

The Medical Protection Society  
Annual report and accounts 1998



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COMPANIES HOUSE 13/05/99

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# Chairman's statement

This has been a year of consolidation for the Society after the changes of last year. The staff are to be congratulated that we have not only maintained but even strengthened our financial position in the increasingly demanding environment in which we operate. We have become used in recent years to inflation in both the number and value of claims, but this year, as you will see in the Chief Executive's report, we experienced a 'step' increase in the reserves that we need to carry for the future settlement of existing claims.

The introduction of new court rules emanating from the recommendations of the Woolf report are now being introduced and will greatly increase the demands on our medical and dental legal advisers. The Society needs increasingly to work up more claims at an early stage and to respond more rapidly than hitherto. The pressures on our experts (please note) and cases committees to produce a rapid response will be correspondingly increased.

During the year Dr John Barker stepped down from his post as Deputy Medical Director. Council is very grateful to him for all he has done for the Society over a long period and for the benefit of his experience and wisdom in the advice that he has given us, with his customary charm and wit.

We are equally in the debt of Mr Peter Hunter who retired from his post as Financial Director at the end of the year. Council is grateful for the clarity with which he has explained the complexities of the Society's financial affairs and for the tight rein that he has kept on these – a not insignificant factor in stemming the inexorable rise in subscriptions. All of us as members have reason to thank him.

As a result of the restructuring of MPS in Australia, Dr Paul Nisselle left to become chief executive of Medical Indemnity Protection Society. We would like to thank Paul for all his hard work over the last decade.

There have been no retirements from Council in the last year but (in alphabetical order), Dr Oscar Craig, Mr Myles Gibson, Mr Dick Haskell, Dr David Sumner and Mr Glyn Thomas are all retiring from Cases Committee and become consultants to the committee. Between them they have occupied most of the senior posts open to members within the Society, which they have served for so long. It would be hard to overestimate the debt that we owe them.

The challenges faced by the Society are likely to continue to increase but I believe we are well placed to meet them.

**Paul Miller**  
*Chairman of the Council*

# Chief Executive's report

Considering the severe impact of claims costs in 1998 and other factors which are explained in greater detail below, the year end position of the Society can be considered to be satisfactory and our ability to absorb these additional costs without detriment to our overall funding bears witness to the financial strength of the Society.

Last year's report described the discontinuance of most of our medical exposure in Australia and this was completed during 1998 by virtue of an agreement negotiated with the Medical Defence Association of Western Australia which, with effect from May 1998, has undertaken future liabilities in that State. The cost of this arrangement was provided in our 1997 accounts and has not therefore had any significant impact on the accounts now reported.

The Society's involvement in Australia is now confined to continuing protection of dentists in all States apart from New South Wales from which we withdrew in June 1998 and to running off some remaining medical liabilities.

In all other territories the Society's membership is stable or growing

and the fall of some £10m in 1998 income compared to that in 1997 is entirely due to the absence of any Australian medical subscription income.

In July 1998 the House of Lords delivered a majority decision reducing from 4.5% to 3% the discount rate applied to multipliers for the calculation of damages for future recurring losses in personal injury awards in England and Wales. This decision has had a profound effect on the levels of awards in personal injury claims generally and in medical negligence claims in particular. The effect has been further aggravated by extensions to life expectancies reflected in the Ogden tables and by the escalation of the cost of special care for severely impaired plaintiffs. Claims involving major brain damage have in recent years generally settled in the £1m-£2m range but, following the House of Lords decision, several well-publicised cases have attracted awards between £3m and £4m.

Although this particular decision is limited in jurisdiction to England and Wales, it has also influenced the level of awards in Scotland, Northern Ireland and the Republic

of Ireland. Our estimates of all high claims in these areas have been reviewed and the reserves have had to be substantially increased. This step change is almost entirely responsible for the jump in claims costs from £53m in 1997 to £69m in 1998. Some of this will be recoverable from the Society's insurers, thus mitigating the short term impact, but future subscriptions in the United Kingdom and Ireland are bound to be affected.

