

Mobility and Access Committee for Scotland (MACS)

Briefing Paper to DPOs on Motability

Background and Overview

The governance and financial affairs of Motability have attracted considerable attention, following disclosure of the level of reserves (£2.4 billion), CEO remuneration (£1.7 million) and bonuses (approximately £2 Million) of Motability's commercial arm, Motability Operations.

In May 2018, a report by the House of Commons Work and Pensions and Treasury select committees raised questions about: the structures and governance of the scheme; government support for the scheme; the levels of reserves in Motability Operations, the remuneration of its senior staff; and the relationship between Motability and the Department for Work & Pensions. Among its recommendations was that the National Audit Office (NAO) should carry out a review of the scheme.

Motability Operations (MO) is a huge operation, with turnover of over £4 billion per annum. The separate Motability Charity (MC), which contracts MO, is also significant in its own right with an annual budget of around £68 million. Another associated body is the Motability Tenth Anniversary Trust, with around £16 million expenditure. Pro rata, these figures suggest that Motability spends over £400 million per year in Scotland, probably making it the biggest single player in accessible transport provision in Scotland.

MO employs around 800 staff in its offices in London and Bristol. MC is based in Harlow, Essex and its Trustees of MC appear to be overwhelmingly London-based. There is no Scotland Committee or other formal presence in Scotland. The National Audit Office report (published December 2018) noted that, until September 2018, the Trustees of Motability had been in position for approximately 18 years as opposed to the normal suggested 8-9 year maximum tenure for charities and like organisations.

The Motability charities are registered with the Charity Commission in England and Wales but, despite their activity in Scotland, are not registered with OSCR. This means that it is unclear how a complaint from Scotland over its charitable activity would be handled.

It would therefore appear that Scotland is poorly represented in the governance of Motability's activities. How well Motability meets the needs of Scottish users is difficult to ascertain.

There are major changes to UK social security underway, in particular devolution of responsibility for Disability Living Allowance (DLA) and Personal Independence Payments (PIP) to Holyrood. This has the potential to impact many Scottish people's entitlement to Motability (entitlement derived from being deemed eligible to receive higher rate DLA or PIP).

Although the funding for Motability cars comes from individuals, the Scottish Government has a clear stake if it provides the benefits, which individuals use to fund a Motability entitlement.

It would consequently be timely for some discussion to take place on how Motability services are provided, funded and governed in Scotland, whether any improvements could be made and also on the findings of the NAO.

The Motability scheme enables disabled people to choose to exchange certain mobility allowances paid by the Department for Work & Pensions and Ministry of Defence on the basis of qualifying criteria to lease a new car, powered wheelchair or scooter. More than four and a half million vehicles have been supplied by the scheme since it was launched 40 years ago. In late 2017, just over 1.7 million people were eligible for the scheme, which served around 614,000 customers in England, Wales, Scotland and Northern Ireland. Two organisations directly support the provision of the scheme:

- Motability, a charity, is responsible for the strategic direction and oversight of the scheme.
- Motability Operations Group, a public limited company, operates the scheme through an exclusive rolling seven-year contract with Motability, known as the scheme agreement.

The scheme now accounts for around one-tenth of all new cars purchased annually in the UK. Motability Operations is therefore able to use economies of scale, for example by negotiating substantial discounts on cars purchased from manufacturers.

Given the recent publication of the NAO's Report, it is timely to gather the views of disabled people in Scotland and ensure that Scottish Ministers are aware of all issues.

MACS had initial dialogue with the National Audit Office as part of its review of Motability. Concerns were raised in relation to the CEO's salary/bonuses, the vast financial reserves being accumulated, and the governance of Motability.

MACS asked:

- Do the Motability arrangements overall provide sufficient accountability to the public, and to Motability customers in particular?
- Do the Motability arrangements deliver the best possible service and value for money to the public, and particularly to its customers?

Summary of main findings from the NAO report

The National Audit Office has now reviewed the governance and financial affairs of Motability. It is understood that the NAO's remit extends to 2021.

