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The Medical Protection Society

Annual Report and Accounts 2001



MEDICAL PROTECTION SOCIETY



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Report of the Council

The Council, which for the purposes of the Companies Acts is the Board of Directors, presents its annual report for the year ended 31 December 2001.

Principal activity

The Society is a mutual society, the function of which is to protect, support and safeguard the character and interests of medical and dental practitioners. It is a non-profit-making company limited by guarantee and all income and property must be applied solely towards its objects as defined by the Society's Memorandum of Association. Members are not entitled to dividends or other distributions, and the balance on the income and expenditure account is retained by the Society to set against future liabilities.

One of the objects of the Society is to grant indemnity to members in respect of claims and demands arising from their professional practice, which may result in the payment of costs and damages. The Articles of Association set down in paragraph 28 that 'the grant of indemnity shall be entirely in the discretion of the Council who shall have power to impose such terms and conditions on the grant of any indemnity as it thinks fit and may in its absolute discretion limit or restrict such indemnity or decline altogether to grant the same.'

Review of the business

The results for the year are stated in detail on pages 13 to 27.

The review of the business appears in the Chief Executive's report on pages 2 to 3.

Donations

Charitable donations made by the Society during the year amounted to £1,500. No political donations were made during the year.

Employees

During the year the Society continued to provide employees with relevant information and seek their views on matters of common concern through the Staff Consultative Group, staff briefings and through line managers. Priority is given to ensuring that employees are aware of all significant matters affecting the Society's trading position and of any significant organisational changes.

It is the policy of the Society to support the employment of disabled persons where possible, both in recruitment and by retention of employees who become disabled whilst in the employment of the Society, as well as generally through training and career development.

Members of the Council

The names of the members of the Council of the Society who served during the year are set out on page 8.

Corporate Governance

The Listing Rules of the Financial Services Authority require listed companies to disclose how they have applied the principles set out in Section 1 of the Combined Code prepared by the Committee on Corporate Governance and whether they have complied with its provisions throughout the period. Although not listed, the Society is committed to maintaining the highest standards of corporate governance and thus complies with the Combined Code where it is considered relevant to the Society's business and constitution. The following is a statement in accordance with the Code.

Council

Council consists of a non-executive Chairman, a Chief Executive and 14 other non-executive members.

All the non-executives are considered to be independent, not being past executives of the Society and not having any financial interest in the Society other than their fees as members of Council and their personal membership of the Society. The Society has separate posts of Chairman and Chief Executive to differentiate the running of the Council from the executive responsibility for the running of the Society's business. Council considers that the non-executive members of Council as a group are of a sufficient calibre and number to bring strength and independence to Council and does not propose to nominate any one non-executive to be a senior independent member of Council. In stating this, Council recognises that this is not in accordance with the relevant provision of the Combined Code.

Report of the Council continued

The normal retirement age for executive members of Council is 60 and for non-executive members 70. All Council members are subject to election by members at the first opportunity after their appointment by Council and to re-election (excepting the Chief Executive) at general meetings at least every three years. The Chief Executive is appointed by Council and can be removed by Council. Council recognises that not subjecting the Chief Executive to re-election is a departure from the relevant section of the Combined Code, but believes that it does not compromise the independence or integrity of Council. Non-executive members of Council are limited to an eight-year term.

Council met formally 10 times during the year. Council has a schedule of matters specifically reserved to it for decision, including strategy and financial policy, and major acquisitions and disposals. All Council members have access to the advice and services of the Company Secretary and procedures exist for any member of Council to take independent advice at the Society's expense.

Council has a Nominations Committee, a Remuneration Committee and an Audit Committee, the members of which are listed on page 8.

The Nominations Committee is chaired by the Chairman of Council and keeps under review the composition of Council and makes recommendations concerning all new appointments of non-executive members.

The Remuneration Committee is chaired by the Chairman of Council and is responsible for making recommendations to Council concerning matters relating to remuneration policy. See Remuneration Report below.

The Audit Committee is chaired by a non-executive member of Council (a former audit partner of an international firm of chartered accountants) and meets at least twice a year. The Society's external auditors, Chief Executive and Finance Director also attend the meetings and the Committee has an opportunity to meet the external auditors without management present. The Audit Committee reviews the adequacy and effectiveness of risk management and control systems and reviews the scope and results of the external audit, its cost effectiveness and the independence and

objectivity of the auditors. It also reviews prior to publication the annual financial statements and the other information included in the Annual Report.

