from unexpected risk events. The principles of this framework were supported by all Scheme stakeholders and they remain in force to date.

23. In January 2006, a Scheme Working Party was established to review how the Scheme is funded with a view to achieving a durable structure which could be benchmarked to ensure value for money and allow access to wider elements of the financial market, including the use of bonds. This review work is still progressing but expected to be completed in 2007, with implementation in 2008.

On the use of surpluses and reserves

Motability should set out in a formal agreement with the banks, the use of any reserves generated by the Scheme. (NAO recommendation 3)

The review finds that the requirements of this recommendation have been met

24. The 2003 agreement between Motability and Motability Operations, as well as the economic capital framework agreed in 2004 ensure that, on an on-going basis, Motability is consulted regarding any changes in the level of Motability Finance Limited’s reserves, the rate and timing of such reserves, and the impact of any such changes on prices to customers. Separate agreements are also in place between Motability and the Banks to ensure that, in the event of
Motability Finance Limited being wound up, any surplus reverts to Motability rather than to the Banks.

PAC urges Motability to ensure that if surpluses are generated in the future, they are identified and returned as quickly as possible to those customers who contributed to them (PAC Report, (vii)).

The review finds that the requirements of this recommendation have been partially met (in so far as is relevant under the new economic capital framework).

25. The new economic capital framework requires that Motability Finance Limited maintain reserves that are within a "corridor" of plus or minus 30% of the target value. At the moment this target equates to a reserve of around £1,000 per car, which is approximately £450 million. Any surpluses generated which would otherwise be in excess of the corridor can be used to improve the value of the Scheme to customers. Excess surpluses are therefore not returned to existing customers in cash but are instead used to improve the Scheme for current and future customers more generally.

26. Examples of increased value to customers made possible by the managed use of reserves include:

- an increase in the allowable mileage from 36,000 miles to 45,000 miles and a reduction in the charge for excess mileage;
- a bonus of £200 to customers who return their cars in good condition at the end of their leases;
- free replacement tyres;
- fair wear and tear extended to include the use of disability related aids (e.g. wheelchair hoists); and
- lower prices for popular car adaptations, some of which are now free to customers.

The average customer remains on the Scheme for seven to eight years. Current customers may therefore benefit from Scheme improvements in their future years on the Scheme. Under this economic capital framework and planned approach to managing reserves within a defined corridor, surpluses (i.e. reserves in excess of the corridor) have not arisen to date and Motability does not expect them to arise in the future.

PAC looks to Motability to progress as quickly as possible the review of the level at which Motability Finance Limited set residual values for vehicles, thus ensuring that the charges levied on users are minimised (PAC Report, (viii)).
The review finds that the requirements of this recommendation have been partially met (in so far as is relevant under the new finance structure)

27. The recommendation on residual values arose primarily because the previous review found that Motability had accumulated some £5.5 million in surplus in three years from the disposal of early terminated cars. At that time, Motability Finance Limited took no risk in the value of cars reaching the end of their leases as they were bought back by manufacturers or dealers at prices which had been agreed at the inception of the lease. This system is no longer in place for both early terminations and those reaching the end of their leases. Accordingly, Motability Operations has developed processes for forecasting and monitoring residual values and the associated risks as part of the Economic Capital framework adopted in 2004, leading to tighter controls.

28. The result is that at the present time Motability Finance Limited has a reserve of £450 million compared to a reserve of £5.5 million arising from early terminations (in addition to Contingency Reserves of £46.2 million) at the time of the first NAO report when Motability Finance Limited had no exposure to residual value risk. The reserves equate to approximately £1,000 per car currently leased to customers. Prices to customers have also come down during the same period and the number of vehicles, including wheelchair accessible vehicles that are available without an additional payment by the customer, has increased.

On the use of customer service targets

Motability should set customer service targets for the services they and Motability Finance Limited provide, and monitor performance against them. (NAO Report, 4)

The review finds that the requirements of this recommendation have been met.

29. Within its contracts with Motability Operations, Motability has agreed customer service targets and regularly monitors performance against them. Performance is monitored through an independent survey of customers each six months, commissioned jointly by Motability Operations and Motability. The survey measures customers' feedback on specific aspects of the service provided including:

- levels of satisfaction with the Car Scheme;
- their willingness to recommend the Scheme to others; and
- their own intention to remain on the Scheme at the end of their current leases.

30. These results and other performance data are discussed monthly between Motability Finance Limited and Motability, and at quarterly meetings with the Governors of Motability. These
Restricted - Audit

processes have worked well in focusing Motability Finance Limited on key customer issues. The results are also discussed with customer groups representing disabled people at meetings every six months and are made available to customers.

31. The latest set of performance data\(^3\) showed high levels of satisfaction, with over 96 per cent of customers saying they are satisfied with the Scheme overall, while 97 per cent intend to renew their leases.

On the use of performance measures

Motability should specify the performance measures that they will use to assess the services provided by Motability Finance Limited. *(NAO Report 5)*

The review finds that the requirements of this recommendation have been met.

32. Within its contracts with Motability Operations, Motability has agreed customer service targets and regularly monitors performance against them. These targets are revised annually and focus on customers' levels of satisfaction with the Car Scheme, their willingness to recommend the Scheme to others, and their own intention to remain on the Scheme at the end of their current leases.

33. Also within the contract Motability has agreed 20 Key Performance Indicators (KPIs) that are used to assess the services provided by Motability Operations. Against each there is an "acceptable" level of performance which Motability expect to see maintained over sustained periods. In agreeing the indicators, Motability took account of an NAO paper, "Motability: Key Performance Indicators", delivered in August 2000, which made recommendations on a suitable performance management framework.

Looking forward

34. While it is good practice to keep the number of KPIs to a manageable number it is also necessary to continually review them to ensure that they are informing the most important aspects of the business and acting as levers with which to improve performance.

35. The indicators currently in use were determined in 2002 to be the most suitable ones to provide Motability with a true picture of performance across the Scheme. Some of the thresholds and definitions have been altered slightly to reflect better understanding of customers experience and needs but in the main the KPI set is intended to be long term those that will remain in force until 2010. Motability reviews and, where necessary, adjusts the performance indicators annually each October. Performance is almost universally high e.g. customer intention to

\(^{3}\) September 2006 – random selection of customers with cars
Restricted - Audit

renew is at 96% and customers’ willingness to recommend the Scheme is also at 96%, and it is hard to see what benefit will be gained by raising the target levels any higher.

On clarity of roles and the provision for good governance

Motability should set out clearly, in a revised agreement with Motability Finance Limited: the roles and responsibilities of the organisations involved in the Scheme; and the information the Governors of Motability require to fulfil their responsibilities. (NAO Report 6)

The review finds that the requirements of this recommendation have been met.

36. In February 2003, the scheme underwent restructuring, and the responsibility for the operations of the car leasing scheme moved from Motability to Motability Operations. This transfer allowed a sharper demarcation of responsibility, leaving Motability with the role of strategy and oversight, while Motability Finance Limited concentrated on the operational side of procuring funding and operating the Scheme by interacting with providers and customers.

37. The 2003 agreement between Motability and Motability Operations established clearly that any information reasonably required by Motability to fulfil their strategic and oversight responsibilities would be provided by Motability Operations on an ongoing basis. Motability reports that to date there have been no difficulties in obtaining any information that has been requested and that information flow in the form of reports on KPIs has been regular and sufficient to allow the governors to fulfil their responsibilities. Oversight of the Scheme is carried out by a dedicated team at Motability, reporting to the Scheme Oversight Committee (SOC). The SOC is a sub-committee of the Board of Governors of Motability, with attendees from Motability, Motability Operations and route2mobility as required. It meets quarterly to review the performance of the Scheme and to consider any policy, performance or strategic issues that arise. Meetings are scheduled in advance of the Board of Governors meeting each quarter to enable the Chair to summarise the discussions and provide appropriate updates and recommendations to the Board.

PAC notes that Motability is in the process of strengthening their Board of Governors to ensure that they have the necessary business skills to oversee the Motability Scheme. PAC considers that in doing so Motability should seek to ensure that the membership of the Board reflects as broad a cross-section of society and of Motability users as possible (PAC Report, 4 (xii)).

The review finds that the requirements of this recommendation have been met

38. While ensuring that the Board has the necessary broad range of skills to oversee the Scheme, Motability also recognises the benefits of ensuring that the Board includes Governors from a
wide variety of backgrounds. Since 1996, Motability has added seven new Governors, replacing five former Governors, with a variety of backgrounds and considerable experience in the areas of finance, insurance, leasing, fundraising and disability which are relevant to Motability's business.

### On disseminating information to customers

| Motability should provide key performance information to disabled people using the Scheme. |
| (NAO Report 7) |

The review finds that the requirements of this recommendation have been met.

39. Motability and Motability Operations meet regularly with representatives of disability groups to share data on performance and plans and also to solicit their feedback and input into the running of the Scheme and customer experience.

40. Information on certain KPIs (customer satisfaction, comparative value-for-money, affordability, continuous mobility) is provided to disabled customers using the Scheme through annual reports. The reports are freely available on Motability's website. Individual indicators and what they mean for customers form the basis of occasional articles in the Lifestyle magazine which is distributed free to all current customers on a quarterly basis.

### On reducing waiting times for grants for adapted vehicles

| PAC is concerned that it takes so long to take decisions on grants from the Mobility Equipment Fund and that waiting times have deteriorated from 12 to 18 months. PAC looks to Motability to bring the waiting time back to 12 months quickly and then to seek ways of reducing it further (PAC Report, 4 (x)). |

The review finds that the requirements of this recommendation have been met.

41. The average waiting time to give applicants a decision on their first grant from the Mobility Equipment Fund was around 18 months in 1996. At present, the comparable average waiting time for the Specialised Vehicles Fund (formerly the MEF) is less than six months. The number of recipients who have vehicles funded in part by the SVF has increased and is now over 1,000 in 2005-06, compared with approximately 700 per annum in 1996.

42. Increased Government funding for the Specialised Vehicles Fund (£8m in 2005-06 against approximately £3m per annum in 1996), coupled with the reductions in the prices of wheelchair accessible vehicles on the Scheme, have helped generate this improvement. Motability and Motability Operations' internal processes have been amended to help drive down the time it takes to process grant applications. In addition, over 1,000 customers each
year are now able to afford wheelchair accessible vehicles on the Scheme without the need for additional assistance from the SVF.

