

MDU Services Limited

Annual Report and Accounts

For the year ended 31 December 2015



MDU SERVICES LIMITED

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MDU SERVICES LIMITED

Strategic report For the year ended 31 December 2015

Principal activity

The principal activity of the company in the year was the administration of indemnity and advisory services to members of The Medical Defence Union Limited (the MDU) as agent of the MDU. This is expected to remain the company's principal activity for the foreseeable future. The company recovers all the costs it incurs in these activities from the MDU. The principal source of the company's profit is investment interest earned from subscriptions received on behalf of the MDU.

Strategy

The company's strategy is to maximise shareholder value. This is achieved by recruiting and retaining members for the MDU. The company provides the highest quality of medico-legal support through the provision of specialist advice from doctors, dentists and other professionals who combine an understanding of the realities of clinical practice with medico-legal expertise.

Business review

Principal risks and uncertainties

The key challenge for the company is the competitive market it operates in. The company monitors this carefully, aiming to provide to members of the MDU the highest quality of service.

The company has an established risk management procedure that is regularly reviewed by the Board and seeks to ensure that procedures and strategies are in place so that risk can be managed appropriately.

Key performance indicators

The company monitors its business activity by means of a number of key performance indicators designed to track the activity and achievements of the company. The Board considers the following on a quarterly basis:

- i) Membership Statistics
The company monitors all areas of membership of the MDU and evaluates any movement in renewals activity; leavers; junior doctors, graduate and student applications; and recruitment overall.
- ii) Quality of Service
The company monitors, by means of a regular membership survey, satisfaction with service levels provided by the company through the Medical and Dental Advisory, Claims and Membership Departments.
- iii) Financial Performance
The Board reviews on a quarterly basis its overall financial performance including its income, which is derived from the MDU activities, investment income and its control of overheads and claims handling expenditure.

The company is committed to maintaining a strong management team, the organisational effectiveness of the company, tight cost control and appropriate investment in systems and technology.

Financial instruments

The company does not actively use financial instruments as part of its financial risk management and therefore is not subject to price risk or liquidity risk. The company has few non-sterling transactions and so does not consider that it is subject to significant currency risk. As over 99% of its income is from the MDU and the MDU also reimburses the company for any unrecovered income from third parties the company is not subject to credit risk.

MDU SERVICES LIMITED

Strategic report (continued)

Financial review

The company's turnover in the year was £51m (2014: £50m), with administrative expenses similarly increased. Net subscriptions collected on behalf of the MDU were £248m (2014: £233m), an increase of £15m (6%).

The key determinant of the company's size will be the number of members that the MDU has; whilst the key determinants of the company's profitability will be the amount of subscriptions collected on behalf of the MDU and the company's investment income performance.

By order of the Board



N J Bowman
Company Secretary

MDU SERVICES LIMITED

Directors' report For the year ended 31 December 2015

The directors present their report and the financial statements for the year ended 31 December 2015.

Results and dividends

Total comprehensive income for the year after taxation amounted to £409,000 (2014 - £401,000).

The current aim of the directors is to build up the reserves of the company and therefore the company does not recommend the payment of a dividend for this year (2014: nil).

Employment policies

The company gives full consideration to applications for employment from disabled people where the requirements of the job can be adequately filled by a handicapped or disabled person. Where existing employees become disabled it is the company's policy wherever practicable to provide continuing employment under normal terms and conditions and to provide training and career development and promotion where possible.

Employees are kept informed of all matters affecting them as employees by means of regular briefings, consultation and newsletters.

Directors

The directors who served during the year were:

P R Williams
H E Clarke
N A Dungay
C L A Edginton
M M Gallivan
M T W Lee
W R J Dinning
P Riordan-Eva
P D Robinson (resigned 15 September 2015)
C M Tomkins
P D Webster
I D Hutchinson
C W Heron (appointed 24 November 2015)

MDU Services Limited's articles of association give the members of the Board an indemnity (including qualifying third party indemnity provisions within the meaning of section 234 Companies Act 2006, which were in force during the year ended 31 December 2015 and remain in force) against liabilities incurred in relation to the affairs of MDU Services Limited. The Group also purchases directors and officers liability insurance which gives appropriate cover for legal action brought against directors of Group companies.

