MUNICIPAL MUTUAL INSURANCE LIMITED

(In Scheme of Arrangement)

Annual Report and Accounts

for the year ended
30 June 2021

Registered number: 00076678 England

Website: www.mminsurance.co.uk

Municipal Mutual Insurance Limited

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CONTENTS

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NOTICE OF MEETING

Notice is hereby given that the Annual General Meeting of the Company will be held online using Microsoft Teams on Tuesday, 23 November 2021 at 12:30 for the following purposes:

Ordinary resolutions

1. To receive and adopt the Annual Report and Accounts for the year ended 30 June 2021.
2. To re-appoint Grant Thornton UK LLP as the independent auditors of the Company.
3. To authorise the Directors to fix the remuneration of the auditors.
4. To re-appoint Gareth Hughes and Martin Walker as non-executive directors.

On behalf of the Board
G H Hughes
Director

30 September 2021

Registered Office
23 College Hill
London
EC4R 2RP

Notes:

Any person entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote in his or her stead. A proxy must be a member of the Company. A form of proxy is enclosed. This form of proxy, duly completed, and the power of attorney (if any) under which it is signed, must reach the registered office of the Company not later than 12:30 on 22 November 2021.

To receive an electronic invitation to join the meeting any person entitled to attend and vote at the meeting, or an appointed proxy, should e-mail their contact details to members@mminsurance.co.uk no later than 12.30 on 22 November 2021.

Municipal Mutual Insurance Limited
(In Scheme of Arrangement)

SCHEME ADMINISTRATOR AND HIS DEPUTY, SENIOR MANAGEMENT AND CREDITORS' COMMITTEE

SCHEME ADMINISTRATOR

R Barker, FCCA

DEPUTY SCHEME ADMINISTRATOR

S Edel

BOARD OF DIRECTORS

S J Ellis, ACA

K Gill, ACA, ACII

M B A Walker

G H Hughes, FCA

COMPANY SECRETARY

S J Ellis, ACA

SENIOR MANAGEMENT

S Laird, ACA – Head of Finance

R Luck, ACII – Claims Technical Director

M Mackenzie, ACII – Claims & Reinsurance Manager (Left 23 February 2021)

CREDITORS' COMMITTEE MEMBERS AND THEIR REPRESENTATIVES

F Timms	Hertfordshire County Council
H Dunn	City of Edinburgh Council
P Guiliotti	Richmond Upon Thames Council and Wandsworth Council
K John	Financial Services Compensation Scheme
J Shiel	Gateshead Council
A Rowlinson	Leicestershire County Council
R Phillips (Chair)	Surrey County Council, East Sussex County Council and Brighton and Hove City Council

West Midland Police, represented by J Barrett, resigned its membership of the Committee in October 2020 in accordance with clause 10.3.1 of the Scheme.

SCHEME ADMINISTRATOR'S STRATEGIC REVIEW

The Scheme Administrator presents his strategic report on the Company for the year ended 30 June 2021.

Review of the business

The Company is an insurance company limited by guarantee which wrote commercial and personal lines of business until September 1993 when it was placed in run-off. On 5 January 1994, a Scheme of Arrangement (the 'Scheme') under section 425 of the Companies Act 1985 (now section 899 of the Companies Act 2006) was approved by Order of the Court. The Scheme came into effect on 21 January 1994 and Gareth Hughes, a licenced insolvency practitioner and a Partner of Ernst & Young LLP, was appointed Scheme Administrator. The Scheme was a contingent Scheme which was held in reserve until the occurrence of a Trigger Event.

The Scheme was triggered by the Directors on 13 November 2012 (the 'Trigger Date') because, in the light of information provided by the Company's actuaries at that time, the Directors concluded that a solvent run-off could no longer be foreseen. The Scheme trigger is irrevocable, and the Directors undertook this course of action after concluding that it was in the best interests of Scheme Creditors. In the opinion of the Directors, there were no viable alternatives to avoiding insolvent liquidation which might have been more advantageous to creditors.

The Trigger Date denoted the commencement of the Levy Period under the terms of the Scheme. During the Levy Period, the Scheme Administrator's function is to:

(a) manage the run-off of the Company's business;

(b) hold and, in due course, realise the assets of the Company and apply them for the benefit of the Scheme Creditors and the Financial Services Compensation Scheme ('FSCS'), and other creditors of the Company in accordance with the Scheme; and

(c) supervise and ensure the carrying out of the Scheme.

During the Levy Period the Scheme Administrator's specific duty is to:

(a) within 90 days of the Trigger Date complete a review of the assets and liabilities of the Company and when appropriate, set a Levy and Payment Percentage rate to be applied to amounts paid to Scheme Creditors since the Record Date (30 September 1993) in order to eliminate the Company's financial deficit; and

(b) not less than once every year, review the Levy and Payment Percentage rate and adjust it if required.

On the Trigger Date, Gareth Hughes was appointed Scheme Administrator under the terms of the Scheme. Following his review of the financial position of the Company, a Levy rate of 15% (Payment Percentage of 85%) was set on 1 January 2014. On 1 April 2016, the Levy was increased to 25% (Payment Percentage reduced to 75%).

On 31 December 2018, having given due notice, Gareth Hughes resigned as Scheme Administrator and, in accordance with the terms of the Scheme, the Creditors' Committee appointed Richard Barker, an Associate Partner of Ernst & Young LLP and the previous Deputy Scheme Administrator, as Scheme Administrator. The Committee also appointed Simon Edel, a Partner of Ernst & Young LLP, as Deputy Scheme Administrator with effect from 31 December 2018.

Directors Duties

The Directors of the Company, as those of all UK companies, must act in accordance with a set of general duties. These duties are detailed in section 172 of the UK Companies Act 2006 which is summarised as follows:

A director of a company must act in the way he considers, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole, and in doing so have regard (amongst other matters) to:

- the likely consequences of any decision in the long term;
- the interests of the company's employees;
- the need to foster the company's business relationships with suppliers, customers, and others;
- the impact of the company's operations on the community and the environment;
- the desirability of the company maintaining a reputation for high standards of business conduct; and
- the need to act fairly as between members of the company.

Scheme Administrator's strategic review *continued*

The Directors duties are core to the Company's function and are embedded in its stated business strategy, which is to deliver the 'Best Outcome' for its Scheme Creditors and policyholders through the mechanism of the Scheme, where Best Outcome is defined as the delivery of:

1. on balance, a better financial return to creditors than would be achieved through an insolvent liquidation or other exit solution; and
2. the fair and equitable treatment of all MMI's policyholders, creditors, members, and employees over the lifetime of the run-off.

It is important to recognise that under the Scheme the Scheme Administrator's powers are in substitution for, and to the exclusion of, the powers of the Directors. The Scheme Administrator also has the duty to seek the winding up of MMI if at any point he considers the Scheme to no longer be in the best interests of the general body of creditors.

The Scheme Administrator is responsible for the implementation and management of the Scheme. The performance and function of the Scheme is monitored by a Creditors' Committee which meets twice per year to review the financial position of MMI and the matters affecting the Scheme.

The Scheme Administrator delegates the management and control of the day to day running of the Company to its Directors and the Directors fulfil their duties through the corporate governance framework. As part of their induction, Directors are briefed on their duties, they receive annual training on their responsibilities and are subject to annual performance reviews.

To ensure effective day to day management of the business, key decisions are taken by the Board of Directors which comprises executive and independent non-executive directors.

The following provides an overview of how the board has performed its duties:

Risk management

Risk management processes are embedded in all aspects of the corporate governance and decision-making processes. The Company is a Solvency II regulated firm, and the effective identification, evaluation management and mitigation of risks is a core function of the management of the business. The Directors consider the impact of strategic decisions on the likely ultimate outcome for Scheme Creditors and policyholders by preparing, updating and regularly reviewing a runoff forecast and applying a range of risk parameters to consider estimated outcomes. This includes insurance and financial risk, see further detail in note 6 to the accounts.

Tight cost control is essential for the achievement of the Company's objectives. The Directors set annual budgets for expenditure and closely monitor costs on a monthly basis. The annual budget is reviewed by the Scheme Administrator and reported to the Creditors' Committee. All project expenditure is subject to cost benefit analysis and prior board approval.

Our people and key suppliers

The Company employs eight full time members of staff. Accordingly, the Directors have a close working relationship with all employees. The Company places a high level of importance on the support and professional development of its employees. Staff are offered both in-house and external professional training and are encouraged to take up all development opportunities. Performance is reviewed annually, and staff are subject to annual fit and proper conduct reviews.

The Company has a number of multi-year outsource relationships in place with its key suppliers. These are subject to quarterly performance review and the Company works closely with these suppliers to build and enhance long-term working relationships.

Members, Scheme Creditors, and policyholders

The Company consults regularly with the Creditors' Committee in respect of all matters that may potentially affect the outcome of the Scheme, this includes insurance risk, see further detailed note in note 6 to the accounts.

The Scheme Administrator reviews the levy rate under the Scheme at least annually and consults with the Creditors' Committee regarding his conclusions on the appropriate rate that should be set. To manage the levy, the Company maintains two key tools:

Scheme Administrator's strategic review *continued*

1. A run-off forecast; and
2. Its Own Risk and Solvency Analysis ('ORSA')

The run-off forecast

The run-off forecast is prepared using low, mid and high actuarial projections so a range of possible outcomes can be shared with the Creditors' Committee. These outcomes do not constitute an upper or lower ultimate range of outcomes but represent a potential range of possible outcomes based on flexed assumptions. In 2021, the run-off forecast indicates that under the mid-IBNR forecast MMI's assets are sufficient to pay all its forecast expenses and insurance liabilities at the current Levy rate of 25%.

