

Friday 14 June 2019

Motability Operations Board publishes half year Report and authorises £370m release from capital reserves

Motability Operations - the company which delivers the Motability Scheme under contract to the Motability, the Charity which founded the Scheme - today publishes its half year Report and Accounts to end March, 2019. Chairman The Rt. Hon. Sir Stephen O'Brien, who joined the business in January, commented:

"This is an impressive six months of performance, maintaining excellent service in support of over 625,000 disabled people and their families. The October customer survey confirmed a 98% satisfaction rating, and efficient running of the Scheme means that prices continue to be 44% cheaper than any alternative.

"In late 2018, we welcomed the National Audit Office (NAO) Review and, in the last six months, have also set about implementing their recommendations, where good progress is being made."

To date, the business has:

- Implemented enhanced reporting of executive remuneration (as reflected in the Group's 2018 Annual Report and Accounts), to a level that exceeds current regulatory requirements
- Begun a review of its approach to forecasting, supported by third party experts, to establish whether factors affecting past performance could be more accurately forecast in the future; the review will conclude in September

The Board has also reviewed the current level of capital reserves, which act as a 'shock absorber' against risks which could affect the future of the Scheme. It has agreed to release some of these as a readjustment, taking into account a number of factors, including:

- A Review commissioned by Motability, the Charity, and fully supported by MO, with the consultancy Oliver Wyman, which confirms MO's approach to determining capital reserves
- An observation in the Review that the conservative assumptions underpinning certain risk components could be amended
- The financial impact of lowering the capital reserve: as a direct consequence of lowering the capital reserve, more borrowing is required, as each pound released has to be replaced through the financial markets. Borrowing is also likely to be more expensive following the rating downgrade announced today by Standard and Poor's.

- The long-term attractiveness of the business to lenders: the business must protect its appeal to lenders as a high quality investment so it can secure the large sums needed from the debt capital markets
- The high level of uncertainty in the economy: worldwide car markets are currently highly turbulent, with risks including Brexit and diesel car values, which require a capital buffer to protect customers

Having carefully considered these factors, its responsibilities to customers, and to the wider Scheme, the Board has today (14 June) resolved to release capital reserves to a level of £370m below the September 2018 balance sheet position, of which £150m can be specifically attributed to the Oliver Wyman review. The Board's assessment is any larger release would risk further rating reductions, and increased cost, as well as leaving the Scheme and its customers under-protected.

The Board plans to commit £100m of this release to support customers. The balance of the remainder, along with all this year's profits, will be donated to Motability to provide wider support for disabled people and their families. The release, and its timing, will be confirmed subject to trading conditions and access to enough liquidity.

Since capital reserves are not held as cash, but as cars, the business will need to go to the markets to borrow funds to put the release into effect.

Sir Stephen commented:

“This is a complex business, and it has become clear from our conversations with rating agencies that taking action in one area of the business can have serious consequences in another. The Board is confident that following the rebasing to this revised capital position the business remains robust, affordable for customers, and sustainable for the long term.

“In allocating the funds released, we have sought a balance between additional support for Scheme customers and seeking opportunities to improve the lives of a wider range of disabled people through donations to Motability, the Charity.

“We will continue to work with the Charity, Motability, to invest to improve our service and value for money, while supporting the Department for Work and Pensions in their efforts to increase awareness and understanding of the Scheme.”

Ends

Notes to editors:

- 625k customers currently choose to use the Motability scheme
- Almost 5 million vehicles have been supplied since the scheme launched
- Cars leased through Motability are 44% cheaper than market alternatives
- Overall customer satisfaction has been independently measured at 98% or above for eight consecutive years
- MO buys more than 220,000 new cars each year, and sells 4,200 a week into the used car market as vehicles are returned at the end of the lease

About Motability Operations:

- Motability Operations Limited delivers affordable leasing to more than 625,000 customers, under contract to the Motability, the Charity, which sets the strategic policies and direction of the Motability Scheme.
- Motability Operations negotiates with car manufacturers to provide cars at the lowest possible rates, and manages servicing, insurance and resale. Around a third of eligible recipients choose to use their Disability Living Allowance or Personal Independence Payment to lease a Motability car.
- Motability Operations is an independent company. Its shareholders are UK banks who have supported the Scheme since 1978. The company holds appropriate capital reserves to maintain financial security, weather economic changes, and to reduce the cost of borrowing, enabling it to keep prices low. All profits are reinvested for the benefit of disabled people
- Surplus funds are directed as donations to the charity Motability

About the Motability Scheme:

- Since it was set up in 1977, the Motability Scheme has provided more than four and a half million vehicles and helped millions of disabled people and their families to enjoy the 'road to freedom'
- Customers access affordable, worry-free mobility using their mobility allowance to lease a car, scooter or wheelchair
- The scheme is fully inclusive of insurance, breakdown cover, maintenance and servicing and is available on identical terms to all qualifying recipients across the UK.