MDU SERVICES LIMITED

Directors' report For the year ended 31 December 2015

Statement of directors' responsibilities

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 applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'. Under company law the directors must not approve the financial statements unless satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

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

The directors 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.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements and other information included in Directors' reports may differ from legislation in other jurisdictions.

Provision of information to the auditor

In the case of each of the directors who are directors of the company at the date when this report is approved:

- so far as that director is aware, there is no relevant audit information of which the company's auditors are unaware, and
- that director has taken all the steps that ought to have been taken as a director in order to be aware of any relevant audit information and to establish that the company's auditors are aware of that information.

By order of the Board



N J Bowman
Company Secretary

MDU SERVICES LIMITED

Independent auditor's report to the members of MDU Services Limited

We have audited the financial statements of MDU Services Limited for the year ended 31 December 2015 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity, the Statement of Cash Flows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'.

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.

Respective responsibilities of directors and auditors

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. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Financial Reporting Council's (FRC's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the FRC's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2015 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion 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.

MDU SERVICES LIMITED

Independent auditor's report to the members of MDU Services Limited

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you 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.



Jason Homewood (senior statutory auditor)

For and on behalf of BDO LLP statutory auditor

London

United Kingdom

Date 27/4/16

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

MDU SERVICES LIMITED

Statement of total comprehensive income For the year ended 31 December 2015

| | | 2015 £000 | 2014 £000 |
|--|-----|--------------|--------------|
| Turnover | | 50,756 | 49,789 |
| Administrative expenses | | (49,248) | (48,392) |
| Operating profit | | 1,508 | 1,397 |
| Interest receivable and similar income | 4 | 67 | 47 |
| Interest payable and similar charges | 5 | (1,466) | (1,339) |
| Profit on ordinary activities before taxation | 6,8 | 109 | 105 |
| Taxation credit | 7 | 300 | 296 |
| Profit for the financial year | | 409 | 401 |
| Other comprehensive income for the year | | | |
| Actuarial gain/(loss) on pension scheme | 18 | 5,200 | (5,600) |
| Transfer from deferred asset (payable)/surplus recoverable | | (5,200) | 5,600 |
| Total comprehensive income for the year | | 409 | 401 |

All amounts relate to continuing operations.

The notes on page pages 11 to 23 form part of these financial statements.

MDU SERVICES LIMITED
Registered number:3957086

Statement of financial position
As at 31 December 2015

| | Note | 2015 £000 | 2014 £000 |
|---|------|---------------------|---------------------|
| Fixed assets | | | |
| Tangible assets | 9 | 18,553 | 18,781 |
| Current assets | | | |
| Debtors: Amounts falling due within one year | 11 | 2,806 | 2,819 |
| Cash at bank and in hand | | 13,855 | 7,464 |
| | | <u>16,661</u> | <u>10,283</u> |
| Creditors: Amounts falling due within one year | 12 | (22,038) | (16,224) |
| Net current liabilities | | <u>(5,377)</u> | <u>(5,941)</u> |
| Total assets less current liabilities | | 13,176 | 12,840 |
| Creditors: Amounts falling due after more than one year | 13 | (3,001) | (3,104) |
| | | <u>10,175</u> | <u>9,736</u> |
| Provisions for liabilities | | | |
| Other provisions | 15 | (2,330) | (2,300) |
| Pension scheme surplus/(deficit) | 14 | 4,100 | (5,000) |
| Deferred asset recoverable/(surplus payable) | | (4,100) | 5,000 |
| Net assets | | <u><u>7,845</u></u> | <u><u>7,436</u></u> |
| Capital and reserves | | | |
| Called up share capital | 17 | 1 | 1 |
| Share premium account | | 2,357 | 2,357 |
| Retained earnings | | 5,487 | 5,078 |
| Shareholders' funds | | <u><u>7,845</u></u> | <u><u>7,436</u></u> |

The financial statements were approved and authorised for issue by the board on 26th April 2016 and were signed on its behalf by

