

**THE  
MEDICAL DEFENCE UNION  
LTD**

Registered in England 21708

**ACCOUNTS**

**1993**

# REPORT OF THE GENERAL MANAGER FINANCE

## Accounts

The MDU Accounts have changed this year following the introduction of FRS3 (Financial Reporting Standard No 3). Two tables have been introduced on page 14 which relate to gains and losses arising in the year.

## Income

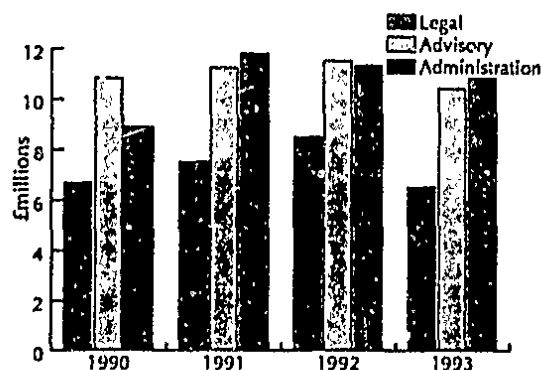
Subscription income for the year ending 31 December 1993 was £73m (1992 – £67m), an increase of 9 per cent. These results were further enhanced by favourable investment performance during the year including a profit of £14m on the sale of investments.

A further £33.4m has been transferred to the accumulated fund for the year ending 31 December 1993 which is an improvement of £5.4m (19 per cent) over 1992's figure of £28m.

## Expenditure

Last year I highlighted that 1993 would be a year when the members would see continued attention to improving performance in all areas of the MDU. During 1993 savings were made of approximately £3.6m on administrative, legal, medical and dental advisory costs. Unfortunately these savings were offset by increases in indemnity payments of approximately £10m in the year. Figures 1 and 2 illustrate these changes in expenditure.

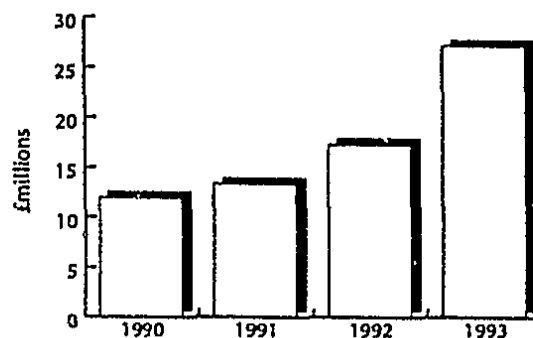
Figure 1. Legal: advisory: administration costs 1990 to 1993



## Subscription setting

The increase in the growth of indemnity payments continues to put pressure on subscription setting. The MDU's policy is to continue to set subscriptions based on expert actuarial advice.

Figure 2. Indemnity payments 1990 to 1993



At the end of December 1993 the outstanding reported liabilities of the MDU are £183m (1992 – £146m) and the reserves to meet these liabilities are £183.3m (1992 – £139.5m).

## Fund management

During 1993 our fund managers, PDFM, produced an annual return of 22.2 per cent on the MDU fund. This was achieved through stock selection gains in the equity markets offset by a cautious investment policy during the year with a heavy emphasis on index linked gilts and cash. Over the last five years the MDU fund has shown on average a return of 15.1 per cent per annum which compares well with the MDU's benchmark of 13.2 per cent per annum and 5.2 per cent annual increase in the retail price index.

1994 will see continued attention to improving performance in all areas of the MDU. The Finance Division's role will be to seek to ensure that the MDU meets its financial objectives and continues to improve performance for the benefits of all its members.

Mr Maurice Gallivan  
General Manager  
Finance

*M. Gallivan*

# REPORT OF THE BOARD OF MANAGEMENT

The Directors present their report and the accounts for the year ended 31 December 1993.

## Activities

The MDU's activities include the provision, in accordance with the *Memorandum and Articles of Association*, of indemnity and advisory services for its members and the provision of assistance to government and other bodies in the health field, to provide healthcare risk management and to handle indemnity claims.

## Review of business

Members' attention is drawn to the Reports of the Chairman, Chief Executive and General Manager of the Finance Division, in which the salient features of the year are highlighted. The accounts, on pages 13 to 24, set out the financial results of the year's activities.