43. It still takes almost 3 years for a customer requiring a “drive from wheelchair” adapted car to get their vehicle, so there is a lot of room for improvement in the overall process. Motability is aware of this and over the last two years has changed its processes to bring these waiting times down. For example, purchasing of these vehicles moved from the grants department of Motability to Motability Operations in 2005 to take advantage of its greater commercial experience and purchasing power to bring down costs and lead times.

44. Motability is also examining every stage of the process to see where time can be saved. The most important time savings identified so far have come from starting with a more standardised wheelchair accessible car and then adapting this further to the individual needs of a “drive from wheelchair” customer. Motability recognises that there is still a long way to go before service levels for this customer group is truly satisfactory.

**On securing better deals for wheelchairs and scooters**

PAC urges Motability to intensify its efforts to secure more competitive prices (on wheelchairs and scooters) while maintaining the high quality of the service they provide *(PAC Report, 4 (iv)).*

The review finds that the requirements of this recommendation have been met

45. Motability and its wheelchair and scooter service provider, route2mobility Ltd, have continued to make progress in achieving enhanced value and lower prices for customers of the Powered Wheelchair and Scooter Scheme. Standards are maintained by a programme of dealer accreditation and training programmes. Lower prices for customers have been secured by route2mobility. These amount to 20% for scooters (which is 85% of the business) and 10% for powered wheelchairs, which is an improvement compared to the overall 5% reported in 1996.
Appendix I:

Tax
Appendix I: Taxation, VAT and the Economic Impact of the Motability Scheme

Transcript Ref: Q23-27

Background

The discussion in the Joint Select Committee touched on the VAT and IPT concessions which apply to Motability Operations in operating the Motability Scheme. Motability Operations thought it useful to provide some context around how those concessions are used to directly reduce the prices for customers; to provide some wider context around Motability Operations’ tax affair; and to provide insight into the wider economic benefit that the Motability Scheme provides for the UK economy as well as in terms of tax revenues for the Her Majesty’s Treasury.

VAT and IPT

In addition to the general tax provisions applicable to car finance/leasing, there are various specific tax provisions which are directly applicable to Motability Operations’ business:

- VAT zero-rating as enabled by the VATA 1994 Sch.8 Group 12 item; and
- An IPT concession under Finance Act 1994 Schedule 7A.

As discussed in the Joint Select Committee, the VAT zero-rating is worth between £600m-£700m and the IPT concession £60m per annum respectively. The full value of these tax concessions is passed on into customer pricing i.e. the disabled customer is the beneficiary. To put this in context, the VAT zero-rating is worth in excess of £3,000 per lease (leases would be over 30% more expensive without this zero-rating). Without the VAT concession, the Motability Scheme would not be affordable for the vast majority of disabled customers. The cost to Government is much less than £600m-£700m as customers would be unlikely to source a new car outside the Scheme.

As noted in the 1996 NAO report into the Motability Scheme, lease prices were 30% cheaper than a comparable leasing proposition (including the VAT concession), and 10% cheaper excluding VAT advantages. This is currently tracking at 45% and 25% respectively – a 15% improvement in value for money.

Corporation Tax & Tax Strategy

Motability Operations Group plc fully complies with all its tax obligations and pays full UK tax. It does not deploy any aggressive tax planning schemes and its policy is to operate within the rules and intended spirit of all tax legislation. For the avoidance of doubt, Motability Operations Group plc’s subsidiary on the Isle of Man, has been set up for operational purposes and has been structured to ensure that it pays full UK corporation tax on any profits.
The table below sets out Motability Operations’ direct tax contribution over the last ten years; in building capital reserves to the current position (£2.4 billion) it is estimated that Motability Operations has paid c.£800m in corporation tax.

Motability Operations’ tax strategy is included at the end of this appendix and is also available on the corporate website via the following link:


<table>
<thead>
<tr>
<th>Taxes payable in respect of period:</th>
<th>FY08 £'m</th>
<th>FY09 £'m</th>
<th>FY10 £'m</th>
<th>FY11 £'m</th>
<th>FY12 £'m</th>
<th>FY13 £'m</th>
<th>FY14 £'m</th>
<th>FY15 £'m</th>
<th>FY16 £'m</th>
<th>FY17 £'m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporation tax</td>
<td>92.5</td>
<td>0.0</td>
<td>37.8</td>
<td>8.0</td>
<td>13.4</td>
<td>45.3</td>
<td>55.4</td>
<td>71.9</td>
<td>57.3</td>
<td>38.6</td>
</tr>
<tr>
<td>PAYE</td>
<td>6.0</td>
<td>6.3</td>
<td>6.8</td>
<td>7.0</td>
<td>8.0</td>
<td>8.4</td>
<td>8.5</td>
<td>9.2</td>
<td>9.7</td>
<td>10.4</td>
</tr>
<tr>
<td>NIC</td>
<td>4.4</td>
<td>4.6</td>
<td>4.9</td>
<td>5.0</td>
<td>6.1</td>
<td>6.3</td>
<td>6.6</td>
<td>7.1</td>
<td>7.4</td>
<td>7.7</td>
</tr>
<tr>
<td>Business rates, stamp duty and other levies</td>
<td>0.6</td>
<td>0.6</td>
<td>0.6</td>
<td>0.7</td>
<td>0.9</td>
<td>0.9</td>
<td>0.9</td>
<td>0.9</td>
<td>1.1</td>
<td>1.4</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>103.5</strong></td>
<td><strong>11.5</strong></td>
<td><strong>50.1</strong></td>
<td><strong>20.7</strong></td>
<td><strong>28.4</strong></td>
<td><strong>60.9</strong></td>
<td><strong>71.4</strong></td>
<td><strong>89.1</strong></td>
<td><strong>75.5</strong></td>
<td><strong>58.1</strong></td>
</tr>
</tbody>
</table>

The Wider Economic Impact of the Motability Scheme

When considering the quantum of the VAT and IPT concession, it is also relevant to look at this in the context of the wider economic benefit generated by the Motability Scheme. In 2018 Oxford Economics produced a report which undertook an assessment of the impact of the Motability Scheme on the UK economy. The full report is included as an Appendix L however, the executive summary is copied below:
EXECUTIVE SUMMARY

The Motability Car Scheme draws upon many different firms to provide affordable, worry-free motoring to hundreds of thousands of people with disabilities in the UK. The provision of suitable cars with worry-free packages involves UK car manufacturers, retailers and distributors, and firms that provide vehicle adaptations, servicing and repairs, insurance, and breakdown cover.

This report investigates how Motability Scheme expenditure stimulates economic activity at these firms. It considers the employment, value added, and tax revenues created by the firms directly engaged in providing and maintaining the cars. The report then investigates the indirect effects through supplier purchases made in order to fulfill the car manufacturers', retailers' and distributors', and worry-free motoring companies' orders. Lastly, it also explores the economic activity created when the employees engaged in providing the cars, and throughout the firms' supply chains, spend their wages in the wider consumer economy, known as the induced impact.

Motability Operations and the firms engaged in providing and maintaining Motability cars directly generated a £2.1 billion gross value added contribution to UK GDP in 2015/16. Through their spending with UK suppliers and payment of wages, the firms involved in the Motability Car Scheme supported a further £1.3 billion gross value added contribution to GDP. The total contribution, of £3.4 billion, accounted for 0.2 percent of the UK's total GDP for that year.

The Motability Car Scheme directly employed more than 11,140 people in 2015/16. A further 10,360 people were employed throughout the length of the supply chains providing goods and services to firms involved in the scheme, and 10,950 jobs were supported by the wage-financed spending of its employees. This means that one in every thousand UK jobs, some 32,450 in total, were in some way reliant on the Motability Car Scheme.

The car scheme also generated significant tax revenues to the Exchequer of £611 million in 2015/16. This included £244 million in corporation tax, income tax, and National Insurance Contributions paid on the profits and wages of firms engaged in the provision and maintenance of cars. A further £567 million in taxes on sales, profits, and wages was created through the indirect and induced channels of impact.
With its aim of assisting disabled people with their mobility needs, the impact of the Motability Car Scheme on the UK goes far beyond its core economic contribution. In 2015/16, suitable, affordable cars were provided to 632,800 customers, many of whom did not have a household car before joining or were unable to make use of a household car. Being able to travel more easily and comfortably improves customers’ independence, and widens access to healthcare, education, employment, and social activities.

The Motability Car Scheme saved an estimated £70 million in hospital transfers in 2015/16. Customers being able to drive themselves, or be driven by a family member or friend, also reduced the cost to the NHS of missed appointments, with missed outpatient hospital appointments estimated to cost up to £112 each. These savings for the NHS are in addition to the private benefits to customers of being able to travel more easily and regularly access medical treatment, and the reported physical and mental health benefits of being able to get out of the house on a more regular basis.

The Motability Car Scheme helped customers and their family members pursue formal education worth an estimated £161 million in potential annual earnings in 2015/16. Approximately 49,400 customers and carers were able to study for qualifications thanks to their Motability car, improving their employment prospects. The benefits of thousands of people acquiring new skills and knowledge will also ripple out into the wider economy, boosting the UK’s productivity.

By enabling customers and informal carers to get and retain jobs, the Motability Car Scheme supported an estimated £1.8 billion in wages in 2015/16. This has further benefits for the UK economy, boosting demand for consumer goods and services, generating tax revenues, and reducing government expenditure on welfare payments.

The value of Motability customers being able to visit friends and family more often was worth around £4 billion in 2015/16. This is just one of the benefits a Motability car has for customers’ social lives. Other potential benefits include being able to participate in a wider range of recreational, leisure, and sporting activities.
Motability Operations
Tax Strategy
September 2017

Overall strategy
The overarching principle guiding Motability Operations’ tax strategy is to comply with the requirements of, and the intentions underpinning, all relevant tax legislation and to maintain an open and constructive relationship with HM Revenue & Customs (HMRC). Our primary objective is to pay the right tax, in the right place and at the right time.

