May I just reiterate how much we appreciated the opportunity of attending your evidence session on 5 March in order to set the record straight.

Today you will be receiving the submissions from Motability and Motability Operations Group plc, in response to your letters of 6 and 7 March.

I am writing this letter because there are four issues which, taken together, are of deep concern as they are, frankly, incorrect:

1. In your letter to the Comptroller and Auditor General, Sir Amyas Morse KCB, you said that the Motability representatives concurred that an assessment by the National Audit Office under section 6 of the National Audit Act 1983 was "the most appropriate course of action". That is not correct. In fact, what I said during the evidence session, in response to your joint question, was:

   "I can give you a very specific response. As you know, when we responded to the Secretary of State’s debate, we said we would welcome it. Can I possibly help you on this one? When the National Audit Office reviewed Motability in 1996 we did at that time receive some public funds. Today we are not funded by Government in any way, and we have never been public bodies. Therefore, of course, the Secretary of State has no power to require a review. However, we at Motability wish to have a review and indeed wish it to be fully published so that the issues raised in recent weeks can be put to rest once and for all. Mr Chairman, for your benefit and the benefit of everybody here today, we have already been in touch with the NAO to progress such a review."
2. In the ‘News’ update on the Committees’ website, shared widely by Dods, it states that, in connection with your enquiry into “disability transport company Motability”, you have written to Her Majesty’s Revenue and Customs (HMRC) and National Audit Office (NAO) asking each to open investigations into its finances. We were more than surprised to see reference being made to a HMRC “investigation” into the finances of Motability. Your letter to Jon Thompson, First Permanent Secretary and Chief Executive of HMRC, simply asked for the legislative basis for the VAT and IPT exemptions. That is not an “investigation” into our finances.

3. In questioning Mike Betts, the CEO of Motability Operations Group plc, during the evidence session, John Mann MP asked:

“... whether the Financial Conduct Authority would expect an organisation like yours to hold £2.4 billion in reserves to cover risk. You have just said yes, but the quote I have says, “The simple answer is no”. The Financial Conduct Authority is saying you do not need to carry that £2.4 billion in reserves to cover risk ...” (Q37)

The letter from which John Mann was quoting had not been shared with any of the witnesses before the session, and it was not clear whether other Committee members had seen it either. Having now had sight of the letter, it is obvious that the quote could only have referred to Motability, the charity, not Motability Operations. The weight given to this quote by John Mann in the evidence session – and in particular the emphasis on “no” – in the context of a discussion about the reserves of Motability Operations, was wholly unjustified.

It is therefore doubly unfortunate that the same quote not only appeared in the News update on your website, but was given prominent emphasis.

In our and indeed in the public interest, I wrote to Andrew Bailey, CEO of the Financial Conduct Authority to confirm our understanding. Our letter and his response are enclosed. His response confirms that when referring to Motability (a credit broker) in his original letter of 1 March, Mr Bailey was referring to Motability, the charity, not Motability Operations. Consequently John Mann MP’s selection of the quote “The simple answer is no” was misleading.

4. In his question, John Mann MP also accused Mike Betts of giving him “false information”, alleging that Mike Betts had stated that the regulator required Motability Operations to keep £2.4 billion in reserve. In fact, Mike Betts had said no such thing. Any suggestion that he provided false information is refuted in the strongest terms and I entirely support what is said in Appendix J to today’s submission from Motability Operations.
I would be grateful if you would kindly remove the reference to an "investigation" by HMRC from the "News" section on your website, and issue a correction to reflect the points made in 3 above.

Please publish this letter on the enquiry website.

Yours Sincerely,

Jeffrey Sterling

Chairman

Encs

Letter from Lord Sterling to Andrew Bailey dated 14 March 2018
Letter from Andrew Bailey to Lord Sterling dated 15 March 2018
Andrew Bailey  
Chief Executive Officer  
Financial Conduct Authority  
25 The North Colonnade  
Canary Wharf  
London E14 5HS

14 March 2018

Dear Mr. Bailey,

I know that you are fully aware of the joint Inquiry by the Work and Pensions and Treasury Select Committees into the Motability Scheme and that you recently wrote to John Mann MP in response to a letter detailing additional questions seeking the views of the Financial Conduct Authority on the Motability Scheme and its capital structure.

In his letter, Mr Mann did not distinguish between Motability (the Charity) and Motability Operations Limited (the company contracted to purchase and lease cars for the disabled and operate the scheme on behalf of the Charity).

As you said in your reply, Motability (the Charity) is authorized by the FCA as a credit broker and is, therefore, not required by the FCA to hold any minimum level of capital. We note your observation that the FCA would not expect Motability to hold £2.4bn in reserve to cover risk and fully concur.

Motability Operations Limited is separately authorized by the FCA to conduct consumer credit business. As such it is not required by the FCA to hold any set minimum capital.

I think that the above accords with your understanding of these matters but would be glad if you would kindly confirm that this is indeed the case.

Yours sincerely,

Jeffrey Sterling

Chief Patron Her Majesty The Queen
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 PRA’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 COND\(^1\) (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

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\(^{1}\) https://www.handbook.fca.org.uk/handbook/COND.pdf