

Motability Operations Limited

Annual Report and Financial Statements

Year ended 30 September 2017
Company registration no. 01373876



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Officers and professional advisors

Directors

Mike Betts (Chief Executive)
Anne Downey (resigned 30 June 2017)
Ian Goswell
Matthew Hamilton-James
Tim Newbery (resigned 31 August 2017)
Jo Pentland
Ashley Sylvester

Secretary

Julie McManus

Registered office

City Gate House
22 Southwark Bridge Road
SE1 9HB
London, United Kingdom

Independent auditors

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
7 More London Riverside
London SE1 2RT, United Kingdom

Strategic report

Business review

Motability Operations Limited is a wholly owned subsidiary of Motability Operations Group plc ("MO Group"), company number 6541091.

For a detailed review of the Company's business performance including financial and non-financial key performance indicators and the future development of Motability Operations please refer to the Annual Report (including a strategic report on pages 2 to 33) of MO Group, which is not part of this report.

The Group is contracted to operate the Motability Car Scheme and the Powered Wheelchair and Scooter Scheme ("PWSS") by Motability ("the Charity"), and the Company is the principal operating company delivering these Schemes.

During the year ended 30 September 2017, the Company wrote 230,376 (2016: 239,062) new Car Scheme contract hire agreements and 7,537 (2016: 7,359) PWSS contract hire agreements. At 30 September 2017, there were 614,174 (2016: 632,768) Car Scheme contract hire agreements in force and 14,810 (2016: 15,190) PWSS contract hire agreements in force. During the year, the Company achieved an agreement renewal rate of over 91% (2016: 92%).

The Company's closing restricted reserves are £1,602m (2016: £1,455m).

Principal risks and uncertainties

The management of the business and execution of the Company's strategy are subject to a number of risks.

From the perspective of the Company, the principal risks and uncertainties are integrated with the principal risks of the Group and are not managed separately. The key business risks and uncertainties affecting the Group are considered to relate to residual values, supplier failure, credit risk and treasury risk. Further discussion of these risks and uncertainties, in the context of the Group as a whole, is provided on pages 31-35 of the Group's annual report which does not form part of this report.

Future developments

The Directors do not envisage any changes in the Company's principal activities in the foreseeable future.

Financial risk management

The Company's operations expose it to a variety of financial risks that include interest rate risk, credit risk and liquidity risk (further details are supplied in note 30).

From the perspective of the Company, the financial risks are mainly integrated with the financial risks of the Group and are not managed separately. The Group's funding and financial risk is overseen and managed by the Group's Asset and Liability Management Committee. The Group's treasury function monitors and manages the financial risks relating to funding and financial risk operations and co-ordinates access to the financial markets. Further discussion of the management of these financial risks in the context of the Group as a whole is provided on pages 95-104 of the Group's annual report which does not form part of this report.

The strategic report on page 4 was approved by the Board on 13 December 2017 and signed by order of the Board on 15 December 2017.



Julie McManus

Company Secretary

Directors' report

Directors' report for the year ended 30 September 2017

The Directors present their report and the audited financial statements of the Company for the year ended 30 September 2017.

Principal activities

The Company ('MOL') is part of Motability Operations (which is the generic trading name used to describe the entities that act as service provider to the Motability Scheme).

The Company's business comprises the provision of vehicle finance to disabled people who are eligible to receive either: the Higher Rate Mobility Component of the Disability Living Allowance, the War Pensioners' Mobility Supplement, the Enhanced Rate of the Mobility Component of Personal Independence Payment, or the Armed Forces Independence Payment.

Until December 2015 two different forms of finance were available: contract hire and hire purchase. The hire purchase scheme ceased with effect from January 2016.

Under the contract hire scheme, customers are able to hire a vehicle from the Company for a period of three or, exceptionally five years. The rentals include the cost of normal maintenance, insurance and roadside assistance. Under the hire purchase scheme, customers were able to buy new or used vehicles on an instalment basis over a period of time of between two and five years depending on the nature of the vehicle being bought.

Contract hire rentals are paid to the Company by customers mandating payment of their mobility allowances direct to the Company from the relevant government department. In addition, customers may need to pay an advance payment, particularly for more expensive vehicles.

The Company works in close co-operation with the Motability Charity ('Motability') although the two organisations are under completely separate ownership and control. One of Motability's principal aims is to ensure that the contract hire and hire purchase schemes operated by the Company provide its customers with the best possible value for money.

Following the cessation of the trade of Motability Hire Purchase Limited during the year, the Group structure was further simplified. Motability Operations Group plc sold its 100% holding of Motability Hire Purchase Limited to Motability Operations Limited for net asset value. This had the effect of transferring the closing restricted reserves of Motability Hire Purchase Limited to Motability Operations Ltd.

Results and dividends

The Company's profit for the year is £146.5m (2016: £98.7m).

No dividend is paid or proposed in the current year (2016: £nil).

Directors' third party indemnity provision

The Company is required to disclose that under article 131 of the Company's articles of association the Directors have the benefit of an indemnity, to the extent permitted by the Companies Act 2006, against liabilities incurred by them in the execution of their duties and the exercise of their powers.

Directors

The Directors who held office during the year and up to the date of signing the financial statements are given in the officers and professional advisors section of this annual report on page 3.

Employees

Employment of disabled people

We are committed to employing and retaining the best person for the job, whoever that person may be. Our policy is to ensure that disabled people receive equal and fair consideration in recruitment, training and career development. Support and adjustments are provided to ensure that the needs of employees who are, or become, disabled are met. The Company ensures that its policies and practices are not barriers to disabled people. We are 'Gold Card Members' of the Business Disability Forum (formerly the Employers' Forum on Disability). We are accredited by Jobcentre Plus to use the Disability 'two ticks' symbol ('positive about disabled people'). We have an internal disability networking group which is sponsored by the HR Director.

Employee involvement

The Company seeks to engage all employees in short and long-term goal setting. This is achieved through the use of a number of communication methods including senior management briefings, workshops, a Company newsletter, employee consultation forums and through use of our corporate intranet.

Directors' report (continued)

Policy and practice on payment of creditors

The Company's policy is to settle terms of payment with suppliers when agreeing the terms of each transaction (further details regarding creditor balances are supplied in note 18).

Going concern

The Directors are satisfied that the Company has adequate resources to continue in operational existence for the foreseeable future, and for this reason the financial statements continue to be prepared on the going concern basis.

Charitable and political donations

During the year the Company made charitable donations of £335,559 (2016: £26,365) to support and sponsor local initiatives. The Company also made a £45m (2016: £45m) charitable donation to Motability.

The policy of the Company is to be non-political and therefore we have not made any political donations (2016: £nil).

Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently
- make judgements and accounting estimates that are reasonable and prudent
- state whether applicable International Financial Reporting Standards (IFRSs) as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors confirm that they have complied with the above requirements in preparing the financial statements. The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Statement of disclosure of information to auditors

In the case of each Director in office at the date the Directors' report is approved, that:

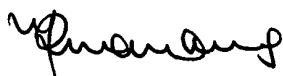
- so far as each Director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Independent auditors

PricewaterhouseCoopers LLP have indicated their willingness to continue in office as auditors. A resolution to re-appoint them is to be proposed at a Directors' meeting.

The Directors' report on pages 5-6 was approved by the Board on 13 December 2017 and signed by order of the Board on 15 December 2017.