Approach to risk management and governance
Consistent with our wider approach, we operate comprehensive risk management and governance processes in relation to all tax matters. This is overseen by our Risk Policy & Compliance Committee (RPCC), which is a sub-committee of the Executive Committee and which also reports independently into our Group Audit Committee. A report on tax management, developments in tax relevant to the Group, including any areas of uncertainty is presented to and considered by each of the quarterly RPCC meetings. The Finance Director, as Senior Accounting Officer, receives regular briefings on tax matters from the Head of Financial Control and Financial Reporting & Tax Manager, including briefings specifically as part of the Senior Accounting Officer certification process. By virtue of Executive Directors’ membership of the RPCC, and Independent Non-Executive membership of the Audit Committee (including the Senior Independent Director) we thereby provide transparency in respect of all key tax matters, and ensure that decisions made are consistent with the strategic principles set out above.

Employment Taxation
Day to day management of employment taxes is the responsibility of the Human Resources (HR) function. The Corporate Services Director (to whom the HR function reports) is responsible for ensuring that the necessary skills and experience are available to deliver effective management of employment taxes. The management of employment taxes includes the requirement to ensure that deductions are made in accordance with legislation and relevant communications from HMRC, and that amounts due to HMRC are paid on a timely basis. All employees are paid through PAYE.

VAT and Corporation Taxation
Day to day management of other taxes (principally VAT and corporation tax) is the responsibility of the Finance function. The Finance Director is responsible for ensuring that the necessary skills and experience are available to deliver effective management of these taxes. Controls include reconciliations with accounting records and management reviews of calculations and returns.

Attitude towards tax planning
We do not engage in artificial tax arrangements or aggressive tax planning. Where it is necessary to interpret tax legislation, we adopt an approach which we would consider to be viewed as reasonable, and consistent with its intended purpose. We engage proactively with HMRC to discuss any areas of uncertainty.

The UK Government and HMRC provide various tax incentives and exemptions. We utilise these rules where we consider them to be appropriate to our business and where we consider that our adoption of them is consistent with their intended purpose.
**Attitude to tax risk**
We adhere to relevant tax law and seek to minimise the risk of uncertainty or disputes. In the event of any uncertainty or potential uncertainty in our tax position we seek appropriate professional advice, and where appropriate engage directly with HMRC. We take a responsible attitude to the interpretation of tax legislation.

**Approach to dealings with HMRC**
We are committed to maintaining an open and constructive relationship with HMRC. As part of this approach, we seek to ensure that any areas of uncertainty are discussed with HMRC at the earliest opportunity and are resolved through dialogue. We seek to ensure that all returns are completed accurately and submitted within the specified time limits and that timely responses are provided to any questions raised by HMRC.

**Operations outside the UK**
Whilst our fleet operations are wholly within the UK, our captive reinsurance business, MO Reinsurance Ltd (MORL), is located in the Isle of Man. MORL is domiciled in the Isle of Man (IOM), because it is not possible to operate this structure efficiently on the UK mainland. The IOM provides the most appropriate ‘near shore’ option to deliver the Group’s reinsurance arrangements:

- The IOM is a centre of excellence for reinsurance captives and regulates similar vehicles for a number of large UK and multinational companies
- The IOM’s regulatory regime appropriately services the requirements of a business-to-business reinsurance structure, reflecting the relationship between MORL and RSA

From a tax perspective, and as a design principle, the arrangements have been structured to ensure that any profits realised in the IOM through MORL are allocated to Motability Operations Group plc and charged to tax in the UK. This is achieved under the UK Controlled Foreign Company (CFC) rules. These rules, contained in sections 371AA to 371VJ of Taxation (International and Other Provisions) Act 2010, impose a charge to tax on a parent company of the profits of non-resident subsidiary companies in certain prescribed circumstances.

The Group has obtained a letter of non-statutory clearance from HMRC agreeing this principle, and confirming that all profits of MORL are chargeable to tax in the UK, and that it does not benefit from a lower level of taxation than would be incurred if the captive were based in the UK.
Appendix J:

Provision of False Information Claim: Rebuttal
Appendix J: Provision of False Information Claim: Rebuttal

Transcript Ref: Q36, Q42, Q47

Background

During the course of the Joint Select Committee, Mr Mann accused Mike Betts of giving false information. One such extract is provided below:

Q47  **John Mann:** A final question. Is it not the case that in reality what we have here is a very good scheme that now has become rather bloated, where there is no risk and with little bits on the side, little bits of extra profit for the banks and a little bit of comfort for you. Hence why you keep giving us false information, such as you, Mr Betts, suggesting that the regulator requires this level of risk protection when that is not the case and when the bond market demonstrates that because you are so low risk that people are better off putting money in a bond with you than leaving it at 0% interest in a bank.

Motability Operations’ Response

Motability Operations totally refutes the accusation that any false information was provided. On the specific point raised by Mr Mann, Mike Betts clearly stated on a number of occasions that the reference to any regulator was as benchmark only (Mike only made reference to the Bank of England Stress Tests and Solvency II). Mr. Mann appears to have interpreted Mike’s reference to the Bank of England as a “regulator” and in turn has interpreted this as being the FCA. Furthermore, Mr. Mann’s interpretation of the FCA letter was erroneous given the quoted section of the letter related to Motability (the Charity) and not Motability Operations. As set out in **Appendix C**, Motability Operations is not regulated for capital purposes.

Q36  **John Mann:** What you are basically saying is the regulator requires you to keep something like £2.4 billion in reserves to cover risk.

**Mike Betts:** They do not require us, because we are not regulated by them. What I am saying is that would be their benchmark, which is obviously one thing we can look at.
Appendix K:

UK Institute of Customer Service
Appendix K: Motability Operations Group plc – Customer satisfaction

Background

UK Customer Satisfaction Index (UKCSI) is The Institute of Customer Service’s (ICS) national measure of customer satisfaction. The survey gives a unique insight into the quality of customer service in the UK as whole and 13 sectors of the economy individually. It is based on a twice yearly online survey of consumers which is demographically representative of the UK population.

The ICS’s UKCSI process requires enough customers to choose to mention the Motability Scheme in order to be included in their national survey, which to date has not happened (due to the size of the Motability Scheme customer base relative to the UK population); however, we engage the ICS to carry out a benchmarking survey using the same method but targeting our customers to provide an independent comparison with the UKCSI. Figure 1 shows how Motability Operations’ most recently published customer satisfaction levels compare to the averages for the Banks & Building Societies sector (Motability Operations is categorised in this sector for ICS survey purposes).

Figure 2 shows the scores for the top 25 customers detected in the ICS survey published in January 2018. The highest scoring company in this ICS survey was Amazon at 86.6% customer satisfaction. Motability Operations’ latest ICS customer satisfaction score is 94.8%.

Figure 1. Motability Operations’ customer satisfaction compared to ICS benchmarks
Figure 2. ICS top 50 organisations detected in national survey

<table>
<thead>
<tr>
<th>Rank</th>
<th>Organisation</th>
<th>Sector</th>
<th>2017-18 Score</th>
<th>2016-17 Score</th>
<th>2015-16 Rank</th>
<th>Change 2015-16 to 2015-17</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Amazon.co.uk</td>
<td>Retail (Non-food)</td>
<td>86.6</td>
<td>87.3</td>
<td>1</td>
<td>-0.7</td>
</tr>
<tr>
<td>2</td>
<td>first direct</td>
<td>Banks &amp; Building Societies</td>
<td>86.1</td>
<td>84.4</td>
<td>6</td>
<td>1.7</td>
</tr>
<tr>
<td>3</td>
<td>Yorkshire Bank</td>
<td>Banks &amp; Building Societies</td>
<td>85.3</td>
<td>75.3</td>
<td>154</td>
<td>10.0</td>
</tr>
<tr>
<td>4</td>
<td>Superdrug</td>
<td>Retail (Non-food)</td>
<td>85.1</td>
<td>82.2</td>
<td>29</td>
<td>2.9</td>
</tr>
<tr>
<td>5</td>
<td>John Lewis</td>
<td>Retail (Non-food)</td>
<td>85.0</td>
<td>84.4</td>
<td>8</td>
<td>-0.4</td>
</tr>
<tr>
<td>6</td>
<td>Wilko</td>
<td>Retail (Non-food)</td>
<td>85.0</td>
<td>83.6</td>
<td>13</td>
<td>1.4</td>
</tr>
<tr>
<td>7</td>
<td>M &amp; S (Bank)</td>
<td>Banks &amp; Building Societies</td>
<td>84.7</td>
<td>81.7</td>
<td>37</td>
<td>3.0</td>
</tr>
<tr>
<td>7</td>
<td>Nationwide</td>
<td>Banks &amp; Building Societies</td>
<td>84.7</td>
<td>84.4</td>
<td>6</td>
<td>0.3</td>
</tr>
<tr>
<td>9</td>
<td>Jet2holidays.com</td>
<td>Tourism</td>
<td>84.2</td>
<td>84.2</td>
<td>NO DATA</td>
<td>NO DATA</td>
</tr>
<tr>
<td>9</td>
<td>Tesco mobile</td>
<td>Telecommunications &amp; Media</td>
<td>83.3</td>
<td>83.3</td>
<td>19</td>
<td>0.9</td>
</tr>
<tr>
<td>9</td>
<td>Waitrose</td>
<td>Retail (Food)</td>
<td>84.2</td>
<td>84.6</td>
<td>5</td>
<td>-0.4</td>
</tr>
<tr>
<td>12</td>
<td>Greggs</td>
<td>Leisure</td>
<td>84.0</td>
<td>84.0</td>
<td>6</td>
<td>-0.4</td>
</tr>
<tr>
<td>13</td>
<td>Aldi</td>
<td>Retail (Food)</td>
<td>83.9</td>
<td>83.0</td>
<td>20</td>
<td>0.9</td>
</tr>
<tr>
<td>13</td>
<td>Next</td>
<td>Retail (Non-food)</td>
<td>83.9</td>
<td>83.4</td>
<td>16</td>
<td>0.5</td>
</tr>
<tr>
<td>13</td>
<td>Pets at Home</td>
<td>Retail (Non-food)</td>
<td>83.9</td>
<td>83.4</td>
<td>NO DATA</td>
<td>NO DATA</td>
</tr>
<tr>
<td>16</td>
<td>M &amp; S (Food)</td>
<td>Retail (Food)</td>
<td>83.8</td>
<td>85.0</td>
<td>4</td>
<td>-1.2</td>
</tr>
<tr>
<td>16</td>
<td>Premier Inn</td>
<td>Tourism</td>
<td>83.8</td>
<td>82.8</td>
<td>23</td>
<td>1.0</td>
</tr>
<tr>
<td>18</td>
<td>The Trainline.com</td>
<td>Transport</td>
<td>83.7</td>
<td>81.2</td>
<td>49</td>
<td>2.5</td>
</tr>
<tr>
<td>19</td>
<td>Nationwide insurance</td>
<td>Insurance</td>
<td>83.6</td>
<td>81.1</td>
<td>51</td>
<td>2.5</td>
</tr>
<tr>
<td>20</td>
<td>P&amp;O Ferries</td>
<td>Transport</td>
<td>83.5</td>
<td>83.4</td>
<td>16</td>
<td>0.1</td>
</tr>
<tr>
<td>21</td>
<td>Brittany Ferries</td>
<td>Transport</td>
<td>83.4</td>
<td>NO DATA</td>
<td>NO DATA</td>
<td>NO DATA</td>
</tr>
<tr>
<td>22</td>
<td>eBay</td>
<td>Retail (Non-food)</td>
<td>82.9</td>
<td>81.7</td>
<td>37</td>
<td>1.2</td>
</tr>
<tr>
<td>22</td>
<td>Halfords autocentre</td>
<td>Services</td>
<td>82.9</td>
<td>79.1</td>
<td>106</td>
<td>3.8</td>
</tr>
<tr>
<td>24</td>
<td>Netflix</td>
<td>Leisure</td>
<td>82.8</td>
<td>80.8</td>
<td>56</td>
<td>2.0</td>
</tr>
<tr>
<td>25</td>
<td>Ikea</td>
<td>Retail (Non-food)</td>
<td>82.7</td>
<td>79.2</td>
<td>105</td>
<td>3.5</td>
</tr>
</tbody>
</table>

