

# Transforming lives



“An impressive performance during a year with some exceptional challenges.”

Rt. Hon Sir Stephen O'Brien KBE  
Chairman

£100m

Investment committed to enhance the proposition for existing Scheme customers

£852m

Strong trading performance and a capital release aligned to economic capital targets enabled an exceptional donation to the Motability Foundation

Having been pleased to take on the role of Chairman of Motability Operations Group plc earlier this year, I used the Half Year Report to pay tribute to my predecessor Neil Johnson, for his dedication and skill over many years. I repeat that grateful recognition here, in this, my first Full Year Report. Six months on, the Company can now reflect on an impressive year of performance and significant impact. Strong results are demonstrated across the board, from continuing top levels of customer satisfaction, to an exceptional financial outturn.

Significant profits achieved on the back of the continued strength of the car market have enabled us not only to make direct payments back to customers, but also to provide a substantial donation of £852m to Motability, the Charity, to further enhance the lives of people living with disabilities.

During the year, the business has also responded well to a number of exceptional challenges, which encompassed intensified political scrutiny through the joint enquiry by the Treasury and Work and Pensions Parliamentary Select Committees. We also welcomed the opportunity to engage with the National Audit Office (NAO) in its review of the Motability Scheme, and are taking advantage of this engagement to reflect on our practices and further hold our business to account with ever-greater transparency.

Our activities are delivered through a business model which works successfully to provide worry-free, affordable and sustainable leasing services for our customers. It also creates the potential for additional funds which go towards meeting the needs of the wider disabled community. Throughout Motability Operations, it is clear that our people at every level are passionate about successful delivery of these objectives, with the outcome that we see in these solid results.

While we can feel fulfilled by the transformative impact of what our business achieves, at the same time we recognise the ever-increasing expectation by all stakeholders that our business could be more fully aired, and that we go further to increase our transparency. To this end, we already have enhanced remuneration reporting beyond our legal and regulatory obligations, and continue to make strides in providing clearer and more detailed accounts, as well as engaging more directly with key stakeholders through roadshows, briefings, and online.

Customer service is, of course, core to our business, and on behalf of everyone at Motability Operations, I am proud that satisfaction levels were maintained at the excellent rating of 98% in the independent (CSI) survey of customers, carried out in April 2019. The result was also reflected in feedback given by customers through the national Institute of Customer Service survey. This gave our services a satisfaction score of 93.7%, and we were the highest performer with the highest rating in our sector (financial services).

With the Government's programme of welfare reform now in its sixth year, more than half of our customers now qualify for the Motability Scheme through the new Personal Independence Payment. The different criteria taken into account for this allowance are reflected in a growing volume of customers with mental health or neurological issues. We are committed to offering the highest levels of support across all customer groups, and provide specific training to help teams provide appropriate service, as well as using research to help tailor our proposition to specific needs.

We pay close attention to affordability and value, and throughout the year were able to provide more than 350 models on the price list that cost no more than the customer's allowance. The NAO report, published in December 2018, confirmed the Scheme to be 44% cheaper than market alternatives (around two fifths of this arising from direct impacts of the tax provisions made for the Scheme).

Our financial strength this year has enabled us to spend substantial sums on direct support for customers, including increasing to £600 the Good Condition Bonus awarded to those who bring their cars back in good order. In all, over £100m was invested directly in additional support for customers, including subsidies for adaptations and wheelchair accessible vehicles, and providing mobility to assist customers who are temporarily in hospital.

Despite a difficult economic backdrop, there were also strong results for vehicle sales. However, early signs of a more challenging market emerged in the final weeks of the financial year, providing a clear indication of more testing market conditions in 2019/20. While the financial performance of the business remains strong, it is important that we maintain a prudent approach, given the range of variables which could affect our performance. These include the complex changes in the UK's relationship with the EU and international markets; the continuing impact of wider environmental issues; the uncertainties surrounding the used-car market; and the further anticipated decline in demand for diesel vehicles.

