



Annual Accounts

2004/05

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Legal and Administrative Information

Motability is a charity, incorporated by Royal Charter, registered under the Charities Act 1993. Registered Charity No: 299745.

Governors, Officers and Advisers

Governors and Charity Trustees

The Governors, who are the Trustees of the Charity, serving during the year were as follows:

Chairman:

The Lord Sterling of Plaistow GCVO CBE

Vice-Chairman:

Gerald Acher CBE LVO

Hon Treasurer:

Richard Bennison

Brian Carte TD

Sir Trevor Chinn CVO

Robin Corner

Joseph Hennessy OBE

Sir Peter Large CBE (deceased 23/1/05)

Bert Massie CBE

Sir John Quinton

Professor Adrian V Stokes OBE

Paul Spencer (appointed 15/3/05)

Joanna Lewis (appointed 15/3/05)

Executive Officers

Director and Secretary:

Don Brereton CB

Deputy Director (from April 2005)

Oversight and Strategy Director:

Declan O'Mahony

Finance and Support Services Director:

Gary Spilman

Grants and Technical Director:

Paul Gambrell

Fundraising and Marketing Director:

Hazel Gotfraind

General Manager Human Resources:

Barbara Hannant

Registered Office

Goodman House
Station Approach
Harlow
Essex CM20 2ET

Auditors

Deloitte & Touche LLP
Hill House
1 Little New Street
London EC4A 3TR

Bankers

Barclays Bank plc
Harlow Business Centre
Harlow
Essex CM20 1ET

Solicitors

Lawrence Graham LLP
190 Strand
London WC2R 1JN

Governors' Report for the year ended 31 March 2005

The Governors present the audited accounts for the year ended 31 March 2005 under the Charities Act 1993, together with their summary report on governance, objectives and achievements.

The accounts comply with the requirements of the Act, the Royal Charter and Regulation 3 of the Charities (Accounts and Reports) Regulations 2000. With the recent publication of the Charities SORP 2005, the new disclosure requirements for performance reporting have been incorporated earlier than required.

Reference and Administrative Information

Motability is a registered charity (No. 299745) incorporated by Royal Charter.

The present Governors and any past Governors who served during the year are shown on page 4, together with details of the registered office and the senior executive staff and professional advisers.

The Chief Patron, Patrons, Life Vice-Presidents and other Members are set out in the Annual Report. An overview of the Motability Scheme and the role of the Charity are explained in the Guide to the Motability Scheme. Both documents are available on our website www.motability.co.uk or by calling 01279 632227.

Structure, Governance and Management

The Charity is governed by its Royal Charter granted on 18 May 1988.

The Royal Charter provides for Members to be elected, from which Governors are appointed, and the Board of Governors is responsible for the overall governance of the Charity and the oversight of the Motability Scheme – the UK's leading car scheme for disabled people. Members are elected on the basis of their professional competence and specialist skills and remain Members until they resign. From those elected as Governors, one third must retire each year and may offer themselves for re-election.

Governors meet at least five times per year. These meetings include four quarterly Board meetings and the AGM. New Governors receive an induction pack containing relevant information about the Charity and are briefed by the executive team.

The Board delegates responsibility for the implementation of policy and the review of performance to a number of Committees, as set out below. The Committees are required to meet prior to Board meetings and formally report to the Board, so that recommendations for changes in policy can be authorised by the full Board.

Audit Committee

The Audit Committee comprises four Governors who are independent of management and free of any relationship that in the opinion of the Board would interfere with the exercise of independent judgement as members of the Audit Committee. The Audit Committee is chaired by the Honorary Treasurer and is responsible for the oversight of Risk Assessment, Risk Management and Internal Control. The Committee is also charged with reviewing the performance of both internal and external audit and for making recommendations to the Board in respect of the appointment of external auditors. The Committee also advises the Board on the appropriate level of free reserves and any significant change in investment strategy.

Scheme Oversight Committee

The Scheme Oversight Committee comprises six Governors who have appropriate skills and experience in relation to the oversight of the Motability Scheme. The Committee is chaired by the Vice-Chairman and is responsible for reviewing the performance of the car and powered wheelchair and scooter schemes against agreed key performance indicators, which set out to monitor customer service levels, value for money, affordability and reliability of service. The Committee also leads the development of the Motability Scheme and consideration of operational and financial risks to ensure continuity of service to customers.

Governors' Report Continued

Grants Committee

The Grants Committee comprises three Governors and is chaired by a Governor with disability expertise. The Committee is responsible for reviewing the Charity's grants policy and also for advising the Department for Work and Pensions (DWP) in respect of the policy applicable to those funds which are administered by the Charity on their behalf.

Fundraising

Income to support charitable grant making is predominantly raised by the fundraising team. All non-charitable trading activities to raise funds are undertaken by Motability Enterprises Ltd, a wholly owned subsidiary which during the financial year made an operating profit of £947,000 (£1,019,000 in 2004) of which £5,000 is exempt from tax. £942,000 was donated to the Charity (£1,014,000 in 2004). A summary of trading results is shown in Note 2.

During the year Motability received income amounting to £1,160,000 (£1,500,000 in 2004) from the Motability Tenth Anniversary Trust to help meet the demand for charitable grants.

The Motability Tenth Anniversary Trust is an independent charity (Registered Charity No: 328160) set up to provide long term support for Motability. Trustees are appointed by the Secretary of State for the Department for Work and Pensions, Motability and Motability Operations, a private limited company owned by five major clearing banks.

The Director

The Director is responsible for the day-to-day management of the Charity's affairs and the relationships with stakeholders, including the DWP and the car and wheelchair service providers. The Director is supported by a management team to ensure the implementation of policies agreed by the Governors.

Statement of Trustees' Responsibilities and Corporate Governance

The Governors, as Trustees, are responsible for the preparation of the financial statements, which give a true and fair view of the state of affairs of the Charity and the Group, as at the end of the financial year, and of the net movement in funds of the Group for the period. In preparing these financial statements, the Governors confirm that:

- Suitable accounting policies have been used and applied consistently.
- Reasonable and prudent judgements and estimates have been made in the preparation of the financial statements for the year ended 31 March 2005.
- Applicable accounting standards have been followed and the financial statements have been prepared on the going concern basis.
- The Annual Accounts have been prepared in accordance with the Statement of Recommended Practice on Accounting and Reporting by Charities (SORP 2000) issued by the Charity Commission in October 2000.

The Governors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and which enable them to ensure that the financial statements comply with the Charities Act 1993. They are also responsible for the system of internal control, for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities and to provide reasonable assurance that:

- The Charity is operating efficiently and effectively.
- All assets are safeguarded against unauthorised use or loss and are properly applied.
- Proper records are maintained and financial information used within the Charity or in publications, is reliable.
- The Charity complies with relevant laws and regulations.

The systems of internal control are designed to provide reasonable but not absolute assurance against material misstatement or loss. They include:

- A strategic plan and annual budget approved by the Governors.
- Regular consideration by the Governors of financial results, variations from budget, non-financial performance indicators and benchmarking reviews.
- Delegation of day-to-day management authority and segregation of duties.
- Identification and management of risks.

The requirements of the Charity Commission guidelines on Internal Controls (CC8) have been followed in all material respects.

The remuneration of the Director and senior management of the Charity is reviewed annually by the Governors, with advice from independent consultants.

Reserves Policy

Restricted reserves represent unspent donations which are to be applied for specific purposes as specified by the donor, the net book value of Fixed Assets and funds carried forward to future years by agreement with the DWP.