The NAO concluded that Motability provides an important and much valued service but it also criticised a number of aspects of the organisation, including executive pay, reserves policy and governance¹.

Motability has accepted all the NAO recommendations, while also claiming that its report contains some misrepresentations.²

The CEO of Motability Operations has indicated that he will stand down from his post by 2020.

MACS are considering what action to take in response to the NAO findings. These are based on two important general principles; **firstly that the value of the scheme should be recognised** and that we should be careful not to undermine its continuation, and **secondly** that we should **focus on the accountability and operation of Motability in Scotland** in line with MACS' remit.

As noted above, the NAO recognised the value of the scheme, and the importance to its users. However, the NAO also pointed to a number of serious weaknesses and causes of concern as follows:

- Charging customers significantly more (£390 million) for leases than was necessary;
- Accumulation of over £1 billion unplanned profit above forecast over 10 years;

¹ <https://www.nao.org.uk/report/the-motability-scheme/>

² <https://www.motability.org.uk/about/news/motability-and-the-nao-report>

- A business model which will continue to generate excessive profits in the future;
- Unjustified levels of executive pay and secrecy;
- Issues around governance, accountability, diversity etcetera.

Given that all Motability income ultimately derives from disabled peoples' benefits, there has been considerable public disquiet (indeed anger) and adverse media coverage at these findings. Until recently Motability customers were unaware of the profits being made and high salaries and bonus paid to senior staff. Scottish Ministers have been informed that MACS is actively considering the report and will advise them on recommended responses.

The NAO also reported on some recent changes and initiatives in Motability arrangements, possibly stimulated by the recent public concern and scrutiny. Motability Operations made an exceptionally large donation (£400 million) to the Motability charity in September 2018 and has appointed some new Non-Executive Directors. In addition, some long-standing Trustees of the Motability Charity stood down this autumn with two out of three new Trustees having a disability (Lord Shinkwin and Stephen Duckworth).

There are also a number of other issues, which are of concern to MACS and potentially Scottish Ministers, which the NAO did not address, including:

- The fact that Motability Charity is not registered with OSCR;
- The absence of any Scottish input into the governance of either Motability Charity or Motability Operations;
- The lack of any office, staffing or other Motability presence in Scotland;
- The value for money aspects of lease, insurance, breakdown services etcetera; and
- The non-vehicle side of Motability (provision of wheelchairs, mobility aids and other assistance), which were excluded from the scope of the NAO review.

With regard to quality of service, the NAO cites Motability's internal research indicating that an impressive 99% of its customers are satisfied with the service.

Motability claim that their lease charges are much more competitive than a general car lease agreement, and the NAO confirms that they are generally around 44% cheaper than commercial leases.

Much of this is due to the taxation benefits and dealership contracts that allow Motability to secure these products and services at far less cost than commercial car lease companies. However, there appears to be no information on the views of its approximately 60,000 Scottish customers in the public domain.

Further evidence, both from existing and possibly new consumer research, would be useful in establishing if there are unmet needs in Scotland, such as geographic areas which are less well served by the scheme, or if there are mobility solutions desired which are not currently provided through the scheme. One such example may be wheelchair “add-ons” or hybrid cycles for some disabled people who see these as a ‘mobility aid’.

The NAO also criticises a lack of research on why many people who are entitled to Motability do **not** take this up (64%).

There are many aspects of the NAO review which require specialised knowledge, for example in establishing the optimum reserves policy, which enables it to borrow at the most advantageous rates, in turn benefiting customers. MACS therefore suggest a degree of caution in responding to these aspects of the NAO report, while basing its views firmly on the experience of its members and views of disabled peoples’ organisations (DPOs) in line with its statutory remit.

Given the importance and scale of Motability, MACS has taken the decision to invite a range of Scottish organisations and DPOs to meet and discuss the NAO report, and in particular, what course of action MACS should recommend to Scottish Ministers.