Source: ICS JANUARY 2018
UK Customer Satisfaction Index
‘The state of customer satisfaction in the UK’
Appendix L:

Oxford Economics Report
THE ECONOMIC IMPACT OF THE MOTABILITY CAR SCHEME
MARCH 2018
# TABLE OF CONTENTS

## Executive summary

### 1. Introduction

1.1 The Motability Car Scheme

1.2 Motability’s customers

1.3 The scheme today

1.4 Scope of this study

### 2. Economic impact of the Motability Car Scheme

2.1 Motability Operations

2.2 Impact on the UK car manufacturing industry

2.3 Impact on retailing and distribution of new cars

2.4 Impact on retailing and distribution of used cars

2.5 Impact of vehicle-related expenditure

2.6 Total economic impact of the Motability Car Scheme

2.7 Other economic impacts

### 3. Social impact of the Motability Car Scheme

3.1 Mobility

3.2 Health

3.3 Education

3.4 Employment

3.5 Social inclusion and community participation

3.6 Independent living

### 4. Conclusion

### 5. Appendix: methodology
The Motability Car Scheme draws upon many different firms to provide affordable, worry-free motoring to hundreds of thousands of people with disabilities in the UK. The provision of suitable cars with worry-free packages involves UK car manufacturers, retailers and distributors, and firms that provide vehicle adaptations, servicing and repairs, insurance, and breakdown cover.

This report investigates how Motability Scheme expenditure stimulates economic activity at these firms. It considers the employment, value added, and tax revenues created by the firms directly engaged in providing and maintaining the cars. The report then investigates the indirect effects through supplier purchases made in order to fulfil the car manufacturers’, retailers’ and distributors’, and worry-free motoring companies’ orders. Lastly, it also explores the economic activity created when the employees engaged in providing the cars, and throughout the firms’ supply chains, spend their wages in the wider consumer economy, known as the induced impact.

Motability Operations and the firms engaged in providing and maintaining Motability cars directly generated a £2.1 billion gross value added contribution to UK GDP in 2015/16. Through their spending with UK suppliers and payment of wages, the firms involved in the Motability Car Scheme supported a further £1.3 billion gross value added contribution to GDP. The total contribution, of £3.4 billion, accounted for 0.2 percent of the UK’s total GDP for that year.

The Motability Car Scheme directly employed more than 11,140 people in 2015/16. A further 10,360 people were employed throughout the length of the supply chains providing goods and services to firms involved in the scheme, and 10,950 jobs were supported by the wage-financed spending of its employees. This means that one in every thousand UK jobs, some 32,450 in total, were in some way reliant on the Motability Car Scheme.

The car scheme also generated significant tax revenues to the Exchequer of £611 million in 2015/16. This included £244 million in corporation tax, income tax, and National Insurance Contributions paid on the profits and wages of firms engaged in the provision and maintenance of cars. A further £367 million in taxes on sales, profits, and wages was created through the indirect and induced channels of impact.
With its aim of assisting disabled people with their mobility needs, the impact of the Motability Car Scheme on the UK goes far beyond its core economic contribution. In 2015/16, suitable, affordable cars were provided to 632,800 customers, many of whom did not have a household car before joining or were unable to make use of a household car. Being able to travel more easily and comfortably improves customers’ independence, and widens access to healthcare, education, employment, and social activities.

The Motability Car Scheme saved an estimated £70 million in hospital transfers in 2015/16. Customers being able to drive themselves, or be driven by a family member or friend, also reduced the cost to the NHS of missed appointments, with missed outpatient hospital appointments estimated to cost up to £112 each. These savings for the NHS are in addition to the private benefits to customers of being able to more easily and regularly access medical treatment, and the reported physical and mental health benefits of being able to get out of the house on a more regular basis.

The Motability Car Scheme helped customers and their family members pursue formal education worth an estimated £161 million in potential annual earnings in 2015/16. Approximately 49,400 customers and carers were able to study for qualifications thanks to their Motability car, improving their employment prospects. The benefits of thousands of people acquiring new skills and knowledge will also ripple out into the wider economy, boosting the UK’s productivity.

By enabling customers and informal carers to get and retain jobs, the Motability Car Scheme supported an estimated £1.8 billion in wages in 2015/16. This has further benefits for the UK economy, boosting demand for consumer goods and services, generating tax revenues, and reducing government expenditure on welfare payments.

The value of Motability customers being able to visit friends and family more often was worth around £4 billion in 2015/16. This is just one of the benefits a Motability car has for customers’ social lives. Other potential benefits include being able to participate in a wider range of recreational, leisure, and sporting activities.
1. INTRODUCTION

1.1 THE MOTABILITY CAR SCHEME

The Motability Car Scheme provides an important service in the UK, offering an affordable and convenient way for people with disabilities to obtain cars. Operated by Motability Operations, the Car Scheme takes the stress out of leasing a vehicle by allowing people to exchange their government-funded mobility allowance for a worry-free car lease. The cars are often specially adapted to suit individuals' needs.

The Mobility Allowance (now the disability component of the Disability Living Allowance) was introduced in 1976 to provide all disabled people with financial assistance towards personal mobility, regardless of their ability to drive.1 This cash allowance provided people with greater choice and flexibility, and the founders of Motability—Lord Sterling and the late Lord Goodman—with the basic funding for the Motability Car Scheme.

Motability—a national charity—was founded in 1977 to assist disabled people with their mobility needs, by enabling them to use their mobility allowance to secure an affordable car, powered wheelchair or scooter suited to their needs. To fulfil this objective, the Motability Scheme was established in 1978. The scheme has seen rapid and consistent growth since its inception. From just over 20,000 cars and wheelchairs being supplied to Motability customers in the first five years, to an annual supply of more than 232,000 cars in 2015/16.

1.2 MOTABILITY CUSTOMERS

To be eligible for one of the Motability schemes, customers must be recipients of the Higher Rate Mobility Component of the Disability Living Allowance (DLA), the Enhanced Rate of the Motability Component of the newly introduced Personal Independence Payment (ERMC PIP),2 or either of the War Pensioners' Mobility Supplement (WPMS) or the Armed Forces Independence Payment (AFIP).

1.3 THE SCHEME TODAY

Motability Operations is now the UK’s largest leasing company, and has supplied over four million vehicles since the scheme’s launch, 40 years ago. Recipients of an eligible allowance can choose to join the Motability Scheme to obtain a car, powered wheelchair, or scooter. The contract hire car scheme—the most popular scheme offered—provides customers with a choice of cars every three years, and a “worry-free” package including adaptations, insurance, servicing, tyres, and breakdown cover.

At the end of September 2016 there were 648,000 customers on the Motability Scheme. This means that 36 percent of the 1.8 million recipients of qualifying allowances in 2016 were on one of the Motability schemes. The majority of these, 632,800, are Car Scheme customers, while 15,200 received powered wheelchairs or scooters.

The Motability Car Scheme gives customers a wide choice of cars, from 34 manufacturers. Thanks to its not-for-profit setup, Motability Operations is able to offer prices more than 40 percent lower than comparative commercial hire products. The company further passes on to customers the cost-reducing benefits that arise from three advantages: economies of scale in purchasing, credit security, and tax concessions.

Many models are available to lease on a three-year contract for the same value as three years of mobility allowance, meaning all customers are guaranteed to be able to secure a car. If customers prefer a larger car, or one that is more suitable for their individual needs, there are also many cars available for a higher price. Customers are then required to make an additional payment in advance, with their allowance covering the remaining payments.

1 Prior to the allowance’s introduction, assistance was limited to the provision of trikes to those disabled people able to drive.

2 The Personal Independence Allowance is being introduced gradually to replace the Disability Living Allowance for 16 to 64 year olds.
For customers with more severe disabilities, and therefore greater barriers to mobility, Motability Operations offers a range of solutions on top of its standard offering. The car scheme includes cars with automatic transmission, and cars such as Multi-Purpose Vehicles (MPVs), which are higher than normal sedans, compacts and station wagons, meaning customers find them easier to access and more comfortable to use.

For some Motability customers, further adaptations are essential to help them drive and access their car, or to store mobility aids. Since 2004, Motability Operations has provided a national adaptation price list, and the ability for customers to arrange the installation of adaptations via their dealer when ordering a new Mobility car. In 2006, Motability Operations introduced the New Deal, which gives customers the widest choice of affordable cars, with popular adaptations included for no additional cost, a wider range of more extensive adaptations at affordable prices, and more Wheelchair Accessible Vehicles (WAV) and automatic cars.

For more severely disabled customers, who require a wheelchair all or most of the time and therefore find a WAV to be the only, or most suitable, option for their mobility needs, the Government set up the Specialised Vehicles Fund (SVF) in 1991 to provide additional financial assistance towards WAVs and complex adaptations that are not covered fully by the main mobility allowances. The costs of this are now funded through the Motability Scheme.