Julie McManus

Company Secretary

Independent auditors' report to the members of Motability Operations Limited

Report on the audit of the financial statements

Opinion

In our opinion, Motability Operations Limited's financial statements:

- give a true and fair view of the state of the Company's affairs as at 30 September 2017 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the balance sheet as at 30 September 2017; the income statement, the statement of comprehensive income, the statement of cash flows and the statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you when:

- the Directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The Director is responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Independent auditors' report to the members of Motability Operations Limited (continued)

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 30 September 2017 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities set out on page 6, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

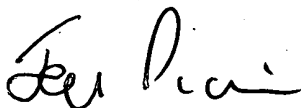
Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.



Jeff Picton (Senior Statutory Auditor)

For and on behalf of PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

London

15 December 2017

Income statement

For the year ended 30 September 2017

	Note	2017 £'000	2016 £'000
Revenue	4	4,256,595	4,179,155
Net operating costs	6	(3,850,233)	(3,899,114)
Profit from operations		406,362	280,041
Finance costs	9	(226,617)	(198,125)
Dividends received from subsidiary company	27	–	–
Profit before tax		179,745	81,916
Taxation	10	(33,251)	16,806
Profit for the year		146,494	98,722

All amounts in current and prior years relate to continuing operations (see note 2).

The profit of Motability Operations is non-distributable and held in the Group for the benefit of the Scheme.

Statement of comprehensive income

For the year ended 30 September 2017

	2017 £'000	2016 £'000
Profit for the year	146,494	98,722
Other comprehensive income for the year, net of tax	–	–
Total comprehensive income for the year	146,494	98,722

The Company is a wholly-owned subsidiary of Motability Operations Group plc and is included in the consolidated financial statements of Motability Operations Group plc which is publicly available. Consequently, the Company has taken advantage of the exemption from preparing consolidated financial statements under the terms of the Companies Act 2006.

The notes on pages 12 to 33 form part of these financial statements.

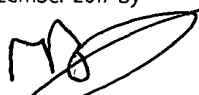
Balance sheet

As at 30 September 2017

	Note	2017 £'000	2016 £'000
Assets			
Non-current assets			
Intangible assets	11	45,666	29,572
Property, plant and equipment	12	17,351	18,235
Asset held for use in operating leases	13	6,413,200	6,323,447
Investment in subsidiary	15	9,999	9,999
Trade and other receivables	17	15,689	14,869
Deferred tax asset	21	—	—
		6,501,905	6,396,122
Current assets			
Inventories	14	86,103	114,898
Cash and bank balances	16	644	14,751
Trade and other receivables	17	1,224,032	628,758
		1,310,779	758,407
Total assets		7,812,684	7,154,529
Liabilities			
Current liabilities			
Corporation tax payable		(3,508)	(20,659)
Trade and other payables	18	(903,867)	(853,467)
Deferred income	19	(183,812)	(177,964)
Financial liabilities	20	(9,936)	(52,637)
		(1,101,123)	(1,104,727)
Net current liabilities		209,656	(346,320)
Non-current liabilities			
Deferred income	19	(213,673)	(205,033)
Deferred tax liabilities	21	(349,292)	(342,592)
Loans from other group companies	31	(4,537,379)	(4,037,454)
		(5,100,344)	(4,585,079)
Non-current liabilities		(5,100,344)	(4,585,079)
Total liabilities		(6,201,467)	(5,689,806)
Net assets		1,611,217	1,464,723
Equity			
Ordinary share capital	22	9,680	9,680
Restricted reserves (*)		1,601,537	1,455,043
Total equity		1,611,217	1,464,723

(*) Restricted reserves are retained for the benefit of the Scheme. As regards the ordinary shareholders of MO Group, there is no dividend entitlement. A reserves management policy has been established to ensure that the business and the customer proposition are sustainable throughout the economic cycle.

These financial statements on pages 9 to 33 were approved by the Board of Directors on 13 December 2017 and signed on its behalf on 15 December 2017 by



Mike Betts Chief Executive
Motability Operations Limited
Registered no. 01373876

The notes on pages 12 to 33 form part of these financial statements.

Statement of changes in equity

For the year ended 30 September 2017

	Ordinary share capital £'000	Restricted reserves £'000	Total equity £'000
At 1 October 2015	9,680	1,356,321	1,366,001
Comprehensive income			
Profit for the year	–	98,722	98,722
Other comprehensive income	–	–	–
Total comprehensive income	–	98,722	98,722
At 1 October 2016	9,680	1,455,043	1,464,723
Comprehensive income			
Profit for the year	–	146,494	146,494
Other comprehensive income	–	–	–
Total comprehensive income	–	146,494	146,494
At 30 September 2017	9,680	1,601,537	1,611,217

Statement of cash flows

For the year ended 30 September 2017

	Note	2017 £'000	2016 £'000
Cash flows from operating activities			
Cash used in operating activities	23	(179,570)	(34,853)
Interest paid		(226,617)	(198,125)
Income tax paid		(43,700)	(35,107)
Net cash flows used in operating activities		(449,887)	(268,085)
Cash flows from investing activities			
Investment in subsidiary		–	(320)
Purchase of property, plant, equipment and intangible assets		(22,033)	(16,786)
Proceeds from sale of property, plant and equipment		589	332
Net cash used in investing activities		(21,444)	(16,774)
Cash flows from financing activities			
Issue of ordinary shares		–	–
New loans raised		499,925	300,000
Net cash generated from financing activities		499,925	300,000
Net increase in cash and cash equivalents		28,594	15,141
Cash and cash equivalents at beginning of year		(37,886)	(53,027)
Cash and cash equivalents at end of year	16	(9,292)	(37,886)

The notes on pages 12 to 33 form part of these financial statements.

Notes to the financial statements

1. General information

Motability Operations Limited ('the Company') is a limited company incorporated and domiciled in the United Kingdom, whose shares are privately owned. The address of the registered office is City Gate House, 22 Southwark Bridge Road, London, SE1 9HB. The nature of the Company's operations and its principal activities are set out in the Directors' report on page 5.

These financial statements are presented in pounds sterling because that is the currency of the primary economic environment in which the Company operates.

Accounting convention

The financial statements have been prepared under the historical cost convention.

2. Significant accounting policies

Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) and International Financial Reporting Interpretations Committee (IFRIC) interpretations endorsed by the European Union (EU) and with those parts of the Companies Act 2006 applicable to companies reporting under IFRSs. A summary of the more important accounting policies is set out below, together with an explanation of where changes have been made to previous policies on the adoption of new accounting standards in the year.

The preparation of financial statements in conformity with IFRSs requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on the Directors' best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 3.

Except as described below, the accounting policies have been applied consistently to the years 2017 and 2016.

Adoption of new or revised standards

The following new and revised standards and interpretations have been adopted in these financial statements. Their adoption has not had any significant impact on the amounts reported.

Amendments to IFRS 7	<i>Financial Instruments: Disclosures</i>
Amendments to IFRS 10	<i>Consolidated Financial Statements</i>
Amendments to IAS 1	<i>Presentation of Financial Statements</i>
Amendments to IAS 16	<i>Property, Plant and Equipment</i>
Amendments to IAS 27	<i>Consolidated and Separate Financial Statements</i>
Amendments to IAS 28	<i>Investments in Associates</i>
Amendments to IAS 34	<i>Interim Financial Reporting</i>
Amendments to IAS 38	<i>Intangible Assets</i>
Annual improvements to IFRSs	<i>2012-2014 Cycle</i>

At the date of authorisation of these financial statements, the following standards, amendments and interpretations were in issue but not yet effective; or effective but not adopted by the EU and have not been early adopted by the Group.