We suggest that key issues to discuss include:

- What changes to the structure and functioning of Motability might be necessary in order to provide Scottish stakeholders with appropriate influence on the management and policy of the scheme?
- How to avoid the excessive charges (and profits) from Motability Operations continuing - as the NAO says they will under current plans?

- What should happen to the ‘surplus’ funds already generated, including the recent donation of £400 million to Motability Charity? This information will ensure MACS captures this for any future consultations on the issue as proposed.

Of Note: The Westminster Committees held a further evidence session on this on 9 January 2019³ and Motability stated that they are about to launch a major consultation on what to do with the £400 million windfall, which Motability Operations gave them recently.

This was more recently referred to in an article by Motability in “Lifestyles Magazine’ edition 102, published January 2019. Lifestyles Magazine is produced by Motability and used as a news and update magazine for Motability customers:

Dr Stephen Duckworth OBE
GOVERNOR



Dr Stephen Duckworth is Founder and Chief Executive of Disability Matters Global, a company promoting diversity and equality. He is also a Trustee at Leonard Cheshire, RFU Injured Players Foundation and Global Disability Innovation Hub.

He says, “As a disabled person, I am very proud to be involved with this service. I am delighted that we are now in the very fortunate position of having significant additional funds to support the mobility of many more disabled people other than those already on the Scheme.”

The response from Dr. Stephen Duckworth, OBE suggest the current thinking is to use the vast financial surplus to benefit disabled people but not those contributing to the scheme i.e.

*“I am delighted that we are now in the very fortunate position of having **significant additional funds** to support the mobility of many more disabled people **other than those already on the scheme**”.*

This statement has caused further anger as Motability customers feel additional benefits should be for those who have paid into the scheme and should include consideration of reducing lease costs, reduced advanced payments or offering additional mobility aids without the current high price

³ <https://www.parliamentlive.tv/Event/Index/a75d3364-1ed7-42c0-bff0-78cf0ed5c279>

tags (general feeling being that the cost for leasing mobility scooters or powered wheelchairs is excessive).

In response to the NAO report, Lord Sterling, Chair of Motability, said:

“We have accepted all of the NAO’s recommendations but have told them there are areas still open to further debate. One, in particular, is the suggestion that customers are being charged ‘more than was required to cover lease costs’. This runs quite contrary to the fact that Scheme customers pay 45% less than the market rate for their vehicles, in addition to the support, insurance and vehicle enhancements that we offer. As such, every penny, surplus to sustainability and to this excellent price and service, goes to help enhance the lives of our disabled customers and their families.

“Furthermore, both the Motability Board with the support of the Motability Operations Board is commissioning - immediately - a review of Reserves held at Motability Operations in order to determine the degree of risk that the Scheme can handle, taking into account our third principle: sustainability”

Motability Operations has made an exceptional donation of £400m million to donate to Motability Charity. However, it has not suggested using any of the planned or unplanned profits to reduce the costs incurred by Motability customers, or to reimburse Motability customers from the lease charges.

During the next two years, there should be some specific opportunities to influence developments. The NAO will have an ongoing involvement over the next two years as its remit lasts until 2021.

Motability Charity commissioned a Governance Review in 2017 and has now promised response to implement all the recommendations in full by 2020.

MACS will notify Motability that it would like to have the opportunity to contribute its views on governance and future strategy, and to establish how it may do so.

There are also some other questions, which MACS and/or Scottish Ministers will want to ask Motability, in order to help MACS respond. Notably asking if it would:

- Publish the 2017 Governance Review;
- Outline what consultation they intend to carry out in reviewing governance;

- Explain more about how Motability Charity trustees ('Governors') are appointed;
- Describe their spending plans, including for the recent £400 million donation from Motability Operations, and outline the scope and breadth of the impending major consultation (confirmed on 9th January 2019).

