benenden health

# Private healthcare for everyone

## Annual Report and Financial Statements

For the Benenden Healthcare Society Limited
for the year ending 31 December 2021

# Contents

# Who's Who

at 31 December 2021

## The Board

**Bob Andrews –** Chief Executive Officer

**Jo Andrews –** Branch-nominated

**Ian Blanchard –** Board-nominated*

**Helen Chamberlain –** Chief Financial Officer

**Paula Clark –** Board-nominated*

**Brian Eaton –** Branch-nominated

**David Fletcher –** Branch-nominated

**Louise Fowler –** Board-nominated*

**David Furniss –** Board-nominated* Chairman

**Angela Hays –** Branch-nominated

**Adrian Humphreys –** Board-nominated*

**Deryck Lewis –** Branch-nominated

**Les Philpott –** Branch-nominated

## Chief Executive Officer

Bob Andrews

## Society Secretary

René Fraioli

## Deputy Secretary

Deryck Lewis

## Company Secretary

Richard Johnston ACG

## Medical Advisor

Mr Rowan Connell MD, FRCOG

## External Auditors

Deloitte LLP

*Board-nominated directors are those directors considered by the Board to be 'independent' as defined by the Society's own rulebook and as required by corporate governance best practice. The term is used throughout this Annual Report with that meaning.

## Internal Auditors

RSM UK Group LLP

## Bankers

NatWest

## Solicitors

Brachers LLP

DLA Piper

Pinsent Masons LLP

TLT LLP

## Investment Managers

Janus Henderson

Ruffer LLP

Legal & General Group plc

## Registered Office

Holgate Park Drive, York,

YO26 4GG

## Business Address

Holgate Park Drive, York,

YO26 4GG

**Telephone:** 0800 414 8500

**Website:** **benenden.co.uk**

**Friendly Society Number:** 480F

**Financial Services Register Number:** 205351

# From our Chair, David Furniss

## Being there for our members

For over a century our mutual Society has been about one thing: being there for our members. In the past two years, that has been more challenging than usual. Despite the disruption, I am pleased to say we have found new ways to support our members' health and wellbeing, and at the same time accelerated preparations for our future.

In 2021, COVID-19 continued to disrupt our work, amid a spike in cases during the winter. The third national lockdown lasted for the first three months of the year, and various forms of restrictions lasted until July. We had expected a rise in demand for the Society's services during the year. However, while our hospital and network remained available, the pandemic once again put the brakes on members seeking diagnostics and treatment.

We helped members 112,364 times in 2021, up 29,420 on 2020, and above the 97,313 we saw in 2019. Understandably, many members remained reticent about exposing themselves to the risk of contracting the virus in a clinical setting through face-to-face appointments. Even so, by March demand was on a par with 2019. At Benenden Hospital, despite some restrictions until April on the procedures we could offer, we continued to support both the diagnostic and treatment needs of our members. At the same time self-pay income rose dramatically from £5.5m pre-pandemic to £8.7m.

## Supporting our members

I am pleased to say we were there for our members in other ways too. Our 24/7 GP service was more popular than ever. We had 31,000 online consultations this year, up over 20% on 2020 and 25% higher than pre-pandemic levels. Our mental health service was a valued help during another challenging year, with members using it 7,609 times, which was on a par with 2020. In response to the pandemic, we continued extending authorisations for treatment until June 2022.

The experience of 2020 told us how much members valued our virtual classes, on everything from Pilates to healthy eating. So in 2021 we added more. Audiences of close to 1,000 logged on to some sessions. We plan to increase the range of these sessions, so members can progress through different levels that best match their individual needs.

## Offering continuous value

This is part of how we want to offer value by being there for more than just medical issues. By helping members maintain their health and wellbeing as well as recover from illness, we plan to be more present in their lives by supporting them in more ways, and so deepen our healthcare bond with them.

During 2021, our membership rose, as it had in 2019. Overall, it went up by 13,024, and stood at 827,736 at the end of 2021 and has continued to grow in early 2022. This is a remarkable achievement, given that three years ago we were in the midst of a long-term decline in membership. It reflects how the pandemic has made health and wellbeing more prominent in people's consciousness. It also indicates that we are matching their specific needs with our member benefits.

## Reaching out to new audiences and members

The mutual roots of Benenden Health lie in providing medical cover to Civil Service and Post Office employees, and this remains vitally important. Our growing efforts in the last few years to reach out to companies and organisations who want to offer healthcare to their employees are true to those origins. This work is paying off, with our corporate membership rising to over 51,000 in 2021 (44,361 in 2020). Companies increasingly want to look after their people. Providing access to healthcare lowers sickness and absenteeism, but it also shows businesses care about their employees. That matters when companies' reputations count more than ever, and when competition for employees is so intense. Our combination of member benefits meets that need at a lower cost than private medical insurance, and so occupies a distinct and competitive place in the healthcare market.

We are capitalising on this growth by making ourselves easier to do business with. The simpler our onboarding process and our agreements, the easier it is for our business customers to access the data that shows them the value they are getting from us, the more likely they are to stay with us. Demonstrating member value and achieving excellent member retention are vital for our mutual Society.

We are always looking at other ways to be there for our members. These include making our rewards – from discounted gym memberships to cinema tickets – easier to access and more in tune with members' needs and lifestyles.

Lower levels of demand for our services and rising membership mean the Society has again recorded an operating surplus – £21.0m in 2021. This is a far cry from just two years ago when we faced an operating deficit. It also means we can further invest in benefits.

In 2022, we will enhance the current 'Financial Assistance' service, creating a 'Cancer Support' service which will allow members undergoing cancer treatment on the NHS (or privately) to receive ongoing telephone support and guidance from a specialist nurse. No additional contribution will be required to access this service which will be included as part of members' monthly contributions. This follows earlier research showing that people thinking of buying healthcare value a service that can help them when faced with the most serious of illnesses.

## Investing in services

We have been investing in other ways too. In June 2021, we launched the Benenden Health App. Members can use it to manage their account, book GP appointments and access the Mental Health Helpline. There is also health and wellbeing content available, and in 2022 we will make virtual classes available through it too. This is just the start. Because we have invested in overhauling the IT behind the app, members will soon be able to interact with us entirely in this way if they choose to.

We are about to complete a switch to a new telephony system, which will help reduce the time it takes to arrange diagnosis or treatment. And we have finished moving our IT to the cloud. This makes our IT costs more predictable, and our systems more secure, resilient and flexible. It is all part of giving ourselves the best possible platform to evolve and support our members.

We know that what we offer represents excellent value. And that we are a distinctive presence in a market where private medical insurance lies beyond what many people can reasonably afford. We also know we need to explore options to make ourselves as appealing as possible to people of all ages and backgrounds. Our app is a big step in this direction, as people increasingly expect a seamless digital experience from organisations. We continue to research and test ideas, including a low-cost product which could provide a new entry point through Benenden Wellbeing, for instance for new corporate customers.

The group and the Society are not subject to the Solvency II regulations which are designed to ensure there is enough capital to absorb severe economic shocks. However, the Board considers these to be a vital part of good governance and have followed the Solvency II approach since 2019. Results show we have a capital coverage of 176% at the end of 2021 (2020: 149%). This is a prudent buffer. As in 2020, we have invested our operating surplus to make sure we can handle the potentially significant rise in demand for benefits. Our planning considers how the pandemic adversely impacts on NHS patient referrals – both patient numbers and waiting times – and therefore increases the need for us to step in to help our members.

## Evolving our democracy

As a mutual, our membership is the core of our friendly society. In 2021, we again had to conduct much of our business virtually, including our Annual Conference. It is a tribute to Society staff and volunteers that this was successful.

We have developed new proposals to engage our members fully in our business and in deciding our future. And in 2022, I hope we will be able to consult further and debate fully at a special Conference in September.

## Benenden Hospital Trust

The Society has commenced discussions with the Independent Board of Governors to look at changing the legal entity status of Benenden Hospital Trust. This will be subject to approval from the Charity Commission and other bodies. If approved, it is likely to conclude in 2023.

## Managing our carbon footprint

Another important part of our future is understanding and reporting on our environmental impact. In line with our industry regulations, we have set about pinpointing our climate risks and how we plan to mitigate them. This is part of our overall responsibility to contribute to the government's aim of net zero carbon emissions by 2050.

We have continued efforts to measure our carbon footprint so we can set targets and draw up plans to reduce it. We already recycle paper, offer electric car charging at our York office and support car sharing. But we want to take more systematic, measurable steps. This includes reporting against the Taskforce for Climate-related Financial Disclosures framework, which we cover in our Climate Risk Report (page 24).

## Being there for our community

We have been able to give back to our community more extensively this year with voluntary initiatives. This includes virtual work experience projects for University of York students and supporting a programme to combat social isolation with members of our community. Together, our people have helped to restore local parks, which in addition to improving our public spaces, gave our teams an opportunity to re–connect after periods of lockdown. Our community fund made awards to 12 local projects to improve health and wellbeing. Among other things, this funding has helped to deliver counselling sessions, support a new parents' group and buy sensory equipment for a childcare facility. We have continued to raise money for charity with active challenges including a Corporate Relay in the Yorkshire Marathon.

## Changes to Board of Directors

At the 2021 Annual Conference, we said goodbye to Board member Ken Hesketh, who stepped down having been involved with the Society and the Hospital since 2003. We would like to thank Ken for his hard work and support over many years.

Mike Bury also stepped down at the 2021 Conference due to ill health. Mike's intellect provided the Board with a dimension of challenge that will be missed. Mike sadly passed away at the end of 2021.

We welcomed Jo Andrews, Branch-nominated non-executive director, who has joined the Board following her election at June's Conference. We have also co-opted Sameer Rahman as a Board-nominated non-executive director, bringing customer digitisation and IT expertise, who will be standing for election at the June 2022 Conference.

## Outlook for 2022 and beyond

As we emerge from the last two years of the COVID pandemic, the Society has continued to provide valuable services to members and has been fortunate to strengthen its financial position and capital base. Now we find ourselves entering a period with a new set of challenges caused by the emergence of higher inflation across many goods and services around the world.

This will affect the Society's supply chain and business partners and we recognise this will put pressure on our members finances. These economic challenges are further amplified by the effects of the conflict in Ukraine.

The rise in inflation, the highest for over three decades, will be a key factor in the Society's operational and strategic planning and forecasting for the coming year and beyond. The Board remain focussed on ensuring the Society's services remain accessible and affordable for members and the groups strong financial position gives confidence on the future even with these uncertain times we are living through.

# Donation to Ukraine Humanitarian Appeal

We are all deeply concerned about the humanitarian crisis unfolding in Ukraine. The Board of Directors discussed what help Benenden Health could provide as a benevolent healthcare society.

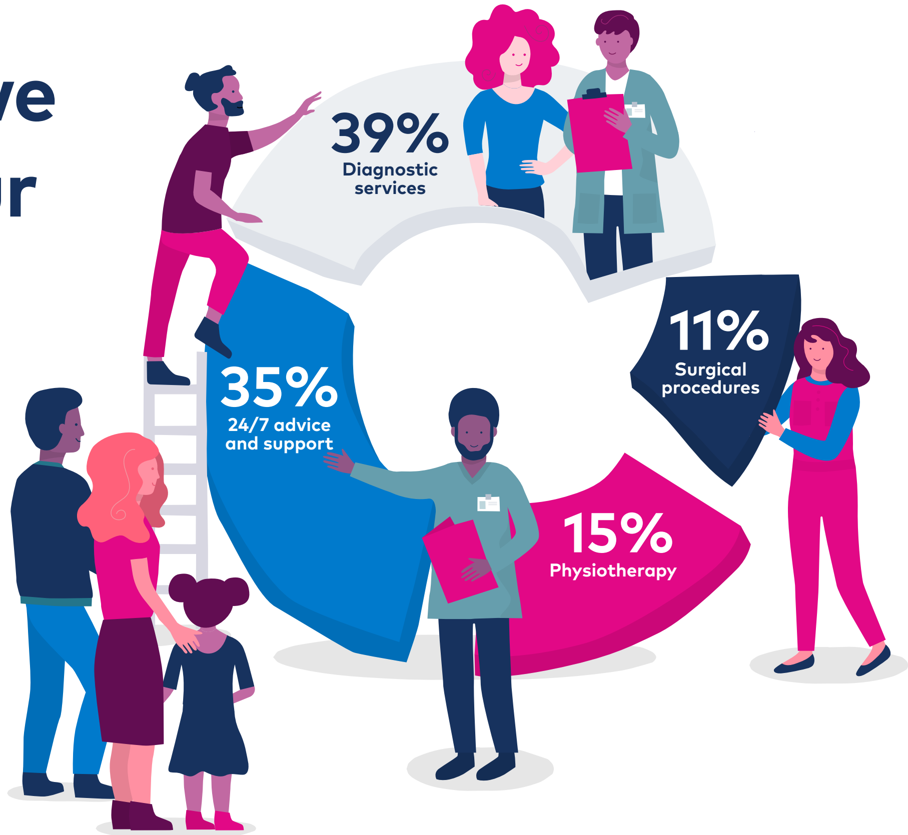
We wanted to help as best we could with food, water, clothing, medicine, medical equipment, and other essentials for displaced people in Ukraine and those fleeing to neighbouring countries. We recognised the sense of urgency needed as the crisis intensifies.

The Society does not have the infrastructure to do this directly, however there are appropriate charities who do. In March 2022, the Board agreed to donate £250,000 to the British Red Cross to support the Disasters Emergency Committee Ukraine Humanitarian Appeal. We chose this charity because of their alignment to the wider purposes of the Society of the improvement of health and the prevention of disease.

# Thank you

In 2021, we have all had to show our resolve in coping with continued difficulties to support our members and keep them engaged. The fact that we have succeeded while attracting new members is a tribute to everyone, from the Society's staff and directors to colleagues at Benenden Hospital and our Branch Officers. I would like to thank them all for their significant contributions for the benefit of The Benenden Healthcare Society and all its members.

# In 2021, we helped our members 112,364 times




## Diagnostic services

**carried out in 2021**

The services below accounted for 61% of the diagnostic services provided in 2021.

**4%** Gastroenterology

**13%** Orthopaedic surgery

**28%** Physiotherapy

**4%** Gynaecology

**7%** Ear, nose and throat

**5%** Dermatology

## Surgical procedures

**carried out in 2021**

The procedures below accounted for 94% of all surgical procedures completed in 2021.

**17%** Orthopaedic surgery

**35%** Ophthalmology

**23%** General surgery

**8%** Gynaecology

**6%** Vascular surgery

**5%** Urology

# From our Chief Executive Officer, Bob Andrews

**Becoming a mutual for tomorrow**

During 2021, we have continued to deal with the enduring COVID-19 pandemic, which has once again disrupted what we do. But we have also carried on supporting our members. And there has been no let-up in our work to make ourselves a mutual that is sustainable for the long term, and flexible enough to adapt in a fast-changing market.

## Maintaining our appeal

The pandemic has put health and wellbeing front and centre in people's minds. This has undoubtedly been a factor in more people seeking our help, to the point where this year we have continued to reverse what had, until 2019, been an uninterrupted fall in our membership numbers. We cannot afford to take this for granted though, and we must continue to reach out to people of all ages and at all life stages.

To achieve that, it is up to us to make our product as attractive as possible to all of them. Improving our rewards platform and adding cancer support to our core product – both of which we plan to do in 2022 – are important steps here. So is extending our virtual classes, which bring ongoing value to our members beyond dealing with medical issues. We also have plans to change our treatment pathways so that members get the most appropriate care, for instance in orthopaedics. Already in 2021, our new orthopaedic triage service means members get quicker access to physiotherapy than through diagnostic services. Overall, the changes will improve how we look after our members in a way that deepens their loyalty, and gets better value for the Society too.

## Upgrading our technology

Our investment in IT is vital because it helps our services function better and run more smoothly. We have completed the upgrade of the systems behind our member benefits service that lets members do everything from booking a GP appointment to arranging a scan. Among other things, this means we can connect more easily with new partners, and so opens up a bigger choice of providers to give our members more convenience and shorter waiting times.

The upgrade also means we can give our members a better experience by helping them more quickly, whether they get in touch by phone or online. And it puts us on the road to offering an entirely digital experience through our new app. In 2022, members can expect new features and functions as we move towards our goal of being a virtual organisation. Of course, we will be there to help our members in whatever way they want to contact us. But our growing digital strength positions us to compete in a sector where technology plays a big role in starting and sustaining relationships. This is reinforced by our improved system's ability to give us data that helps us spot emerging issues quickly by seeing why members get in touch with us and what we can do better.

## Reinforcing our brand

In recent years, we have focused intently on building our brand and targeting our marketing effort to make sure we get full value from our marketing budget. This has continued in 2021, and our growth in membership is a testament to our success. We have achieved this by creating awareness of Benenden Health through TV and radio advertising. And using other marketing methods like social media, email and press to reach more specific audiences, whether it is business decision-makers or consumers in different age groups.

By defining precisely who our target audiences are, we can shape the right messages to reach each one, making it more likely that we will turn leads into sales. This has led to some great success in 2021. We have grown corporate membership by 6,978 and broadened the age range of new members, which shows we are extending our appeal. We have also lowered the cost of attracting each new member by around 5% since 2019.

All this activity helps us widen our reach, deepen our connection with members and bolster our long-term sustainability as we respond to the financial realities we still face. A drop in diagnosis and treatment activity has created an operating surplus for the Society for the second year in succession. But the NHS is under unprecedented pressure and we expect this together with pent-up demand for our services to produce a growth in our costs. It is also why we will continue working hard to attract new members, from individuals and families to employees. Our product is competitive and our value undeniable, but while the appetite for healthcare grows, so does the intensity of our competition.

## Rejuvenating our democracy

More than many other organisations, a mutual is all about its members. They have a say in decisions and strategy in a way that even corporate shareholders do not. We want them to make the most of that opportunity. So in 2022 we are bringing forward proposals aiming, among other things, to forge a closer bond between members and the Board. We want to do this in a way that creates a constant dialogue between the two, rather than saving up debate for our Annual Conference. In this way, we hope we can turn more of our members' ideas into reality.

## Supporting our people

Disruption to our operations from COVID-19 was particularly marked in the first three months of the year when the UK endured its third lockdown. We had experience to draw on from 2020, when we switched almost overnight to remote working and then made our offices COVID-safe for the gradual return of our staff later in the year. Even so, our people showed tremendous flexibility to switch to working from home again when we needed them to, while keeping up service levels to members. We are now formulating a policy on hybrid working. Making hybrid working a formal option for our people makes us more efficient but also a more attractive employer – an important factor in competing for the best employees. We have also invested in IT to make sure our people have the right equipment to be able to work securely from anywhere if they need to.

Our data tells us our people are committed, engaged and confident in the Society, its mission and its leadership.

This was evidenced by success in the 2021 Best Companies awards. We placed 26th in the Top 75 Best Companies to Work For in Yorkshire and The Humber and 65th in the Top 100 Best Large Companies to Work For in the UK. This complemented our 2-star Best Companies accreditation, identifying us as having 'outstanding' levels of workplace engagement.

We cannot rest on our laurels though. We are pushing ahead with a diversity and inclusion strategy to make sure we offer the right environment to attract and retain people of all ages, genders, and backgrounds. This matters at a time when hybrid and home working mean we can cast our net wider geographically to find the best people. The same factors of course mean we also face intensified competition ourselves from employers outside our traditional catchment areas.

## Looking towards tomorrow

This has been another year where we have strengthened our position and made more progress towards becoming a mutual for tomorrow. Despite facing more upheaval in 2021, we have once again moved forward in a range of important areas. Our membership has grown as our increasingly sophisticated marketing finds a receptive ear among people ready to invest in supporting their health and wellbeing. Our finances are on a sound footing and plans to evolve our offering are well in hand. And our people, processes and systems are well set to give members what they need. All this means we are well placed to continue to build ourselves into a mutual for tomorrow that has:

- A product for tomorrow that gives good value and meets people's evolving needs
- A brand for tomorrow that appeals to a broad range of people and widens our appeal
- A democracy for tomorrow that engages all members in making the big decisions that shape the Society's future
- A business for tomorrow that has the right systems, processes and people to deliver on the brand's promises

I would like to thank everyone at Benenden Health, whether at our offices in York or our hospital in Kent, for working so hard to keep us on track in 2021, as well as all our Branch volunteers. I am confident our shared sense of purpose will help us take advantage of the opportunities that 2022 will offer.

# Awards

We our proud to share that Benenden Health has placed in the top rankings for various categories of brilliance in 2021. We are 26th in the Top 75 Best Companies to Work For in Yorkshire and the Humber and 65th in the Top 100 Best Large Companies to Work for in the UK. We are 8th in the Top 10 Best Insurance Companies and achieved 2-star status of Best Companies accreditation, with 'outstanding' levels of workplace engagement.

# Strategic Report

## Our business model – creating value for our members

We want our members to get the best possible value from a healthcare service that complements the NHS. We also want to be financially sustainable, so members can rely on us long into the future. This section looks at our business model, operating environment, our strategy and plans.

## What we do

Our purpose is to improve the nation's health, by offering health and wellbeing services to members across the UK. Members can join us as individuals or employees of businesses who offer membership as a benefit.

By the end of 2021, we had 827,736 members – 13,024 more than 2020 (814,712). Our services include diagnosis and treatment, as well as 24/7 phone access to GP and Mental Health helplines, plus virtual classes on health and wellbeing topics from exercise to healthy eating.

Our income is mainly from our members' monthly contributions, which go into a mutual fund along with income from investments and other products. This fund covers the cost of medical services, or 'benefits', for members, and the cost of running our business.

## A unique presence in UK healthcare

We are distinctive in several ways. As a mutual, we are here only for our members, who have a say in our big decisions through our Annual Conference.

We are a not-for-profit organisation, reinvesting as much of our income as we can in services for members. Also, we offer private medical cover for everyone on the same discretionary basis, subject to resources available through membership contributions. Our members all pay the same monthly amount for access to the same services.

We are also different to private medical insurance because all members' monthly contributions are the same, regardless of pre-existing medical conditions or age. We do not charge excesses or increase the contribution when members use our services.

# Our services

Our services include access to physical and mental health services, including 24/7 GP and Mental Health helplines, plus private diagnosis and treatment when there is a wait on the NHS. Members access our services through our national network of partners and our own Benenden Hospital in Kent. Members can also choose to pay discounted prices for treatments not covered by their membership. This self-pay service is available at four hospitals nationwide, including our own. Benenden Hospital also offers a private GP service.

## Services available from day one of membership

### 24/7 GP Helpline

Access to the helpline is available 24 hours a day, 7 days a week to book an appointment for a telephone consultation with a UK-based GP.

### 24/7 Mental Health Helpline

Members can speak to an experienced counsellor 24/7 for immediate emotional support in dealing with conditions like anxiety, depression, bereavement or relationship problems.

### Care Planning and Social Care Advice

Information and advice about care issues including sourcing short or long-term care, at home, residential, convalescent or respite. Support is also offered to parents and guardians, or children with special needs.

### The Benenden Health App

Members can access their membership on the go with our app. Book and attend virtual GP appointments and request support via our Mental Health Helpline. They can click to call to request diagnosis, treatment and physiotherapy. Also access to the Wellbeing Hub where they can view a wide-ranging choice of articles, videos, recordings, live and on-demand classes to support mental wellbeing, fitness and nutritional needs.

## Services available after six months of membership

### Medical Diagnostics

Diagnosis support up to the value of £1,800, available from 500 facilities nationwide.

### Medical Treatment and Surgery

Access to over 250 common procedures across medical specialities including orthopaedics and general surgery. Treatment is provided in one of our 27 approved hospitals.

### Mental Health Counselling Support

Support ranging from guided self-help to face-to-face therapy for conditions such as stress, depression, anxiety and bereavement.

### Physiotherapy

Guided self-management exercises supported by ongoing telephone support or up to six face-to-face or remote physiotherapy treatments.

### Financial Assistance

Financial support of up to £1,500 to purchase a range of items that can assist members who have been diagnosed with cancer or tuberculosis.

# Our mutual fund

# How we are different to medical insurance

At Benenden Health, we believe access to healthcare should be affordable, inclusive and fair. That makes us different, along with discretion, to many medical insurance products in several ways:

**We do not exclude pre-existing medical conditions on joining.**

That means anyone who lives in the UK can join us, regardless of their medical history.

**Our members do not have to pay any excess when they use Benenden Health services.**

**The price of Benenden Health membership is significantly lower than the average private medical insurance policy.**

**All Benenden Health members pay the same rate.**

The price of membership does not depend on age. Nor does it go up if members need to call on our services.

# Our other products

### Health cash plan

An affordable way to manage the cost of routine healthcare, including dentistry, eyecare and therapies.

### Health assessments

A series of tests and examinations that are not usually available on the NHS, designed to highlight possible health concerns in their early stages.

### Travel insurance

Cover for all ages that is comprehensive and flexible, and caters for pre-existing conditions.

### Home insurance

Personalised buildings and contents cover.

### Self-pay treatments

Access discounts at Benenden Hospital in Kent, or on hip and knee replacements at four other facilities.

## How we stay financially sustainable

Our biggest single cost is providing benefits to our members. The amount varies each year, depending on how many of our members ask for our help. In 2021, we spent £85.4m on member benefits – £8.2m more than in 2020 and £3.6m less than 2019. The increase in 2021 was because services began to return to normal after the disruption caused by COVID-19. The pandemic has still made some members reluctant to risk contracting the virus by asking for help in face-to-face clinical settings. But overall, the effect of COVID-19 was less marked than in 2020.

We expect the return to normality to continue in 2022, and that demand will rise accordingly. To be able to meet members' needs, we have to stay financially strong despite our market being unpredictable. We do this by:

**Controlling the price of our product**
Each year, we review our members' monthly contribution rate. This helps us make sure we can be there when they need us but still cover our costs.

We had lower than expected demand for member benefits resulting in operating surpluses in both 2020 and 2021. This gives us reasonable grounds to hold the contribution rate at its current level of £11.90 per person per month.

The Board remains vigilant to the potential for changes to members' needs and the possibility of increased demand for services arriving ahead of expectation. They retain the authority through the motion passed in the 2021 Conference to reconsider the contribution rate later in 2022 if claims costs develop materially ahead of forecast. If this situation arises, we will consult further with the membership.

**Discretionary benefits**
We offer services on a discretionary basis, subject to the resources available through membership contributions. This makes us different from insurers. It also lets us manage our funds to make sure we can keep providing benefits.

**Controlling our costs**
We spend a proportion of our funds on running our business, called 'Society expenses'. We keep these to under 24% of our income. In 2021, Society expenses were £21.4m, or 18.4% of relevant income.

Income from investments – we receive rental income from our property portfolio, as well as dividends and interest from financial investments. In 2021, our investments stood at £136.9m (2020: £130.3m). Income and gains from these investments were £6.5m (2020: £7.4m). Our investment strategy is to maintain a diversified portfolio by spreading risk across different types of investments.

**Watching our capital**
Our capital coverage is a measure of our financial strength. We need to have enough capital available to let us implement our strategy, invest in benefits for our members and be able to handle any economic and demographic shocks that could affect our business.

We have chosen to treat ourselves as an insurer when it comes to judging how much capital we need. Since 2019, we have followed a capital measure based on the Solvency II regulation for insurance firms. The Board uses this measure to make decisions about our strategy and how we run the Society day to day.

At the end of 2021, the Society's capital coverage was 176% of the minimum we need to cover our activities. This was up from 149% in 2020. This is because of the surplus we generated in the year together with favourable gains on the investment fund and a reduction in the pension scheme deficit.

# Our strategy – Making ourselves ready for tomorrow

COVID-19 has put health and wellbeing at the front of people's minds. Meanwhile, the NHS is under more pressure than ever, while private medical insurance remains unaffordable for many. We have the opportunity to help with a service that gives people what they need and offers value for money.

To give our members the care they need and stay financially sustainable, we have continued to modernise both what we offer and our business.