Internal Control

The Council has overall responsibility for the Society's system of internal controls and for reviewing its effectiveness whilst the role of management is to implement Council's policies on risk and control. The system is designed to manage, rather than eliminate, the risk of failure to achieve the business objectives. In pursuing these objectives, internal controls can only provide reasonable and not absolute assurance against material misstatement or loss.

There is a continuous process for identifying, evaluating and managing the significant risks faced by the Society in line with recommendations in the Turnbull report. This has been in place for the full financial year and up to the date of approval of the annual report.

The process involves the undertaking of regular reviews at departmental and corporate level. From these reviews, management identifies the key risks, and determines their likely significance based on the probability of the risk occurring and its likely impact on the Society if it were to do so. Management then determines what action can cost-effectively be taken.

Council has delegated the function of monitoring the effectiveness of the system of internal control and of the risk management process to the Audit Committee. The Chairman of the Audit Committee reports outcomes of its meetings to Council and Council receives the minutes of all its meetings.

In fulfilling its responsibilities to Council, the Audit Committee:

- discusses with the external auditors their audit approach, and agrees any particular aspect of internal control or risk management to be reviewed by them beyond their statutory responsibilities
- discusses with independent consulting actuaries their approach to statistical reserving of claims and IBNR assessment
- considers the results of the external auditors' work with them and management

- initiates as necessary and considers reports from management on systems of internal control and on the effectiveness of risk management
- reports the results of its works, with any necessary recommendations, to Council and ensures that actions required by Council are implemented. One such report is made at the year-end before producing this statement.

The Society does not have a dedicated internal audit function but some of the functions of an internal audit function are performed by various sections within the Society. Council and the Executive have discussed the issue and believe that there is currently no need for such a function, but recognise the importance of keeping this matter under close review.

Remuneration report

The Remuneration Committee is responsible for recommending to Council fees for members of Council, Committees and directors of subsidiaries as well as deciding the remuneration of senior staff and receiving recommendations from the Chief Executive for the remuneration of other employees. In framing its policy, the Remuneration Committee aims to attract and retain senior staff to run the Society successfully without making excessive payments. The Society does not provide any regular bonuses, incentive schemes or performance related payments to any staff or non-executive members of Council.

Details of Council Member's remuneration is included at note 6.

Going concern

Members of Council consider that the Society has adequate resources to continue in operation for the foreseeable future and that it is therefore appropriate to adopt the going concern basis in preparing the financial statements. Members of Council have satisfied themselves that the Society is in a sound financial position.

Relations with members

The provisions of the Combined Code relate to communication by companies with their shareholders and thus some of the details do not apply to the different relationship that the Society has with its members. However, the general tenor of the provisions is applicable to the Society and the Society values its dialogue with members. Council also uses the annual general meeting to communicate financial performance with members and encourages their participation.

Auditors

RSM Robson Rhodes have expressed their willingness to continue in office as auditors and a resolution for their re-appointment will be proposed at the forthcoming annual general meeting.

Statement of the Council's responsibility for the Annual Report

Company Law in the United Kingdom requires the Council to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Society and the Group and of the surplus or deficit of the Society and the Group for that period. In preparing those financial statements, the Council has:

- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that are reasonable and prudent;
- followed applicable United Kingdom accounting standards; and
- prepared the financial statements on the going concern basis.

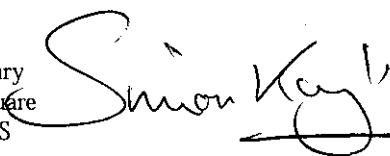
The Council is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Society and the Group and to enable it to ensure that the financial statements comply with the Companies Act 1985. It is also responsible for safeguarding the assets of the Society and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Council is responsible for ensuring that the Report of Council and other information included in the Annual Report is prepared in accordance with company law in the United Kingdom.

Approval

The report of the Council was approved by the Council on 3 April 2002 and signed on its behalf by:

Simon Kayll
Company Secretary
33 Cavendish Square
London W1G 0PS



Independent auditors' report to the members of the Medical Protection Society

We have audited the financial statements on pages 13 to 27.