P R Williams
Director

Peter Williams

C M Tomkins
Director

C. Tomkins

MDU SERVICES LIMITED

Statement of changes in equity As at 31 December 2015

| | Share capital £000 | Share premium £000 | Retained earnings £000 | Total equity £000 |
|--|-----------------------|-----------------------|------------------------------|----------------------|
| At 1 January 2015 | 1 | 2,357 | 5,078 | 7,436 |
| Comprehensive income for the year | | | | |
| Profit for the year | - | - | 409 | 409 |
| Actuarial gain on pension scheme | - | - | 5,200 | 5,200 |
| Transfer from deferred surplus payable | - | - | (5,200) | (5,200) |
| Total comprehensive income for the year | - | - | 409 | 409 |
| At 31 December 2015 | 1 | 2,357 | 5,487 | 7,845 |

Statement of changes in equity As at 31 December 2014

| | Share capital £000 | Share premium £000 | Retained earnings £000 | Total equity £000 |
|--|-----------------------|-----------------------|------------------------------|----------------------|
| At 1 January 2014 | 1 | 2,357 | 4,677 | 7,035 |
| Comprehensive income for the year | | | | |
| Profit for the year | - | - | 401 | 401 |
| Actuarial loss on pension scheme | - | - | (5,600) | (5,600) |
| Transfer from deferred asset recoverable | - | - | 5,600 | 5,600 |
| Total comprehensive income for the year | - | - | 401 | 401 |
| At 31 December 2014 | 1 | 2,357 | 5,078 | 7,436 |

MDU SERVICES LIMITED

Statement of cash flows For the year ended 31 December 2015

| | 2015 £000 | 2014 £000 |
|---|----------------|-----------------|
| Cash flows from operating activities | | |
| Profit for the financial year | 409 | 401 |
| Adjustments for: | | |
| Depreciation of tangible fixed assets | 2,689 | 1,818 |
| Loss on disposal of tangible fixed assets | 54 | 278 |
| (Increase)/decrease in deferred taxation | (300) | (296) |
| Decrease/(increase) in debtors | 313 | 456 |
| Increase/(decrease) in current creditors | 7,614 | 10,166 |
| Increase/(decrease) in provisions | 109 | 2,300 |
| (Decrease)/increase in non current creditors | (103) | 3,104 |
| Payment of provision | (79) | - |
| Net cash generated from operating activities | 10,706 | 18,227 |
| Cash flows from investing activities | | |
| Purchase of tangible fixed assets | (4,346) | (13,012) |
| Sale of tangible fixed assets | 31 | - |
| Net cash from investing activities | (4,315) | (13,012) |
| Net increase in cash and cash equivalents | 6,391 | 5,215 |
| Cash and cash equivalents at beginning of year | 7,464 | 2,249 |
| Cash and cash equivalents at the end of the year | 13,855 | 7,464 |

The notes on pages 11 to 23 form part of these financial statements.

MDU SERVICES LIMITED

Notes to the financial statements For the year ended 31 December 2015

1. Accounting policies

1.1 Statement of compliance

MDU Services Limited is a limited liability company incorporated in England.

MDU Services Limited financial statements have been prepared in compliance with FRS 102, as it applies to the financial statements for the year ended 31 December 2015.

MDU Services Limited transitioned from previously extant UK GAAP to FRS 102 as at 1 January 2015. An explanation of how transition to FRS 102 has affected the reported financial position and financial performance is given in note 22.

1.2 Basis of preparation of statements

The financial statements have been prepared under the historical cost convention and in accordance with Financial Reporting Standard FRS 102, the Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland and the Companies Act 2006.

Information of the first time adoption of FRS 102 is given in note 22.

The preparation of financial statements in compliance with FRS 102 requires the use of certain accounting estimates. It also requires management to exercise judgment in applying the company's accounting policies.

The following principal accounting policies have been applied:

1.3 Consolidated accounts

The company is exempt from the obligation to prepare and deliver group financial statements as its ultimate holding company is the The Medical Defence Union Limited (the MDU) a company registered in England & Wales which prepares a consolidated group financial statements. These financial statements present information only in relation to MDU Services Limited and not of the group as a whole.

