ARNOLD CLARK FINANCE LIMITED
ANNUAL REPORT 2019

SC39597

Directors, principal officers and advisers

Arnold Clark Finance Limited

Directors

D M Cooper BAcc (Hons) FCCA	Managing Director
E Hawthorne BA CA	Director
K J McLean BAcc (Hons) CA	Director

Principal Officers

A J Clark	General Manager Hire Drive
C Ewart	Corporate Sales Director
A J Gillon	Public Sector Sales Director
A Howieson BA (Hons) CA	Finance Director
S K Thorpe BA (Hons) BFP FCA MICA	Company Secretary

Registered Office

454 Hillington Road,
Glasgow G52 4FH

Principal Bankers

The Royal Bank of Scotland plc
1304 Duke Street, Glasgow G31 5PZ

Auditors

Deloitte LLP
110 Queen Street, Glasgow G1 3BX

Tax Advisers

Ernst & Young LLP
G1, 5 George Square, Glasgow G2 1DY

VAT Advisers

Deloitte LLP
1 City Square, Leeds LS1 2AL

Managing Director's Statement

Arnold Clark Finance Limited

As I write, Covid-19 dominates the news headlines and events are moving at an incredible pace. The rapid spread of Covid-19 has impacted all of our lives in ways we could not have envisaged a matter of weeks ago. The Government implemented restrictions on the movement of people and trading activity to contain the virus has had an immediate adverse impact on economic activity.

It is now clear that the two greatest challenges we face are the well-being of our customers and staff as well as the cash flow impact arising from the temporary closure of our Daily Rental sites. It is not clear how widespread or long lasting the situation will be, but our priority is to make sure our workplaces are as safe as possible for customers and staff when they reopen and concentrate our immediate efforts on taking the necessary mitigating actions to ensure that the business has the financial resources to emerge from the current difficult situation and return to profitable growth.

It was essential to minimise net cash outflows and, in line with the rest of the Arnold Clark Group, a range of mitigating actions were implemented. The principal mitigating actions are more fully explained in Note 20 to the Financial Statements and include difficult decisions around the furloughing of employees, accessing various forms of Government support and the deferral of funding repayments both by ourselves and by our customers.

The financial strength of the Arnold Clark Group provides a very solid foundation in terms of our net funding position. The Board has concluded that the business has access to sufficient cash resources to deal with the challenges in the year ahead. The Board will continue to monitor the situation on a daily basis.

Review

Given the challenging conditions across the entire vehicle rental and leasing sector, I am pleased to be able to report a diminished but overall satisfactory year for the Company. The most significant challenges encountered in the year were uncertainty around Brexit, declines in vehicle residual values and a shortage of vehicle supply.

A smaller number of vehicles available for disposal in the year contributed to a decrease in revenue from £506.7m to £464.6m. A combination of vehicle price increases, increased funding costs and depreciation charges associated with operating a larger fleet have resulted in pre-tax profit falling by £1.6m to £7.5m. Notwithstanding the above, we continue to take a long-term view of the business and invest in customer service. As a result of this focus, the Contract Hire fleet size has grown over the year by 12% to 41,012 vehicles; helping the Company remain the 10th largest leasing company within the 2019 Fleet News Top 50.

In the Daily Rental division, revenue increased by £2m to a record £61m helped by exceptional customer service which is reflected in our "Excellent" 5-star Trustpilot review rating.

Staff

Our long-term success can be attributed to the enthusiasm and professionalism of all our staff and I wish to thank them for their contribution. We are extremely fortunate to have a very low staff attrition rate. I believe this is a major benefit to the business and instrumental in developing long-lasting, close working relationships with each of our customers.

We continue to invest in staff training and development and were pleased to see this resulting in two of our staff jointly winning the BVRLA City & Guilds Presidents Award; the 14th consecutive year that this has been awarded to members of our staff. Congratulations to Emma Gilmour and Naomi Kerr who won the award this year.

Managing Director's Statement

Arnold Clark Finance Limited

Outlook

We started 2020 in a strong position with positive performance across January and February. Subsequent performance has been adversely impacted by Covid-19 and the resultant temporary closure of our Daily Rental sites. The outlook for the remainder of the year is unclear and is dependent upon the long term impact of Covid-19 as well as the timing of reopening our Daily Rental sites. We continue to plan the restart our business whilst always being mindful of why we are in this position, in that the health of our employees, their families, our customers and the communities that we live in will be our main consideration. However, rest assured that we have put in place a number of mitigating actions to ensure that the business has the financial resources to emerge from the current difficult situation and return to profitable growth.

We continue to see more electric and hybrid vehicles with improved mileage ranges coming to the market and note that a third of our Contract Hire order bank at the year end was for such vehicles. In April 2020, we will see the introduction of a new two-tier benefit in kind system that will have separate bandings for electric and hybrid vehicles. It is expected that this will encourage company car drivers to consider alternatively fuelled vehicles at the time of ordering their next vehicle.

As part of the wider Arnold Clark group, we will weather the impact of Covid-19 and continue to focus on excellent customer service, business efficiency and technological improvements in 2020.

David M Cooper

D M Cooper
Managing Director
4 June 2020

Strategic Report

Arnold Clark Finance Limited

The Directors present their Strategic Report for the year ended 31 December 2019.

Review of the business

The Company's principal activity during the year was the hiring of motor vehicles.

The Company's key financial and other performance indicators during the year were as follows:

	2019	2018	Change
Revenue	£464.6m	£506.7m	(8.3)%
Contract Hire fleet	41,012	36,626	12.0%
Daily Rental fleet	10,728	11,102	(3.4)%
Operating profit	£18.5m	£18.6m	(0.5)%

The decrease in revenue is due to a reduction of vehicle disposals in 2019 compared to 2018. The Contract Hire fleet grew throughout 2019 mainly due to increased demand from both private and public sector customers. Our Daily Rental fleet size contracted slightly but consistently operates with over 10,000 vehicles. Vehicle price increases, in conjunction with operating a larger fleet, resulted in higher depreciation costs and caused a slight reduction to our operating profit

A further review of the business is included in the Managing Director's Statement on pages 2 - 3.