Unrestricted reserves are held to ensure that the Charity can maintain the current level of grant commitments should there be a temporary reduction in income.

The policy is to ensure that there are approximately two months reserves at any time to pay current levels of grant commitments. As grant commitments are made on average three months in advance, this gives Motability a five month lead time, should any major change in funding occur.

Unrestricted reserves for the Group at March 2005 totalled £707,000. This represents 2.3 months charitable expenditure at current levels. The Board consider that the actual reserves have been maintained within policy.

Risk Management

The Governors have introduced a formal risk management process to assess business risks and implement risk management strategies. This has involved identifying the types of risks the Charity faces, prioritising them in terms of potential impact and likelihood of occurrence, and identifying means of mitigating the risks.

The Audit Committee examines the effectiveness of the systems of internal control in mitigating risks on behalf of the Governors. This is achieved through reviews of:

- The reports arising from the Internal Audit Programme carried out by the Internal Audit Section.
- The nature and scope of the external audit and any matters raised by external Auditors for the attention of management. Any significant findings or identified risks are examined so that appropriate action can be taken.
- The risk register and actions taken to reduce the likelihood and impact arising from risk scenarios.
- Control reports specifically requested by the Committee.

The Committee has included procedures for reporting failings immediately to the appropriate levels of management and to the Board, together with details of corrective action being undertaken.

Objects, Objectives and Principal Activities of the Charity

The Charity was set up on the initiative of the Government, with the object to provide vehicles and associated services to disabled people to enable them to achieve enhanced mobility. In particular, it helps disabled people receiving the Higher Rate Mobility Component of the Disability Living Allowance to obtain the use of a car.

Governors' Report Continued

To achieve these objects, our principal activities are to:

- Direct and oversee the Motability Scheme, described more fully on page 37.
- Raise funds and provide advice and financial assistance.
- Administer the Government's Specialised Vehicles Fund (SVF) which provides financial assistance for customers who need to travel in their wheelchairs.
- Undertake research and promote standards for specialised vehicles and for the supply and fitting of adaptations.

The objectives of those activities for the year and the Charity's performance against them are discussed under the heading of Achievements and Performance, below.

A key requirement of our overall purpose is to ensure that all those in receipt of the Higher Rate Mobility Component of Disability Living Allowance or War Pensioners' Mobility Supplement are fully aware of the benefits that the Motability Scheme can offer and are able to make informed decisions about membership. Currently there are 407,030 customers on the Scheme out of a total estimated eligible population of 1.6 million.

Our strategic aims, following a review undertaken during 2002-04, are:

- Focusing on satisfying our customers' needs.
- Meeting the challenge of mobility and inclusion.
- Maintaining Motability's charitable ethos.
- Protecting the future of the Motability Scheme.
- Developing organisation capacity to achieve our mission.

Achievements and Performance

Motability publishes a separate detailed Annual Report on its aims, objectives and performance, which illustrates how the Scheme improves the lives of individual customers and their families.

The following extracts from that Report describe our achievements over the period covered by these Accounts.

Car Scheme

Achievements during 2004/05

Following the beneficial changes introduced by Motability Operations during the previous two years, including reduced prices from October 2003 onwards, further improvements were made in 2004/05. These included:

- Improved communications have raised awareness of the Scheme, increasing customer numbers to 400,876 in March 2005 from 381,246 in March 2004.
- New dealer partnership launched, with over 95% of customers served by 'Premier Dealers'.
- An improved insurance package including free insurance for personal accidents, hassle-free cover for charitable and voluntary driving, and waiving of all excesses where an identified third party is at fault.
- On-line applications process rolled out to all dealers, with 94% of applications processed electronically in March 2005.
- Tax discs can now be provided directly to customers (excluding N. Ireland).
- Further refinements in contract hire pricing, making a wider selection of popular cars, including newly launched models and automatics, available at affordable prices.

- Quarterly price list introduced in October 2004 (formerly monthly).
- Customers are now able to enter into a three year lease if they have at least twelve months of entitlement to Disability Living Allowance when they apply.
- Good Condition Bonus (currently £200) introduced for customers who make no insurance claims and return their cars in good condition.

Performance during 2004/05

Customer satisfaction

At the end of 2004/05, the three headline measures of customer satisfaction remained above our targets, reflecting customers' appreciation of the lower prices and improved service being provided by Motability Operations. The percentage of customers renewing at the end of their leases also increased from 82% in 2003/04 to 85% in 2004/05.

Customer Satisfaction Performance Indicators

	2003/04 Actual	2004/05 Actual	Scheme Target
Overall satisfaction with the Scheme	94%	95%	92%
Customers who would recommend the Scheme	95%	96%	92%
Customer intention to renew their leases	95%	95%	92%
Actual customer renewal at end of lease	82%	85%	78%

Value for money

The Contract Hire Scheme continued to offer excellent value for money. Independent analysis indicates that prices on the Scheme are 30% cheaper (27% in 2003/04) when compared on a broadly equivalent basis to other major contract hire companies.

Affordability

Last year, Motability Operations were able to offer significantly lower prices, with many reductions made in October 2003 specifically. These lower prices have been sustained through 2004/05, as a result of good performance in the sale of used cars and a continued focus on managing administrative and other costs. Over 200 car models were available throughout the year with no advance payment, including a broad range of small and lower-medium cars, and automatics. Wheelchair accessible vehicles are also available with advance payments from a few hundred pounds.

In response to the better choice of affordable cars, the percentage of customers leasing cars without an advance payment rose sharply last year from 16% at the end of 2002/03 to 39% at the end of 2003/04. One impact of a more attractive choice at low advance payments has been a shift during the year from customers taking lower specification cars at nil advance payment to a broader mix of cars at advance payments of up to £250. The percentage of customers taking leases at nil advance payment or less fell back from 39% to 34% during 2004/05, while the percentage at £250 or less was 61% in March 2005. At current levels of affordability and in light of the £200 Good Condition Bonus now available to renewing customers, we will monitor affordable customer choice versus the £250 level from 2005/06 onwards.

Governors' Report Continued

Affordability Performance Indicators

	2003/04 Actual	2004/05 Actual	Scheme Target
Number of car models available with no advance payment	239	235	200
Percentage of cars being leased with no advance payment	39%	34%	40%
			<i>(up to 2004/05)</i>
Percentage of cars being leased with advance payments of £250 or less	n/a	61%	52%
			<i>(from 2005/06)</i>

Continuous mobility

Two years ago, we highlighted that up to 15% of renewing customers experienced a gap of days, or even weeks, between handing back their old car and taking delivery of their new one. Motability Operations have now arranged that the customer may keep the old car until the new one is ready for delivery. This has eliminated the vast majority of gaps at contract end.

For gaps during the contract caused by accident or theft, Motability Operations have established a 'continuous mobility' philosophy, helping customers to become mobile again as quickly as possible.

To keep customers mobile when out on the road, the Scheme also provides a comprehensive breakdown assistance service for contract hire cars and monitors the performance of our service provider, RAC. During 2004/05, RAC continued to deliver an excellent performance for our customers.

Continuous Mobility Performance Indicators

	2003/04 Actual	2004/05 Actual	Scheme Target
Customers taking delivery of new car on same day as handing back old car	n/a	99%	90%
Roadside assistance – average response time	40 min	39 min	42 min
			<i>(decreased from 44 min during 2004/05)</i>

Risk management

The Scheme is exposed to a number of risks, including the uncertain value of cars at the end of their three year leases. A major study of Scheme risks was undertaken during the year and discussed with the DWP and the National Audit Office. As a result, the Scheme is continuing to improve its management of these risks and to increase our provisions of working capital to safeguard the Scheme against unplanned, adverse changes in the car market.