MACS have decided to seek the wider views of disabled people in Scotland via Disabled People Organisations (DPOs). This falls within MACS remits of:

- Preparing to give Scottish Ministers advice on aspects of policy, legislation and practice affecting the travel needs of disabled people.
- Taking account of the broad views and lived experiences of disabled people when giving advice.
- Encourage awareness amongst disabled people in Scotland of developments, which affects their mobility, choices and opportunities.
- Working closely with Scottish Government and ensure MACS work programme complements the work being undertaken by the Disabled Persons Transport Advisory Committee (DPTAC), the Equality and Human Rights Commission and other organisations, voluntary and statutory.

Purpose of the roundtable discussion

The purpose of this roundtable discussion is to assist MACS with gathering evidence/insights, collating views and agreeing actions needed before advising Ministers on the issue.

MACS has a remit to advise Scottish Ministers on aspects of policy, legislation and practice affecting the travel needs of disabled people and to take account of the broad views and lived experiences of disabled people when giving advice.

Intended outcomes form the roundtable discussion

It is hoped that the discussions will raise awareness of these issues concerned with Motability among DPOs in Scotland, and contribute to the preparation of the advice that MACS should give to Scottish Ministers, reflecting the needs and concerns of Motability customers in Scotland.

Actions required from stakeholders (DPOs)

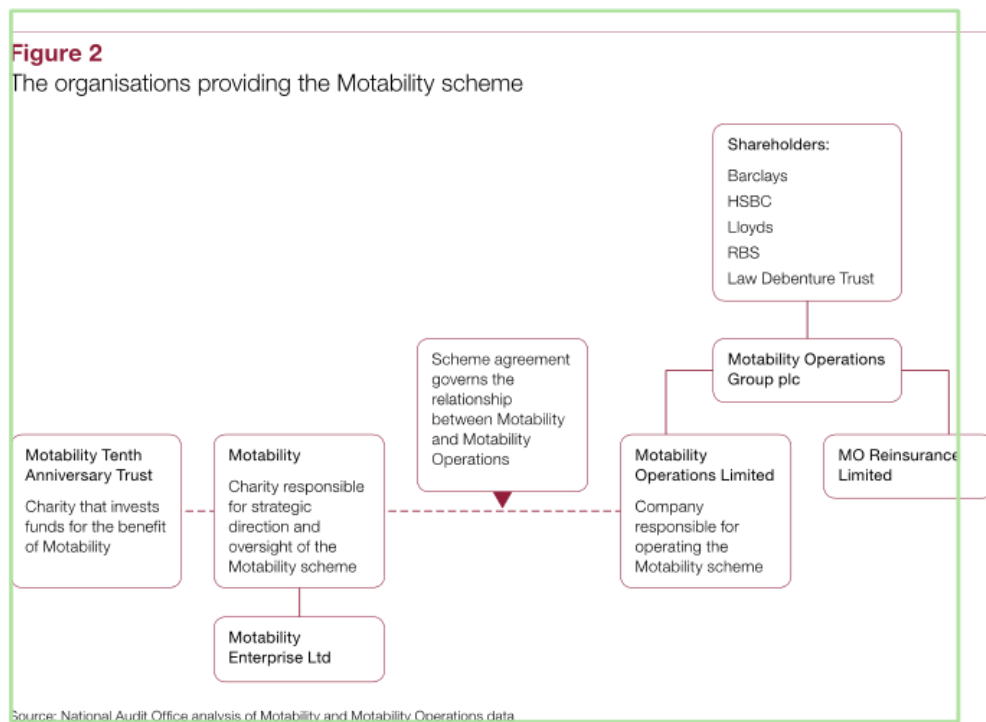
MACS have supplied a summary of the NAO Report and this briefing paper to update all potential attendees. We would ask for the following commitments:

- Please read the NAO Report or Summary Report on the audit of Motability and this briefing paper prior to attending the meeting.
- If possible take opportunities to gain the views of those you represent, on the summary findings of the NAO report on Motability, prior to attending the meeting.
- Be focused on the day to discuss what needs to be addressed with the aim being to best serve Motability customers in Scotland.
- Remain aware of the potentially limited impact our recommendations may have due to the current governance arrangements of Motability and Scottish Ministers current “reach”.
- Consider what “our asks” to Scottish Ministers should be to deliver improvements for Motability customers in Scotland.
- Consider what actions your organisation can take in addition to MACS agreed next steps.