The MDU's total reserves have increased from £139.5m at 31 December 1992 to £183.3m at 31 December 1993.

The MDU continues to set subscriptions which the Directors, on the advice of the consulting actuaries, consider will suffice to meet overheads and foreseeable discretionary indemnity payments and legal costs.

During the year the MDU made savings of approximately £3.6m on administrative, legal, medical and dental advisory costs. This was however offset by increases in indemnity payments of approximately £10m in the year.

## Fixed assets

Changes in fixed assets are set out in Note 7 to the financial statements.

## Directors

The following served as Directors in 1993:

I Kelsey Fry\* (Chairman from 20 July 1993)

C J Earl (Vice-Chairman from 20 July 1993)

K G Addison\*

Hedley E Berry

C C Evans

J S Garfield

A R Horler\* (Chairman to 20 July 1993)

D E Markham

R J Maxwell\*

D E Poswillo

J C Smith (Vice-Chairman to 20 July 1993)

Sir Roland Smith\*

M T Saunders

J A Wall\*

P C Ball (appointed 20 July 1993)

M M Gallivan (appointed 20 July 1993)

Baroness Hooper\* (appointed 1 April 1993 and elected 20 July 1993)

W S L La Frenais (appointed 1 November 1993)

J L Townend (resigned 20 July 1993)

S M Collinge (resigned 31 October 1993)

\* being members of the Remuneration Committee.

In accordance with the *Articles of Association* the following Directors are due to retire by rotation and, being eligible, offer themselves for re-election at the next Annual General Meeting:

K G Addison\*

C J Earl

A R Horler

D E Poswillo

J A Wall

\* having attained the age of 71 years on 1 January 1994 and special notice having been given in accordance with Article 63(a).

I Kelsey Fry attained the age of 70 years on 25 October 1993 and, special notice having been given in compliance with Article 63(d), offers himself for re-election at the Annual General Meeting.

P C Ball, M M Gallivan and W S L La Frenais were appointed during the year and offer themselves for election in accordance with Article 55.

## Insurance

The MDU maintains indemnity insurance for Directors, Officers and Council Members.

## Memorandum and Articles of Association

Members' attention is drawn to the changes to the *Memorandum and Articles of Association* proposed to the 1994 Annual General Meeting as special resolutions. Further details are given in the AGM agenda and the notes thereof.

## Statement of Directors' responsibilities

Company law requires the Directors to prepare financial statements for each financial year

# REPORT OF THE BOARD OF MANAGEMENT

which give a true and fair view of the state of the company and of the surplus or deficit of the company for that period. In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. 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.

## Corporate Governance

The Cadbury Report on Corporate Governance has been considered by the Board and the recommendations in large part adopted where they fit the MDU's structure as a company limited by guarantee there being no shareholders and no payment of dividends. A remuneration committee has been established and provision made for formal sessions of the Board acting as an audit committee.

## Auditors

The auditors, Pannell Kerr Forster, Chartered Accountants, have signified their willingness to continue in office. A resolution to reappoint them will be proposed at the Annual General Meeting.

By order of the Board of Management.

*N J Bowman*

N J Bowman  
Company Secretary  
22 March 1994

# Income and expenditure account for the year ended 31 December 1993

		1993		1992	
	Notes	£'000	£'000	£'000	£'000
MEMBERS' SUBSCRIPTIONS			72,986		67,221
LESS:					
MEDICAL AND DENTAL ADVISORY SERVICES		10,425		11,475	
INDEMNITY & LEGAL COSTS	2	37,906		28,473	
ADMINISTRATIVE COSTS		6,454		8,478	
			54,785		48,426
SURPLUS OF MEMBERS' SUBSCRIPTIONS OVER EXPENDITURE	3		18,201		18,795
INVESTMENT INCOME	4	6,539		5,286	
REALISED GAINS FROM DISPOSAL OF INVESTMENTS		13,825		8,077	
OTHER INCOME		362		410	
			20,726		13,773
SURPLUS BEFORE TAXATION AND EXCEPTIONAL ITEM			38,927		32,568
EXCEPTIONAL ITEM	5		—		1,160
SURPLUS BEFORE TAXATION			38,927		31,408
TAXATION	6		5,490		3,384
SURPLUS AFTER TAXATION TRANSFERRED TO ACCUMULATED FUND	12		33,437		28,024