The ORSA

The annual ORSA report assesses the possible range of run-off outcomes through a stress test analysis of the assumptions underlying the run-off forecast. The 2021 ORSA indicated that the Scheme of Arrangement would continue to deliver the best outcome for Scheme Creditors even in the event of a 1 in 200-year shock to the insurance reserves.

The Company communicates regularly with its creditors and policyholders by statement, letter, e-mail and through its website and operates a number of dedicated enquiry inboxes for both members and creditors.

The Directors, through the setting and monitoring of performance targets and the reinforcement of a culture of excellence ensure the provision of a high standard of claims handling service for Scheme Creditors and policyholders.

Greenhouse Gas Emissions

The Company has assessed its energy consumption for the year ended 30 June 2021 to be less than 40,000 KWH and is, therefore, categorised as a Low Energy User and exempt from the greenhouse gas emission disclosure requirements under The Companies Act 2006 and The Companies (Directors Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018.

Results for the year

Profit for the year was £nil (2020: profit £nil). Net assets are £nil (2020: £nil). Under the terms of the Scheme, any surplus assets of the Company will ultimately be returned to Scheme Creditors through an adjustment to the payment percentage (see note 25). For the year ended 30 June 2021, the Company has recognised a reduction in the provision to return levy monies of £5.7 million (2020: £27.1 million increase). A significant element of the reduction in the year was caused by the reversal of prior year positive market movements in the value of the Company's investment portfolio. Investment assets are purchased with maturity dates that are closely matched to the projected claims liability profile of the Company to provide interest rate protection. MMI generally holds its investments to maturity and, therefore, any short-term appreciation or reduction in market value is expected to reverse over time as the run-off matures.

The Company has followed a consistent policy by including the gross mid-range figure for IBNR (incurred but not reported) claims in its accounts, as calculated by the Company's external actuarial adviser, KPMG LLP ('KPMG'). This calculation is reviewed by the Company's own actuary and approved by its Directors. There has been a release to profit of £3.9 million for gross reserves compared with the previous year. The Directors do not consider that this movement represents a significant shift in the overall claims' estimation position.

The Company presents its results under FRS 102 'The Financial Reporting Standard, applicable in the UK'. In accordance with FRS 102, the Company has identified its insurance contracts and accounted for them in accordance with FRS 103 'Insurance Contracts'.

Payment percentage and levy on Scheme Creditors

In accordance with the terms of the Scheme, the financial position of the Company was reviewed in March 2021 and the Scheme Administrator concluded that the current payment percentage rate of 75%, set on 1 April 2016, remained appropriate. No further changes to the payment percentage and the levy rate are currently anticipated.

Scheme Administrator's strategic review *continued*

Investment policy

The Company's cash assets are invested by its investment managers, Aviva Investors Limited ('Aviva'), who continue to follow a risk-averse strategy on behalf of the Company with the aim of generating income and capital growth matched to the estimated cost and timing of current and forecast future liabilities. 68.0% of the current investment portfolio is invested in gilts, 30.0% is invested in corporate bonds and floating rates notes, with the balance held as cash. Further information is set out in note 6(ii).

The outlook for investment in fixed rate products is challenging, given the UK's current economic environment of historically low gilt yields. Consequently, the Company places a low level of reliance on investment returns to support any foreseeable changes in claims run-off projections.

Creditors' Committee

Meetings of the Creditors' Committee were held on 19 November 2020 and 25 May 2021, at which Committee members were updated fully on all aspects of the progress of the run-off of the Company's business.

The next meeting of the Creditors' Committee will take place on 23 November 2021, prior to the Annual General Meeting.

Principal risks and uncertainties

In my opinion, the key business risks affecting the Company are as follows:

1. **Reserve risk – claims volatility**

   Claims volatility represents a continuing risk for the Company. Significant uncertainty regarding the ultimate liability for asbestos related disease claims remains due to the long latency period from exposure to asbestos fibres to the development of the mesothelioma cancer and the potential for increased future costs in respect of developing treatments such as immunotherapy.

   Significant uncertainty also remains regarding future liability for historic abuse claims due to the unknown impact of factors such as: increased public awareness arising from publicity surrounding high profile abuse cases, the associated police and public body investigations, the Independent Inquiry into Child Sexual Abuse, the enactment of the Limitations (Childhood Abuse) (Scotland) Bill and recent Supreme Court decisions regarding local authorities' vicarious liability in respect of children abused by foster carers. Further information is set out in note 5(ii).

2. **Investment risk – market and counterparty risk**

   Uncertainty over the interest rate environment represents a risk to the return on investments the Company can earn.

   The Company adopts a risk-averse investment strategy to manage its exposure to market and counterparty risk.

   The portfolio is invested in a portfolio of gilts, corporate bonds, floating rate notes and the remainder in cash deposits. The portfolio is managed by Aviva under an investment management agreement. Performance and security of assets are closely monitored.

3. **Financial risk – liquidity**

   The Company's investments are held in highly liquid instruments and the Company monitors the liquidity of those investments to ensure that it always has access to sufficient funds to honour its cash outflow obligations as they fall due.

4. **Outsourcing risk**

   The Company has received assurances from third parties, in particular its claims handling providers, that appropriate recovery plans are in existence in the event of unforeseen extended interruptions to the services which are provided to the Company. The Company undertakes a rolling program of internal audits of its key outsourced claims handlers. The Company also has its own contingency plans in place in respect of its outsourced functions.

   KPMG are engaged to produce actuarial reports on behalf of the Company and the services of the Chief Actuarial Officer are provided by M Wheatley, an associate partner of Ernst & Young LLP. The Board closely monitors these outsourced functions and considers that in the event of either function becoming unavailable it could arrange alternative providers with minimal disruption to the Company.

Scheme Administrator's strategic review *continued*

5. **Human resource risk**

The Company operates with a small team of experienced staff and, therefore, is exposed to key man risk. The Company actively manages this risk. It has succession plans in place for key personnel and can call on the resources of Ernst & Young to assist with any temporary staff needs.

6. **Regulatory risk**

The Company is regulated by the PRA and the FCA. The costs of regulatory compliance, particularly associated with Solvency II, have significantly increased in recent years. Changes to the legal or regulatory regimes in which the Company operates represent a risk to the run-off of the business.

7. **COVID 19**

The ongoing disruption to business activity from the global pandemic remains a risk to all businesses. The Company had contingency arrangements in place for off-site working prior to March 2020. These arrangements were instigated in March 2020, thereby enabling the Company to continue its operations without interruption. As the Company is in run-off, it has not experienced any disruption to its ongoing business due to the pandemic and its operational risk has been mitigated by its use of cloud-based information technology.

Key performance indicators (KPIs)

The following KPIs are relevant to the Company's performance following the Scheme trigger:

1. **Outstanding claims**

A comparison of the number of outstanding claims at the beginning and end of the year, after allowing for newly reported claims in the year, gives an indication of the progress made towards completion of the run-off. In the year ended 30 June 2021, 526 new claims were reported (2020: 526). As at 30 June 2021 the number of outstanding claims was as follows:

	Year ended 30 June 2021	*Year ended 30 June 2020*
Employers' Liability	823	*995*
Public Liability	532	*559*
Total Claims	1,355	*1,554*

2. **Income from investments**

Investment income as a percentage of average investment funds gives an indication of the level on investment return in the year. In the year ended 30 June 2021, investment income as a percentage of average investment funds was 2.10% (2020: 2.47%)

	Year ended 30 June 2021 £000	*Year ended 30 June 2020 £000*
Investment funds at beginning of period	250,340	*236,123*
Investment funds at end of period	229,140	*250,340*
Average	239,740	*243,232*
Investment Income	5,035	*6,017*
Investment Income as a percentage of average investment funds	2.10%	*2.47%*

Scheme Administrator's strategic review *continued*

3. Run-off model

The Company prepares a run-off forecast to assist the Scheme Administrator in the setting of the Levy and Payment Percentage rate. The forecast prepared as at 30 June 2021, using mid-IBNR claim projections, indicates that under current assumptions, a long-term Levy rate of 25% will enable the Company to pay its adjusted liabilities in full. The forecast assumes that the run-off will continue until the year 2060 when the final claim will be received.

Outlook

In accordance with the Levy Notices, the Company will continue to pay claims at 75% of the agreed settlement amount for affected Scheme Creditors and pay claims at 100% for non-Scheme Creditor policyholders.

R Barker
Scheme Administrator

30 September 2021

REPORT OF THE DIRECTORS

The Directors present their report and the audited accounts of the Company (registered number: 00076678 England) for the year ended 30 June 2021. The Company is a company limited by guarantee and has no share capital. It is owned by its members.

Having assessed the principal risks and uncertainties (pages 7 and 8 of The Scheme Administrator's Strategic Review), the Directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements. Further details are presented in note 3(i) to the financial statements.

Activities

The principal activity of the Company during the year continued to be the run-off of its general insurance liabilities on policies issued up to 30 September 1992, the date on which the Company ceased to write general insurance business. Future Company developments are presented in the Outlook section of the Scheme Administrator's Strategic Review.

Scheme of Arrangement

The Company is subject to a Scheme of Arrangement ('the Scheme') under section 425 of the Companies Act 1985 (now section 899 of the Companies Act 2006) which became effective on 21 January 1994.

Results for the year ended 30 June 2021

The results for the year ended 30 June 2021 are set out in the accounts on pages 21 to 35 and show a profit of £nil (2020: £nil), which is net of a reduction in the provision to return monies to Scheme Creditors of £5.7 million (2020: £27.1 million increase to provision), as reported within the balance of technical provisions. The loss in the year, prior to this provision movement, is £5.7 million and primarily attributable to the reversal of gains in fixed income investments accrued in the previous year.