On a more positive note it is pleasing to report that, as a result of the closure of our Australian office and generally careful control, our advisory and administrative costs have been reduced by about £1m without compromising our service to members.

Last year it was noted that our investment strategy was under review. As a consequence of that review, the decision was taken last April to realise half of our equity portfolio and to reinvest in index-linked gilts and cash deposits. The timing of this major switch was fortuitous and was a significant factor in producing a total investment return for the year of 13%. Moreover our investment portfolio is now better

balanced to match the spread of our liabilities and to protect the Society's funds from the volatility of equity markets.

The realised capital gains have, however, resulted in a tax charge of some £9m in addition to which the Society is required to pay tax on gains in gilt-edged stocks whether or not these are realised. This explains the unusually high tax charge of £15.5m in 1998 – an increase of some £10.5m on the previous year.

Reports in recent years have made reference to future potential claims incurred but not reported ('IBNR'). These potential IBNR liabilities are a particular feature of the occurrence-based indemnity which the Society offers to members and which we are convinced is the safest and most beneficial form of cover for medical and dental practitioners, given that claims – especially the highest claims – can and frequently do arise many years after the event giving rise to them and sometimes even after the retirement or death of the practitioner concerned. These future potential liabilities are notoriously hard to estimate with any precision and they too

are affected by the step-change in claims awards referred to above. However, the net asset figure of £142m in our balance sheet after providing for all known liabilities, and the strength of the Society generally, gives us confidence that we shall be in a position to meet these liabilities when they arise.

Year 2000 potential problems for computer systems have been extensively publicised. The Council is receiving regular reports from a project team which has the task of identifying problems and recommending remedial action where necessary. Most of our key systems have either been or are being replaced with guaranteed date-compliant systems and any remaining systems are being thoroughly tested to ensure that they will operate effectively through the critical period. The costs related to replacement of the key systems include a significant element of enhancement of the existing systems, and the cost element relating solely to date compliance is not separately identifiable. The Council is confident that there will not be any material disruption to the Society's operations as a result of year 2000 problems.

Demands on our medical and advisory services have continued to rise during 1998 and we believe we have maintained a high level of service to our members, supported by our continuing 'Service Excellence' programme. The Society has been attuned to the needs of the medical and dental professions for more than one hundred years and is confident that, with the flexible, comprehensive and cost-effective nature of the service we offer as well as our financial strength, we deserve and will continue to have the support of our members notwithstanding the blandishments of commercial insurers offering less comprehensive and appropriate "client" forms of indemnity.

Finally, tribute is due to the hard work and dedication of the Society's staff and to their ability to continue to surmount the new challenges of a changing environment.

**John Youngman**  
*Chief Executive*

# Members of Council

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**President**  
Sir Leslie Turnberg *Kt MD FRCP*

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**Chairman of the Council**  
Paul Miller *MA MSc DPhil FRCP*

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**Chief Executive**  
John Youngman *BA*

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**Vice-Presidents**  
Australia  
Professor Ross Webster *MB BS FRACP  
FRACGP FAFPHM*

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Israel  
Professor Shmuel Penchas *MD MSc  
DIC*

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New Zealand  
Professor Sir John Scott *KBE BMedSc  
MD FRCP FRACP FRSNZ*

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West Indies  
Raymond Massay *BSc MB BS MRCP(UK)*

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Ireland  
Professor John Bonnar *MA MD  
FRCOG*

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**Members of the Council**  
Meredyth C Bell *BDS DGDRC RCS(UK)*

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Professor John Bonnar *MA MD  
FRCOG (Retired on 13 May 1998)*

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The Lord Colwyn *CBE BDS LDSRCS*

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Alan Crouch *MB ChB FRCPG DObstRCOG*

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Martin Gairdner *BA FCA\**

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Professor Jack Hardcastle  
*MA MChir FRCS FRCP*

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Professor Richard Hobbs  
*MB ChB FRCP*

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Mary King *MB BCh BAO FRCPI*

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Paul Miller *MA MSc DPhil FRCP*  
Chairman\*