# Statement of total recognised gains and losses for the year ended 31 December 1993

	1993	1992
	£'000	£'000
SURPLUS AFTER TAXATION	33,437	28,024
UNREALISED SURPLUS ON REVALUATION OF INVESTMENTS	10,395	7,903
TOTAL RECOGNISED SURPLUS RELATING TO THE YEAR	43,832	35,927

## Note of historical cost gains and losses

Reported surplus before taxation	38,927	31,408
Realisation of investment gains of previous years	(6,807)	(3,611)
Difference between an historical cost depreciation charge and the actual depreciation charge for the year calculated on the revalued amount	35	35
Historical cost surplus before taxation	32,155	27,832

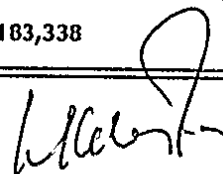
# Balance sheet

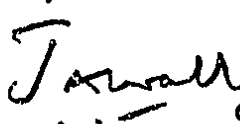
## at

### 31 December 1993

		1993	1992
	Notes	£'000	£'000
<b>FIXED ASSETS</b>			
Tangible assets	7	9,885	11,720
Investments	9	173,625	123,410
		183,510	135,130
<b>CURRENT ASSETS</b>			
Debtors	10	1,028	1,110
Deposits at banks		3,287	4,384
Cash at bank and in hand		3,991	4,695
		8,306	10,189
Creditors – amounts falling due within one year	11	7,846	5,284
<b>NET CURRENT ASSETS</b>		460	4,905
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		183,970	140,035
<b>PROVISION FOR LIABILITIES AND CHARGES</b>	11	632	529
		183,338	139,506
<b>RESERVES</b>			
Property revaluation reserve	12	2,507	2,507
Investment revaluation reserve		29,678	19,283
Accumulated fund		151,153	117,716
		183,338	139,506

Approved by the Board of Management on 22 March 1994

  
I. KELSEY FRY  
Chairman

  
J. A. WALL  
Chief Executive

# Cash flow statement for the year ended 31 December 1993

		1993		1992	
	Notes	£'000	£'000	£'000	£'000
Net cash inflow from continuing operating activities	1		33,564		26,298
<b>RETURNS ON INVESTMENTS</b>					
Interest received		1,298		1,019	
Investment income		5,241		4,267	
<b>CASH INFLOW FROM INVESTMENTS</b>			<b>6,539</b>		<b>5,286</b>
<b>CORPORATION TAX PAID</b>			<b>(1,604)</b>		<b>(2,710)</b>
<b>INVESTING ACTIVITIES</b>					
Purchases of fixed assets		(488)		(679)	
Sales of fixed assets		8		100	
Purchases of investments		(114,156)		(88,364)	
Sales of investments		74,336		63,965	
<b>Net cash outflow from investing activities</b>			<b>(40,300)</b>		<b>(24,978)</b>
<b>(Decrease)/increase in cash and cash equivalents</b>	3		<b>(1,801)</b>		<b>3,896</b>



# Notes to the cash flow statement for the year ended 31 December 1993

	1993	1992	
	£'000	£'000	
<b>1. RECONCILIATION OF OPERATING SURPLUS TO NET CASH INFLOW FROM OPERATING ACTIVITIES</b>			
Surplus before taxation and exceptional item	38,927	32,568	
Exceptional item	—	(1,160)	
Investment income	(6,539)	(5,286)	
Loss on disposal of fixed assets	4	157	
Depreciation	2,311	1,305	
Decrease in debtors	82	821	
Decrease in creditors	(1,221)	(2,107)	
<b>Net cash inflow from operating activities</b>	<b>33,564</b>	<b>26,298</b>	
<b>2. ANALYSIS OF CHANGES IN CASH AND CASH EQUIVALENTS DURING THE YEAR</b>			
Balance at 1 January 1993	9,079	5,183	
Net cash (outflow)/inflow	(1,801)	3,896	
<b>Balance at 31 December 1993</b>	<b>7,278</b>	<b>9,079</b>	
<b>3. ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS AS SHOWN IN THE BALANCE SHEET</b>			
	1993	1992	Change in year
	£'000	£'000	£'000
Cash at bank and in hand	3,991	4,695	(704)
Deposits at bank	3,287	4,384	(1,097)
	<b>7,278</b>	<b>9,079</b>	<b>(1,801)</b>

