15 February 2018

Dear Frank Field,

I thought you would be interested in seeing a copy of my letter to the Secretary of State, following the exchanges in the debate on 8 February.

I hope you will find the contents of the letter set the record straight.

I hope you don’t mind my saying, over many years, I know that you have always been regarded as a very fair and open-minded man. I would like to think that when you have absorbed its contents, many of your concerns will be answered.

If you wish to discuss further, I am very prepared to meet up.

Yours sincerely,

[Signature]

Chief Patron Her Majesty The Queen
Chairman The Right Hon The Lord Sterling of Plaistow GCVO CBE Vice-Chairman Sir Gerald Ascher CBE LVO Hon Treasurer Richard Bennison FCA
Governors Alan Dickinson, Ed Humpherson, Barry Le Gris MBE, Joanna Lewis, Paul Spencer CBE, Professor Adrian V Stokes CBE.

Disability Confident Employer
Motability is a Registered Charity in England and Wales (No 299745), incorporated by Royal Charter.
15 February 2018

Rt Hon Esther McVey, MP
Secretary of State for Work and Pensions
Department for Work and Pensions
Caxton House
Tothill Street
London
SW1H 9NA

Dear Secretary of State

Comments on the exchanges in Parliament following the Urgent Question raised by John Mann MP regarding Motability on 8 February 2018

In your remarks in Parliament last Thursday, you stated, with reference to the Motability Scheme generally, that “what was deemed correct in the 1970s is not necessarily correct by today’s standards”. I could not agree more.

As you are aware, Motability (the Charity) was founded as a national charity by the late Lord Goodman and myself in 1977, to help those disabled people who choose to join the Motability Scheme (the Scheme) to become mobile. From the outset the Charity was founded with all-party support, and this is reflected in our Senior Patrons to this very day.
The guiding principles of the Motability Scheme have always been to provide the highest standard of customer service, the best possible value for money and financial sustainability for the long term.

The Charity was granted a Royal Charter on 27 April 1988 under which the Charity's object is:

"to facilitate the relief and assistance of disabled persons (...) "the beneficiaries") in connection with the provision to the beneficiaries of personal or other transportation"

In exercising its functions under the Royal Charter, the Charity has responsibility for oversight of the Scheme, which is delivered on the ground by a separate entity, Motability Operations Group plc (the Company), under contract.

The capacity to adapt and innovate has always been part of our DNA. The Scheme has progressed from delivering its first City Mini in 1978 to having provided over 4.5 million vehicles, helping transform the lives of millions of disabled people and their families.

Today it has some 630,000 cars on the road, and disabled people can choose from over 2,500 models. This mobility package includes: the reliability of a new car, including appropriate adaptations if required; comprehensive insurance; full maintenance and servicing; and a mileage allowance of 60,000 miles. A key element is the special breakdown cover, within 40 minutes, provided by the RAC; with suitable replacement vehicles including adaptations and conversions being provided if a customer’s vehicle is off the road.

**Setting the record straight**

Against that background, you will not be surprised that we found the litany of inaccuracies in the exchanges in Parliament last Thursday deeply troubling. The Urgent Question raised by John Mann, MP, no doubt prompted by the earlier article in the *Daily Mail*, was in itself perfectly reasonable. However, because so many of the statements that
followed in the Parliamentary exchanges were, quite simply, untrue, the debate as a whole was deeply flawed and misleading.

Public accountability and transparency have always been taken as a given by the Charity and we welcome an update to NAO’s previous reviews, as we did when the Charity Commission undertook its full review last year. In fact, from the very beginning, officials from the DWP (and its predecessor departments including the Department for Health) joined our meetings and have always had an open invitation to the Charity’s quarterly Board meetings. It has proven to be extremely helpful to have the opportunity to discuss matters relating to the Scheme or otherwise of mutual interest. We have always had an excellent working relationship with the DWP.

However, the Scheme is of such importance to disabled people that it is essential that any discussion about it is based on a secure foundation of fact.

Therefore, on behalf of my fellow Governors and myself, I am now providing the facts, in the hope that we can enable a clearer and better informed discussion from this point on.

A number of the inaccuracies relate to Motability Operations Group plc, the commercial company which delivers the Motability Scheme on the ground, under contract to Motability. Its Chairman, Neil Johnson, has written separately to you. We thought it would be helpful to you to see the two together.