Principal risks and uncertainties

The main risks and uncertainties associated with the Company's operations are set out below:

Financial instrument risk: The Company's principal financial instruments comprise cash, cash equivalents and hire purchase contracts. Other financial assets and liabilities, such as trade creditors and trade debtors, arise directly from operating activities.

Interest rate risk: Hire purchase agreements are entered into at floating interest rates. The Company's interest income and expenses are therefore affected by movements in interest rates. The Company does not undertake active hedging of this risk.

Credit risk: The Company has external debtors; however, the Company undertakes assessments of its customers in order to ensure that credit is not extended where there is a likelihood of default.

Liquidity risk: The Company aims to mitigate liquidity risk by managing cash generated by its operations.

General economic conditions: The Company's performance is influenced by general economic conditions and business confidence. Business confidence in the UK remains fragile as a result of wider economic conditions and therefore discretionary expenditure has been reduced by many customers, which may impact the number and type of vehicles taken on contract in the year. Whilst not identified as a separate principal risk at the balance sheet date, the impact of Covid-19 on the business as a major incident risk is covered within this risk.

Residual value risk: The residual value risk is defined by the Company as the exposure to potential loss at contract end due to the resale values of assets declining below the estimates made at lease inception. The Company monitors this exposure on a continuous basis and adjusts its residual values for both new and existing leases accordingly.

Strategic Report

Arnold Clark Finance Limited

Stakeholder relationships and engagement

The following disclosure describes how the Directors have had regard to the matters set out in Section 172(1) (a) to (f) and forms the Directors' statement required under Section 414CZA of The Companies Act 2006. The Company's Directors are also Directors of Arnold Clark Automobiles Limited, the ultimate parent undertaking, which ensures that the Company is fully integrated in the Arnold Clark Group wide processes covering stakeholder relationships and engagement. From a Company perspective the following are considered the most appropriate:

Who? Stakeholder group	**Why?** Why is it important to engage	**How?** How management and/or Directors engaged	**What?** What were the key topics of engagement	**Outcomes and actions** What was the impact of the engagement including any actions taken
Customers	Delivering exceptional customer service and genuine value for money is key to customer retention	Director led customer service quality sessions across all business units Customer satisfaction surveys are conducted and the results analysed by the Directors and by business units Monitoring of complaint levels and root cause analysis of customer complaints	Quality of service Product offering improvements	A focus on having the right product mix and ensuring that products and services meet individual customer needs
Employees	Ensuring the business has the right culture and values is critical to the delivery of a first-class customer experience	Dedicated employee communication website and app updated daily with information on matters of concern to employees Director attendance at regular departmental team meetings to enable two-way information flows and ensure that employee views are taken into account in making major decisions Annual results and strategy presentations led by the Managing Director Regular performance appraisals and performance-based bonus scheme Annual employee recognition and service awards Network and focus groups led by our People team Dedicated training facilities and new employee induction course	Results of customer survey Quality of training Service improvement ideas Annual results and performance Employee reward mechanisms	A more engaged and valued workforce delivering a higher standard of customer service Employee remuneration and benefits are updated to reflect feedback The Arnold Clark group won Family Friendly Working Scotland 2019 Top Employer Award recognising our industry-leading flexitime initiative which encourages employees to enjoy a better work-life balance Introduction of 'Space' - an employee portal for information, advice and support around mental, physical and financial health

Strategic Report

Arnold Clark Finance Limited

Stakeholder relationships and engagement (continued)

Who? Stakeholder group	**Why?** Why is it important to engage	**How?** How management and/or Directors engaged	**What?** What were the key topics of engagement	**Outcomes and actions** What was the impact of the engagement including any actions taken
Manufacturers	Access to vehicles on attractive terms is important for our Contract Hire and Daily Rental business	Regular meetings between Directors and manufacturers' senior management to ensure principal decisions are fully informed Group CEO and Managing Director frequently meet with representatives of manufacturer partners Monthly financial performance reporting Attendance at manufacturer conferences	Impact of new emissions regulations on pricing and availability of stock Impact of Brexit on pricing and availability of stock New model developments and pricing	Keeping our Daily Rental fleet refreshed and appropriate for our customers' needs Improved customer service by matching our detailed product knowledge with customer requirements
Finance providers	Access to affordable finance is essential to ensure the ongoing viability of the Contract Hire and Daily Rental businesses	The Managing Director and Finance Director meet with finance company senior management on a regular basis Quarterly review meetings are held with each finance provider Monthly compliance reporting	Availability of finance and related interest rates Impact of Brexit on UK interest rates and availability of finance	Renewed finance facilities Agreed business volume targets and related interest rates
Wider community	Giving back to the community is one of our core values	Continued support of local schools, charities and sports teams Providing young people placements Taking part in charity events and fundraising using their network of contacts	Building a greater understanding of the needs of our employees and wider community Giving young people from all backgrounds an equal opportunity Giving charities of all sizes a fair chance at receiving support from the Company	Matching of charitable funds raised by employees Sponsorship of major charitable events such as Cash for Kids, Pride and Kiltwalk Investment in defibrillators across our Daily Rental network
Regulators	Compliance with regulatory requirements is essential for the long term benefit of the Company	We are open and transparent in our dealings with regulators We hold frequent meetings with our regulators to fully understand current practice and future developments	Compliance record Future regulatory developments	Improvements to processes and procedures

Strategic Report

Arnold Clark Finance Limited

Principal Decisions

We define principal decisions as both those that are material to the Company, but also those that are significant to any of our key stakeholder groups.