Before the offsetting provision release of £5.7 million (see Contingent Liabilities, note 25) (2020: £27.1 million increase), the balance on the technical account for the year ended 30 June 2021 is a profit of £6.8 million (2020: £3.0 million).

In accordance with the Company's normal practice, the Directors received and approved actuarial advice from KPMG to assist in establishing the undiscounted claims provisions as at 30 June 2021. This advice considers the relevant factors which affect MMI's liability in relation to abuse, asbestos related disease and other claims and the estimated future incidence thereof. The Scheme Administrator agreed with the decision taken regarding the level of outstanding claims provisions to be included in the financial statements for the year ended 30 June 2021.

Reported net investment income in the year is a loss of £10.9 million (2020: £21.4 million profit). This year-on-year loss is due to a reversal of substantial market gains made in the prior year, particularly gilts. The volatility experienced in the market value of the investment portfolio was primarily driven by uncertainty in the wake of the Covid 19 outbreak, which led to significant gains on government backed low-risk fixed income investments in 2020 which have reversed in 2021.

Other operating expenses were £1.6 million (2020: £1.5 million).

Under the terms of the Scheme, Scheme Creditors are also entitled to additional payments of up to £30 million from any surplus reserves once all other liabilities have been met in full. No provision has been made for payment of any part of this £30 million commission for risk to Scheme Creditors, as such a payment arises only in the event of a solvent run-off.

Events since the balance sheet date

The Directors have reviewed events since the balance sheet date, and these are considered in note 22 to the accounts.

Financial Instruments

Information on the use of financial instruments by the Company and its management of financial risk is disclosed in note 6 to the financial statements. The Company's exposures to price risk, credit risk and liquidity risk are separately disclosed in that note.

Report of the Directors *continued*

Directors

The present Directors of the Company, all of whom served for the full year are as follows:

Mr G H Hughes
Ms S J Ellis
Mr M B A Walker
Mr K Gill

Indemnity insurance

A policy of indemnity insurance cover to the benefit of the Directors and Officers of the Company has been in force during the year ended 30 June 2021 and at the date of this report.

Directors' interests

By virtue of Article 4(d) of the Articles of Association, the Scheme Administrator and the Deputy Scheme Administrator have agreed to become members of the Company for their respective period of office but are not eligible for participation in any surplus funds falling for distribution to members at the conclusion of the Company's affairs. No Directors of the Company have any interests to declare.

Statement of Directors' responsibilities

Directors are responsible for preparing the Strategic Report, Report of the Directors and the financial statements in accordance with applicable law and regulations.

Company law requires Directors to prepare financial statements for each financial year. Under that law, the Directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law, 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 the financial statements Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements 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; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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.

Statement of disclosure of information to auditors

The Directors confirm that:

(a) so far as each Director is aware, there is no relevant audit information of which the Company's auditor is unaware; and

(b) the Directors have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Independent auditors

A resolution to re-appoint Grant Thornton UK LLP as the auditors of the Company will be proposed at the Annual General Meeting.

Approved by the Board on 30 September 2021 and signed on its behalf.

G H Hughes
Director

DIRECTORS' STRATEGIC REPORT

When the Scheme was triggered by the Directors on 13 November 2012, control of the Company passed to the Scheme Administrator who has general powers of management and control of the business. The Scheme Administrator has exercised his power under the Scheme to delegate the management and control of the day to day running of the Company to its Directors. The Strategic Report, with which the Directors fully concur, is included in the Scheme Administrator's Strategic Review on page 4.

Approved by the Board on 30 September 2021 and signed on its behalf.

G H Hughes
Director

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MUNICIPAL MUTUAL INSURANCE LIMITED

Opinion

Our opinion on the financial statements is unmodified

We have audited the financial statements of Municipal Mutual Insurance Limited (the 'Company') for the year ended 30 June 2021, which comprise the Statement of Income and Retained Earnings, the Statement of Financial Position, Statement of Cash Flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' and Financial Reporting Standard 103 'Insurance Contracts' (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the state of the Company's affairs as at 30 June 2021 and of its result 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.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the Company financial statements in the UK, including the FRC's Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter – Significant uncertainties in estimating the claims incurred but not reported ('IBNR')

We draw attention to Note 6 (i) (a) & Note 6 (i) (b) to the financial statements, which describe the significant uncertainties involved in estimating the valuation of IBNR. This is particularly the case for mesothelioma and abuse claims, as demonstrated in the sensitivity analyses in note 6(i)(a) of the financial statements. The final settlement value of such claims can vary materially from the amount at which these are currently recorded in the financial statements. Our opinion is not modified in this respect of this matter.

Conclusions relating to going concern

We are responsible for concluding on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor's opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Company to cease to continue as a going concern.

Our evaluation of the directors' assessment of the company's ability to continue to adopt the going concern basis of accounting included a review of management's assessment of the applicability of the going concern basis of preparation of the financial statements, including:

- Review and challenge of management assumptions made in the budgets/forecasts,
- Review of the accuracy of management's forecasts prepared for prior periods,
- Review and challenge of sensitivity scenarios modelled by management and associated available mitigating actions,
- Challenge of management's assessment around the significant uncertainties with respect to claims outstanding and assessment of the impact of this on the overall going concern status of the company,

Independent Auditor's report *continued*

- Assessment of the management's view on Covid-19 impact assessment and related stress testing scenarios,
- Analysis of the Covid-19 assessments in relation to the impact on the Scheme of Arrangement,
- Assessment of the adequacy of the discourses in the financial statements relating to going concern.

In our evaluation of the Directors' conclusions, we considered the inherent risks associated with the Company's business model including effects arising from macro-economic uncertainties such as Brexit and Covid-19, we assessed and challenged the reasonableness of estimates made by the Directors and the related disclosures and analysed how those risks might affect the Company's financial resources or ability to continue operations over the going concern period.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

The responsibilities of the Directors with respect to going concern are described in the 'Responsibilities of Directors for the financial statements' section of this report.

Our approach to the audit

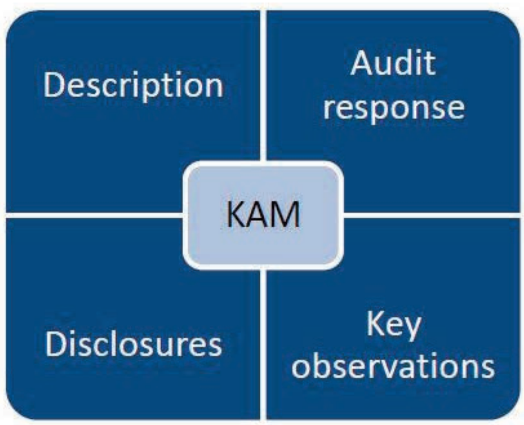
GrantThornton

Overview of our audit approach

- Overall materiality: £2,550,000, which represents 1% of the Company's total liabilities.
- The key audit matter identified is the valuation of claims incurred but not reported ('IBNR') which forms a significant component of the technical provisions. This is consistent with the prior year key audit matter identified.
- Our auditor's report for the year ended 30 June 2020 included no key audit matters that have not been reported as key audit matters in our current year's report.
- In the prior year, the audit strategy on the measurement of claims outstanding other than IBNR included a risk based substantive audit focus. In the current year, the audit strategy for it included both a risk based substantive audit focus as well as an assessment of the operating effectiveness of controls. There have been no other changes to our scoping of the engagement from prior year.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those that had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.



Independent Auditor's report *continued*

Key Audit Matter	*How our scope addressed the matter*
IBNR – valuation We identified the valuation of IBNR as one of the most significant assessed risks of material misstatement due to error. The IBNR provision is a material and complex balance in the financial statements and requires a high level of expert judgement, and as such gives rise to a significant risk due to error. There is a significant amount of uncertainty around the IBNR balance due to the complex judgements and estimates involved in calculating the provision, with a focus around mesothelioma and abuse claims. The IBNR balance is formulated through complex models and inputs of which the key management judgements made in determining the provision are set out below: *Number of claims:* The expected number of future claims is a key variable used in projecting claims expenses arising in future years. The number of claims is uncertain *Future cost per claim:* The key assumptions used in assessing the future cost per claim are age bands and inflation. There is limited industry specific data available in this regard, which further increases the overall uncertainty in the valuation of IBNR. *Mesothelioma claims:* There are long inactivity periods associated with mesothelioma claims, which along with future claims cost assumptions makes the valuation of IBNR significantly uncertain. *Abuse:* The nature of abuse claims and assumptions used in the projections for abuse claims makes it an area of significant uncertainty within the IBNR. We therefore identified IBNR (technical provisions) – valuations as a significant risk, which was one of the most significant assessed risks of material misstatement. *Relevant disclosures in the Annual Report and Accounts* We draw attention to Note 6(i)(a) & Note 6(i)(b) to the financial statements, which describe the significant uncertainties involved in estimating the provisions for IBNR.	In responding to the key audit matter, we performed the following audit procedures: Considering the complexity and nature of the book of business, we have engaged our actuarial experts to test independently the valuation for IBNR. Our actuarial experts also considered the appropriateness of key assumptions and judgements and their effect on the final valuation of IBNR. Related procedures performed by our actuarial experts are listed below: ● Obtained an understanding of and assessed the controls around the reserving process; ● Benchmarked management's methodology to industry practice. ● Understood and assessed management's methodology of the valuation of IBNR; ● Assessed management's methodology and models in determining the valuation of IBNR balance and identified any changes to the methodology; ● In order to challenge management's estimation, performed independent projections of the mesothelioma and abuse IBNR, compared with that booked by management and sought to understand investigated any significant differences arising; ● Calculated a range of estimates and considered where management's estimates fell in relation to that range. Other areas relevant to the audit of the valuation of IBNR are stated as below: *Management's experts:* We have assessed the competence and experience of management's experts for the valuation of the IBNR. *Data:* The audit team tested the completeness and accuracy of the data that management's experts used in assessing the valuation of the IBNR. *Controls:* We have assessed the design effectiveness of management controls around the valuation of IBNR and have evaluated the design and implementation of these controls. *Disclosures:* We assessed the disclosures related to provisions for IBNR in the Financial Statements. This included evaluating against the standards and reporting requirements as set out by FRS 102 and FRS 103.