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Brian Mouatt *CBE BDS MGDRC\**  
(Appointed on 13 May 1998)

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Keith Parsons *MB ChB FRCSed FRCS\**

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Susan Sellers *MD FRCOG\**

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Robert Seward *MA Barrister*

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Thomas Taylor *MB BS FRCA\**  
(Retired on 13 May 1998)

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Alan Tyrrell *QC FCIarb LLB*  
(Retired on 13 May 1998)

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John Leighton Williams *QC MA LLB*  
(Appointed on 8 July 1998)

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John Youngman *BA*  
Chief Executive (*ex officio*)

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\* Members of the Audit Committee

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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 report and accounts for the year ended 31 December 1998.

## **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 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 7 to 20.

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

## **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 4.

## **Corporate Governance**

Although it is only listed companies which are required to comply with the Combined Code on Corporate Governance, the Society complies with the principles of the code where it is considered relevant to the Society's business and constitution.

## **Auditors**

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

## **Statement of the Council's responsibility for the financial statements**

Company Law 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 of the surplus or deficit of the Society 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 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 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 hence for taking steps for the prevention and detection of fraud and other irregularities.

## **Approval**

The report of the Council was approved by the Council on 14 April 1999 and signed on its behalf by;

**Lorraine Whittle**  
*Company Secretary*

33 Cavendish Square  
London W1M 0PS



# Report of the auditors to the members of the Medical Protection Society

We have audited the financial statements on pages 7 to 20 which have been prepared on the basis of the accounting policies set out on page 11.

## **Respective responsibilities of directors and auditors**

As described on page 5, the Council is responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.


## **Basis of opinion**

We conducted our audit in accordance with 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 mis-statement, 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 at 31 December 1998 and of the net contribution for the year available to meet future liabilities and charges of the Group for the year then ended and have been prepared in accordance with the Companies Act 1985.

Robson Rhodes   
Chartered Accountants  
Registered Auditor

40 Great George Street  
Leeds LS1 3DQ

14 April 1999



# Consolidated income and expenditure account

Year ended 31 December 1998

	Notes	1998 £'000	1997 £'000
<b>Income</b>			
Members' subscriptions and other income		83,486	96,580
<b>Expenditure</b>			
Claims costs and associated legal costs (including costs of insurance)	16	69,288	53,079
Insurance recoveries		(7,400)	(2,506)
Advisory costs and associated legal costs	3	8,755	9,157
Administration expenses	3	5,827	6,455
Loss/(profit) on exchange movements		1,084	(659)
		77,554	65,526
Excess of income over expenditure		5,932	31,054
Cost of discontinued operations		—	(16,607)
Income from investments	4	9,947	9,072
Realised gains from disposal of investments	5	12,736	2,128
Contribution from ordinary activities before taxation		28,615	25,647
Tax on income and realised gains from investments	6	(15,532)	(5,019)
Net contribution for the year available to meet future liabilities and charges	18	13,083	20,628

# Statement of total recognised gains and losses

	1998 £'000	1997 £'000
Net contribution for the financial year	13,083	20,628
Surplus on revaluation of investments	17,039	23,820
Total recognised gains	30,122	44,448
Prior year adjustment	—	(167,432)
Total recognised gains/(losses)	30,122	(122,984)

The prior year adjustment in 1997 of £167.4m was the result of a change in the basis on which the accounts are drawn up. From 1997 the estimated value of reported claims was brought into the accounts and the method of treating unearned subscriptions was changed resulting in this adjustment. The reasons for these changes are set out in more detail in the Chief Executive's report of the 1997 annual report and accounts.

## Note of historical cost income and expenditure

	1998 £'000	1997 £'000
Reported net contribution before taxation	28,615	25,647
Realisation of valuation gains of previous years	25,568	10,305
Historical cost net contribution before taxation	54,183	35,952
Historical cost net contribution retained after taxation	38,651	30,933

No provision has been made for tax of approximately £10m (1997: £13m), which would arise should the Society's investments be sold at the market values at which they are included in the balance sheet.