1.4 Turnover

Turnover principally represents the recharge of costs incurred on behalf of its parent undertaking the MDU. Any monies collected by the company as agent, for its parent undertaking, are not included in turnover. Turnover is accounted for on an accruals basis.

MDU SERVICES LIMITED

Notes to the financial statements For the year ended 31 December 2015

1. Accounting policies (continued)

1.5 Tangible fixed assets and depreciation

Tangible fixed assets are written off evenly over their useful economic lives. Reviews are made periodically of the estimated remaining lives of individual assets, taking account of commercial and technological obsolescence as well as normal wear and tear. The principal rates of depreciation per annum, on a straight line basis, are as follows:

Depreciation is provided on the following bases:

| | |
|--|------------|
| Leasehold property improvements- | 15 years |
| Furniture, office equipment, computer equipment and software | 3-10 years |

1.6 Operating leases

Operating lease rentals are charged to the profit and loss account on a straight line basis over the term of the lease.

Lease incentives:

(i) Landlord contributions are initially recognised as a deferred income liability on the statement of financial position. These contribution are then released to administrative expenses over the length of the lease.

(ii) During a rent-free period, a liability is built up on the statement of financial position which is then charged to the profit and loss account over the life of the lease. Rent free periods are not discounted.

1.7 Investment income

Investment income is accounted for on an accruals basis.

1.8 Foreign currencies

Transactions in foreign currencies are recorded at the rate of exchange ruling at the date of the transaction or at the contracted rate if the transaction is covered by a forward exchange contract. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange at the balance sheet date or the appropriate forward contract rate. All differences are taken to the profit and loss account.

**Notes to the financial statements
For the year ended 31 December 2015**

1. Accounting policies (continued)

1.9 Pension costs

The company operates two pension schemes; a defined benefit pension scheme and a defined contribution pension scheme.

Contributions to the defined contribution pension scheme are charged to the profit and loss account in the year to which they relate.

Under the terms of the arrangement between the company and its parent undertaking, the MDU, any deficit in the defined benefit pension scheme is matched by a deferred asset which will be recoverable from the MDU; In the event of an asset in the defined benefit pension scheme this is matched by a liability which will be payable to the MDU. Accordingly the charge or credit to the company's profit and loss account in respect of pension costs includes the actuarial pension cost for the year. The net offset of the overall movement in the amount of defined benefit pension scheme deficit or surplus for the year is reflected in the statement of other comprehensive income. These costs are matched by a credit from the MDU.

The assets of the defined benefit pension scheme are measured at their market value at the statement of financial position date and the liabilities of the scheme are measured using the projected unit method. The discount rate used is the current rate of return on an AA corporate bond of equivalent term and currency to the liabilities. The extent to which the scheme's assets exceed /fall short of their liabilities is shown as a surplus/ deficit in the statement of financial position to the extent that a surplus is recoverable by the company or that a deficit represents an obligation of the company.

The following are charged to operating profit:

- the increase in the present value of pension scheme liabilities as a result of benefit improvements over the period during which such improvement vest;
- gains and losses arising on settlement/curtailments;
- a credit in the respect of the expected return on the scheme's assets; and
- a charge in respect of the increase during the period in the present value of the scheme's liabilities because the benefits are one period closer to settlement
- the increase in the present value of pension scheme liabilities arising from employee service in the current period;

Actuarial gains and losses are recognised in other comprehensive income.

MDU SERVICES LIMITED

Notes to the financial statements For the year ended 31 December 2015

1. Accounting policies (continued)

1.10 Provisions

Provisions are recognised when there is a present obligation (legal or constructive) as a result of a past event, it is probable that a transfer of economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Unless these conditions are met, no provision is recognised.

Subsequently, provisions are reviewed at each statement of financial position date and adjusted to reflect the current best estimate. If it is no longer probable that a transfer of economic benefits will be required to settle the obligation, the provision is reversed.

Provisions are discounted using the yield curve of a generic financial instrument with a matching term to maturity.