Amendments to IFRS 4	<i>Insurance Contracts</i>
IFRS 9	<i>Financial Instruments</i>
Amendments to IFRS 12	<i>Disclosure of Interests in Other Entities</i>
IFRS 14	<i>Regulatory Deferral Accounts</i>
IFRS 15	<i>Revenue from Contracts with Customers</i>
IFRS 16	<i>Leases</i>
IFRS 17	<i>Insurance Contracts</i>
Amendments to IAS 7	<i>Statement of Cash Flows</i>
Amendments to IAS 12	<i>Income Taxes</i>
Annual improvements to IFRSs	<i>2014-2016 Cycle</i>

Notes to the financial statements

2. Significant accounting policies (continued)

Adoption of new or revised standards (continued)

IFRS 15 - Revenue from Contracts with Customers

IFRS 15 must be implemented for accounting periods commencing on or after 1 January 2018, so for the Company the first period of adoption will be the year ending 30 September 2019 (with comparative figures for the previous year also affected). Although leasing revenue and insurance revenue is out of scope for IFRS 15, the Company will be applying the standard to the bundle of services provided along with the vehicle itself within each of our contracts with customers. The new standard is based on the principle that revenue is recognised when services are delivered to customers in settlement of performance obligations in the contract. The standard permits either a full retrospective or a modified retrospective approach for the adoption.

Management is currently assessing the effects of applying the new standard on the Company's financial statements and has identified the following affected areas:

- the Company's rental receivable from operating leases will be split into three main elements: leasing the vehicle (to be covered under IFRS 16), providing insurance cover (initially under IFRS 4 but eventually covered by IFRS 17) and providing other services relating to keeping the vehicle on the road (under IFRS 15);
- the other services consist of the provision of routine vehicle maintenance (including replacement tyres) and roadside breakdown assistance;
- given the standard nature of our leasing contract and the size of the fleet, the Company will apply the standard to portfolios of contracts based on their start date, as this will best reflect the way performance obligations regarding these services will be met over time (by arranging for insurance cover, vehicle maintenance, tyres and roadside assistance at a portfolio level) and will not differ materially from applying the standard to the individual contracts within the portfolio; and
- the Company will adopt a fully retrospective approach upon transition as the Company's contracts with customers are of relatively short duration and standard in form.

There may be an immaterial reduction in the Company's restricted reserves as margins assigned to the service elements are deferred to future periods on transition to the new standard.

IFRS 16 – Leases

IFRS 16 must be applied for financial years commencing on or after 1 January 2019, so for the Company the first period of adoption will be the year ending 30 September 2020. The Company has undertaken an initial assessment of the impact of adoption of this standard. The standard does not make any significant changes to accounting for lessors, and the only material impact on the Company as a lessee will arise through the recognition of leased premises on the balance sheet. This will result in an increase in the Company's "property, plant and equipment" assets (representing the right to use the premises) and a substantially identical increase in financial liabilities (representing the commitment to pay rentals).

The Directors anticipate that the adoption of these standards, amendments and interpretations in future periods will have no material effect on the financial statements of the Company, and do not plan to apply any of the new IFRSs in advance of their required dates. Other standards, amendments and interpretations not described above are not relevant to the Company.

IFRS 17 – Insurance Contracts

IFRS 17 was issued on 18 May 2017 with an implementation date of accounting periods commencing on or after 1 January 2021, so that for the Company the first accounting period in which adoption is required is that for the year ending 30 September 2022 (with comparative figures for the previous accounting period also affected). The Company is assessing the impact of the changes for the reporting of the fleet reinsurance segment and has no plans to apply the requirements of the standard earlier than the required date.

Going concern

As noted in the Directors' report, these financial statements are prepared on a going concern basis.

Investment in subsidiaries

The Company's investments in its subsidiaries are stated at cost less any provision for impairment in the Parent Company's balance sheet. Impairment provisions are charged to the income statement.

Intangible assets

Intangible assets represent computer software costs. In accordance with IAS 38, computer software is capitalised on the basis of the costs incurred to acquire and bring to use the specific software and includes capitalised internal labour where appropriate. These costs are amortised on a straight-line basis over their estimated useful lives, between three and seven years.

Notes to the financial statements

2. Significant accounting policies (continued)

Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and provision for any impairment in value. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use. The carrying values of all other tangible fixed assets are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. Residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Depreciation is calculated to write down assets, on a straight-line basis, over the estimated useful life of the assets as follows:

Motor vehicles (company cars)	Four years
Leasehold improvements	Remaining term of lease
Fixtures, fittings and office equipment	Three years

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within net operating costs in the income statement.

Assets held for use in operating leases

Assets leased to customers, under agreements which do not transfer substantially all the risks and rewards of ownership, are classified as operating leases. Operating lease assets are capitalised and depreciated on a straight-line basis over their anticipated useful lives to estimated residual values. Estimated residual values are reviewed at the balance sheet date against revised projections of used car prices at the end of the lease term and the resulting changes of estimate are accounted for as a recalibration of depreciation for the year and remaining lease term.

Inventories

Operating lease assets are transferred to inventories at their carrying amount when they cease to be leased and become held for sale. Inventories are subsequently measured at the lower of their transfer value and net realisable value.

Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services.

Rental revenue from operating leases is recognised on a straight-line basis over the lease term.

Revenue comprises both advance rentals payable directly by lessees and periodic rentals receivable from lessees by means of mandated payments of either: the Higher Rate Mobility Component of the Disability Living Allowance, the War Pensioners' Mobility Supplement, the Enhanced Rate of the Mobility Component of Personal Independence Payment, or the Armed Forces Independence Payment.

Proceeds from disposal of operating lease assets are recognised when the significant risks and rewards of ownership of the assets have been transferred to the buyer.

Deferred income – maintenance

Rental income in respect of vehicle maintenance is deferred to the extent that it relates to future maintenance activities.

Deferred income – vehicle condition

Rental income is deferred on a straight-line basis over the life of the lease to the extent that it is expected to be repaid to lessees for returning leased assets in good condition.

Leasing obligations

The costs of operating leases are charged to the income statement on a straight-line basis.

Net operating costs

Net operating costs comprise insurance, maintenance, dealer supply and service payments, roadside assistance and other Scheme-related costs including the Motability levy (see note 27) and overheads. An analysis is provided in note 6.

Overheads include the cost to the Company of the Directors' long-term incentives, recognised on an accruals basis over the period to which the performance criteria relate, adjusted for changes in the probability of performance criteria being met or conditional awards lapsing.

Finance costs

Finance costs are recognised as an expense on an accruals basis, using the effective interest rate method.

Retirement benefit costs

Company pension contributions are calculated as a fixed percentage of the pensionable salaries of eligible employees. These contributions are charged in the period to which the salary relates. The Company pension scheme is a defined contribution scheme. The Company has no further payment obligations once the contributions have been paid.

Notes to the financial statements

2. Significant accounting policies (continued)

Taxation

Taxation on the profit for the year comprises both current and deferred tax as well as adjustments in respect of prior years. Taxation is recognised in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also included within equity.

Current tax is the expected tax payable on the income for the period, using tax rates enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised in respect of all temporary differences between the carrying value of assets and liabilities for reporting purposes and the amounts charged or credited for tax purposes. Deferred tax is calculated at the rate of tax expected to apply when the liability is settled or the asset is realised using tax rates enacted or substantively enacted by the balance sheet date. A deferred tax asset is recognised only to the extent that it is probable that future taxable surplus will be available against which the asset can be utilised.