In making the following principal decisions the Board considered the outcomes from its stakeholder engagement processes in addition to maintaining our reputation for high standards of business conduct and the need to act fairly between members of the Company:

Brexit

Prior to the original Brexit deadline of March 2019, the Board decided to advance the purchase of vehicles for our Daily Rental business to mitigate any post Brexit availability issues. The Board decided that no similar action should be taken in advance of the subsequent October 2019 Brexit deadline and ultimate withdrawal on 31st January 2020.

This report was approved by the Board of Directors on 4 June 2020 and signed on its behalf by

D M Cooper
Managing Director

Directors' Report

Arnold Clark Finance Limited

The Directors present their report and the financial statements for the year ended 31 December 2019.

Results and dividends

The profit before tax from continuing operations amounted to £7,450,000 (2018 - £9,064,000). The profit for the year, after taxation, amounted to £5,872,000 (2018 - £7,417,000). The Directors do not recommend the payment of a dividend. The profit of £5,872,000 (2018 - 7,417,000) has been transferred to reserves.

A further review of the business and its principal risks is provided in the Managing Director's Statement on page 2 to 3 and in the Strategic Report on pages 4 to 7. The Directors assessment of the Company's ability to continue as a going concern is addressed in note 3.3 to the financial statements.

Engagement with suppliers, customers and others in a business relationship with the Company

A summary as to how the Directors have had regard to the need to foster the Company's business relationships with suppliers, customers and others, and the effect of that regard, including on the principal decisions taken by the Company during the financial year, is included in the stakeholder relationships and engagement section within the Strategic Report.

Engagement with Employees

A summary as to how the Directors have engaged with employees, and how the Directors have had regard to employee interests, and the effect of that regard, including on the principal decisions taken by the Company during the financial year, is included in the stakeholder relationships and engagement section within the Strategic Report.

The Company gives every consideration to applications for employment from disabled persons where the requirements of the job may be adequately covered by a disabled person.

With regard to existing employees and those who have become disabled during the year, the Company has continued to examine ways and means of providing continued employment under normal terms and conditions and to provide training and career development and promotion wherever appropriate.

Directors

The Directors who served during the year were as follows:

D M Cooper
E Hawthorne
K J McLean

The Company has made qualifying third-party indemnity provisions for the benefit of all the Directors; such indemnity provisions were in force during the year and remain in force at the date of this report.

Directors' statement as to disclosure of information to auditors

The Directors who were members of the Board at the time of approving the Directors' Report are listed on page 1. Having made enquiries of fellow Directors and of the Company's auditors, each of these Directors confirms that:

- to the best of each Director's knowledge and belief, there is no information relevant to the preparation of their report of which the Company's auditors are unaware; and
- each Director has taken all the steps a Director might reasonably be expected to have taken to be aware of relevant information and to establish that the Company's auditors are aware of that information.

Auditors

Ernst & Young LLP resigned as auditors of the Company in May 2019. A detailed tender process was subsequently held with Deloitte LLP appointed as auditors in August 2019. A resolution to reappoint Deloitte LLP as auditors will be put to the members at the Annual General Meeting.

This report was approved by the Board of Directors on 4 June 2020 and signed on its behalf by

D M Cooper
Managing Director

Statement of Directors' Responsibilities

Arnold Clark Finance Limited

The Directors are responsible for preparing the Strategic Report, the Directors' 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 elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law including FRS 101 "Reduced Disclosure Framework"). 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 those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable United Kingdom Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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.

Independent Auditor's Report to the Members of Arnold Clark Finance Limited

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of Arnold Clark Finance Limited (the 'Company'):

- give a true and fair view of the state of the Company's affairs as at 31 December 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the Statement of Profit or Loss and Other Comprehensive Income;
- the Statement of Financial Position;
- the Statement of Changes in Equity; and
- the related notes 1 to 20.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

- the Directors' use of the going concern basis of accounting in 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.

We have nothing to report in respect of these matters.

Other information

The Directors are responsible for the other information. The other information comprises the information included in the Annual Report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion 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 such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in 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 in respect of these matters.

Independent Auditor's Report to the Members of Arnold Clark Finance Limited

Responsibilities of Directors

As explained more fully in the Statement of Directors' Responsibilities, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors 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.

Auditor's 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 auditor's 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 auditor's report.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and Directors' Report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report or the Directors' Report.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

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

We have nothing to report in respect of these matters.

Independent Auditor's Report to the Members of Arnold Clark Finance Limited

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's 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 company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

David Mitchell

David Mitchell CA (Senior Statutory Auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Glasgow, United Kingdom
4 June 2020

Statement of Profit or Loss and Other Comprehensive Income
for the year ended 31 December 2019

Arnold Clark Finance Limited

	Notes	2019 £000	2018 £000
Revenue	5	464,569	506,726
Cost of sales		(408,116)	(450,112)
Gross profit		56,453	56,614
Administrative expenses		(37,906)	(37,983)
Operating profit	6	18,547	18,631
Finance costs	9	(11,097)	(9,567)
Profit before tax from continuing operations		7,450	9,064
Income tax expense	10	(1,578)	(1,647)
Profit for the year		5,872	7,417
Other comprehensive income		-	-
Total comprehensive income for the year		5,872	7,417

All operations are classed as continuing operations during the year.