The incorrect statements that relate to Motability the charity are set out below, as reported in Hansard on Thursday 8 February 2018.

The true facts have always been readily available from the Annual Reports and Accounts of both the Charity and the Company. It is therefore deeply regrettable to observe that every single one of the statements I quote below from the exchanges in Parliament was incorrect.
1. "... this registered charity [...] is funded by the taxpayer through a direct grant from Government" (John Mann MP)

**INCORRECT:** the charity does not receive any funding from Government.

2. "... this registered charity [...] is carrying cash reserves of £2.4 billion" (John Mann MP)

**TRIPLY INCORRECT:** (i) the Charity does not hold the Scheme reserves: they are held by the Company, Motability Operations Group plc; (ii) they are not held as cash; and (iii) they are not held as idle cash, but are for the most part invested in the Company's fleet of nearly 630,000 vehicles.

The reserves are therefore not freely distributable. As noted by the Charity Commission in its letter closing the review,

"The capital reserves are presently in line with its target position and Motability and Motability Operations maintain a constant dialogue covering financial projections and the appropriate levels of capital being maintained [...]

"There is therefore no concern that the restricted reserves accumulated are unnecessary or are retained without justification. [...]"

Following the exchanges in Parliament last week, the Commission issued a press release, which is on their website, which included the statement:

"We also made clear, following the conclusion of our review last year, that we consider the level of operating capital held by the company in order to guarantee the scheme to be cautious, and agreed with the charity, as part of its oversight of the scheme, that it would ensure this matter is kept under continuous review."
3. "... the charity has been underspending its budget by £200 million a year" (John Mann MP)

**DOUBLY INCORRECT.** This figure (i) relates to Motability Operations Group plc, **not** the charity; and (ii) is post-tax profit, all of which is retained for the benefit of disabled people who participate (or have participated) in the Scheme.

4. "... this charity is paying its chief executive £1.7 million a year" (John Mann MP)

**INCORRECT:** the sum in question is the remuneration of the Chief Executive of Motability Operations Group plc.

5. "Motability Operations Ltd [is] paid about £2 billion a year directly by the Department of Work and Pensions" (Margaret Greenwood MP)

**INCORRECT:** this wrongly implies that the Company is funded from the public purse. In fact, the money belongs to recipients of mobility allowances who voluntarily choose to apply them to lease a car under the Scheme. For a statement of the correct position, we refer you to the statement made by the former Parliamentary Under-Secretary of State for Disabled People, Justin Tomlinson, MP, who said:

"The Department works closely with Motability and facilitates the transfer of benefit to Motability on behalf of those claimants who have chosen to join the Motability Scheme. The Scheme purchases vehicles which are then leased to Scheme customers. The purchase of the vehicles is funded by the Scheme and there is no cost to the public purse."

(Hansard – Motability: answer to Written question – 10579)
6. "... the taxpayer is guaranteeing the scheme" (John Mann MP)

**INCORRECT:** no such guarantee exists.

7. "... the trustees need to be held to account" (The Rt Hon Esther McVey MP) for the loss of vehicles resulting from PIP assessments (Secretary of State, you appeared to agree that the charity is responsible for the loss of a car following a PIP assessment)

**INCORRECT:** PIP eligibility assessments are the direct responsibility of your own Department. The Charity's trustees play no role in the matter. To avoid any further confusion, nobody at either the Charity or the Company has any role whatsoever in PIP eligibility assessments.

8. "when personally I looked into it in 2013, I ensured that Motability paid £175 million more to disabled people" (The Rt Hon Esther McVey MP)

**INCORRECT:** as shown by minutes of their meetings in 2012, the Charity's trustees felt a moral obligation to help people at risk of losing cars due to Government policy changes, and had already by December 2012, of their own volition, with the total support of the Company's Board, decided to provide a package of significant financial support and other assistance, with the help of donations from the Company, to enable those losing cars as a result of these changes to continue to be mobile.