# Consolidated and company balance sheets

At 31 December 1998

	Notes	1998 Group £'000	1997 Group £'000	1998 Company £'000	1997 Company £'000
<b>Fixed assets</b>					
Tangible assets	10	6,424	6,096	6,376	6,037
Investments	11	273,770	236,531	20,001	20,052
		280,194	242,627	26,377	26,089
<b>Current assets</b>					
Debtors	13	8,914	3,022	154,508	145,654
Bank deposit accounts		24,129	27,849	24,106	27,827
Cash at bank and in hand		865	1,718	852	1,659
		33,908	32,589	179,466	175,140
Creditors: amounts falling due within one year	14	(36,606)	(49,130)	(22,365)	(45,945)
Net current (liabilities)/assets		(2,698)	(16,541)	157,101	129,195
Total assets less current liabilities		277,496	226,086	183,478	155,284
Creditors: amounts falling due after more than one year	15	(4,649)	(5,365)	(4,649)	(5,365)
Provision for liabilities and charges	16	(130,842)	(108,838)	(130,842)	(108,838)
Net assets		142,005	111,883	47,987	41,081
Accumulated funds	17				
Income and expenditure		95,044	56,393	47,987	41,081
Revaluation reserve		46,961	55,490	—	—
Funds available to meet future liabilities and charges	18	142,005	111,883	47,987	41,081

Paul Miller  
Chairman of the Council

14 April 1999



# Consolidated cash flow statement

Year ended 31 December 1998

	Notes	1998 £'000	1997 £'000
Cash flow from operating activities	19	22,943	28,065
Returns on investments	20	9,462	8,658
Tax		(4,466)	(2,578)
Net cash outflow from disposal of operations		(24,529)	(16,071)
Capital expenditure and financial investment	21	27,233	8,329
Net cash outflow from management of liquid resources (comprising bank deposits and investment deposits)		(31,496)	(26,776)
Decrease in cash in the period		(853)	(373)

	At 1/1/1998 £'000	Cash flow movement £'000	At 31/12/1998 £'000
Analysis of changes in net funds			
Cash at bank and in hand	1,718	(853)	865
Bank deposit accounts	27,849	(3,720)	24,129
Cash with investment managers	8,038	35,216	43,254
Net funds	37,605	30,643	68,248

	£'000
Reconciliation of net cash flow to movement in net funds	
Decrease in cash	(853)
Cash flow from increase in net liquid resources	31,496
	30,643
Net funds at 1 January 1998	37,605
Net funds at 31 December 1998	68,248

# 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) **Convention** The financial statements include investments 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.
- (b) **Consolidation** The Group financial statements comprise a consolidation of the financial statements of the parent company (the 'Company') and all its trading 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.
- (c) **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.
- (d) **Depreciation** Depreciation is provided in equal annual instalments over the anticipated useful lives of the assets. The rates of depreciation are as follows:
- |                        |                       |                  |                 |
|------------------------|-----------------------|------------------|-----------------|
| Freehold buildings     | – 2% per annum        | Office equipment | – 15% per annum |
| Leasehold properties   | – over life of leases | Motor vehicles   | – 25% per annum |
| Furniture and fittings | – 5% per annum        | Computers        | – 20% per annum |
- (e) **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.
- (f) **Dividends and interest receivable** Dividends are brought into account when received. Interest receivable is brought into account on an accruals basis.
- (g) **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.
- (h) **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 estimated value of these costs is stated before 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.
- (i) **Tax** Provision is made in the financial statements for tax on investment and trading income received in the year and on capital gains on investments disposed of during the year. Provision is made for tax deferred because of timing differences between the treatment of items for tax and accounting purposes, except to the extent that there is reasonable probability that such deferred tax will not become payable in the foreseeable future.
- (j) **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.
- (k) **Leasing** Rentals under operating leases are charged on a straight-line basis over the lease term.