Independent Auditor's report *continued*

Key Audit Matter	*How our scope addressed the matter*
	Key observations: There are significant uncertainties involved in estimating the provisions for IBNR, particularly related to mesothelioma and abuse claims. The final settlement of such claims can vary materially from recorded balances at as at the year-end. We draw attention to Note 6 (i) (a) & Note 6 (i) (b) in the financial statements, which describe the significant uncertainties involved in estimating the valuation of IBNR, as concluded within our Emphasis of Matter paragraph

Our application of materiality

We apply the concept of materiality both in planning and performing the audit, and in evaluating the effect of identified misstatements on the audit and of uncorrected misstatements, if any, on the financial statements and in forming the opinion in the auditor's report.

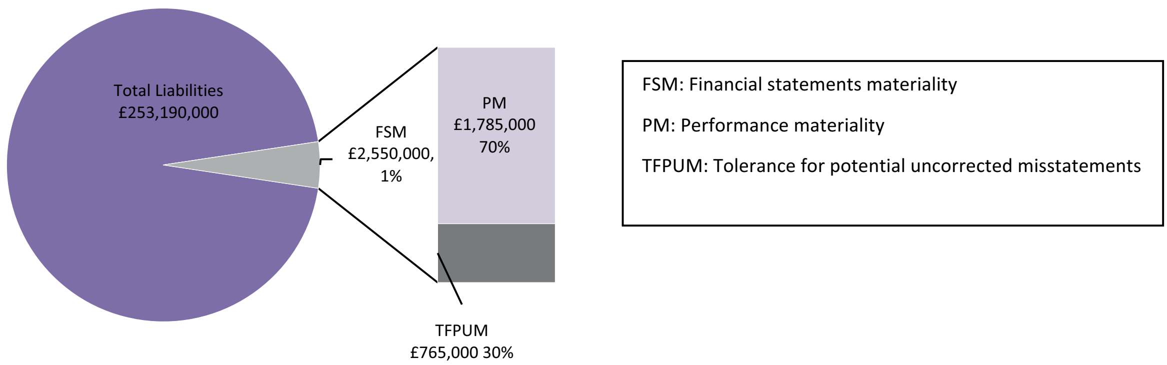
Materiality was determined as follows:

Materiality measure	*Company*
Materiality for financial statements as a whole	We define materiality as the magnitude of misstatement in the financial statements that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of these financial statements. We use materiality in determining the nature, timing and extent of our audit work.
Materiality threshold	£2,550,000, which is 1% of total liabilities.
Significant judgements made by auditor in determining the materiality	The determination of materiality involves the exercise of professional judgement. In determining materiality, we made the following significant judgments: ● The selection of an appropriate benchmark; ● The selection of an appropriate percentage to apply to that benchmark; and ● The consideration of other qualitative factors. We have consistently used total liabilities as the underlying benchmark. Whilst Profit before Tax might typically be used for an insurance-based entity, MMI is in run-off after the Scheme of Arrangement (SOA) was triggered in 1992. Since the signing of this agreement the objectives of the entity are to perform under the SOA and therefore this overrules the original business objectives. The entity aims to pay off its scheme creditors throughout its run-off period. On this basis we have taken into consideration the key stakeholders and readers of the financial statements. The Company members are the key parties interested in the future existence of the Company and its ability to meet future claims payments. In line with the purpose of the SOA, they will be interested in the solvency position of the entity and its ability to pay future claim costs. The key driver behind the solvency position being the total liabilities figure. Materiality for the current year is lower than the level that we determined for the year ended 30 June 2020 to reflect the decrease in total liabilities.
Performance materiality used to drive the extent of our testing	We set performance materiality at an amount less than materiality for the financial statements as a whole, to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceed materiality for the financial statements as a whole.

Independent Auditor's report *continued*

Materiality measure	***Company***
Performance materiality threshold	£1,785,000, which is 70% of financial statement materiality.
Significant judgements made by auditor in determining the performance materiality	The determination of performance materiality involves the exercise of professional judgement. In determining performance materiality, we made the following significant judgments: ● Our risk assessment – evaluation on the results of our risk assessment procedures in regard to the entity's overall control environment; ● Our experience of auditing the financial statements of the entity in previous years – based on the number of few misstatements identified and management's attitude to correcting misstatements identified.
Specific materiality	We determine specific materiality for one or more particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.
Specific materiality	We determined a lower level of specific materiality for the following areas: ● Directors' Remuneration ● Related Party Transactions
Communication of misstatements to the audit committee	We determine a threshold for reporting unadjusted differences to the audit committee.
Threshold for communication	£127,500 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.

The graph below illustrates how performance materiality interacts with our overall materiality and the tolerance for potential uncorrected misstatements.



An overview of the scope of our audit

We performed a risk-based audit that requires an understanding of the Company's business and in particular matters related to:

Understanding the Company, its environment, including controls

- Discussions held with management to understand key changes to the business and reinforce our understanding of the Company's environment and key risk areas;

Independent Auditor's report *continued*

- Obtaining an understanding of relevant internal controls around the claims handling operations of both the Company and claims handling third-party service providers, including performing a review of the design and operating effectiveness of the Company's internal claims handling system; and
- Obtaining an understanding and evaluating controls around the day-to-day management of the Company's investment portfolio and the custody of its investments, which are outsourced to third-party service providers. This included obtaining and reviewing internal controls reports prepared by third party auditors in respect of the independent custodian and the investment management operations provided by the investment manager.

Performance of our audit

- Based on the large level of estimation uncertainty and management judgement in the valuation of IBNR, we noted this area could reasonably be expected to have a significant material impact on the financial statements. We involved our actuarial experts to audit various assumptions and judgements made in relation to the valuation of the IBNR balance;
- Performed substantive testing of other risk areas, account balances and disclosures, the extent of which was based on various factors such as our overall assessment of the control environment, the design effectiveness of controls over individual systems and management of specific risks;
- We assessed the susceptibility of the Company's financial statements to material misstatement, including how fraud might occur by considering the key risks impacting the financial statements as described above. We did not identify any key audit matters relating to irregularities, including fraud.

Changes in approach from previous period

- Following the implementation of the new internal claims handling system, we undertook a controls-based approach to reviewing the claims outstanding and claims paid. We performed detailed walkthroughs of the new process, the system and its implementation to assess the design effectiveness. In doing so, we identified the relevant controls to test the operating effectiveness including IT environmental controls.

Other information

The Directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements, or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Our opinion on other matters prescribed by the Companies Act 2006 is unmodified

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

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

Matter on which we are required to report under the Companies Act 2006

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

Independent Auditor's report *continued*

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the Company, 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.

Responsibilities of Directors for the financial statements

As explained more fully in the Statement of Directors' responsibilities, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK).

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- We obtained an understanding of the legal and regulatory frameworks applicable to the Company and the insurance industry in which it operates. We determined that the following laws and regulations were most significant: Financial Conduct Authority (FCA) handbook, Prudential Regulation Authority (PRA) handbook, FRS 102, FRS 103 and the Companies Act 2006;
- We understood how the Company is complying with these regulatory frameworks by making inquiries with management and those charged with governance. We corroborated our inquiries through our review of board minutes and papers provided to the Audit Committee;
- We assessed the susceptibility of the entity's financial statements to material misstatement, including how fraud might occur, by evaluating management's incentives and opportunities for manipulation of the financial statements. This included the evaluation of the risk of management override of controls;
- Assessment of the appropriateness of the collective competence and capabilities of the engagement team included consideration of the engagement team's:
  - understanding of, and practical experience with audit engagements of a similar nature and complexity through appropriate training and participation

Independent Auditor's report *continued*

- knowledge of the industry in which the client operates
- understanding of the legal and regulatory requirements specific to the regulated entity.

Other matters which we are required to address

We were first appointed by the Audit Committee in March 2019 to audit the financial statements for the year ended 30 June 2019 and for the subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 3 years.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the company and we remain independent of the company in conducting our audit.

Our audit opinion is consistent with the additional report to the audit committee.