## Making our product more appealing

Our goal is to meet the needs of people from as broad a range of backgrounds and age groups as possible. By appealing to all ages, we give ourselves the best chance of attracting more members and sustaining lasting relationships with them.

We constantly look for ways to build on the simplicity of our one-product-one-price offer, and match what people need and expect.

We focus on offering continuous value by helping members maintain and improve their health and wellbeing, not just deal with medical ailments. This boosts our appeal to a younger audience, who are less likely to need our diagnosis and treatment services regularly. It also makes us more attractive to potential corporate members.

Our digital online classes are an important part of this strategy. They began as sessions to help members through the lockdowns of 2020. And they have become more popular as we have expanded them to include everything from Pilates to healthy eating – some attract audiences of up to 1,000 members. We plan to expand them further in 2022, including different levels that meet members' specific needs.

Digital technology is also central to staying relevant and offering value. In 2021, we launched the Benenden Health App. It provides members with the ability to book GP appointments, access mental health services and manage their Benenden Health account through the app. Our plan is that members can interact with us entirely in this way if they want to.

Our other digital services were also popular in 2021. Our 24/7 GP Helpline had approximately 31,000 consultations, up over 20% on 2020. And our Mental Health Helpline helped people 7,609 times, compared to 6,001 in 2020.

This digital capability keeps us in step with current trends and relevant to the people we are aiming to attract.

We are making our product more appealing in other ways too. In 2022, we plan to add nursing support and advice for cancer patients to the services covered by members' monthly contributions. To appeal to a younger audience and give corporate members more options, we will test a low-cost version of our core product which includes all its features except treatment and diagnosis.

**Other plans include:**

- Making our rewards easier to access and more relevant to members' needs and lifestyles
- Changing orthopaedic care pathways to give members more appropriate treatment and give the Society better value
- Continuous review of our hospital networks to ensure it is appropriate to support our members

## Strengthening our brand

In 2021, our membership grew, reaching 827,736 members. This success in membership figures reflects both the healthcare environment in the UK, with more people willing to purchase, and the growing strength of our brand. It shows that our investment in marketing is paying off.

The cost of one-off treatments and private medical insurance make our offering attractive. But in a highly competitive market, a strong brand is essential to keep us visible to people when choosing a healthcare provider.

Our approach builds general awareness of the Benenden Health brand through TV, radio and PR activity. Then we target specific audiences and parts of the country with more tailored messages, based on insights about their needs, lifestyles and reasons for considering private healthcare. Here we use other channels like social media, email, online banner advertising and pay-per-click. We can also assess how effective these methods are, both individually and together. For instance, we know that TV advertising has driven over 20% of our sales in the last three years. And we know that the cost of attracting each new member has fallen by around 5% since 2019.

We are also focusing on businesses, who are becoming more aware that offering benefits like healthcare helps to attract and retain staff. In 2021, our corporate membership rose by 6,000 to reach 51,000. As a low-cost alternative to private medical insurance, we can build on this with marketing, emphasising the connection between employee benefits and lower absenteeism and sickness. We will also make ourselves easier to do business with by streamlining our onboarding process for new members and simplifying our commercial agreements.

A good reputation is the core of a good brand, and in 2021 our Trustpilot rating remained at a strong 4.5★. This is a valuable tool in building trust among prospective members and keeping existing ones loyal. We want to maintain a strong Trustpilot rating in 2022.

## Reinvigorating our democracy

Our members are central to who we are as a mutual. And they have the chance to be part of how we generate ideas, make decisions and shape our future. Currently though, only around 0.4% are directly involved in our business. This is why we have been working on ways to reinvigorate our democracy.

After consulting extensively with members, our draft proposals include creating:

- A slimmed-down structure of member communities. These groups would be able to organise events and run activities more likely to attract members, instead of focusing only on the business of the Annual Conference and Society rules. The Society would also be able to support them more extensively, relieving some of the burden on volunteers
- A member council, drawn from the member communities. This would work closely with the Board on strategy, as well as championing the Society's values and principles
- A one-member-one-vote system to involve members more directly in decisions
- A new role for our Annual Conference, which would focus more on strategy, product proposals and healthcare topics rather than rules, processes and formal business

We will debate these proposals at our Annual Conference in June 2022 and vote on them at a Special Conference in September 2022.

## Modernising our business

A business like ours depends on people, processes and technology to keep service to members at the right level, compete effectively and control costs.

## Environmental, social and governance (ESG)

We started to develop a formal ESG strategy in 2021 to help us articulate how we will reduce the impact on our environment, what our social priorities are and how we effectively govern ourselves. The strategy will create a more sustainable business in the long term. It will focus on:

1. Reducing our impact on the planet and understanding how climate change is likely to impact our business, and
2. Improving diversity, inclusion and equality in the workplace and within our supply chain.

The strategy will be aligned to three of the United Nations' Sustainable Development Goals (SDGs):

- SDG3 – 'ensure healthy lives and promote wellbeing for all at all ages'
- SDG8 – 'promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all'
- DG12 – 'ensure sustainable consumption and production patterns'

We will be setting targets and metrics to measure our performance and progress in reducing our impact on the environment (our carbon footprint) and improving diversity, inclusion and equality.

## Upgrading technology to improve service

Our IT systems are vital to making us flexible and responsive, and able to quickly adapt what we offer to our members. Changes we have made in 2021 are already resulting in improvements members can see and appreciate.

Our new Benefit Assist System (BAS) significantly streamlines and improves our claims handling process. This helps reduce the time required to make a claim and improves the member experience. It also makes it easier for the Society to connect with more partners to provide those services by linking seamlessly to their own systems. Looking further ahead, this upgraded technology opens the door to members being able to make claims through the app, and to offering customised benefits portals to our corporate clients.

We are also upgrading our communication system. This will let us:

- Allow people to seamlessly move between different communications channels, such as telephone, email, online and webchat, without the member having to start the whole process again from scratch
- Route chat and calls to staff more efficiently
- Understand why members are calling us, pick up trends from their queries and respond proactively, all without advisors having to fill out a form after every call

Again, this is a big step forward in giving everyone who deals with us a better experience, and equipping ourselves to give a higher level of service as we evolve.

In 2021, we completed our move to cloud-based IT. This makes more secure and resilient home working possible, as well as making our IT costs more predictable.

We also released our mobile app during 2021, offering members options to book services and access content from their mobile devices. We have an exciting roadmap of app releases planned for 2022, adding more services and content throughout the year.

We will begin replacing our Phoenix system for managing members' records in 2022. This represents the last major phase in overhauling our systems and making ourselves ready for the future.

## Supporting our people

The wellbeing of our colleagues remained a priority throughout 2021, as we continued to navigate through the COVID-19 pandemic. We continued our focus on positive mental health, which included training for our people managers and increasing the number of our Mental Health First Aiders. As many colleagues continued to work remotely, and we recognised the impact of 'Zoom fatigue', we launched our digital wellbeing commitment to promote better ways of working during our own working day, and with each other.

We are focused on providing a learning environment where our people can develop and grow. Our colleague mentoring scheme thrived with 14 partnerships across the organisation. The scheme provides opportunities for colleagues to learn from each other, obtain career advice, build confidence and enhance skills. Benenden University also continues, where we use the apprenticeship levy to fund colleagues' development and qualifications. 2021 saw seven colleagues studying a range of degree apprenticeships, with one graduating with an EMBA qualification.

In 2021 we formed a Junior Board, a group of non-executive colleagues that work with senior executives on strategic initiatives. They will be key to providing a more diverse perspective to strategic initiatives such as culture, growth, brand and product innovation.

Despite the upheaval of the pandemic, our workforce is highly committed and engaged. In our 2021 survey, they agreed strongly that Benenden Health was a great place to work, and felt confident in their managers, as well as supported by them. They also felt they understood how the Society was performing.

We are building on this in 2022 by:

- Creating a policy to make hybrid working a formal option
- Equipping staff with IT for secure, resilient home working, and making remote teams easier to manage through our new telephony system
- Developing a diversity and inclusion strategy. This will help us benefit from the range of perspectives that diversity brings, and reflect the demographic make-up of our target market
- Providing a range of employee benefits to keep us competitive

## Focusing on the environment

Like most organisations, we are also readying ourselves for the future by developing our approach to environmental, social and governance issues. This includes assessing our carbon footprint, setting targets to reduce emissions and monitoring progress.

We are also developing plans to report against the Taskforce for Climate Related Financial Disclosures framework, which clarifies the climate risks we face and how we mitigate them. This will meet our regulatory reporting duties, and also our responsibility to contribute to the UK's target of net zero carbon emissions by 2050.

We are defining metrics and targets and collecting data to be able to report progress. We have opted in to the Streamlined Energy and Carbon Reporting regulations, even though we are exempt from them as a friendly society. This work sits alongside other activity to boost our environmental sustainability, including:

- Using sustainably sourced or recycled paper, recycling bins and lower-power LED lighting
- Encouraging car sharing, offering car charging points and cutting car journeys through flexible working
- Taking part in the government's Cycle to Work scheme

# Summary of our environmental performance

We recognise that 2021 has been another unusual year and as such, our carbon reduction plans will continue to be based on 2019, the year our baseline assessment was carried out. Further information can be found on page 27.

**Intensity ratio revenues***

**0.74 tonnes of $CO_2$** (per £million)

**19.03 tonnes** less $CO_2$ from electricity, heat, steam and cooling than in 2019

**3.63** tonnes of $CO_2e$ from gas in 2021, down from 4.5 in 2019

**0.25%** tonnes $CO_2$ per FTE**

**Total $CO_2$ emissions** have decreased by 78.19 tonnes compared to 2019

**7.17 tonnes** of $CO_2e$ from travel in employee or rental cars. That is 15.89 tonnes less compared to 2019

**691m$^3$ water used, down from 893m$^3$ in 2019**

**7.51 t$CO_2$e from other emissions**

*An intensity ratio is a way of defining our emissions data in relation to an appropriate business metric. We have chosen revenues as our business metric. The ratio is calculated as total emissions divided by total income.

**Full time equivalent

# Climate risk Report

In 2019, the UK Parliament declared a climate emergency, making the UK the world's first major economy to pass laws to end its contribution to global warming by 2050. Since then, it has been clear that major change is coming in the way we look at climate change across the whole economy.

The science on climate change is clear and informs our view as a Society. Changes in the climate are expected to have both acute physical effects (like more severe and frequent climate change-related events including fires, floods, landslides and storms) as well as chronic effects (long-term progressive shifts in rainfall, more volatile weather, ocean acidification, rising sea levels and rising average temperatures). At the same time, attempts to limit global warming to an increase of less than 2°C are expected to lead to dramatic action and changes in policy to rapidly lower $CO_2$ emissions.

Climate change presents a broad set of complex and interconnecting risks across social and economic systems. And climate change risks combine to amplify other existing risks. They materialise in wide-ranging and interconnected ways. It could be significant readjustments to market values and flows of capital, or new regulations and policies to 'price in' previously unaccounted costs. Or it could be changing consumer preferences, extreme weather events, environmental damage, changing patterns of land use, political instability and large-scale migration.

Against this background, UK Chancellor Rishi Sunak announced in November 2020 that the UK would be the first country to make it mandatory by 2025 for businesses across the economy to disclose their climate risks. The model for these would be the framework of the Taskforce for Climate-Related Financial Disclosures (TCFD), which was created by the global Financial Stability Board in 2015 to promote financial transparency related to climate risks. While we are not yet required to produce these disclosures, we have nevertheless chosen to describe the journey we are on when it comes to climate change, using TCFD structure and content.

We see this as a tangible sign of how seriously we take our responsibility to limit climate change, mitigate its effects and contribute to the government's ambition to make the UK carbon neutral by 2050.

## Governance

The Board is ultimately responsible for managing risk (including risks associated with climate change) and approving the risk appetite statements, although it delegates much of the oversight of risk to the Group Audit and Risk Committee (GARC).

For full details of the risk governance process, including how it relates to climate change risks, see the Risk Management Report (page 48).

## Climate change

We have made identifying and managing climate-related risks part of our existing risk management framework to give us an appropriate level of oversight. We have also updated our Statements of Responsibility to reflect how the responsibilities for identifying the financial risks associated with climate change are shared among the Society Executive.

## Strategy

Like many other organisations, we are conscious of the risks we face associated with climate change. We might not face the same issues as general insurance companies having to factor extreme weather into their liability calculations, but we do have a responsibility to contribute to the government's aim of net zero carbon emissions by 2050. Like others, we want to report on our carbon footprint, from emissions and waste, to paper consumption and single-use plastic.

This year, we have continued our progress towards understanding, reporting on and managing climate change risk, so we can be transparent about efforts to minimise our environmental impact. This matches our aim to have a positive impact on our local environment and be seen as an ethical employer and supplier. It also makes us more attractive to would-be members and employees, who rightly expect organisations to make a determined effort to limit climate change.

Currently, our activity to boost our environmental sustainability includes using sustainably sourced or recycled paper, recycling bins and lower-power LED lighting. We also encourage car sharing, offer car charging points and reduce car journeys through flexible working, as well as taking part in the government's Cycle to Work scheme.

As a friendly society, we are exempt from the Streamlined Energy and Carbon Reporting (SECR) and TCFD regulations but we have decided to opt in by providing as much data as we can. This helps us focus our efforts to define metrics, set targets and gather the data we need to show progress towards meeting what we see as our obligation to cut our emissions.

The Board recognises the importance of understanding the short, medium and long-term impacts of climate change on the group. Given the discretionary nature of the Society's healthcare product, we consider the impact of climate change is low in the short to medium term. But we accept that risks associated with the transition to a low-carbon economy might have an impact on us, especially in relation to how our investments perform.

The Society is developing an Environmental, Social and Governance (ESG) strategy which will include targets for reducing carbon emissions, a key driver of climate change. We will also develop a carbon investment policy to support sustainable investment decisions.

## Understanding the risk

While we consider the short-term risks from climate change as low, the GARC recognises the importance of identifying and managing the financial risks associated with climate change. The risks fall into the following categories:

- Physical risks associated with higher and more variable temperatures and extreme weather events (like heatwaves, floods, wildfires and storms) and longer-term shifts in the climate (like changes in rainfall, more volatile weather, and rising sea levels and mean temperatures). Some examples of physical risks materialising include:
  - More extreme temperatures or pollution levels leading to increased claims
  - More frequent, severe or volatile extreme weather, causing more business disruption and losses, as well as potentially making property insurance unavailable or more costly
  - More regular and severe flooding, causing physical damage to our assets, like the hospital or other properties we own or hold in investment funds

We do not currently anticipate that physical risks will have a material impact on our demand levels or membership numbers in the short term, but continuing to analyse healthcare data and our market will help us identify any trends which might affect us.

- Transition risks may arise from the process of adjusting to a net zero carbon economy. The UK government has set a target of achieving net zero greenhouse gas emissions by 2050. Examples of transition risks materialising include changes in:
  - Government policy which affects the economy
  - Technology
  - Investor sentiment

All our investment managers have ESG investment strategies and have signed up to organisations who promote responsible investing and influence the world's largest corporate greenhouse gas emitters to take the necessary action on climate change.

## Risk management

We have established a culture where everyone is conscious of risk and their role in controlling it. And this, in turn, reduces the chances of us overlooking risks.

For full details of the risk management framework, see the Risk Management Report (page 48).

## Risk management process

This table shows the Society's view on climate change and the progress we have made in understanding and managing this risk.

| Climate change risk | Actions taken |
|---|---|
| **The risk that the changing climate and increase in extreme weather events might have a financial impact on our business.** | We have completed an assessment to understand the financial impact of climate change on our business. We have monitoring in place to respond to changes in government policy, member/consumer preferences and to develop new technologies as we transition to a greener economy.<br><br>We are also developing an Environmental, Social and Governance (ESG) strategy. This will include targets for reducing carbon emissions, a key driver of climate change.<br><br>We have robust business continuity plans in place to prepare us for any extreme weather events.<br><br>When investing and managing member funds we, along with our professional advisors, consider underlying investments/asset allocations. This is to mitigate the transitional risks associated with moving towards a less polluting, greener economy.<br><br>We are also developing our supplier onboarding and management processes. This is so we can understand how they are responding to climate change and the actions they are taking to mitigate the risks associated with it.<br><br>We have insurance to protect against loss or damage to our properties because of extreme weather. And we also have business interruption insurance. |

## Metrics and targets

In 2021, our focus has been on understanding and measuring both our operational emissions and the carbon footprint of our investment portfolio. We will be looking to set targets over the next 12 months and track key metrics over time.

The metrics in this section are for the Society and do not include the direct emissions from Benenden Hospital, which reports emissions separately.

We recognise that 2021 has been another unusual year and as such our carbon reduction plans will continue to be based on 2019, the year our baseline assessment was carried out.

## Operational emissions

The main metric we use is our carbon footprint, measured in $tCO_2e$ (tonnes of carbon dioxide equivalent). The metrics below relate to emissions from 1 January to 31 December 2021.

The increase in emissions from 2020 reflects that more of our people were in the office in 2021 than 2020. This reflects the impact of remote working through the pandemic and the move to hybrid working as we started to come out of the pandemic.

| Operational emissions | 2021 Tonnes $CO_2e$ | 2020 Tonnes $CO_2e$ | 2019 Tonnes $CO_2e$ |
|---|---|---|---|
| **Scope 1 Combustion of gas** | 3.63 | 1.90 | 4.50 |
| **Scope 1 Combustion of fuel for transport** | - | - | - |
| **Scope 2 Purchased electricity, heat, steam and cooling (location-based)** | 67.17 | 55.30 | 86.20 |
| **Scope 3 Emissions from business travel in rental cars or employees' vehicles where we are responsible for purchasing the fuel** | 7.17 | 5.95 | 23.06 |
| **Scope 3 Other emissions (business travel via cars, taxis, trains and planes)** | 7.51 | 6.93 | 49.91 |
| **Gross total gross** | 85.48 | 70.08 | 163.67 |
| **Intensity ratio – revenues (per £million)** | 0.74 | 0.63 | 1.64 |
| **Intensity ratio – people (per FTE)** | 0.25 | 0.22 | 0.51 |

## Methodology

For our current reporting year, we have followed the government's guidelines on Streamlined Energy and Carbon Reporting.

We buy most of our electricity directly and have used kWh figures from our providers combined with the government conversion factors for carbon emissions.

We have estimated kWh from the invoice amounts using the gas and electricity readings over the year. We estimate carbon emissions from this based on the government's conversion factors.

We extracted business travel data from our finance, expenses and travel booking systems. And we used government conversion factors for company reporting of greenhouse gas emissions to convert distance into carbon emissions. In calculating vehicle emissions, we have used average car estimates.

## Investment-related emissions

The metrics for measuring investment-related emissions are in their infancy and constantly evolving as more data becomes available. The most commonly used metric is currently the Weighted Average Carbon Intensity – Carbon Emissions Scope 1 and Scope 2 Tonnes per £m Revenue (WACI). This gives a measure of the relative amount of carbon currently emitted by the firms we invest in. While data coverage and quality is not yet perfect, it gives us a basis for discussing our investment portfolio with our managers.

The WACI split across key asset classes has been collected from investment managers and summarised in this table.

**Investment-related emissions**

| Asset class | % of portfolio | WACI* |
|---|---|---|
| **Equities** | 9.6% | 183.1 |
| **Credit** | 22.7% | 153.6 |
| **Index-linked gilts** | 22.3% | n/a |
| **Other** | 45.4% | n/a |

Coverage does not yet extend to all assets, including the Society's property, so the table does not include the carbon impacts of index-linked gilts and other assets.

Due to the lack of consistency in the data used to construct the WACI, it is difficult to draw comparative conclusions from these metrics, but it is reassuring that the figures are consistent with those published by leading equity indices and other leading insurance companies. We will continue to monitor the development of various investment metrics to enable us to consider appropriate targets and strategies for our investment managers to follow.

We have also analysed the equity and bond portfolios using the PACTA (Paris Agreement Capital Transition Tool) tool, which helps users identify their exposure to transition risks associated with a disruptive shift to a low carbon economy.

This analysis showed that:

- Only 11% of our equity portfolio was in sectors with high transition risk exposures
- Only 1% of our bond portfolio was in sectors with high transition risk exposures
- The Value at Risk under the IPR FPS stress test calculations was less than 3% of the equity portfolio
- Our equity portfolio Transition Disruption Metric was 1.22 ('manageably disruptive'), just 0.22 over the score of a portfolio aligned to the Paris agreement

*Tonnes of $CO_2e$ per £m revenue

# Offsetting emissions

We are not currently part of any carbon-offsetting programmes. This remains an option to support future carbon emissions goals, though at this stage we focus on managing our own emissions.

The Society owns and maintains 45 acres (18.2 hectare) ancient woodland at our Hospital estate in Kent. We are a proud custodian of this land and understand the benefit this brings to our community and environment. As the woodland area has been eroded over time, we plan to re-establish what has previously existed through a woodland recreation scheme. This will increase the amount of $CO_2e$ captured per hectare and enhance the ecological resilience of the Hospital estate.

# The market

## Economy

After annual GDP fell in 2020, the biggest slump since 1709, the UK economy rebounded in 2021.

With the UK in lockdown for the bulk of Q1, the economy in that quarter shrank by 1.5%[1]. However, as the vaccine programme was rolled out at rapid speed, the decline was less pronounced than the same quarter in the previous year, the period which marked the start of the pandemic (-2.9%) and Q2 2020 (-19.8%).

The reopening of hospitality in Q2 saw growth surge by 5.5%, before increasing by a smaller 1.3% in Q3, as global supply chain and workforce shortages hit certain business sectors.

The UK economy grew by 7.5% in 2021[2]. At the end of Q3, GDP levels were just 1.5% below the level before COVID, and by January 2022 they had fully recovered to pre-pandemic levels.

With COVID continuing to impact the UK at the start of 2022, the economy still faces an uncertain future[3]. Net growth is forecast, with a new wave of investment in technology and digitisation made since the pandemic set to boost the economy.

Growing inflation, energy bill rises and tax increases could precipitate a cost-of-living crisis, however. Analysts are predicting that households could see the biggest income squeeze in a generation.

## Private market overview

The last decade saw stagnation in the private health cover market. There was a modest increase in demand for business cover, while the number of consumer policies in existence fell year-on-year[4].

Interest in cover has surged during the COVID pandemic, however. According to LaingBuisson, between 2018 and 2020 the market grew by 10.6% to 4.4m policies[5]. This is an all-time record number since data was collected in 1995.

The consumer segment in particular has witnessed exponential growth. Benenden Health's customer base is predominantly comprised of consumer members. The positive trajectory of this section of the market bodes well for our membership growth ambitions in 2022. 500,000 more people now have health coverage. 7.3 million lives are covered, which equates to 10.9% of the population (up 0.6% on 2018).

Factors that have driven renewed interest in private health are manifold. Key reasons that have influenced take-up of health cover include lengthening NHS waiting times to access elective services, as well as restrictions getting care, particularly at primary level.

The private health market is growing at a rapid rate. However, premium products such as private medical insurance (PMI) are priced at a rate that is still prohibitively expensive for many. The average annual cost of a consumer PMI policy is estimated to be £1,554[6].

A number of new products launched in 2021, the majority of which were targeted at the low-cost level of the health market. Benenden Health's established market presence and our status as a trusted provider means our high-quality, value-driven product is well placed to benefit from the growing number of consumers and businesses seeking a lower-cost private health offering.

Job vacancies hit a record high of 1.25 million in Q4 2021[7] and many sectors are facing an acute shortage of workers. Employee recruitment and retention has therefore never been more important for businesses, as organisations compete for talent. That means employee benefit expectations are increasing, with research revealing a particular desire for health-orientated support. In a survey of UK start-ups, employees found that health cover (selected by 57% of respondents) was the most desired benefit[8].

Businesses are therefore strengthening employee benefits packages, with research revealing that UK enterprises plan to increase spending on benefits[9]. UK businesses rank second among nations planning wellbeing increases, with only Chinese enterprises expected to spend more.

## Innovation

In 2021, our research found that over half (52%)[10] of UK people are now more aware of their own health and have made changes since the start of the COVID pandemic. Consequently, products today are positioned to support customers in proactively managing their health, as well as being there for when things go wrong.

Responding to consumers' and businesses' desire for products that provide preventative resources, we launched Benenden Health's app in 2021. It offers members practical advice and tips on a wide range of health issues, from exercise to nutrition, to help members improve their health. We plan to expand the app further with the integration of exciting new functionality in 2022.

The pandemic dramatically accelerated the delivery of healthcare via digital channels, a trend which continued through 2021. Patients are increasingly migrating to digital health solutions as they seek quicker access to care through pathways which enable them to get care from the convenience of their home, at a time suitable to them.

As many Britons faced growing waits to access primary services, with some NHS surgeries scaling back services to support the vaccine rollout, demand for private remote-based GP services continues to grow strongly. Feedback from patients accessing digital services is positive too. In Q4 2021, Benenden Health members who used our 24/7 GP Helpline had an average satisfaction rating of 8.3 out of 10.

Despite being an issue which affects approximately half of the workforce, research revealed that many women hide menopause symptoms while at work and that a stigma still surrounds this commonplace health issue. A study found that 43% of UK women felt unable to discuss menopause symptoms with their employer[11]. Products and services geared to support women going through the menopause, from personalised care plans to emotional expert support through to toolkits for employers to provide guidance and advice for employees, have been launched by providers. Benenden Health will be investigating options for menopause services in 2022.

## Self-pay treatments

Many patients are today waiting considerably longer for their medical procedures than before the pandemic. The situation is particularly prevalent for patients waiting for elective non-urgent care, some with conditions which significantly impact their quality of life. This has contributed to the self-pay market becoming the fastest-growing revenue stream for hospitals in the years running up to COVID-19. In 2021 revenues have grown rapidly. Reflecting overall market trends, Benenden Hospital has seen robust growth in self-pay sales.

The independent sector's role in the delivery of elective care is expanding. Research in 2021 found that private hospitals are for the first time carrying out more hip and knee replacements (self-pay treatments which are offered at Benenden Hospital), than the NHS[12]. And analysis by healthcare consultancy Candesic found that 56% of total surgeries in the first eight months of 2021 were delivered in private settings. This compares to 40% just two years ago.

According to LaingBuisson, the cosmetic market has also experienced a growth in revenues since the pandemic[13]. Benenden Hospital now offers a range of cosmetic and reconstructive surgeries, including breast reduction and tummy-tuck treatments. As part of its ongoing commitment to grow self-pay income and enhance its service offering, a range of cosmetic and plastic surgeries have been added to Benenden Hospital's clinical offering.

# NHS

## Overview

The start of 2021 was one of the most challenging periods for the NHS since the beginning of the COVID-19 pandemic. More patients were admitted to hospital in January with COVID symptoms than at any other time during the pandemic. Once again, the NHS and its staff performed admirably in the face of unprecedented circumstances.

Unlike the first lockdown in the spring of 2020, there was not a nationwide shutdown of non-urgent elective activity at any point in 2021. It was hoped that advancements with the vaccination programme (which resulted in reduced admissions), along with a relaxation of infection control measures, would enable the NHS to start clearing the elective backlog. But despite their best endeavours, the number of patients on the treatment waiting list at the end of 2021 was growing, not falling.

The suspension of elective activity in 2020 has had a profound impact on the elective waiting list. Activity levels continued to drop during peak COVID-admission periods as staff were redeployed.

A significantly greater number of patients joined waiting lists in 2021, in the midst of reduced productivity. This has meant the NHS has struggled to reduce the numbers waiting for treatment. And at the end of November, before the Omicron COVID variant had impacted the UK, the size of the waiting list had reached an all-time high of nearly six million[14].

## Patient satisfaction

A survey by the Care Quality Commission of patients receiving in-patient care through the NHS since COVID, found that the majority of experiences were positive[15]. Feedback published in October 2021 showed that most felt they were treated with respect and had confidence in the staff who were treating them.

It is encouraging that patients continue to consider their experiences of NHS care as mostly positive. However, Benenden Health's own research showed that confidence in the NHS is falling. Our survey of UK adults in November 2021 found that just 29% felt that the NHS could meet all their healthcare needs, down from 39% in May 2021[16].