Since then, working closely with the Company, we are managing the loss of customers from the Scheme (up to 75,000 to date) who have lost eligibility due to the transition from Disability Living Allowance (DLA) to Personal Independence Payments (PIP). These customers need an exceptional level of empathy and support, as they are in many cases confused, distressed and even suicidal, as they worry about losing their mobility.
Over the next two to three years the Charity, working with the Company and the Department for Work and Pensions (DWP), will also be looking to find a way of helping up to 250,000 disabled people with mental health conditions and learning difficulties who wish to join the Scheme and who will undoubtedly need particularly sensitive service and support.

9. "After direction from the Department, the charity is now piloting a Motability scheme to help children under the age of three ..." (The Rt Hon Esther McVey MP)

**DOUBLY INCORRECT:** the pilot scheme to help families with disabled children under the age of three is not being piloted by the Charity, and there was no "direction" from the Department. It is being piloted by Motability Operations Group plc following discussions between the Charity, the Department, an independent third party charity (Family Fund) and Motability Operations Group plc, after the former Minister for Disabled People, Penny Mordaunt, MP, asked whether there was anything the Charity could do to help.

10. "... when we have got the money back that we believe we should be getting back from Motability ..." (The Rt Hon Esther McVey MP), clearly implying that the Government can require money to be repaid.

**INCORRECT:** there is no basis on which the Government can demand any money to be handed over.

As we state above, the Charity embraces public accountability and transparency. That is why we feel so strongly about establishing the facts.

Further relevant information appears at the end of this letter. You will know much of it of course, but it is in the public interest for the true facts to be known.
Secretary of State, may I finish the way I started; Motability will continue to adhere to the guiding principles of the Motability Scheme which are:

- to provide the highest standard of customer service;
- the best possible value for money; and
- financial sustainability for the long term.

For over forty years, the Scheme has provided a 'Road to Freedom' for millions of disabled people and their families, and our only interest is for us all to continue to do so together.

Sincerely

[Signature]

cc Neil Johnson OBE, Chairman, Motability Operations Group plc
Peter Schofield CB, Permanent Secretary, DWP
The Rt Hon Frank Field MP DL, Chair of DWP Select Committee
The Rt Hon Nicky Morgan MP, Chair of Treasury Select Committee

For the sake of good order, since the statements quoted above are in Hansard, copies of both the Charity and Company letters will be placed in the Libraries of both Houses, and into the wider public domain. We will be making copies available to everyone to whom these matters are important, and in particular to those listed above.
Further information relevant to the issues raised in the Parliamentary questions on Thursday 8th February 2018

Background

Motability is a national charity, incorporated by Royal Charter on 27 April 1988 (the Charity), set up in 1977, to assist disabled people with their mobility needs.

Under the Royal Charter, the Charity's object is:

"to facilitate the relief and assistance of disabled persons (... "the beneficiaries") in connection with the provision to the beneficiaries of personal or other transportation"

In exercising its functions under its Royal Charter, the Charity oversees the Motability Scheme – with its prime purpose being to ensure that those disabled people who want to use their mobility allowance to obtain a vehicle, scooter or powered wheelchair on the Motability Scheme always receive the best possible service and value for money.

From its founding with all-party support in 1977, the guiding principles of the Motability Scheme have always been to provide the highest standard of customer service, the best possible value for money and financial sustainability for the long term.

Structure

Motability Scheme (the Scheme) – the Scheme provides customers (who are recipients of the Higher Rate Mobility Component of the Disability Living Allowance (DLA), the Enhanced Rate of the Mobility Component of the Personal Independence Payment (PIP)) with “worry-free” mobility by way of a contract hire lease.

Motability (the Charity) – in exercising its functions under its Royal Charter, the Charity oversees the Scheme, with the prime objective of ensuring that those disabled people who want to do so can use their mobility allowance to obtain a vehicle, scooter or powered wheelchair on
the Scheme. The Charity contracts with Motability Operations Group plc to deliver the Scheme.

Motability Operations Group plc (the Company) – the Company delivers the Scheme on the ground under a service contract with the Charity, and assumes the commercial risk of running the operating the Scheme.

The Company is not (as one of the speakers in the Parliamentary exchanges implied) a subsidiary of the Charity. The relationship between the two organisations is governed by contract.

Neither the Charity nor the Company is part of Government. Neither of them is sponsored or regulated by the Department for Work and Pensions. The Company is regulated (for the purposes of its consumer credit business) by the Financial Conduct Authority and the Charity is not a 'controller' of the Company or any of its subsidiaries.