# Notes to the accounts for the year ended 31 December 1993

## 1. ACCOUNTING POLICIES

### (a) Basis of accounting

The accounts have been prepared under the historic cost convention, as modified by the revaluation of investments and certain leasehold properties and in accordance with applicable accounting standards.

### (b) Subscriptions

Subscription income comprises subscriptions due and received before 31 December without apportionment. Pursuant to Schedule 4 para 55(5) of the Companies Act 1985 no geographical analysis of subscriptions is shown.

### (c) Indemnity and legal costs

Expenditure on indemnity payments and legal charges covers the aggregate of all agreed indemnity settlement and legal services provided for members, together with insurance premiums and recoveries. These costs include plaintiffs' costs incurred under indemnity, and payments on account, together with opinions of the MDU's lawyers and of counsel, representation at service committee appeals, at hospital enquiries and at the General Medical and Dental Councils, and assistance to members through the MDU's lawyers in all parts of the world, except the USA.

### (d) Tangible fixed assets and depreciation

The cost of tangible fixed assets is written off evenly over their estimated 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.

Freehold property:	The cost of freehold office property is written off over 50 years.
Short leasehold properties:	Redevelopment costs on short leasehold properties are written off over the period of the leases.
Long leasehold properties:	The costs of long leasehold properties are written off over 50 years.
Office equipment:	10-20 per cent per annum on cost.
Motor vehicles:	20 per cent per annum on cost.

### (e) Investments

The MDU revalues its investments on an annual basis. Listed and unlisted investments held at 31 December are stated at the mid-market valuation on that date. Movements on revaluation are accounted for through the investment revaluation reserve.

### (f) Foreign currencies

Assets and liabilities expressed in foreign currencies are translated into sterling at the rate of exchange ruling at the balance sheet date. Normal fluctuations on operating items are dealt with as part of the results for the year.

### (g) Deferred taxation

No provision is made for potential tax liabilities on unrealised gains arising from the revaluation of investments and certain leasehold properties.

### (h) Pension costs

The pension costs are charged in the income and expenditure account so as to spread the regular cost of pensions over the working lives of employees who are Scheme members. Variations from the regular cost are allocated over the average remaining service lives of employees.

### (i) Operating leases

Leasing charges in respect of operating leases are recognised in the income and expenditure account over the lives of the lease agreements as incurred.

# Notes to the accounts for the year ended 31 December 1993

	1993	1992
	£'000	£'000
<b>2. INDEMNITY AND LEGAL COSTS</b>		
Indemnity payments	27,072	17,153
Legal costs	10,834	11,320
	<b>37,906</b>	<b>28,473</b>
<b>3. SURPLUS OF MEMBERS' SUBSCRIPTIONS OVER EXPENDITURE</b>		
(a) Surplus of members' subscriptions over expenditure for the year before taxation has been arrived at after charging the following:		
Depreciation (Note 7)	2,311	1,305
Loss on disposal of fixed assets	4	157
Auditors' remuneration – as auditors	41	40
– for non-audit work	51	28
Staff costs (Note c)	7,335	8,804
Operating lease charges	122	172
(b) Directors' remuneration:		
Fees	179	81
Other emoluments including pension contributions	411	529
	<b>590</b>	<b>610</b>
The Directors' emoluments shown above included two Directors serving as Chairman during the year. Their emoluments, excluding pension contributions, while serving in that capacity, were:		
Former Chairman	12	21
Present Chairman	10	–
Emoluments (excluding pension contributions) of the highest paid Director	<b>104</b>	<b>100</b>
The emoluments (excluding pension contributions) of the other Directors fell within the following ranges:		
	Number	Number
£ Nil – £ 5,000	3	4
£ 5,001 – £ 10,000	4	8
£10,001 – £ 15,000	4	1
£15,001 – £ 20,000	4	–
£25,001 – £ 30,000	1	–
£35,001 – £ 40,000	1	–
£55,001 – £ 60,000	–	1
£80,001 – £ 85,000	–	2
£85,001 – £ 90,000	2	1