Furthermore, 84% expressed some level of concern at the length of NHS waiting lists. Over two-fifths (44%) were 'very' or 'fairly' concerned, which is one of the factors behind more people turning to the private sector to serve their health needs.

## Finance and elective backlog

Research by The Health Foundation in spring 2021 revealed that improving waiting times was the public's top priority for the NHS[17].

The impact of COVID-19 resulted in four million fewer patients completing elective treatment in 2020 compared with the previous year[18].

The government has allocated an extra £5.9 billion of funding to help the NHS tackle the mammoth elective backlog[19]. The money will be invested in new 'one-stop-shop' diagnostic centres, technology to free up staff time and new surgical hubs.

The 1.25% health and social care levy due to come into effect in 2022 will also see NHS funds increase.

With health spending set to increase by £30 billion each year for the rest of the current UK parliament, the NHS has been set an objective of a 30% increase in elective activity compared with pre-pandemic levels by 2024–2025. UK nations have also launched their own initiatives aimed at reducing the waiting list.

In summer 2021, NHS England provided £160m to select English NHS trusts as part of an 'accelerator' programme to boost elective activity to 120% of 2019 productivity[20]. However, due to a surge in COVID admissions, high staff sickness rates and enhanced cleaning regimes, none of the trusts met this target.

In Northern Ireland, meanwhile, for a 12-month period the government is funding private treatment for citizens in the Republic of Ireland, up to the amount it costs NHS Northern Ireland to administer procedures[21].

# Waiting times

The four UK nations operate to different waiting time standards, which are set by their respective governments.

## England

In November 2020, just over two-thirds (68.2%) of patients in England received treatment within 18 weeks of referral. This was significantly short of the 92% target. The situation has not improved this year, with only 65.5% in November 2021 starting treatment within the standard[22]. The target was last met nationally in February 2016.

Within the NHS certain treatment specialities lagged behind the overall average. These included ENT (55.9%), orthopaedics (60.3%) and general surgery (also 60.3%). These types of treatment are all available within the core Benenden Health offer.

Performance improved through to the summer of 2021. But the rapid growth in the number of patients being referred for treatment has rendered the task of improving waiting times very difficult for the NHS. This has been compounded by sporadic suspensions of elective care at trusts due to COVID-admission surges.

The pandemic has also resulted in the number of patients waiting over 52 weeks for treatment increasing exponentially. In February 2020, the last month before the introduction of COVID measures, 1,600 patients were waiting over 52 weeks. By March 2021 this figure had risen by 27,000% to 436,000[23]. In November 2021, 306,000 were waiting over 52 weeks.

Diagnostic waiting-time performance has performed better in 2021, however. 75%[24] of patients received a key diagnostic test within six weeks of referral in November 2021, compared with 72.5% in December 2020. This figure was some way behind the 99% target though.

## Scotland

In Q3 2021, 75.1% of patients in Scotland received treatment within the 18-week target[25].

In the first three quarters of 2021, Scotland's treatment waiting-time performance remained consistent. The latest figures were 4% below pre-pandemic performance, which is the closest of all UK nations to levels before COVID.

A smaller proportion of patients received a diagnostic test within the target. 57.8% had their test inside six weeks in Q3 2021, a figure nearly four percentage points lower than in Q1 2021[26].

## Wales

54.6% of NHS Wales patients started treatment within 26 weeks in October 2021, which is over 40 percentage points below the 95% target[27]. While performance was higher than the corresponding month in 2020, it was significantly lower than October 2019, when 84.8% of patients were seen within the target.

All patients in Wales should get a diagnostic test within eight weeks, but only 59.1% did in October 2021[28]. This is a notable improvement compared with October 2020 however, when just over half (51.2%) had their test within the standard.

## Northern Ireland

Northern Ireland's treatment-waiting time performance is the worst of all UK nations by some margin.

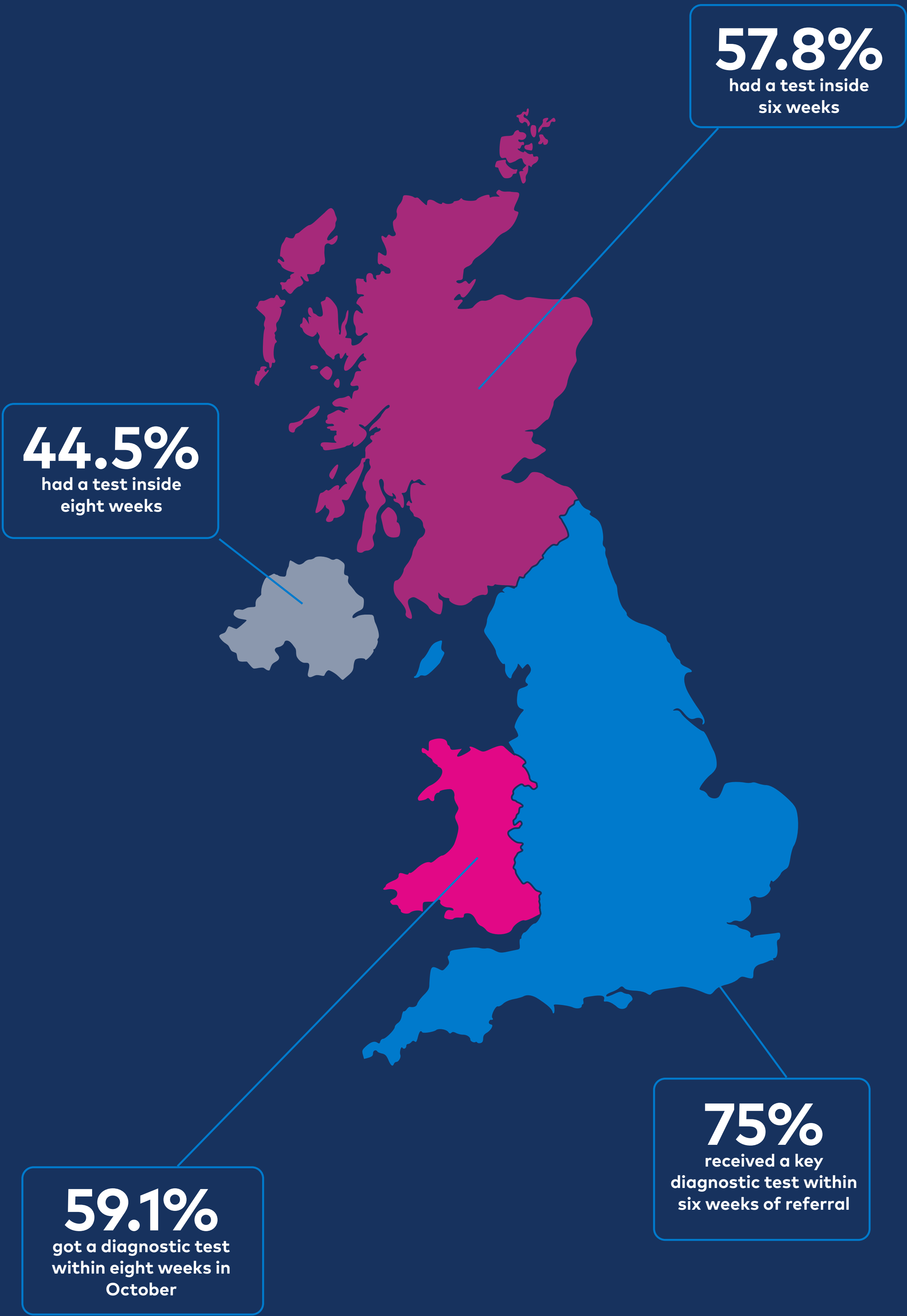
In Q3 2021, less than one in five patients received treatment within the 13-week target. The standard aims for 55% to start their care within this timeframe, but just 17.7% did[29], a figure that was consistent with other quarters in 2021.

The majority are waiting over a year for treatment. Nearly six out of ten patients (58.1%) did not have treatment within 52 weeks of being referred.

A significantly higher percentage of patients got a diagnostic test within the target, compared with treatment services. 44.5% of patients had a test inside of eight weeks[30], but nearly a third (32.9%) were waiting over six months.

Meanwhile, mirroring the situation with treatment services, over half of patients (52.5%)[31] were required to wait over a year for their first outpatient consultation.

1-31 reference points can be found in the Supporting Documents Appendix on page 149


57.8%
had a test inside six weeks
44.5%
had a test inside eight weeks
75%
received a key diagnostic test within six weeks of referral
59.1%
got a diagnostic test within eight weeks in October

# 2021 Financial Review

**In 2021, group member funds rose by £36.6m, compared to an increase of £18.5m in 2020. This was down to:**

- An operational surplus of £21.0m (2020: £26.5m). Although members' demand for services increased in 2021 as COVID-19 restrictions eased, we have not seen an increase in claims deferred from 2020. We will continue to monitor for signs of this
- A reduction of £8.4m in the defined benefit pension scheme deficit, compared to an increase of £4.2m in 2020
- Returns on the group's investment fund of £5.7m (2020: £7.4m)
- A rise of £1.5m in the value of our property portfolio, compared to a reduction of £11.2m in 2020

# Operational surplus for the year

The Board believes the operational result for the year gives a clear view of the group's underlying performance. This is an alternative performance measure which represents net income excluding the impact of asset revaluations of the group's property and investment portfolios. It is different to the statements of income on page 113, which are prescribed by accounting standards.

| Group | 2021 (£m) | 2020 (£m) |
|---|---|---|
| **Excess of income over expenditure after tax (page 113)** | **25.4** | **16.1** |
| **Less gain on investments** | (2.9) | (0.9) |
| **Less change in investment property valuation** | (1.5) | (0.0) |
| **Add loss on operational property valuation** | - | 11.3 |
| **Operational surplus** | **21.0** | **26.5** |
| **Change in investment fund (realised and unrealised gains)** | 5.7 | 7.4 |
| **Net impact of property revaluations** | 1.5 | (11.2) |
| **Actuarial gain/(loss) on pension scheme** | 8.4 | (4.2) |
| **Increase in members' funds** | **36.6** | **18.5** |

The operational surplus of £21.0m for 2021 (2020: £26.5m) came after another year of relatively subdued demand for services due to COVID-19 restrictions. It also reflects a reassessment of the levels of member demand in 2020 as member claims matured after the uncertainty of the first nine months on the pandemic.

Our investment fund continued to perform well in 2021, with an underlying return of £5.7m (2020: £7.4m). We have invested another £0.9m in the fund, bringing the total fund investments to £136.9m at the end of 2021 (2020: £130.3m).

The group's largest liability, the defined benefit pension scheme deficit, has reduced by £18.3m to £29.0m (2020: £47.3m) through a combination of payments into the scheme and actuarial gains. The scheme's funding level, which measures the level of assets available to meet future pensions liabilities, has improved to 78% (2020: 65%). The group continues to make annual contributions to reduce the deficit in line with that agreed with the scheme trustees.

# Group income

Total group income has increased by 5.4% to £135.9m in 2021 (2020: £128.9m), driven by higher member contributions and gains on investments and property valuations. There was also an increase in investment income as the value of the portfolio rose in 2021. Commissions were similar to 2020, but third-party income at Benenden Hospital reduced by £1.1m to £14.0m (2020: £15.1m) after the end of the NHS England contract for support during the initial phase of the pandemic in 2020. This was partly offset by an increase in private income because of demand for self-pay hospital services.

| Group | 2021 (£m) | 2020 (£m) | Change £m | Change % |
|---|---|---|---|---|
| **Member contributions** | 115.4 | 111.1 | 4.3 | 3.9% |
| **Third-party income from the hospital** | 14.0 | 15.1 | (1.1) | (7.3%) |
| **Investment income** | 0.8 | 0.6 | 0.2 | 33.3% |
| **Commissions and other** | 1.3 | 1.2 | 0.1 | 8.3% |
| **Gains on investments and property valuations** | 4.4 | 0.9 | 3.5 | 388.9% |
| **Total** | **135.9** | **128.9** | **7.0** | **5.4%** |

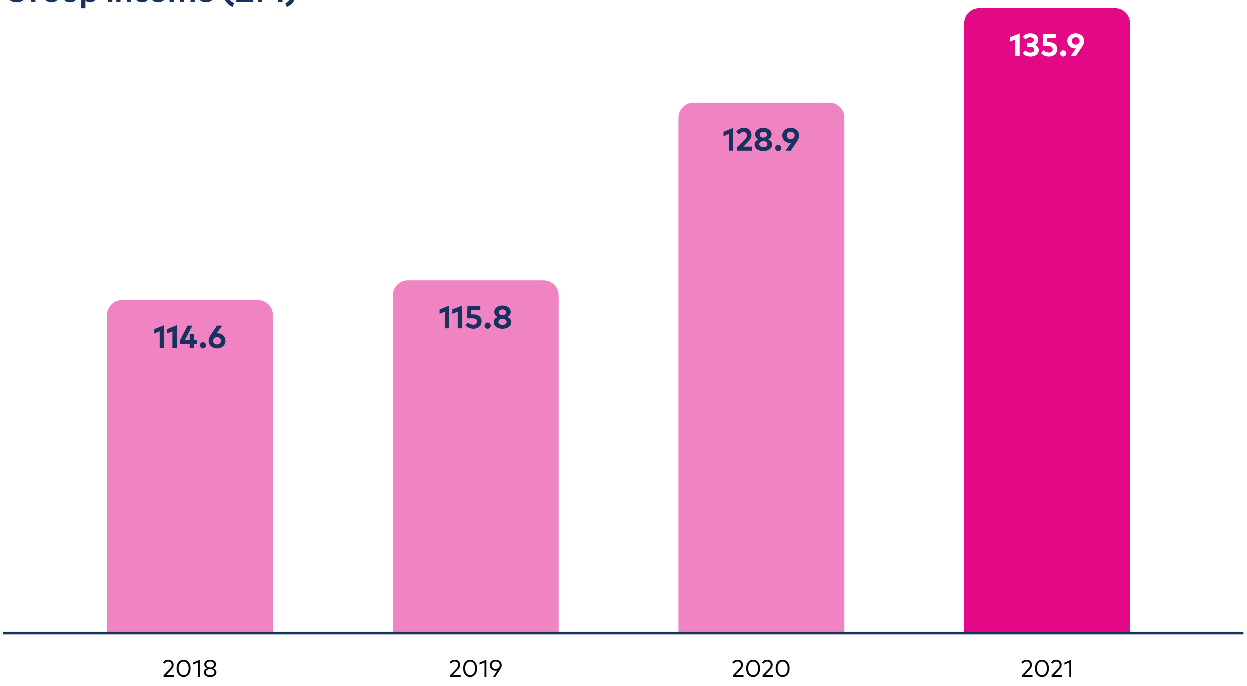
Member contributions rose £4.3m to £115.4m after a contribution rise of 3.5% in January 2021. We increased the rate to fund the expected rise in demand for services when COVID-19 restrictions ended, and to absorb inflationary pressures. The increase in income is also a result of rising average membership numbers during 2021. They stayed constant in the first quarter of 2021, before rising steadily over the second half of the year. At the end of the year, we had 827,736 members – 13,024 more than at the beginning of the year (2020: 814,712). This positive trend has continued into early 2022.

Over the last four years, group income has grown by 18.5%, with rises in the member contribution rate used to cover the cost of higher demand for services. Also, third-party income at Benenden Hospital has risen.

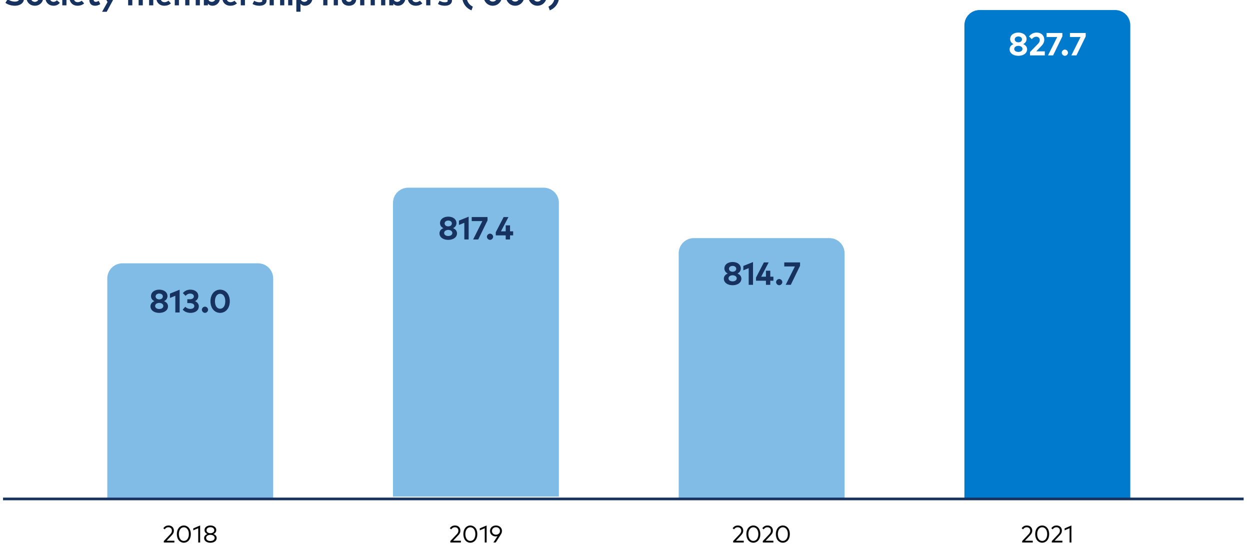
The 2018 figure excludes a one-off realisation of investment gains of £10m when we placed funds with new investment managers.

After several years of decline, membership numbers stabilised between 2018 and 2020 and have increased steadily in 2021. Growth in membership is down to our efforts to keep our existing members, attract new ones through marketing and expand corporate membership.

Group income (£M)




Society membership numbers ('000)



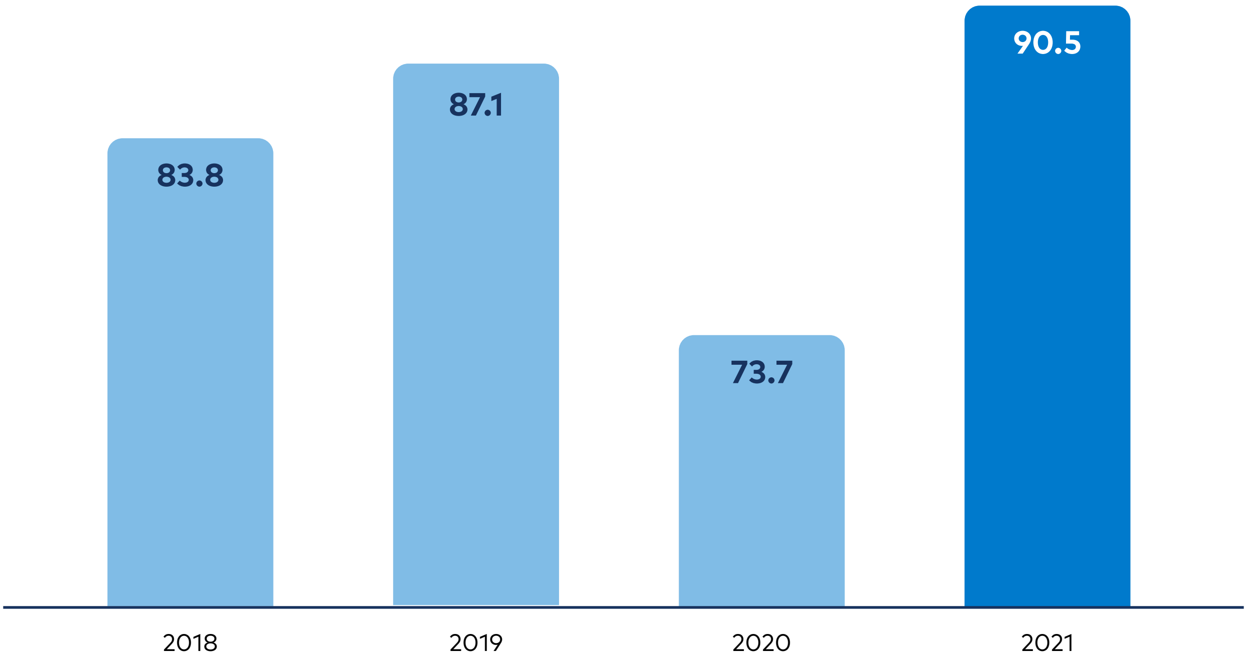
# Member benefits costs

Our member benefit costs in 2021 were £85.4m, higher than the previous year (2020: £77.2m). But the rise in demand that we expected in the form of claims put off from 2020 did not materialise in 2021. Demand for services was low in the first quarter of 2021 because of COVID-19 restrictions. It recovered in the middle of the year before falling again in quarter four, when the Omicron COVID variant brought more restrictions.

During 2021, we expected higher take-up by members for some 2020 service packs, but again this did not materialise. This meant we could release £5.1m of the provision we held at the end 2020. This reflects a cautious approach to reserving in 2020 because of the unprecedented circumstances arising from COVID-19.

If we take the reported member benefits for the last few years and adjust for changes in estimates, we get a fairer indication of the underlying costs for each year as we reallocate costs incurred to the year they relate to. The result is a more realistic view of how member benefits have changed in the last few years, demonstrating the fall in 2020 because of COVID-19, followed by recovery and growth in 2021.

### Underlying member benefit spend (£M)



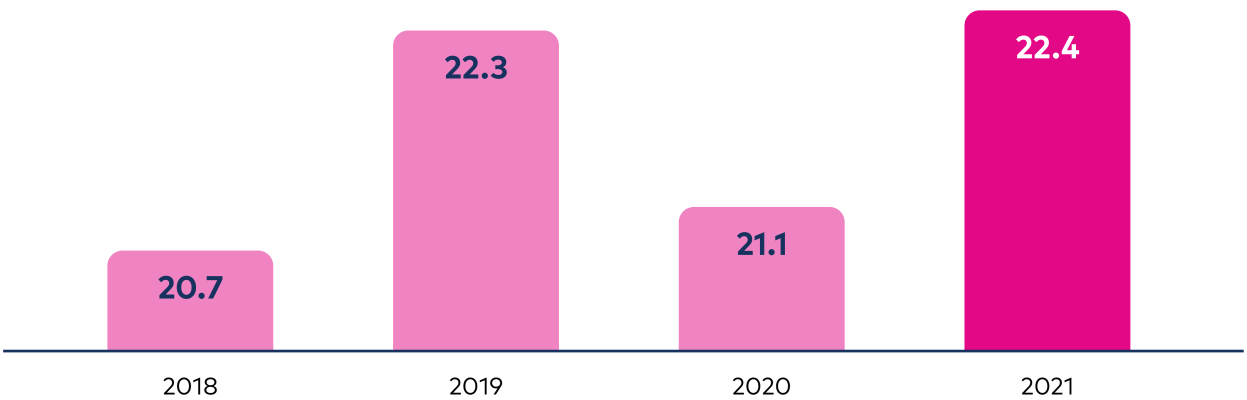

| Reconciliation between reported member benefits and the underlying cost of member benefits | 2018 (£m) | 2019 (£m) | 2020 (£m) | 2021(£m) |
|---|---|---|---|---|
| Reported in the income statement (page 113) | 83.5 | 89.0 | 77.2 | 85.4 |
| Adjustments to prior year estimates | 0.3 | (1.9) | (3.5) | 5.1 |
| **Total** | **83.8** | **87.1** | **73.7** | **90.5** |

# Operating costs

Expenses of management were £22.4m, which is 6.2% higher than the previous year (2020: £21.1m). Marketing spend was comparable to 2020 but the cost of recruiting new consumer members fell from £75 per new member in 2020 to £55 per new member in 2021. Employee costs have increased due to a rise in overall employee numbers and an annual pay rise. Other costs include property and developing our IT infrastructure, which both increased in 2021.

| Expense of management | 2021 (£m) | 2020 (£m) | Change (£m) |
|---|---|---|---|
| **Employee costs** | 11.7 | 11.1 | 0.6 |
| **Marketing** | 4.8 | 4.6 | 0.2 |
| **Other** | 5.9 | 5.4 | 0.5 |
| **Total** | **22.4** | **21.1** | **1.3** |

### Group expenses of management (£M)

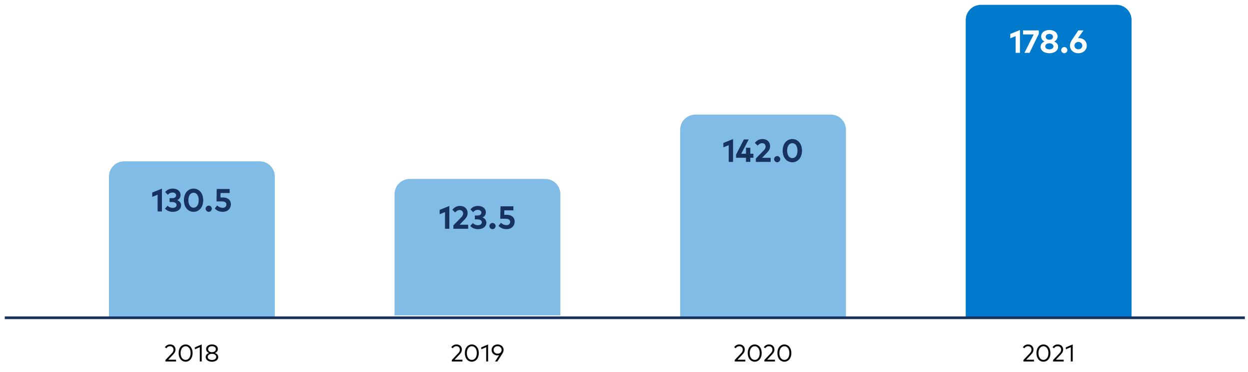


# Statement of financial position

During 2021, group member funds increased by £36.6m to reach £178.6m (2020: £142.0m). The Board is ever vigilant to make sure we protect member funds and manage them for long-term growth.

The increase in 2021 reflects the high operational surplus of £21.0m, combined with the actuarial gain on the pension deficit of £8.4m, unrealised and realised gains on investments of £5.7m and gains on property valuations of £1.5m.

**Group membership funds (£M)**



## Investment funds

The investment funds performed well, with gains of £5.7m. We have maintained a low-risk appetite for investments and term accounts providing security on capital and modest returns. During 2021, funds were transferred from the Legal & General Cash Trust into the Ruffer and Janus Henderson funds to increase returns.

| Investment fund | £m | Investment rationale |
|---|---|---|
| **Core fund 1 January 2021** | 130.3 | |
| **Gain on Ruffer fund** | 3.2 | Diversified investment aimed at financial gain while limiting the risk of capital loss |
| **Gain on Legal & General fund** | 1.3 | Secure stable investment to hedge against changes in the defined benefit pension scheme deficit |
| **Gain on Janus Henderson fund** | 1.2 | Secure and stable diversified credit investment generating steady growth |
| **Core fund 31 December 2021** | **136.0** | |
| **Additional cash invested** | 0.9 | |
| **Total investment fund** | **136.9** | |

The goal of the Ruffer fund is to retain capital value in any rolling 12-month period and to generate returns which are meaningfully better than those on cash. The fund performed particularly well, increasing by 9.1% in the year, helped by the performance of healthcare equities and UK inflation-linked bonds, which benefited from rising inflation expectations.

The objective of the Legal & General fund is to provide a combination of income and growth by tracking the performance of the FTSE Actuaries UK Index Linked Gilt All Stock Index. It contains only UK government bonds. The fund increased by 4.1% in the year.

The aim of the Janus Henderson fund is to generate a total return in excess of the Sterling Overnight Index Average (SONIA) over three to five years. It is made up of secured loans, high-yield investments, asset-backed securities and cash. The fund saw a gross return of 4.2% in the year.

The performance of the funds in the year combined to see the investment fund rise to £136.9m at 31 December 2021 (2020: 130.3m). We expect to draw on some of these funds to support future claims. Every year, we review our investments to make sure they are in line with the Society's risk appetite.