The Charity

The Charity's object, as set out in its Royal Charter, is to facilitate the relief and assistance of disabled persons in connection with the provision to them of personal or other transportation. It achieves this by:

- helping disabled people with their personal mobility;

- overseeing the Scheme (which the Board of Governors does with the support of the Scheme Oversight Committee, whose members are selected on the basis of industry experience);

- providing financial help to those customers whose mobility allowance does not cover the cost of their Scheme vehicle or adaptations;

- giving additional support and grants to the most severely disabled people who need some extra help towards the cost of a specialised vehicle or adaptations.
In exercising oversight over the Scheme, the Charity always has uppermost in mind the interests of its beneficiaries, disabled people: in particular the 630,000 customers of the Company on the Scheme, but also disabled people who could be (but are not yet) customers, and disabled people who are no longer eligible to join the Scheme.

The charity has a particular desire to support customers who cannot renew their lease with the Company because of a discontinuation of Government funding (where changes to Government policy are resulting in the loss of eligibility to mobility benefits).

In 2017 the Charity also helped 8,502 disabled people and their families with grants towards Advance Payments for cars, wheelchair accessible vehicles (WAVs), driving lessons and adaptations.

Funding of the Charity

The Charity receives no funding from Government.

The Charity’s total income varies from year to year but the vast majority of its funding comes from the Company. In 2017 the Charity’s income (excluding donations to fund PIP transitional support) increased by £10,359,000 to £48,961,000 (2016: £7,302,000 to £38,602,000). The increase is due to the receipt of a donation of £30,000,000 from the Company.

The way the Scheme is funded is addressed in further detail in the accompanying letter from the Company’s Chairman.

There is no taxpayer guarantee of the Scheme.

VAT exemption

The Government granted VAT exemption for the Scheme in the 1980s to enable an affordable package to be created to support disabled people, as part of a wider set of VAT concessions to disabled people generally.
The benefit of the VAT exemption goes straight to customers in lower pricing. The Scheme offers a leasing package that is more than 40% cheaper than comparable market offerings. Excluding the benefit of the VAT exemption, the Scheme is still more than 25% cheaper than comparable offerings in the wider market, reflecting the purchasing power and efficiency in delivering the Scheme.

**The Company’s capital structure**

This is addressed in the accompanying letter from the Chairman of the Company.

In its oversight role, the Charity is concerned to ensure that the Scheme continues to provide the highest standard of customer satisfaction, the best possible value for money and financial sustainability for the long term.

The financial management of the Company is therefore a matter of considerable interest to the Charity, to ensure that these objectives, and the performance obligations under the service contract, can continue to be met.

The Charity recognises that the detailed decisions relating to the financial management of the Company are a matter for the Company, but maintains a regular dialogue with the Company on the level of reserves.

**Responsibility for disability benefits**

In the questions raised in Parliament, Margaret Greenwood, MP, stated that “51,000 [disabled people] according to Motability’s own figures, lost access to the Scheme last year after being reassessed for PIP”. The Secretary of State said that “if we could widen the scheme by allowing the money held in reserve to go to those disabled people, surely that would be right”, and agreed that “the trustees need to be held to account” for the loss of vehicles resulting from PIP assessments.
These comments imply that the Charity and/or the Company is or are in some way responsible when an individual sadly loses their car following a PIP assessment. This is completely incorrect. Decisions on PIP assessments are those of Government, and specifically of the Department for Work and Pensions.

**PIP transitional support**

In the exchanges in Parliament it was suggested that the Secretary of State, in her former capacity as Minister for the Disabled, "ensured" that Motability paid £175 million more to disabled people.

As early as 2012 the Governors of the Charity recognised a moral obligation to find a way of helping those people who were losing access to the Scheme to remain mobile. The Charity's Chairman corresponded with the then Secretary of State in November 2012 and subsequently, explaining that the Governors of the Charity had (in fact in June 2012) already begun considering how to help customers resulting from the change from DLA to PIP (the biggest change in Government policy to affect the Scheme since 1977). The minutes of the Governors' December 2012 meeting show that the Charity had by then decided, of its own volition, and with the Company's full support, to provide a package of significant financial support and other assistance to those losing cars as a result of DWP changes. This has proven to be invaluable, enabling most of these disabled people to retain some level of independent mobility.