# Notes to the accounts

## 3 Advisory costs and administration expenses

	1998 £'000	1997 £'000
<b>Included under this classification are</b>		
Operating lease rentals	517	151
Auditors' remuneration – audit fees	43	45
– fees for other services	62	97
Emoluments of members of the Council	307	301
(Loss)/profit on disposal of tangible fixed assets	(19)	396
Depreciation of fixed assets	574	499

## 4 Income from investments

	1998 £'000	1997 £'000
Dividends: listed investments – franked	3,497	5,535
– unfranked	3,619	2,384
Bank interest	2,831	1,149
Other income	–	4
	<b>9,947</b>	<b>9,072</b>

## 5 Realised gains from disposal of investments

During the year the Society changed its investment policy to achieve an improved match between its assets and liabilities and to protect the Society's funds from the volatility of equity markets. This resulted in the sale of half of the equity portfolio, giving rise to an exceptional realised gain. The proceeds were reinvested in index-linked gilts and cash deposits.

## 6 Tax on income and gains from investments

	1998 £'000	1997 £'000
<b>Tax on income and gains included in the income and expenditure account for the year</b>		
Tax on franked income	534	919
Corporation tax at 31% (1997: 31.5%)	5,509	1,690
Overseas tax payable	374	157
Overseas tax recoverable	(39)	(11)
	<b>6,378</b>	<b>2,755</b>
<b>Tax on income and gains not included in the income and expenditure account</b>		
Corporation tax at 31% (1997: 31.5%)	9,125	2,278
Under/(over) provision in previous years	29	(14)
	<b>9,154</b>	<b>2,264</b>
<b>Total tax charge</b>	<b>15,532</b>	<b>5,019</b>

The tax charge includes £9.9m relating to the gains realised in the year from the sale of investments. £3.6m relates to the gains since 31/12/97 of £12.7m shown in the income and expenditure account and £6.3m relates to gains prior to 31/12/97 of £25.6m shown in note 17.

## 7 Emoluments of members of the Council

	1998 £'000	1997 £'000
Aggregate amount of emoluments paid to members of Council	297	270
Chairman	25	25
Highest paid director		
Chief Executive – emoluments and taxable benefits	116	110
– accrued annual pension	8	6

One member of Council is a member of the Society's defined benefit pension scheme.

The standard remuneration for all other non-executive members of Council was £10,000 per annum, with additional remuneration of up to £7,500 per annum for members who are also chairmen of subsidiary companies or sub committees.

# Notes to the accounts

## 8 Employees

The average number of people employed by the Society during the year was 160 (1997: 165).

	1998 £'000	1997 £'000
<b>Costs in respect of these employees</b>		
Wages and salaries	5,167	4,814
Social security costs	438	403
Pension costs	871	752
	<b>6,476</b>	<b>5,969</b>

## 9 Pensions

The Society operates a pension scheme providing benefits based on final pensionable earnings. Contributions to the scheme are determined by a qualified actuary on the basis of triennial valuations. The most recent valuation was carried out as at 31 December 1996 using the projected unit method. It was assumed that investment returns would be 7.75% pa, that increase in earnings would average 6% pa and that pensions would increase at the rate of 4% pa.

The valuation showed that the market value of the fund's assets was £10.3m and that the actuarial value of those assets represented approximately 103% of the value of the benefits that had accrued to members after allowing for expected future increases in earnings.