Use of our report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Paul Flatley
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
London

30 September 2021

STATEMENT OF INCOME AND RETAINED EARNINGS
for the year ended 30 June 2021

	Note	**2021**		*2020*	
		£000	**£000**	*£000*	*£000*
Technical account					
Claims (paid)/recovered					
Gross amount		**(15,024)**		*(14,163)*	
Reinsurers' share	7	**6,019**		*7,594*	
Net claims (paid)			**(9,005)**		*(6,569)*
Change in provisions for claims					
Gross amount		**25,675**		*(20,930)*	
Reinsurers' share	7	**(3,653)**		*3,375*	
Change in net provisions for claims			**22,022**		*(17,555)*
Claims (incurred) net of reinsurance			**13,017**		*(24,124)*
Net Operating Expenses					
Administrative Expenses			**(475)**		*–*
Balance on technical account for general business	7		**12,542**		*(24,124)*
Non-technical account					
Investment Income					
Income from investments	17	**5,035**		*6,017*	
Net profit on realisation of investments		**2,900**		*3,721*	
			7,935		*9,738*
Net unrealised (loss)/gain on investments		**(18,660)**		*11,878*	
Investment expenses and charges		**(211)**		*(207)*	
			(18,871)		*11,671*
Net Investment (loss)/gain			**(10,936)**		*21,409*
Other income	9	**–**		*4,200*	
Other charges	10	**(1,606)**		*(1,485)*	
			(1,606)		*2,715*
Profit on ordinary activities before tax			**–**		*–*
Tax on profit on ordinary activities	15		**–**		*–*
Profit on ordinary activities after tax			**–**		*–*
Total comprehensive income			**–**		*–*
Retained earnings					
Retained earnings brought forward			**–**		*–*
Profit on ordinary activities after tax			**–**		*–*
Retained earnings carried forward			**–**		*–*

MUNICIPAL MUTUAL INSURANCE LIMITED
(In Scheme of Arrangement)

STATEMENT OF FINANCIAL POSITION
as at 30 June 2021

	Note	2021		*2020*	
		£000	**£000**	*£000*	*£000*
Intangible Assets	3(vi)				
Development costs	16		**365**		*152*
Investments					
Other financial investments	17		**229,140**		*250,340*
Reinsurers' share of technical provisions					
Claims outstanding	3(iii)		**16,847**		*20,500*
Debtors					
Debtors arising out of reinsurance operations	8	**280**		*3,336*	
Other debtors	18	**1,925**		*2,056*	
			2,205		*5,392*
Other assets					
Tangible fixed assets	19	**20**		*13*	
Cash and cash equivalents	21	**4,613**		*3,078*	
			4,633		*3,091*
Total Assets			**253,190**		*279,475*
Technical provisions					
Gross amount of claims outstanding	6	**(252,534)**		*(278,209)*	
Creditors					
Other creditors including taxation and social security	20	**(656)**		*(1,266)*	
Total liabilities			**(253,190)**		*(279,475)*
Net assets			**–**		*–*
Retained earnings brought forward			**–**		*–*
Profit on ordinary activities after tax			**–**		*–*
Profit and loss account			**–**		*–*

The financial statements on pages 21 to 35 were approved by the Board of Directors on 30 September 2021 and signed on its behalf by

G H Hughes
Director

S J Ellis
Director

STATEMENT OF CASH FLOWS
for the year ended 30 June 2021

	Note	2021	*2020*
		£000	*£000*
Net cash (outflow) from operating activities	21	**(8,776)**	*(8,176)*
Investing activities			
Interest received		**5,160**	*6,198*
Purchases of tangible fixed assets		**(18)**	*(11)*
Purchases of intangible assets		**(271)**	*(152)*
Payments to acquire investments: UK gilts, debentures and floating rate notes		**(24,511)**	*(77,399)*
Receipts from sales of investments: UK gilts, debentures and floating rate notes		**29,951**	*78,781*
Net cash flow from investing activities		**10,311**	*7,417*
Increase/(decrease) in cash and cash equivalents		**1,535**	*(759)*
Cash and cash equivalents at 1 July		**3,078**	*3,837*
Increase/(decrease) in cash and cash equivalents in period		**1,535**	*(759)*
Cash and cash equivalents at 30 June	21	**4,613**	*3,078*

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

1 General information

Municipal Mutual Insurance Limited is a private company, limited by guarantee and incorporated and domiciled in England. The address of its registered office is 23 College Hill, London EC4R 2RP.

2 Statement of compliance

The financial statements of Municipal Mutual Insurance Limited have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland" ('FRS 102'), Financial Reporting Standard 103, "Insurance Contracts" ('FRS 103') and the Companies Act 2006. They have also been prepared in compliance with the provisions of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations relating to insurance companies.

3 Summary of significant accounting policies

(i) Going Concern

The Company ceased writing insurance business on 30 September 1992. In 1993, to ensure an orderly run-off, a contingent Scheme of Arrangement (the 'Scheme') under section 425 of the Companies Act 1985 (now section 899 of the Companies Act 2006) was agreed with 729 of the Company's largest insurance creditors (the 'Scheme Creditors'). The Scheme became effective on 21 January 1994. The Scheme enabled the Company to continue to pay all its creditors in full until 13 November 2012, when the Directors determined that a solvent run-off with full payment of agreed claims could no longer be foreseen. On that date, the Scheme was triggered and responsibility for the Company's management passed to the Scheme Administrator.

Under the terms of the Scheme, Scheme Creditors have agreed to share any ultimate shortfall in the Company's capital proportionally to qualifying claims payments received. This is managed through the imposition by the Scheme Administrator of a levy on claims paid since 30 September 1993 and the application of a payment percentage to future projected claims at a rate that makes the Company's estimated assets equal to its estimated liabilities. As at 30 June 2021, the Scheme Administrator had imposed a levy of 25% and a payment percentage of 75% therefore reducing amounts paid on Scheme Creditors' claims by 25%. Creditors other than Scheme Creditors continue to be paid in full throughout the run-off period.

In arriving at the Payment Percentage of 75%, assumptions have been made regarding the level of provision made for outstanding claims, future investment income and operating costs, all of which factors are subject to varying degrees of uncertainty. The provision for outstanding claims (including claims incurred but not reported) is reported net of this 25%.

The Directors have prepared a run-off forecast that indicates that under current assumptions the Company has sufficient capital to meet all its liabilities under the current levy and payment percentage rate over the lifetime of the run-off. The run-off is currently forecast to extend to the year 2060.

The Directors are of the opinion that as the provisions of the Scheme ensure that any future balance sheet deficit is eliminated through the adjustment of the levy and payment percentage rates applicable to Scheme Creditors, it is appropriate for the financial statements to continue to be prepared on a going concern basis.

(ii) Claims (incurred)/recovered

Claims (incurred)/recovered comprise claims and related expenses paid in the year and changes in provisions for outstanding claims, including provisions for claims incurred but not reported and related expenses. Claims recovered include the amount receivable from Scheme Creditors in respect of the levy imposed by the Scheme Administrator. Outstanding claims, including provisions for claims incurred but not reported have been reduced to reflect the effect of the levy. Where applicable, deductions are made for recoveries.

The provision for outstanding claims comprises the estimated cost of claims notified but not settled at the date of the balance sheet together with the estimated cost of claims incurred but not reported at that date, after reduction to reflect the effect of the Levy. Claims provisions are calculated gross of any reinsurance recoveries and are not discounted. Independent actuarial advice has been received to assist the Directors in establishing the provision for claims incurred but not yet reported at the date of the balance sheet. Note 6 gives further details of the basis on which provision is made.

(iii) Reinsurance

Reinsurers' share of technical provisions are estimates based upon gross provisions for outstanding claims, having due regard to collectability (note 6) and calculated in accordance with valuation methods agreed with reinsurers, where applicable. Reinsurance recoveries in respect of estimated claims incurred but not reported are assumed to be consistent with the historical pattern of claims reported to date, adjusted to reflect changes in the nature and extent of the Company's reinsurance programme over time. The recoverability of reinsurance recoveries is assessed having regard to market data on the financial strength of each of the reinsurance companies. The reinsurers' share of claims incurred, in the profit and loss technical account, reflects the amounts received or receivable from reinsurers in respect of those claims incurred during the period.

(iv) Taxation

Taxation expense for the period comprises current and deferred tax recognised in the reporting period. Tax is recognised in the profit and loss account, except to the extent that it relates to items recognised in other comprehensive income. In this case tax is also recognised in other comprehensive income. Current or deferred taxation assets and liabilities are not discounted.

3 Summary of significant accounting policies *continued*

(a) Current tax

Current tax is the amount of tax payable in respect of the taxable profit for the year or prior years. Tax is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the period end.

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(b) Deferred tax

Deferred tax arises from timing differences that are differences between taxable profits and total comprehensive income as stated in the financial statements. These timing differences arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in financial statements.

Deferred tax is recognised on all timing differences at the reporting date. Unrelieved tax losses and other deferred tax assets are only recognised when it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Deferred tax is measured using tax rates and laws that have been enacted or substantively enacted by the period end and that are expected to apply to the reversal of the timing difference.

(v) Tangible fixed assets

Tangible fixed assets are capitalised and depreciated by equal annual instalments over their estimated useful lives. The principal estimates used are as follows:

Office equipment	3 to 5 years
Fixtures and fittings	lesser of: 10 years, and, where leasehold property, the unexpired minimum lease term

(vi) Intangible Assets

Intangible assets comprise of software costs incurred in the development of the Company's claims handling system, Pierian. This system went live on 01 October 2020.

Development costs are amortised in equal instalments over the next 5 years. Costs were not amortised until the system went live and were treated as work in progress and accounted at cost up until that date. The software will be used to manage claims over the life of the run-off of the Company's insurance business and 5 years is the minimum period the Company could envisage reviewing the Scheme in respect of its potential conclusion.

(vii) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, and other short-term highly liquid investments. Cash equivalents are amounts readily convertible to known amounts of cash that are subject to an insignificant risk of changes in value, e.g. investments with short maturity of three months or less from the date of acquisition.

(viii) Financial assets

Financial assets represent debt and other fixed income securities held in the form of gilts, debentures and floating rate notes. In accordance with the provisions of FRS102, Section 11, the Company has elected to value these assets at fair value, with all gains and losses taken through the profit or loss.

(a) Investment income

Interest is included in the profit and loss non-technical account on an accruals basis.

(b) Investment gains and losses

Realised gains and losses on investments are calculated as the difference between sales proceeds and the cost of acquisition, together with any diminution in the value of the Company's assets which is considered to be permanent.