1.4 SCOPE OF THIS STUDY

The Motability Car Scheme makes an important contribution to the UK economy, stimulating economic activity across a range of industrial sectors including vehicle manufacturing, dealerships, and insurance. Through its own operations and its expenditure, the car scheme supports employment and output throughout the UK economy. This study quantifies the economic contribution that the Motability Car Scheme made to the UK economy in 2015/16, examining the impact of the operations of Motability Operations itself, the car manufacturing sector, dealerships, and the providers of worry-free motoring services. It does so using three metrics: employment, gross value added to GDP, and tax revenues for the Exchequer.

The study also considers the impact the Motability Car Scheme, and grants from the SVF, have on the lives of its customers and their families. We draw on the results of a wide-reaching survey and discussion groups carried out by Plus Four Market Research Ltd in 2010 to inform this assessment, and apply them to the larger customer base of the scheme today.

\[3\] 2015/16 refers to the year October 2015 to September 2016.
AN OVERVIEW OF ECONOMIC IMPACT ANALYSIS

The economic benefits of the Motability Car Scheme are investigated using an economic impact assessment (summarised in Fig 1). This approach is used to quantify the scheme’s impact across three expenditure channels. These can be understood as follows:

- **Its direct impact**, the economic activity that results from the operational expenditure undertaken to provide and maintain cars for Motability customers;
- **Its indirect impact**, the economic activity that arises from the procurement of goods and services by Motability Operations, car manufacturers, dealers, and other firms involved in the scheme; and,
- **Its induced impact**, comprising the wider economic benefits that arise from the payment of wages by Motability Operations (and the firms in its supply chain), which then get spent by staff in the consumer economy.

Three main metrics are used to present a picture of the economic footprint of the Motability Scheme:

- **GDP**, or more specifically, gross value added contribution to GDP;5
- **Employment**, meaning the number of people employed, measured on a headcount basis; and,
- **Tax revenue**, the estimated fiscal contribution resulting from transactions and employment sustained by the Motability Car Scheme.

The modelling is conducted using an Input-Output (I-O) based model of the UK economy. It uses macroeconomic, employment and tax data published by the Office for National Statistics (ONS) and HM Revenue & Customs (HMRC).

For this study, the direct impact is defined as the operations required to provide and maintain the cars to Motability’s customers. It is made up of:

1. **Motability Operations** (the non-for-profit company that runs the Motability Car Scheme);
2. **Motor manufacturing industry** – the UK manufactured cars plus components (for example, engines) in imported cars leased to Motability customers;
3. **Distribution and retailing of new cars** – the economic activity in the sales outlets and distribution networks required to help a potential customer select and receive a car through the scheme;
4. **Distribution and retailing of used cars** – the activity generated by Motability Operations’ disposal of ex-lease cars; and
5. **Motability Operations’ expenditure on vehicle-related goods and services to provide worry-free motoring** – expenditure on insurance, breakdown cover, servicing, repairs, tyres, adaptations to new cars to make them suitable for disabled drivers, and vehicle hire (when the customer’s car is off the road being repaired).

Note, as parts 2) to 5) lie in Motability Operations’ supply-chain, care has been taken not to double count. In particular, Motability Operations’ expenditure on other inputs of goods and services is excluded.

**Fig. 1: Channels of impact**

A company or sector employs lots of staff. Its operations generate GDP and tax for the authorities.

**DIRECT IMPACT**

It also spends money with suppliers who employ staff and generate GDP. They use other suppliers in turn.

**INDIRECT IMPACT**

Employees (including of the suppliers) spend their wages in the wider economy, generating more GDP, jobs and tax revenues.

**INDUCED IMPACT**

Added together, these three effects—direct, indirect, induced—comprise the total economic impact of the company or sector.

---

5 Gross value added measures the contribution to the UK economy of each individual producer, or sector. It is most easily thought of as the value of output produced by an economic unit less the value of inputs used in that output’s production. Aggregating all economic units’ gross value added plus taxes less subsidies on products gives GDP. GDP is a key indicator of the state of the whole economy, used to measure its growth rate.
2. ECONOMIC IMPACT OF THE MOTABILITY CAR SCHEME

This chapter examines the economic contribution the Motability Car Scheme makes to the UK, exploring each of the channels through which the scheme impacts the economy. This includes the value of the Car Scheme itself, the activity supported in the motor-related industries (e.g. manufacturing, vehicle repair and maintenance), and the wider activity stimulated by the car scheme’s, and related industries’, expenditure.6

2.1 MOTABILITY OPERATIONS

Motability Operations (previously Motability Finance Ltd) was set up with the help of the main clearing banks to work exclusively for the Motability Scheme. Motability Operations is responsible for obtaining finance for car purchase, handling negotiations with manufacturers and dealers for the supply of cars, and for purchasing car insurance, servicing, and breakdown cover.

Motability Operations Group plc’s (2016) Annual Report and Accounts shows that Motability Operations received £2,091 million in revenue in 2015/16.7 It spent £772 million on inputs of goods and services used in the operation of the car leasing business.8 Using the production approach to GDP calculation suggests that Motability Operations made a £1,271 million gross value added contribution to UK GDP in 2015/16. Motability Operations employed 924 people in 2015/16.

The Annual Report and Accounts also show that Motability Operations paid £44 million in Corporation Tax on its profits.9 We estimate that the group’s gross wage payments of £50 million generated a further £16 million of taxes, comprising employees’ and employers’ National Insurance Contributions and income tax.

Motability Operations pays its staff wages which boost the consumer economy. This is estimated to stimulate a gross value added contribution to GDP of £36 million, almost 590 jobs, and £8 million in tax receipts. In order to avoid double counting, the impact of Motability Operations’ procurement of goods and services has not been calculated. This expenditure, on the provision and maintenance of the cars, is captured in the other direct channels.

Taking the direct and induced impacts together, Motability Operations supported an estimated £1,308 million gross value added contribution to GDP in 2015/16. This economic activity sustained 1,510 jobs throughout the UK and £68 million in tax revenues.

2.2 IMPACT ON THE UK CAR MANUFACTURING INDUSTRY

The Motability Car Scheme provides an important stimulus for the UK car manufacturing industry. In 2015/16, Motability customers purchased 232,100 cars through the scheme; of these, 72,100—or 31 percent—were manufactured either wholly or partly (engine or bodywork) in the UK. With a total value of over £500 million, the purchase of UK-built cars and components generates significant activity for domestic manufacturers and their supply chains. This supports employment, gross value added and tax contributions across the UK economy.

Despite uncertainty surrounding the UK’s exit from the European Union, these purchases have contributed to UK car manufacturing reaching a 17-year high level of production.10 Motability Scheme-related purchases accounted for more than 4 percent of the total cars manufactured in the UK in 2015/16.

---

6 Details of the methodology used to calculate these impacts can be found in the Appendix (page 30).
7 This revenue figure excludes disposals of cars. If included, revenue was £4,152 million in 2015/16.
8 This figure excludes expenditure on new cars, as this is classified as capital expenditure in national accounting terms. This is excluded from the calculation of GDP, as it is a ‘gross’ measure of output.
10 SMMT, 17 year high for British car manufacturing as global demand hits record levels, (2017).
The economic impact of the Motability Car Scheme

The purchases made through the Motability Car Scheme provide an important stimulus to some of the UK’s important manufacturing regions. The Nissan Qashqai—manufactured wholly in the North East—accounts for 16 percent of Motability’s UK-manufactured purchases, whilst the Ford Fiesta—equipped with engines manufactured in the UK including in South Wales—and the Vauxhall Astra—with bodywork manufactured in the North West—account for 12 and 9 percent, respectively.

Motability Scheme-related expenditure supported a £131 million gross value added contribution to UK GDP by car and vehicle parts manufacturers in 2015/16. This contribution was made by 1,330 workers whose employment was sustained by Motability Scheme demand. The economic activity at manufacturers also generated £20 million in tax receipts.

To meet the Motability Scheme’s demand for cars, UK manufacturers themselves make purchases of inputs of goods and services from domestic suppliers. In 2015/16, this expenditure stimulated a further £220 million gross value added contribution to UK GDP, some 3,690 jobs, and £53 million in tax revenues. Through payments of wages to staff, car manufacturers sustained another £169 million in gross value added, 2,730 jobs, and £54 million in taxes.

In total, Motability Operations’ purchases from domestic car manufacturers generated a total estimated gross value added contribution of £520 million to UK GDP. Furthermore, the stimulus supported 7,750 people in employment and £128 million in tax receipts for the Exchequer.

The majority of this contribution is generated by the full manufacture of vehicles. In total, 42 percent of the scheme’s UK-manufactured cars were wholly produced in the UK. Although this is lower than the share of cars just with domestically manufactured engines (50 percent) it contributes a considerably larger impact due to the high value of production (Fig. 2).

Fig. 2: The economic impact of Motability Operations’ UK-manufactured vehicle purchases, 2015/16

<table>
<thead>
<tr>
<th>£ million</th>
<th>People</th>
</tr>
</thead>
<tbody>
<tr>
<td>Whole car</td>
<td>9,000</td>
</tr>
<tr>
<td>Car body/final assembly</td>
<td>7,750</td>
</tr>
<tr>
<td>Engine</td>
<td>910</td>
</tr>
</tbody>
</table>

Source: Oxford Economics
2.3 IMPACT ON RETAILING AND DISTRIBUTION OF NEW CARS

The Motability Car Scheme generates further economic activity in dealerships and their support networks, as its purchases of new cars are an important source of business. During the retail and distribution process, both the cars manufactured in the UK and the 160,000 imported cars sold under the scheme pass through domestic dealerships, which earn a margin on each car.

In 2015/16, Motability Operations purchased 232,100 cars at a total value of £2.9 billion. These purchases stimulated economic activity. Using industry-specific ratios for GDP to output, productivity, and tax, we estimate that the sale of new cars purchased through the Motability Scheme created a £69 million gross value added contribution to GDP at dealerships themselves, created 1,040 jobs, and generated £19 million for the Exchequer.

Dealerships’ expenditure on inputs of goods and services stimulated a further £33 million gross value added contribution. Meeting Motability Operations’ demand for new cars supported some 560 jobs throughout dealerships’ supply chains, and gave rise to £9 million in tax receipts. Consumer spending funded through dealerships’ payments of wages supported another £49 million gross value added, 790 jobs, and £17 million in tax receipts.