Statement of Financial Position
at 31 December 2019

Arnold Clark Finance Limited

	Notes	2019 £000	2018 £000
Assets			
Non-current assets			
Property, plant and equipment	11	668,190	570,982
Current assets			
Inventories	12	7,979	4,672
Trade and other receivables	13	24,111	26,610
Cash and cash equivalents		4,640	9,206
		36,730	40,488
Total assets		704,920	611,470
Equity and liabilities			
Issued share capital	14	15	15
Profit and loss account		83,743	77,871
Total equity		83,758	77,886
Non-current liabilities			
Interest-bearing loans and borrowings	15	268,373	225,040
Other liabilities	16	5,094	5,019
Deferred tax liabilities	10	1,540	6,927
		275,007	236,986
Current liabilities			
Interest-bearing loans and borrowings	15	276,089	242,971
Trade and other payables	16	64,694	51,108
Income tax payable		5,372	2,519
		346,155	296,598
Total liabilities		621,162	533,584
Total equity and liabilities		704,920	611,470

Approved by the Board on 4 June 2020 and signed on its behalf by

E Hawthorne
Director

D M Cooper
Managing Director

Statement of Changes in Equity

for the year ended 31 December 2019

Arnold Clark Finance Limited

	Share capital £000	Profit and loss account £000	Total £000
As at 1 January 2018	15	70,454	70,469
Total comprehensive income	-	7,417	7,417
As at 31 December 2018	15	77,871	77,886
As at 1 January 2019	15	77,871	77,886
Total comprehensive income	-	5,872	5,872
As at 31 December 2019	15	83,743	83,758

Notes to the Financial Statements
for the year ended 31 December 2019

Arnold Clark Finance Limited

1. Corporate information

Arnold Clark Finance Limited is a privately owned company limited by shares and incorporated in Scotland under the Companies Act 2006. The address of the registered office is 454 Hillington Road, Glasgow, G52 4FH.

Information on the Company's operations and its principal activities are set out in the Strategic Report on pages 4 to 7.

2. Statement of compliance with FRS 101

The results of Arnold Clark Finance Limited ("the Company") are included in the consolidated financial statements of Arnold Clark Automobiles Limited. Copies of the financial statements of Arnold Clark Automobiles Limited are available from The Registrar of Companies, Companies House, 4th Floor, Edinburgh Quay 2, 139 Fountainbridge, Edinburgh, EH3 9FF.

The financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101) as issued September 2015. The financial statements are prepared under the historical cost convention. The Company has elected to prepare the Statement of Financial Position in an adapted format, as permitted under the standard, so that it is prepared in a consistent format to the Consolidated Statement of Financial Position prepared by Arnold Clark Automobiles Limited.

The accounting policies which follow set out those policies which apply in preparing the financial statements for the year ended 31 December 2019. The financial statements are prepared in pounds sterling, which is the currency of the primary economic environment in which the Company operates, and are rounded to the nearest thousand pounds (£000).

3. Accounting policies

3.1 Basis of preparation

The financial statements have been prepared under the historical cost convention and in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law including FRS 101 "Reduced Disclosure Framework").

The Company has taken advantage of the following disclosure exemptions under FRS 101:

a. The requirements of paragraphs 62, B64(d), B64(e), B64(g), B64(h), B64(j) to B64(m), B64(n)(ii), B64(o)(ii), B64(p), B64(q)(ii), B66 and B67 of IFRS 3 Business Combinations;

b. the requirements of IFRS 7 Financial Instruments: Disclosures;

c. the requirements of paragraphs 91-99 of IFRS 13 Fair Value Measurement;

d. the requirement in paragraph 38 of IAS 1 Presentation of Financial Statements to present comparative information in respect of:
   - i) paragraph 79(a)(iv) of IAS 1;
   - ii) paragraph 73(e) of IAS 16 Property, Plant and Equipment;

e. the requirements of paragraphs 10(d), 10(f), 39(c) and 134-136 of IAS 1 Presentation of Financial Statements;

f. the requirements of IAS 7 Statement of Cash Flows

g. the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors;

h. the requirements of paragraph 17 of IAS 24 Related Party Disclosures;

i. the requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member; and

j. the requirements of paragraphs 134(d)-134(f) and 135(c)-135(e) of IAS 36 Impairment of assets.

In each instance equivalent disclosures are included in the consolidated financial statements of the Group in which the Company is consolidated.

3.2 Standards issued and in effect

The Company adopted IFRS 16 Leases with effect from 1 January 2019. IFRS 16 supersedes the previous guidance on leases, including IAS 17, and represents a significant change in the accounting and reporting of leases, particularly from a lessee perspective. IFRS 16 removes the distinction between a finance lease (reported in the Statement of Financial Position) and an operating lease (not reported in the Statement of Financial Position) and instead requires the lessee to recognise a right-of-use asset and corresponding lease liability for all leases, except for short-term leases and leases of low value assets.

The Company has applied IFRS 16 using the modified retrospective approach and therefore comparative information has not been restated. Reclassifications and adjustments arising from the implementation of IFRS 16 using this approach are recognised in the opening Statement of Financial Position on 1 January 2019.

On adoption of IFRS 16, the Company recognised lease liabilities in relation to leases which had previously been classified as operating leases within scope of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments not paid at the commencement date, discounted using the Company's incremental borrowing rate as of 1 January 2019. The weighted average incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 2.9%.

Non motor vehicle right-of-use assets are measured at an amount equal to the lease liability, adjusted for prepaid or accrued lease payments.

The Company elected to apply the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17:

- applied a single discount rate to a portfolio of lease contracts with reasonably similar characteristics;
- applied the exemption not to recognise a right-of-use asset and lease liability where less than 12 months of the lease term remained at 1 January 2019;
- excluded initial direct costs from the initial measurement of the right-of-use asset;
- used hindsight in determining the lease term where the contract contains options to extend or terminate the lease;
- Used the option not to reassess whether a contract is, or contains a lease at the date of initial application. IFRS 16 has been applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4.

The Company previously classified hire purchase agreements in relation to motor vehicles as finance leases as defined under IAS 17. These have been reassessed under IFRS 16 and reclassified as right-of-use assets. The relevant amounts already recognised in the Statement of Financial Position comprised motor vehicles (within note 11: property, plant and equipment) with a net book value of £516,624,000 and obligations under hire purchase contracts (within note 15: financial liabilities) of £468,011,000.