1.11 Deferred tax

Deferred taxation is provided using the full provision method. Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the statement of financial position date. Deferred taxation assets and liabilities are calculated at the taxation rate expected to be effective at the time that the timing differences are expected to reverse, and are not discounted. Deferred taxation assets are recognised to the extent that it is regarded more likely than not that they will be reversed.

2. Employee information

Staff costs including directors' remuneration:

| | 2015 £000 | 2014 £000 |
|---|---------------|---------------|
| Salaries | 24,297 | 23,160 |
| Social Security costs | 2,842 | 2,661 |
| Pension costs - defined benefit scheme | 2,500 | 2,000 |
| Pension costs - defined contribution scheme | 1,409 | 1,269 |
| Other staff costs | 1,594 | 1,199 |
| | <u>32,642</u> | <u>30,289</u> |
| | 2015 £000 | 2014 £000 |
| Average number of employees in the year | <u>438</u> | <u>421</u> |

MDU SERVICES LIMITED

Notes to the financial statements For the year ended 31 December 2015

3. Directors' emoluments

| | 2015 £000 | 2014 £000 |
|--|--------------|--------------|
| Directors' emoluments | 551 | 488 |
| Amounts due and receivable under long term incentive plans | 86 | 118 |
| | <u>637</u> | <u>606</u> |

Retirement benefits are accruing to two directors (2014: three) under a defined benefit pension scheme.

Amounts included under directors' emoluments and amounts due and receivable under long term incentive plans represent that proportion of the total remuneration of the executive directors attributable to their services for MDU Services Limited. The total remuneration for their services is reflected in the consolidated accounts of The Medical Defence Union Limited.

The highest paid director in MDU Services Limited earned emoluments (including short-term incentive plans and benefits under the long-term incentive plan) of £240,000 (2014: 251,000).

4. Interest receivable and similar income

| | 2015 £000 | 2014 £000 |
|---------------|--------------|--------------|
| Bank interest | 67 | 47 |
| | <u>67</u> | <u>47</u> |

5. Interest payable and similar charges

| | 2015 £000 | 2014 £000 |
|---|--------------|--------------|
| Interest on finance scheme for membership subscriptions | 1,466 | 1,339 |
| | <u>1,466</u> | <u>1,339</u> |

6. Profit on ordinary activities before taxation

Profit on ordinary activities before taxation is stated after charging/(crediting) the following amounts:

| | 2015 £000 | 2014 £000 |
|--|--------------|--------------|
| Depreciation | 2,692 | 1,819 |
| Loss on disposal of fixed assets | 54 | 278 |
| Operating lease rentals: | - | - |
| - land and buildings | 1,882 | 2,199 |
| - office equipment | - | 4 |
| - motor vehicles | 216 | 208 |
| Defined contribution pension cost | 1,409 | 1,269 |
| Defined benefit pension cost (note 18) | <u>2,500</u> | <u>2,000</u> |

MDU SERVICES LIMITED

Notes to the financial statements For the year ended 31 December 2015

7. Taxation

| | 2015 £000 | 2014 £000 |
|---|--------------|--------------|
| Deferred tax | | |
| Origination and reversal of timing differences | 455 | 267 |
| Adjustments in respect of prior periods | (75) | - |
| Difference in tax rate on deferred tax movement | (80) | 29 |
| Total deferred tax credit | 300 | 296 |

Factors affecting tax charge/(credit) for the year

The tax assessed for the year is lower than (2014 - lower than) the standard rate of corporation tax in the UK of 20.25% (2014 - 21.49%). The differences are explained below:

| | 2015 £000 | 2014 £000 |
|--|--------------|--------------|
| Profit on ordinary activities before tax | 109 | 105 |
| Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 20.25% (2014 - 21.49%) | 22 | 23 |
| Effects of: | | |
| Expenses not deductible for tax purposes | 502 | - |
| Income not taxable for tax purposes | (37) | - |
| Non allowable depreciation | 148 | 124 |
| Group relief surrendered/(claimed) | (1,090) | (472) |
| Difference in tax rate on deferred tax movement | 80 | 29 |
| Adjustments to tax charge in respect of previous periods - deferred tax | 75 | - |
| Total tax charge/(credit) for the year | (300) | (296) |