## Provision for outstanding member benefits

One of the significant liabilities in the statement of our financial position is the provision for member benefits. This reflects the cost we estimate for member benefits approved, or pending approval, but not yet fully paid.

This has reduced by £0.3m to £23.1m (2020: £23.4m) partly because we released unused provision brought forward from 2020, as member demand during the COVID-19 pandemic became clearer. The provision is significantly higher than pre-pandemic levels, as there were continued delays for members getting treatment and diagnosis. Also, we extended the approval period during the pandemic, which meant approved cases were open for longer.

As government restrictions ended in early 2022, we expect a gradual return to pre-pandemic levels for this provision, or slightly above, as members come forward for their treatment and other services and we return to a more consistent level of delivery. The Society holds enough cash and liquid assets to service higher demand and unwind the provision.

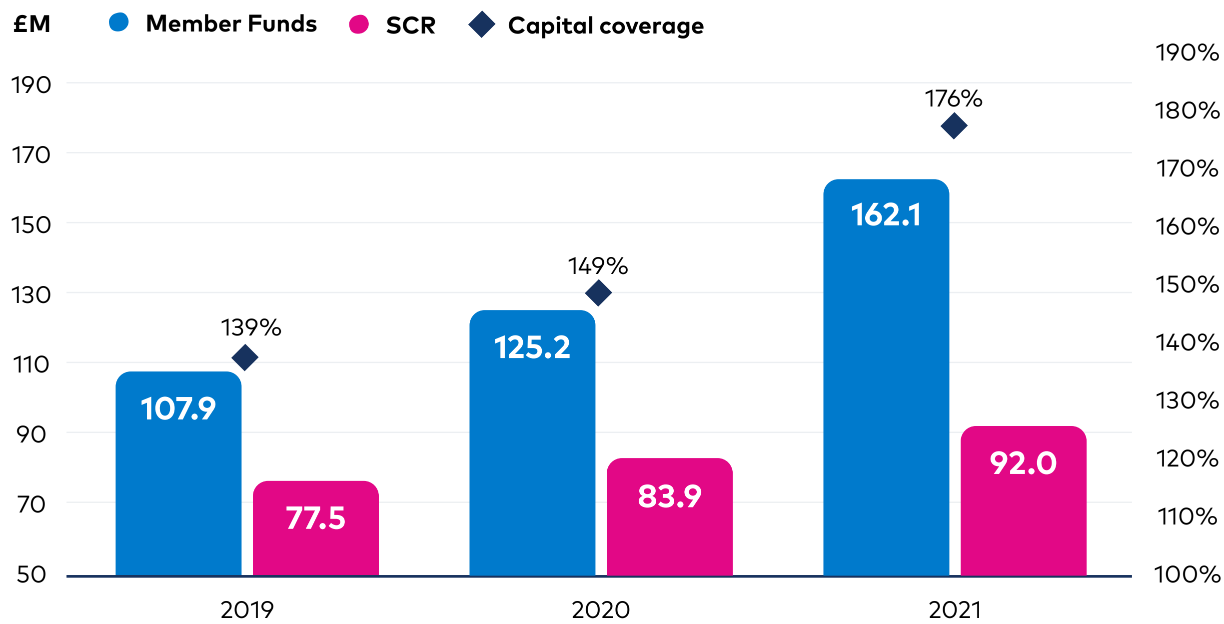
## Pension scheme deficit and action taken

The value of the defined benefit pension scheme deficit has fallen by £18.3m to £29.0m (2020: £47.3m). The reduction is due to a single contribution of £7.5m, paid in March 2021 and an increase in the deficit repair contributions to £3.0m from £2.0m a year from 1 April 2021. This has made a meaningful difference to the funding level of the scheme. There has also been an increase in the scheme's assets and a reduction in estimated liabilities as discount rates have increased during 2021. A triennial valuation of the scheme will happen in 2022.

## Capital

The Society and its regulated subsidiary Benenden Wellbeing Limited maintain sufficient capital in line with the group's risk profile and regulations. The Group Audit and Risk Committee reviews this every quarter. The capital coverage for the Society has increased to 176% (2020: 149%). The Society maintains its best-practice approach to monitoring its capital requirement based on the Solvency II regime for insurance companies. This is designed to make sure organisations can survive a once-in-200-year risk event.

## Society Capital Coverage




These graphs summarise the Society's capital position. The blue bars are the Society's net assets, and the difference between this and the pink bars (our solvency capital requirement – SCR) is our surplus capital, or capital buffer. Another way to measure this buffer is the capital coverage percentage, represented by the blue line.

The solvency capital requirement (SCR) at December 2021 was £92.0m (2020: £83.9m). The Society's net assets provide a capital coverage of 176% (2020: 149%). This gives us a substantial capital buffer to absorb adverse market conditions or other major capital shocks. This is important in a global environment where the pandemic and other world events have increased uncertainties for all of us.

During the pandemic, the Society's member funds have increased from £107.9m at December 2019, to £162.1m at December 2021.

The SCR has also grown from £77.5m in 2019 to £92.0m in 2021. This reflects the growth of the Society's assets, such as investment funds, which carry a degree of risk.

The capital coverage ratio, which is member funds as a percentage of the SCR, has also increased over the period, rising to 176% at December 2021, from 139% two years ago. This shows our funds have increased more than our risks and that we are in a stronger position to absorb major shocks than we were before the pandemic.

Benenden Wellbeing Limited is subject to FCA-regulated minimum capital requirements, which we met throughout 2021.

# Cashflow

The group's cash position has improved by £18.6m in the year, to reach £36.3m (2020: £17.7m).

| Cashflow category | Dec 2021 (£m) | Dec 2020 (£m) |
|---|---|---|
| **Net cashflows generated from operating activities** | 25.5 | 40.7 |
| **Net cashflows from investing activities** | (1.8) | 3.9 |
| **Funds transferred to investment fund** | (0.9) | (31.0) |
| **Net cashflows used in financing activities** | (4.2) | (5.8) |
| **Net increase in cash and equivalents** | **18.6** | **7.8** |
| **Closing cash and cash equivalents** | 36.3 | 17.7 |

The operating cash generated reflects the operating surplus for 2021, reduced by cash payments of £10.2m to fund the pension deficit before increases of £9.8m from an isolated rise in deferred income. This subsequently reversed in January 2022.

Net expenditure for capital items amounted to £1.8m, funds transferred to the investment fund of £0.9m and a £4.2m final repayment of the hospital redevelopment loan mean an overall increase in cash and equivalents of £18.6m in the year. Some of these funds will be paid out as the backlog of member benefits caused by COVID-19 delays unwinds over the next year or so.

# Key group statistics

| Key group statistics | Trend | Amount |
|---|---|---|
| **Members** | UP | 1.6% |
| **Member contributions** | UP | 3.9% |
| **Group income** | UP | 5.4% |
| **Member benefits** | UP | 10.6% |
| **Total expenditure** | DOWN | 2.1% |
| **Member funds** | UP | 25.8% |

# Risk Management Report

This report sets out the Society's approach to risk management, what action we have taken to improve the control environment and the key risks the group is exposed to.

2021 was a challenging year for the UK, with continuing uncertainty due to the ongoing pandemic and the impact of a post-Brexit deal. Having an effective risk management framework has helped us make better decisions about how we deliver our strategy and make the most of our members' funds.

**This report sets out:**

- **The Society's approach to risk management**
- **What action we have taken to improve the control environment and make the most of members' funds**
- **The key risks the group is exposed to**

## Our approach to risk management

The Society has established a culture across the organisation where everyone is conscious of risk and their role in controlling it. This reduces the chances of us overlooking risks.

The risk management framework has seven key elements. Together they create robust mechanisms to help us understand what could go wrong and the impact it would have on our strategy and members. It also allows us to identify adverse trends and monitor the effectiveness of controls so we can continuously improve. We have summarised the key elements on pages 52-57.

The Board is ultimately responsible for setting the risk appetite and making sure we mitigate risks to the group's business model and strategy as far as possible. It delegates the oversight of risk management to the Group Audit and Risk Committee (GARC), which oversees the risk management framework and monitors its effectiveness, as well as the overall control environment.

While the Board generally takes a prudent approach to risk management, it recognises that things do go wrong from time to time, and accepts that we need to take some risks to grow. The risk management framework is designed to give a clear view of our risks and make sure we are not exposed to them unnecessarily. This means that if risk becomes reality, we reduce the impact.

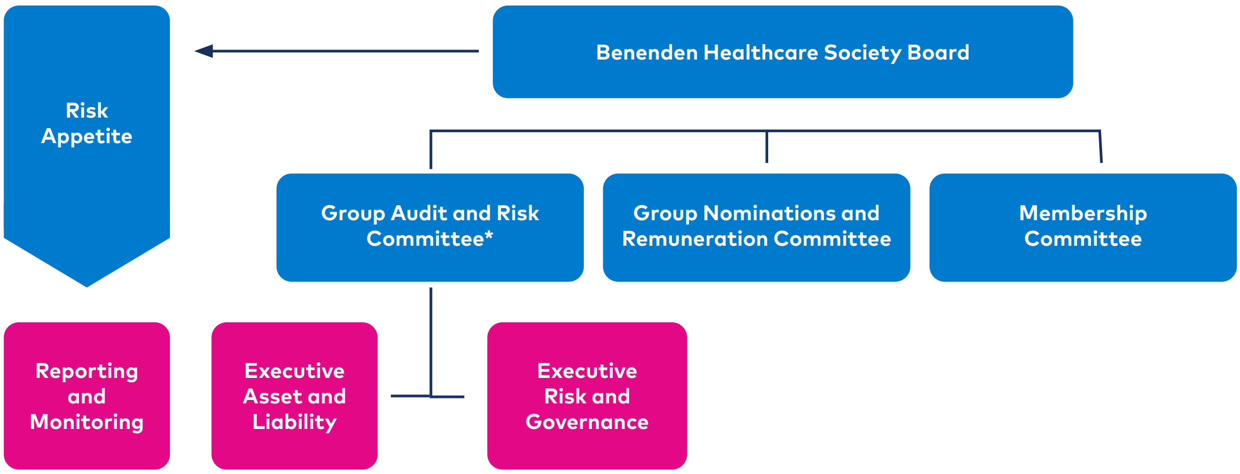
We have also incorporated the impact of climate change and the move to a greener economy into the risk framework. We are starting to measure the environmental impact of our business so we can set targets for reducing carbon emissions, waste and water.

All staff are responsible for managing risks so we can carry on improving our controls and giving our members a great service. Effective risk management makes for informed decision-making and helps us deliver on our business objectives.

### Risk Management Framework

# Risk governance

The governance arrangements are set out below:




* We amalgamated the Group Risk and Group Audit Committees to form the GARC from July 2021.

**The Board** is ultimately responsible for managing risk (including risks associated with climate change) and approving the risk appetite statements. But it delegates much of the oversight of risk to the Group Audit and Risk Committee.

**The GARC** is responsible for advising the Board on risk management strategy, and current and potential risk exposure, and defining the risk appetite. The GARC operates within terms of reference which we review annually. They include overseeing:

- Compliance with the group risk management policy
- Effectiveness of risk management of all entities within the group
- The risk profile of the group, including financial risks from climate change
- Our capital management strategy: making sure the Society maintains a healthy capital position
- Management of Society assets and liabilities; protecting member funds for the long-term benefits of members

The Committee oversees these by reviewing risk reports to assess how we are managing risks and risk events, the effectiveness of the control environment and tracking performance against the agreed risk-appetite statements.

The following non-executive directors were members of the Group Risk Committee (GRC) and GARC during the year:

| | GRC<br>1 January to 30 June 2021 | GARC<br>1 July to 31 December 2021 |
|---|---|---|
| **Members** | Ian Blanchard (Chair) | Ian Blanchard (Chair) |
| | Mike Bury | David Fletcher |
| | David Fletcher | Brian Eaton |
| | Brian Eaton | Jo Andrews |
| | | Louise Fowler |

Members of the Executive also attend GRC and GARC meetings, including the Chief Executive Officer, Chief Financial Officer, Chief Risk Officer (CRO) and the Benenden Hospital Director. For details of members' backgrounds, see pages 60 to 65.

The GRC met twice before it merged with the Group Audit Committee, and the GARC met twice after the merger in 2021. Key activities included:

- Monitoring the group's response to COVID-19 and its impact on us
- Monitoring the performance of the capital management strategy – it recommended that we invest £750K of Benenden Wellbeing Limited's cash with Ruffer LLP (investment managers)
- Overseeing the transfer of the defined contribution pension scheme from Capita to a Legal & General Master Trust
- Overseeing the sale of the derelict Southeast Quadrant of the Benenden Hospital estate (subject to contract)

All meetings were attended (as appropriate) by GARC members and relevant executive directors.

**The Executive Risk and Governance Committee (ERGC)** is responsible for overseeing day-to-day risk management including, but not limited to, reviewing the effectiveness of the group's risk management framework and system of internal controls. It has the authority to direct the business to mitigate actions, and to approve or endorse risk acceptance within defined levels.

**The Executive Asset and Liability Committee** is responsible for overseeing the day-to-day investment and property portfolio strategy. This includes buying and selling investments in line with the Delegated Authority Limits. It also makes recommendations to the GARC and the Board for decisions falling outside of the Delegated Authority Limits. It reports to the GARC.

## Risk appetite

The Board risk appetite is a series of statements setting out the amount of risk the Board is prepared to accept to deliver its strategy. We have designed these statements to:

- Reflect the Board's focus to maintain the long-term sustainability of the Society and deliver membership value
- Articulate the amount of risk we are willing to take to deliver our strategic objectives
- Discharge our corporate governance responsibilities
- Articulate how we strike a balance between taking risks and exercising control

The risk appetite statements include a series of quantitative and qualitative risk appetite statements. They cover the following broad categories:

- Financial and markets
- Operational and technology
- Strategic and stakeholders
- Legal and regulatory

The statements include a set of operating parameters within which we manage risks. We have developed a series of key risk indicators, both forward and backward-looking, to monitor the risk profile of the business and drive risk-based decisions. If we identify a risk as falling outside the risk appetite, the GARC implements and monitors risk treatment strategies.

The Board is due to review these in the first half of 2022.

# Risk management process

We operate an enterprise risk management framework. This is supported by a policy framework with clearly articulated minimum standards for operating effective risk management and a robust control environment.

The risk management process allows us to constantly review our risk profile. This means we can understand what could go wrong and how effective our controls are, and take action to mitigate risks where we need to.

## Risk universe

We have created a risk universe to capture all the different types of risks the Society is exposed to. There are four high-level categories of risks:

- Operational
- Legal and regulatory
- Financial and market
- Strategic

We have also established subcategories for each high-level risk category. This is to make sure we have identified all material financial, non-financial and conduct-related risks that the Society could be exposed to. We use a software system to capture, assess and monitor risks, and the effectiveness of risk controls. The system also facilitates reporting to management, the ERGC and the GARC, giving them insight into the effectiveness of the risk management process.

## Three lines of defence

The three lines of defence model is an integral part of our risk management framework.

**First line – Functions that own and manage risks.** The Board delegates day-to-day risk management to the Chief Executive and to business managers through a system of delegated authorities and limits. Business managers and frontline staff are responsible for identifying events that have either happened or might happen in the future. They are also responsible for making sure the right controls are in place to manage risks and that the controls are effective.

**Second line – Functions that oversee risks.** The CRO oversees risk, supported by the group's risk management function. The risk management function is responsible for developing an appropriate risk management framework, monitoring the risk control improvement plans, and reporting on the risk environment to the ERGC and the GARC.

**Third line – Functions that give independent assurance.** We outsource our internal audit function to an independent professional services firm. They verify the adequacy and effectiveness of our internal risk and control management systems. The internal auditors are supervised and challenged by the GARC.

## Climate change

Given the discretionary nature of our healthcare product, we consider the impact of climate change as low in the short to medium term. But the Board recognises the importance of understanding the short, medium and long-term impact of climate change on the group. We have incorporated identifying and managing climate-related risks into the existing risk management framework to provide the right level of oversight. And we have updated our Statements of Responsibility to reflect how we share responsibilities for identifying the financial risks associated with climate change among the Society Executive.

## Risk control self-assessment

We operate a programme of risk control self-assessment to test the effectiveness of the controls. The first line is responsible for completing assessments and taking actions where necessary. This delivers a culture of continuous process improvement and helps each area of the business properly define their risks and understand the control environment. The second line is responsible for defining the risk control self-assessment process and overseeing first-line outputs and reporting.

## Training

We reconfigured our risk management software system in 2021 to improve reporting and first-line accountability for managing risks and incidents. We trained management and risk owners on the revised system.

## Management information and reporting

We extract data from the risk management system on managed and active risks, risk events and effectiveness of controls. The risk team, overseen by the CRO, analyse the data and report their findings to the ERGC and GARC. Any material issues are also reported to the Board by either the Chair of the GARC or the CRO.

# Key risks and uncertainties

This table summarises the key risks the group faces.

| Key risks | Risk management and mitigation plans | Change from 2020 |
|---|---|---|
| **Investment markets –** pension deficit<br>Risk that adverse market conditions increase the group's defined benefit pension scheme deficit. | The pension deficit decreased during 2021. This was following a one-off payment of £7.5m in March, together with increased recovery plan repayments throughout the year. An actuarial gain also arose from a change in the discount rate which saw a fall in the estimated scheme liabilities.<br>The pension deficit continues to be funded through monthly contributions in line with the agreed deficit recovery plan.<br>As well as this, the pension deficit is hedged with part of the Society's investment fund invested in suitable UK government bonds. This is to provide a good level of protection to members' funds. So if the deficit increases, the value of the Society investments increase to offset most of the change in value. The pension scheme will be subject to a triennial valuation during 2022. | **Improving** |
| **Investment markets – member funds**<br>Risk that adverse market conditions could lower the value of member funds and leave the group with less capital. | We implemented a new investment strategy in 2019. We designed this to preserve capital and give above-inflation returns through a diversified investment portfolio. This has performed well during the last two years with above-inflation returns.<br>During 2021 the Society's freehold property value has increased by £1.5m. This reflects positive residential property values. | **Stable** |
| **Claims ratios**<br>Risk that the cost of claims is more than the contributions we get from members, and that we have less capital. | The reported cost of claims increased by £8.2m compared to 2020. This reflected increased demand from members after the drop from pandemic impacts in 2020. That said, claims did not recover to pre-pandemic levels, with the total for 2021 being some £3.6m below costs in 2019. During the second half of 2021 and into 2022, demand has stayed relatively stable.<br>We anticipate that claims will materially increase when restrictions ease and normality returns. There will also be increased demand as a result of pressures on the NHS as it struggles to tackle growing waiting lists.<br>The pandemic is creating an unprecedented level of uncertainty. We continue to analyse claims to understand any adverse trends and assess what, if any, action we need to take to manage claims more effectively and deliver the best outcomes for members.<br>We also regularly review our service providers' claims performance to see if there are any opportunities for efficiency. | **Stable** |
| **Critical outsourcing failure**<br>Risk of losing member services and suffering reputational damage if a critical supplier either fails to deliver the agreed service to the right standard or goes out of business. | Critical suppliers undergo initial and ongoing due diligence to assess their financial position and understand their processes and controls. They are also subject to relationship management to monitor performance against the contract terms. We are carrying out further work to understand how key suppliers are responding to the threat of climate change.<br>Bupa provide the diagnostics and treatment services for members outside the Benenden Hospital catchment area. | **Stable** |

| Key risks | Risk management and mitigation plans | Change from 2020 |
|---|---|---|
| **Information technology**<br>Risk that the IT infrastructure cannot support the strategic objectives. | We constantly review our technology architecture. This is to make sure that it continues to support our goals and objectives.<br>Improvements during 2021 include migrating all treatment and diagnostic services to the modern Benefit Assist System (BAS) service delivery platform. We also brought in the new Benenden Health App which we have designed to support Benenden Health services.<br>A new cloud-hosted telephony platform will go live during 2022, delivering improved member experience while supporting our drive to digital services. It will also save us considerable costs. This project will complete our cloud migration strategy, meaning all of our IT systems are within secure cloud environments. | **Improving** ↑ |
| **Cyber security**<br>Material incident resulting in loss of data or ransomware attack. | Cyber-attacks continue to increase globally, particularly in the healthcare sector. We have continued to invest in leading technologies to protect against possible attacks.<br>We have introduced market-leading anti-virus technology across both the hospital and Society. This can respond immediately to emerging threats and has enhanced ransomware protection.<br>We have merged cyber-security management across the Society and hospital to create a consistent and unified approach. This enabled Benenden Hospital to successfully achieve Cyber Essentials Plus accreditation, which the Society also retained. | **Stable** ↔ |
| **Change delivery**<br>Risk that we cannot deliver on our business plan or strategic objectives because we lose key staff or do not have the capacity to deliver change programmes. | We review our resources regularly to spot pressure points. And we assess our activities to make sure our priorities are right.<br>As a result of the pandemic, many of our staff have been working from home since March 2020. We have provided extra support to maintain their welfare and engagement. And we continue to monitor the situation. | **Stable** ↔ |
| **Business strategy**<br>Risk that we incur losses by having the wrong business strategy and/or objectives. | The Board agrees our strategy and business plan in line with the risk appetite statement. We monitor performance against the business plan through the year.<br>Data analytics provide evidenced-based insight into business performance and factors which could lead to adverse trends.<br>The processes for developing the business strategy and financial planning are subject to internal audit. | **Stable** ↔ |
| **Regulatory challenge**<br>Risk of regulatory scrutiny because of systemic regulatory breaches or widespread customer detriment resulting in regulatory censure or fines. | We have systems and controls in place to deliver regulatory compliance, make sure our risk management processes and controls are effective, and to identify adverse trends.<br>We have implemented conduct risk metrics to monitor the Society's key conduct risks and give assurance that member outcomes are fair.<br>All employees complete conduct risk and regulatory training on induction and every year after. | **Stable** ↔ |

| Key risks | Risk management and mitigation plans | Change from 2020 |
|---|---|---|
| **Brexit**<br>The risk that Brexit will have a financial or operational impact on our business. | One year of trading outside the Single Market and Customs Union has been challenging for the UK. But there has been no material impact on the Society.<br>We continue to monitor our supply chain to understand any extra costs that are passed on to us as a result of them doing business in the EU. | **Stable** ⟷ |
| **Democratic structure**<br>The risk that we cannot be agile in delivering our strategy because of constitutional constraints. | As our Branch community represents the membership and votes on rule changes and motions at Conference, we regularly engage with them to share information about our performance, the challenges we face and our strategic plans.<br>A Branch working group has given the Board a set of proposals designed to modernise the democratic structure. This is so more of our members can have a say in the organisation. The Board are consulting with the Branch network to finalise the proposals and bring them to a Special Conference in 2022. | **Stable** ⟷ |
| **Retaining and recruiting talent**<br>The risk that we cannot retain or recruit talent to support our business needs. | The work-from-home restrictions introduced to fight COVID-19 have changed the way many businesses operate. More employers are offering remote and flexible working opportunities to retain and attract employees. This increases the risks of staff shortages due to ineffective talent management processes.<br>To mitigate this, we:<br>• Continue to support employees' health and wellbeing<br>• Introduced flexible working through a hybrid working pilot<br>• Regularly benchmark our reward package against our peer group's to make sure it is competitive<br>• Encourage career development by providing training, coaching and mentoring, as well as funding formal qualifications for certain roles<br>• Continue to engage with employees to identify any areas of improvement | **New risk** |

## Risks associated with coronavirus (COVID-19)

Although 2021 saw an easing of restrictions during the summer months, virtual meetings remained dominant during the year, along with working remotely. While there is no evidence that productivity was adversely affected, not being able to connect with one another face to face has not been ideal – it is the human connections that make a difference to how quickly we can respond to change or deal with things when they go wrong.

Depending on government restrictions, we are currently piloting hybrid working. This is a more flexible way of working that combines office and home working to give employees a good work–life balance. It is important that this works well for the business as well as employees. That is because recruitment has been more challenging during 2021, especially with more employers offering remote working and so increasing their geographic reach.

NHS pressures and long waiting lists have been well publicised. But the impact of this on demand for our services remains uncertain. Demand levels have still not returned to pre-pandemic levels. Although there is some evidence that member sentiment about seeking support is starting to change, as the cost of claims increased from 2020.

## Risks associated with climate change

While we consider the short-term risks from climate change as low, the GARC recognises the importance of identifying and managing the financial risks associated with it. These risks fall into the following categories.

- Physical risks associated with higher and more variable temperatures, extreme weather (like heatwaves, floods, wildfires and storms) and longer-term shifts in the climate (like changes in precipitation, extreme weather variability, rises in sea level, and rising mean temperatures). Some examples of physical risks include:

  – Increasing frequency, severity or volatility of extreme weather leading to business disruption and losses, as well as potential impacts on the availability and cost of property insurance

  – Increasing frequency and severity of flooding leading to physical damage to assets (like commercial property owned or held within investment funds).

We do not currently anticipate that these physical risks will have a material impact on claims ratios or membership numbers. But continued healthcare and market analysis will help us identify any adverse trends which might impact us.

- Transition risks might arise from the process of adjustment towards a net-zero carbon economy. The UK government has set a target of achieving net zero greenhouse gas emissions by 2050 to respond to the challenge climate change poses. Examples of transition risks include:

  – Changes in government policy which impact the economy

  – Changes in technology

  – Changes in investor sentiment

The GARC accepts that transition risks have the potential for harm in the short to medium term, especially when it comes to investment performance. All our investment managers have ESG-aligned investment strategies. And they have signed up to organisations who promote responsible investing and influence the world's largest corporate greenhouse gas emitters to take action on climate change.

# Attendance at meetings

The record of attendance at Board and major Board Committee meetings during the year ended 31 December 2021 is stated in the table below:

| Name | Board | | Group Audit | | Group Risk | | Group Audit and Risk | | Group Remuneration | | Group Nominations | | Group Nom and Rem | | Membership | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Called to | Attended | Called to | Attended | Called to | Attended | Called to | Attended | Called to | Attended | Called to | Attended | Called to | Attended | Called to | Attended |
| **Bob Andrews** | 8 | 8 | - | - | - | - | - | - | - | - | 3 | 3 | - | - | - | - |
| **Jo Andrews** (from 24 June 2021) | 4 | 4 | - | - | - | - | 2 | 2 | - | - | - | - | - | - | 2 | 2 |
| **Ian Blanchard** | 8 | 8 | 1 | 1 | 2 | 2 | 2 | 2 | - | - | - | - | - | - | - | - |
| **Mike Bury** (to 24 June 2021) | 4 | 4 | 2 | 2 | 2 | 2 | - | - | - | - | - | - | - | - | - | - |
| **Helen Chamberlain** | 8 | 8 | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| **Paula Clark** | 8 | 8 | - | - | - | - | - | - | 2 | 2 | - | - | 3 | 3 | - | - |
| **Brian Eaton** | 8 | 8 | - | - | 2 | 2 | 2 | 2 | - | - | - | - | - | - | 4 | 4 |
| **David Fletcher** | 8 | 8 | 2 | 2 | 2 | 2 | 2 | 2 | - | - | - | - | - | - | - | - |
| **Louise Fowler** | 8 | 7 | 2 | 2 | - | - | 2 | 2 | - | - | - | - | - | - | 4 | 4 |
| **David Furniss** | 8 | 8 | - | - | - | - | - | - | 2 | 2 | 3 | 3 | 3 | 3 | - | - |
| **Angela Hays** | 8 | 8 | - | - | - | - | - | - | - | - | - | - | 3 | 3 | - | - |
| **Ken Hesketh** (to 24 June 2021) | 4 | 4 | - | - | - | - | - | - | 2 | 2 | - | - | - | - | 2 | 2 |
| **Adrian Humphreys** | 8 | 7 | - | - | - | - | - | - | - | - | 3 | 3 | 3 | 3 | - | - |
| **Deryck Lewis** | 8 | 8 | - | - | - | - | - | - | - | - | 3 | 3 | 3 | 3 | 4 | 4 |
| **Les Philpott** | 8 | 7 | 2 | 2 | - | - | - | - | 2 | 2 | - | - | 3 | 3 | 2 | 2 |

Attendance is recorded in terms of numbers of meetings. Therefore, a meeting taking place over multiple days has been recorded as one meeting.