Combining the direct and knock-on effects supported through the purchase of new cars from local dealerships, the Motability Scheme supported a £151 million in gross value added contribution to UK GDP (Fig 3). Economic activity at dealerships, throughout their supply chains, and supported by employee spending sustained 2,390 jobs and a tax contribution to the Exchequer of £40 million.

Fig. 3: The economic impact of dealership activity, new vehicles

Source: Oxford Economics
2.4 IMPACT ON RETAILING AND DISTRIBUTION OF USED CARS

The Motability Car Scheme generates further activity in the second-hand car market, providing it with a large, reliable supply of used cars. In 2015/16, 236,800 cars purchased through the Motability Scheme were sold into the second-hand market at a total value of £2.1 billion, generating significant activity in UK-dealerships. This represents a plentiful supply of used cars for consumers.

The Motability Scheme’s impact on used-car retailers and distributors is calculated using estimates of the value of used cars when sold to customers, and industry ratios of gross value added to gross output, productivity levels, and tax rates from ONS and HMRC statistics. On the sale of the former Motability vehicles, used-car sales outlets made a £247 million gross value added contribution to UK GDP in 2015/16, employed 3,760 people and paid an estimated £60 million to the Exchequer in taxes.

Used car dealerships’ spending on inputs and wages supported gross value added contributions to GDP of £120 million and £176 million, respectively, in 2015/16. Some 2,000 jobs were supported throughout the firms’ supply chains, and another 2,830 at businesses producing the goods and services to meet the demands of employees’ wage-financed consumption, and their own supply chains. The indirect impact generated £29 million in tax receipts, and the induced impact £57 million.

Adding together the direct and knock-on effects, the Motability Car Scheme’s sale of second-hand cars supported a total gross value added contribution of £542 million to UK GDP in 2015/16. This economic activity sustained 8,590 jobs and generated £146 million in tax receipts.

The disposal of vehicles into the second-hand market has the largest impact in terms of employment (Fig. 4), gross value added and tax contribution of the three industry segments engaged in car provision: car manufacturing, new-car retailing and distribution, and used-car retailing and distribution. This reflects the higher margin dealers can benefit from in the used-car market, when compared to dealership activities related to new cars.

Fig. 4: Employment supported by car manufacturing and dealership activity, 2015/16

Source: Oxford Economics
2.5 IMPACT OF VEHICLE-RELATED EXPENDITURE

The final type of spending through which the Motability Car Scheme stimulates economic activity in the UK is its vehicle-related expenditure. This includes its expenditure on car adaptations, maintenance, servicing, repairs, breakdown cover, and insurance policies. These components form its worry-free motoring offer for its car customers.

In 2015/16, Motability Operations spent £699 million to provide customers with a worry-free motoring package. The majority of this spending, £486 million or 69 percent of the total, was spent on insurance, and repairs (Fig 5). The remaining expenditure was spent on car maintenance, roadside assistance, and adaptations.

To meet Motability Scheme demand, firms providing the components of the worry-free packages contributed £357 million in gross value added in 2015/16. This value added was created by around 4,070 employees. Associated profits and wages generated £87 million in tax receipts.

The first tier of suppliers’ procurement to provide the worry-free packages stimulated a further £252 million in gross value added. Throughout the firms’ supply chains, 4,120 more jobs and tax receipts of £63 million were sustained thanks to Motability Scheme expenditure. Wage-financed consumption by employees at the firms, and throughout their supply chains, supported a £249 million gross value added contribution to GDP, some 4,030 jobs, and £80 million in tax receipts.

In total, Motability Scheme vehicle-related expenditure supported an £858 million gross value added contribution to UK GDP in 2015/16. Taking the economic activity of those firms providing Motability customers with worry-free motoring together with that supported by their operational expenditure and wage payments to staff, Motability Scheme vehicle-related expenditure supported the employment of 12,220 people and £229 million in tax receipts.

Fig. 5: Motability Car Scheme expenditure on worry-free motoring packages, 2015/16

<table>
<thead>
<tr>
<th>Insurance premia &amp; vehicle repair</th>
<th>Maintenance</th>
<th>Roadside assistance</th>
<th>Adaptations</th>
</tr>
</thead>
<tbody>
<tr>
<td>£276 million</td>
<td>£105 million</td>
<td>£84 million</td>
<td>£24 million</td>
</tr>
</tbody>
</table>

Source: Motability Operations
The economic impact of the Motability Car Scheme

2.6 TOTAL ECONOMIC IMPACT OF THE MOTABILITY CAR SCHEME

The total economic contribution that the Motability Car Scheme makes to the UK economy is the five industry segments discussed in sections 2.1 to 2.5.

2.6.1 Gross value added contribution to GDP

The Motability Car Scheme supported an estimated £3.4 billion gross value added contribution to UK GDP in 2015/16. This is equivalent to almost 0.2 percent of the UK’s total GDP in the year. Some £21 billion, or 61 percent, of this contribution was made directly by firms engaged in supplying and maintaining Motability cars. Another £626 million, 19 percent, was supported by the firms’ procurement of inputs of goods and services from domestic suppliers, and £679 million, 20 percent, by staff spending a portion of their wages.

When examining this impact by channel, Motability Operations accounted for the largest share, contributing £1.3 billion gross value added to GDP in 2015/16, some 39 percent of the total (Fig 6). Significant contributions were made by the worry-free motoring firms and car manufacturers, of £858 million and £520 million gross value added, respectively.

Fig. 6: Total contribution of the Motability Car Scheme by type of impact, 2015/16

<table>
<thead>
<tr>
<th>£ million</th>
<th>Gross Value Added (LHS)</th>
<th>Employment (RHS)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Motability Operations</td>
<td>1,308</td>
<td>1,500</td>
</tr>
<tr>
<td>Manufacturers</td>
<td>7,750</td>
<td>520</td>
</tr>
<tr>
<td>Distributors (new cars)</td>
<td>2,390</td>
<td>151</td>
</tr>
<tr>
<td>Distributors (used cars)</td>
<td>542</td>
<td></td>
</tr>
<tr>
<td>Adaptions</td>
<td>8,590</td>
<td>27</td>
</tr>
<tr>
<td>Maintenance</td>
<td>2,130</td>
<td>410</td>
</tr>
<tr>
<td>Roadside assistance</td>
<td>1,760</td>
<td>135</td>
</tr>
<tr>
<td>Insurance and repairs</td>
<td>7,920</td>
<td>587</td>
</tr>
</tbody>
</table>

Source: Oxford Economics
2.6.2 Employment

In total, the Motability Car Scheme supported an estimated 32,450 jobs in the UK in 2015/16. This is an increase of 54 percent, or 11,380 jobs, from 2009. This suggests that nearly one in every thousand jobs in the UK is in some way dependent on the Motability Car Scheme.

Of these, more than 11,140, some 34 percent, were employed in providing and maintaining cars for Motability customers, at Motability Operations, dealerships, manufacturers, or firms providing the worry-free motoring package (Fig 7). A further 10,360 people, 32 percent, were employed throughout these firms’ supply chains. The remaining 10,950 jobs, 34 percent, were supported by the wage-financed spending of the staff employed by the car providers and maintainers, and throughout their supply chains.

The largest share of employment at 12,220 people or 38 percent, was supported by Motability Scheme related expenditure with firms supplying worry-free motoring. This includes the firms adapting and maintaining the cars, as well as those providing roadside assistance and insurance. A further 8,590 jobs, or 26 percent of the total, were sustained by the distribution and retailing of used cars. Another 7,750 jobs, or 24 percent of the total, were supported by the manufacture of new cars and components in the UK.

2.6.3 Taxes

The profits and wages created by firms engaged in providing and maintaining Motability cars, and throughout their supply chains, attracted significant tax liabilities. In total, the Motability Car Scheme and its supply chain contributed an estimated £611 million to the Exchequer in tax receipts in 2015/16 (Fig 8).

Fig. 7: Total contribution of the Motability Car Scheme, 2015/16

<table>
<thead>
<tr>
<th>£ million</th>
<th>People</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct</td>
<td>Indirect</td>
</tr>
<tr>
<td>3,379</td>
<td>11,140</td>
</tr>
<tr>
<td>2,075</td>
<td>10,950</td>
</tr>
<tr>
<td>679</td>
<td>10,360</td>
</tr>
<tr>
<td>626</td>
<td>3,379</td>
</tr>
</tbody>
</table>

Source: Oxford Economics
The economic impact of the Motability Car Scheme

The tax revenue theoretically foregone as a result of the zero-rating of VAT is currently estimated to be worth £645 million per annum to the Motability Car Scheme. This potential tax revenue is a theoretical amount, as the application of VAT at the standard rate would result in price increases leading to a decrease in customers. Research shows the vast majority of customers who would potentially leave the Motability Car Scheme in response to price increases would not purchase new cars.

2.7 OTHER ECONOMIC IMPACTS

The Motability Car Scheme has other effects on the UK economy, not captured in the core economic impact assessment. In this section, we investigate two further ways the Scheme affects the UK: the impact of the Motability Car Scheme on tax revenues raised by fuel expenditure; and its impact on the UK’s carbon footprint.

2.7.1 Expenditure on fuel

Motability customers are responsible for paying for their own fuel costs, generating significant tax revenues in the form of fuel duty and VAT. The average annual mileage of a Motability customer is approximately 7,900 miles.\(^\text{11}\) The 632,800 Car Scheme customers spent an estimated £378 million on fuel in 2015/16. Some £258 million of this was comprised of tax revenues; £195 million in fuel duty, and £63 million in VAT.\(^\text{12}\)

Arguably, some of this expenditure would have occurred anyway, with the majority (88 percent in 2010) of customers having had a car in their household prior to getting their Motability car.\(^\text{13}\) However, not only did a proportion of customers not have a car in the household before joining the scheme, research shows that the Motability Scheme also increases usage amongst those that did. Research from 2010 suggests that 16 percent of these customers did not previously use their household car, and that for those who did, more frequent usage is a key benefit of the scheme. As such, it is reasonable to assume that the Motability Car Scheme does increase expenditure on fuel, and therefore increases associated tax revenues.