8. Auditor's remuneration

Fees payable to the company's auditor and its associates

| | 2015 £000 | 2014 £000 |
|---|--------------|--------------|
| - for the audit of the company's annual accounts | 53 | 51 |
| - for tax services | 83 | - |
| - fees in respect of the audit of the MDU Services Limited pension scheme | 21 | - |

MDU SERVICES LIMITED

Notes to the financial statements For the year ended 31 December 2015

9. Tangible fixed assets

| | Leasehold property improvements £000 | Furniture, office equipment, computer equipment and software £000 | Total £000 |
|----------------------------|---|--|---------------|
| Cost | | | |
| At 1 January 2015 | 10,608 | 15,322 | 25,930 |
| Additions | - | 2,549 | 2,549 |
| Disposals | (85) | (1,496) | (1,581) |
| Transfer | (31) | 31 | - |
| At 31 December 2015 | 10,492 | 16,406 | 26,898 |
| Depreciation | | | |
| At 1 January 2015 | - | 7,149 | 7,149 |
| Charge for the year | 683 | 2,009 | 2,692 |
| Disposals | - | (1,496) | (1,496) |
| At 31 December 2015 | 683 | 7,662 | 8,345 |
| Net book value | | | |
| At 31 December 2015 | 9,809 | 8,744 | 18,553 |
| At 31 December 2014 | 10,608 | 8,173 | 18,781 |

Included in furniture, office equipment, computer equipment and software is £nil in respect of assets in the course of construction (2014: £2,137,000)

10. Fixed assets - Investments

Subsidiary Undertakings

| | 2015 £ | 2014 £ |
|-------------|-----------|-----------|
| Cost | 1 | 1 |

This investment comprises the entire issued share capital of Medical Liability Services Limited. This company is incorporated as a limited company in England and has not traded.

MDU SERVICES LIMITED

Notes to the financial statements For the year ended 31 December 2015

11. Debtors

| | 2015 £000 | 2014 £000 |
|-------------------------------------|--------------|--------------|
| Trade debtors | 2 | 2 |
| Other debtors | 534 | 694 |
| Prepayments and accrued income | 1,599 | 1,752 |
| Deferred taxation (see note 16) [i] | 671 | 371 |
| | <u>2,806</u> | <u>2,819</u> |

- [i] The deferred tax asset recognised (and further explained in note 16) will reverse over future accounting periods as depreciation is charged to the profit and loss account.

12. Creditors: Amounts falling due within one year

| | 2015 £000 | 2014 £000 |
|-------------------------------------|---------------|---------------|
| Trade creditors | 1,470 | 1,161 |
| Amounts owed to parent undertakings | 13,729 | 8,659 |
| Taxation and other social security | 827 | 702 |
| Other creditors and accruals | 5,830 | 5,519 |
| Deferred income | 182 | 183 |
| | <u>22,038</u> | <u>16,224</u> |

13. Creditors: Amounts falling due after more than one year

| | 2015 £000 | 2014 £000 |
|------------------------------|--------------|--------------|
| Deferred income | 2,272 | 2,455 |
| Other creditors and accruals | 729 | 649 |
| | <u>3,001</u> | <u>3,104</u> |

MDU SERVICES LIMITED

Notes to the financial statements For the year ended 31 December 2015

14. Pension Scheme

| | 2015 £000 | 2014 £000 |
|-----------------------------|--------------|----------------|
| Pension Scheme | | |
| At 1 January | (5,000) | (300) |
| Current & past service cost | (2,500) | (2,000) |
| Contributions | 6,600 | 2,900 |
| Other finance cost | (200) | - |
| Actuarial gain/(loss) | 5,200 | (5,600) |
| At 31 December | 4,100 | (5,000) |

As explained in accounting note 1.9 the company operates two pension schemes; a defined benefit pension scheme and a defined contribution pension scheme. If there is a deficit on the defined benefit pension scheme it is recoverable from The Medical Defence Union Limited as a deferred asset. In the event of a surplus on the defined benefit pension scheme it is payable to The Medical Defence Union Limited as a surplus payable. Accordingly the movements outlined above are matched by movements in the pension surplus payable/deferred asset recoverable.