Powered Wheelchair and Scooter Scheme

Achievements during 2004/05

Having taken over the operation of the Powered Wheelchair and Scooter Scheme in May 2003, route2mobility (r2m) increased customer numbers from 1,709 in March 2004 to 3,934 in March 2005. r2m made progress during the year in improving the quality of information available to customers, improving customer service with tighter accreditation standards for dealers and streamlining the process of financing a product through the Scheme. This progress is reflected in the customer satisfaction indicators which we began to measure quarterly during the year. However, the Scheme has not yet fully met our objectives in terms of value and customer service. As a consequence, r2m are considering a major restructuring of the Scheme to ensure consistently excellent service and value for our customers. These changes will be made during the early months of 2005/06.

Customer Satisfaction and Pricing Performance Indicators

	2004/05 Actual	Scheme Target
Overall satisfaction with the Scheme	89%	95%
Customers' rating of product suitability	92%	95%
Customers' saving versus manufacturers' RRP	4%	10%

Charitable Grants

Funding for charitable grants comes from our fundraising activities and the Motability Tenth Anniversary Trust.

As advance payments for cars on the Scheme continued to fall, there was a significant reduction in the demand for grants for vehicles. Customers continued to ask for financial help to meet the cost of adaptations, with an increasing proportion of funds going to customers requiring a greater level of support.

During 2004/05:

- 2,383 customers received a Charitable grant.
- Of these, 981 were for driving lessons.
- The average time taken to process a grant was reduced by nine days.
- In all, Charitable expenditure totalled £2.4 million.

Government Grants

Motability administers funds on behalf of the Government for people needing a heavily adapted vehicle, often wheelchair accessible (WAV), either as a passenger or driver.

Specialised Vehicles Fund Passenger Vehicles

The waiting list for new applicants to be considered for a grant has been eliminated – exceeding our target of a three month waiting list.

Fiat Doblo and Renault Kangoo based conversions remained the most popular vehicles supplied. Most grant funded WAVs are now provided on five year contract hire.

Governors' Report Continued

During 2004/05:

- 1,314 applications were received.
- 1,000 wheelchair accessible passenger vehicles were provided.

The continuing low advance payments for WAVs have meant that for the first time more were self-financed through the Motability Scheme than were grant funded.

Specialised Vehicles Fund

Driver Vehicles

Chrysler Voyager and Kia Sedona based conversions were introduced in a pilot project to provide this type of vehicle on contract hire and reduce the time to supply customers' vehicles. Whilst this project is not yet complete, early indications would suggest that these have proved a significant addition to the vehicles that have been supplied on hire purchase for many years.

The Vexel Quovis was introduced to the Contract Hire Scheme as the lowest price drive from wheelchair vehicle made available to date.

During 2004/2005:

- 92 applications were received, compared to 106 last year.
- 29 vehicles were completed and supplied to customers.
- 53 vehicles were ordered at a value of £2.5 million.

Technical Services

Motability provides an assessment service for customers receiving financial help to advise on suitable adaptations and vehicles.

It also carries out technical evaluations of products and suppliers, as well as undertaking a number of research and development projects.

Customer Assessments

In total 1,234 customer referrals were dealt with during the year, a similar number to last year. Of these, 582 required customer visits.

First Class Suppliers

Vehicle Adaptations and Conversions

During the year a system was introduced to recognise the significant amounts of time, effort and money invested by some suppliers to not only meet, but often exceed, the standards required for accreditation. Of the 119 accredited suppliers, 50 were awarded 'Premier Partner' status for their efforts. The standards cover aspects of premises, processes, Quality Assurance and customer service.

Wheelchair Accessible Passenger Vehicle specification

In the absence of any other recognised standards specifically for WAVs within the UK and Europe, Motability has written a WAV Specification to provide a minimum standard for vehicles supplied to our customers.

The specification was implemented from 1 January 2004. However, manufacturers were given until June 2005 to ensure that all vehicles supplied to Motability and its customers complied with the new requirements.

Adaptation Codes of Practice

Following the publication of six Codes of Practice last year, 54 adaptations have been evaluated and accredited. In addition, 21 other adaptations that did not have a Code of Practice were accredited by Motability.

All Codes of Practice and the Motability WAV Specification can be found in the Technical Services section of our website www.motability.co.uk

Fundraising

Every year Motability raises around £2.6 million to provide financial assistance to customers who would otherwise be unable to afford the type of car and any adaptations that they need.

How we raise money

Each year, in addition to our two national raffles, we organise a diverse range of activities, campaigns and events. These range from individual activities, such as parachute jumps and our own Tea Party Week, to corporate events, such as entertaining clients during a day at York Races. We welcome opportunities to work with corporate partners on a range of sponsorship opportunities such as direct mail campaigns, nominated charity of the year and employee fundraising initiatives. We also have a growing base of individual 'Friends of Motability' who support our raffles or make regular donations.

Payroll Giving is another very popular way for individuals to donate money and help support us. Likewise, charitable trusts and foundations continue to provide an important source of income, as do the legacies that are kindly left to us by valued supporters.

Achievements during 2004/05

- A total of £2.6 million was raised from direct fundraising activities for the Charitable Fund.
- The overall cost to income ratio, including our raffles and other activities, was reduced from 48% to 43%.
- Over £1.2 million was raised through our national raffles.
- Income from Charitable Trusts amounted to £256,000.
- £190,000 was raised from employee fundraising, events and campaigns.
- £140,000 was raised from various trading initiatives including working in partnership with Powergen and EAGA, to promote the Government's Warm Front Programme aimed at tackling fuel poverty to customers.

Governors' Report Continued

Financial Review and Results for the Year

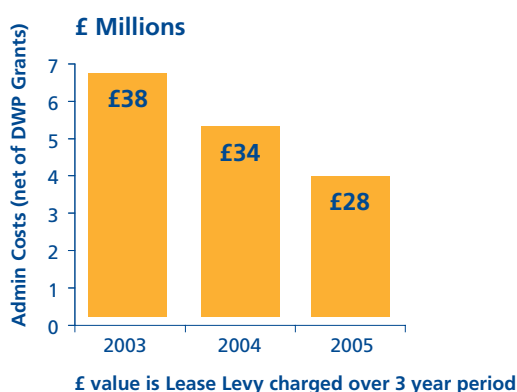
The Statement of Financial Activities (SoFA), set out on page 17 is designed to reflect all incoming resources receivable in the year irrespective of when income is spent.

Financial Highlights:

During the year, the Charity continued to work towards achieving its objectives and made a significant impact on the lives of disabled people and their families. In particular we were able to reduce the cost base of the Charity as roles were reviewed in the light of changed requirements.

Total incoming resources decreased to £18,420,000 (£19,063,000 in 2004). Total resources expended also decreased to £18,609,000 (£18,932,000 in 2004). Events which have impacted upon both income and expenditure are:

- A reduction in administration costs resulting in a lower income requirement from the levy applied to the leases.



- A reduction in other income and associated expenditure due to the transfer of the First Class Suppliers programme to Motability Operations.
- These reductions were partially offset by an increase in government grants awarded.

Total fund balances reduced by £189,000 (£131,000 increase in 2004) before accounting for changes in the notional liability currently representing the year end funding position on the staff pension scheme under FRS17. This potential liability fluctuates widely in line with prevailing stock market prices at each year end and has no immediate impact on the Charity's available reserves.