Respective responsibilities of Council and auditors

Council's responsibility for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards are set out in the Statement of Council's Responsibility.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, Council's report is not consistent with the financial statements, if the Society has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Council members' remuneration and transactions with the Society and other members of the Group is not disclosed.

We read the information contained in the Annual Report and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatement or material inconsistencies with the financial statements. Our responsibilities do not extend to any information outside the Annual Report.

Basis of audit 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 Council in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Society's circumstances, 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 affairs of the Society and the Group as at 31 December 2001 and of the net contribution available to meet future liabilities and charges of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

RSM Robson Rhodes
Chartered Accountants
and Registered Auditors
Leeds
England

3 April 2002

RSM Robson Rhodes

Year ended 31 December 2001

Consolidated income and expenditure account

	Notes	2001 £'000	2000 £'000
Income			
Members' subscriptions and other income		113,406	104,271
Expenditure			
Claims costs and associated legal costs (including costs of insurance)	14	75,413	69,767
Insurance recoveries		(2,416)	(1,302)
Advisory costs and associated legal costs	3a	14,686	11,915
Administration expenses	3a	8,163	7,084
Loss/(profit) on exchange movements	3b	5,716	(314)
		101,562	87,150
Excess of members' subscriptions and other income over expenditure		11,844	17,121
Income from investments	4	12,105	10,166
Realised (losses)/gains from disposal of investments		(369)	23
Contribution from ordinary activities before taxation		23,580	27,310
Tax on investment income and gains	5a	(1,227)	(2,642)
Net contribution for the year available to meet future liabilities and charges	16	22,353	24,668

Statement of total recognised gains and losses

	Notes	2001 £'000	2000 £'000
Net contribution for the financial year		22,353	24,668
Deficit on revaluation of investments		(15,553)	(1,683)
Tax credit/(charge) on investment (losses)/gains	5a	557	(3,640)
Total recognised gains		7,357	19,345

Note of historical cost income and expenditure

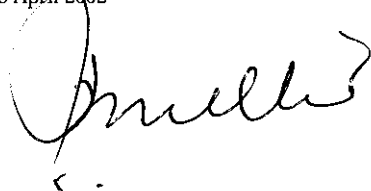
	Notes	2001 £'000	2000 £'000
Reported net contribution before tax		23,580	27,310
Realisation of valuation gains of previous years	15	4,895	18,130
Difference between a historical cost depreciation charge and the actual depreciation charge of the year calculated on the revalued amount		32	31
Historical cost net contribution before tax		28,507	45,471
Historical cost net contribution retained after tax		27,837	39,189

At 31 December 2001

Consolidated and company balance sheets

	Notes	2001 Group £'000	2000 Group £'000	2001 Company £'000	2000 Company £'000
Fixed assets					
Tangible assets	9	7,606	7,831	7,579	7,801
Investments	10	333,224	315,537	20,001	20,001
		340,830	323,368	27,580	27,802
Current assets					
Debtors	12	9,875	11,110	259,088	229,604
Bank deposit accounts		48,864	54,064	13,521	16,652
Cash at bank and in hand		2,100	703	2,087	685
		60,839	65,877	274,696	246,941
Creditors: amounts falling due within one year	13	(16,466)	(22,522)	(16,441)	(18,937)
Net current assets		44,373	43,355	258,255	228,004
Total assets less current liabilities		385,203	366,723	285,835	255,806
Provision for liabilities and charges	14	(172,607)	(161,484)	(172,607)	(161,484)
Net assets		212,596	205,239	113,228	94,322
Accumulated funds	15				
Revaluation reserve		3,687	24,167	1,557	1,589
Income and expenditure		208,909	181,072	111,671	92,733
Funds available to meet future liabilities and charges	16	212,596	205,239	113,228	94,322

Paul Miller
Chairman of the Council
3 April 2002



Year ended 31 December 2001

Consolidated cash flow statement

	Notes	2001 £'000	2000 £'000
Cash flow from operating activities	17	23,456	27,043
Returns on investments	18	12,105	10,166
Tax		(5,256)	(5,993)
Capital expenditure and financial investment	19	(33,640)	(47,217)
		(3,335)	(16,001)
Net cash inflow from management of liquid resources (comprising bank deposits and investment deposits)		4,732	15,624
Increase/(decrease) in cash in the period		1,397	(377)