# Notes to the accounts for the year ended 31 December 1993

	1993	1992
	£'000	£'000
(c) Staff costs:		
Salaries	5,579	6,632
Social security costs	412	502
Other pension costs	1,344	1,670
	7,335	8,804
	Number	Number
Average number of employees in the year	207	242
	£'000	£'000
4. INVESTMENT INCOME		
Franked investment income	568	693
Unfranked investment income	4,673	3,574
Loan and bank interest	5,241	4,267
	1,298	1,019
	6,539	5,286
5. EXCEPTIONAL ITEM		
Costs of reorganisation	-	1,160
6. TAXATION		
Corporation tax for the year at 33 per cent (1992: 33 per cent) on income and capital gains from investments	5,370	3,226
Tax credits on franked investment income	120	158
	5,490	3,384

The potential liability on unrealised gains arising on the revaluation of investments is estimated to be £8,300,000 (1992: £5,300,000) and on the revaluation of certain leasehold properties is estimated to be £700,000 (1992: £700,000).

# Notes to the accounts for the year ended 31 December 1993

## 7. FIXED ASSETS – TANGIBLE

	Freehold Property	Leasehold Properties	Motor Vehicles	Office Equipment	Total
	£'000	£'000	£'000	£'000	£'000
<b>Cost/valuation</b>					
At 1 January 1993	1,707	9,262	391	5,233	16,593
Additions	–	43	93	352	488
Disposals	–	–	(4)	(14)	(18)
At 31 December 1993	1,707	9,305	480	5,571	17,063
<b>Cost</b>	1,707	6,033	480	5,571	13,791
Valuation in 1987	–	3,272	–	–	3,272
	1,707	9,305	480	5,571	17,063
<b>Depreciation</b>					
At 1 January 1993	116	1,606	58	3,093	4,873
Provided in year	334	375	82	1,520	2,311
Disposals	–	–	–	(6)	(6)
At 31 December 1993	450	1,981	140	4,607	7,178
<b>Net book amount</b>					
At 31 December 1993	1,257	7,324	340	964	9,885
At 31 December 1992	1,591	7,656	333	2,140	11,720

The depreciation charge for the year includes an additional amount of £730,000 arising from a revision in the useful economic life of specific items of computer hardware and software.

# Notes to the accounts for the year ended 31 December 1993

Certain leasehold properties were professionally valued in 1987, on an existing use basis. On an historic cost basis, leasehold properties at valuation would have been included as follows:

	1993	1992
	£'000	£'000
Cost	2,659	2,659
Depreciation	242	208
	<u>2,417</u>	<u>2,451</u>
Leasehold properties at net book value comprise:		
Properties with over 50 years to run	7,319	7,643
Properties with under 50 years to run	5	13
	<u>7,324</u>	<u>7,656</u>

## 8. CAPITAL AND OPERATING LEASE COMMITMENTS

Capital expenditure contracted for but not provided for in these accounts	245	—
Capital expenditure authorised but not yet contracted for	473	704
	<u>718</u>	<u>704</u>
Commitments to pay during the next year under non-cancellable operating leases in respect of motor vehicles:		
Expiring within 1 year	9	18
Expiring between 2 and 5 years	53	104
	<u>62</u>	<u>122</u>

## 9. FIXED ASSETS – INVESTMENTS

	Listed Investments	Unlisted Investments	Cash held with Fund Managers	Loans	Total
	£'000	£'000	£'000	£'000	£'000
At 1 January 1993:					
At valuation	111,177	1,178	—	—	112,355
At cost	—	—	10,964	91	11,055
	111,177	1,178	10,964	91	123,410
Additions at cost	104,184	—	9,972	—	114,156
Disposals at cost	(73,903)	(342)	—	(91)	(74,336)
Revaluation movement (Note 12)	10,266	129	—	—	10,395
At 31 December 1993	151,724	965	20,936	—	173,625