Share capital

Ordinary share capital is classified as equity.

Financial instruments

Financial assets and liabilities are recognised in the Company's balance sheet when the Company becomes a party to the contractual provisions of the instrument. Financial assets and liabilities comprise trade and other receivables, cash and cash equivalents, trade and other payables and bank overdrafts.

Financial assets

Trade and other receivables

Trade and other receivables are non-derivative finance assets with fixed or determinable payments that are not quoted in an active market. They arise when the Company provides money, goods and services directly.

Trade receivables do not carry any interest and are stated at their nominal value, which approximates to the fair value because of their short maturities, as reduced by appropriate provisions for estimated irrecoverable amounts. These provisions are established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables based on past experience of default or delinquency in payments.

Cash and cash equivalents

Cash and cash equivalents comprise cash and bank balances and bank overdrafts. Cash and bank balances comprise cash held by the Company and cash in the course of transmission and collection. The carrying value of these assets approximates to their fair value. In the balance sheet, bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

Financial liabilities including trade and other payables

Trade and other payables

Trade and other payables are recognised when the Company has a present legal or constructive obligation as a result of a past event; it is probable that an outflow of resources embodying economic benefit will be required to settle the obligation and reliable estimates of the amount of obligation can be made.

Trade and other payables are short-term financial liabilities which do not carry any interest and are stated at their nominal value, which approximates to the fair value because of their short maturities.

Financial liabilities

Financial liabilities are recognised initially at fair value, net of transaction costs. They are subsequently measured at amortised cost using the effective interest rate method, with interest expense recognised on an effective yield basis.

Short-term financial liabilities, such as bank overdrafts, are measured at nominal value, which approximates to the fair value because of their short maturities.

Derecognition of financial liabilities

The Company derecognises financial liabilities, when and only when, the Company's obligations are discharged, cancelled or they expire.

Notes to the financial statements

3. Critical accounting judgments and key sources of estimation uncertainty

In the application of the Company's accounting policies, which are described in note 2, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are based on historical experience and other factors that are considered to be relevant. Actual values of assets and amounts of liabilities may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying the Company's accounting policies:

Residual values of operating lease assets

The method by which the Directors have determined the Company's residual values of the operating lease assets is described in note 13.

Sensitivity analysis

Because of the inherent uncertainty associated with such valuation methodology and in particular the volatility of the prices of second-hand vehicles, the carrying value of the residual values of the operating lease assets may differ from their realisable value (see note 13). As at 30 September 2017, if future value of the net sale proceeds for our existing portfolio of operating leases were to (decrease)/increase by one percent from our estimates, the effect would be to (decrease)/increase the depreciation on these vehicles by about £48.3m (2016: £48.5m). This change in depreciation would be charged/credited to depreciation expense on operating leases over the remaining terms of the operating leases so that the net investment in operating leases at the end of the lease term for these vehicles is equal to the revised expected residual value.

4. Revenue

An analysis of the Company's revenue is provided below:

	2017 £'000	2016 £'000
Rentals receivable	2,007,043	2,061,110
Proceeds from disposal of operating lease assets	2,247,533	2,115,031
Contingent rentals	394	698
Other income	1,625	2,316
Total revenue	4,256,595	4,179,155

Contingent rentals relate to variable charges for excess mileage on operating leases.

5. Segmental analysis

Motability Operations Limited is managed as a single integrated business unit. Accordingly no segmental analysis is applicable.

Notes to the financial statements

6. Net operating costs

An analysis of the Company's net operating costs is provided below:

	2017 £'000	2016 £'000
Inter-company rental payable	–	–
Net book value of disposed operating lease assets	2,118,427	2,042,463
Fleet operating costs including insurance, maintenance and roadside assistance costs	649,860	673,725
Other operating costs	67,161	61,125
Employee costs	49,774	50,005
Other product costs including continuous mobility costs, adaptations support, communications	65,809	56,410
Legal and professional fees	18,527	15,923
Bad debt charges and movement in bad debt provisions	4,477	13,803
Motability levy and rebates	11,170	11,036
Charitable donation	45,300	45,000
Management fees	751	750
Net operating costs before depreciation	3,031,256	2,970,240
Depreciation on assets used in operating leases	812,542	923,392
Depreciation and amortisation on property, plant and equipment and intangible assets	6,435	5,482
Net operating costs	3,850,233	3,899,114

7. Auditors' remuneration

	2017 £'000	2016 £'000
Audit fees		
Auditors' remuneration: Company	70	68
Total audit fees	70	68

	2017 £'000	2016 £'000
Other fees payable to auditors		
Auditors' remuneration: Audit fees paid on behalf of Parent Company and its other subsidiaries	289	211
Audit-related assurance services	69	67
Tax compliance services	–	–
Tax advisory services	–	–
Internal audit services	–	–
Other assurance services	43	42
Corporate finance services	–	–
Total other fees payable to auditors	401	320

8. Employee costs

The average monthly number of persons employed on a full time equivalent basis (including Executive Directors) was:

	2017	2016
Administrative staff	858	834

	2017 £'000	2016 £'000
The breakdown of staff costs is as follows:		
Wages and salaries	41,480	41,894
Social security costs	4,513	4,773
Other pensions costs	3,781	3,338
Total employee costs	49,774	50,005

Notes to the financial statements

9. Finance costs

	2017 £'000	2016 £'000
Interest and bank charges	362	295
Interest on loan from MO Group plc	226,255	197,830
Total finance costs	226,617	198,125

10. Taxation

The major components of the Company's tax expense are:

	2017 £'000	2016 £'000
Current tax		
Charge for the year	26,475	50,533
Adjustments recognised in the current year in relation to the current tax of prior years	76	(5,785)
Total	26,551	44,748
Deferred tax		
Origination and reversal of temporary differences	12,101	(31,184)
Adjustments in respect of prior years	(74)	57
Deferred tax charge on transfer of fleet	—	—
Impact of change in UK tax rate	(5,327)	(30,427)
Total	6,700	(61,554)
Tax on profit	33,251	(16,806)

The tax on the Company's profit differs from the theoretical amount that would arise using the weighted average tax rate applicable as follows:

	2017 £'000	2016 £'000
Profit before taxation and dividend income from continuing operations	179,745	81,916
Tax calculated at appropriate tax rates applicable to surplus (2017: 19.5%, 2016 20%)	35,048	16,382
Expenses not deductible for tax purposes	169	225
Adjustments recognised in the current year in relation to the current tax of prior years	76	(5,785)
Deferred tax charge on transfer of fleet	—	—
Adjustment for prior year deferred tax	(74)	57
Re-measurement of deferred tax due to change in the UK corporation tax rate	(5,327)	(30,427)
Restriction to deduction of inter-company interest expense under worldwide debt cap rules	3,359	2,742
Total tax on profit	33,251	(16,806)

The weighted average applicable tax rate was 19.5% (2016: 20%).

Notes to the financial statements

II. Intangible assets

Cost	£'000
At 1 October 2015	33,836
Additions	14,471
At 1 October 2016	48,307
Additions	19,284
At 30 September 2017	67,591
Accumulated amortisation	
At 1 October 2015	16,665
Charge for the year	2,070
At 1 October 2016	18,735
Charge for the year	3,190
At 30 September 2017	21,925
Carrying amount	
At 1 October 2015	17,171
Additions	14,471
Amortisation	(2,070)
At 1 October 2016	29,572
Additions	19,284
Amortisation	(3,190)
At 30 September 2017	45,666

The intangible assets relate to IT projects.