	At 1 Jan 2001 £'000	Cash flow movement £'000	At 31 Dec 2001 £'000
Analysis of changes in net funds			
Cash at bank and in hand	703	1,397	2,100
Bank deposit accounts	54,064	(5,200)	48,864
Cash with investment managers	1,328	468	1,796
Net funds	56,095	(3,335)	52,760

	2001 £'000	2000 £'000
Reconciliation of net cash flow to movement in net funds		
Increase/(decrease) in cash	1,397	(377)
Cash flow from decrease in net liquid resources	(4,732)	(15,624)
	(3,335)	(16,001)
Net funds at 1 January	56,095	72,096
Net funds at 31 December	52,760	56,095

Notes to the accounts

1 Basis of preparation of the financial statements

The financial statements are prepared in accordance with applicable accounting standards and the constitution of the Society.

2 Accounting policies

- (a) New accounting standards Financial Reporting Standard 18 'Accounting Policies' has been adopted for the first time in these accounts. It did not cause any changes in policy as, after careful review, the members of the Council are satisfied that the previous accounting policies were and continue to be the most appropriate for the Society. Financial Reporting Standard 17 'Retirement Benefits' need not be applied in full until the 2003 accounts, so as in previous years, expenses have been charged under SSAP24. Some additional disclosures are given as required by FRS 17 (see note 8).
- (b) Convention The financial statements include investments and freehold property at valuation but in all other respects have been prepared in accordance with the historical cost convention. The principal accounting policies adopted by the Society within that convention are set out below.
- (c) Consolidation The Group financial statements comprise a consolidation of the financial statements of the parent company (the 'Company') and all its subsidiary undertakings (together, the 'Group') as at 31 December. In accordance with the exemptions given by Section 230 of the Companies Act 1985, the company does not publish its own income and expenditure account.
- (d) Subscriptions Subscription income comprises amounts due during the year, apportioned to accounting periods on a time basis. No geographical analysis of subscription income is shown because, in the opinion of Council, it is not in the interests of the Group so to do.
- (e) Tangible fixed assets and depreciation All freehold land and buildings are included at valuation. Valuations are kept up-to-date. Other tangible fixed assets are included at cost. Depreciation is provided evenly on the cost (or valuation where appropriate) of tangible fixed assets, to write them down to their estimated residual values over their expected useful lives. Where there is evidence of impairment, fixed assets are written down to recoverable amounts. Any such write down would be charged to operating profit unless it was a reversal of a past revaluation surplus in which case it would be taken to the statement of total recognised gains and losses. No depreciation is provided on freehold land. The principal annual rates used for other assets are:
- | | |
|--|---|
| Freehold buildings – 2% per annum | Office equipment – 15% per annum |
| Leasehold properties – over life of leases | Computers – 20%, 25% or 33.3% per annum |
| Furniture and fittings – 5% per annum | |
- (f) Translation of foreign currency transactions Income and expenditure in foreign currencies are translated to their sterling equivalent at the rate ruling at the transaction date. Current assets and liabilities appearing in the balance sheet are translated at the rate of exchange ruling at 31 December or at a rate fixed in advance by way of a forward exchange contract. Any gain or loss is taken to the income and expenditure account.
- (g) Dividends and interest receivable Dividends are brought into account when received. Interest receivable is brought into account on an accruals basis. Dividend income is recorded net of tax credits.
- (h) Investments Listed investments (which include cash held by the investment managers awaiting investment) are included in the balance sheet at market valuation. The net surplus or deficit on revaluation is credited or charged to the revaluation reserve. In accordance with Financial Reporting Standard 3, on disposal the proceeds are compared with the carrying value and the gain or loss credited or charged to the income and expenditure account.
- (i) Costs and damages Provision is made at discounted future settlement values for estimated future costs and damages, legal costs and claims handling costs expected to arise from claims that have been notified to the Society by 31 December in respect of which Council has exercised or is expected to exercise its discretion to provide indemnity. The estimate of these costs is stated before deducting estimated recoveries from insurers, which are disclosed separately.