The details of the transitional support package were refined during 2013, based both on revised projections discussed with DWP officials (with whom the Charity has an excellent working relationship), and on further customer research. Taking account of the fact that the transition would run for at least 5 years, a commitment was made at that time to providing up to £0.5 billion, if needed, over the full period.

The Charity also made clear at the time that it would provide support to disabled people losing cars over the full period of the DWP's reassessments, and that it did not accept the Minister's suggestion that support be focused on the initial phase of reassessments up to 2015/16.
The role of the banks

This is addressed in detail in the letter from the Chairman of the Company.

Evolution of the Scheme – management of risk

As noted at the beginning of this letter, the Scheme has evolved very significantly from its inception in the late 1970s. It has provided over 4.5 million cars to disabled people, has 630,000 cars on the road, and disabled people can choose from over 2,500 models, all including insurance, maintenance etc, and supported by an exceptional level of customer service.

This evolution has been the product of a series of responses to many changes, both in the market in which the Scheme operates, and resulting from changes in Government policy. Constant adaptation to these changes is vital if the Scheme is to remain sustainable and indeed thrive, ultimately enabling the Charity to provide assistance to those who most need it.

Because these factors impact on the sustainability of the Scheme – and the Company's ability to deliver the guiding principles (the highest standard of customer service, the best possible value for money and financial sustainability for the long term), the Charity's Scheme Oversight Committee monitors these factors on an ongoing basis.
Rt Hon Esther McVey MP  
Secretary of State for Work and Pensions  
Department for Work and Pensions  
Caxton House  
Tothill Street  
London SW1H 9NA

15 February 2018

Dear Secretary of State

Comments on the Urgent Question raised by John Mann MP regarding the Motability Scheme

As outlined in the separate letter to you from Lord Sterling, Chairman of Motability, we are writing in relation to the Parliamentary debate regarding the Motability Scheme (the "Scheme") that took place following an urgent question from Mr John Mann MP on 8 February 2018.

As you will no doubt appreciate, Motability Operations Group plc (the "Company"), as the commercial entity responsible for the delivery of the Scheme on the ground pursuant to a contract entered into with the Motability Charity (the "Charity"), observed the debate with interest. In this regard, it is important to note at the outset that the Company warmly welcomes scrutiny of the Scheme and the opportunity to explain its role in the Scheme's delivery.

We regret that many false statements were made about how the Scheme actually works and the Company's role in delivering it. In view of the vital importance of the Scheme to the lives of some 629,000 disabled people, any debate and discussion of these topics must be based on sound facts and proceed on a properly informed basis.

We have enclosed with this letter a short briefing paper, which explains how the Scheme works and which addresses certain of the issues that have
been misunderstood in the debate. We would be grateful if you would kindly distribute that paper within your Department.

Given that the Parliamentary statements betraying Members’ misconceptions about the Scheme are in Hansard, we are placing a copy of this letter, and its enclosure, in the libraries of both Houses. We understand Lord Sterling is making a similar arrangement. We also intend to send copies of this letter to those who participated in the Parliamentary debate as well as other significant parties and to make a copy of this letter available on our website. In this letter, we seek to address the inaccuracies and misunderstandings apparent in the Parliamentary debate under the following headings:

1. The Role of the Company;
2. Funding;
3. The Reserves of the Company; and,
4. Executive Remuneration.

The Role of the Company

During the course of the debate, it became clear that there is a fundamental misunderstanding regarding the separate roles played by the Charity and the Company. Indeed, a number of the comments demonstrated that certain Members have confused the roles of the two entities.

The Charity and the Company are separate entities. The Charity is responsible for the oversight of the Scheme and the Company, which is a plc and not a charity, is responsible for delivering it under the terms of a contract entered into with the Charity, which was most recently amended in 2008. In that role, the Company buys and sells over 200,000 cars a year and represents approximately 10% of all new car sales in the UK.

Funding

It was stated that the "Charity...is funded by the taxpayer through a direct grant from Government". That statement is incorrect.

The Scheme is operated and delivered by the Company, whose revenues are derived from vehicle lease payments from its customers (who voluntarily assign some or all of their benefits to the Company to make those lease payments) and from sales of used, end-of-lease cars in the market. Indeed, the Company is the largest seller of used cars in the UK market. On average, the Company sells 650 used cars per day, seven days a week. In 2017, this generated over £2 billion of revenue.