The movement in unrealised gains and losses on investments represents the difference between the valuation at the balance sheet date and their purchase price or, if they have been previously valued, their valuation at the last balance sheet date, together with the reversal of unrealised gains and losses recognised in earlier accounting periods in respect of investment disposals in the current year. The aggregate realised and unrealised surplus or deficit is taken to the profit and loss non-technical account.

(ix) Pensions

The Company operates a Workplace Pension Scheme, a defined contribution scheme. Contributions to the Workplace Pension Scheme are made by the Company based upon amounts of salary sacrificed by each employee and are charged to the profit and loss non-technical account as incurred. The Plan requires a minimum staff contribution of 5% of pensionable salary. The Company contributes an additional 4% of pensionable salary.

(x) Operating Leases

The Company has a sole operating lease, being the leasehold agreement for part of the Third Floor, 23 College Hill. This lease commenced on 11 February 2015 and has a 10-year term.

4 Effects of triggering the Scheme of Arrangement

After carrying out a review of the Company's assets and liabilities as at the Trigger Date of 13 November 2012, in January 2014 the Scheme Administrator imposed an initial levy on Scheme Creditors amounting to £104.5 million being 15% of aggregate claims payments made since 30 September 1993, after deduction of the first £50,000 of such payments to each Scheme Creditor which is free of levy. The levy has been accounted for through claims (paid)/recovered in the statement of income and retained earnings. From 1 April 2016, this levy percentage was raised from 15% to 25% and additional levy notices issued amounting to £72.6 million. The provision for outstanding claims, including claims incurred but not reported, has been reduced in line with this payment percentage.

5 Critical accounting judgements and estimation uncertainty

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(i) Significant judgements in applying the accounting policies

Estimates of insurance liabilities for claims received but not settled are subject to the professional judgement of the claims' handler assigned to handle the claim. Initial estimates are set with due regard to Company guidelines based upon claims settlement history and these estimates are subject to on-going review and refinement as further details of the claims emerge. Claims handling is further discussed in note 6.

(ii) Sources of estimation uncertainty

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(a) The ultimate liability arising from claims made under insurance contracts

The estimation of the ultimate liability arising from claims made under insurance contracts is the Company's most critical accounting estimate. The carrying amount of the liability is £252.3 million (2020: £278.2 million). Reinsurers' share of technical provisions, at £16.8 million (2020: £20.5 million) is calculated on the basis of these claims' estimates, having due regard to the anticipated cover years and, hence, reinsurance programs in to which these claims will fall due. The most significant assumptions made relate to the level of future claims and the level of future claim settlements. Whilst the Directors consider that the gross provision for claims and the related reinsurance recoveries are fairly stated based on the information currently available to them, the ultimate liability will vary as a result of subsequent information and events and may result in significant adjustments to the amount provided. Adjustments to the amounts of provision are reflected in the financial statements for the period in which the adjustments are made.

(b) Fair value of financial instruments

The Company holds financial investments comprising of UK gilts, debentures and floating rate notes with a carrying value of £229.1 million (2020: £250.3 million). Valuation of these assets at the year-end is based on quoted market prices.

6 Management of Insurance and financial risk

The Company ceased underwriting insurance business on 30 September 1992 but is exposed to insurance risk from claims arising on policies underwritten prior to this date. The Company is also exposed to a range of financial risks through its financial assets, reinsurance assets and policyholder liabilities. This section summarises these risks and the way the Company manages them.

(i) Insurance risk

Provision is made in the accounts for the estimated cost of claims notified but not settled at the date of the balance sheet and for the estimated cost of claims incurred but not reported at that date. Claims provisions are not discounted for inclusion in the accounts but are reduced to reflect the effect of the Scheme payment percentage (see note 4).

Claim provisions have been made with regard to past claim experience, current judicial interpretations of the law and other relevant information. However, no allowance has been made for any new categories of claim not so far reflected in the experience seen. Furthermore, the inherent uncertainty of the insurance process makes it likely that historical data will not be wholly predictive of the actual future emergence and development of claims. A substantial measure of judgement is involved in both establishing the individual claim provisions and in interpreting past claim experience as part of the process of establishing the total claim provision. Certain classes of business, such as Employers' Liability and Public Liability are inherently more uncertain than others and the ultimate cost of such claims is more likely to vary as a result of subsequent developments. Provisions on these classes include substantial amounts for asbestos related and abuse claims. Asbestos related claims can be subject to very long delay in reporting losses, since the onset of illness and disability arising from the exposure to harmful conditions may only become apparent many years later; in cases of mesothelioma this latency period can be anything between 10 and 40 years. The major risk classes of claims identified by the business are, therefore, child abuse and mesothelioma.

Each year-end, the Directors instruct their actuarial advisors, KPMG, to produce three range estimates of claims outstanding, corresponding to a high, mid and low forecast of potential future claim liabilities. These estimates do not represent the minimum and maximum estimates of future liability but provide a range of outcomes in which the ultimate liability may reasonably fall. In producing their estimates, the actuaries make use of a range of data sources including historical Company information, industry-wide reports and relevant supplementary population data. KPMG's report includes a high-level summary of current and emerging risks, detailing the issues and the currently adopted approach.

6 Management of Insurance and financial risk *continued*

All new child abuse claims are reported to MMI, enabling the Company to review policy cover and provide input into specific issues identified. Prior to 1 April 2020, the majority of child abuse claims handling was outsourced to Zurich's Specialist Claims Team ('SCT'), a dedicated team dealing with high profile, complex and high value claims for Zurich and MMI. MMI retained a small portfolio of high profile and complex claims in-house. From 1 April 2020, all new child abuse claims are handled either in-house or by one of MMI's specialist panel of law firms under an outsourced agreement.

Prior to 1 April 2020, MMI managed mesothelioma claims through Zurich's Occupational Disease Claims team ('ODC'), a dedicated disease claims handling team in Birmingham. From 1 April 2020, all new mesothelioma claims are handled either in-house or by one of MMI's specialist panel of law firms under an outsource agreement.

(a) Sensitivity analysis of claims estimation

Sensitivity analysis is provided by the actuarial forecasts, whereby each low, mid and high forecast provides differing assumptions as to the number of future claims notified, the average settlement amount and the rate of claims inflation. MMI has adopted the mid-case for these financial accounts. The claims liability estimates under the low, mid and high assumptions, along with the key variable assumptions for the mesothelioma and abuse classes are given below:

		Mesothelioma Assumptions			*Abuse Assumptions (non-institutional)*		
	gross claims outstanding £000	*MSO claims inflation p.a.*	*Average Settlement 2021 (£)**	*No of Future Claims*	*ABU claims inflation p.a.*	*Average Settlement 2021 (£)*	*No of Future Claims*
LOW	**209,082**	*2.50%*	*Base-9.3%*	*942*	*2.50%*	*Base-13.7%*	*1,148*
MID	**297,482**	*4.00%*	*Base*	*1,111*	*3.50%*	*Base*	*1,596*
HIGH	**454,682**	*5.50%*	*Base+7.2%*	*1,382*	*4.50%*	*Base+3.5%*	*2,469*

* A base settlement for claims is calculated on the basis of recent claims settlement history and includes all legal and other directly associated costs of settlement.

The table below shows the net profit and loss effect of a change from the mid case, once adjusted by the current payment percentage of 75% and reinsurance recoveries

	gross claims outstanding £000	**net profit and loss effect £000**
LOW	**209,082**	**63,980**
MID	**297,482**	**–**
HIGH	**454,682**	**(114,769)**

6 Management of Insurance and financial risk *continued*

(b) Claims development table

All outstanding claims liabilities relate to claims underwritten prior to 30 September 1992. The following table reflects the development of claims paid and outstanding over the previous ten financial years:

	Claims Outstanding – £000			Claims Paid – £000		
financial year ended 30 June	*Gross claims outstanding*	*Reduction for payment percentage**	**Gross claims outstanding after payment percentage**	*Gross paid claims net of recoveries before levy*	*Reduction for levy and payment percentage**	**Gross claims paid/ (recovered)**
2012	275,266	–	**275,266**	14,933	–	**14,933**
2013	289,739	(40,215)	**249,524**	17,543	(100,000)	**(82,457)**
2014	340,899	(49,172)	**291,727**	13,013	(5,179)	**7,834**
2015	383,533	(55,380)	**328,153**	13,892	(2,191)	**11,701**
2016	381,928	(93,065)	**288,863**	14,328	(75,037)	**(60,709)**
2017	362,054	(87,217)	**274,837**	17,713	(5,899)	**11,814**
2018	336,741	(78,712)	**258,029**	17,958	(1,979)	**15,979**
2019	332,090	(74,811)	**257,279**	16,103	(3,845)	**12,258**
2020	321,790	(43,581)	**278,209**	18,595	(4,432)	**14,163**
2021	297,482	(44,948)	**252,534**	19,897	(4,873)	**15,024**

* The Scheme provides a mechanism by which the Company can mitigate its insurance risk. The Scheme gives the Scheme Administrator the power to adjust the payment percentage applicable to claims to reflect the financial position of the Company; it also gives the Scheme Administrator the power to recover past payments in excess of the payment percentage through a levy. An initial payment percentage of 85% was set on 1 January 2014 and a 15% levy was made on Scheme Creditors on the same date. A further 10% levy was made on 1 April 2016. The payment percentage of 75% has remained unchanged since 1 April 2016. Under the Scheme, the Payment Percentage will be adjusted to reflect the changing financial circumstances of the Company throughout the run-off of its claim liabilities, ensuring that all Scheme Creditors receive an equitable share of the Company's assets. The Company remains liable for all unpaid liabilities until the conclusion of the run-off of the Company. If there are insufficient assets to pay liabilities in full at conclusion, then final payment will be made to Scheme Creditors on a pro-rata basis. If surplus assets exist at the conclusion of the run-off, the Scheme Creditors will receive a pro-rata share of the first £30 million of the surplus.