No provision is made for claims that may arise from incidents incurred before 31 December but not reported to the Society at that date.

Notes to the accounts continued

2 Accounting policies continued

- (j) Tax Provision is made in the financial statements for tax on investment and trading income received and receivable in the year and on capital gains on investments disposed of during the year.

The payment of taxation is deferred or accelerated because of timing differences between the treatment of certain items for accounting and taxation purposes. Full provision for deferred taxation is made under the liability method, without discounting, on all timing differences that have arisen, but not reversed by the balance sheet date, unless such provision is not permitted by FRS 19. In accordance with FRS 19 deferred tax is not provided for:

- a) revaluation gains on land and buildings, unless there is a binding agreement to sell them at the balance sheet date;
 - b) gains on the sale of non-monetary assets, if the taxable gain will probably be rolled over;
 - c) extra tax payable if the overseas retained profits of subsidiaries and associates are remitted in future; and
 - d) fair value adjustment gains to fixed assets and stock to uplift prices to those ruling when an acquisition is made.
- (k) Pensions The Society operates a defined benefit pension scheme. The assets of the scheme are invested and managed independently of the finances of the Society. Pension costs are assessed in accordance with the advice of an independent qualified actuary. Costs include the regular cost of providing benefits which it is intended should remain a substantially level percentage of current and expected future earnings of the employees covered. Variations from the regular costs are spread evenly through the income and expenditure account over the average remaining service lives of current employees.
- (l) Leasing Rentals under operating leases are charged on a straight-line basis over the lease term.

3a Advisory costs and administration expenses

	2001 £'000	2000 £'000
Included under this classification are:		
Operating lease rentals – Land and buildings	431	431
– Motor vehicles	50	82
Auditors' remuneration – Audit fees	52	52
– Fees for other services	22	37
Profit on disposal of tangible fixed assets	–	(4)
Depreciation of fixed assets	807	688

- 3b Exchange movements The majority of the exchange loss relates to the restatement of overseas cash assets (principally in South Africa) held to match overseas liabilities. These losses are substantially compensated for by a corresponding reduction in overseas liabilities, which is included in claims costs through a reduction in the overall claims provision (note 14).

4 Income from investments

	2001 £'000	2000 £'000
Dividends: listed investments – franked	1,071	1,196
– unfranked	7,958	5,613
Bank interest	3,076	3,357
	12,105	10,166

5a Tax on income and gains from investments

	2001 £'000	2000 £'000
Tax on income and gains included in the income and expenditure account for the year		
UK corporation tax:		
Current tax on income and gains for the year at 30% (2000: 30%)	1,257	2,704
Adjustment in respect of prior years	(30)	(44)
Double taxation relief	(38)	(2)
UK income tax	–	(18)
	1,189	2,640
Foreign tax:		
Current tax on income for the year	38	2
Tax on investment income and gains in the income and expenditure account	1,227	2,642
Tax on other gains included in the statement of total recognised gains and losses for the year		
UK corporation tax:		
Current tax (credit)/charge on (losses)/gains for the year at 30% (2000: 30%)	(557)	3,640
Adjustment in respect of prior years	–	–
Tax on other gains included in the statement of total recognised gains and losses for the year	(557)	3,640

5b Factors affecting tax charge for the year

The tax assessed for the year is lower than the standard rate of corporation tax in the UK of 30%.

The differences are explained below:

	2001 £'000	2000 £'000
Contribution before tax per accounts	23,580	27,310
Less: non-taxable contribution	(17,960)	(16,781)
Income and gains from investments included in the income and expenditure account for the year	5,620	10,529
Income and gains from investments multiplied by the standard rate of corporation tax in UK 30%	1,686	3,159
Effects of:		
Income from UK equities not subject to taxation	(321)	(359)
Group loss relief	(125)	(96)
Permanent disallowables	17	–
Current tax charge for the year	1,257	2,704

Included in the non-taxable contribution above is the surplus of members' subscription income over related expenditure, which, due to the Society's mutual status, is not subject to corporation tax.

Notes to the accounts continued

5c Unprovided deferred taxation

No provision has been made for tax of approximately nil (2000: £5.6m), which would arise should the Society's equity investments and freehold property be sold at the market values at which they are included in the balance sheet.