\(^\text{11}\) Motability, 2017
\(^\text{12}\) Calculation of fuel expenditure is based on miles per gallon figures for the five most popular petrol and diesel cars chosen by Motability customers, and average prices of diesel and petrol in September 2016.
2.7.2 Emissions

The Motability Car Scheme impacts the quantity of greenhouse gas emissions (including CO₂) in two ways. First, as the scheme increases demand for new cars, it increases emissions from new car manufacture and assembly. Second, customers generate emissions through the use of their new cars. According to Cooke (2009), car use is responsible for 85 percent of all CO₂ emissions from cars, with 10 percent and 5 percent emitted from manufacturing and through recycling, respectively.14

While the Motability Car Scheme does increase emissions, new cars are more environmentally friendly than older models; a lower rate of emission is now a key objective for engine and car designers and manufacturers. With a maximum lease length of three years, the scheme’s fleet is made up of relatively newer cars, and therefore emits CO₂ at a lower rate than the average for the total stock of UK cars. We estimate that the scheme’s new cars in 2015/16 emit around 27 percent less CO₂ in a year than the UK’s average car: 1.52 tonnes per year compared with an average of 1.93 tonnes (Fig 9).

It is not only the current Motability Scheme fleet that helps lower the UK’s carbon footprint, but also its outgoing cars. As Motability Operations disposes of cars following just three years of leasing, it provides the used car market with relatively new vehicles. This raises the overall quality, fuel efficiency and environmental standard of used cars available in the market.

![Fig. 9: Average CO2 emissions of new Motability cars and a typical UK car driving 7,900 miles a year](image)

Source: Motability Operations, The Society of Motor Manufacturers & Traders, DVLA

---

3. SOCIAL IMPACT OF THE MOTABILITY CAR SCHEME

The benefits of the Motability Car Scheme go well beyond its core economic impact. The scheme helps disabled people improve their mobility, widening their access to healthcare, employment, education, and social activities. This has a positive influence on the lives of Motability customers themselves, and their families or carers. But the positive benefits also spill out into the wider economy, reducing pressures on publicly funded transport, and expanding the workforce. In this chapter, we draw upon evidence from a survey conducted by Plus Four Market Research Ltd in 2010 to assess the wider social impacts of the Motability Car Scheme.15

3.1 MOBILITY

The purpose of the Motability Car Scheme is to enable disabled people to improve their mobility by obtaining an affordable car that is suited to their individual needs. Plus Four’s 2010 survey found that 32 percent of Motability’s customers did not have a car suited to their needs before joining the scheme, while 23 percent said that they could not rely on public transport. This demonstrates the need for the Motability Scheme services. Motability customers themselves benefit from their improved mobility: the survey found that almost all customers (99 percent) used their car, compared to just 84 percent who used their household car before joining the scheme. In particular, 76 percent of customers reported driving their Motability car themselves, compared to just 63 percent who drove their household car prior to joining.

Some of the self-reported benefits of having access to a suitable car include increased spontaneity, improved comfort while travelling, being able to travel further and more quickly, and reduced reliance on other people. This allows customers to more easily enter the workforce, widens and improves access to healthcare and education, and enables greater participation in society. These benefits are discussed in more detail in the rest of this chapter.

A more immediate benefit of the Motability Car Scheme for customers is the reduced reliance on public transport. The DWP (2013) reports that one in five disabled people find transport to be a barrier to participation in employment, education, and other activities.16 These difficulties include not only the accessibility of transport, but also problems with finding information and planning their journeys.

Plus Four’s survey found a significant number of Motability customers felt unable to use public transport, for reasons including the inconvenience of routes and stops, not feeling well enough to travel on public services, and a lack of access for wheelchairs. The survey also found that cost was a significant barrier to mobility: customers report taxis charging extra when travelling with a wheelchair, for example.

While it is not possible to quantify the savings associated with using a Motability car instead of public transport, it is likely that many customers’ overall travel expenditure will have fallen since joining the scheme.

---

3.2 HEALTH

Thanks to the improved mobility that a Motability car gives them, customers report benefits to their general health and well-being. Customers find it easier to access health services, meaning they are better able to receive treatment and attend appointments. Additionally, being able to get out of the house more easily may also have benefits for both physical and mental health.

Plus Four’s survey found having a Motability car helps customers access medical services. Some 85 percent said that having a Motability car had made a difference to their ability to access services, or attend appointments. In particular, the survey found that 32 percent of Motability customers no longer had to rely on services including ambulances and dial-a-ride in order to attend their medical appointments.

Using data from National Health Service (NHS) Reference Costs 2008-09 and Hospital and Community Health Services (HCHS) pay and price inflation, the average cost per patient per trip of non-emergency Patient Transport Services (PTS) is estimated to be £35. Assuming that each Motability customer attends five medical appointments per year, £35 million was saved on transporting people to hospital in 2016, by Motability customers being able to travel by car. This figure is doubled if they would have made the return journey by PTS as well.

There are further non-economic benefits associated with reduced reliance on transport services for medical appointments. Anecdotal evidence suggests that using PTS involves long wait times, and booking ambulance services often involves planning a long time in advance. Being in control of their own transport was also found to give customers greater choice over their medical treatment—41 percent of those surveyed in 2010 reported being able to access better services thanks to their Motability car, and 40 percent were able to travel to specific services.

The survey further found that customers are less likely to have to miss appointments once they have a Motability car. A considerable share, 64 percent, of customers said that they were now able to attend all their appointments thanks to their car. Research from NHS England found each missed outpatient hospital appointment cost £108 in 2012/13. Inflating this using HCHS suggests a cost of £112 per appointment in 2015/16. Being able to attend all appointments is therefore not only beneficial to the health of customers, but also helps the NHS’s finances by not having to reschedule missed appointments.

Improved mobility does not only improve customers’ health by allowing them to better access services, it also has wider impacts on general wellbeing. It is difficult to quantify these benefits, but 77 percent of those surveyed said that their general health was improved by having their Motability car. Reasons included feeling happier or healthier thanks to being able to get out of the house, feeling more satisfied with life, and feeling less tired.

*More recent estimates of unit costs are not available as the NHS now outsources Patient Transport Sources.*
3.3 EDUCATION

By providing disabled people with access to affordable, suitable transport, the Motability Car Scheme enables some of its customers, and family and friends who act as informal carers, to participate in education and gain qualifications and skills that would otherwise be out of reach. This should positively impact the individuals’ employment prospects and future earnings.

The benefits of education also spill over into the wider economy. The role of education in driving productivity and economic growth has long been recognised in academic and government policy.18 As workers start and move jobs, firms will benefit from their higher economic capabilities. It has further been argued that higher skill levels in the workforce foster technological innovation and adoption.

In spite of these benefits, disabled people in the UK are less likely to hold qualifications than their non-disabled counterparts. Some 30 percent of disabled adults hold no formal qualifications, almost three times the 11 percent of non-disabled adults.19 Difficulty travelling to attend classes, lectures or similar is one reason for this—the Office for Disability Issues (2008) reported that 10 percent of people felt difficulties with transport were a barrier to education.20

Plus Four’s survey discovered that having a Motability vehicle improves a customer’s access to education. Some 15 percent of customers reported having been able to improve their education. Focussing on the younger (aged three to 24) customers, this rises to 29 percent. Of these, 16 percent were pursuing formal qualifications. The increased independence that Motability customers enjoy also gives family members greater freedom to participate in education. Some six percent of those surveyed reported that having a Motability car had enabled someone else in the household to improve their education, 63 percent of whom were pursuing formal qualifications.

The economic value of being able to pursue an education can be measured as the potential additional income that Motability customers, and their informal carers, may earn as a result of holding higher qualifications. We estimate that some 426,300 Motability customers are under retirement age (aged three to 64). Of these, based on the findings of the Plus Four survey in 2010, some 5.8 percent or 24,800 were in formal education that depended on their Motability car in 2016.

We estimated the qualifications these customers studied for using ONS Labour Force Survey information on the qualifications held by people claiming Disability Living Allowance. Combining this with employment rates and earnings by qualification, we estimated the potential increase in earnings that these customers will benefit from thanks to ‘upskilling’. This calculation revealed that the value of improved education for Motability customers is £47 million in potential additional wages in one year, based on 2016 wage rates.

A similar methodology is used to calculate the value of formal education for informal carers. An estimated 24,600 carers being able to pursue education would deliver potential additional earnings of £114 million per year. This higher estimate than that for Motability customers reflects the higher employment rates and earnings of non-disabled people.

Taking the benefits to Motability customers and their informal carers together, the impact of being able to pursue formal education is an estimated £161 million in potential additional earnings per year.

18 For a discussion of the literature on the role of education and skills in productivity growth, see BIS, UK skills and productivity in an international context (Research Paper No. 262, 2015).
It is important to note that these calculations only capture the benefits of “upskilling” from one NVQ category to another: for example, when someone previously holding GCSEs successfully completes their A Levels. This does not capture the improved employment prospects from gaining a qualification within the same NVQ level, such as an additional A Level, or the benefits of informal education, such as IT training. There are also social benefits associated with being in education, particularly when informal learning is pursued for fun.

3.4 EMPLOYMENT

By improving their mobility, a Motability car allows some customers to access a wider variety of employment opportunities. Problems using transport can prevent disabled adults from working, with the DWP (2013) finding that 17 percent report it as a barrier to employment. Access to a suitable and affordable car enables them to get a new job, keep an existing job, or advance their career in other ways. It may also provide informal carers (family members or friends) with the same opportunities, by increasing customers’ independence and reducing their need for assistance.

Being able to work has significant benefits for Motability customers, including receiving higher income from wages and non-wage payments (such as contributions to pension funds or benefits including health insurance). Being employed also has a positive impact on welfare, above and beyond the benefits of increased income. Being employed gives a person a wider social network, reduces feelings of “social isolation”, improves well-being from ‘feeling like a useful/valued member of society’, and helps develop skills necessary to participate in social and civic activities.

Increasing employment rates also benefit wider society. More people in work increases tax revenues paid to the Exchequer, both on their income (income tax and National Insurance Contributions) and through taxes paid on additional consumption (VAT and excise duties). It further reduces the need for government spending on welfare benefits (including Job Seeker’s Allowance and Housing Benefit). Further knock-on impacts arise as increased spending supports output and jobs to meet the higher demand.

A large portion of Motability customers are not economically active (in work or seeking work). A considerable number are over retirement age, some are not able to work due to their sickness or disability, and others are still in education. In the Plus Four survey, of those not retired, permanently unable to work, or in full-time education, 39 percent said that their Motability car had enabled them to improve their employment prospects. This includes 8 percent now able to get a job and 2 percent that said they were able to get a better one (Fig 10). A further 29 percent of those able to work said having a car had enabled them to keep their job.