During the financial year, fundraising income rose by 2% to £2,607,000 (£2,550,000 in 2004) whilst costs were reduced resulting in an improved cost to income ratio of 43% (48% in 2004).

The results for the year show a net increase in unrestricted funds of £230,000 and a decrease in restricted funds of £419,000, making a total decrease in funds for the year of £189,000 (£131,000 total increase in funds in 2004). The reduction in restricted funds of £419,000 (£116,000 increase in 2004) reflects both the reduction in the net book value of fixed assets and the timing effect of the utilization of DWP grants carried forward from 2004.

Investment Policy and Objectives

The Board aims to maximise the total investment return within the objectives of maintaining income and to maximise income on temporarily invested restricted funds. The total return on funds held on long term deposit was 4.95%.

Employees

The Charity aims to be an organisation where employees enjoy their work and where they feel valued.

Information about the organisation's strategy, objectives, day-to-day news and events is shared with employees through regular meetings, briefings and via the Charity's intranet. Employees are encouraged to put forward their views and suggestions.

The Charity supports a policy of equality and diversity. Recruitment and promotion of employees is based on aptitude and ability. Accreditation to use the 'Positive about Disabled People' symbol was gained in the financial year and the organisation worked with local groups to provide work experience for people with disabilities.

As an Investor in People, the Charity is committed to the training and development of employees. Personal development needs are discussed with all employees as part of their annual appraisal. Training programmes are provided to equip employees with the necessary skills required to cope with the changes in technology and the needs of the business.

Employees also have the opportunity to study for recognised qualifications such as NVQs and to develop leadership skills via the Institute of Leadership and Management.

Pensions

The Charity operates a funded defined benefit scheme. The last tri-annual actuarial valuation was carried out at 31 March 2004 and showed the market value of the assets of the scheme to be £3,852,000 and the present value of the liabilities £4,778,000. The net deficit on the scheme of just under £926,000 is a statement of the transient situation at 31 March 2004.

The Trustees believe that the scheme currently meets its Minimum Funding Requirement (MFR) and an increased level of employer contributions has been put into effect from 1 April 2005, designed to recover the deficit in line with the actuary's recommendations.

Note 18 discloses the annually calculated notional surplus or deficit under FRS17. This would reduce the reported unrestricted fund balances by a further £2,166,000 (£1,652,000 in 2004) to a deficit of £1,459,000 (£1,125,000 in 2004).

Future Plans

We believe that the Charity has a sound financial basis upon which to build for the future. We continue to strengthen the Charity's fundraising and technical research activities and to develop in conjunction with the Scheme partners further initiatives which will increase awareness of the Scheme among potential customers.

Details of future plans for each of the operational areas of the Charity are set out in the Annual Report. Copies can be obtained via our website at www.motability.co.uk or by calling 01279 632227.

Auditors

A resolution to reappoint Deloitte & Touche LLP will be proposed at the forthcoming Annual General Meeting.

By order of the Board

The Lord Sterling of Plaistow GCV O CBE
Chairman

21 June 2005

Independent Auditors' Report

to the Governors of Motability

We have audited the financial statements of Motability for the year ended 31 March 2005 which comprise the Consolidated Statement of Financial Activities, the Balance Sheets, the Consolidated Cash Flow Statement and the related notes numbered 1 to 21. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Charity's Governors, as a body, in accordance with Regulation 6 of the Charities (Accounts and Reports) Regulations 1995. Our audit work has been undertaken so that we might state to the Charity's Governors those matters we are required to state to them in an Auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Charity and the Charity's Governors as a body, for our Audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Governors and Auditors

As described in the statement of Governors' responsibilities, you are responsible as Governors for the preparation of the financial statements, which are required to be prepared in accordance with applicable United Kingdom law and accounting standards. It is our responsibility to form an independent opinion, based on our audit of those statements and to report our opinion to you. We have been appointed as auditors under section 43 of the Charities Act 1993 and report in accordance with regulations made under section 44 of that Act.

We report to you our opinions as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Charities Act 1993, Regulation 3 of the Charities (Accounts and Reports) Regulation 2000 and the Royal Charter.

We read other information contained in the Annual Report for the above year as described in the contents section and considered the implications for our report if we become aware of any apparent

misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of opinion

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Governors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Charity, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations, which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion, the financial statements give a true and fair view of the state of the affairs of the Charity and the Group as at 31 March 2005 and of the Group's incoming resources and application of resources for the year then ended and they have also been properly prepared in accordance with the requirements of the Charities Act 1993, Regulation 3 of the Charities (Accounts and Reports) Regulations 2000 and the Royal Charter.

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors,
London

18 July 2005

Consolidated Statement of Financial Activities

for the year ended 31 March 2005

	Note	Unrestricted Funds £'000	Restricted Funds £'000	Total 2005 £'000	Restated Total 2004 £'000
Incoming Resources					
Donations & Gifts		168	14	182	120
Legacies & Appeals		493	207	700	669
Events & Trading		290	-	290	463
Competitions & Raffles		1,361	74	1,435	1,298
Fundraising Income		2,312	295	2,607	2,550
Tenth Anniversary Trust	8e	1,160	-	1,160	1,500
DWP Grants Receivable	3b	-	8,359	8,359	6,539
DWP Grant towards Support Costs		-	2,700	2,700	2,600
Lease Levy Income	4	-	3,276	3,276	4,577
Other Income	5	5	-	5	998
Deposit Interest		39	274	313	299
Total Incoming Resources		3,516	14,904	18,420	19,063
Resources Expended					
Cost of Generating Funds	6	1,104	24	1,128	1,231
Charitable Expenditure:					
Grants to Disabled People:					
Charitable Grants	3a	2,176	269	2,445	3,113
Grants funded by DWP	3b	-	8,553	8,553	6,059
Support Costs	6	6	6,266	6,272	8,301
Governance Costs	6	-	211	211	228
Total Charitable Expenditure		2,182	15,299	17,481	17,701
Total Resources Expended	6	3,286	15,323	18,609	18,932
Net Movement in Funds	7	230	(419)	(189)	131
Restated Fund Balances brought forward at 1 April		477	1,034	1,511	1,380
Fund Balances carried forward at 31 March	16	707	615	1,322	1,511

The Group has no recognised gains or losses other than those shown in the Consolidated Statement of Financial Activities, and accordingly no statement of total recognised gains and losses is presented.

The notes on pages 20 to 36 form an integral part of the financial statements.
All the Group's activities in this and the prior period were continuing.

Balance Sheets

at 31 March 2005

	Note	Group		Charity	
		2005 £'000	Restated 2004 £'000	2005 £'000	Restated 2004 £'000
Fixed Assets	10	171	399	171	399
Current Assets					
Debtors	11	4,091	3,937	4,873	4,776
Longer Term Deposits	12	7,169	6,385	6,519	6,385
Cash and Short Term Deposits	12	1,644	2,299	1,336	1,479
		12,904	12,621	12,728	12,640
Creditors: amounts falling due within one year	13	(8,680)	(9,034)	(8,514)	(9,057)
Net Current Assets		4,224	3,587	4,214	3,583
Total Assets less Current Liabilities		4,395	3,986	4,385	3,982
Creditors: amounts falling due after one year	14	(3,073)	(2,475)	(3,073)	(2,475)
Net Assets	16	1,322	1,511	1,312	1,507
Represented by:					
Restricted Funds	17	615	1,034	615	1,034
Unrestricted Funds		707	477	697	473
Total Funds		1,322	1,511	1,312	1,507

The notes on pages 20 to 36 form an integral part of the financial statements.