At 30 September 2017, the Company had entered into contractual commitments in respect of capital expenditure amounting to £nil (2016: £nil).

Notes to the financial statements

12. Property, plant and equipment

Cost	Motor vehicles £'000	Leasehold improvements £'000	Fixtures, fittings and office equipment £'000	Total £'000
At 1 October 2015	2,254	25,743	16,024	44,021
Additions	1,065	—	1,251	2,316
Disposals	(689)	(3,679)	(6,175)	(10,543)
At 1 October 2016	2,630	22,064	11,100	35,794
Additions	1,071	—	1,679	2,750
Disposals	(1,024)	—	—	(1,024)
At 30 September 2017	2,677	22,064	12,779	37,520
Accumulated depreciation				
At 1 October 2015	762	9,200	14,466	24,428
Charge for the year	572	1,572	1,268	3,412
Eliminated on disposals	(427)	(3,679)	(6,175)	(10,281)
At 1 October 2016	907	7,093	9,559	17,559
Charge for the year	665	1,544	1,036	3,245
Eliminated on disposals	(635)	—	—	(635)
At 30 September 2017	937	8,637	10,595	20,169
Carrying amount				
At 1 October 2015	1,492	16,543	1,558	19,593
Additions	1,065	—	1,251	2,316
Disposals	(262)	—	—	(262)
Depreciation	(572)	(1,572)	(1,268)	(3,412)
At 1 October 2016	1,723	14,971	1,541	18,235
Additions	1,071	—	1,679	2,750
Disposals	(389)	—	—	(389)
Depreciation	(665)	(1,544)	(1,036)	(3,245)
At 30 September 2017	1,740	13,427	2,184	17,351

At 30 September 2017, the Company had entered into contractual commitments in respect of capital expenditure amounting to £nil (2016: £nil).

Notes to the financial statements

13. Assets held for use in operating leases

	Motor vehicle assets £'000
Cost	
At 1 October 2015	7,659,811
Additions	3,039,435
Transfer to inventories (note 14)	(2,825,827)
At 1 October 2016	7,873,419
Additions	2,991,927
Transfer to inventories (note 14)	(2,932,922)
At 30 September 2017	7,932,424
Accumulated depreciation	
At 1 October 2015	1,404,903
Charge for the year	923,392
Eliminated on transfer to inventory (note 14)	(778,323)
At 1 October 2016	1,549,972
Charge for the year	812,542
Eliminated on transfer to inventory (note 14)	(843,290)
At 30 September 2017	1,519,224
Carrying amount	
At 1 October 2015	6,254,908
Additions	3,039,435
Depreciation	(923,392)
Transfer to inventory (note 14)	(2,047,504)
At 1 October 2016	6,323,447
Additions	2,991,927
Depreciation	(812,542)
Transfer to inventory (note 14)	(2,089,632)
At 30 September 2017	6,413,200

Residual values

Residual values represent the estimated net sale proceeds expected from the sale of the asset at the end of the leasing period. A review is undertaken at the balance sheet date using the market data to identify net residual values which differ to the sum anticipated at the inception of the lease.

In addition, the assets' resale market value and disposal costs structure are monitored and the process of realising asset values is managed in order to seek to maximise the net sale proceeds.

The following residual values are included in the calculation of the net book value of fixed assets held for use in operating leases:

Years in which unguaranteed residual values are recovered

	2017 £'000	2016 £'000
Within 1 year	1,441,063	1,429,854
Between 1 – 2 years	1,524,606	1,454,818
Between 2 – 5 years	1,861,962	1,932,987
Total exposure	4,827,631	4,817,659

Notes to the financial statements

14. Inventories

	2017 £'000	2016 £'000
Ex-operating lease assets held for sale	86,103	114,898
Provisions	–	–
Ex-operating lease assets held for sale (net)	86,103	114,898

Inventories represent the operating lease assets previously held for rental which cease to be rented and become held for sale as of the balance sheet date.

The cost of inventories recognised as expense and included in net operating costs amounted to £nil (2016: £nil).

The movement of these inventories in 2016 and 2015 are as follows:

	£'000
At 1 October 2015	109,857
Transfer from operating lease assets (note 13)	2,047,504
Disposals	(2,042,463)
At 1 October 2016	114,898
Transfer from operating lease assets (note 13)	2,089,632
Disposals	(2,118,427)
At 30 September 2017	86,103

15. Investment in subsidiary

	2017 £'000	2016 £'000
Investment in subsidiaries at 30 September	9,999	9,999

The Company's subsidiaries are set out below:

Directly owned	Proportion of all classes of issued share capital owned by the Company	Principal activity
Motability Hire Purchase Limited (*)	100%	No longer trading
Motability Leasing Limited (*)	100%	No longer trading

(*) These companies have ceased trading. Their registered offices are at City Gate House, 22 Southwark Bridge Road, London, UK, SE1 9HB.

Following the cessation of the trade of Motability Hire Purchase Limited during the year, the Group structure was further simplified. Motability Operations Group plc sold its 100% holding of Motability Hire Purchase Limited to Motability Operations Limited for net asset value. This had the effect of transferring the closing restricted reserves of Motability Hire Purchase Limited to Motability Operations Ltd.

The Company is a wholly owned subsidiary of Motability Operations Group and is included in the consolidated financial statements of Motability Operations Group, which are publicly available. Consequently, the Company has elected to take the exemption from preparing consolidated financial statements under the terms of section 400 of the Companies Act 2006.

Notes to the financial statements

16. Cash and cash equivalents

	2017 £'000	2016 £'000
Cleared balances	472	217
Cash in the course of collection	172	14,534
Cash and bank balances	644	14,751

	2017 £'000	2016 £'000
Cleared balances	—	—
Cash in the course of transmission	(9,936)	(52,637)
Bank overdrafts	(9,936)	(52,637)

Cash and bank balances comprise cash held by the Company. The carrying amount of these assets approximate to their fair value.

For the purposes of the cash flow statement, cash and cash equivalents are as follows:

	2017 £'000	2016 £'000
Cash and bank balances	644	14,751
Bank overdrafts (see note 20)	(9,936)	(52,637)
Cash and cash equivalents	(9,292)	(37,886)

17. Trade and other receivables

	2017 £'000	2016 £'000
Trade receivables	116,318	112,744
Other receivables	74,883	78,442
Amounts due from MO Group	958,849	354,768
Prepayments and accrued income	89,671	97,673
Total	1,239,721	643,627

Trade receivables include an allowance for estimated irrecoverable amounts of £1.5m (2016: £8.3m). This allowance has been made by reference to past default experience. During the year there was a £6.8m decrease in provision and £15.2m of receivables were written off (2016: £13.3m increase in provision and £11.8m written off). The average receivable days' period is nine days (2016: 10 days).

The Directors consider that the carrying value of trade and other receivables approximates to their fair value. All balances are non-interest bearing and denominated in sterling.

The Company's principal source of income is the Department for Work and Pensions through the assigned allowances received by customers of the Company. In effect the income stream is sourced from the UK Government, hence credit risk is considered by the Directors to be very low. A small residual credit risk arises from miscellaneous customer billings, monies due from dealers, auction houses and vehicle manufacturers. The Company's management carries out regular credit assessments of the limits set for auction houses, manufacturers and dealers.