Given this backdrop, risks must always be a key focus, as the predictability and sustainability of our business are crucial for customers who depend on us. An assessment of risks is undertaken, including consultation with Motability, to balance mitigating steps with the interests of the stability of the Scheme. Customers are often uniquely reliant on the Scheme, so we plan rigorously to ensure they are best protected in the face of the inevitable risks and changes of context in which we operate.

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The NAO published its report on the Motability Scheme in December. Motability Operations, in its role as operator of the Scheme, is pleased that the report recognised the Company's continuing impressive performance, its exceptionally high quality of customer service, and the Scheme's value for money.

As reported at the half year, we have fully accepted the NAO recommendations. To this end, we have already increased the transparency of reporting on executive remuneration, as set out in last year's Annual Report, to a level that well exceeds the regulatory requirements.

As a response to the second recommendation, Motability Operations has also commissioned a robust, wide-ranging review of its forecasting process, supported by third-party experts.

Motability Operations consulted with the NAO throughout the review process, and the NAO met all third-party experts to discuss their findings.

Critically, the independent third-party review has confirmed that Motability Operations' residual value forecasting approach is appropriate and effective. It finds no evidence of systemic bias that resulted in either under- or over-forecasting, nor was there anything which would lead to expectations of a materially different forecast output than that which has been seen over recent years.

The size of the business's capital reserves has also been the focus of public attention. It remains vital that these are kept at a level sufficient to ensure our continued operation. The purpose of these reserves is to provide a “shock absorber” against a substantial fall in used-car values, or other risks which could threaten the sustainability of the Scheme.

These capital reserves are used actively in meeting around a third of our total funding requirement; they are not held as cash, but invested in the car fleet.

As reported in the half year accounts, in line with NAO recommendations, Motability, the Charity initiated an external review from Oliver Wyman, to examine our capital modelling methodology and our applied risk appetite and confidence levels, and to benchmark our capital reserve levels against near-comparable companies.

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Significantly, the capital reserves review confirmed the appropriateness of Motability Operations' economic capital approach, and supported the Group's application of a 99.99% confidence level (or one in ten thousand loss event), given the business's unique risk profile.

The review did suggest that management should consider adjusting assumptions underpinning the calculation of a number of risk components, and refine the model by combining certain risk factors. This work will be undertaken next year.

Motability Operations recognises the potential for some of its capital to be used in embracing the needs of the wider group of people living with a disability through charitable support. This forms part of our continuous dialogue with Motability, the Charity. In the light of these considerations and other factors, including investor perspectives and the need to secure liquidity in the financial markets, balanced against the potential for some of the capital to be used in meeting the needs of a wider group of disabled people through charitable donation, the Board resolved to release capital reserves to a level £370m below the September 2018 Balance Sheet position (£150m of which is directly attributable to the Oliver Wyman review).

In September, the Board committed £100m of this release with immediate effect to support customers, while the balance of the release of capital reserves, along with all of this year's profits, was donated to the Motability Foundation (established by Motability, the Charity): a total of £852m (FY2018: £400m). The money will go into the new endowment fund, to be used to enhance the lives of current and future generations of disabled people through helping with their wider transportation needs.

Since capital reserves are not held as cash, but are used to purchase cars, the business has borrowed on the financial markets to put the release into effect.

While in effect, the donation requires Motability Operations to record a technical loss this year, this does not affect the business's ability to meet its liabilities, and it remains in strong financial health.

All of us at Motability Operations are enthusiastic about the impact of our Company's efficient and strong performance enabling us to make this substantial donation, which will help Motability improve the lives of many more people living with a disability. The Board is confident that following the rebasing to this revised capital position, and the donation of this year's profits, the business remains robust, affordable for customers, and sustainable for the long term.