Reconciliation of operating lease commitments to the IFRS 16 lease liability at 1 January 2019:

	£000
Operating lease commitments disclosed at 31 December 2018	1,326
Less: discount effect of using incremental borrowing rate	(119)
Less: short term leases recognised on a straight-line basis	(24)
	1,183
Current lease liabilities	366
Non-current lease liabilities	817
	1,183

3.3 Going concern

The Company's business activities, a review of the business and a description of the principal risks and uncertainties, together with the Company's financial risk management processes and narrative regarding its exposure to key financial risks are outlined in the Strategic Report.

The Company funds vehicles purchased for its Contract Hire fleet using hire purchase contracts from a number of finance providers. The vehicles are accounted for as right-of-use assets and a corresponding lease liability is recognised, an element of which will be classified as a current liability. This gives rise to the Company's net current liabilities position at the year end. The Company's other banking facilities are part of the Arnold Clark Automobiles Limited group arrangements.

The Directors have taken into consideration that, since the balance sheet date, restrictions on trading activities and the movement of people applied by the Government to contain the spread of Covid-19 have had a severe effect on economic activity, including the temporary closure of most of our Daily Rental sites from 24 March. Measures were taken across the wider Arnold Clark Group to mitigate the consequential significant profit and cash flow impacts from the loss of sales.

In the current circumstances the Parent Company, Arnold Clark Automobiles Limited, has issued a letter of support to the Company stating it will support the Company in meeting its liabilities as they fall due over the next 12 months.

The Directors have reviewed Group cash flow forecasts to the end of the 2021 financial year which take account of the Group wide Covid-19 mitigating actions. At December 2019, the Group had cash and readily realisable financial asset resources of £230m. At the end of May these resources had risen to £290m as a result of the increased focus on cash management, application of mitigating actions and significant working capital inflows which are expected to reverse post commencement of trading. The hire purchase liability at the end of May was £500m (December 2019: £536m).

Having reviewed the Group forecast and applied various stressed assumptions, there is substantial headroom between this forecast and the cash resources available to the Group over the period to December 2021. The forecast also includes conservative judgements where there is continuing uncertainty and the likelihood of headroom being exhausted was considered remote. Under this analysis, the Group is forecast to have average closing monthly available cash in excess of £180m.

Taking into account the above and after making enquiries, the Directors believe that the Company and the Group have adequate resources to meet their liabilities as they fall due for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the accounts.

3.4 Summary of significant accounting policies

Property, plant and equipment

Property, plant and equipment is stated at historical cost, net of accumulated depreciation and accumulated impairment losses, if any. Historic cost is the invoice price of the item less any discounts or rebates receivable plus any directly attributable costs.

Depreciation is provided on all property, plant and equipment at rates calculated to write off the cost, less estimated residual value, of each asset over its expected useful life, as follows:

Land and buildings	: Freehold	- 1% - 16.7% (straight line)
	: Leasehold	- as freehold or over the lease term where shorter (straight line)
Plant and equipment	: General	- 15% (reducing balance)
	: Computer equipment	- 40% (reducing balance)
Motor vehicles	: Own use	- 20% or 25% (reducing balance)
	: Contract Hire vehicles	- over the term of the hire contract (straight line)

3.4 Summary of significant accounting policies (continued)

Leases

At inception of a contract, the Company assesses whether the contract is, or contains, a lease. The Company determines whether a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for a consideration.

Company as a lessee

At the lease commencement date, the Company recognises a right-of-use asset, which represents the Company's right to use an underlying asset, and a lease liability, which represents the Company's obligation to make lease payments. This applies to all leases with the exception of those deemed to be of low value or short term in nature. Payments associated with short term leases, being lease contracts with a term of 12 months or less, and low value assets are recognised as an expense on a straight-line basis over the lease term.

The right-of-use asset is measured at the amount equivalent to the initial measurement of the lease liability plus any initial direct costs incurred and adjusted for any prepaid or accrued lease payments. The right-of-use asset is depreciated straight-line over the shorter of the lease term and useful life of the underlying asset. The right-of-use asset is subsequently remeasured where the lease liability is remeasured to reflect changes to the lease payments.

The lease liability is initially measured at the present value of the lease payments that are not paid on commencement date, discounted using the interest rate implicit in the lease or the Company's incremental borrowing rate (where the implicit rate is not readily determined). Generally the Company uses its incremental borrowing rate as the discount rate for all leases.

The lease liability is subsequently measured by increasing the carrying amount to reflect the interest expense on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made. The lease liability is remeasured when there is a change in future lease payment arising from a change of index or rate, a variation in the amounts payable following contractual rent review and changes in the assessment of whether an extension or termination option is reasonably certain to be exercised.

Company as a lessor

At the inception date of a lease, the Company uses judgement in determining whether the lease transfers substantially all the risks and rewards incidental to ownership of the underlying asset to the lessee. Where this is deemed to be the case, the Company recognises a finance lease receivable equivalent to the net investment in the lease, being the present value of the future lease receipts discounted at the interest rate implicit in the lease. Otherwise, lease receipts are recognised straight-line over the lease term.

Impairment of non-financial assets

The Company assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's ("CGU's") fair value less costs of disposal and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

3.4 Summary of significant accounting policies (continued)

Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss or loans and receivables as appropriate. All financial assets are recognised initially at fair value plus, in the case of financial assets not recorded at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset.

Subsequent measurement

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate (EIR) method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance income in the Statement of Profit or Loss and Other Comprehensive Income. The losses arising from impairment are recognised in the Statement of Profit or Loss and Other Comprehensive Income in finance costs for loans and in cost of sales or other operating expenses for receivables. Interest is not recognised on short-term receivables where the interest would be immaterial. This category generally applies to trade and other receivables.

Impairment of financial assets

For financial assets carried at amortised cost, impairment losses are calculated based on an 'expected credit loss' model as permitted under IFRS 9. The amount of any impairment loss identified is measured as the difference between the contractual cashflows due less what the Company expects to receive. Trade and other receivables are considered to be in default when the borrower is unlikely to pay its credit obligations in full after reasonable actions have been taken to recover the debt.