Therefore, while the Company does, for administrative convenience, have funds transferred to it by the Department of Work and Pensions, that is only
because individual participants in the Scheme have freely chosen to assign some or all of their benefits to the Company to meet their vehicle lease payments. If they had not done so, those funds would not revert to the Government (as seems to have been suggested), but would be the property of the individual benefit recipients to spend as they see fit. That fact seems to have been completely lost in the debate.

The Reserves of the Company
The suggestion was made during the course of the Parliamentary debate that the Charity "is carrying cash reserves of £2.4 billion". That is also incorrect.

In its most recent set of accounts, the Company records "restricted reserves" of £2.4 billion on its balance sheet. Contrary to what was suggested during the debate, this sum is not held as idle cash, but is invested in the Company's fleet of 629,000 vehicles. That fleet is worth approximately £6.5 billion and, therefore, the Company holds capital equivalent to approximately a third of the value (i.e. £2.4 billion) of its vehicles currently under lease. This is a prudent commercial position for the Company and, indeed as a reference point, is in line with Bank of England stress-test guidance for other financial institutions.

As an inevitable consequence of what is said above, it is not the case that the £2.4 billion of reserves held by the Company is capable of distribution (either to the Government or otherwise). Such a fund of idle cash simply does not exist, as we have explained above. Even if that were not the case and even if the Government were entitled to expropriate these funds (which it is not), that would be to the detriment of the Scheme's customers and would undermine the Company's strong capital base that is essential to its sustainability against the myriad of commercial risks it faces and its ability to obtain debt funding on competitive terms.

As noted during the course of the debate, the Company achieved a post-tax profit of approximately £200m in 2017. However, that does not demonstrate that the Charity has been underspending its budget. First, and as already noted, these are funds of the Company rather than the Charity. Secondly, all of the profits of the Company are reinvested into the Scheme for the benefit of its customers. For example, in addition to directly investing £113 million into the customer proposition (including the provision of free adaptations to customer vehicles and subsidising wheelchair accessible vehicles), the successful and efficient management of the Company has allowed it to donate over £265 million to the Charity over the course of the last 3 years. In doing so, the Company has assisted the Charity in supporting disabled people who, for example, no longer receive disability benefits due to reassessment by the Department for Work and Pensions. In fact, £175
million of the £265 million donated by the Company during the last three years has been used to support customers who, due to benefits reassessment by the Department for Work and Pensions, are no longer eligible to be members of the Scheme.

It is also important to correct the suggestion that the shareholders of the Company (Barclays, HSBC, Lloyds and the Royal Bank of Scotland) have profited significantly as a result of the Scheme. They have not. They received an aggregate of £1.5 million between them in 2017, which includes the coupon required to be paid on the preference shares allocated to them in return for their initial capital contributions to the Company at its inception. In addition, the banks may receive fees in respect of arrangement and transactional services that they may provide to the Company when it issues debt securities. Any such fees are benchmarked against prevailing market rates.

Executive Remuneration

During the exchanges, it was suggested that the CEO of the Charity was paid £1.7 million. That is not correct. However, the CEO of the Company did receive a total remuneration package of this value in 2017; this included remuneration for in-year performance and the award of deferred compensation under a long term incentive plan (LTIP) which is now in runoff. Subject to meeting performance criteria, the final payment under this LTIP will be made in 2018.

The CEO’s remuneration, and the remuneration of the other directors, was approved by the Board acting on the recommendations of the Company’s remuneration committee, which in turn makes its recommendations with reference to, among other things, appropriate market benchmarks and having taken advice from its remuneration advisers. In that context, it is important to note that the Scheme has grown over time, undergoing a structural transformation which included the assumption of a broad range of commercial risks by the Company that were previously borne by insurers, vehicle manufacturers and others. As a result, the Company has become a significant and increasingly complex operation, regulated by the FCA, generating revenue of £4.2 billion annually. An enterprise of this scale requires an experienced and professional leadership team capable of managing the risks associated with a complex business owning and operating a fleet of vehicles worth £6.5 billion. The levels of executive remuneration are set in order to attract and retain the best possible management team and recognise that we must be competitive in the market for such executive talent. The quality of the current management team has been demonstrated by the Company’s excellent customer satisfaction rating (recently independently measured at 98%), robust financial sustainability and customer affordability.
Conclusion

Given the pressures on the Secretary of State's time, we have sought in this letter to deal with what seem to us to have been the most important misunderstandings concerning the Scheme, and we know that Lord Sterling's separate letter also tackles several key issues raised in the exchanges.