## Senior Management – Society Executive

The Society Executive (SE) focuses on delivery of the Society's business plan and corporate strategy (including HR strategy, corporate services, regulatory liaison, commissioning and funding) and comprises the Chief Executive Officer (CEO) and the CEO's direct reports.

At 31 December 2021, SE members were:

### Chief Executive Officer

**Bob Andrews**

### Chief Financial Officer

**Helen Chamberlain**

### Chief Operating Officer

**Andrew Barker**

### Chief Risk Officer

**Stella Croot**

### Group Business Development and Commercial Officer

**Andy Wiggans**

### Chief Nurse and Hospital Director

**Jane Abbott**

### Group IT Director

**Mike Cowling**

# Board Biographies

(as at 31 December 2021)

## David Furniss
### Board-nominated, Chairman

N&R

**Board involvement:** Board involvement: Elected to the Board in June 2017 and Board Chairman since July 2017.

**Business skills:** Experienced Group CEO with excellent leadership skills, strong analytical skills, with a pragmatic approach to strategic positioning and problem solving, sound commercial judgement underpinned by a strong mutual ethos.

**Background and experience:** A Chartered Insurer and Member of the Chartered Institute of Marketing, and a director with over 37 years' experience of regulated Financial Services, 34 years of which have been in the mutual and friendly society sector. Wide experience of corporate governance issues and current regulatory compliance experience.

David is a non-executive director of Bournemouth University, chairing the Finance & Resources Committee and a member of the Remuneration and Nominations Committees.

**Committee/Board membership:**

Group Nominations and Remuneration Committee

## Bob Andrews
### Executive – Chief Executive Officer

BH | W

**Board involvement:** Appointed in December 2017, co-opted to the Board in January 2018 and elected to the Board in June 2018.

**Business skills:** A wealth of experience at main Board level, having held senior roles in financial services. Also experience of leading businesses and large operational, support and customer-focussed teams.

**Background and experience:** Currently a member of the Board of the Association of Financial Mutuals, Bob has over 30 years in financial services operating at senior levels, most recently as CEO at Capital Home Loans and Landmark Mortgages Ltd. Previous roles include Chief Operating Officer at HML (part of Skipton Building Society) and senior operational roles with NatWest Bank and Direct Line Group.

**Committee/Board membership:**

Benenden Hospital, Wellbeing

**Key for Committee membership / active subsidiary directorships**

| | | | |
|---|---|---|---|
| N&R Group Nominations and Remuneration Committee | B BCT – Benenden Charitable Trust | M Mem– Membership Committee | BH Benenden Hospital |
| GARC Group Audit and Risk Committee | W Benenden Wellbeing | CH Committee Chair | P Lord Plant |

## Jo Andrews
## (Branch-nominated)

GARC | M

**Board involvement:** Elected to the Board in June 2021.

**Business skills:** Fellow of the Chartered Institute of Securities & Investment and a member of the University of Edinburgh Business School, a former compliance officer in pensions, asset management and life insurance industries.

**Background and experience:** Diplomas in Business and Finance, Regulation, Fund Management and Marketing Communications and over 25 years in senior governance roles. Jo began her career in Germany with Commerzbank and has since worked with large multinational PRA and FCA registered firms. In advisory positions, she has contributed to influencing the strategic direction of Boards at Clydesdale Bank, Standard Life and Aegon UK. Owner of Promote Compliance Limited, she provides regulatory advice and training.

**Committee/Board membership:**

Group Audit and Risk Committee, Membership Committee

## Ian Blanchard
## (Board-nominated)

GARC CH

**Board involvement:** Co-opted to the Board in February 2018 and elected in June 2018.

**Business skills:** An experienced Chief Financial Officer and a Fellow of the Institute & Faculty of Actuaries with wide experience of risk management, investment strategies and mergers and acquisitions.

**Background and experience:** Over 40 years' experience in regulated financial services, much of it in the mutual and friendly society sector. An independent non-executive Chair of the With Profits Committee and a member of the RNPFN Supervisory Board of Liverpool Victoria Financial Services Limited.

**Committee/Board membership:**

Group Audit and Risk Committee (Chair)

## Helen Chamberlain
## (Executive – Chief Financial Officer)

W

**Board involvement:** Co-opted to the Board in November 2017 and elected in June 2018.

**Business skills:** Experienced CFO, leading on business strategy, transformation and assurance programmes. Sensible pragmatic approach to problem solving, good communicator.

**Background and experience:** A Chartered Accountant with a wealth of senior finance experience predominantly gained in large financial services organisations. Helen has also led large teams through extensive operational and regulatory change. Previously Finance Director for a regulated legal services organisation.

**Committee/Board membership:**

Wellbeing

## Paula Clark
## (Board-nominated)

B CH | N&R | BH

**Board involvement:** Elected to the Board in June 2019.

**Business Skills:** Strategic planning, Corporate and Clinical Governance, NHS Commissioning and Service Provision/Service Improvement.

**Background and Experience:** Over 20 years' experience in the NHS as CEO in both commissioning and challenging hospital settings. Having led turnarounds for three hospital trusts and with other key stakeholders and partners in health and care systems, she has an in-depth understanding of the workings of the NHS and policy. She is currently Independent Chair of a health Community Interest Company in Leicestershire, Leicester and Rutland serving the local NHS.

**Committee/Board membership:**

Benenden Charitable Trust (Chair), Group Nominations and Remuneration Committee, Benenden Hospital

## Brian Eaton (Branch-nominated)

GARC | M

**Board Involvement:** Elected to the Board in September 2020.

**Business skills:** Brian holds an MBA and is a qualified teacher working in the university sector. He has a depth of understanding of leadership, improvement and governance, and an ability to scrutinise and challenge so as to influence policy formation.

**Background and experience:** Currently working in university business schools in the UK and overseas. A trustee of Eden Special Multi-Academy Trust since 2018, with experience of Finance Committee, Audit Committee and Remuneration Committee. He has a special interest in South East Asia. Previously FSA-approved with Royal Liver, Chair of Governors of James Rennie School and was for six years a member of the Children's Services Scrutiny Board of Cumbria County Council.

**Committee/Board membership:**

Group Audit and Risk Committee, Membership Committee

## David Fletcher (Branch-nominated)

GARC | W

**Board Involvement:** Elected to the Board in September 2020.

**Business skills:** A qualified accountant and internal auditor with strong people and communication skills, a track record of leading and delivering change, implementing systems and also delivering large complex projects.

**Background and experience:**

Commencing in the health sector, qualified as a certified accountant and spent time with the National Audit Office, then held Senior Finance Manager roles: including ECGD and a member of the Valuation Office Agency Audit Committee. 10 years as Head of Local Taxation in Wales, carrying out the very sensitive council tax revaluation of 1.3 million homes. Senior Private Secretary for a Cabinet Minister and finally Head of Science at the Welsh Government. Previously Chair of St Martins High School for eight years.

**Committee/Board membership:**

Group Audit and Risk Committee, Wellbeing

## Louise Fowler (Board-nominated)

GARC | M CH

**Board involvement:** Co-opted to the Board in December 2017 and subsequently elected in June 2018.

**Business skills:** Leadership, strategy, brand and marketing, digital transformation, sustainability and culture.

**Background and experience:** Considerable senior experience in consumer services, including at First Direct, the Co-Operative Group, British Airways and The Post Office. Louise serves on boards including Assura Plc, The Prudential and Howdens Joinery, consultant and advisor to blue-chip clients on marketing and customer proposition and Honorary Professor of Marketing at Lancaster Business School.

**Committee/Board membership:**

Group Audit and Risk Committee, Membership Committee (Chair)

## Angela Hays (Branch-nominated and Vice-Chair)

BH CH | N&R

**Board involvement:** First elected to the Board in June 2017.

**Business skills:** Experienced Senior Finance Leader. Strong commercial and strategic acumen, change management, transformation programmes, articulate communicator, relationship management of external advisors and third-party service providers, corporate governance.

**Background and experience:** A Chartered Accountant with significant experience including external and internal audit supporting an extensive knowledge of controls and processes. Manage and develop successful teams for global organisations covering all areas of finance from tax and treasury to payroll. Operate in private and public environments across a broad range of sectors. Company Director.

**Committee/Board membership:**

Benenden Hospital (Chair), Group Nominations and Remuneration Committee

## Adrian Humphreys
## (Board-nominated)

W CH | BH | N&R

**Board involvement:** Co-opted to the Board in December 2017 and elected in June 2018.

**Business skills:** Extensive knowledge of the health and insurance markets (particularly in the not-for-profit sector).

**Background and experience:** 17 years' experience in the not-for-profit healthcare insurance business, latterly as Managing Director of Corporate Business at WPA. A non-executive director of the Holloway Friendly Society, and chairman of their Investment Committee. Also a member of the trustee board of a charity.

**Committee/Board membership:**

Wellbeing (Chair), Benenden Hospital,Group Nominations and Remuneration Committee

## Deryck Lewis
## (Branch-nominated)

N&R | M | P CH

**Board involvement:** First elected to the Board in June 2015.

**Business skills:** Operations management, project planning and stakeholder management, leadership, risk management, performance management and data analysis using Continuous Improvement and Agile principles.

**Background and experience:** 19 years' Civil Service experience, leading large, medium and small teams to deliver organisational priorities and with over 10 years' experience in the use of Continuous Improvement tools. Working with internal and external stakeholders to deliver national projects and build capability in the organisation. Two years' experience with delivery partners in delivering an end-to-end recruitment process.

**Committee/Board membership:**

Group Nominations and Remuneration Committee, Membership Committee, Lord Plant (Chair)

**Key for Committee membership / active subsidiary directorships**

| | | | |
|---|---|---|---|
| N&R Group Nominations and Remuneration Committee | B BCT – Benenden Charitable Trust | M Mem– Membership Committee | BH Benenden Hospital |
| GARC Group Audit and Risk Committee | W Benenden Wellbeing | CH Committee Chair | P Lord Plant |

## Les Philpott
## (Branch-nominated)

N&R CH | M

**Board involvement:** First elected to the Board in June 2017.

**Business skills:** Board director in executive and non-executive capacities: strategic, financial and change leadership across the public, private and voluntary sectors, including leadership of public health and safety regulatory bodies; corporate governance; audit, assurance and risk management.

**Background and experience:** A Benenden Health member for more than 30 years, Les formerly held the position of CEO at the Office for Nuclear Regulation and had previously held senior roles in the Health and Safety Executive. In addition to Benenden Health, Les's non-executive experience includes Chair and NED roles in central government, the NHS and in education.

**Committee/Board membership:**

Group Nominations and Remuneration Committee (Chair), Membership Committee

# Board Timeline 2021

| Activity | Jan | Feb | March | April | May |
|---|---|---|---|---|---|
| **Board Meeting** | | **2nd** Virtual | **3rd** Virtual | **28th** Virtual | |
| **Board Committees** | | **w/c 8th** (3) Virtual **w/c 22nd** (2) Virtual | | **w/c 12th** (5) | |
| **Conference (inc Board elections)** | | | | | |
| **Board Strategic Seminar** | | | | | |
| **Training/ Briefing** | **w/c 20th** Health and Safety (Virtual) | | **Quarterly e-learning due** | **13th** Audit Reforms (Virtual) **28th** Climate Change (Virtual) | |
| **Board/Board Committee Effectiveness exercise** | | **Board Committee Effectiveness Exercise** | → | → | |

*Board committees combined, reducing number of meetings to three.

| June | July | August | Sept | Oct | Nov | Dec |
|---|---|---|---|---|---|---|
| **16th** Virtual | **8th** Virtual | **12th** Virtual | **8th** Virtual | **14th** Virtual | | **1st** In person |
| | **w/c 26th** (5) Virtual | | | | **w/c 8th** (3)* Virtual | **w/c 13th** (1) Virtual |
| **24th** Virtual | | | | | | |
| | | | | | **29/30th** In person | |
| **Quarterly e-learning due** | | | **Quarterly e-learning due** | **14th** Emerging and Disruptive Technology in Insurance (Virtual) | **22nd** Market Review 22, Competition (Virtual) | **Quarterly e-learning due** |
| | | **Board Effectiveness Exercise** → | → | → | → | → |

# The Board's Report 2021

## Electing new Board members

The Society's Board comprises six Board-nominated non-executives, six Branch-nominated non-executives and two executive members.

Board-nominated non-executive Board members are not Society members and are nominated by the Board for election. The other six non-executive Board members are Society members, nominated by our Branches.

At our 2021 Conference – held remotely for a second year because of the COVID-19 pandemic – Mike Bury (Board-nominated non-executive) and Ken Hesketh (Branch-nominated non-executive) stood down. No Board members were affected during 2021 by the Friendly Societies Act 1992 requirement that Board members who have reached the age of 70 be subject to annual election.

The Board welcomed Jo Andrews as a new Branch-nominated non-executive member. The names and biographies of Board members at the end of 2021 are on pages 60-65.

## Accounting as a going concern

The Board has assessed the Society's financial position, net assets and prospects, as well as our strategy and the potential impact of risks and uncertainties. Based on this, the Board is confident that we have the financial resources to carry on operating for the foreseeable future, or for at least 12 months from the date of this report. For this reason, the Board continues to adopt the going-concern basis in preparing the accounts.

## Longer-term viability

The Board has reviewed the Society's future cash requirements, earnings projections and capital projections. The Board believes these forecasts have been prepared on a prudent basis and have also considered the impact of a range of potential changes to trading performance. The Board has continued to review the financial and operational impact of the ongoing COVID-19 pandemic up to the date of approval of the financial statements. This review includes:

- Operating a risk management framework and business continuity plan to support the ongoing provision of core in-house services
- Close contact with key suppliers of healthcare services to monitor any impacts from new variants of COVID virus. This has worked well over the last two years and our supplier base has been resilient and made the transition to more normal trading arrangements
- Recognising the emergence of significant inflation in the near term due to supply constraints, rising raw material and energy costs and the future impact of pay settlements will provide new challenges to the supply chain
- Regular monitoring of the Society's investment fund given the ongoing global uncertainty about the scale of inflation and investment volatility arising from the conflict in Ukraine
- Completing the 2022–26 budget and forecast, together with stress testing covering several severe scenarios

The Board has concluded that the Society will be able to operate without needing extra external funding. It also has a reasonable expectation that the Society will stay viable and be able to meet its liabilities over the five years to 31 December 2026.

## Charitable and political donations

During 2021, the Society made charitable donations of £9.4k to several charities. In 2020 the Society made donations of £8.4k to local charities and a substantial £50k donation to the Royal Brompton & Harefield Hospital Charity to fund research into COVID-19 treatments. The Society made no political donations in 2021 (2020 nil).

## Combatting modern slavery

We know slavery, servitude, forced labour and human trafficking ('modern slavery') is a growing global issue that no sector or economic area can consider itself immune from. We will not tolerate modern slavery of any kind in our business and supply chain. We will also take any allegations of human rights being abused very seriously.

We construct our key contracts to demand that suppliers:

- Comply with the Modern Slavery Act 2015
- Run regular modern slavery risk assessments of their own supply chains
- Bring in controls to prevent modern slavery
- Tell us immediately if they find any modern slavery in their supply chains

If suppliers break these obligations, we could end their contracts.

We do not use forced, bonded or compulsory labour: all our people are free to leave their jobs after giving notice. We do not ask our people to deposit money or identity papers before we employ them.

We have developed an e-learning package to raise awareness of the issues involved in modern slavery, and our legal responsibilities. New starters complete this, and so do all colleagues as an annual refresher.

## Our people

Our people's wellbeing remained a priority throughout 2021. We continued talking about our mental health, with sessions from specialists and other activity to raise awareness. We also provided training for our people managers and trained more mental health first aiders. As many colleagues continued to work remotely, we recognised the impact of 'Zoom fatigue' and launched our digital wellbeing commitment to promote better ways of working during our own working days, and with each other.

Our colleagues took part in two active challenges, which also raised funds for charity. These included a team relay race in the Yorkshire Marathon and a virtual hike from York's office to Benenden Hospital.

We introduced 'Let's Talk...' a health and wellbeing initiative to start conversations, raise awareness and normalise talking about a range of health and wellbeing topics. We delivered sessions around menopause, men's and women's health, mental health and sleep.

As we moved through lockdowns and changing restrictions, we carried on sharing regular updates from our leadership team. We also gave everyone opportunities to come together, either virtually or in person.

Our colleague mentoring scheme continued to thrive, with 14 partnerships across the organisation. The scheme is an opportunity for colleagues to learn from each other, get career advice, build confidence and enhance skills. Benenden University also continues, where we use the apprenticeship levy to fund colleagues' development and qualifications. In 2021, seven colleagues studied for a range of degree apprenticeships, with one graduating with an EMBA qualification.

We formed a Junior Board, a group of non-executive colleagues who work with senior executives on strategic initiatives. In 2022, they will offer a more diverse perspective on strategic initiatives such as culture, growth, brand and product innovation.

## Earning recognition

We were delighted to win two Golden Moments Awards from York Cares, recognising our volunteering work throughout the year. We also achieved success in the 2021 Best Companies awards. We were placed 26th in the Top 75 Best Companies to Work For in Yorkshire and the Humber, and 65th in the Top 100 Best Large Companies to Work For in the UK. This complemented our two-star Best Companies accreditation, identifying us as having 'outstanding' levels of workplace engagement.

## Supporting the community

Another year of COVID-19 restrictions did nothing to hamper our efforts within our community.

Through our sponsorship with York City Football Foundation, we supported people struggling with social isolation. We did this by helping them reconnect with groups in the community, building their confidence and independence.

Working in partnership with York Cares, we gave University of York students a taste of real-life business problem-solving. During the pandemic, it has been difficult for students to have work experience. These challenges gave them the chance to practice work-based skills which will help them as they look for jobs after their degrees.

We gave 12 funding awards through the Benenden Health Community Fund. These will support community groups with health and wellbeing projects. They include bike rides for people with mobility difficulties, a Junior Ultimate Frisbee team, strength and balance classes to prevent falls, and a new parents' group to support those experiencing loneliness and isolation.

Our York Cares partnership enabled our people to get together outdoors, making improvements to our local green areas while also connecting as teams. We hosted our largest ever group challenge with 35 colleagues coming together, some meeting for the first time.

## Insuring our officers

The Society has officers' liability insurance to cover officers when they are carrying out their duties.

## Principal activity

We aim to give our members affordable healthcare services on a discretionary and non-discretionary basis, in a spirit of mutuality.

## Disclosing information to our auditor

The Board in office when this report was approved confirms that, as far as it knows, there is no relevant audit information that our auditor does not know about. The Board also confirms that each of its members have done all they can to make themselves aware of any relevant audit information, and to make sure the Society's auditor knows about it too.

## Taxation

As a Society, we are not liable for corporation tax, income tax or capital gains tax. Our subsidiary companies are not all eligible for the same tax exemptions as the Society.

## Regulated status

We are authorised by the Prudential Regulation Authority, and regulated by the Financial Conduct Authority and the Prudential Regulation Authority.

We are classed as a 'small NDF' (non-directive firm). We fall outside the scope of Solvency II because we carry out 'Solvency II excluded operations'. This means we are a mutual whose insurance business is restricted to providing benefits which vary according to the resources available, and in which the contributions of the members are determined on a flat rate basis.

## Solvency and actuarial valuation

Although we are subject to Prudential requirements, as a friendly society conducting flat-rate benefits business, we do not have to maintain a margin of solvency or carry out an actuarial valuation. However, we recognise the importance of having a robust capital management strategy, so we monitor our capital position based on Solvency II methodology. The capital coverage is reported to Board every month and is included in updates to Branch Officers as well as to the membership via the annual report.

## Benenden Healthcare Pension Plan

The assets and management of the Benenden Healthcare Pension Plan are totally separate from the Society's assets and management.

The Pension Trustees invest our pension plan assets through independent fund managers. To comply with pension regulations, at least one third of the pension plan trustees are nominated by members.

The Defined Benefit section of the pension plan closed to new accruals on 31 December 2018. Active members of the scheme were enrolled into the Defined Contribution section of the plan from 1 January 2019.

## Subsidiary companies and controlled bodies

**The Society directly controls:**

- Benenden Wellbeing Limited – a wholly owned subsidiary company limited by shares and authorised and regulated by the Financial Conduct Authority
- The Benenden Charitable Trust – a registered charity and a company limited by guarantee
- The Benenden Hospital Trust – a registered charity and a company limited by guarantee
- The Friendly Healthcare Organisation Limited – a wholly owned subsidiary company limited by shares. The subsidiary was dormant throughout 2021
- Best Health Limited – a wholly owned subsidiary company limited by shares. The subsidiary was dormant throughout 2021
- Benenden Hospital Limited – a wholly owned subsidiary company limited by shares. The subsidiary did not trade during 2021

## Statement of the Board's responsibilities

The Board is responsible for preparing the Annual Report and Financial Statements in line with the applicable laws and regulations. Friendly Society law says the Board must prepare Financial Statements for each financial year. Under that law, the Board has chosen to prepare Financial Statements in line with UK Accounting Standards and law ('UK Generally Accepted Accounting Practice'), including FRS 102, the Financial Reporting Standard that applies in the UK and Republic of Ireland.

By law, financial statements have to give a true and fair view of the state of affairs at the end of the financial year, along with income and expenditure for that financial year.

**In preparing the Financial Statements, the Board has to:**

- Choose suitable accounting policies and apply them consistently
- Make reasonable and prudent judgements and estimates
- Say whether they have followed UK Accounting Standards, and if they have departed from them, say why
- Prepare the Financial Statements on the going-concern basis, unless it is not appropriate to presume the organisation will stay in business

**The Board is also responsible for:**

- Keeping proper accounting records that disclose the organisation's financial position with reasonable accuracy. These records also let the Board make sure the Financial Statements comply with the Friendly Societies Act 1992 and its regulations
- Preparing a report in line with the Friendly Societies Act 1992 and its regulations
- Keeping the corporate and financial information on the Society's website up to date (UK laws on preparing and disseminating financial statements may be different from legislation elsewhere)
- Doing anything reasonable to protect the Society's assets, and to prevent and detect fraud and other irregularities
- Preparing a Directors' Remuneration Report (see page 92). This is in line with Schedule 8 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 made under the Companies Act 2006, as if those requirements applied to the Society

## Section 172 Report

In the spirit of good practice, we are disclosing a section 172(1) statement although, as a friendly society, we do not have a legal requirement to do so. The statement requires company directors to describe how they have complied with their duties to promote the long-term success of the company under section 172 of the Companies Act 2006.

The directors recognise the best practice outlined in section 172 of the Companies Act 2006 to act in the way which they consider, in good faith, would be most likely to promote the success of the Society for the benefit of its members. In doing so, they will have regard to:

**a.** The likely consequences of any decision in the long term – this is noted in the strategy section of the report, in particular the capital reporting and the requirements to have capital coverage ratios in the range 125–175% (see page 18 of the Strategic Report). Directors attend meetings with our active members to engage on the Society's strategic direction and understand members' feedback on strategic decisions. During 2021, these meetings have happened virtually because of the COVID-19 pandemic.

**b.** The interests of the company employees – see page 22 of the Strategic Report, describing how we support our people. Directors spend time with our colleagues to develop knowledge of specific areas of the Society's operation and understand colleagues' feedback. We have offered increased support to all employees through the COVID-19 pandemic to help protect their wellbeing through changed working practices. Through the Group Nominations and Remuneration Committee, the Board has access to the outcomes of the Best Companies' questionnaire responses.

**c.** The need to foster the company's business relationships with suppliers, customers and others – see page 19 for how we focus on strong partnerships, page 19 for how we attract and retain our members, and pages 82-85 for a description of our member engagement, including a timeline. Regular reports from the CEO keep directors updated on key supplier relationships. Progress with recruitment and retention is discussed at each Board meeting. Through the Membership Committee and member engagement events (held virtually during 2021), the Board can work closely with active members. The Board has developed a stakeholder map to enable it to further understand the impact of business decisions on the Society's stakeholders.

**d.** The impact of the company's operations on the community and environment – see pages 22 to 29 for an overview of how we manage our impact on the environment and how we support our community. Regular reports from the CEO keep directors updated on initiatives to support our community. The Board is mindful of the Society's impact on the environment and, in particular, climate change. The management of financial risks in relation to climate change is discussed by the Group Audit and Risk Committee.

**e.** The desirability of the company maintaining a reputation for having high standards of business conduct – see the Corporate Governance Report on pages 74-83. The Board has set a strong values framework, promoting high standards of behaviour and a positive culture throughout the Society. The Board reviews the Society's performance against corporate governance best practice on an annual basis, which includes identifying areas for improvement.

**f.** The need to act fairly as between members of the company – see the Corporate Governance Report on pages 74-83. The Board considers conduct risk (the risk that the company's behaviour will result in poor outcomes for consumers) as a central part of each item it discusses. In doing so, directors demonstrate their commitment to avoiding of unfairness or detriment to our members at all times.

The Board has prepared its Corporate Governance Report against the requirements of the Association of Financial Mutuals Corporate Governance Code, while also taking account of the requirements of other corporate governance codes and statements of best practice. More information about the Society's governance arrangements is in the Corporate Governance Report on pages 74-83.

We believe the Annual Report and Financial Statements taken as a whole are fair, balanced and understandable. They provide members with the information they need to assess the Society's position and performance, business model and strategy.

For and on behalf of the Board

**René Fraioli**
Society Secretary

# Corporate Governance Report

The Society's Board remains committed to a high standard of corporate governance. And, as a member of the Association of Financial Mutuals (AFM), demonstrates its compliance with the AFM Corporate Governance Code. AFM members are asked to show in their annual reports how they have applied the Code's six high-level principles, and how applying them has helped improve corporate governance.

Though reporting against the requirements of the AFM Code, the Board believes there are lessons to be learnt from governance codes in other sectors. So we will continue to study wider best practice.

To demonstrate our commitment to good corporate governance, we carry out an annual benchmarking exercise to find opportunities to implement best practice guidance from other sources. The 2021 benchmarking exercise showed the Society performs well overall against other governance codes. Work has continued during 2021 on developing changes to our democratic processes, which will have a positive impact on stakeholder engagement. You can find more information on this in the 'Member Engagement' section on page 82.