15. Other Provisions

| | 2015 £000 | 2014 £000 |
|------------------------|--------------|--------------|
| At 1 January | 2,300 | - |
| Increase in the year | 109 | 2,300 |
| Payments | (79) | - |
| At 31 December* | 2,330 | 2,300 |

*Building dilapidations are recognised on two (2014: three) MDU leased buildings.

16. Deferred taxation

| | 2015 £000 | 2014 £000 |
|---|--------------|--------------|
| At 1 January | 371 | 75 |
| Credited to the statement of total comprehensive income | 300 | 296 |
| At 31 December | 671 | 371 |

| | 2015 £000 | 2014 £000 |
|--|--------------|--------------|
| The deferred tax asset is made up as follows: | | |
| Fixed asset timing differences | 671 | 371 |

The deferred tax asset represents the potential relief for capital allowances available on tangible assets held by the company which to date has been less than the depreciation that has been charged in the financial statements.

MDU SERVICES LIMITED

Notes to the financial statements For the year ended 31 December 2015

17. Share capital

| | 2015 £000 | 2014 £000 |
|---|--------------|--------------|
| Authorised, called up and fully paid | 1 | 1 |
| 999 Ordinary shares of £1 each | <u>1</u> | <u>1</u> |

18. Pension costs

As explained in accounting policy 1.9 the company operates two pension schemes; a defined benefit pension scheme and a defined contribution pension scheme. The defined benefit pension scheme provides defined benefits for employees who accepted employment before 1 January 2003. The company also manages the defined contributions for employees who accepted employment after 31 December 2002. The assets of both pensions are held under trust separately from those of MDU Services Limited. The funding of the defined benefit pension scheme is based on regular triennial actuarial valuations. The last full actuarial valuation of the scheme was carried out as at 31 December 2015 by qualified independent actuaries for the purpose of reporting pension costs.

The funded status as at 31 December 2015 reflects the status of the Defined Benefit section of the scheme only.

The major assumptions made by the actuary were:

| | 2015 | 2014 | 2013 |
|--|------|------|------|
| Rate of increase in salaries | 3.4% | 3.4% | 3.7% |
| Rate of increase in pensions pre 16 February 2009 retirees | 2.1% | 2.1% | 2.5% |
| Rate of increase in pensions post 16 February 2009 | 3.0% | 3.0% | 3.3% |
| Discount rate | 3.8% | 3.7% | 4.6% |
| RPI inflation assumption | 3.2% | 3.1% | 3.5% |
| CPI inflation assumption | 2.1% | 2.0% | 2.5% |

The mortality assumptions are based on standard mortality tables which allow for future mortality improvements. The assumptions are that a member currently aged 65 will live on average for a further 23.5 years if they are male and a further 25.6 years if they are female. Members currently aged 45 are expected to live for a further 25.7 years from age 65 if they are male and for a further 27.9 years from age 65 if they are female.

MDU SERVICES LIMITED

Notes to the financial statements For the year ended 31 December 2015

Fair value of scheme assets:

| | 2015 £000 | 2014 £000 | 2013 £000 | 2012 £000 |
|------------------|----------------|----------------|---------------|---------------|
| Equities | 11,900 | 12,000 | 10,800 | 8,800 |
| Property | 16,600 | 14,700 | 12,400 | 11,300 |
| Government bonds | 20,000 | 19,300 | 19,700 | 12,500 |
| Corporate bonds | 57,700 | 60,200 | 52,600 | 53,200 |
| Other | 3,700 | 600 | 800 | 8,200 |
| | <u>109,900</u> | <u>106,800</u> | <u>96,300</u> | <u>94,000</u> |

The approximate fair value of assets and liabilities of the scheme were:

| | 2015 £000 | 2014 £000 | 2013 £000 | 2012 £000 |
|--|--------------|----------------|--------------|--------------|
| Total market value of assets | 109,900 | 106,800 | 96,300 | 94,000 |
| Present value of scheme liabilities | 105,800 | 111,800 | 96,600 | 92,200 |
| Pension asset/(liability) before deferred taxation | <u>4,100</u> | <u>(5,000)</u> | <u>(300)</u> | <u>1,800</u> |

| | 2015 | 2014 | 2013 | 2012 |
|---|--------|-------|-------|--------|
| Assets as a percentage of a liabilities | 103.9% | 95.5% | 99.7% | 102.0% |