## 10 Tangible fixed assets

Group	Freehold property £'000	Leasehold property £'000	Computers, furniture, fittings and office equipment £'000	Motor cars £'000	Total £'000
<b>Cost</b>					
At 1 January 1998	4,130	802	4,670	61	9,663
Additions	—	—	931	—	931
Disposals	—	(150)	(169)	(31)	(350)
<b>At 31 December 1998</b>	<b>4,130</b>	<b>652</b>	<b>5,432</b>	<b>30</b>	<b>10,244</b>
<b>Depreciation</b>					
At 1 January 1998	262	252	3,007	46	3,567
Provided in year	69	64	433	8	574
Released on disposals	—	(139)	(158)	(24)	(321)
<b>At 31 December 1998</b>	<b>331</b>	<b>177</b>	<b>3,282</b>	<b>30</b>	<b>3,820</b>
<b>Net book values</b>					
<b>At 31 December 1998</b>	<b>3,799</b>	<b>475</b>	<b>2,150</b>	<b>—</b>	<b>6,424</b>
At 31 December 1997	3,868	550	1,663	15	6,096
<b>Company</b>					
<b>Cost</b>					
At 1 January 1998	4,130	802	4,590	60	9,582
Additions	—	—	931	—	931
Disposals	—	(150)	(169)	(30)	(349)
<b>At 31 December 1998</b>	<b>4,130</b>	<b>652</b>	<b>5,352</b>	<b>30</b>	<b>10,164</b>
<b>Depreciation</b>					
At 1 January 1998	262	252	2,986	45	3,545
Provided in year	69	64	422	8	563
Released on disposals	—	(139)	(158)	(23)	(320)
<b>At 31 December 1998</b>	<b>331</b>	<b>177</b>	<b>3,250</b>	<b>30</b>	<b>3,788</b>
<b>Net book values</b>					
<b>At 31 December 1998</b>	<b>3,799</b>	<b>475</b>	<b>2,102</b>	<b>—</b>	<b>6,376</b>
At 31 December 1997	3,868	550	1,604	15	6,037

All the leasehold properties held at 31 December 1998 are short leaseholds.

Capital commitments

Capital expenditure approved and contracted for amounted to £ nil (1997: £ nil).

# Notes to the accounts

## 11 Investments

	1998 Group £'000	1997 Group £'000	1998 Company £'000	1997 Company £'000
Valuation or cost at 1 January	236,531	212,110	20,001	20,052
Additions	105,658	32,742	—	2,984
Disposals at carrying value	(120,591)	(37,919)	—	(2,984)
Movement in cash and brokers' balances	35,133	5,778	—	—
Surplus on revaluation of listed investments	17,039	23,820	—	—
At 31 December	273,770	236,531	20,001	20,052
<b>Investments comprise</b>				
Listed on UK Stock Exchange – equities	84,680	149,467	—	—
– index linked gilts	145,291	77,813	—	—
Listed on other overseas Stock Exchanges	878	1,463	—	—
Shares in group undertakings	—	—	20,001	20,052
Cash	43,254	8,038	—	—
Brokers' balances	(333)	(250)	—	—
	273,770	236,531	20,001	20,052
Historical cost of investments	226,809	189,301	20,001	20,052

## 12 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 as agents for MPS, management services to the NHS Litigation Authority and to manage and advise individual health authorities in respect of medical and dental negligence claims. This activity ceased on 31 March 1998. Since when the business has provided risk management advice and consultancy and claims management to NHS trusts, health authorities and other healthcare organisations.
Medical Protection (Europe) Limited	100%	England	To manage the advisory and administrative affairs of the European division of the Society. This company is no longer trading.
M P I (London) Limited	100%	England	To manage the investment portfolio.
Hallam Medical Training Services Limited	70%	England	Dormant.

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

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

### 13 Debtors

	1998 Group £'000	1997 Group £'000	1998 Company £'000	1997 Company £'000
Trade debtors	758	36	741	9
Recoverable insurance claims	7,137	1,585	7,137	1,585
Amounts owed by subsidiary undertakings	—	—	146,015	142,950
Other debtors	564	492	160	201
Prepayments	455	909	455	909
	<b>8,914</b>	<b>3,022</b>	<b>154,508</b>	<b>145,654</b>

Recoverable insurance claims include £6m (1997: £1m) for anticipated recoveries in respect of known claims. This amount was previously deducted from provisions but in accordance with Financial Reporting Standard 12 is now disclosed separately as an insurance recovery. The comparative figures have been restated. The balance on this account relates to claims agreed with insurers.