The financial statements on pages 17 to 36 were approved by the Board of Governors on the 21 June 2005 and were signed on its behalf by:

The Lord Sterling of Plaistow GCVO CBE
Chairman

Richard Bennison
Hon. Treasurer

Consolidated Cash Flow Statement

for the year ended 31 March 2005

	Note	2005 £'000	2004 £'000
Net cash outflow from operating activities	20	(140)	(3,109)
Returns on investments and servicing of finance			
Interest received		313	299
Net cash inflow from returns on investments and servicing of finance		313	299
Capital expenditure			
Purchase of tangible fixed assets	10	(44)	(119)
Net cash outflow from capital expenditure		(44)	(119)
Cash inflow before management of liquid resources and finance		(129)	(2,929)
Management of liquid resources			
Longer term deposits		(784)	3,045
(Decrease) / increase in cash and short term deposits		(655)	116
Reconciliation of net cash flow to movement in net funds			
		2005 £'000	2004 £'000
(Decrease) / increase in cash and short term deposits		(655)	116
Cash inflow / (outflow) from liquid resources		784	(3,045)
Movement in net cash in the year arising from cashflows		129	(2,929)
Net funds at 1 April		8,684	11,613
Net funds at 31 March		8,813	8,684
Analysis of net funds			
	2004 £'000	Cash Flow £'000	2005 £'000
Longer term deposits (note 12)	6,385	784	7,169
Cash and short term deposits (note 12)	2,299	(655)	1,644
Net funds and Investments	8,684	129	8,813

The notes on pages 20 to 36 form an integral part of the financial statements.

Notes to the Financial Statements

for the year ended 31 March 2005

1. Accounting Policies

Basis of Accounting

The financial statements have been prepared under the historic cost convention and in accordance with the Statement of Recommended Practice (Revised October 2000) issued by the Charity Commission and applicable accounting standards in the United Kingdom. A summary of accounting policies consistently applied, is set out below:

Consolidation

The financial statements of the wholly owned subsidiary, Motability Enterprises Limited, have been consolidated with those of the Charity on a line by line basis. The principal activity of Motability Enterprises Limited during the year was the raising of funds for the Charity.

a. Incoming Resources

Income is accounted for on the basis of entitlement, certainty of receipt and measurability.

Restricted income is accrued to match the expenditure up to the level which has been agreed for future spending with the donor.

Unrestricted income is recorded on a receivable basis. Support from the Motability Tenth Anniversary Trust is recorded on a cash received basis.

Restricted income in relation to administration costs is received from Government and a lease levy from Motability Operations:

- Income from the Government is recognised when receivable.
- A lease levy charge is included by Motability Operations in each contract hire lease to partially recover Motability's administration costs. Cash is received as a single payment at lease inception and the income is recognised over three years as expenditure occurs in relation to the provision of the specified level of support for active leases. The income deferred is included under creditors.

b. Resources Expended

Grants to disabled people are recognised in the Statement of Financial Activities when they have been approved and formally accepted by the beneficiary.

The 'Cost of Generating Funds' comprises costs directly attributable to activities for generating funds such as the administration of the national raffles and the running of fundraising events together with fundraising expenses.

Support costs relate to the costs of staff employed in support of grant making and the general operation of the Charity.

Governance costs include audit fees, legal advice for trustees relating to the financial management of the Charity and compliance with constitutional and statutory requirements.

Central overheads are apportioned to operational and grant making functions on the basis of staff numbers employed.

c. Fixed Assets

Assets are included on the balance sheet at cumulative historic cost less depreciation and any impairments in accordance with FRS 15. Expenditure on fixed assets is capitalised, where individual items cost £500 or more, in the year of acquisition and depreciation is charged annually. Fixed assets are depreciated on a straight-line basis over their anticipated useful lives as follows:

Office Equipment:	Five years
Computer hardware and software:	Three years
Vehicles	Three years

d. Fund Accounting

Unrestricted funds comprise the accumulated movement on funds available for use at the absolute discretion of the Governors.

Restricted funds are funds subject to specific restrictions imposed by the donor; mainly government departments providing funds for the purpose of grant making and supporting Motability's administration and support costs.

e. Pension Costs

The Charity operates a defined benefit pension scheme for certain employees. Contributions paid to the scheme are made in accordance with the recommendations of actuaries and are charged in the Statement of Financial Activities, so as to provide an even charge over the average service lives of employees.

2. Trading Activities of the Subsidiary

The Charity has a wholly owned trading subsidiary, Motability Enterprises Limited, which is incorporated in the UK. Motability Enterprises Limited raises funds on behalf of Motability and covenants its taxable profits to Motability. A summary of its trading results is shown below.

Income and Expenditure Account	2005	2004
	£'000	£'000
Turnover	1,583	2,597
Less cost of sales	(634)	(1,611)
Gross profit	949	986
Administration expenses	(18)	(10)
Interest receivable	16	43
Net profit	947	1,019
Gift aided to Motability	(942)	(1,014)
Retained in Subsidiary	5	5

Notes to the Financial Statements continued

Turnover and cost of sales for 2004 included an accreditation fee charged to dealers as part of the Motability 'First Class Suppliers' programme. This covered all the programme costs relating to inspections, information material and dealer training. Following the reorganisation of Motability's activities, the administration of the programme was transferred to Motability Operations at the end of the 2004 financial year. Turnover also includes fundraising events and raffles.

3. Grants to Disabled People

a. Charitable Grants

	2005 £'000	2004 £'000
Grants to Disabled People:		
Vehicle Adaptations	1,197	1,163
Advance Payments	1,062	1,908
Driving Lessons	347	181
Lease Refunds	(141)	(60)
Movement in Commitments	(20)	(79)
Charitable Grants	2,445	3,113

The number of grant applications for advance payments reduced as more vehicles were made available on the Scheme at nil advance payment. As a result and following a review of grants policy during the year, more assistance has been given towards adaptations and driving lessons.

b. Grants Funded by the Department for Work and Pensions (DWP)

	2005		2004	
	Income £'000	Expenditure £'000	Income £'000	Expenditure £'000
Grants to Disabled People:				
Ex Invalid Vehicle Scheme Users	160	208	364	310
War Pensioners	127	127	288	288
Specialised Vehicles Funds	8,072	8,218	5,887	5,461
DWP Grants	8,359	8,553	6,539	6,059

The difference between Income and Expenditure relates to the utilisation of funds carried forward to future years under agreement with the DWP. In 2005 the reserve was reduced by £194,000 (increase of £480,000 in 2004).

c. Government Grant Balances

	2005				Restated 2004 Total
	Ex IVS	War Pensioners	SVF	Total	
Amounts owed by DWP at 1 April	181	179	2,511	2,871	4,485
Cash Expenditure	280	192	8,414	8,886	7,713
Movement in Commitments	(71)	(66)	(196)	(333)	(1,654)
Grants to Disabled People	209	126	8,218	8,553	6,059
Cash Received from DWP	(234)	(195)	(8,186)	(8,615)	(8,145)
Interest	–	–	(20)	(20)	(8)
Movement on Cash Reserves	(48)	–	(146)	(194)	480
Amounts owed by DWP at 31 March	108	110	2,377	2,595	2,871

4. Lease Levy Income

A levy is included in each contract hire lease to recover the administration costs of the Charity. This excludes the cost of administering the Government's Specialised Vehicle Fund but includes the cost of managing the charitable grant operation.