Cash balances are held with The Royal Bank of Scotland plc. Management do not expect the bank to fail to meet its obligations.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as loans and borrowings or other payables.

All financial liabilities are recognised initially at fair value and net of directly attributable transaction costs.

Taxes

Current income tax

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date in the countries where the Company operates and generates taxable income.

Current income tax relating to items recognised directly in equity is recognised in equity and not in the Statement of Profit or Loss and Other Comprehensive Income. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred tax

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognised for all taxable temporary differences, except when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

3.4 Summary of significant accounting policies (continued)

Inventories

Inventories are stated at the lower of cost and net realisable value.

Net realisable value is based on estimated selling price less further costs expected to be incurred to completion and disposal.

Provisions for liabilities

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to a provision is presented in the Statement of Profit or Loss and Other Comprehensive Income. The effect of the time value of money is not material and therefore the provisions are not discounted.

Revenue recognition

Revenue represents the consideration attributable to each performance obligation satisfied in any given contract with our customers (stated net of value added tax). The revenue and pre-tax profit all arises in the UK and is attributable to the Company's principal continuing activities.

For sale of goods, the performance obligation is satisfied when the goods are delivered. Revenue is therefore recognised on delivery to the customer.

Rentals receivable on vehicles held for use in operating leases are recognised on a straight line basis over the term of the lease. The performance obligation, being the promise to provide the customer with the contracted vehicle for the agreed period of time, is satisfied over the term of the agreement as the customer simultaneously receives and consumes the benefit of having use of the vehicle for the period in which the Company provides the vehicle.

Pension costs

The Company operates a defined contribution pension scheme for employees. The assets of the scheme are held separately from those of the Company. The annual contributions payable are charged to the profit and loss account.

4. Significant accounting judgements, estimates and assumptions

The preparation of the Company's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

Judgements

In the opinion of the Directors, the accounting judgements made in the course of preparing these financial statements are not difficult, subjective or complex to a degree that would warrant their description as significant.

Estimates

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Company based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the Company. Such changes are reflected in the assumptions when they occur.

Contract Hire vehicles residual value

Vehicles within the Company's Contract Hire fleet are generally on hire for a period of 36 months. The assessment of vehicle residual values at the end of their contracted period involves an element of estimation. The Company assesses residual values at initial recognition and annually thereafter performs a detailed impairment review. The Company conducts these assessments using external market projections of future used car values together with its own expectations, taking into account model mix and current trends. As used vehicle values are subject to short term market distortions a material reduction to forecast residual values, and thus carrying value, could occur.

The principal sensitivity underpinning the above estimate is the level of reasonably possible movements in average used car market prices. A 1% change in average used vehicle market values could result in an adjustment of £3.4 million to the combined carrying value of Contract Hire vehicles.

5. Revenue

Revenue recognised in the Statement of Profit or Loss and Other Comprehensive Income is analysed as follows:

	2019 £000	2018 £000
Selling of motor vehicles	259,642	313,934
Hiring of motor vehicles	204,927	192,792
	464,569	506,726

All income arises in the United Kingdom.

6. Operating profit

The following items have been included in arriving at operating profit from operations:

	2019 £000	2018 £000
Depreciation of property, plant and equipment	24,209	129,469
Depreciation of right-of-use assets	114,088	-

7. Auditor's remuneration

The analysis of the auditor's remuneration is as follows:

	2019 £000	2018 £000
Fees payable to the Company's auditor for the audit of the Company's annual accounts	16	18

With effect from 2019, Deloitte LLP was appointed as auditor of the Company, replacing Ernst & Young LLP. Auditor's remuneration for 2019 relates to Deloitte LLP and for 2018 to Ernst & Young LLP. No other fees were incurred by the Company.

8. Employee benefits expense

The analysis of the employee benefits expense is as follows:

	2019 £000	2018 £000
Wages and salaries	19,897	18,905
Social security costs	1,775	1,591
Pension costs	679	499
Total employee benefits expense	22,351	20,995

The monthly average number of employees during the year was as follows:

	2019 No.	2018 No.
Office and management	704	670
Sales	174	168
	878	838

The Directors' emoluments were as follows:

	2019 £000	2018 £000
Emoluments	194	189

Directors' emoluments are apportioned across Group companies based on service to each company. These are payable by Arnold Clark Automobiles Limited, the ultimate parent company.

9. Finance costs

	2019 £000	2018 £000
Finance charges payable under hire purchase agreements	11,067	9,567
Finance charges payable in regard to other lease liabilities	30	-
	11,097	9,567

10. Income tax

The major components of income tax expense are:

	2019 £000	2018 £000
Current income tax:		
UK corporation tax charge	5,372	2,519
Adjustments in respect of prior periods	1,593	(15)
Deferred tax:		
Origination and reversal of timing differences	(3,902)	(754)
Adjustment in respect of prior periods	(1,533)	14
Effect of changes in tax rates	48	(117)
Income tax expense reported in the Statement of Profit or Loss	1,578	1,647

There was no tax charged to the Statement of Other Comprehensive Income in either year.

The reconciliation of the tax expense and the accounting profit multiplied by the standard rate of corporation tax for each year is as follows:

	2019 £000	2018 £000
Accounting profit before income tax	7,450	9,064
At UK corporation tax rate of 19% (2018 - 19%)	1,415	1,722
Tax effect of non-deductible expenses or non-taxable items of income	55	43
Effect of changes in tax rates	48	(117)
Adjustments in respect of current income tax of prior years	1,593	(15)
Adjustments in respect of deferred tax of prior years	(1,533)	14
At the effective income tax rate of 21.2% (2018 - 18.2%)	1,578	1,647

The UK corporation tax rate was due to reduce from 19% to 17% from 1 April 2020. This change had been substantively enacted at the balance sheet date, and therefore the deferred tax assets and liabilities at 31 December 2019 have been measured using the rates that apply in the periods when the underlying timing differences, on which deferred tax is recognised are expected to unwind.