## AFM Corporate Governance Code: principles and supporting statements

| Principle | Supporting statement |
|---|---|
| **Purpose and leadership** | An effective board promotes the purpose of an organisation, and ensures that its values, strategy and culture align with that purpose. |
| **Board composition** | Effective board composition requires an efficient chair and a balance of skills, backgrounds, experience and knowledge, with individual directors having sufficient capacity to make a valuable contribution. The size of a board should be guided by the scale and complexity of the organisation. |
| **Director responsibilities** | A board and individual directors should have a clear understanding of their accountability and responsibilities. The board's policies and procedures should support effective decision-making and independent challenge. |
| **Opportunity and risk** | A board should promote the long-term sustainable success of the organisation by identifying opportunities to create and preserve value, and establishing oversight for the identification and mitigation of risks. |
| **Remuneration** | A board should promote executive remuneration structures aligned to the long-term sustainable success of an organisation. It should take into account pay and conditions elsewhere in the organisation. |
| **Stakeholder relationships and engagement** | Directors should foster effective stakeholder relationships aligned with the organisation's purpose. The board is responsible for overseeing meaningful engagement with stakeholders, including the workforce, and having regard to their views when taking decisions. |

The Board's report against the AFM Code is detailed below.

| Purpose and leadership | |
|---|---|
| **How we apply the principle** | **This contributes to good governance because...** |
| **The Board holds a two-day strategic seminar each year.** | The 2021 event gave the Board an opportunity to devote time to focusing on our strategy, purpose and business model. |
| **We have a strong values framework and work hard to make sure a positive culture pervades our Society.** | Staff-pay awards are linked to both objectives and to values-led behaviours. 93% of eligible staff achieved a bonus payment for 2021.<br>We again retained our two-star status in the 2021 Best Companies staff survey. We were also placed:<br>• 26th in the list of Top 75 Best Companies to Work For in Yorkshire and the Humber (up five places from our 2020 placing)<br>• 8th in the Top 10 Best Insurance Companies to Work For (a new category for 2021)<br>• 65th in the Top 100 Best Large Companies to Work For, where we were benchmarked against some of the UK's largest companies<br>These awards demonstrate that our people feel involved and engaged in the business.<br>Our consequences framework means that there are implications for staff, members, Branch officers and directors who behave in ways that are not in line with our values or the regulatory code of conduct, or that may bring the Society into disrepute. This framework underlines how important it is to us to maintain a positive culture. |
| **We have continued to review our systems and controls to make sure we have a strong control framework. Work in 2021 included reviewing (and updating where necessary) our library of policies and the procedures which support them.** | Keeping our policy framework, risk framework and procedures up to date makes us more transparent and accountable. |

| Board composition | |
|---|---|
| **How we apply the principle** | **This contributes to good governance because…** |
| **The size and composition of our Board is subject to ongoing review.** | Having the right people, and the right number of people, around the Board table is key to effective decision-making. The Board continues to consider the appropriateness of its size and composition. |
| **Appointments for Board-nominated Board positions are through open competition, using professional recruitment consultants.** | This allows us to consistently identify appropriate candidates for Board-nominated Board positions, and keep the right blend of experience and skills around the Board table. One Board-nominated director retired at our 2021 Conference. We filled the position in Q1 2022, with the appointee standing for election at our 2022 Conference. |
| **We publish Board competencies. We also aim to help Branches identify appropriate candidates for Branch-nominated Board positions by telling them the skills those candidates will need.** | In doing this, and also by giving potential candidates as much information as possible about the role, we can use the skills and experience of members who want to get involved in running our Society. |
| **We publish information to Branches about all candidates for election to the Board. One new Branch-nominated Board member was elected in 2021.** | Giving our Branches as much information as possible about the candidates standing for election means they can make an informed decision when casting their votes. |
| **All directors are elected at the first AGM after their appointment. They are subject to a two-year term, with a maximum tenure of eight years.** | This makes sure our members have the opportunity to vote for all directors. The two-year term and maximum tenure of eight years allows us to refresh the Board progressively.<br><br>The Board is still committed to introducing a three-year term of office and a maximum tenure of nine years, alongside a process of rotation. This is because they believe that planned rotation will help keep stability at Board level by removing the risk that a whole Board might be replaced in one election. It also allows continual refreshment of Board members. The Board expects to propose the necessary changes to the Society's rules in 2022. |
| **Succession planning is a priority to management continuity. So it is a regular item on the Nomination and Remuneration Committee's agenda.** | This supports our decision-making processes, allowing us to identify candidates for Board-nominated board positions in good time to replace Board-nominated directors retiring after their eight-year maximum tenure. |
| **Each Board member has an annual appraisal with the Chair. The Chair has their appraisal with the Vice-Chair. The Chief Financial Officer's appraisal is by the Chief Executive and includes Board performance.** | It is important to us to recruit the right people for our Board, and to help them maintain their fitness for the role. Our annual appraisal process gives each Board member the opportunity to work with the Chair to identify continuing professional development needs. |
| **We carry out annual evaluation of the Board and its Committees.** | Action plans coming out of the evaluations allow us to improve processes.<br><br>We used a questionnaire format for 2019, 2020 and 2021, which has allowed us to compare results. The Board agreed to postpone an externally facilitated Board effectiveness review until 2022. Implementing action plans from Board evaluations helps make the Board more effective. |

| Board composition – Continued | |
|---|---|
| **How we apply the principle** | **This contributes to good governance because...** |
| **We held a range of Board development sessions during 2021. These included group sessions on audit reforms, emerging technology in insurance, a market review and a briefing on climate change, as well as a full programme of e-learning.** | Along with regular compliance and governance updates, training like this keeps Board members' professional development and knowledge up to date and relevant. |
| **We have a Board diversity policy. In 2021, the proportion of women on our Board rose to 35%, which compares favourably with the averages reported in the 2021 Hampton-Alexander Review (36.2% for FTSE 100 companies and 33.2% for FTSE 250). In our senior leadership roles below Board level, 40% are women. This exceeds the FTSE target of 33% and has remained stable in the last 12 months.** | Board diversity encourages challenge, reducing the risk of 'group think'.<br><br>Gender balance on our Board and at senior management level is something we are very aware of, though we still believe the most important thing is to have the right people in the posts, regardless of gender. |

| Director responsibilities | |
|---|---|
| **How we apply the principle** | **This contributes to good governance because...** |
| **We have corporate governance documents, including a responsibilities map, scheme of delegation, statements of responsibilities, conflicts of interest policy and processes, Board Handbook, and Board and Committee terms of reference. We review all these documents annually.** | Maintaining up-to-date documents keeps governance arrangements clear, especially in relation to lines of accountability and responsibility. Each time we review these documents, we have the opportunity to think about whether they are still relevant or if there might be a better way of doing things. |
| **There is a balance of Board-nominated and Branch-nominated Board members, and the Board Chairman is one of our Board-nominated Directors.** | This makes sure there is independent challenge at Board and Board Committee meetings. |
| **We have a standardised Board paper template.** | We review the Board paper template regularly, and last reviewed and updated it at the end of 2021. The consistent format means the Board can quickly see what is expected of it in relation to each paper, and that it has the right balance of detail to make an informed decision. |

| Opportunity and risk | |
|---|---|
| **How we apply the principle** | **This contributes to good governance because...** |
| **We have an effective risk management framework.** | We have done a significant amount of work to develop a mature and appropriate risk management system. It identifies emerging risks facing the Society and allows the Board to make informed and robust decisions about:<br>• Determining the Society's risk appetite<br>• Agreeing how to manage or mitigate the principal risks to reduce their likelihood and/or impact<br>• Establishing clear internal and external communication channels on identifying risk factors<br>• Agreeing a monitoring and review process<br>You can find more information about our work to develop our risk management processes on page 52. |

| Remuneration | |
|---|---|
| **How we apply the principle** | **This contributes to good governance because...** |
| **Through our Nominations and Remuneration Committee, remuneration strategy and gender pay-gap reporting.** | Appropriate and fair levels of remuneration help us to attract and keep high-quality directors and senior managers. We do not lose sight of our not-for-profit status, making sure we align remuneration with our strategy, values and long-term success.<br>For more about the work of our combined Nominations and Remuneration Committee, see page 89, and also our Directors' Remuneration Report on page 92. Our gender pay-gap report is available at **benenden.co.uk** |

| Stakeholder relationships and engagement | |
|---|---|
| **How we apply the principle** | **This contributes to good governance because...** |
| **We engage regularly and effectively with our principal stakeholders (our members, Branches and staff) in various ways. There is more information on how we have done this during the year in the Member Engagement section on page 82 and Engagement with our People section on page 70.** | Building good relationships with our stakeholders is important to us – we recognise that the success or failure of any policy or product starts and ends with the stakeholders it affects. Engaging effectively gives us the opportunity to learn what our members want or need, and to test any assumptions we might have. Understanding our Branches' viewpoints helps us to build credibility and trust ahead of asking Branch delegates to make important decisions at our Conferences.<br>To engage with our staff, we have developed formal and informal channels for colleagues to share ideas and concerns with senior management. Many ideas for process improvements have come through these channels. |
| **We are particularly proud of our engagement with our wider community (see Corporate Social Responsibility on page 70).** | Positive engagement with our community goes a long way to attracting and retaining staff as well as members, and to building our culture and brand values. Our Best Companies' questionnaire responses showed that staff really value the opportunities we give them to contribute to our community through volunteering with organisations like York Cares. |

# Performance evaluation

In 2019, we reported on the outcomes of the 2018 external review of Board effectiveness. We noted that the review had highlighted some areas where changes might improve Board performance. The Board is happy to say it continues to make progress in addressing the outcomes. Where they have not yet completed work, the Board notes there are documented action plans and trackers in place.

| Area for change | Progress made |
|---|---|
| **Reducing the size of the Board while retaining necessary skills, experience and diversity.** | We again deferred the Board's intended proposals to change the Society's rules to reduce the size of the Board and introduce a three-year rotation for non-executive Board members. This was to reduce the amount of business at our 2021 Conference (held virtually). The Board is still committed to proposing these changes to a future Conference. |
| **Reviewing the balance between matters reserved for Conference, the Board and the Society Executive.** | This is part of an ongoing review of the Society's rules and the delegation by Conference (through changes to the rulebook) and by the Board (through changes to internal policies). |
| **Putting in place more effective oversight of subsidiary companies.** | Improved reporting continues through a 'subsidiary dashboard' which provide oversight of financial and performance metrics. These are reviewed at each quarterly Board meeting together with other detailed submissions from the subsidiaries.<br><br>The Board is still working with Benenden Hospital Trust to set out the responsibilities of both the Society and the Hospital, put in place price transparency and implement a group-wide risk management framework. |
| **Establishing more effective Board and Board Committee processes.** | We carried out a full review of Board Committee terms of reference towards the end of 2021. This was to give assurance that Board Committees got appropriate support from the Board, allowing the Board itself to focus on strategic issues.<br><br>We introduced revised Board paper templates. We continue to streamline the information the papers provide.<br><br>We also carried out Board Committee effectiveness exercises in 2021. These allow each Board Committee to consider whether and how they might improve their performance. |

In 2021, we conducted a Board performance evaluation process using a series of questionnaires provided by an external supplier, adapted individually for use by the Society, its Board Committees and its subsidiary Boards and completed electronically. Each Board member has also had an individual appraisal meeting with the Chair. The Vice-Chair led the Chair's appraisal.

## Board training in 2021 included:

- **Mandatory e-learning packages:**
  - Anti-financial crime
  - Senior managers and certification regime and conduct rules
  - Conduct risk
  - Conflicts of interest
  - Gifts and hospitality
  - Diversity
  - Health and safety at Registered Office
  - Information security
  - Modern slavery
  - Product knowledge
  - Three lines of defence
  - Whistleblowing
  - Working from home
- **Facilitated Board workshops**
  - Audit reforms
  - Emerging technology in insurance
  - Market review
  - Climate change briefing
- **Maintaining an electronic continuing professional development folder** – containing regulatory updates and newsletters which all Board members can access

# Member engagement

We are proud of our mutual status. Central to that is our members' ability to have a say in how we are run. Therefore, it is important that we make sure they know how to do that.

Every member of the Society is allocated to one of our 43 Branches. They can influence the way we run the Society by attending Branch meetings and electing delegates from their Branch to represent them at the Society's Annual Conferences.

Our normal round of meetings arranged by Branches includes:

- **Branch AGM**
  - Electing Branch Committee members
  - Agreeing propositions to submit to Annual Conference
  - Electing delegates to Conference
  - Nominating members to stand for election to the Board or the Standing Orders Committee
- **Mandating Meeting**
  - Instructing (or 'mandating') Branch delegates to Conference on how to vote on each Conference proposal
- **Other Branch meetings**
  - Post-Conference feedback
  - Presentation by a guest speaker

In 2021, we have continued to face challenges in running this type of representative democracy because our usual processes rely on face-to-face meetings. In 2021, we continued to hold all our meetings virtually. Our Branch network has been supported by our Branch Engagement team and our IT department in running virtual Branch meetings. The processes we established in 2020 to support these meetings have continued to run effectively.

We run other face-to-face events to engage with members through their Branches, including:

- **Branch Officers' Meetings**
- **Our Annual Conference**, attended by up to 300 Branch delegates. They vote on the proposals put forward and elect members of the Board and Standing Orders Committee

These events have also become virtual. Using technology, we were able to hold:

- A series of **Branch Community Engagement Events**, the first in June 2021
- A **virtual pre-Conference session** where delegates debated Conference business
- An **online Conference**, where delegates voted on the business debated two days earlier, Board elections were successfully held and the Chairman and Chief Executive gave speeches

To keep our members informed about changes to our usual processes, we have continued to use articles in our member magazine, Be Healthy, and messages on the Society's website.

# Keeping in touch

As always, members who cannot get involved through their Branch can still keep up to date through Be Healthy and our website's member area. Any members who cannot submit questions and comments through their Branch can email the Society Secretary at: **thesecretary@benenden.co.uk**

**To find out more, go to benenden.co.uk and choose 'Log in'.**

# Member Engagement Timeline 2021

**Jan**

B
'Your Benenden Health' articles

**Feb**

A
Meetings recorded

**March**

A
Meetings published online

E
Branch Community Engagement Event

**April**

E
Annual Report Q&A Session

B
'Your Benenden Health' articles

**May**

M
Meetings recorded, Meetings published online

C
**27th**
Conference agenda distribution

**June**

C
**22nd**
Pre-Conference debate session held via Microsoft Teams

**24th**
Hybrid Conference (Virtual)

| July | August | Sept | Oct | Nov | Dec |
|---|---|---|---|---|---|
| D Branch Webpage publication | D Branch and Member Research | D Launch of Final Proposal from the Working Group | D Branch Consultation Meetings | D Branch Consultation Meetings, Branch Research | |
| B 'Your Benenden Health' articles | | O **22nd** London | B 'Your Benenden Health' articles | E Branch Community Engagement Event | |

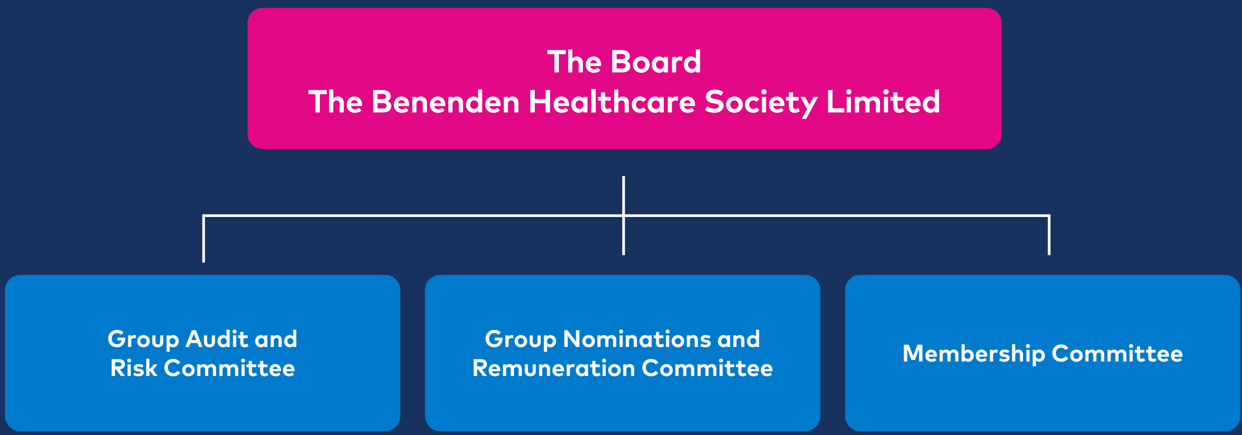
**Key**

- A Branch AGMs*
- M Branch Mandating Meetings*
- O Branch Officers' Meeting
- C Conference
- E Online Engagement Events
- D Democracy for Tomorrow
- B Be Healthy

*As a result of the COVID-19 pandemic, physical Branch meetings were not held during 2021. Branches recorded their meetings and members were invited to watch their meeting recordings online and submit their votes on Branch and Conference business.

# Board Committees

We have held our Board Committee meetings virtually since March 2020 because of the restrictions caused by the COVID-19 pandemic. Each committee adapted quickly to this way of working and has successfully managed its responsibilities.



A review of our Board Committee structure resulted in us merging (in July 2021) the Group Audit and Group Risk Committees, and the Group Nominations and Group Remuneration Committees. The new structure is shown on the previous page. This has helped reduce duplication and made the responsibilities of each Board Committee clearer.

All Board Committees reviewed their own effectiveness and terms of reference during the fourth quarter of 2021. The terms of reference are available in the member area of our website (**benenden.co.uk**) and from the Society Secretary.

All Board Committee meeting minutes go to the Board, with the Chair of each Committee also giving a written update at the next available Board meeting.

## Group Audit and Risk Committee (GARC)

**Members:**

- **Ian Blanchard (Chair)**
- **Jo Andrews**
- **Brian Eaton**
- **David Fletcher**
- **Louise Fowler**

For details of members' backgrounds, please see pages 60-65.

Members of the Society Executive (including the Chief Executive Officer (CEO), Chief Financial Officer (CFO) and Chief Risk Officer (CRO) attend GARC meetings, as do the Company Secretary and the Society's internal and external auditors.

The GARC is a Board Committee which carries out its duties for The Benenden Healthcare Society, Benenden Wellbeing Ltd and The Benenden Charitable Trust. The GARC consults with the Audit Committee and the Quality and Safety Committee of The Benenden Hospital Trust on managing Hospital-related risks. The Benenden Hospital Audit Committee provides a quarterly report to the GARC.

The GARC has written terms of reference covering its role and responsibilities, which include:

- Providing independent assurance to the Board of the adequacy and effectiveness of the Society's systems of financial reporting, through supervision of the quality, independence and effectiveness of the internal and external auditors
- Monitoring the adequacy of the Society's systems of internal control
- Reviewing arrangements for compliance with regulatory and financial reporting requirements
- Making sure we have clear whistleblowing arrangements for raising and investigating concerns about possible wrongdoing
- Reviewing the effectiveness of the Society's Risk Management Policy and related procedures, providing assurance to the Board
- Advising the Board on the Society's risk appetite, tolerance and strategy
- Advising the Board on proposed strategic transactions, including acquisitions or disposals, before the Board takes a decision
- Advising the Board on the Society's capital and investment strategy

The Committee was formed in July 2021, with two meetings scheduled after this. These both achieved quorum (as defined by the Committee's terms of reference), with all members fully engaged in discussion, debate and challenge.

Before we formed this Committee, the Society had separate Group Audit and Group Risk Committees, which each met twice in 2021.

Key pieces of work for both the separate committees and the new Group Audit and Risk Committee during 2021 included:

- Monitoring the effectiveness of the Internal and External Auditors
- Approving the 2020 year-end papers
- Approving the 2020 Annual Report and Financial Statements
- Considering the financial support required by The Benenden Hospital Trust from the Society
- Regularly reviewing the CRO's report
- Making decisions about marketing the southeast quadrant of the Hospital site

The GARC assesses the effectiveness of internal control systems to give the Board confidence that its strategic objectives are achievable, and that member funds are appropriately safeguarded.

The GARC also monitors the status of issues raised in reports from the second and third lines of defence to make sure they are remedied quickly and appropriately. The volume and profile of control issues have stayed within tolerable limits.

## Internal audit and internal controls

RSM UK LLP was the Society's internal auditor throughout 2021.

The internal auditor reports to the CEO and, following each audit, distributes the report to the GARC, the CEO and CRO. The internal audit plan is developed using a risk-based methodology for a rolling three-year period covering the Society and its subsidiaries. The internal audit plan is a core part of assessing operational risks and the effectiveness of the group's internal systems and controls. Senior management and the internal auditors agree a draft plan, with final challenge and approval made by the GARC.

The GARC reviewed several internal audit reports during 2021, including:

- Cyber Risk Management (Society and Benenden Hospital)
- Procure to Pay (Benenden Hospital)
- BHT Patient Administration System Project Review (Benenden Hospital)
- Business Intelligence (Society)
- Finance System (Phase 3) (Society)
- Compliance Framework (Society)
- Strategy and Forecasting (Society)
- Vulnerable Customers (Society)

As a standing agenda item for all GARC meetings, the Committee receives reports on any instances of fraud, whistleblowing or internal control deficiencies, and any action to deal with them.

The Committee tracks all internal audit and compliance monitoring actions until they are complete. This assures us that management has taken, or is taking, action needed to put right any failings or weaknesses in the Society's controls.

## External audit and financial reporting

Deloitte LLP has been the Society's external auditor throughout 2021.

The GARC considers the financial information and all risk related reporting published in the Society's Annual Report, in particular the key judgements that management have made in preparing the Financial Statements.

The GARC gets updates throughout the year from both the external auditors and the Finance department. This includes:

- Tracking the observations on controls in the management letter about the 2020 year-end through to completion
- Reviewing the external auditors' audit strategy and reporting
- Reviewing and approving the wording for the audit sections of the Annual Report

The GARC has received 'judgement' papers (papers describing the basis on which we have prepared the Annual Report and Financial Statements ). These include the valuation of properties, the investment fund valuation and the estimate of provisions for outstanding member benefits. This meant the GARC (and then the Board) could review and challenge the content to make sure the 2021 Annual Report was fair, easy to understand and balanced, so that members can assess the Society's strategy and performance.

The GARC regularly considers the balance between audit and non-audit services to keep in line with best practice on independence and objectivity. The ratio of non-audit fees to audit fees for the period up to 31 December 2021 was nil for our auditor (2020: nil). This is highlighted in note 6 of the Financial Statements.

The GARC is satisfied that the 2021 Annual Report and Accounts are fair, balanced and understandable.

## Risk management

The Board recognises how important sound risk management, systems and controls are in delivering its objectives. Also, effective controls should make us more efficient, based on reliable management reporting. Senior management, through the Society Executive, is responsible for designing the internal systems and control framework, and implementing policies the Board approves.

The GARC regularly receives reports on our principal risks and uncertainties, including strategic, financial and operational risks, and the actions we are taking to mitigate them. The Committee receives more detailed reports on any risks and issues that materialise.

For more about our approach to risk management, see page 48.

## Group Nominations and Remuneration Committee

**Members:**

- **Les Philpott (Chair)**
- **Paula Clark**
- **David Furniss**
- **Angela Hays**
- **Adrian Humphreys**
- **Deryck Lewis**

For details of members' backgrounds, see pages 60-65.

The CEO and the Company Secretary attend Group Nominations and Remuneration Committee meetings. The Chief Operating Officer (COO) and the Head of HR attend for agenda items relating to their individual responsibilities, particularly when they are about remuneration.

The Group Nominations and Remuneration Committee is a Board Committee which carries out its duties for The Benenden Healthcare Society, Benenden Wellbeing Ltd and The Benenden Charitable Trust. It communicates with the Nominations Committee and the Remuneration Committee of The Benenden Hospital Trust as appropriate.

The Committee has written terms of reference covering its role and responsibilities, which include:

- Reviewing the balance of skills, knowledge and experience needed on the Board. This includes the core competencies, diversity and time commitment, as well as the Board's size, structure and composition, and succession planning
- Recommending processes to help identify candidates for Branch-nominated members of the Board
- Recommending candidates for executive and Board-nominated non-executive members of the Board
- Overseeing the process for performance evaluation of the Board
- Evaluating the balance of skills, knowledge and experience of senior management, including diversity and succession planning, and approving appointments to the senior management team
- Setting the directors' remuneration at a level that is appropriate for the roles they perform and the results they achieve. It should also be set at a level that means the Society can attract, retain and motivate the right calibre of staff
- Overseeing the development of all remuneration policies for the Society and making sure it follows them
- Setting directors' remuneration at appropriate levels to ensure the Society attracts, retains and motivates the leaders needed to deliver the Society's strategy and objectives to the highest standards for all of our members

The Group Nominations and Remuneration Committee was formed in July 2021. A total of three meetings were scheduled following its formation. They all achieved quorum (subject to the Committee's terms of reference) with all members fully engaged in discussion, debate and challenge.

Before the Committee's formation, the Society had separate Group Nominations and Group Remuneration Committees. In 2021, they met three times and twice respectively.

Key pieces of work for both the separate committees and the new Group Nominations and Remuneration Committee during 2021 included:

- Society Executive and Non-Executive Director succession planning, including recruitment to the Independent Director vacancy
- The Board Candidate process for 2021
- The internal review of Board effectiveness action plan and report
- The Board development programme
- The re-organisation of the Board Committee structure
- An independent review of Society Executive remuneration
- Society Executive bonus payments and setting the 2021 Society Executive bonus scheme
- Considering the reward strategy and monitoring of the effectiveness of the Society's staff incentive schemes
- Agreeing to the Society moving to be a real living wage employer

The Committee takes external advice and guidance from professional remuneration consulting firms when it needs to. It is continued to use Willis Towers Watson during 2021 for executive pay guidance. The Society currently uses the CIPD's HR-Inform salary search and job evaluation tools to carry out benchmarking for all other roles.

A performance development review process sees that individual and team objectives help to deliver the business plan.

In line with our reward principles, we have made sure we have a transparent reward framework. This includes introducing salary ranges and job 'families', and reviewing all aspects of financial reward as well as non-financial reward.

For the Committee's report on Directors' Remuneration, see page 92.

## Membership Committee

**Members:**

- **Louise Fowler (Chair)**
- **Deryck Lewis**
- **Brian Eaton**
- **Les Philpott**
- **Jo Andrews**

For details of members' backgrounds please see pages 60-65.

The Society Secretary, the Company Secretary, the CEO and the COO are invited to attend Membership Committee meetings.

The Membership Committee is a Board Committee which carries out its duties for The Benenden Healthcare Society Limited. It has written terms of reference covering its role and responsibilities, which include:

- Taking the lead on engagement with the Society's members
- Overseeing the administration of the Society's Branch structure
- Leading debate on proposals to make changes to the Society's democratic processes
- Monitoring Branch correspondence received by the Society Secretary
- Getting feedback from members and Branches, including from member surveys and focus groups
- Overseeing the delivery of Branch training sessions
- Overseeing arrangements for the Society's Conferences

The Committee held four meetings during 2021. They all achieved quorum (subject to the Committee's terms of reference), with all members fully engaged in discussion, debate and challenge.

Key pieces of work for the Committee during the year included:

- Arrangements for Conference 2021
- Board Rule amendments 2021
- Member experience updates
- 'Democracy for Tomorrow' consultation

## Lord Plant Travelling Fellowship Committee

**Members:**

- **Deryck Lewis (Chairman)**
- **HMRC Branch member**
- **Relative of Lord Plant**

The Lord Plant Travelling Fellowship Committee reviews applications for funding from Society and Benenden Hospital Trust employees to undertake a professional or personal development project. This project, and any associated travel, gives employees the opportunity to contribute to the work of the Society or the Hospital. The Lord Plant Fellowship was put on hold in 2021 due to the ongoing restrictions surrounding the COVID-19 pandemic.

# Directors' Report on Remuneration

In 2021, the Group Nominations and Remuneration Committee carried out its responsibilities in line with its newly reviewed terms of reference and under its newly appointed Chair. The challenges for the Committee to weigh up when making its decisions are:

1. **The increasingly difficult recruitment market and candidate shortage**
2. **Motivating and retaining talent**
3. **Balancing this with the need to 'spend members' money wisely' in line with the 'Be Smart' Society value.**

The Group Nominations and Remuneration Committee ("the Committee") and main Board decided it was important to recognise how the Society had performed after yet another challenging year. It is important to note the strong increase in results driven by business performance, and the hard work of colleagues given the challenges of the continuing COVID-19 pandemic.

The Committee recognises that market pay rates have gone up, and the cost of living has increased significantly. Also, overall, total reward is even more important to attracting and keeping people in a post-COVID 19 workplace. Making sure that hybrid working works well is also important.

For these reasons, the Committee will carry out a full independent review of Society remuneration in 2022. This is in line with the Reward Strategy to re-benchmark every three years, looking at base pay, discretionary bonus and benefits. This will make sure the Society does not fall behind on market rates, and is still able to recruit and retain the right people. In this way we will see that the Society has the skills and behaviours to help us reach our long-term business goals in the interests of all our members.

## How we decide how much to pay our people

Our approach to total reward reflects our values and strategic objectives. It considers our mutual status and our commitment to spend our members' money wisely. At the same time, we must also look at the market sectors we recruit from to make sure we are able to attract and retain the right people to drive performance.