### 14 Creditors: amounts falling due within one year

	1998 Group £'000	1997 Group £'000	1998 Company £'000	1997 Company £'000
Corporation tax	14,479	3,413	375	525
Other taxes and social security	196	201	194	191
Deferred income	10,060	8,971	10,060	8,971
Other creditors and accruals	11,871	36,545	11,736	36,258
	<b>36,606</b>	<b>49,130</b>	<b>22,365</b>	<b>45,945</b>

### 15 Creditors: amounts falling due after more than one year

	1998 Group £'000	1997 Group £'000	1998 Company £'000	1997 Company £'000
Other creditors and accruals	4,649	5,365	4,649	5,365
	<b>4,649</b>	<b>5,365</b>	<b>4,649</b>	<b>5,365</b>

# Notes to the accounts

## 16 Provision for liabilities and charges: group and company

	Known claims £'000	Claims handling £'000	Total £'000
At 1 January 1998	104,790	4,048	108,838
<b>Movements in the year</b>			
Charged to the income and expenditure account	66,829	2,459	69,288
Paid	(45,159)	(2,125)	(47,284)
<b>At 31 December 1998</b>	<b>126,460</b>	<b>4,382</b>	<b>130,842</b>

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 £6m that are estimated to be recoverable from the Society's insurers (note 13).

## 17 Movement on reserves

Group	Revaluation reserve £'000	Income and expenditure £'000	Accumulated £'000
At 1 January 1998	55,490	56,393	111,883
Surplus on revaluation of listed investments	17,039	—	17,039
Realised on disposal of investments	(25,568)	25,568	—
Net contribution for the year after taxation	—	13,083	13,083
<b>At 31 December 1998</b>	<b>46,961</b>	<b>95,044</b>	<b>142,005</b>

Company	Income and expenditure £'000
At 1 January 1998	41,081
Net contribution for the year after taxation	6,906
<b>At 31 December 1998</b>	<b>47,987</b>

#### 18 Reconciliation of movements in funds available to meet future liabilities

	1998 £'000	1997 £'000
Net contribution for the financial year	13,083	20,628
Other recognised gains relating to the year	17,039	23,820
Total recognised gains	30,122	44,448
Opening funds available to meet future liabilities	111,883	234,867
Prior year adjustments	—	(167,432)
	111,883	67,435
Closing funds available to meet future liabilities	142,005	111,883

#### 19 Reconciliation of excess of income over expenditure to operating cash flows

	1998 £'000	1997 £'000
Excess of income over expenditure	5,932	31,054
Depreciation charges	574	499
Loss/(profit) on disposal of tangible fixed assets	19	(396)
Increase in claims reserve – continuing operations	22,004	7,486
– discontinued operations	—	(29,562)
(Increase) in debtors	(5,892)	(1,137)
Increase in creditors	306	20,121
Net cash inflow from operating activities	22,943	28,065

#### 20 Returns on investment and servicing of finance

	1998 £'000	1997 £'000
Interest received	2,831	1,279
Dividends received	6,631	7,373
Other income received	—	6
Net cash inflow from returns on investments and servicing of finance	9,462	8,658

# Notes to the accounts

## 21 Capital expenditure and financial investment

	1998 £'000	1997 £'000
Purchase of tangible fixed assets	(931)	(1,172)
Purchase of investments	(105,173)	(32,742)
Proceeds from sale of tangible fixed assets	10	2,181
Proceeds from sale of investments	133,327	40,062
<b>Net cash inflow from capital expenditure and financial investment</b>	<b>27,233</b>	<b>8,329</b>

## 22 Commitments

	1998 Group £'000	1997 Group £'000	1998 Company £'000	1997 Company £'000
<b>Operating lease commitments</b>				
Land and buildings, leases expiring – within one year	–	180	–	180
– greater than five years	614	506	614	506
	614	686	614	686
Motor vehicles, leases expiring – within one year	9	3	8	2
– two to five years	16	26	15	25
	25	29	23	27

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

## 23 Potential claims incurred but not yet reported (IBNR)

Incidents up to 31 December may give rise to claims of which the Society presently has no knowledge. These potential claims, which do not constitute a contingent liability, as 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.

## 24 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.

## 25 Guarantee

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