Included in the Company's trade receivable balance are receivables with a carrying value of £31.8m (2016: £4.7m) which are past due at the reporting date. The Company has not set aside provisions for these amounts as there has not been a significant change in credit quality and the amounts are still considered to be recoverable. The Company does not hold any collateral over these balances. The average past due period of these receivables is two days (2016: four days).

Ageing of past due but not impaired receivables:

	2017 £'000	2016 £'000
Past due by 1-30 days	30,233	4,663
Past due by 31-60 days	1,392	55
Past due by 61-90 days	53	—
Past due by 91-120 days	34	—
Past due by more than 120 days	68	—
Total	31,780	4,718

Notes to the financial statements

18. Trade and other payables

	2017 £'000	2016 £'000
Trade payables	109,946	62,406
Social security and other taxes	1,480	1,324
Accruals	134,744	131,333
Other payables	410	25
Amounts due to MLL	652,628	652,628
Amounts due to R2M	707	707
Advance payments received from DWP	3,632	4,724
Amounts due to MHPL	320	320
Total	903,867	853,467

Trade payables and accruals principally comprise amounts outstanding for trade purchases and on-going costs.

The Directors consider that the carrying amount of trade and other payables approximates to their fair value.

19. Deferred income

	2017 £'000	2016 £'000
Customers' advance payments (*)	126,286	117,000
Vehicle maintenance income	15,068	13,335
Vehicle insurance income	—	5,465
Vehicle good condition bonus income	42,458	42,164
Total current	183,812	177,964
Customers' advance payments (*)	131,596	118,332
Vehicle maintenance income	41,361	44,031
Vehicle insurance income	11,228	13,670
Vehicle good condition bonus income	29,488	29,000
Total non-current	213,673	205,033
Total	397,485	382,997

(*) Customers may choose a leased vehicle where the price exceeds the mobility allowance. In such cases they make an advance rental payment which is recognised over the life of the lease.

20. Financial liabilities

	2017 £'000	2016 £'000
Bank overdrafts	9,936	52,637
The financial liabilities are repayable as follows:		
On demand or due within one year	9,936	52,637
Due within two years	—	—
Due within two to five years	—	—
Due in more than five years	—	—
Total	9,936	52,637

All borrowings are denominated in sterling and at floating rates.

The weighted average interest rates on borrowings as at 30 September 2017 and 30 September 2016 were as follows:

	2017 %	2016 %
Bank overdrafts	1.2	1.2

Notes to the financial statements

20. Financial liabilities (continued)

At 30 September 2017 and 30 September 2016, the Company had the following undrawn committed borrowing facilities:

	2017 £'000	2016 £'000
Working capital facility	5,000	5,000
Total	5,000	5,000

Undrawn committed facilities expire within one year.

As at 30 September 2017 and 2016, the fair value of borrowings approximates to their carrying values, due to the fact that all the borrowings consist of overdrafts which are short term and carry floating interest rates.

21. Deferred tax liabilities

The following are the deferred tax liabilities recognised by the Company and movements thereon during the current and prior reporting years.

	Accelerated depreciation £'000	Accelerated tax depreciation £'000	Short-term timing differences £'000	Total £'000
Net at 1 October 2015	2,475	(407,366)	746	(404,145)
Credit to income statement	(125)	31,079	229	31,183
Adjustment in respect of prior periods	7	(64)	–	(57)
Impact of change in UK tax rate	(237)	30,698	(34)	30,427
Net at 1 October 2016	2,120	(345,653)	941	(342,592)
Credit to income statement	(169)	(11,939)	7	(12,101)
Adjustment in respect of prior periods	5	69	–	74
Impact of change in UK tax rate	(26)	5,412	(59)	5,327
Net at 30 September 2017	1,930	(352,111)	889	(349,292)

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities (as the deferred taxes relate to the same fiscal authority).

On 26 October 2015 Finance Bill No.2 2015 was substantively enacted, reducing the main rate of corporation tax from 20% to 19% with effect from 1 April 2017 and to 18% with effect from 1 April 2020. This latter rate was then superseded and replaced with a 17% rate (also with effect from 1 April 2020) by the substantive enactment on 6 September 2016 of Finance Act 2016.

With both of these enactments falling within the same accounting period, there was a significant release (£30.4m) of deferred tax liabilities during 2016 as a credit to the tax line for the year. A further release (£5.3m) has occurred in 2017 as a result of the re-estimation of liabilities using the latest live fleet value and the tax rates expected to apply when the related deferred tax liabilities fall due.

The temporary differences arise because capital allowances for fleet vehicles are received at a higher rate than accounting depreciation charged under IFRSs. At the balance sheet date these differences amounted to £1.93bn. If measured to unwind at 19.5%, this would represent a deferred tax liability of £375m. Using the best estimate of the timing of the unwinding of the temporary differences the liability has been estimated to be £350m – a blended rate of 18.1%.

As new vehicles are added to the fleet and ex-lease vehicles are sold this balance will be re-measured each year for the next three years until September 2020 when the timing differences will all be measured at 17%.

Notes to the financial statements

22. Ordinary share capital

The Company has one class of ordinary shares.

	2017	2016
Issued and fully paid:		
9,680,000 Ordinary shares of £1 each (2016: 9,680,000 Ordinary shares of £1 each)	£9,680,000	£9,680,000

23. Cash used in operating activities

Reconciliation of profit to net cash flow from operating activities:

	2017 £'000	2016 £'000
Profit before tax	179,745	81,916
Adjustments for:		
Depreciation and amortisation charge	6,435	5,482
Depreciation charge on operating lease assets	812,542	923,392
Finance costs	226,617	198,125
Gains on disposal of operating assets	(129,106)	(72,568)
Gains on disposal of corporate assets	(200)	(70)
(Decrease)/increase in provisions	(6,782)	1,476
Operating cash flows before movements in working capital	1,089,251	1,137,753
Purchase of assets held for use in operating leases	(2,991,927)	(3,039,435)
Proceeds from sale of assets held for use in operating leases	2,247,533	2,115,031
Increase in trade and other receivables	(589,315)	(247,525)
Increase in deferred income	14,488	329
Increase/(decrease) in trade and other payables	50,400	(1,006)
Cash used in operating activity	(179,570)	(34,853)

24. Analysis of changes in net debt

	At 1 October 2016 £'000	Cash flows £'000	Non-cash flows £'000	At 30 September 2017 £'000
Cash and bank balances	14,751	(14,107)	—	644
Borrowings due within one year	(52,637)	42,701	—	(9,936)
	(37,886)	28,594	—	(9,292)

	At 1 October 2015 £'000	Cash flows £'000	Non-cash flows £'000	At 30 September 2016 £'000
Cash and bank balances	16,075	(1,324)	—	14,751
Borrowings due within one year	(69,102)	16,465	—	(52,637)
	(53,027)	15,141	—	(37,886)

Notes to the financial statements

25. Operating lease arrangements

The Company as lessee

	2017 £'000	2016 £'000
Minimum lease payments under operating leases recognised in the income statement in the year	3,140	3,086

At the balance sheet date, the Company had outstanding commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2017 £'000	2016 £'000
No later than one year	3,590	3,590
Later than one year and no later than five years	13,876	13,876
Later than five years	17,347	17,347
	34,813	34,813

Operating lease payments represent rentals payable by the Company for use of office properties. Leases are negotiated for an average term of nine years and rentals fixed for an average of four years.