Income fell to more fairly reflect the lower cost base which arose from restructuring and a reduction in overall headcount. The levy rate was reduced during the year from £34 to £28 per lease.

5. Other Income

	2005 £'000	2004 £'000
First Class Supplier Programme – Dealer Fees (see below)	–	956
Other rebates	5	42
	5	998

Dealer accreditation fees meet the costs of the 'First Class Suppliers' programme including dealer training, inspections and literature. These costs form part of Support Costs (note 6c). Following the reorganisation of Motability's activities, the administration of the 'First Class Suppliers' programme was transferred to Motability Operations at the end of the 2004 year.

Notes to the Financial Statements continued

6. Analysis of Total Resources Expended

	Staff Costs £'000	Premises £'000	Other £'000	Total 2005 £'000	Restated 2004 £'000
Cost of Generating Funds:					
• Events and Trading	–	–	192	192	230
• Competitions and Raffles	–	–	538	538	510
• Fundraising Expenses	304	25	69	398	491
(note 6a)	304	25	799	1,128	1,231
Charitable Grants	–	–	2,445	2,445	3,113
Grants Funded by DWP (note 6b)	–	–	8,553	8,553	6,059
Support Costs (note 6c)	3,868	1,044	1,360	6,272	8,301
Governance Costs	92	9	110	211	228
	4,264	1,078	13,267	18,609	18,932

a. Cost of Generating Funds

The cost of generating funds of £1,128,000 relates solely to the fundraising income of £2,607,000 shown on page 17.

b. Grants Funded by DWP

The increase in grants administered for the Specialised Vehicles Fund (SVF) is due to a new process introduced to improve the provision of complex adaptations.

c. Support Costs

Support costs relate to the administration costs in supporting Motability's grant making and main Scheme operational functions. These costs are met from specific government funding supplemented by a levy on the contract hire vehicle leases and dealer accreditation fees.

These costs support the various functions:

	2005 £'000	2004 Restated £'000
Charitable Grants	1,248	1,540
Government Grants	3,071	3,537
Main Scheme Operations	1,952	2,408
First Class Supplier Programme	1	816
	6,272	8,301

The 2004 allocation has been restated following a review of business functions and support reflecting the responsibility for oversight of the Scheme.

7. Net Movement in Funds

The following have been charged in arriving at the above:

	2005 £'000	2004 £'000
Auditors – Fees for the Statutory Audit	19	18
Publicity Expenses	401	582
Depreciation	272	473
Operating Lease Rentals	759	821
Plant and Machinery	173	191
Other	586	630

8. Governors, Staff and Related Parties

a. Numbers and Costs

The number of Governors and average number of persons employed by the Group during the year analysed by category, was as follows:

	2005 Number	2004 Number
Administration	138	169
Fundraising	8	10
Governors	13	11
	159	190

Notes to the Financial Statements continued

The aggregate payroll costs of administration and fundraising were as follows:

	2005 £'000	2004 £'000
Salaries including benefits in kind	3,264	3,686
Staff restructure programme	328	309
Social Security costs	263	293
Pension costs	404	436
Other staff costs	95	132
	4,354	4,856

The total is greater than staff costs shown in note 6 due to the value of benefits in kind. Other staff costs include training, recruitment and payroll bureau costs.

The number of employees whose emoluments for the year fell within the following bands:-

	2005	2004
£120,000 to £129,999	1	-
£110,000 to £119,999	-	1
£90,000 to £99,999	1	1
£80,000 to £89,999	1	-
£70,000 to £79,999	3	4
£60,000 to £69,999	1	-
£50,000 to £59,999	2	3

b. Governors' emoluments

No Governor received any emoluments during the year. Three Governors (four in 2004) received reimbursement of travelling expenses amounting to £1,590 (£2,294 in 2004).

c. Professional indemnity

Appropriate insurance has been arranged by the Charity to indemnify Governors and employees for their legal liability for damages and legal expenses arising from any wrongful act in the performance of their professional services.

d. Related parties

Mr Richard Bennison is a partner in KPMG LLP. During 2004 the Group engaged KPMG LLP to perform consultancy work on an arm's length basis at a cost of £5,250. No further consultancy has been commissioned for 2005.

Motability paid Motability Operations £7,559,000 (£6,309,000 in 2004), in respect of grants awarded to customers, to fund advance payments on vehicles provided under the contract hire or hire purchase schemes. Motability made no payments to Motability Operations for dealer training and inspections carried out under the 'First Class Suppliers' programme (£549,032 in 2004).

Motability received from Motability Operations £3,276,000 (£4,577,000 in 2004) in respect of a levy on the leases to defray Motability's administration costs in processing charitable grant applications and support for the Scheme. A further £787,960 (£332,305 in 2004) was received from Motability Operations as rebates, in respect of grant awards towards advance payments, where customers have terminated their hire agreements.

e. Related charity

The Motability Tenth Anniversary Trust was set up to provide long term support to Motability by providing income to assist in the funding of charitable grants and the provision of other support which meets Motability's objective. The Trust provided income amounting to £1,160,000 (£1,500,000 in 2004).

9. Fixed Asset Investment

Motability holds 99 ordinary shares of £1 each in Motability Enterprises Limited, a company which is registered in England. The company carries out certain trading activities in order to raise funds for Motability (Note 2).

Notes to the Financial Statements continued

10. Fixed Assets

	Furniture and Office Equipment £'000	Computer Hardware £'000	Computer Software £'000	Vehicles £'000	Total £'000
Cost					
Balance at 1 April 2004	258	1,013	1,655	11	2,937
Additions	4	14	26	–	44
Disposals	–	(26)	(188)	–	(214)
At 31 March 2005	262	1,001	1,493	11	2,767
Depreciation					
Balance at 1 April 2004	223	952	1,360	3	2,538
Charge for the year	14	40	213	5	272
Disposals	–	(26)	(188)	–	(214)
At 31 March 2005	237	966	1,385	8	2,596
Net book value					
At 31 March 2005	25	35	108	3	171
At 31 March 2004	35	61	295	8	399
The net book value at 31 March 2004 represents tangible fixed assets used for:					
Fundraising	–	–	10	–	10
Direct charitable purposes	25	35	98	3	161
	25	35	108	3	171

The fixed assets of the Group are the same as those of the Charity.

Capital expenditure in 2005 includes IT expenditure on the enhancement of the software to support the Scheme database for grants, as well as new hardware for network enhancement.

11. Debtors

	Group		Charity	
	2005 £'000	Restated 2004 £'000	2005 £'000	Restated 2004 £'000
Amounts owed by DWP in respect of:				
Ex Invalid Vehicle Scheme Users (note 3c)	108	181	108	181
War Pensioners (note 3c)	110	179	110	179
Specialised Vehicles Fund (note 3c)	2,377	2,511	2,377	2,511
Other Debtors	1,184	736	1,083	643
Prepayments and accrued income	312	330	253	248
Due from Subsidiary	-	-	942	1,014
	4,091	3,937	4,873	4,776

Other debtors increased over 2004 mainly due to lease refunds of £333,000 for 2005 accounted for as a debtor and received in April 2005.

During the year, the War Pensioners float was recognised as funds carried forward into the coming year, rather than a reduction of the Government debtor. Accordingly, the comparatives for 2004 have been increased by £24,000.