---

The survey also found an impact on the employment opportunities of informal carers. Having a Motability car reduces the reliance of some customers on family members, giving these informal carers more time and flexibility. Some 7 percent of customers said that having a Motability car had enabled another member of the household to get a job, get a better job, or stay in their current employment.

Combining data from the ONS on average hourly pay by disability status with Census (2011) data on hours worked by people with disabilities, we estimate that Motability customers in employment would expect to earn £381 per week. The total Motability customer base of those not retired, unable to work, or studying full time was an estimated 120,500 in 2015/16 (19 percent of total car customers). Applying the 8 percent and 29 percent, some 10,000 Motability customers were able to get a job thanks to their car, and some 35,200 were able to retain their job. Taking these estimates together, the Motability Car Scheme supported £896 million in wages for its customers in 2015/16.

A similar methodology was used to calculate carers’ supported income as for Motability customers’ wages. Average weekly UK wages were estimated to be £482 in 2016. Combining this with the survey data on the increased employment of Motability customers’ household members suggests that the Motability Scheme enabled 5,000 informal carers to find a job and 32,600 to keep an existing job, worth £944 million in wages in 2015/16.

The Motability Car Scheme therefore is estimated to have supported more than £1.8 billion in wages in 2015/16 (Fig 11), taking together the earnings of both customers and informal carers whose jobs are in some way dependent on a Motability car.
3.5 SOCIAL INCLUSION AND COMMUNITY PARTICIPATION

By improving their mobility, the Motability Scheme enables its customers to participate in more social activities with friends, family, and the wider community. There is significant academic evidence of a positive relationship between participating in social activities and well-being. The ‘well connected are more likely to be hired, housed, health and happy’ (Woolcock, 2001), and ‘social capital’ including family and friends, civic engagement and trust are positively correlated with well-being and health (Helliwell and Putnam, 2004). Causality rather than simple correlation is supported by Bechetti, Ricca and Pelloni (2009), as retired individuals spending more time with friends and family see significant increases in life satisfaction levels. Despite the benefits of social interaction, people with a disability are less likely to have social contact than those without. DWP (2013) finds that transport and transport costs are key reasons why disabled adults spend less time with close contacts than people without an impairment, reported as barriers by 14 and 10 percent of those surveyed. Similar findings were found in Plus Four’s survey: 53 percent of customers reported being able to visit family and friends at least once a week, with 17 percent visiting once a month, and 30 percent less frequently, of whom 8 percent never visited.

The survey found evidence that having a Motability car improved customers’ social interactions, with 60 percent reporting an improved ability to visit family and friends, and 54 percent able to visit more often. The survey found other benefits, including improved access to shopping, ability to participate in sport, leisure and social activities, and participating in community and religious activities.

---

Fig. 11: Estimated total wage earnings made by people able to get or keep a job as a result of the Motability Car Scheme, 2015/16

<table>
<thead>
<tr>
<th></th>
<th>£ million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Motability customers</td>
<td>896</td>
</tr>
<tr>
<td></td>
<td>697</td>
</tr>
<tr>
<td>Informal carers</td>
<td>199</td>
</tr>
<tr>
<td></td>
<td>126</td>
</tr>
</tbody>
</table>

Source: Plus Four Market Research Ltd, Motability Operations, Oxford Economics

---

Drawing on Powdthavee’s (2008) study of the monetary value of social networks, we estimated the economic value of Motability customers’ increased social contact with friends and family.26 The study used regression analysis to explain people’s assessment of their own life satisfaction levels by income, social relationships and other factors including marital status, health, employment status and home ownership. The value, or shadow price, of an individual’s social network is calculated as the additional annual income that would be required to keep an individual’s life satisfaction level the same when their social network is reduced.

Powdthavee (2008) found that individuals who see family and friends most days would need to be compensated £15,500 per year if this was reduced to once or twice a week. If individuals seeing family and friends once a week were to see them just once or twice a month, they would need £12,000 per year in compensation to keep the same level of life satisfaction.

Applying the 53 percent of people who were able to visit family and friends more often to these figures, we estimate that the Motability Scheme supports improved social networks for its customers worth up to £4 billion in 2016.

### 3.6 INDEPENDENT LIVING

The Motability Car Scheme allows customers to live more independent lives. Having access to affordable, suitable transport gives customers greater freedom to make their own decisions, increasing the choice and control they have over their own lives.

While the importance of independent living warrants a dedicated discussion, it does encompass the other key social benefits discussed previously in this chapter. The Office of Disability Issues, with the input of disabled people, defines independent living as:

- Having choice and control over the assistance and/or equipment needed to go about your daily life.
- Having equal access to housing, transport and mobility, health, employment, and education and training opportunities.

Plus Four’s survey in 2010 found that the Motability Car Scheme does have a considerable impact on customers’ independence, with 73 percent reporting that they are more independent now they have their Motability car, of which 49 percent say they are a lot more independent. The impact is particularly important for those who previously did not have a car in the household and those who got their car through a SVF grant, with 60 percent and 72 percent reporting being a lot more independent, respectively.

---

26 Powdthavee, N., Putting a price tag on friends, relatives, and neighbours: using surveys of life satisfaction to value social relationships, (Journal of Socio-Economics, 2008), 37(4).

4. CONCLUSION

This report has demonstrated the considerable economic and social contribution the Motability Car Scheme makes to the UK. In 2016, the Scheme supported 32,450 jobs—one in every thousand in the UK. Through three channels of impact—direct, indirect, and induced—the Motability Scheme was responsible for a £3.4 billion gross value added contribution to UK GDP. This economic activity generated £611 million for the Exchequer in tax revenues.

These benefits arise from a variety of activities required to provide Motability Scheme customers with affordable vehicles, and worry-free motoring packages. Some 34 percent of employment, 11,140 jobs, was at UK firms engaged in providing and maintaining cars. This includes car and parts manufacturers, new- and used-car dealerships, firms providing insurance, break-down cover, maintenance and adaptations, and at Motability Operations itself. These firms generated an estimated £2.1 billion contribution to GDP and £244 million in tax receipts.

However, the importance of the Motability Car Scheme in the UK goes far beyond its core economic contribution. By improving customers’ mobility and independence, the Motability Scheme has a significant social impact that can be life-changing for individuals. By providing affordable and suitable transport, the Motability Car Scheme gives its customers access to a wider range of opportunities, including education, employment, and social activities.

Having improved access to employment and education opportunities was worth an estimated £1.8 billion in wages and £161 million in potential annual earnings in 2015/16. Having a suitable car helps thousands of customers and their carers attend education, and to either gain or keep jobs. These benefits will also spill over into the wider economy, thanks to a larger and more productive workforce.

Improved mobility has also been found to be fundamentally important to Motability Scheme customers’ health and well-being. Survey evidence shows that affordable and suitable cars allow customers to attend medical appointments, and improve their general health by allowing them to get out more regularly. Being able to socialise is also key to well-being, with more visits to family and friends estimated to have been worth up to £4 billion in 2015/16.
5. APPENDIX: METHODOLOGY

DIRECT IMPACT

The direct impact of Motability Operations uses data from its Annual Report and Accounts 2016. Gross value added has been calculated following the income method, summing gross operating profits (EBITA) and staff costs, and the output method, subtracting the value of inputs from revenue. Employment and Corporation Tax paid were both detailed in the Annual Report and Accounts. Labour taxes (income tax, and employers’ and employees’ National Insurance Contributions) have been calculated using gross wages from Motability’s data, and official statistics on tax allowances and rates from HMRC.

For other firms engaged in providing Motability cars (manufacturers, new and used car dealerships, and firms providing the components of the worry-free motoring packages), direct estimates have been calculated using expenditure data from Motability, and ONS industry-specific gross value added to gross output ratios. Employment and taxes have been calculated using ONS industry-specific productivity data and HMRC tax allowances and rates.

INDIRECT AND INDUCED IMPACT

The indirect impact captures the economic activity stimulated by supplier purchases made in order to fulfil Motability Operations orders. As some of the direct impact could be considered the indirect impact attributable to Motability Operations from a supply chain perspective, any other purchases made by Motability Operations have been excluded to avoid double counting.

The modelling for this study was based on the ONS’ UK Input-Output tables. They set out the goods and services that UK industries purchase from one another in order to produce their output (as well as their purchases from firms abroad). Similarly, they provide detail on the spending pattern of UK households, and indicate whether this demand is met by UK production, or imported products. In essence, the I-O table shows who buys what from whom, for the time period in question.

The indirect and induced effects have been calculated using a common approach for all five types of Motability Scheme spending impacts. Using the detail on these linkages provided by the I-O tables, Oxford Economics constructed bespoke UK impact models, which trace the supply chain and wage consumption impacts attributable to each of the types of firms engaged in providing and maintaining Motability cars.

We introduced the firms’ procurement data and spending on wages into these models, which then quantify all rounds of subsequent purchases along the supply chains. These transactions are translated into GDP contributions, using industry-specific ratios of value added to gross output, sourced from the UK I-O table. Likewise, industry-specific productivity data are used to calculate the employment estimates. Taxes were estimated using HMRC data on tax bands and receipts, along with ONS statistics on average profitability of each UK sector, the average wage rates seen in these sectors from the ONS (2016) Annual Survey of Hours and Earnings, and the indirect employment supported within them.

---

28 In principle, the two methods should be equivalent.
Global headquarters
Oxford Economics Ltd
Abbey House
121 St Aldates
Oxford, OX1 1HB
UK
Tel: +44 (0)1865 268900

London
Broadwall House
21 Broadwall
London, SE1 9PL
UK
Tel: +44 (0)203 910 8000

New York
5 Hanover Square, 8th Floor
New York, NY 10004
USA
Tel: +1 (646) 786 1879

Singapore
6 Battery Road
#38-05
Singapore 049909
Tel: +65 6850 0110

Europe, Middle East and Africa

Oxford
London
Belfast
Frankfurt
Paris
Milan
Cape Town
Dubai

Americas

New York
Philadelphia
Mexico City
Boston
Chicago
Los Angeles
Toronto
San Francisco
Houston

Asia Pacific

Singapore
Sydney
Hong Kong
Tokyo

Email:
mailbox@oxfordeconomics.com

Website:
www.oxfordeconomics.com