26. Retirement benefit schemes

The Motability Operations Limited pension plan is a non-contributory group personal pension (money purchase) scheme. The charge for the year to 30 September 2017 amounted to £3,780,623 (2016: £3,338,109). Net contributions due at the balance sheet date were £453,882 (2016: £50).

27. Related parties

Related parties comprise the Directors (and their close family and service companies), the Motability Charity, MO Group and the subsidiaries of MO Group (namely Motability Leasing Limited ("MLL") - company number 06542987, Motability Hire Purchase Limited ("MHPL") - company number 06543350, Route2mobility Limited ("R2m") - company number 04560102, MO Reinsurance Limited ("MORL") - company number 127747C) and the shareholder banks of MO Group. Transactions entered into with related parties are in the normal course of business and on an 'arm's length' basis.

The relationship of the Group to the Motability Charity is set out in the Business overview of the Group's annual report on page 2 which is not part of this report and relationship of the Company to Motability is set out in the Directors' Report.

Transactions

Total rentals payable to MLL for the year were £nil (2016: £ nil).

Direct costs payable by MHPL to the Company for the year were £nil (2016: £nil).

Dividends received from MLL in the year were £nil (2016: £nil).

The amount of monies owed to/from MLL, MHPL and MO Group is shown in note 17 and note 18 to these financial statements. At the year end there were no provisions for doubtful debts (2016: £nil) due from related parties and no amounts were written off (2016: £nil) in the year under review in respect of debts due to or from related parties.

The Company also paid £9.2m (2016: £9.3m) relating to Motability administration costs (the 'Motability levy').

In addition £2.0m (2016: £1.8m) was paid by the Company as a rebate negotiated with Motability which effectively removes the risk pricing from vehicles acquired with charitable grants, and wheelchair accessible vehicles. The Company donated £45m (2016: £45m) to Motability's charitable funds during the year.

The Company has bank overdrafts provided by the MO Group's Shareholder Banks on commercial terms as detailed in note 20 (see note 9 for details of financing costs); £0.4m (2016: £0.3m) of bank charges were also paid during the year. Additionally, total fees of £0.8m (2016: £0.8m) were due to the Shareholder Banks in proportion to their shareholdings for management and advisory services.

At 30 September 2017 £0.5m of cash and cash equivalents were held with shareholder banks (30 September 2016: £0.2m).

Notes to the financial statements

27. Related parties (continued)

Remuneration of key management personnel

The remuneration of the key management personnel who are the Directors of the Company is set out below in aggregate for each of the categories specified in IAS 24, 'Related Party Disclosures'.

	2017 £'000	2016 £'000
Short-term employee benefits	4,454	3,797
Post-employment benefits	74	129
Other long-term benefits	2,463	3,427
	6,991	7,353

28. Directors' remuneration

During the year there were three Directors (2016: four) accruing benefits under a money purchase pension scheme.

	2017	2016
Highest paid Director		
Salary	£549,258	£536,367
Performance related payments	£262,624	£252,758
Payments in lieu of pension*	£137,314	£134,092
Benefits	£25,057	£25,077
Aggregate emoluments in respect of qualifying services	£974,253	£948,294
Pension contributions under money purchase pension scheme	£nil	£nil
All Directors		
Salary	£2,032,951	£2,252,622
Performance related payments	£1,065,243	£961,391
Payments in lieu of pension*	£399,662	£443,011
Compensation for loss of office	£424,550	–
Benefits	£122,733	£140,847
Aggregate emoluments in respect of qualifying services	£4,045,139	£3,797,871
Pension contributions under money purchase pension scheme	£73,597	£128,634

* Payments in lieu of pension amounts relate to emoluments where the Remuneration Committee has agreed that Directors can opt to take taxable income instead of pension contribution entitlements under money purchase schemes.

Long-Term Incentive Arrangements

In addition to the above, payments in respect of amounts vesting under the runoff of the previous Long Term Incentive Plan (LTIP) continue to be linked to the Group's long-term objectives of maintenance of sufficient reserves, high levels of customer satisfaction and renewal levels, lease affordability and excellent business culture. Any payment is also determined by reference to the Company's external credit rating. The final units awarded in this plan were made to the Directors in December 2015 (275 units including 175 for the highest-paid Director). Performance criteria are designed so that units allocated into the Plan can both increase and decrease in value. The main features of the LTIP have been:

The notional value of an allocated unit is £1,000, with the accumulated value varying (up or down) in subsequent years;

Potential payouts are deferred for three years.

The value of any potential payout is determined by annual assessment against specific performance requirements in respect of the level of customer service, customer retention, lease affordability, reserves adequacy and business culture and;

Potential payouts are also impacted by movements in the Company's credit rating.

On the third anniversary of the initial allocation of units into the LTIP, the accumulated units can be converted into cash and released. During the year to 30 September 2017 £2,387,456 was released including £726,617 for the highest-paid Director. (In the prior year, £2,283,654 was released including £726,617 for the highest-paid Director.)*

Notes to the financial statements

28. Directors' remuneration continued

Long-Term Incentive Scheme (LTIS)

A five-year Long Term Incentive Scheme (LTIS) for the current CEO was introduced in 2010. During 2015, it was agreed that any potential benefit would be deferred for seven years, during which period no additional payments will be made into the new Scheme and any potential benefit will continue to be linked to stretching financial performance targets.

During the reported year to 30 September 2017, no payments have been made (2016: £nil).

** The prior year LTIP release to all Directors has been restated by £1,141,827 to £2,283,654. In last year's note, two Directors were inadvertently excluded from this figure. This matter did not impact the primary statements or any other disclosures within the financial statements.*

29. Commitments

a) Debt issued by Motability Operations Group plc under the £5 billion Euro Medium Term Note Programme

The Company has a £5 billion Euro Medium Term Note Programme with minimum denominations of EUR 100,000. The bonds were admitted to trading on the London Stock Exchange's regulated market and have been admitted to the Official List. The £5 billion Euro Medium Term Note Programme of the Company is unconditionally and irrevocably guaranteed on a joint and several basis by Motability Operations Limited, a wholly-owned subsidiary of Motability Operations Group plc. The payments of all amounts due in respect of notes will be unconditionally and irrevocably guaranteed on a joint and several bases by Motability Operations Limited. As at 30 September 2017, total debt issued under the £5 billion Euro Medium Term Note Programme of Motability Operations Group plc is amounting to £4.2billion (2016: 3.7billion).

b) Cross guarantee on Working Capital Facilities of MO Group

At 30 September 2017, the Company had an undrawn committed working capital facility by the amount of £95m (2016: £95m) which is cross guaranteed between Group companies Motability Operations Limited and Motability Operations Group plc.

Notes to the financial statements

30. Funding and financial risk management

Capital risk management

From the perspective of the Company, the capital risk management is integrated with the capital risk management of the Group and is not managed separately. Further discussion of the capital risk management in the context of the Group as a whole, is provided on page 96 of the Group's annual report which does not form part of this report.

Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset and financial liability are disclosed in note 2 to the financial statements.

Categories of financial instruments

	2017 carrying value £'000	2016 carrying value £'000
Non-derivative financial assets		
Trade and other receivables (*)	1,075,353	467,660
Cash and bank balances	644	14,751
Total non-derivative financial assets	1,075,997	482,411
Non-derivative financial liabilities		
Trade and other payables	(902,387)	(852,143)
Financial liabilities	(9,936)	(52,637)
Loans from Group companies	(4,537,379)	(4,037,454)
Total non-derivative financial instruments	(5,449,702)	(4,942,234)
Net non-derivative financial instruments	(4,373,705)	(4,459,823)

(*) Non-financial instruments such as VAT recoverable and carried forward, prepaid expenses are excluded from current assets.