To the extent that the Company would otherwise report a surplus of net assets, the reduction in claims outstanding for the repayment percentage is restricted by this asset surplus to reflect the obligation to repay monies previously raised by the levy/payment percentage mechanism (see note 25: Contingent liabilities). As at 30 June 2021, the reduction for the payment percentage of £44.9 million (2020: £43.6 million) has been restricted by a total of £27.0 million (2020: £32.7 million) to reflect this notional surplus.

(ii) Financial Risk and management objectives

The Company's primary financial risk is that proceeds from financial assets are not sufficient to meet its claims settlement obligations due under the run-off of its insurance business. The main components of this risk are market risk, credit risk and liquidity risk.

Throughout the run-off period, the Company has followed a risk-averse investment strategy. This strategy is "to acquire secure assets which will generate income and capital growth to meet as far as practicable the cost of current and future liabilities pursuant to the insurance business of the Company".

As the Company has no premium income, the underlying security of the investment portfolio is paramount to ensure that the income generated is available to contribute towards payment of claims and operating expenses. The portfolio is invested in gilts, corporate bonds and floating rate notes, with the remainder in cash deposits.

(a) Interest Rate Risk

Interest rate risk arises primarily from investments in fixed interest securities. In addition, to the extent that claims inflation is correlated with interest rates, liabilities to policyholders are exposed to interest rate risk. The Company seeks to mitigate this risk, by matching, as far as is practical, the maturity of fixed interest investments to the forecast settlement profile of outstanding claims.

The sensitivity of interest rate risk illustrates how the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates at the reported date. A 100bps sensitivity has been selected to reflect the variation which might reasonably be expected in a given twelve-month period.

	2021 £000	**Change £000**	*2020 £000*	*Change £000*
Financial assets at fair value through the profit and loss	**229,140**		*250,340*	
Sensitivities:				
Fair value following 100bps increase in interest yields	**208,868**	**(20,272)**	*225,963*	*(24,377)*
Fair value following 100bps decrease in interest yields	**252,925**	**23,785**	*279,210*	*28,870*

6 Management of Insurance and financial risk *continued*

The increase/(decrease) in valuation would be accounted for through the profit and loss for the period. The financial assets are held as UK gilts, debentures and floating rate notes, and except for the floating rate notes, the interest received on the assets held would not change in response to a change in interest rates. The redemption values would likewise be unchanged – thereby gains or losses arising from the interest rate change would unwind as the asset reached maturity.

(b) Credit risk

Credit risk is the risk that a counterparty will be unable to pay amounts in full when due. Key areas where the Company is exposed to credit risk are:

- amounts due from issuers of corporate bonds and similar fixed income products;
- reinsurers' share of insurance liabilities
- amounts due from reinsurers in respect of claims already paid

The Company's Investment Management Agreement sets limits on the range of investments the Company's investment managers can make on its behalf, specifically all investments must be AAA or AA rated. Except for UK gilts and supranational bonds, the maximum exposure to any counterparty is limited to the lesser of 5% of the portfolio valuation or £15 million. All investments must be denoted in sterling and the use of derivatives is not permitted under the agreement. Company policy is that all cash balances should be held with parties rated as at least Investment Grade.

The assets bearing credit risk are summarised below, together with an analysis by credit rating

	2021	*2020*
	£000	*£000*
Gilts	**158,917**	*172,899*
Fixed income corporate bonds	**67,188**	*74,444*
Floating rate notes	**3,035**	*2,997*
Reinsurers' claims outstanding	**16,847**	*20,500*
Reinsurance debtors	**280**	*3,336*
Cash and cash equivalents	**4,613**	*3,078*
Accrued Interest	**1,396**	*1,521*
Amounts owed by Scheme Creditors	**200**	*263*
Other debtors	**329**	*272*
Total assets bearing credit risk	**252,805**	*279,310*
AAA	**53,288**	*56,204*
AA	**194,471**	*216,990*
A	**220**	*3,145*
BBB	**2,054**	*826*
Not Rated	**2,772**	*2,145*
Total assets bearing credit risk	**252,805**	*279,310*

Ratings of A and below in the above table relate to non-investment assets only. These lower rated assets are regularly monitored for recoverability and provided for when necessary.

(c) Liquidity Risk

Liquidity risk is the risk that cash may not be available to pay obligations when due at a reasonable cost. The primary liquidity risk of the Company is the obligation to pay claims to policy holders as they fall due. These claims are projected to remain payable for in excess of 30 years. Any long-term shortfall in claims coverage identified by the annual actuarial forecast will be met through the Scheme levy mechanism.

Short term liquidity requirements are met by transfers of funds from investments to cash. Under the Company's Investment Management Agreement, a minimum target of £2.0 million is set for same day transfer and £10 million of funds must be made available within 5 working days on request.

The projected settlement of the Company's liabilities is given below

Financial Liabilities and outstanding claims	**<1 year**	**Between 1 year and 5 years**	**Between 5 years and 10 years**	**Between 10 years and 20 years**	**>20 years**	**Total**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
At 30 June 2021:						
Outstanding claims	**14,520**	**53,006**	**57,982**	**73,638**	**53,388**	**252,534**
Other Creditors	**656**	**–**	**–**	**–**	**–**	**656**
	15,176	**53,006**	**57,982**	**73,638**	**53,388**	**253,190**

6 Management of Insurance and financial risk *continued*

Financial Liabilities and outstanding claims	*<1 year*	*Between 1 year and 5 years*	*Between 5 years and 10 years*	*Between 10 years and 20 years*	*>20 years*	*Total*
	£000	*£000*	*£000*	*£000*	*£000*	*£000*
At 30 June 2020:						
Outstanding claims	13,843	54,348	61,820	81,836	66,362	278,209
Other Creditors	1,266	–	–	–	–	1,266
	15,109	54,348	61,820	81,836	66,362	279,475

(d) Fair value estimation

Financial instruments carried at fair value can be categorised by the following valuation methods:

Level 1 Quoted prices in an active market

Level 2 Recent transactions in an identical asset if there is an unavailability of quoted prices

Level 3 Use of a valuation technique if there is no active market or other transactions which are a good estimate of fair value.

The Company's financial investments of £229.1 million (2020: £250.3 million) comprise of UK gilts, debentures and similar debt securities. They are all categorised as level 1.

7 Supplementary Information Regarding Classes of Business

Balance on technical account for general business	**2021 Gross claims**	**2021 Reinsurance recoveries**	**2021 Net**	*2020 Gross claims*	*2020 Reinsurance recoveries*	*2020 Net*
	£000	**£000**	**£000**	*£000*	*£000*	*£000*
Employers' liability	**(6,514)**	**1,264**	**(5,250)**	*(8,359)*	*10,397*	*2,038*
Third party liability	**9,374**	**1,102**	**10,476**	*6,067*	*572*	*6,639*
Other	**–**	**–**	**–**	*(1)*	*–*	*(1)*
Unallocated claims handling costs	**1,076**	**–**	**1,076**	*(6,002)*	*–*	*(6,002)*
Levy adjustment	**6,240**	**–**	**6,240**	*(26,798)*	*–*	*(26,798)*
	10,176	**2,366**	**12,542**	*(35,093)*	*10,969*	*(24,124)*

Third party liability claims are predominantly abuse claims. The major component of Employers' liability claims by value is mesothelioma, but the class also includes noise induced hearing loss and vibration white finger claims.

Reinsurance Recoveries

Reinsurance recoveries are amounts recoverable under excess of loss reinsurance contracts. Reinsurance recoveries for the year ended 30 June 2021 were £2.4 million (2020 £11.0 million), being reinsurance monies receivable of £6.0 million, less a reduction of reinsurers' share of technical provisions of £3.6 million.

Gross Claims Outstanding

	2021	*2020*
	£000	*£000*
Employers' liability	**201,259**	*209,843*
Third party liability	**91,772**	*105,945*
Unallocated claims handling provision ('ULAE')	**4,451**	*6,002*
Reduction for Levy/payment percentage	**(44,948)**	*(43,581)*
Total claims outstanding	**252,534**	*278,209*

No note on movement in prior years' claims provisions has been presented because the Company is in run-off and, therefore, such information is represented by the Statement of Income and Retained Earnings shown on page 21. All business results from contracts concluded in the UK.

The Company's in-house claims handling system, Pierian, went live on 01 October 2020. As at 30 June 2021, a provision of £4.5 million (2020: £6.0 million) has been made for future claims handling administration costs ('ULAE'), including staffing and maintenance of this claims handling system.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

8 Debtors arising out of reinsurance operations

	2021	*2020*
	£000	*£000*
Debtors arising out of reinsurance operations	**280**	*3,336*

This balance represents reinsurance recoverable balances submitted to reinsurers for payment and not yet settled and are recorded at the transaction price. All are expected to settle within 12 months. The balance as at 30 June 2020 included an amount due in respect of a commuted balance not settled until after the 2020 financial year end.

9 Other Income

	2021	*2020*
	£000	*£000*
Compensation for early contract termination	–	*4,200*
Total other income	–	*4,200*

The other income of £4.2 million in 2020 represents income from a negotiated settlement with a service provider in preparation for the Company's own provision of service.

10 Other Charges

	2021	*2020*
	£000	*£000*
Operating lease rentals – leasehold property	**139**	*130*
Other administration costs	**1,467**	*1,355*
Total other charges	**1,606**	*1,485*

11 Employee information

The monthly average number of persons (including executive Directors) employed by the Company during the year was 8 (2020: 6). All staff are employed in the run-off administration of the Company.