MACS will facilitate this initial scoping meeting with DPOs for the stated purposes of gathering further insights and taking account of discussions and views in preparing a briefing for Scottish Ministers.

Appendix 1 – Overview of organisations providing Motability scheme

16 **Part One** The Motability scheme

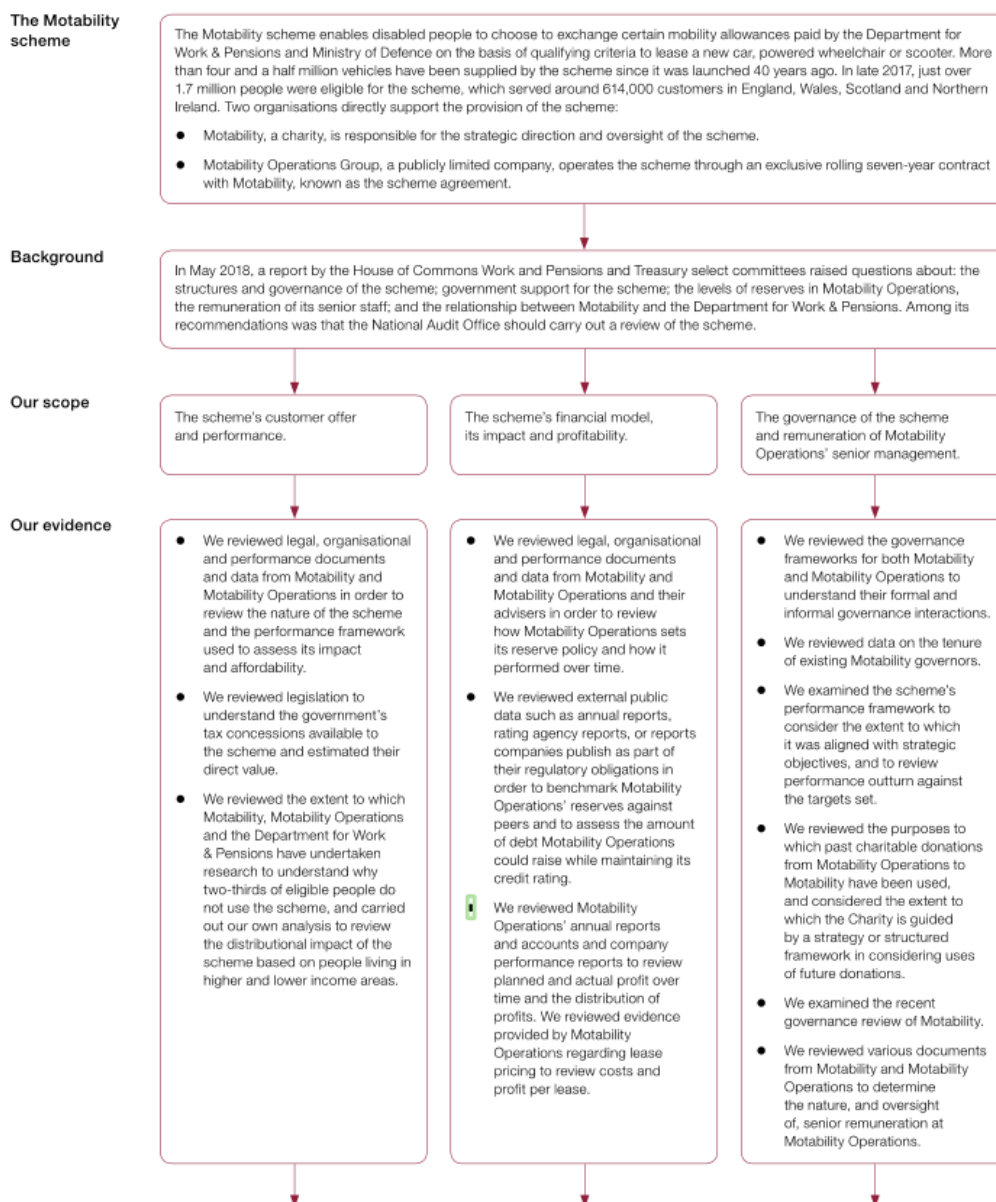


Appendix 2 – Audit Approach

64 **Appendix Four** The Motability scheme

Figure 21

Our audit approach



Appendix 3 – Conclusion by NAO⁴

“The Motability scheme provides an excellent service to eligible people who choose to lease a car. Motability Operations has successfully changed its business model over time, bringing aspects of the service, such as insurance, directly into the business. The management of Motability Operations turned the scheme around and built it into an increasingly profitable business and a force to be reckoned with in the UK used car market.

Motability Operations’ management has performed well since 2002. However, we do think there is a difference between turning an underperforming business around and carrying out a series of important but not necessarily exceptional tasks to keep it on a road to successful operation.

Motability acknowledges that the scheme benefits from structural advantages afforded to it through government support — for example, tax concessions, direct payment of mobility allowances and an effective monopoly.

However, we do not see that Motability Operations reflects these advantages adequately in its consideration of risk when compared to other companies, how it assesses its performance, and how executives are rewarded. Its prudent view of risks and reserves tends to reinforce their ‘exceptional’ performance viewpoint, which we think leads to very high executive reward. While, following a review, total executive remuneration at Motability Operations will now fall, Motability has had difficulty over a long period of time influencing Motability Operations to set executive pay at the levels the charity considers appropriate. In the first two years following the introduction of new remuneration arrangements, annual performance bonuses have been paid at close to maximum levels.

Motability Operations has continued to benefit from upside risk such as strong performance in the used car market, and it has not brought its forecast value of vehicles into line with the wider market.

While generating higher profits than expected means more money is available to support disabled people, we have not seen any evidence that Motability or Motability Operations have an effective framework to ensure their investments provide value for money.