12. Cash and Term Deposits

	Group		Charity	
	2005 £'000	2004 £'000	2005 £'000	2004 £'000
Longer Term Deposits	7,169	6,385	6,519	6,385
Cash and Short Term Deposits	1,644	2,299	1,336	1,479
	8,813	8,684	7,855	7,864
Represented by:				
Funds held by Motability	7,859	6,859	6,901	6,039
Amounts held by way of customer deposits	521	1,202	521	1,202
Amounts held in respect of:				
• Ex Invalid Vehicle Scheme Users (note 3c)	7	55	7	55
• War Pensioners (note 3c)	13	9	13	9
• Specialised Vehicles Funds (note 3c)	413	559	413	559
	8,813	8,684	7,855	7,864

Notes to the Financial Statements continued

Customer deposits represent amounts lodged and held separately by Motability on behalf of customers, to cover potential losses on their lease. The deposit together with any accrued interest is repaid to the customer once the liability is discharged. The decision has been made to return the deposits held to customers and for no new deposits to be taken. The process of returning deposits continues.

Cash includes balances on interest bearing premium accounts, having deducted unrepresented cheques drawn on current accounts. These payments are met from automatic bank transfers from the premium accounts.

13. Creditors: amounts falling due within one year

	Group		Charity	
	2005 £'000	2004 £'000	2005 £'000	2004 £'000
Customer deposits	515	1,191	515	1,191
Authorised grants awaiting payment:				
• Charitable Grants	1,108	1,128	1,108	1,128
• Specialised Vehicles Fund	2,383	2,579	2,383	2,579
• Ex Invalid Vehicle Scheme Users	110	181	110	181
• War Pensioners	99	165	99	165
Other creditors and accruals	1,059	997	962	1,057
Deferred Income (note 15)	3,406	2,793	3,337	2,756
	8,680	9,034	8,514	9,057

14. Creditors: amounts falling due after one year

	Group		Charity	
	2005 £'000	2004 £'000	2005 £'000	2004 £'000
Accrued expenses	170	187	170	187
Deferred Income (note 15)	2,903	2,288	2,903	2,288
	3,073	2,475	3,073	2,475

15. Deferred Income

Within deferred income is a lease levy charge included in each contract hire lease to partially recover Motability's administration costs. This is received from Motability Operations as a single payment at lease inception. Income is recognised over three years as expenditure occurs in relation to the provision of the specified level of support for active leases and future income is deferred. Increased lease inception and reduced administration costs account for the reduction in income recognised from current year income.

	2005		2004	
	Within 1 year £'000	After 1 year £'000	Within 1 year £'000	After 1 year £'000
Lease Levy				
Opening Balance	2,746	2,281	2,554	1,952
Invoiced	2,493	2,342	2,861	1,827
Income recognised from current year	(881)	-	(1,614)	-
Income recognised from previous years	(2,746)	-	(2,553)	-
Movement from after one year to within one year	1,720	(1,720)	1,498	(1,498)
Closing Balance	3,332	2,903	2,746	2,281
Other Income	74	-	47	7
Total Deferred Income	3,406	2,903	2,793	2,288

Other income relates to monies received in advance from dealers for vehicle adaptation and conversion specialist accreditation and fundraising events.

16. Analysis of Group Net Assets between Funds

	Unrestricted Funds £'000	Restricted Funds £'000	Total Funds £'000
Fund Balances at 31 March 2005 are represented by:			
Tangible fixed assets	13	158	171
Current assets	2,507	10,396	12,903
Current liabilities	(1,809)	(6,870)	(8,679)
Creditors over one year	(4)	(3,069)	(3,073)
Total Net Assets	707	615	1,322

Notes to the Financial Statements continued

17. Restricted Funds

The income funds of the Group and the Charity include restricted funds comprising donations, other income and government grants to be applied for specific purposes:

Movement in Funds:

	Restated Balance 31/3/04 £'000	Incoming Resources £'000	Expenditure, Gains and Losses £'000	Balance 31/3/05 £'000
Donations and appeals	11	295	(293)	13
Government funding and other income in relation to administration costs	385	6,250	(6,477)	158
Other Government Funding:				
• Ex Invalid Vehicle Scheme Users	54	161	(209)	6
• War Pensioners	24	126	(126)	24
• Specialised Vehicles Fund	560	8,072	(8,218)	414
	1,034	14,904	(15,323)	615

Donations and appeals represent monies received to which the donor reserves a specific purpose. Details of government funds are shown in Note 3. The balance held under Administration costs represents the net book value of fixed assets used for direct charitable purposes.

During the year, the sponsor for our Lessons for Life Programme was unable to continue to fund the entire expenditure, the £50,000 committed overspend brought forward from the previous year was reclassified as unrestricted expenditure and the reserve was reclassified from restricted to unrestricted. Accordingly, the comparatives for 2004 have been increased by £50,000.

During the year, the War Pensioners' float was recognised as funds carried forward into the coming year, rather than a reduction of the government debtor. Accordingly, the comparatives for 2004 have been increased by £24,000.

18. Pension Arrangements

The Group has operated a defined benefit pension scheme for its employees since November 1988 under which a separate fund is being accumulated to meet the accruing liabilities which is held under a trust, entirely separate from the Charity's assets. Payments to the scheme are made in accordance with the recommendations of qualified actuaries.

The pension cost to the Charity was £404,011 (£435,758 in 2004).

The latest actuarial valuation was prepared using the 'Projected Unit' method, as at 31 March 2004. This valuation used the following assumptions:

	%
Investment return in deferment	7.0
Investment return in payment	5.0
Salary increases	4.25
Pension increases (3% for GMP)	2.75

At 31 March 2004 the market value of the scheme's assets was £3,852,000, the present value of liabilities was £4,778,000 resulting in an actuarial deficit of £926,000, equivalent to a funding level of 81%. It was agreed that the employers' contribution increase to 17.9% from 1 April 2005.

Under the MFR, the funding level is 129%. On this basis, assets are included at market value and the liability for pensioners is based upon an estimate of the cost of buying annuities to secure their benefits. However, the liability of other members is based upon a cash equivalent transfer value which differs from the actuarial value of liabilities noted above.

Additional disclosures regarding the Group's defined benefit pension scheme are required under the transitional provisions of FRS 17 'Retirement benefits' and these are set out below. The disclosures relate to the third year of the transitional provisions. They provide information which will be necessary for full implementation of FRS 17 on or after 1 January 2005.

A qualified actuary using revised assumptions that are consistent with the requirements of FRS 17 has updated the actuarial valuation described above at 31 March 2005. Investments have been valued for this purpose at fair value.

The major assumptions used for the FRS 17 actuarial valuation were:

	2005 %	2004 %	2003 %
Rate of increase in salaries	4.25	4.25	4.5
Rate of increase in pensions in payment	2.75	2.75	2.5
Discount rate	5.5	5.75	5.75
Inflation assumption	2.75	2.75	2.5

Notes to the Financial Statements continued

The fair value of the assets in the scheme, the present value of the liabilities in the scheme and the expected rate of return at each balance sheet date were:

	2005 %	2005 £'000	2004 %	2004 £'000	2003 %	2003 £'000
Equities	6.75	3,612	7.0	2,959	7.0	2,149
Bonds	5.5	996	5.5	830	5.0	348
Property	–	–	–	–	6.0	31
Cash	4.25	53	3.0	63	3.0	292
Total fair value of assets		4,661		3,852		2,820
Present value of scheme liabilities		(6,827)		(5,504)		(4,928)
Net Pension liability		(2,166)		(1,652)		(2,108)

The contribution rate for 2004 was 14.7% of pensionable earnings and the agreed contribution rate from 1 April 2005 is 17.9% of pensionable earnings.