# Notes to the accounts for the year ended 31 December 1993

Listed and unlisted investments are stated at valuation. Loans and cash held with Fund Managers are stated at cost. The listed investments are all listed on recognised stock exchanges.  
On an historic cost basis, investments would have been included as follows:

	1993	1992
	£'000	£'000
Listed investments	122,264	91,983
Unlisted investments	747	1,089
	123,011	93,072

Unlisted investments at 31 December 1993 include the cost of the MDU's investment in wholly owned subsidiary undertakings as set out in Note 15. Consolidated accounts have not been prepared because the subsidiaries' accounts are not considered material in the context of the MDU's accounts.

## 10. DEBTORS

Subscriptions in transit	546	466
Other debtors	313	327
Prepayments and accrued income	169	317
	1,028	1,110

## 11. CREDITORS

Falling due within one year:		
Administration creditors	1,250	2,502
Taxation and social security	6,596	2,782
	7,846	5,284

## PROVISIONS FOR LIABILITIES AND CHARGES

Provision for pensions	632	529
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## 12. RESERVES

	Property Revaluation Reserve	Investment Revaluation Reserve	Accumulated Fund	Total
	£'000	£'000	£'000	£'000
At 1 January 1993	2,507	19,283	117,716	139,506
Movement on revaluation of investments (Note 9)	-	10,395	-	10,395
Excess of income over expenditure for the year	-	-	33,437	33,437
At 31 December 1993	2,507	29,678	151,153	183,338

## 13. ACCUMULATED FUND - INDEMNITY CASES

The liability for outstanding reported indemnity cases as at 31 December 1993 is estimated on the advice of the consulting actuaries to be £183m (1992 - £146m). The actuaries have taken account of the fact that cases are settled over a number of years and the estimated liability has been discounted to allow for future investment returns.

# Notes to the accounts for the year ended 31 December 1993

## 14. PENSION COSTS

The MDU provides a defined benefit pension scheme for its employees in the UK, the assets of which are held under trust separately from those of the MDU. Pension costs are assessed on the advice of an independent qualified actuary using the attained age method. The assumptions which have the most significant effect on the pension cost calculations are that the rate of return on investments will be 9 per cent per annum, that salary increases will average 8 per cent per annum and that present and future pensions will increase at 5 per cent per annum.

The funding of the UK scheme is based on regular triennial actuarial valuations. The most recent actuarial valuation as at 1 April 1992 showed that the market value of the scheme's assets was £10.9m and that the actuarial value of the assets represented 83 per cent of the value of the benefits which had accrued to members, after allowing for expected future increases in earnings. The UK pension cost for 1993 was £1.2m (1992 - £1.6m) of which approximately 15 per cent was in respect of the elimination of the shortfall over a period of 10 years, which is the average remaining service life of scheme members.

## 15. INVESTMENT IN SUBSIDIARY UNDERTAKINGS

The following subsidiary undertakings, all of which are registered in England and none of which has traded in the year, are wholly owned by the Medical Defence Union: The Australasian Medical Defence Union Limited; Dental Defence Union Limited by Guarantee; Hospital and Community Services Limited; General Practitioner Defence Union Limited; Medical Defence Healthcare Risk Management Limited; MDU Risk Management Limited; Medical Defence Risk Management Limited; MDU Healthcare Risk Management Limited; and Healthcare Risk Management Limited.

## 16. MEMBERS' LIABILITY

The Medical Defence Union Ltd is a company limited by guarantee not exceeding £1 per member.

# AUDITORS' REPORT TO THE MEMBERS

We have audited the financial statements on pages 13 to 24 which have been prepared under the accounting policies set out on page 18.

## RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As described on pages 11 and 12 the Directors are 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

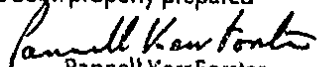
We conducted our audit in accordance with Auditing Standards. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company'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 company at 31 December 1993 and of its surplus and cash flows for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

LONDON  
22 March 1994

  
Pannell Kerr Forster  
Chartered Accountants  
Registered Auditors