Our business demonstrably has a positive impact on many thousands of lives. This would not be achievable without the commitment and support, through close continuing relationships, of key business partners, including RSA, RAC and Kwik Fit, and the leading car manufacturers and dealers. This year has seen us working closely with these partners to provide more seamless and integrated support for customers. Almost 5,000 approved dealers are available to provide high-quality front line services for customers. Equally, we place enormous value on the advice and strong relationships we have with a full range of disability organisations and other key stakeholders.

Irrespective of our high customer satisfaction ratings, as the new Chairman I am struck how deep and universal it is within Motability Operations' DNA for all our staff, from every part of the organisation, always to be striving to do better for customers, looking for opportunities to enhance services, and creating better value. Our digital roadmap is designed to transform online services to customers, and harness digital tools to increase flexibility and contact channels. This year has seen us relaunch our online application system for dealers and, by the end of the year, we will offer the first pilot online accounts for customers.

More digital support will be provided by teams, including those at our new office, which will open fully near Edinburgh early next year. Our Edinburgh office gives us access to an additional, high-quality labour market, and will provide extended operational capability for Customer Services as well as the capacity to support some of the customer base growth we expect in the coming years. For disability organisations in the region, the state-of-the-art accessible building will also include space for local organisations to use the facilities to host meetings, training or events.

We see our culture as the bedrock for performance and regularly benchmark our employee engagement against UK and global high-performing organisations. This year we were pleased to see every division outperforming high-performing businesses across every category, with improvements in many areas. We are committed to becoming a fully inclusive organisation, and during the year we introduced a range of initiatives including the creation of diversity groups, and new approaches to working practices such as flexible working options.

As previously reported, while we pay equally for equal roles, in 2019 we identified a mean gender pay gap of 29.6%, a slight increase on the previous year. This was not entirely unexpected, but something we as a Board, management team and everyone throughout the Company are addressing. We are starting to see positive results from the various initiatives, but recognise that it will take time, continued commitment and focus to narrow our pay gap significantly.



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Our CEO Mike Betts and the executive team, who have worked closely together over many years, continue to provide leadership, skills and management of the highest calibre, underpinning the success and inspirational quality of Motability Operations, and all the people who work in and with the Company. Given its scale and complexity, sustaining this high bar of achievement will be a management challenge. As announced last year, Mike Betts’ time as CEO will conclude during the current financial period, once a suitable successor has been identified and appointed. Together with the Board, I am actively in the process of appointing a high-quality candidate for the CEO role, who is able to grasp these challenges and take the business forward.

As Mike’s chapter draws to a close, his continuing commitment and passion for our mission and our business remains an inspiration and a mark of his qualities as a leader under which Motability Operations’ customers and the Company have thrived.

It is with great sadness that I report that Joe Hennessy passed away in May this year. Joe sat on the original Executive Committee of Motability, the Charity from its foundings in 1977. Joe then served as an Independent Non-Executive Director on the Board of Motability Operations Group plc from its formation in 2008, having previously served as a Non-Executive Director of Motability Finance Ltd from 2006. I would like to take this opportunity to pay tribute to the outstanding contribution and energy Joe brought to his role in both organisations over many years, and in particular his single-minded focus in seeking continuous improvement of the service provided to our disabled customers. I know I speak for both organisations when I say that Joe will be greatly missed.

I would like to thank Lord Sterling and the governors of Motability for their support and engagement in discharging their oversight role. Together we enjoy a strong working relationship focused on delivery of the scheme to the highest possible standards for our disabled customers.

Looking ahead, we are moving into a challenging future, with a number of significant changes which will undoubtedly have an effect on the business. There will also be opportunities to address these challenges with fresh thinking and new approaches. Our key concern is to preserve worry-free affordability, stability and predictability for those who rely on our services. This year’s excellent results set positive expectations of continued high-level performance and exceptional value for our customers.

**Rt. Hon Sir Stephen O’Brien KBE**  
Chairman