The Committee makes sure we source independent data and advice on salaries and bonuses from reputable employee benefits consultants through a tendering process. We look at several factors in benchmarking data to help us decide on a fair comparison for the Society. This includes comparisons with financial services, looking at salaries in other mutuals where the comparators are relevant, turnover, geography and complexity. We evaluate each role against a relevant dataset.

In 2021, Korn Ferry, appointed by the Remuneration Committee in 2020, ran a fresh independent benchmarking process for executive positions. This resulted in us making some adjustments during 2021. The Nominations and Remuneration Committee will next benchmark executive salaries in 2023.

The 2021 annual pay award of 1.2% we made in April 2021 was based on indicators including the Consumer Price Index and owner-occupiers' housing costs (CPIH) at the time. This award was applied to all Society employees, including the Society Executive. As the cost of living has increased significantly throughout 2021, the Committee recognises that this percentage is now well below inflation.

All our people have the chance to receive a discretionary bonus, including executive directors. This varies depending on the overall performance of the Society and the individual's contribution to the Society's success. We measure someone's contribution against performance goals, which we set at the start of the financial year, as well as measuring conduct and behaviour in line with Benenden Health's organisational values. The average discretionary bonus payable for 2021, excluding the executive, was 4.3%. The maximum discretionary bonus for employees excluding the executive directors was 9%. A discretionary bonus is common practice among our competitors, and it keeps our people's rewards in line with those in comparable organisations.

# Executive Remuneration

The Committee realises the importance of its role in setting remuneration for the executive at a level that promotes the long-term success of the organisation. However, it also recognises that, as a mutual organisation, the Society needs to be prudent with members' money.

The Nomination and Remuneration Committee strives to keep the system for executive reward simple, avoiding complex long-term incentive plans (LTIPs) used by many organisations. Reflecting corporate best practice, the Society publishes the ratio of the Chief Executive Officer's pay to that of the wider employee population. We benchmark executive salaries against similar roles in other broadly comparable organisations, and we use independent remuneration consultants to aid the review. Even so, such comparisons, while important, are difficult because of Benenden Health's uniqueness in the private healthcare sector. We must weigh up all remuneration decisions not just on benchmarking data alone, but across a wide range of factors including investing members' contributions in our people judiciously.

The Committee is confident that recent work on executive remuneration is robust, transparent and sensible. It repeated this process in 2021, along with the external executive remuneration benchmarking by Korn Ferry referred to earlier. Benenden Health's remuneration approach helps us keep the skills and experience we need, and stay competitive in attracting new people to support our plans for growth.

A proportion of the overall remuneration for executive directors – bonus – depends on how they perform against key measures. The variable element is discretionary and has two tiers:

- Tier 1 relates to contribution to collective objectives
- Tier 2 relates to delivery of an executive's individual objectives

When considering any discretionary payment, we also look at executives' conduct and behaviour.

The discretionary element of reward has a maximum payment of 50% of individual executive salaries for a truly formidable personal performance. The opportunity is designed to drive delivery of the best outcomes for the Society and all our members on a sustainable basis. There has not been an award at this level since the opportunity was introduced. The Nomination and Remuneration Committee decided that because the Society's performance had been strong in 2021, despite dealing with the continuing circumstances arising from COVID-19, it was important to recognise this.

The bonus payments in April 2022 are 25% of salary. This compares with 15% of salary the previous year where the Committee decided restraint in remuneration was necessary in the exceptional circumstances of COVID-19. The Committee has judged the 50% bonus opportunity as unrealistic for the nature of the Society, and is developing a revised scheme based on simplified criteria against a lower opportunity threshold.

## The impact of performance on executives' discretionary pay

In considering the discretionary element of executives' pay, the Committee assesses the performance of the Society and each executive's contribution. Payments under the plan are made at the Committee's discretion in April, following the audited accounts. There is a 'clawback' provision for any audited activity that, after year-end, turns out not to have been delivered to the expected level or standard.

The Committee must be satisfied that there's no significant conduct risk, or any reputational, financial, operational or other reason not to make awards.

The Committee had established annual targets for our executives, which they met, despite the COVID-19 pandemic. The Society has recorded another surplus this year while also increasing net membership. As well as recognising whether executives deliver objectives, the Committee has also assessed how executives have dealt with long-term issues and risks facing the group. It has also made sure it carries on supporting members and safeguarding stakeholders' interests in these uncertain times and as we move out of the pandemic. To assess the right level of award, the Committee has considered several factors alongside how the Society has treated key stakeholders. They include:

### Treating the workforce fairly

We continued to take effective action to protect staff's safety and wellbeing throughout 2021. This let us continue to deliver services to members seamlessly, working with partners in a careful and co-ordinated way. The Society continued to operate a successful strategy for remote working for staff as the pandemic continued, to make sure we supported our members.

### Maintaining support and services for members

Even given the challenges of the pandemic, we maintained and broadened services for members throughout COVID-19. The Society continued to process claims and GP referrals, and encouraged members to ask for medical help if they needed it. The Society advised members about extending the validity of claims until 30 June 2022, to make sure no member lost out. For members facing financial difficulties because of the pandemic, the Society gave support through contribution payment holidays.

### Monitoring members' satisfaction

Despite restrictions in 2021, we managed to maintain our great 'customer satisfaction and ease of using services' scores at 8.7 out of 10 (average across all services) from over 41,000 members who responded. Over 70% of those members are strong promoters, scoring Benenden Health between 9 and 10 out of 10 for their experience.

Since we introduced a Trustpilot link at the end of our customer surveys, member reviews have increased tenfold. 84% of those reviews are between 4 and 5 out of 5. Our Trustpilot rating remains high at 4.5 out of 5.

The membership returned to growth in 2020. This growth continued throughout 2021 while also helping us to remain financially stable and boosting member funds.

## Non-executive directors' remuneration

The non-executive fees in 2021 were held at the same rate as the previous year, meaning they have not changed since 2019. This decision of the Board was taken, again, to demonstrate restraint in remuneration in the context of the COVID-19 pandemic. So the Chair's remuneration for 2021 was the same as 2020: £65,000 per year. For other non-executive directors, the basic remuneration was paid at £27,000. A further £6,000 per annum (pro-rata) goes to roles with extra responsibilities including the Board of Directors' Vice-Chair, the Chair of the Group Audit and Risk Committee and the Chair of BWL. A further £3,000 goes to the Chair of Nominations and Remuneration Committee and the Chair of Membership Committee for the extra responsibilities.

Looking ahead, the Nominations and Remuneration Committee will commission an independent benchmark of non-executive remuneration, to be presented to the Committee in 2022. This is with a view to making sure remuneration is in line with suitable market comparators.

## This table shows all directors' remuneration for 2021.

| Members of the Board's detailed emoluments for 2021 | | | | | | | |
|---|---|---|---|---|---|---|---|
| | Salary/ Fees £000 | Additional responsibility | Pension contributions £000 | Benefits £000 | Annual bonus payable £000 | Total 2021 £000 | Total 2020 £000 |
| **Executive** | | | | | | | |
| **Bob Andrews** | 264 | | - | 38 | 69 | 371 | 321 |
| **Helen Chamberlain** | 221 | | 18 | 14 | 55 | 308 | 271 |
| **Non-Executive** | | | | | | | |
| **Jo Andrews** | 14 | | - | - | - | 14 | - |
| **Gwenda Binks** | - | | - | - | - | - | 25 |
| **Ian Blanchard** | 27 | 6 | - | - | - | 33 | 33 |
| **Mike Bury** | 14 | 3* | - | - | - | 17 | 33 |
| **Paula Clark** | 27 | | - | - | - | 27 | 27 |
| **Brian Eaton** | 27 | | - | - | - | 27 | 7 |
| **David Fletcher** | 27 | | - | - | - | 27 | 7 |
| **Louise Fowler** | 27 | 3* | - | - | - | 28 | 27 |
| **David Furniss** | 65 | | - | - | - | 65 | 65 |
| **Angela Hays** | 27 | 6 | - | - | - | 33 | 30 |
| **Ken Hesketh** | 14 | | - | - | - | 14 | 27 |
| **Adrian Humphreys** | 27 | 6 | - | - | - | 33 | 33 |
| **Deryck Lewis** | 27 | | - | - | - | 27 | 27 |
| **Les Philpott** | 27 | 3* | - | - | - | 30 | 28 |
| **Andy Tucker** | - | | - | - | - | - | 20 |

*Pro-rata total.

## Executive pension entitlement

Bob Andrews has chosen not to participate in the employer pension scheme as he has reached the lifetime allowance. As part of his remuneration package, he receives his pension contribution as an allowance from the employer, equivalent to 10% of his basic salary.

This is consistent with the contribution arrangements for employees who are members of the Defined Contribution Pension Scheme. The allowance is included in the benefits figure in the emoluments table.

Helen Chamberlain was a member of the pension scheme until she reached the lifetime allowance in November 2021. She now receives an equivalent 10% allowance.

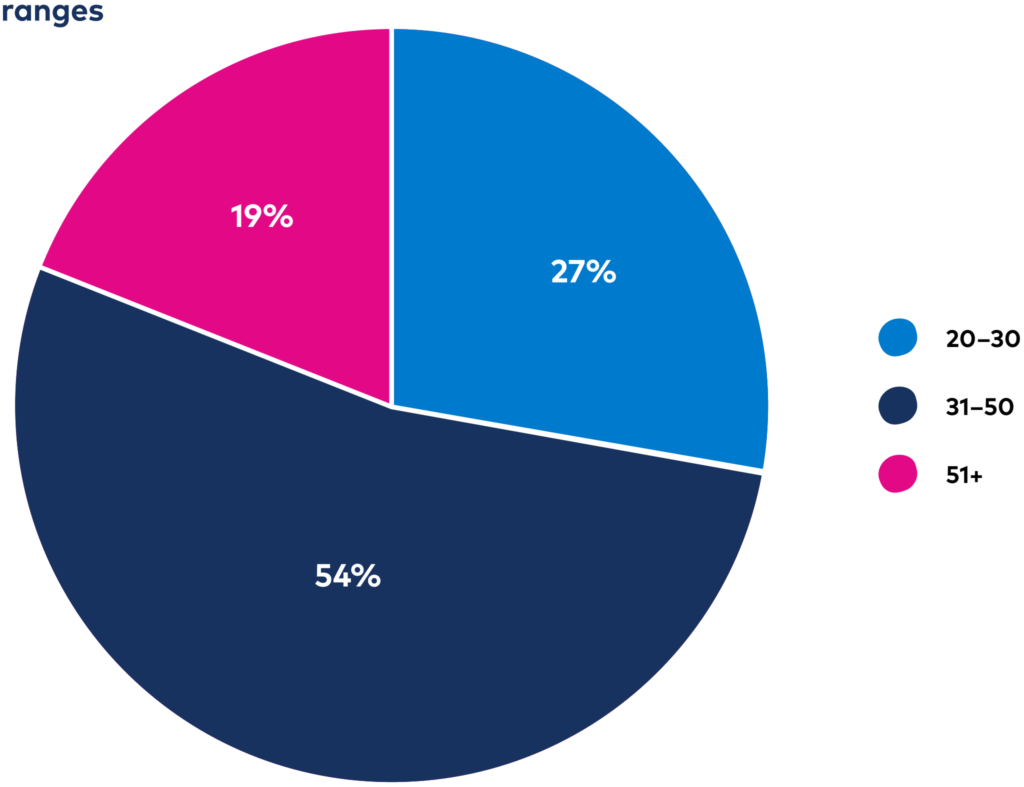
## Workforce profile

Benenden Health has a diverse, multi-generational workforce (see figure 1*). Our people cover an age range from under 20 to over 50. Length of service also varies – 113 colleagues have less than two years' service and 52 employees have over 10 years.

We are committed to promoting diversity, inclusion and gender equality throughout our recruitment and people processes. Our employee profile is 64% female and 36% male, and 17% of our workforce work part-time. This shows that we promote flexible working by offering part-time and varied roles, including job-shares and alternative working patterns.

Of our 33 current senior leaders – the Board, Society executives and the senior management team – 45% are female and 55% male. Excluding the non-executive directors and Society Secretary, on 5 April 2021 the gender split for the executive and senior management of 20 people was 50% female and 50% male.

### Figure 1.
### Age ranges




*Data as of 20 January 2022.

# Gender Pay Gap Reporting

The gender pay gap is the difference between the average pay of all men and the average pay of all women in an organisation. Benenden Health believes in equal opportunities and equal pay for work of equal value. We are pleased to report that our mean gender pay gap has fallen from 17.8% to 16.7% in 2021. Our transparent grading structure and role evaluation supports this equal pay requirement.

As much as possible, our policy is to keep pay gaps to a minimum, and we have been reporting on gender pay since 2017. This table summarises the trend in pay and bonus gaps.

The mean gender pay gap is the difference in average hourly rates of pay for male and female employees. This gives an overall indication of the gender pay gap by taking all hourly rates of pay and dividing by the total number of people in scope. A gender pay gap of 16.7% is a broad measure of the difference between the average earnings of men and women at Benenden Health, across all roles and at all levels in our organisation. The national average is 14.9%, and in the financial and insurance sector it is 29.9%.

The mean gender bonus gap is the difference in average bonus pay that male and female employees receive. A ratio of 37.3% means that male colleagues earn an average 37.3% more than females from bonus payments. This is due to a higher proportion of women than men in our more junior and part time roles.

The gender pay gap at Benenden Health is not a result of equal pay issues. It arises from having a predominately female workforce. We have a gender-neutral approach to deciding pay for roles at all levels, and we regularly monitor this to make sure we continue to meet legal and moral obligations.

For more information on the gender pay gap report, go to: **benenden.co.uk/about-benenden/gender-pay-statement.**

| Gender reward gap | 2021 | 2020 | 2019 | 2018 |
|---|---|---|---|---|
| **Pay – mean** | 16.7% | 17.8% | 19.8% | 20.3% |
| **Bonus – mean** | 37.3% | 27.6% | 29.4% | 7.9% |

## Diversity and inclusion, including flexible working

We are proud of the flexible working environment we provide for our colleagues. We have also introduced equal occupational parental pay for men and women from 2020. In 2021, several more of our colleagues benefited from this equity of pay.

We continue to partner with recruitment agencies who commit to finding diverse candidates, and we have reviewed all the agencies we work with. In 2021, we asked all our approved recruitment agencies to fill in a questionnaire to check their approach to diversity and inclusion and modern slavery, and make sure we are still happy to partner with them.

Our focus in 2021 was to support managers and their teams working remotely. So we ran an online leadership training programme in bite-sized sessions. This also offered group coaching sessions to fully support our managers and avoid online burnout – something that has become a prevalent global issue.

In 2021, we added to our flexible benefits platform, with an emphasis on health and wellbeing products such as Health Assessments, Gym Memberships and Will Writing products.

We also embarked on a hybrid working trial in September 2021. This is to help offer flexibility which will, in turn, attract a diverse workforce.

We promote vacancies internally, and recruited for 22% of all roles this way in 2021. We also make sure succession planning and development opportunities are available to harness the talent we have internally.

## CEO pay ratio reporting

The Pay Ratio Regulations make it a legal requirement for UK-listed companies with more than 250 employees to annually disclose the ratio of their CEO's pay to the median, lower quartile and upper quartile pay of their UK employees. In the spirit of transparency about our reward approach, we welcome the opportunity to share the pay ratio of our CEO using salaries on 5 April 2021. At Benenden Health, the ratio of CEO salary to the median workforce salary is 9:1.

## Pay ratios*

| Salaries as of 5 April 2021: | |
|---|---|
| **CEO to average full-time equivalent salary** | 7:1 |
| **CEO to average actual salary** | 7:1 |
| **CEO to median salary** | 9:1 |
| **CEO total remuneration to 50th percentile** | 10:1 |
| **CEO total remuneration to 25th percentile** | 14:1 |
| **CEO total remuneration to 75th percentile** | 9:1 |

* These salary figures are post-salary sacrifice. Employer's pension contributions are not included.

# The year ahead

The Nominations and Remuneration Committee's purpose is to help and advise the Board on the remuneration of the Board and Society Executive. The Committee will operate in line with these principles:

1. **Focusing on recruiting, retaining and motivating a high-quality and high-performing workforce**

2. **Being as transparent as it can and making decisions based on evidence**

3. **Use members' money wisely.**

The Committee will carry on working to make sure our remuneration structure supports the right culture, conduct and behaviours, and helps us perform well. Key priorities for 2022 are to focus on benchmarking Society salaries (excluding the executive which is next benchmarked in 2023) and non-executive remuneration. This will include making sure the total reward framework and opportunity is right for the Society, including members' interest in how their money is used productively, and agreeing the basis of future executive remuneration. This will take full account of and reflect the Society's strategy and mutual status, as well as wider market developments.

# Our values

## Be Caring

- We know what we do matters
- We are proud and enjoy what we do
- We promote a culture of care, respect, compassion and wellbeing
- We protect the mutual ethos

## Be Connected

- We collaborate and share across teams, departments and our business
- We listen to understand each other and our members' needs
- We support one another by having open and honest conversations
- We recognise that we are stronger together

## Be Brave

- We embrace change
- We challenge and ask 'why' as well as 'why not'
- We always want to learn
- We are not afraid of trying new concepts and ideas

## Be Smart

- We approach problems with a solution mindset
- We actively seek to improve, be better and learn from our mistakes
- We spend members' money wisely
- We are invested in the future of our business

# Auditors' Report

# INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE BENENDEN HEALTHCARE SOCIETY LIMITED

## Report on the audit of the financial statements

### 1. Opinion

In our opinion the financial statements of The Benenden Healthcare Society Limited (the 'Society') and its subsidiaries (the 'Group'):

- give a true and fair view of the state of the Group's and of the Society's affairs as at 31 December 2021 and of the Group's and the Society's income and expenditure for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- have been prepared in accordance with the requirements of the Friendly Societies Act 1992.

We have audited the financial statements which comprise:

- the Group and Society statements of income and expenditure;
- the Group and Society statements of other comprehensive income;
- the Group and Society statements of financial position;
- the Group and Society statements of changes in members' funds;
- the Group and Society statements of cash flows; and
- the related notes 1 to 25.

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" (United Kingdom Generally Accepted Accounting Practice).

### 2. 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 Group and the Society in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard, 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.

## 3. Summary of our audit approach

| | |
|---|---|
| Key audit matters | The key audit matter that we identified in the current year was the valuation of the provision for outstanding members' benefits.<br><br>Within this report, key audit matters are identified as follows:<br><br>Similar level of risk |
| Materiality | The materiality that we used for the Group financial statements was £1.385m which was determined on the basis of 1.2% of member contributions. |
| Scoping | In addition to the Society, the Group comprises six other components, three of which are dormant entities. Our Group audit covered all non-dormant entities and as such, 100% of Group income and 100% of Group net assets. |
| Significant changes in our approach | There have been no significant changes to our audit approach in comparison to the prior period. |

## 4. Conclusions relating to going concern

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.

Our evaluation of the directors' assessment of the Group's and Society's ability to continue to adopt the going concern basis of accounting included:

- evaluating management's judgement paper, identifying the assumptions applied in the going concern assessment and testing the mechanical accuracy of the underlying forecast;
- assessing the historical accuracy of forecasts prepared by management;; and
- reviewing the disclosures in relation to going concern to assess their consistency with our understanding of the Group's forecast performance and position.

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 Group's and Society'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.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

## 5. 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 which 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.

### 5.1. Valuation of provision for outstanding members' benefits

| | |
|---|---|
| Key audit matter description | The valuation of the provision for outstanding members' benefits is the key judgement within Benenden's financial reporting. As at 31 December 2021, the provision stood at £23.1m (2020: £23.4m). The provision is based on the expected future costs of settling cases that have been or are expected to be authorised by reference to past experience.<br><br>Covid-19 caused a significant level of disruption to member behaviour and availability of services. As a result, Management relaxed the usual requirement for members to take up services within six months of approval. All cases approved during 2020 and 2021 remain open to take up until 30 June 2022.<br><br>The provision is estimated using cohort methodology with Management exercising judgement where projection results appear to be outside of the expected range of values based on previous experience. The key assumptions within the calculation are the take-up rate and the average cost. From our risk assessment we determined that the methodology used in the calculation of the provision is not inherently complex, therefore we focused our audit effort on the reasonableness of the management overlays that are posted. The overlays applied are based on historical data and experience.<br><br>Management has also included a Covid-19 provision to provide for cases that require specific Covid-19 test prior to treatment, and a pipeline provision to provide for service packs which should have been approved by the end of the year however had not been due to the time to approval. This is in line with the prior year approach.<br><br>The critical accounting judgement and key accounting estimate disclosure for the provision for outstanding members' benefits is set out in note 3 and the financial disclosures are set out in note 18. |
| How the scope of our audit responded to the key audit matter | In response to this key audit matter, we performed the following procedures:<br><br>• Obtained an understanding of and tested the relevant controls over the calculation of the provision, including management's review of the assumptions used in the calculation and the manual overlays made by management to the calculation;<br>• reconciled the number of service packs and amounts paid per Management's calculation to the totals in Service Management System ("SMS");<br>• substantively tested the underlying data used in the provision calculation by agreeing a sample of service packs from third party data sheets sent to Benenden with details on SMS;<br>• reviewed Management's judgement paper and challenged the key assumptions used such as the take up rate and average cost assumption through obtaining corroboratory and contradictory evidence;<br>• with the involvement of our internal actuarial specialists, we compared the methodology applied to peers and considered its appropriateness;<br>• performed sensitivity analysis around the key assumptions used within the model including take up rate and average cost; |

| | |
|---|---|
| | • assessed the impact of the pipeline provision and Covid-19 provision, determining whether these are reasonable and performed a recalculation of the balances;<br>• obtained management's calculation and checked its mechanical accuracy by performing a recalculation using the underlying data;<br>• analysed the run-off of the 31 Dec 2020 reserve to the actual development in 2021; and<br>• analysed the run-off of the 31 Dec 2021 reserve post year-end by comparing the year-end provision to January and February 2022 data as well as the typical run-off curve observed in previous periods. |
| Key observations | Based on the procedures performed above, we concluded that the valuation of the provision for outstanding members' benefits, including the manual adjustments that were made with regards to the valuation of the provision, was reasonable. |

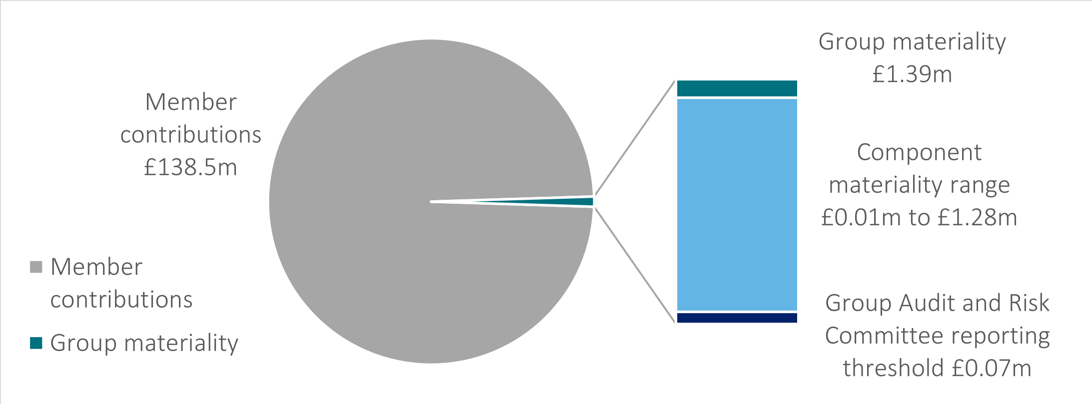
## 6. Our application of materiality

### 6.1. Materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

| | Group financial statements | Society financial statements |
|---|---|---|
| Materiality | £1.39m (2020: £1.30m) | £1.28m (2020: £1.14m) |
| Basis for determining materiality | Approximately 1.2% of member contributions (2020: approximately 1.2% of member contributions). | Approximately 1.2% of member contributions, which is capped at 92.5% of Group materiality. (2020: approximately 1.2% of member contributions). |
| Rationale for the benchmark applied | We deem member contributions to be the most suitable measure for both the Group and the Society given that the size of the membership, and in turn the quantum of membership contributions, is a key focus area for users of the financial statements and management. It is also a more stable measure year on year than the excess of income over expenditure. | |




### 6.2. Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole.

| | Group financial statements | Society financial statements |
|---|---|---|
| Performance materiality | 80% (2020: 80%) of Group materiality | 80% (2020: 80%) of Society materiality |
| Basis and rationale for determining performance materiality | In determining performance materiality, we considered the following factors:<br><br>a. our past experience of the audit, which has indicated a low number of corrected and uncorrected misstatements identified in prior periods; and<br><br>b. our risk assessment, including our assessment of the Group's overall control environment and that we consider it appropriate to rely on controls over a number of business processes. | |

### 6.3. Error reporting threshold

We agreed with the Group Audit and Risk Committee that we would report to the Committee all audit differences in excess of £69k (2020: £65k), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Group Audit and Risk Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

## 7. An overview of the scope of our audit

### 7.1. Identification and scoping of components

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including Group-wide controls, and assessing the risks of material misstatement at the Group level.

Based on that assessment, we focused our Group audit primarily on the operations and results of the Society and also The Benenden Hospital Trust, the Group's second largest trading entity. We also perform full scope audits on the Group's two other non-dormant entities: Benenden Wellbeing Limited and Benenden Charitable Trust as such, our audit covers 100% of Group income and 100% of Group net assets. All entities are audited to an individual materiality level determined on their individual financial statements which range from £0.01m to £1.28m (2020: £0.01m to £1.14m).

### 7.2. Our consideration of the control environment

We identified the financial reporting and provisioning for outstanding members' benefits business cycles to be the most relevant to the audit. We were able to take a controls reliance approach over the provisioning for outstanding members' benefits and with the involvement of our IT specialists we tested and relied upon IT controls across this area. We have shared observations from our procedures with management and the Group Audit and Risk Committee. The Board's assessment of the Group's internal control environment is set out on page 72 and the Audit Committee's assessment is set out on pages 87 to 88.

### 7.3. Our consideration of climate-related risks

In planning our audit, we have considered the potential impact of climate change on the Group's business and its financial statements. The Group continues to develop its assessment of the potential impacts of climate change as explained in the Climate risk report on pages 24 to 29. In the current period management has performed forward-looking qualitative analysis to explore the potential range of climate change implications on the Group.

As part of our audit, we have held discussions with Management to understand the process of identifying climate-related risks, the determination of mitigating actions and the impact on the Group's financial statements. Management has identified there to be no material impact arising from climate change on the judgements and estimates made in the financial statements.

We performed our own qualitative assessment of the potential impact of climate change material misstatement. Our procedures also included reading disclosures included in the Climate risk report to consider whether they are materially consistent with the financial statements and our knowledge obtained in the audit.

### 7.4. Working with other auditors

The consolidation and all entities within it were audited by the Group audit team, with the exception of The Benenden Hospital Trust. The Group team held regular calls with the component audit team, attended key audit related meetings and also reviewed the audit work performed at various stages throughout the audit process.

## 8. Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

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.

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 course of 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 this gives rise to a material misstatement in the financial statements themselves. 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.

## 9. Responsibilities of directors

As explained more fully in the directors' responsibilities statement, 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 Group's and the Society'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 Group or the Society or to cease operations, or have no realistic alternative but to do so.

## 10. 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 the 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 FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

## 11. Extent to which 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. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

### 11.1. Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the Group's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
- Group's own assessment of the risks that irregularities may occur either as a result of fraud or error that was approved by the board on 19th April 2022;
- results of our enquiries of management and the Group Audit and Risk committee about their own identification and assessment of the risks of irregularities;
- any matters we identified having obtained and reviewed the Group's documentation of their policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
  - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations;

- the matters discussed among the audit engagement team including significant component audit teams and relevant internal specialists, including pensions and IT specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the valuation of the provision for outstanding members' benefits. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory frameworks that the Group operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the Friendly Societies Act and pension legislation.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the Group's ability to operate or to avoid a material penalty. These included the requirements of the Financial Conduct Authority and the Care Standards Act.