In the absence of an economic shock and unless it changes its business model, we think it likely that the company will continue to generate substantial cash surpluses.

⁴ <https://www.nao.org.uk/report/the-motability-scheme/>

In light of all this, further consideration is needed of the executive reward structure and the issues relating to scheme governance and whether they are suitable to underpin the Motability scheme so that it can continue its excellent work for its customers. There is also a clear public interest in the government providing more clarity around its objectives for mobility allowances, given the favorable enabling conditions it provides for the scheme.”

Appendix 4 – Response from Motability on 7th December 2018

Today the National Audit Office (NAO) published a report on the Motability Scheme, Motability the charity and the Department for Work and Pensions.

We are proud that the report acknowledges the excellent service and value for money that the Scheme offers to our customers. This is always our main priority and in the last ten years we have returned more than £500 million in direct payments to customers, such as via the Good Condition Bonus.

In our last planning year alone we invested £183 million directly to support customers including:

- Good Condition Bonus payments, including increasing the amount to £500
- An additional £10 million to enhance the specification of Wheelchair Accessible Vehicles
- £26 million in providing adapted hire cars to allow those with the most complex disabilities to remain mobile if their car is off the road.

We always strive to keep prices down for customers. Our prices have consistently been 44 per cent cheaper than any leasing alternative. We offer a selection of over 2000 cars to suit customers' needs and budgets, this includes over 360 costing the same as the mobility allowance, requiring no Advance Payment.

After direct customer investment, in the event of any surplus, we donate money to Motability, the Charity, to allow significant enhancements in the support they are able to offer disabled people. Last year we donated £400 million.

The NAO believes there are further opportunities to build on our success and we agree. We will continue to invest to improve our customer service and value for money. We are working with Motability, the Charity, with many initiatives already underway.

Please be reassured that there are no changes planned to how the Scheme works or the service customers receive, continuing to offer excellent customer service and value for money will always be our primary objective.