Fair value of financial instruments

		2017 carrying value £'000	2017 fair value £'000
Cash and bank balances	III	644	644
Trade and other receivables	II	1,075,353	1,075,353
Trade and other payables	II	(902,387)	(902,387)
Financial liabilities	I	(9,936)	(9,936)
Loans from Group companies	IV	(4,537,379)	(4,537,379)
Net non-derivative financial instruments		(4,373,705)	(4,373,705)

- I overnights bearing interest at floating rate
- II non-interest bearing
- III interest bearing portion of the cash and cash equivalents consists of overnight deposits
- IV bearing interest at floating rate based on actual funding costs of MO Group

Notes to the financial statements

30. Funding and financial risk management continued

Fair value of financial instruments continued

		2016 carrying value £'000	2016 fair value £'000
Cash and bank balances	III	14,751	14,751
Trade and other receivables	II	467,660	467,660
Trade and other payables – current	II	(852,143)	(852,143)
Financial liabilities – current	I	(52,637)	(52,637)
Loans from Group companies	IV	(4,037,454)	(4,037,454)
Net non-derivative financial instruments		(4,459,823)	(4,459,823)

- I overnights bearing interest at floating rate
- II non-interest bearing
- III interest bearing portion of the cash and cash equivalents consists of overnight deposits

The fair values of financial assets and liabilities are determined as follows:

The carrying value less impairment provision of trade receivables and the carrying value of payables are assumed to approximate to their fair values due to the short-term nature of the trade receivables and payables.

The carrying value of the bank overdrafts are assumed to approximate to their fair values due to the short-term nature of the overdrafts and carrying floating interest rate.

Financial risk management objectives

As with the capital risk management, the overall funding and financial risk management is integrated with the funding and financial risk management of the Group and is not managed separately. Further discussion of the detailed funding and financial risk management in the context of the Group as a whole, is provided on pages 95 to 104 of the Group's annual report which does not form part of this report.

The Company's operations expose it to a variety of financial risks that include interest rate risk, credit risk and liquidity risk.

Interest rate risk

Since the financial assets and liabilities of the Company, except bank overdrafts, are not interest bearing, the Company is not materially exposed to interest rate risk. A one percent increase/(decrease) in interest applied to bank overdrafts which carry interest at floating rates and by assuming that the amount of overdrafts outstanding at the balance sheet date was outstanding for the whole year, would have resulted in a pre-tax profit (and equity) decrease/(increase) of approximately £nil (2016: £nil).

Credit risk

Credit risk of the Company may arise from cash and cash equivalents and deposits with banks and financial institutions. The Company's credit exposure to customers is considered very low, due to the fact that its principal source of income is the Department for Work and Pensions through the assigned allowances receivable by its customers.

For banks and financial institutions, only independently rated parties with a minimum A rating are accepted. All new proposed counterparties are subject to internal credit approval and the Group's Asset and Liability Management Committee ratification prior to entering into any transaction. Credit limits are set for each bank by the treasury function and are subject to approval by the Group's Asset and Liability Management Committee.

No credit limits were exceeded during the reporting year and management does not expect any losses from non-performance by these counterparties.

The carrying amount of financial assets recorded in the financial statements, which is net of impairment losses, represents the Company's maximum exposure to credit risk. Note 17 provides more credit risk information relating to receivables.

Liquidity risk

The Company's funding facilities are from its working capital facility (see note 20) and from its parent Company, MO Group and the process for ensuring sufficient liquidity for the forthcoming financial year is managed through the review of the annual operating results. There is no set repayment date for the loan from Group companies. The Company can also elect to defer payment of interest on this loan until the repayment date.

Notes to the financial statements

30. Funding and financial risk management (continued)

Liquidity risk

The following table details the contractual maturity of the Company's non-derivative financial liabilities. The table has been drawn up based on the undiscounted amounts of the Company's financial liabilities (excluding statutory liabilities) based on the earliest dates on which the Company can be required to discharge those liabilities. The table includes liabilities for both principal and interest.

	2017 Weighted average interest rate %	2017 Under 1 year £'000	2017 Between 1-3 years £'000	2017 Between 3-5 years £'000	2017 Over 5 years £'000	2017 Total £'000
Loans from Group companies	3.1	184,872	349,034	335,639	4,856,206	5,725,751
Financial liabilities – bank overdrafts	1.2	9,936	–	–	–	9,936
Trade and other payables – non-interest bearing		902,387	–	–	–	902,387
		1,097,195	349,034	335,639	4,856,206	6,638,074

	2016 Weighted average interest rate %	2016 Under 1 year £'000	2016 Between 1-3 years £'000	2016 Between 3-5 years £'000	2016 Over 5 years £'000	2016 Total £'000
Loans from Group companies	3.6	190,224	342,359	261,046	4,273,892	5,067,521
Financial liabilities – bank overdrafts	1.2	52,637	–	–	–	52,637
Trade and other payables – non-interest bearing		852,143	–	–	–	852,143
		1,095,004	342,359	261,046	4,273,892	5,972,301

31. Loans from Group companies

	2017 £'000	2016 £'000
Accrued interest on loan from MO Group plc	–	–
Total current	–	–
Non-current loan from MO Group plc	4,537,379	4,037,454
Total	4,537,379	4,037,454

The loans from Group companies are repayable as follows:

On demand or due within 1 year	–	–
Due within 2 years	–	–
Due within 2 to 5 years	–	–
Due in more than 5 years	4,537,379	4,037,454
	4,537,379	4,037,454

The loan from Motability Operations Group plc (the ultimate Parent Company) has been transferred from Motability Leasing Limited to the Company as a result of the Group restructure.

The loan from Motability Operations Group plc is denominated in sterling and bears interest at actual market based interest rates paid by Motability Operations Group plc on its own borrowings plus a set margin.

Notes to the financial statements

31. Loans from Group companies (continued)

The weighted average interest rate on loans from Group companies as at 30 September 2017 and 30 September 2016 was as follows:

	2017 %	2016 %
Non-current loans from MO Group plc	3.1	3.6

The carrying amount and fair value of the loan from MO Group plc as at 30 September 2017 and 30 September 2016 were as follows:

	2017 carrying amount £'000	2017 fair value £'000
Accrued interest on loan from MO Group plc	—	—
Non-current loan from MO Group plc	4,537,379	4,537,379
Total	4,537,379	4,537,379

	2016 carrying amount £'000	2016 fair value £'000
Accrued interest on loan from MO Group plc	—	—
Non-current loan from MO Group plc	4,037,454	4,037,454
Total	4,037,454	4,037,454

As at 30 September 2017 and 30 September 2016, the fair value of the loan from Motability Operations Group plc for disclosure purposes approximates to the carrying value as it bears interest at a commercial floating rate.

32. Ultimate parent undertaking

The immediate and ultimate parent undertaking and the controlling party is Motability Operations Group plc, which is a limited company incorporated and domiciled in the United Kingdom, whose shares are privately owned. Copies of Motability Operations Group plc's consolidated financial statements can be obtained from the Company Secretary at City Gate House, 22 Southwark Bridge Road, London SE1 9HB.