6 Emoluments of members of the Council

	2001 £'000	2000 £'000
Aggregate amount of emoluments paid to members of Council	369	350
Chairman	28	28
Highest paid member of Council		
Chief Executive: – emoluments and taxable benefits	133	132
– accrued annual pension	15	13

One member of Council (the Chief Executive) is a member of the Society's defined benefit pension scheme.

The standard remuneration for all other non-executive members of Council was £12,500 per annum, with additional remuneration of up to £10,000 per annum for members who are also chairmen of subsidiary companies or sub committees.

7 Employees

The average number of people employed by the Society during the year was 208 (2000: 199).

Costs in respect of these employees:

	2001 £'000	2000 £'000
Wages and salaries	7,549	6,499
Social security costs	702	590
Pension costs	1,221	1,057
	9,472	8,146

8 Pensions

The Society operates a pension scheme providing benefits based on final pensionable earnings. Contributions to the scheme are determined by an independent qualified actuary on the basis of triennial valuations. The most recent full valuation was carried out as at 31 December 1999 using the projected unit method.

It was assumed that investment returns would be 7.25% pa, that increase in earnings would average 5% pa and that pensions would increase at the rate of 3% pa. The valuation showed that the market value of the fund's assets was £18.5m and that the actuarial value of those assets represented approximately 101% of the value of the benefits that had accrued to members after allowing for expected future increases in earnings.

The income and expenditure account charge for pension costs and the accounting policies are given on the basis of Statement of Standard Accounting Practice 24. SSAP 24 is going to be replaced by Financial Reporting Standard 17. The additional disclosures which follow are given in preparation for FRS 17 being adopted. They are based on updated actuarial valuations to 31 December 2001. Comparative figures are omitted in accordance with the transitional rules of FRS 17.

8 Pensions continued

Supplementary pensions disclosures under FRS 17

- a) Contributions The employer's contributions for 2001 were £1,220,575 and the employer's contribution rate has been fixed as 20% of pensionable pay until 31 December 2002.

- b) FRS 17 balance sheet information

	Value at 31 December 2001 £'000	Long-term rate of return expected at 31 December 2001 %
Equities	13,656	8.0
Fixed interest stocks	2,044	4.8
Property	550	6.4
Cash	928	5.0
Fair value of assets	17,178	
Present value of scheme liabilities	(18,328)	
Actuarial deficit	(1,150)	

All of the £1,150,000 would have been shown as a liability had the Group's balance sheet been prepared under FRS 17.

- c) Income and expenditure reserve

	2001 £'000
As reported on SSAP 24 basis (note 15)	208,909
FRS 17 pension liability	(1,150)
On FRS 17 basis	207,759

- d) Assumptions The major assumptions used by the actuary in assessing scheme liabilities on a FRS 17 basis were:

	At 31 December 2001 %
Inflation assumption	2.5 pa
Rate of increase in pensions in payment	2.5 pa
Rate of increase in salaries	4.0 pa
Discount rate	6.0 pa

Notes to the accounts continued

9 Tangible fixed assets

	Freehold property £'000	Leasehold property £'000	Computers, furniture, fittings and office equipment £'000	Total £'000
Group				
Cost or valuation				
At 1 January 2001	5,350	652	6,187	12,189
Additions	—	—	598	598
Disposals	—	—	(48)	(48)
At 31 December 2001	5,350	652	6,737	12,739
Depreciation				
At 1 January 2001	100	298	3,960	4,358
Provided in year	101	61	645	807
Released on disposals	—	—	(32)	(32)
At 31 December 2001	201	359	4,573	5,133
Net book values				
At 31 December 2001	5,149	293	2,164	7,606
At 31 December 2000	5,250	354	2,227	7,831
Company				
Cost or valuation				
At 1 January 2001	5,350	652	6,135	12,137
Additions	—	—	597	597
Disposals	—	—	(48)	(48)
At 31 December 2001	5,350	652	6,684	12,686
Depreciation				
At 1 January 2001	100	298	3,938	4,336
Provided in year	101	61	641	803
Released on disposals	—	—	(32)	(32)
At 31 December 2001	201	359	4,547	5,107
Net book values				
At 31 December 2001	5,149	293	2,137	7,579
At 31 December 2000	5,250	354	2,197	7,801
All the leasehold properties held at 31 December 2001 are short leaseholds.				