The movement in the scheme's deficit over the year to 31 March 2005 is summarised as follows:

	2005 £'000	2004 £'000
Deficit at 1 April	(1,652)	(2,108)
Movement in the Year:		
• Employer's contributions	429	448
• Other finance income	(62)	(105)
• Past service cost	(456)	(589)
• Actuarial (loss) / gain	(425)	702
Deficit at 31 March	(2,166)	(1,652)

Analysis of the amount that would have been charged to operating profit under FRS 17:

	2005 £'000	2004 £'000
Current service cost	456	589
Past service cost	–	–
Gain / (loss) on settlements and curtailments	–	–
	456	589

Analysis of the amount that would have been credited to net finance charges under FRS 17:

	2005 £'000	2004 £'000
Expected return on pension scheme assets	267	178
Interest on pension scheme liabilities	(329)	(283)
	(62)	(105)

Analysis of the actuarial loss that would have been recognised in the statement of total recognised gains and losses:

	2005 £'000	2004 £'000	2003 £'000
Actual return less expected return on pension scheme assets	142	403	(1,000)
Experience gains and losses arising on the scheme liabilities	(131)	356	151
Changes in assumptions underlying the present value of the scheme liabilities	(436)	(57)	(620)
	(425)	702	(1,469)

The analysis of the reserves that would have arisen if FRS 17 had been fully implemented is as follows:

	2005 £'000	2004 £'000
Reserves	707	527
Amount relating to defined benefit pension scheme liability	(2,166)	(1,652)
Reserves	(1,459)	(1,125)

In relation to the potential deficit in reserves noted above, the Governors implemented increased contributions in the year, designed to recover the deficit over a 12 year period in line with actuarial advice.

Notes to the Financial Statements continued

19. Commitments

Operating Leases

Amounts payable in the following year under operating leases with expiry dates:

	Premises		Other	
	2005 £'000	2004 £'000	2005 £'000	2004 £'000
Within one year	-	-	37	20
Between one and five years	-	-	133	175
Over five years	601	601	-	-
	601	601	170	195

Grants

Grants authorised but not yet formally accepted by beneficiaries amounted to £939,483 (£854,778 in 2004). These amounts are not charged within the Accounts.

20. Reconciliation of Net Movement in Funds with the Net Outflow from Operating Activities

	2005 £'000	2004 £'000
Net movement in funds	(189)	131
Interest receivable	(313)	(299)
Increase in debtors	(430)	(298)
Decrease in amount owing by DWP/DH	276	1,613
Increase / (decrease) in creditors	1,273	(141)
Decrease in customer deposits	(676)	(2,897)
Decrease in authorised grants awaiting payment	(353)	(1,692)
Depreciation	272	474
Net outflow from operating activities	(140)	(3,109)

The decrease in customer deposits during 2004 reflects the decision to return funds held and for no new deposits to be taken.

21. Taxation

As a registered charity Motability is potentially exempt from taxation of income and gains falling with in s505 Income and Corporation Taxes Act 1988 and s256 Taxation Chargeable Gains Act 1992. No tax charge has arisen in the year. No tax charge has arisen in the subsidiary due to the policy of gifting all taxable profits to Motability each year.

How the Motability Scheme Works

Motability has overall responsibility for the Scheme. It determines policy and strategic direction, and oversees the performance of the service providers who operate the Scheme under contract to Motability.

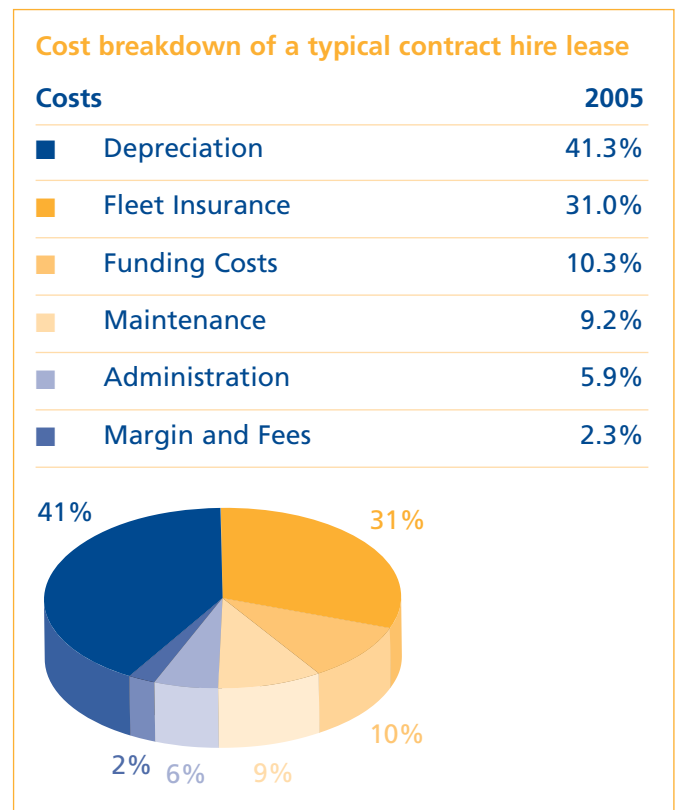
The Car Schemes

The operation of the Car Schemes, both contract hire and hire purchase, is undertaken by Motability Operations (the trading name of Motability Finance Limited) which is the principal service provider to Motability. Working to objectives and services levels agreed with Motability, Motability Operations obtains finance for the Scheme, negotiates contracts with motor manufacturers and other suppliers to the Scheme, and undertakes the leasing and sale of cars to its customers.

Motability Finance Limited is a private limited company owned by five major clearing banks which provide the finance for the car schemes. It is corporately and financially independent of Motability and operates the car schemes on a not-for-profit basis. The return earned by the banks through their involvement in the Motability Scheme consists of a margin of 1.05% on the funds provided and an annual management fee of £150,000 paid to each bank.

It provides vehicles to Scheme customers under either a contract hire or hire purchase agreement, where customers' payments are met principally by the diversion of all, or part, of their Higher Rate Mobility Component of Disability Living Allowance or War Pensioners' Mobility Supplement to Motability Operations for the duration of the agreement.

As Motability Operations operates on a not-for-profit basis, the prices charged to customers are determined by the various costs from the providers of vehicles, services or funds. The chart below shows the cost breakdown of a three-year contract hire agreement for a typical small car:



How the Motability Scheme Works continued

Financial assistance

Where a customer is unable to afford the type of vehicle they need, or any adaptations that they require, Motability may be able to help with financial assistance. Motability's charitable funds come from two sources. Firstly, its own Fundraising Department carries out a variety of fundraising and trading activities, and the second source is the Motability Tenth Anniversary Trust, an independent charity set up to provide long-term support for Motability.

Motability also administers the Government's Specialised Vehicles Fund which provides financial assistance to customers who need a heavily adapted vehicle, often wheelchair accessible, either as a passenger or driver.

The Powered Wheelchair and Scooter Scheme

The Powered Wheelchair and Scooter Scheme is operated by route2mobility Limited (r2m) under contract to Motability. r2m is a private limited company, in which the majority of shares are ultimately owned by the Enham Trust, a charity committed to improving opportunities for disabled people.

r2m offers a wide variety of powered wheelchairs and scooters to customers under hire purchase agreements, with customers' repayments being made by diverting all, or part, of their mobility allowance to r2m for the duration of the agreement.

Further details

For further details about Motability and its achievements during 2004/05, please refer to the Annual Report, which is available by calling 01279 632227.

Alternatively it can be downloaded from our website at: www.motability.co.uk

If you would like a copy of this report in large print or an alternative format, please call: 01279 632227

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