A reduction in the UK corporation tax rate to 17% from 1 April 2020 was substantively enacted in the UK Finance Act 2016. The budget on 11 March 2020 confirmed the Government's intention that the corporation tax rate will remain at 19%. Had this been substantively enacted at 31 December 2019, the overall deferred tax liability would have increased by £159,000.

The deferred tax included in the Statement of Financial Position is as follows:

	2019 £000	2018 £000
Accelerated capital allowances	1,556	6,942
Other temporary difference	(16)	(15)
Net deferred tax liability	1,540	6,927

Notes to the Financial Statements

for the year ended 31 December 2019

Arnold Clark Finance Limited

11. Property, plant and equipment

Cost:	Land and buildings £000	Computer equipment £000	Motor vehicles £000	Fixtures and fittings £000	Total £000
At 1 January 2019	4,005	2,077	770,111	2,685	778,878
IFRS 16 opening balance	1,183	-	-	-	1,183
Revised cost at 1 January 2019	5,188	2,077	770,111	2,685	780,061
Additions	694	81	473,080	278	474,133
Disposals	-	-	(369,742)	-	(369,742)
At 31 December 2019	5,882	2,158	873,449	2,963	884,452
Depreciation:					
At 1 January 2019	386	1,860	204,226	1,424	207,896
Provided during the year	514	127	137,340	316	138,297
Disposals	-	-	(129,931)	-	(129,931)
At 31 December 2019	900	1,987	211,635	1,740	216,262
Net book value:					
At 31 December 2019	4,982	171	661,814	1,223	668,190
At 31 December 2018	3,619	217	565,885	1,261	570,982

Hire purchase agreements

The Company owns motor vehicles, purchased by way of hire purchase agreements, with a cost of £759,621,000 (2018 - £644,311,000) and related accumulated depreciation of £147,838,000 (2018 - £127,687,000), which are held for use in operating leases and are provided as security in respect of the sums outstanding on the associated hire purchase agreements. These contracts have been reassessed under IFRS 16 and reclassified as right-of-use assets with no change to the carrying value previously determined under IAS 17. The net book value of right-of-use assets at 31 December 2019 are presented by class of underlying asset in note 17.

12. Inventories

	2019 £000	2018 £000
Motor vehicles	7,979	4,672

Inventories are pledged as security for the other loans disclosed in note 15.

Notes to the Financial Statements
for the year ended 31 December 2019

Arnold Clark Finance Limited

13. Trade and other receivables

	2019 £000	2018 £000
Trade receivables	15,564	17,578
Other receivables	988	1,747
VAT recoverable	-	2,754
Prepayments and accrued income	7,559	4,531
	24,111	26,610

At 31 December 2019, trade receivables with an initial carrying value of £345,000 (2018 - £587,000) were impaired and fully provided for. The movements in the provision were as follows:

	2019 £000	2018 £000
At 1 January	587	563
Charge for the year	451	305
Utilised	(693)	(281)
At 31 December	345	587

As at 31 December, the ageing analysis of trade receivables is as follows:

	Neither past due nor impaired	Past due but not impaired			
		<30 days	30-60 days	60+ days	Total
	£000	£000	£000	£000	£000
2019	9,105	2,847	1,642	1,970	15,564
2018	8,420	5,087	1,186	2,885	17,578

14. Issued share capital

The share capital at 31 December 2019 and 31 December 2018 is analysed as follows:

	Authorised		Allotted, called up and fully paid	
	2019 No.	2018 No.	2019 £000	2018 £000
Ordinary shares of £1 each	15,000	15,000	15	15

No shares were authorised or issued in either period.

15. Financial liabilities

Interest-bearing loans and borrowings

	2019 £000	2018 £000
Current interest-bearing loans and borrowings:		
Lease liabilities: obligations under hire purchase agreements	268,240	242,971
Lease liabilities: obligations under other lease contracts	361	-
Other loans	7,488	-
	276,089	242,971
Non-current interest-bearing loans and borrowings:		
Lease liabilities: obligations under hire purchase agreements	267,917	225,040
Lease liabilities: obligations under other lease contracts	456	-
	268,373	225,040
Total interest-bearing loans and borrowings	544,462	468,011

Other loans comprise non-hire purchase funding for vehicles and is secured on each specific vehicle funded.

Future minimum payments under hire purchase agreements and other lease contracts, together with the present value of the net minimum lease payments, are set out in note 17.

16. Trade and other payables

	2019 £000	2018 £000
Trade payables	4,030	3,864
Other taxes and social security costs	2,162	-
Other creditors	13,629	15,286
Accruals and deferred income	42,574	30,649
Amounts due to group undertakings (payable on demand)	7,393	6,328
	69,788	56,127
Current liabilities	64,694	51,108
Non-current liabilities	5,094	5,019
	69,788	56,127

Amounts included in non-current liabilities relate to rentals paid in advance, which are included in accruals and deferred income. Deferred income will be released over a period of up to 5 years depending on the term of the associated rental agreement.

17. **Leases**

Company as a lessee

The Company has a number of hire purchase contracts for vehicles and other lease contracts in regard to land and buildings. The average remaining lease term for motor vehicles is 2 years and 5 years for land and buildings.