Movement in the present value of the scheme liabilities during the year

| | 2015 £000 | 2014 £000 |
|--|----------------|----------------|
| Opening defined benefit obligations | 111,800 | 96,600 |
| Current service cost | 2,500 | 2,000 |
| Interest cost | 4,100 | 4,400 |
| Contributions by scheme participants | 300 | 300 |
| Actuarial losses on the scheme liabilities | (9,400) | 11,900 |
| Net benefits paid out | (3,500) | (3,400) |
| Closing defined benefit obligations | <u>105,800</u> | <u>111,800</u> |

MDU SERVICES LIMITED

Notes to the financial statements For the year ended 31 December 2015

Movement in the fair value of the scheme assets during the year

| | 2015 £000 | 2014 £000 |
|--|--------------|--------------|
| Opening fair value of scheme assets | 106,800 | 96,300 |
| Expected return on scheme assets | 3,900 | 4,400 |
| Actuarial gain/(losses) on scheme assets | (4,200) | 6,300 |
| Contributions by employer | 6,600 | 2,900 |
| Contributions by scheme participants | 300 | 300 |
| Net benefits paid out | (3,500) | (3,400) |
| Closing fair value of scheme assets | 109,900 | 106,800 |

The assets of both pension schemes do not include any of MDU Services Limited's own financial instruments or any property occupied by MDU Services Limited.

MDU Services Limited employs a building block approach in determining the long-term rate of return on the defined benefit pension scheme's assets. Historical markets are studied and assets with higher volatility are assumed to generate higher returns consistent with widely accepted capital market principles.

Analysis of the amount charged to Income & Expenditure

| | 2015 £000 | 2014 £000 |
|----------------------|--------------|--------------|
| Current service cost | 2,500 | 2,000 |
| | 2,500 | 2,000 |

The total estimated pension expense in 2016 is £2.0m.

Analysis of the amount charged to other finance costs

| | 2015 £000 | 2014 £000 |
|----------------------------------|--------------|--------------|
| Expected return on scheme assets | (3,900) | (4,400) |
| Interest on scheme liabilities | 4,100 | 4,400 |
| Net return | 200 | - |

As explained in accounting policy note 1.9 the amount charged to other finance costs is charged to the Medical Defence Union Limited.

MDU SERVICES LIMITED

Notes to the financial statements For the year ended 31 December 2015

Analysis of amounts recognised in other comprehensive income

| | 2015 £000 | 2014 £000 |
|--|--------------|----------------|
| Actuarial gains/(losses) on scheme assets | (4,200) | 6,300 |
| Actuarial gains/(losses) on scheme liabilities | 9,400 | (11,900) |
| | <u>5,200</u> | <u>(5,600)</u> |
| Actuarial gain/(loss) recognised in other comprehensive income | | |

19. Commitments under operating leases

| | 2015 £000 | 2014 £000 |
|---|---------------|---------------|
| The company had minimum lease payments under non-cancellable operating leases as set out below: | | |
| Not later than 1 year | 1,353 | 1,346 |
| Later than 1 year and not later than 5 years | 4,835 | 4,903 |
| Later than 5 years | 10,064 | 11,248 |
| | <u>16,252</u> | <u>17,497</u> |

20. Related party transactions

The company has taken advantage of the exemptions under FRS102 conferred on 100% subsidiaries from disclosing transactions with other group companies

21. Parent undertaking and controlling party

The parent undertaking of the group for which consolidated accounts are prepared is The Medical Defence Union Limited a company incorporated in England. Consolidated accounts are available from Companies House, Cardiff, CF4 3UZ.

In the opinion of the directors this is the company's ultimate parent company and controlling party and the smallest and largest group accounts in which this company is included.

22. First time adoption of FRS 102

The policies applied under the entity's previous accounting framework are not materially different to FRS 102 and have not impacted on equity or profit or loss.