9 Tangible fixed assets continued

Assets included at valuation The freehold property was revalued on 31 December 1999 on the basis of the Existing Use Value including notional directly attributable acquisition costs. The valuation was independent and external and was carried out by DTZ Debenham Thorpe, Chartered Surveyors in accordance with the Appraisal and Valuation Manual of the Royal Institute of Chartered Surveyors. The valuation has not been updated, as the members of Council are not aware of any material change in value.

If the freehold property had not been revalued it would have been included in the balance sheet at the following amount:

	£'000
Cost	4,130
Depreciation	538
At 31 December 2001	3,592
At 31 December 2000	3,661

Capital commitments Capital expenditure approved and contracted for amounted to £nil (2000: £nil).

10 Investments

	2001 Group £'000	2000 Group £'000	2001 Company £'000	2000 Company £'000
Valuation or cost at 1 January	315,537	294,294	20,001	20,001
Additions	188,776	274,689	–	–
Disposals at carrying value	(156,087)	(227,937)	–	–
Movement in cash and brokers' balances	551	(23,826)	–	–
Deficit on revaluation of listed investments	(15,553)	(1,683)	–	–
At 31 December	333,224	315,537	20,001	20,001
Investments comprise:				
Listed on UK Stock Exchange:				
– Equities	43,506	41,764	–	–
– Index-linked gilts	236,415	225,810	–	–
Listed on other overseas Stock Exchanges	51,424	46,635	–	–
Shares in Group undertakings	–	–	20,001	20,001
Cash	1,796	1,328	–	–
Brokers' balances	83	–	–	–
	333,224	315,537	20,001	20,001
Historical cost of investments	331,094	292,959	20,001	20,001

Notes to the accounts continued

11 Investment in subsidiary undertakings

The Medical Protection Society has the following direct interests in subsidiary undertakings:

Name	Parent and Group interest in ordinary shares and voting rights	Country of incorporation or registration	Nature of business
Dental Protection Limited	100%	England	To manage the advisory and administrative affairs of the dental division of the Society.
Medical Claims Management Services Limited	100%	England	To provide risk management advice and consultancy and claims management to NHS trusts, health authorities and other healthcare organisations. The company's name was changed to MPS Risk Consulting on 28 January 2002.
M P I (London) Limited	100%	England	To manage the investment portfolio.
D P L Australia PTY LTD	100%	Australia	To manage the administrative affairs of Dental Protection Limited in Australia.

All the above subsidiaries operate in their country of incorporation or registration.

During the year the Society disposed of its interests in Hallam Medical Training Services Limited. There have been no material effects on either the Society's activities or cash flow arising from this disposal.

12 Debtors

	2001 Group £'000	2000 Group £'000	2001 Company £'000	2000 Company £'000
Corporation tax	884	—	—	—
Trade debtors	474	1,879	444	1,825
Recoverable insurance claims	6,651	7,493	6,651	7,493
Amounts owed by subsidiary undertakings	—	—	250,154	218,568
Other debtors	225	82	199	63
Prepayments	1,641	1,656	1,640	1,655
	9,875	11,110	259,088	229,604

Of the £6.7m of recoverable insurance claims shown above £3.9m is receivable after more than one year.

13 Creditors: amounts falling due within one year

	2001 Group £'000	2000 Group £'000	2001 Company £'000	2000 Company £'000
Corporation tax	—	3,702	129	265
Other taxes and social security	304	260	304	255
Deferred income	13,201	11,314	13,201	11,314
Other creditors and accruals	2,961	7,246	2,807	7,103
	16,466	22,522	16,441	18,937

14 Provision for liabilities and charges: group and company

	Known claims £'000	Claims handling £'000	Total £'000
At 1 January 2001	156,031	5,453	161,484
Movements in the year			
Charged to the income and expenditure account	71,019	4,394	75,413
Paid	(60,315)	(3,975)	(64,290)
At 31 December 2001	166,735	5,872	172,607

The known claims provision is the discounted ultimate settlement values for damages and legal costs in respect of all claims notified by 31 December. The claims handling provision is the estimated internal cost of managing these claims to conclusion.