The quality, value and sustainability of the service provided to Scheme customers is the guiding principle of everything that we do at the Company.

Neil Johnson
Chairman
Motability Operations Group plc

Cc Lord Sterling of Plaistow
Background to the Motability Scheme (the "Scheme") and the role of the Company

- The Scheme was founded in 1977. The Motability Charity (the "Charity") was and is responsible for overseeing the Scheme.

- In its initial stages, the Scheme was financed and operated by a partnership formed by the UK’s four major clearing banks – Barclays, HSBC, Lloyds and the Royal Bank of Scotland. At that stage, the intention was that the Scheme would provide up to 20,000 vehicles for disabled individuals. In 2008, the partnership between the banks was superseded by the Company (with those same banks as its shareholders), which now delivers the operational aspects of the Scheme, under contract to, and supervised by, the Charity.

- The shareholder banks have exhibited exceptional support for the Scheme. This support has been particularly crucial during the periods of financial instability experienced by the Scheme in the past. It is important to note that the support provided by the banks has not resulted in any significant financial gain to them (contrary to what has been suggested in the media and in Parliament). In 2017, the shareholder banks received between them payments of £1.5m in aggregate, as they did for the two years prior to that (including the 7% coupon on their preference shares).

- As a result of the banks’ support and the credibility that the Company has built in the investor community, the Scheme has, over the course of the last forty years, gone from strength to strength, and the mission and scope of the Scheme have evolved dramatically.

- The Scheme has provided 4.5 million cars to disabled people since its inception and the Company currently serves approximately 629,000 customers with a fleet of vehicles worth £6.5bn. Last year, purchases by the Company accounted for approximately 10% of new car purchases in the UK. Given the significant scale on which the Company acquires vehicles, and the buying power associated with that scale, the Company can offer its customers exceptional value and choice.

- The Company has always been, and continues to be, focussed on its number one priority: providing exceptional customer service and delivering the Scheme in a manner that works best for its valued customers and their specific needs.
Structure of the Scheme
- As noted above, the Charity is responsible for overseeing the Scheme and setting its policy. The Company is responsible for operational delivery and is accountable to the Charity for the service it provides.
- The Charity and the Company are therefore separate entities, and the relationship between them is regulated by contract. This contract requires the Company to meet Key Performance Indicators and allows the Charity to exercise effective oversight of the Scheme. The Charity also has the option to terminate the contract on notice if the Company underperforms.

Funding of the Scheme
- The Scheme is not funded either by the Government or taxpayers.
- The Scheme's customers are the recipients of certain disability benefits. It remains up to the customer how to spend those benefits. If the customer would like to spend some or all of that benefit to acquire a vehicle, one of the options available to them is to become a member of the Scheme.
- Once a customer chooses to become a member of the Scheme, that customer will, instead of arranging and making vehicle lease payments him/herself, assign to the Company some or all of the benefit due to him/her from the Department for Work and Pensions. Accordingly, all or part of a customer's benefit may be paid directly to the Company on that customer's behalf. The sums paid by the Government to the Company therefore do not constitute Government or taxpayers' money, but rather the private funds of individuals who have chosen to join the Scheme.
- Furthermore, while a certain proportion of the Company's revenue is made up of customers' lease payments, over half of the £4.2bn of revenue generated by the Company is derived from the sale of used, end-of-lease cars into the highly competitive used car market.
- The £6.5bn of vehicles owned by the Company is also part funded by competitively sourced bond financing with 12 bonds issued in the debt capital markets since 2008.

The Reserves of the Company
- The Company does not hold cash reserves of £2.4bn.
- As set out in the Company's annual report, this figure represents the Company's "restricted reserves", which is the accounting entry that records the Company's accumulated trading profits over time. These restricted reserves do not exist as idle cash in a bank account: the
£2.4bn comprising the Company's restricted reserves is invested into the fleet of vehicles which are provided to customers under the Scheme.