Amounts recognised in the Statement of Profit or Loss

	2019
	£000
Depreciation expense on right-of-use assets	114,088
Interest expense on lease liabilities	11,097
Expense relating to short term leases	33

Right-of-use assets

	Land and buildings £000	Motor vehicles £000	Total £000
Carrying value at 1 January 2019	1,183	516,624	517,807
Carrying value at 31 December 2019	808	611,783	612,591
Additions to right-of-use assets	-	473,080	473,080
Depreciation charge for the year	(375)	(113,713)	(114,088)

Future minimum payments under hire purchase agreements and other lease contracts, together with the present value of the net minimum lease payments, are as follows:

Obligations under hire purchase agreements

	Minimum payments		Present value of payments	
	2019 £000	2018 £000	2019 £000	2018 £000
Amounts payable:				
Within one year	277,726	251,205	268,240	242,971
After one year but not more than five years	273,358	229,713	267,917	225,040
	551,084	480,918	536,157	468,011
Less: future finance charges	(14,927)	(12,907)		
Present value of hire purchase obligations	536,157	468,011		

	2019 £000	2018 £000
Current interest-bearing borrowings:	268,240	242,971
Non-current interest-bearing borrowings	267,917	225,040
	536,157	468,011

The payments for these obligations will be met from the income received from the associated operating lease rentals and from the disposal of the associated assets.

17. Leases (continued)

Obligations under other lease contracts

	Minimum payments 2019 £000	Present value of payments 2019 £000
Amounts payable:		
Within one year	377	361
After one year but not more than five years	394	372
More than five years	97	84
	868	817
Less: future finance charges	(51)	
Present value of hire purchase obligations	817	

Current interest-bearing borrowings	361
Non-current interest-bearing borrowings	456
	817

Company as a lessor

The Company has entered into operating leases as lessor in respect of contract hire vehicles for periods between 12 and 60 months. Future minimum rentals receivable under non-cancellable operating leases at 31 December are as follows:

	Contract hire vehicles 2019 £000	2018 £000
Within one year	120,280	105,931
After one year but not more than five years	115,298	102,277
	235,578	208,208

18. Contingent liabilities

Under a group registration for Value Added Tax, the companies within the Group are jointly and severally liable for Value Added Tax due by any member of the group registration. At 31 December 2019, the Value Added Tax payable by other members of the group registration amounted to £8,807,000 (2018 - £2,133,000).

Under the terms of an inter-company guarantee, the parent company and its trading subsidiaries have jointly and severally guaranteed repayment of all sums due to The Royal Bank of Scotland plc by any of the parties to the guarantee. At 31 December 2019, the other companies included in the guarantee had net funds of £86,465,000 (2018 - £89,856,000) due from The Royal Bank of Scotland plc.

19. Ultimate parent company

The Directors report that Arnold Clark Automobiles Limited (registered in Scotland) is the Company's ultimate parent company. This is the only parent undertaking for which Group financial statements are drawn up and of which the Company is a member. The address from which copies of these group financial statements are available to the public is: The Registrar of Companies, Companies House, 4th Floor, Edinburgh Quay 2, 139 Fountainbridge, Edinburgh, EH3 9FF.

The Directors consider that Lady Clark is the Company's ultimate controlling party by virtue of her office, her shareholding and the shareholdings of her immediate family.

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Arnold Clark Finance Limited

20. Events after the reporting date

Following the balance sheet date, Covid-19 has spread rapidly. The Government has implemented significant restrictions on movement of people and trade in order to contain the further spread of virus. In accordance with IAS 10, the impact of Covid-19 is a non-adjusting event at the balance date. This note sets out the subsequent events considered material to the Company up to the date of this report.

Impact on the business

In response to the Covid-19 pandemic, the Company initially implemented enhanced hygiene rules, minimised the movement of our employees across locations and implemented contingency plans which allowed for remote working where practical. In mid-March, the negative impact of Covid-19 began to be evidenced through reduced Daily Rentals and requests from Contract Hire customers for payment deferrals. In line with Government advice, on 24 March 2020, the Company temporarily closed most of its Daily Rental locations. A limited number of Daily Rental locations remained open to support the NHS and emergency services.

Mitigating actions

As the early impact of Covid-19 became apparent the Company implemented a number of mitigating actions in anticipation of the tougher conditions to come. These actions were designed to protect our net cash position and included restrictions on non-essential capital expenditure, reduction in vehicle purchases, freeze on staff recruitment and limiting discretionary spend.

Following the temporary closure of our Daily Rental sites, the following additional mitigating actions were implemented to further reduce net cash outflows:

- Temporary furloughing of the majority of our employees with only certain key roles continuing, including those supporting the NHS and emergency services noted above. From that point onwards, the Company claimed the maximum support available for furloughed staff under the Government's Job Retention Scheme.
- Other UK Government support by way of the deferral of indirect tax payments and a business rates holiday for retail premises has been utilised.
- With agreement of our hire purchase funding providers, the Company deferred most of the monthly instalment payments due in the period April to June and agreed that the majority of deferred amounts would be spread over contract terms extended by at least 3 months. This enabled the Company to offer a large number of our Contract Hire customers revised payment arrangements including payment deferrals and contract extensions of up to 3 months.

In anticipation of a reopening of sites, the Company commenced a substantial program of work around water management checks, gas checks, emergency lighting and fire alarm tests and new processes to create robust hygiene and social distancing procedures to protect our employees and our customers in the branches. This includes the development of a new Social Distancing Policy and related training programmes, purchase of personal protective equipment along with setting up protective screens for use through the main areas where customers will interact with our staff and related safety signage.

Conclusions on the overall net position and its implications

The Covid-19 pandemic has become a worldwide crisis and at the date of this report the impacts are still evolving and cannot yet be accurately measured at this date. The closure of our sites presented an immediate cash flow challenge for the Company. Our responses are detailed above and in our assessment of going concern on page 18.

At December 2019, Arnold Clark Automobiles group had cash and readily realisable financial asset resources of £230m. At the end of May these resources had risen to £290m as a result of increased focus on cash management, application of mitigating actions and significant working capital inflows which are expected to reverse post commencement of trading as trading becomes more normalised over the remainder of 2020 and 2021. The hire purchase liability at the end of May was £500m (December 2019: £536m).