Staff costs for the above persons were:

	2021	*2020*
	£000	*£000*
Wages and salaries, including amounts sacrificed as pension contributions (Note 13)	**720**	*637*
Social security costs	**79**	*72*
Other pension costs – contributions by Company	**27**	*23*
	826	*732*

12 Directors' emoluments and Scheme Administrator's fees

	2021	*2020*
	£000	*£000*
The aggregate emoluments paid to directors in respect of qualifying services were	**266**	*271*
The amount included above in respect of the highest paid Director was	**182**	*187*
The number of directors who were accruing benefits under the defined contribution pension scheme was	**1**	*1*

The emoluments of directors are set by the Company's Remuneration Committee and are subject to the approval of the Scheme Administrator.

At 30 June 2021, the Company had 4 directors (2020: 4).

An analysis of the remuneration package of the executive Director is set out below:

	Salary	**Pension contributions**	**Benefits in kind**	**Total 2021**	*Total 2020*
	£000	**£000**	**£000**	**£000**	*£000*
S J Ellis	**173**	**7**	**2**	**182**	*187*
	173	**7**	**2**	**182**	*187*

12 Directors' emoluments and Scheme Administrator's fees *continued*

An analysis of the fees paid to the non-executive directors is set out below:

	Total 2021 £000	*Total 2020 £000*
M B A Walker	**43**	*42*
G H Hughes	**43**	*42*
	86	*84*

In addition to their fees, non-executive directors are eligible for reimbursement of expenditure incurred for the attendance at Board meetings.

The remaining director, K Gill, did not receive any remuneration in respect of his directorship of MMI. Fees incurred by MMI and payable to Ernst & Young LLP in respect of Mr Gill's role as a director are disclosed in note 23.

13 Pensions

The Company operates a Workplace Pension Scheme which is an auto-enrolment compliant defined contribution scheme. Members of the scheme must contribute a minimum of 5% of gross salary, usually by way of salary sacrifice, with a further 4% of gross salary contributed to the Plan by the Company. Amounts shown in Note 11 in respect of staff and directors are the gross salaries to which they are entitled before deductions by way of salary sacrifice. Contributions made for death in service benefits for both executive directors and staff during the year amounted to £9,000 (2020: £10,000) and contributions for income protection benefits were £6,000 (2020: £16,000).

14 Auditors' remuneration

	2021 £000	*2020 £000*
Fees payable to the Company's auditors for the audit of the Company	**121**	*118*
Audit related assurance services	**12**	*–*
	133	*118*

The Company's auditors are Grant Thornton UK LLP.

15 Tax on profit/(loss) on ordinary activities

The standard rate of Corporation Tax in the UK was set at 19% with effect from 1 April 2017. The relevant deferred tax balances have been calculated at this 19%.

	2021 £000	*2020 £000*
Profit on ordinary activities before tax	**–**	*–*
UK corporation tax at 19% (2020: 19%)		
on taxable profit/(losses) for the period	**(12)**	*8*
Deferred tax on trading losses carried forward/(utilised)	**12**	*(8)*
Tax charge in non-technical account	**–**	*–*

There is deferred tax not provided on tax losses of £11.8 million (2020: £11.8 million), which will be recovered if the Company makes future trading profits. As the Company is in run-off it does not anticipate making future profits. There is no expiry date associated with the utilisation of the losses against future trading profits.

By agreement with the Inspector of Taxes, the Company has been treated as wholly non-mutual for tax purposes from 1993 onwards.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2021**

16 Development costs

	Software Costs £000
Book Cost	
At 1 July 2020	152
Additions	271
Disposals	–
At 30 June 2021	**423**
Amortisation	
At 1 July 2020	–
Charge for the year	58
Eliminations in respect of disposals	–
At 30 June 2021	**58**
Net book value	
30 June 2021	**365**
30 June 2020	152

Software costs represents expenditure by the Company in developing its own in-house claims handling system. This expenditure was treated as work in progress and was not amortised until the system went live on 01 October 2020.

17 Investments

Financial investments comprise of the following

	2021		*2020*	
	Cost £000	**Market Value £000**	*Cost £000*	*Market Value £000*
Financial assets at fair value through the profit or loss	**228,250**	**229,140**	*230,789*	*250,340*
Income from investments		**5,035**		*6,017*

These investments comprise of UK Gilts, debentures and floating rate notes.

18 Other debtors

	2021 £000	*2020 £000*
Accrued interest	**1,396**	*1,521*
Amounts owed by Scheme Creditors	**200**	*263*
Prepayments and other debtors	**329**	*272*
	1,925	*2,056*

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

19 Tangible fixed assets

	Fixtures, fittings and office equipment £000
Book Cost	
At 1 July 2020	333
Additions	18
Disposals	–
At 30 June 2021	**351**
Accumulative depreciation	
At 1 July 2020	320
Charge for the year	11
Eliminations in respect of disposals	–
At 30 June 2021	**331**
Net book value	
30 June 2021	**20**
30 June 2020	13

The charge for depreciation for the year ended 30 June 2020 was £59,000.

20 Other creditors including taxation and social security

	2021 £000	*2020 £000*
Amounts owed to trade creditors	**88**	*88*
Taxation and social security payable	**26**	*26*
Other operational accruals: non-financing balances	**542**	*1,152*
	656	*1,266*

21 Notes to the statement of cash flows

(i) Profit/(loss) on operating activities

	2021 £000	*2020 £000*
Profit for the financial year	**–**	*–*
Depreciation charges	**11**	*59*
Amortisation charges	**58**	*–*
Investment return	**10,725**	*(21,616)*
(Decrease)/ increase in gross claims provision	**(25,675)**	*20,930*
Decrease/(increase) in reinsurers' share of claims provision	**3,653**	*(3,375)*
(Decrease) in other creditors	**(610)**	*(1,089)*
Decrease/(increase) in amounts due from reinsurers	**3,056**	*(3,336)*
Decrease in debtors	**6**	*251*
Net cash (outflow) from operating activities	**(8,776)**	*(8,176)*

(ii) Movement in cash and portfolio investments

	At 1 July 2020 £000	*Cash flow £000*	**Realised and unrealised losses £000**	**At 30 June 2021 £000**
Cash in hand and at bank and deposits with credit institutions	3,078	1,535	–	4,613
UK Gilts, debentures and floating rate notes	250,340	(5,440)	(15,760)	229,140
	253,418	**(3,905)**	**(15,760)**	**233,753**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2021

22 Events after the reporting period

The Company continues to monitor operational and other risks in relation to the unfolding Covid 19 pandemic in the post year end period. At the date of signing of the Report and Accounts, for the year ended 2021, operations continue as normal. The Company continues to monitor investment market fluctuations during this period; the latest month-end valuation of the Company's investment assets was at the 31 August 2021 at a market value of £231.4 million (30 June 2021: £229.1 million).

23 Transactions with related parties

As Scheme Administrator, R Barker exercises general powers of management and control of the business. Mr Barker is an Associate Partner of Ernst and Young LLP. K Gill is a director of the Company and is a partner of Ernst and Young LLP. The Company has incurred the following costs in respect of services provided by Ernst & Young LLP.

	2021 **£000**	*2020* *£000*
Administering the Scheme of Arrangement	**108**	*149*
Fees paid in respect of director's services	**43**	*53*
Other assurance services	**38**	*85*
Taxation services	**12**	*16*
	201	*303*

As at 30 June 2021, the balance outstanding in respect of these services was £26,000 (2020: £nil).

All transactions with Ernst and Young LLP have been undertaken on an arm's length basis.

24 Obligations under leases

Future minimum rentals payable under non-cancellable operating leases are as follows:

	Land and buildings 2021 £000	*Land and buildings 2020 £000*
Payable within one year	**137**	*118*
Payable between two and five years	**359**	*496*
	496	*614*

25 Contingent liabilities

Upon the triggering of the Scheme, the Scheme Administrator set an initial payment percentage of 85% and imposed an initial levy on Scheme Creditors of 15%. The payment percentage was decreased to 75% from 1 April 2016 and an additional 10% Levy was billed at that date. As at 30 June 2021, £203.4 million has been collected from Scheme Creditors via the Levy mechanism (2020: £198.6 million).

The Company reflects the requirement to repay this liability to the extent that it would otherwise hold surplus reserves. The future levy recoverable element of claims outstanding at 30 June 2021 of £44.9 million (2020: £43.6 million) includes an offset of £27.0 million (2020: £32.7 million) in respect of these surplus reserves (see note 6(i)(b)), representing a decrease of £5.7 million which otherwise would have represented the Company's loss for the year.

Taking account of historical and future levy/payment percentage deductions, the liabilities of the Company have consequently been reduced by £248.4 million (2020: £242.1 million). Part, or all of these liabilities could become payable to Scheme Creditors if the financial position of the Company improves and the payment percentage is consequently increased.

Under the terms of the Scheme, Scheme Creditors are also entitled to additional payments of up to £30 million from any surplus reserves once all other liabilities have been met in full. This 'Commission for Risk' represents compensation to the Scheme Creditors for assuming the risk under the Scheme of having to make payments to the Company to satisfy the imposition of a Levy by the Scheme Administrator, or of having insurance claims payments reduced.

The Company has no other material contingent liabilities at 30 June 2021 (2020: £nil).

26 Ultimate controlling party

The Company is a company limited by guarantee and does not have a share capital. It is owned by its members. In accordance with Article IV (a) and (c) of the Company's Articles of Association, since the triggering of the Scheme the voting rights exercisable by the Scheme Administrator at general meetings give him effective overall control of the Company.