- The existence of these restricted reserves provides the Company with a strong capital base to meet the dual objectives of ensuring:
  o a stable and sustainable Scheme that can withstand adverse economic forces, such as fluctuations in the used car market, insurance costs, fuel costs and currency fluctuations; and
  o that the Company can obtain debt finance for its operations on the best possible terms.

- In that context, it is clear that the Company cannot pay the sum of £2.4bn to the Government as has been suggested: such a cash fund simply does not exist. If it did, it would not be open to the Government to unlawfully expropriate it to the clear detriment of the Scheme's disabled customers.

- The Company makes a trading profit of approximately £200m a year. That sum is not distributed to investors, but it is instead added to the Company's reserves for reinvestment in the Scheme and to underpin the financial stability of the Company. It cannot therefore be described as an "underspend". The fact that a profit is made reflects the prudence of the Company's directors in managing the Company and the risks it faces to ensure that the Scheme can be sustained and can grow in the future.

- One example of the way in which profit generated by the Company has been used in order to benefit its customers is through the provision of transitional support provided to individuals who have been re-assessed for, and subsequently lost, their disability benefits and therefore are no longer able to acquire a car under the Scheme. This involved the Company committing to the provision of up to £500m to support those losing vehicles as a result of policy changes made by the Department for Work and Pensions.

- The maintenance of a strong capital position and the reinvestment of trading profits are critical to the Scheme's stability and to ensuring that the Scheme can help as many customers as possible.

**Market Position**

- The Company does not have a monopoly on providing vehicles to recipients of disability benefits. Those on disability benefits are entirely at liberty to decide how to spend the sums paid to them by the Department for Work and Pensions. Indeed, over two-thirds of recipients of the Higher Rate Mobility Component of the Disability Living Allowance, the Enhanced Rate of the Mobility Component of Personal Independence
Payment, the War Pensioners' Mobility Supplement, or the Armed Forces Independence Payment choose not to join the Scheme.

- Recipients of disability benefits are of course free to purchase or hire a car in the traditional manner without participating in the Scheme. However, the Scheme undeniably offers customers exceptional value for money. According to the National Audit Office Report relating to the Scheme published in 1996, the average cost of hiring a vehicle through the Scheme was, back then, 30% lower than comparable contract hire offerings. This percentage now stands at 45% (both of these figures include a VAT concession that flows directly to the customer). These figures demonstrate that the Company continues to strive to provide value for money to its customers.

- The Company is fully accountable for its operational activities, which are overseen by the Charity. The Company is held to certain standards under the terms of its contract with the Charity and, should those standards not be met (or should the Charity identify a better means of delivering the Scheme), the contract may be terminated.

- To date, the delivery of the Scheme by the Company has been extremely successful. Indeed, customer satisfaction has been independently measured at 98%. Further, the Scheme has an excellent customer renewal rate of over 91%.

**Executive Remuneration**

- The CEO of the Company (not the CEO of the Charity, as has been suggested) was paid £1.7m in the last financial year, including remuneration for in-year performance and the award of deferred compensation under a long term incentive plan. The amount of the CEO's remuneration, and that of the other directors, was approved by the Board acting on the recommendations of the Company's remuneration committee, which in turn makes its recommendations with reference, inter alia, to appropriate market benchmarks and having taken advice from its remuneration advisers.

- While this level of remuneration has been questioned, it is important to note that as the Scheme has developed and expanded over time, so the Company has become a significant and complex operation that turns over £4.2bn annually. That requires a very experienced and professional leadership team to effectively and efficiently manage the business and the significant commercial risks associated with it.

- In those circumstances, and given the fact that the Scheme is relied on by 629,000 disabled people, it is essential that the Company can attract and retain the best possible executive talent.
- It is important to note also that the remuneration committee is careful to ensure in its decisions that both the levels and the component parts of executive remuneration are aligned with market best practice. It is for this reason that, based on the remuneration committee's recommendation, the Board determined to cease awarding any new units under the directors' long term incentive plan ("LTIP") with effect from December 2015. The impact of these changes to the LTIP will result in a decrease of approximately 20% on a like-for-like basis in the CEO's remuneration starting in the next financial year.