The timing of individual claim payments is uncertain, as they are the subject of litigation.

The known claims provision is stated before insurance recoveries of £6.6m that are estimated to be recoverable from the Society's insurers, (note 12).

Although Financial Reporting Standard 12 requires that the unwinding of the discount within a provision be shown separately, it is not considered practical for this provision due to the complexities of the many actuarial calculations involved.

15 Movement on reserves

	Revaluation reserve £'000	Income and expenditure £'000	Accumulated £'000
Group			
At 1 January 2001	24,167	181,072	205,239
Deficit on revaluation of listed investments	(15,553)	–	(15,553)
Realised on disposal of investments	(4,895)	4,895	–
Tax credit on investment losses	–	557	557
Release of depreciation on revalued property	(32)	32	–
Net contribution for the year after tax	–	22,353	22,353
At 31 December 2001	3,687	208,909	212,596
Company			
At 1 January 2001	1,589	92,733	94,322
Release of depreciation on revalued property	(32)	32	–
Net contribution for the year after tax	–	18,906	18,906
At 31 December 2001	1,557	111,671	113,228

Notes to the accounts continued

16 Reconciliation of movements in funds available to meet future liabilities

	2001 £'000	2000 £'000
Net contribution for the financial year	22,353	24,668
Other recognised losses relating to the year	(15,553)	(1,683)
Tax credit/(charge) on investment (losses)/gains	557	(3,640)
Total recognised gains	7,357	19,345
Opening funds available to meet future liabilities	205,239	185,894
Closing funds available to meet future liabilities (see note 21)	212,596	205,239

17 Reconciliation of excess of income over expenditure to operating cash flows

	2001 £'000	2000 £'000
Excess of income over expenditure	11,844	17,121
Depreciation charges	807	688
Profit on disposal of tangible fixed assets	-	(4)
Net cash outflow from disposal of operations	(3,814)	(1,881)
Increase in claims reserve	11,123	11,604
Decrease in debtors	2,036	302
Increase/(decrease) in creditors	1,460	(787)
Net cash inflow from operating activities	23,456	27,043

Net cash outflow from disposal of operations consists of a final payment made following the Society's withdrawal from its Australian medical business in 1997.

18 Returns on investment and servicing of finance

	2001 £'000	2000 £'000
Interest received	3,076	3,357
Dividends received	9,029	6,809
Net cash inflow from returns on investments and servicing of finance	12,105	10,166

19 Capital expenditure and financial investment

	2001 £'000	2000 £'000
Purchase of tangible fixed assets	(598)	(502)
Purchase of investments	(188,776)	(274,689)
Proceeds from sale of tangible fixed assets	16	14
Proceeds from sale of investments	155,718	227,960
Net cash outflow from capital expenditure and financial investment	(33,640)	(47,217)

20 Commitments

	2001 Group £'000	2000 Group £'000	2001 Company £'000	2000 Company £'000
Operating lease commitments				
Land and buildings, leases expiring:				
Greater than five years	614	614	614	614
Motor vehicles, leases expiring:				
Within one year	5	2	5	2
Two to five years	2	8	2	8
	7	10	7	10

The Society has guaranteed that its subsidiaries have adequate resources to meet their liabilities as they fall due.

21 Potential claims incurred but not yet reported (IBNR)

Unreported incidents up to 31 December may give rise to claims in the future. These potential claims, which do not constitute a contingent liability because recognition of the liability is dependent on Council exercising its discretion, will to the extent to which Council exercises that discretion become the Society's responsibility under the occurrence basis of cover the Society provides. All but a small proportion of the IBNR liabilities are covered by the surplus on the balance sheet at 31 December 2001. The IBNR liabilities are based on an actuarial assessment of these liabilities prepared by an independent firm of consulting actuaries and detailed in a report prepared in accordance with the Guidance note 'General Insurance Business: Actuarial Reports, (GN12)' published by the Faculty of Actuaries and Institute of Actuaries.

22 Obligations of members

The Society has the right to call each year for additional funds from its members up to an amount equal to the annual subscription.

23 Guarantee

The Society is limited by guarantee of up to £1 per member.

Professional advisers

Solicitors

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