### 11.2. Audit response to risks identified

As a result of performing the above, we identified the valuation of the provision for outstanding members' benefits as the key audit matter related to the potential risk of fraud. The key audit matters section of our report explains the matter in more detail and also describes the specific procedures we performed in response to this key audit matter.

In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of management, the Group Audit and Risk Committee and external legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with regulatory bodies such as the Financial Conduct Authority; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists and significant component audit teams, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

# Report on other legal and regulatory requirements

## 12. Opinions on other matters prescribed by the Friendly Societies Act 1992

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

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

In the light of the knowledge and understanding of the Group and the Society and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors’ report.

## 13. Opinion on other matters prescribed by our engagement letter

In our opinion, the part of the directors’ remuneration report to be audited has been properly prepared in accordance with the provisions of the Companies Act 2006 as if those requirements applied to the Society.

## 14. Matters on which we are required to report by exception

### 14.1. Adequacy of explanations received and accounting records

Under the Friendly Societies Act 1992 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the society; or
- the society’s financial statements are not in agreement with the accounting records; or
- we have not received all the information and explanations and access to documents we require for our audit.

We have nothing to report in respect of these matters.

## 15. Use of our report

This report is made solely to the Society’s members, as a body, in accordance with section 73 of the Friendly Societies Act 1992. 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.

David Heaton

David Heaton (Senior statutory auditor)

For and on behalf of Deloitte LLP

Statutory Auditor

Leeds, UK

19 April 2022

# Financial Statements

## Statement of income and expenditure

for the year ended 31 December 2021

| | | Group | | Society | |
|---|---|---|---|---|---|
| | Notes | 2021 £'000 | 2020 £'000 | 2021 £'000 | 2020 £'000 |
| **Income** | | | | | |
| Contributions | | **115,388** | 111,129 | **115,388** | 111,129 |
| Investment income | 4 | **812** | 587 | **3,108** | 3,800 |
| Gain on the realisation of investments | | **2,906** | 893 | **2,906** | 893 |
| Gain on investment property revaluation | | **1,479** | 65 | **1,479** | 65 |
| Commissions receivable | | **1,173** | 994 | **-** | - |
| Third party income from hospital activities | | **13,971** | 15,069 | **-** | - |
| Other income | | **124** | 199 | **82** | 198 |
| **Total income** | | **135,853** | 128,936 | **122,963** | 116,085 |
| | | | | | |
| **Expenditure** | | | | | |
| Members' benefits | 5 | **(85,397)** | (77,219) | **(75,249)** | (66,358) |
| Expenses of management | 6 | **(22,434)** | (21,054) | **(21,361)** | (20,097) |
| Non-recurring costs | 8 | **(31)** | (63) | **(31)** | (63) |
| Investment expenses and charges | | **(934)** | (801) | **(934)** | (801) |
| Impairment of investment in subsidiary | | **-** | - | **-** | (150) |
| Depreciation and impairment of operational property | 10 | **(1,140)** | (12,631) | **(1,140)** | (12,631) |
| Interest and other similar costs | | **(503)** | (1,031) | **(503)** | (1,031) |
| **Total expenditure** | | **(110,439)** | (112,799) | **(99,218)** | (101,131) |
| | | | | | |
| **Excess of income over expenditure before tax** | | **25,414** | 16,137 | **23,745** | 14,954 |
| | | | | | |
| Tax on excess of income over expenditure | 23 | **(5)** | (5) | **(5)** | (5) |
| **Excess of income over expenditure for the financial year** | | **25,409** | 16,132 | **23,740** | 14,949 |

## Statement of other comprehensive income

for the year ended 31 December 2021

| | | Group | | Society | |
|---|---|---|---|---|---|
| | Notes | 2021 £'000 | 2020 £'000 | 2021 £'000 | 2020 £'000 |
| Surplus for the financial year | | **25,409** | 16,132 | **23,740** | 14,949 |
| Unrealised gain on investments | | **2,773** | 6,515 | **2,764** | 6,515 |
| Unrealised gain on operational property | | **-** | 60 | **-** | 60 |
| Benenden Hospital pension contribution | | **-** | - | **1,913** | - |
| Pension scheme actuarial gain/(loss) | | **8,474** | (4,197) | **8,474** | (4,197) |
| Lord Plant travelling fellowship expenditure | | **-** | (3) | **-** | (3) |
| **Total gains of other comprehensive income** | | **11,247** | 2,375 | **13,151** | 2,375 |
| **Total gains recognised since the last annual report** | | **36,656** | 18,507 | **36,891** | 17,324 |

## Statement of financial position

as at 31 December 2021

| | | Group | | Society | |
|---|---|---|---|---|---|
| | Notes | 2021 £'000 | 2020 £'000 | 2021 £'000 | 2020 £'000 |
| **Assets** | | | | | |
| **Intangible assets** | | | | | |
| Computer intangibles | 9 | **3,618** | 3,037 | **1,897** | 2,067 |
| **Investments** | | | | | |
| Land and buildings | 11 | **16,851** | 15,372 | **16,851** | 15,372 |
| Other financial investments | 12 | **136,929** | 130,269 | **136,170** | 130,269 |
| Investment in subsidiary | 13 | **-** | - | **1,750** | 1,750 |
| **Debtors** | | | | | |
| Members' contributions receivable | | **1,516** | 1,344 | **1,516** | 1,344 |
| Debtors | 16 | **6,689** | 5,754 | **5,120** | 5,031 |
| **Other assets** | | | | | |
| Tangible assets | 10 | **49,110** | 51,713 | **39,520** | 40,711 |
| Stock | 15 | **662** | 534 | **-** | - |
| Cash and cash equivalents | | **36,310** | 17,710 | **31,751** | 14,487 |
| **Prepayments and accrued income** | | | | | |
| Other prepayments and accrued income | | **1,186** | 3,213 | **905** | 1,052 |
| **Total assets** | | **252,871** | 228,946 | **235,480** | 212,083 |
| | | | | | |
| **Liabilities** | | | | | |
| **Capital and reserves** | | | | | |
| Members' funds | | **178,614** | 141,958 | **162,115** | 125,224 |
| **Gross technical provisions** | | | | | |
| Provision for outstanding members' benefits | 18 | **23,090** | 23,394 | **23,090** | 23,394 |
| **Provision for liabilities and charges** | | | | | |
| Defined benefit pension scheme liability | 20 | **29,036** | 47,265 | **29,036** | 47,265 |
| **Creditors** | | | | | |
| Creditors | 17 | **2,669** | 2,163 | **3,001** | 3,234 |
| Loans to fund the hospital development | 19 | **-** | 4,167 | **-** | 4,167 |
| **Accruals and deferred income** | | | | | |
| Accruals and deferred income | | **19,462** | 9,999 | **18,238** | 8,799 |
| **Total liabilities** | | **252,871** | 228,946 | **235,480** | 212,083 |

The notes on pages 118 to 148 form part of these financial statements.
The financial statements on pages 113 to 148 were approved and authorised for issue by the Board on 19 April 2022 and were signed on their behalf by:

**René Fraoli,** Society Secretary
The Benenden Healthcare Society Limited, Friendly Society number 480F

## Statement of changes in members' funds

for the year ended 31 December 2021

| Group | General Fund 2021 £'000 | Operational Property Reserve 2021 £'000 | Investments Reserve 2021 £'000 | Lord Plant Fund 2021 £'000 | Total Members' Funds 2021 £'000 |
|---|---|---|---|---|---|
| Surplus for the financial year | **25,409** | **-** | **-** | **-** | **25,409** |
| Unrealised gains on investments | **-** | **-** | **2,773** | **-** | **2,773** |
| Pension scheme actuarial gain | **8,474** | **-** | **-** | **-** | **8,474** |
| | **33,883** | **-** | **2,773** | **-** | **36,656** |
| | | | | | |
| **Balance at 1 January** | **132,712** | **60** | **9,144** | **42** | **141,958** |
| **Balance at 31 December** | **166,595** | **60** | **11,917** | **42** | **178,614** |
| | | | | | |
| | 2020 £'000 | 2020 £'000 | 2020 £'000 | 2020 £'000 | 2020 £'000 |
| Surplus for the financial year | 16,132 | - | - | - | 16,132 |
| Unrealised gains on investments | - | - | 6,515 | - | 6,515 |
| Release of unrealised gains on disposal | 905 | (905) | - | - | - |
| Unrealised gains on operational property | - | 60 | - | - | 60 |
| Pension scheme actuarial loss | (4,197) | - | - | - | (4,197) |
| Lord Plant Fund movement | - | - | - | (3) | (3) |
| | 12,840 | (845) | 6,515 | (3) | 18,507 |
| | | | | | |
| Balance at 1 January | 119,872 | 905 | 2,629 | 45 | 123,451 |
| Balance at 31 December | 132,712 | 60 | 9,144 | 42 | 141,958 |

The group seeks to hold a long-term surplus which is available to support requests for assistance that are likely to arise from current and future members.

Included in members' funds are £16,723k (2020: £17,201k) of net assets (after consolidation adjustments) held by The Benenden Hospital Trust and The Benenden Charitable Trust. Both are registered charities and must apply these funds solely in the pursuit of their charitable objectives, consequently these funds are not available for the general purposes of the group.

The Lord Plant Fund was established following the death of Cyril Thomas Howe Plant to allow staff the opportunity to travel within the United Kingdom or overseas to develop personally and bring improvements in all aspects of care for our members and patients.

## Statement of changes in members' funds

for the year ended 31 December 2021 (continued)

| Society | General Fund 2021 £'000 | Operational Property Reserve 2021 £'000 | Investments Reserve 2021 £'000 | Lord Plant Fund 2021 £'000 | Total Members' Funds 2021 £'000 |
|---|---|---|---|---|---|
| Surplus for the financial year | **23,740** | **-** | **-** | **-** | **23,740** |
| Unrealised gains on investments | **-** | **-** | **2,764** | **-** | **2,764** |
| Benenden Hospital pension contribution | **1,913** | **-** | **-** | **-** | **1,913** |
| Pension scheme actuarial gain | **8,474** | **-** | **-** | **-** | **8,474** |
| | **34,127** | **-** | **2,764** | **-** | **36,891** |
| | | | | | |
| **Balance at 1 January** | **115,978** | **60** | **9,144** | **42** | **125,224** |
| **Balance at 31 December** | **150,105** | **60** | **11,908** | **42** | **162,115** |
| | | | | | |
| | 2020 £'000 | 2020 £'000 | 2020 £'000 | 2020 £'000 | 2020 £'000 |
| Surplus for the financial year | 14,949 | - | - | - | 14,949 |
| Unrealised gains on investments | - | - | 6,515 | - | 6,515 |
| Release of unrealised gains on disposal | 668 | (668) | - | - | - |
| Unrealised gains on operational property | - | 60 | - | - | 60 |
| Pension scheme actuarial loss | (4,197) | - | - | - | (4,197) |
| Lord Plant Fund movement | - | - | - | (3) | (3) |
| | 11,420 | (608) | 6,515 | (3) | 17,324 |
| | | | | | |
| Balance at 1 January | 104,558 | 668 | 2,629 | 45 | 107,900 |
| Balance at 31 December | 115,978 | 60 | 9,144 | 42 | 125,224 |

The Society seeks to hold a long-term surplus which is available to support requests for assistance that are likely to arise from current and future members.

## Statement of cash flows

for the year ended 31 December 2021

| | | Group | | Society | |
|---|---|---|---|---|---|
| | Notes | 2021 £'000 | 2020 £'000 | 2021 £'000 | 2020 £'000 |
| **Cash flows from operating activities** | | | | | |
| Surplus for the year | | **25,409** | 16,132 | **23,740** | 14,949 |
| **Adjustments for:** | | | | | |
| Depreciation and amortisation | | **4,589** | 4,551 | **2,254** | 2,308 |
| Net (gains)/impairment on property revaluations | | **(1,479)** | 11,213 | **(1,479)** | 11,213 |
| Impairment of investment in subsidiary | | **-** | - | **-** | 150 |
| Profit on sale of assets | | **(2,903)** | (893) | **(2,908)** | (893) |
| Investment income | 4 | **(812)** | (587) | **(3,108)** | (3,800) |
| Interest on pensions | | **495** | 869 | **495** | 869 |
| | | **25,299** | 31,285 | **18,994** | 24,796 |
| | | | | | |
| Decrease/(increase) in debtors | | **920** | 227 | **(114)** | 674 |
| (Increase)/decrease in stock | | **(128)** | 2 | **-** | - |
| Increase in creditors | | **9,969** | 1,353 | **9,206** | 2,002 |
| (Decrease)/increase in provisions for members' benefits | | **(304)** | 9,792 | **(304)** | 9,792 |
| | | **10,457** | 11,374 | **8,788** | 12,468 |
| | | | | | |
| Defined benefit pension contributions | | **(10,250)** | (2,000) | **(8,337)** | (2,000) |
| Lord Plant Fund movement | | **-** | (3) | **-** | (3) |
| **Net cash flows generated from operating activities** | | **25,506** | 40,656 | **19,445** | 35,261 |
| | | | | | |
| **Cash flows from investing activities** | | | | | |
| Proceeds from sale of fixed assets | | **74** | 6,700 | **74** | 6,700 |
| Dividends received | | **430** | 164 | **430** | 164 |
| Interest and other income received | | **382** | 423 | **2,678** | 3,636 |
| Proceeds from sale of investments | 12 | **47,911** | 25,763 | **47,911** | 25,763 |
| Acquisition of investments | 12 | **(48,887)** | (56,796) | **(48,137)** | (56,796) |
| Acquisition of property and equipment | | **(2,649)** | (3,253) | **(970)** | (1,287) |
| **Net cash flows (used )/generated from investing activities** | | **(2,739)** | (26,999) | **1,986** | (21,820) |
| | | | | | |
| **Financing activities:** | | | | | |
| Loans to fund hospital development | | **(4,167)** | (5,833) | **(4,167)** | (5,833) |
| **Net cash flows used in financing activities** | | **(4,167)** | (5,833) | **(4,167)** | (5,833) |
| **Net increase in cash and cash equivalents** | | **18,600** | 7,824 | **17,264** | 7,608 |
| | | | | | |
| Opening cash and cash equivalents | | **17,710** | 9,886 | **14,487** | 6,879 |
| Closing cash and cash equivalents | | **36,310** | 17,710 | **31,751** | 14,487 |

# Notes to the Financial Statements

for the year ended 31 December 2021

## 1. General information

The Benenden Healthcare Society Limited ('the Society') is a friendly society conducting flat-rate benefits business, and in addition together with its subsidiaries ('the group') provides a range of general insurance products to its members and the wider public.

The Society is a mutual incorporated in England (Friendly Society no. 480F). The address of its registered office is Holgate Park Drive, York, YO26 4GG.

**Statement of compliance**

The financial statements of the Society and the group have been prepared in compliance with United Kingdom Accounting standards, including Financial Reporting Standard 102, 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' ('FRS 102') and 'The Friendly Societies (Accounts and Related Provisions) Regulations 1994'. The Society has chosen to adopt the recognition and measurement provisions of IAS 39 Financial Instruments: Recognition and Measurement, as per paragraph 11.2(b) of FRS 102.

## 2. Summary of significant accounting policies

The principal accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

**(a) Basis of preparation**

These separate and consolidated financial statements have been prepared on a going concern basis, under the historical cost convention, as modified by the recognition of certain financial assets and liabilities measured at fair value (namely investment properties, land and buildings and listed investments).

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the group and Society's accounting policies. Management estimates are based on subjective as well as objective factors and, as a result, judgement may be required to estimate an amount at the date of the financial statements. Management's judgement is based on its knowledge and experience about past and current events, its assumptions about conditions it expects to exist and courses of action it expects to take. Judgements made by management in the application of these accounting policies that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed under 'critical accounting judgements and estimation and uncertainty'.

**(b) Going concern**

The consolidated financial statements are prepared on a going concern basis. In considering the going concern basis, the Directors have reviewed the group's and Society's future cash requirements, earnings projections and capital projections. The Board of Directors believes these forecasts have been prepared on a prudent basis and have also considered the impact of a range of potential changes to trading performance. Forecasts have been stress tested for a range of possible, but very unlikely scenarios, some of which are related to the continuation of the COVID-19 pandemic. The Board of Directors continues to undertake further reviews to assess the financial and operational impacts of COVID-19 up to the date of approval of the financial statements. The actions in this review include:

- daily monitoring of membership volumes;
- weekly monitoring of the investment fund and working capital of the Society;
- review of the adequacy of the member benefit's provision; and
- the completion of a 2022-2026 budget and forecast, together with stress testing covering several severe scenarios

The Board of Directors has concluded that the group and Society will be able to operate without requiring additional external funding and therefore believe it is appropriate to prepare consolidated financial statements of the group and Society on a going concern basis.

The Benenden Healthcare Society Limited trades exclusively in the United Kingdom and therefore the impact of Brexit is not expected to have a material impact on the group's trading position.

**(c) Basis of consolidation**

The consolidated financial statements include the results of the Society and its subsidiary undertakings made up to 31 December each year. A subsidiary is an entity controlled by the group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The results of subsidiary undertakings are included in the consolidated statement of income and expenditure from the date that control commences until the date that control ceases. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

The Benenden Charitable Trust and The Benenden Hospital Trust are controlled bodies of the Society under the provisions of the Friendly Societies Act 1992 and are fully consolidated accordingly. Benenden Hospital Limited, which has not traded in the period, has been controlled by the Society since its incorporation on 13 October 2021.

The amounts in the consolidated financial statements all arise from continuing operations made up until 31 December each year.

**(d) Functional and presentation currency**

The group financial statements are presented in pounds sterling and rounded to the nearest thousand.

The Society's functional and presentation currency is the pounds sterling as this is the currency of the United Kingdom in which the Society exclusively trades.

**(e) Revenue recognition**

**(i) Contribution income**

Revenue is recognised at the fair value of the consideration received with the main source being member contributions. Contributions are recognised on a monthly basis as and when certainty of membership is confirmed.

Revenues are included in the financial statements and represent the income payable by the active membership in the year either:

**a)** by amounts advised as being deducted from members' payrolls by employers or pension providers in the year

**b)** on payments received directly from members in respect of the year, or

**c)** less refunded contributions paid to members.

**(ii) Investment income**

Income from rental properties and investments includes dividends from the investment portfolio, together with any associated tax credit and interest from bank deposits and is shown in the statement of income and expenditure on an accruals basis.

**(iii) Commission income**

Commission income comprises commission earned by Benenden Wellbeing Limited on travel insurance, health assessments and health cash plans.

Commission income is recognised at fair value on a monthly basis in line with contractual obligations with the respective third parties.

**(iv) Third party income from Hospital activities**

Third party income from Hospital activities represents the invoiced value of goods and services supplied. Included within this in the prior year, is income that was due from the NHSE COVID-19 contract for the period 21 March 2020 to 24 December 2020, which paid for Hospital capacity on a cost recovery basis. The income recognised in the period was receivable in line with the contract, however, the final true-up position was subject to detailed scrutiny by auditors working on behalf of NHSE. This review was completed in the summer of 2021 with the true-up included within 2021 income. There was no such contract in 2021.

**(v) Other income**

Charitable donations, profit shares, legacy and other income are credited to the statement of income and expenditure when there is adequate certainty of receipt.

**(f) Employee benefits**

The Benenden Healthcare Pension Plan (the 'Scheme') is funded by the Society, The Benenden Hospital Trust (the 'employers') and employees of both entities through their respective contributions.

**(i) Group Defined Benefit Plan**

The Society recognises the cost and net obligation of the group-wide defined benefit pension plan. One of the Society's subsidiaries (The Benenden Hospital Trust) also participates in the Scheme. There is no contractual agreement or stated policy for charging the net defined benefit cost between the Society and The Benenden Hospital Trust ('Hospital Trust'). In light of this, the Society recognises the full cost of the Scheme, including the Hospital Trust's portion of the FRS 102 Scheme liability.

The Society's net obligation in respect of the defined benefit plan is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. The fair value of plan assets is deducted from the total liability to arrive at the net asset or obligation. The net interest expense/income is determined on the net defined benefit liability for the period by applying the discount rate (as determined at the beginning of the annual period) to the net defined benefit liability, taking account of changes arising as a result of contributions and benefit payments. The Scheme assets and liabilities are recognised in full in the accounts of the Society on a net basis. FRS 102 requires that the discount rate should reflect the current rate of return available on high quality corporate bonds (typically AA-rated or equivalent) of equivalent currency and term to the plan liabilities.

The Society's defined benefit pension scheme closed to future accrual on 31 December 2018. Previously the rates of contribution paid were determined by the Pension Trustees on advice of the Scheme actuary.

A triennial valuation is undertaken by a professionally qualified actuary. Actuarial gains or losses are recognised under the heading 'Pension scheme actuarial gain/loss' within the statement of other comprehensive income.

**(ii) Group defined contribution plan**
A defined contribution scheme is a pension scheme under which the group pays fixed contributions into a separate entity and provides no guarantee as to the quantum of retirement benefits that those contributions will ultimately purchase.

The Society operates a defined contribution pension scheme for the auto-enrolment of all new employees and any existing employees. The Society's principal subsidiary, The Benenden Hospital Trust, participates in this Scheme. The Society makes guaranteed fixed contributions on a regular basis relative to the level of the employee contribution. The future benefits are not guaranteed, and the Society has no legal or constructive obligation to pay further amounts.

### (g) Taxation

The Benenden Hospital Trust and The Benenden Charitable Trust are exempt from corporation tax.

**(i) Current tax**
Current tax is the amount of income 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 in the financial statements.

**(ii) 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. In general, deferred tax is recognised in respect of all timing differences between taxable profit and total comprehensive income 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 the tax rates and laws that have been enacted or substantively enacted by the reporting date that are expected to apply to the reversal of the timing difference.

### (h) Intangible assets

Intangible assets are identifiable non-monetary assets without physical substance. They are separable from the entity or arise from contractual or legal rights. An intangible asset is recognised if it is probable that future economic benefits attributable to the asset will flow to the entity and the cost or value can be measured reliably. Intangible assets are measured using the cost model, which takes into account accumulated amortisation and all impairment losses. The valuation is based on the predicted future cash flows of the intangible asset using an appropriate discount rate.

Amortisation is calculated, using the straight-line method, to allocate the depreciable amount to their residual values over their estimated useful lives, as follows:

| | |
|---|---|
| Computer intangible | 3 years |

### (i) Tangible assets

Tangible assets are stated at cost (or deemed cost) less accumulated depreciation and accumulated impairment losses or revalued amount. Cost includes the original purchase price, costs directly attributable to bringing the asset to its working condition for its intended use, dismantling and restoration costs.

**(i) Property, plant and equipment**
The Hospital asset is valued at cost (or deemed cost) less accumulated depreciation and accumulated impairment losses by both the group and Society.

Other property is recognised initially at cost and is revalued periodically using market-based evidence. Gains on revaluation in excess of losses previously recognised on individual assets, are credited, through the statement of other comprehensive income. Losses on revaluation in excess of gains previously recognised on individual assets are debited through the statement of income and expenditure.

Plant and equipment are recognised at cost, including all costs necessary to prepare the asset for its intended use, an estimate of the costs of dismantling and removing the item and restoring the site if required.

Revaluations are made with sufficient regularity to ensure that the carrying value does not differ materially from fair value.

**(ii) Depreciation**

Land is not depreciated. Depreciation on other assets is calculated, using the straight-line method, to allocate the depreciable amount to their residual values over their estimated useful lives, as follows:

| | |
|---|---|
| Buildings (Hospital asset) | over the period of the lease |
| Buildings (Other property) | 40 years |
| Fixtures and fittings | 15 years |
| Furniture and equipment | 3-7 years |
| Motor vehicles | 3 years |

Assets held under the revaluation model are depreciated in the period when they are not revalued, with the accumulated depreciation being reversed at each revaluation date.

Within the year the accounting estimate for the depreciation of the Hospital asset has been changed from over 40 years to over the period of the lease. See note 3 (c) for further details.

**(j) Borrowing costs**

Borrowing costs are recognised in the statement of income and expenditure in the period in which they are incurred.

The total amount of borrowings was recognised in the statement of financial position as 'Loans to fund Hospital development'. The Society had a term loan which was repaid on 17 February 2021 following approval from the Board.

**(k) Leased assets**

At inception the group assesses agreements that transfer the right to use assets. The assessment considers whether the arrangement is, or contains, a lease based on the substance of the arrangement.

Leases in which substantially all the risks and rewards of ownership are retained by the lessor are classified as operating leases and are charged to the statement of income and expenditure on a straight-line basis over the period of the lease. All other leases are classified as finance leases. Finance leases are recognised at the present value of the minimum lease value. Neither the group nor Society held any finance leases in 2020 or 2021.

**(l) Impairment of non-financial assets**

At each balance sheet date, non-financial assets not carried at fair value are assessed to determine whether there is an indication that the asset (or asset's cash generating unit, 'ACGU') may be impaired. If there is such an indication the recoverable amount of the asset (or ACGU) is compared to the carrying amount of the asset (or ACGU).

The recoverable amount of the asset (or ACGU) is the higher of the fair value, less costs to sell and value in use. Value in use is defined as the present value of the future cash flows before interest and tax obtainable as a result of the asset's (or ACGU) continued use.

The cash flows are derived from the business plans for the next three to five years and do not include any activities that the group is not yet permitted to undertake or significant future investments that will enhance the asset's performance. If it is not possible to determine the recoverable amount of the asset, then it is based on the recoverable amount of the income-generating unit to which it belongs.

If the recoverable amount is lower than the carrying amount, the difference is recognised in the statement of income and expenditure as an impairment loss. Assessment of impairment is carried out at each reporting date, where there are indicators of impairment of individual assets. Management performs impairment tests based on the recoverable amount.

If an impairment loss is subsequently reversed, the carrying amount of the asset (or ACGU) is increased to the revised estimate of its recoverable amount, but only to the extent that the revised carrying amount does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised in prior periods. A reversal of an impairment loss is recognised in the statement of income and expenditure.

**(m) Investments in subsidiaries**

Investments in subsidiaries are measured at cost on initial recognition and subsequently subject to impairment review. Any impairment loss is recognised in the statement of income and expenditure. Assessment of impairment is carried out at each reporting date, where there are indicators of impairment of individual investments. Management performs its impairment test by comparing the carrying value of the investment with the recoverable amount. The cash flows are derived from the business plans for the next five years and do not include any activities that the group is not yet permitted to undertake or significant future investments that will enhance the asset's performance. If it is not possible to determine the recoverable amount of the asset, then it is based on the recoverable amount of the income-generating unit to which it belongs.

**(n) Investments**

**(i) Investment properties**
Investment property is property held to earn rentals or for capital appreciation or both. Investment property is measured at cost on initial recognition. Subsequently, investment property is measured at fair value at the reporting date with any changes recognised in the statement of income and expenditure.

**(ii) Other investments**
Other investments held by the Society (excluding term deposits with a maturity date of more than three months) are classified as being available for sale ('AFS') and are stated at fair value. Other investments are initially recognised at cost in the statement of financial position and are revalued on a quarterly basis at quoted price, with any gain or loss recognised in the revaluation reserve within the statement of other comprehensive income. On disposal, cumulative gains and losses that have arisen as a result of changes in fair value in AFS financial assets are recycled in full in the statement of income and expenditure.

Term deposits with a maturity date of more than three months are stated at initial investment plus any accrued interest and are classified as loans and receivables.

All of the Society's other investments are quoted in an active market. The best evidence of fair value is a quoted price for an identical asset in an active market. Quoted in an active market in this context means quoted prices are readily and regularly available, and those prices represent actual and regularly occurring market transactions on an arm's length basis, and use the source which the Society's investment advisors consider most appropriate for the market and investment concerned. The quoted price is usually the current bid price.

For the purpose of the consolidated cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined below, net of outstanding bank overdrafts.

**(o) Debtors**

Member contributions outstanding and other debtors are initially recognised at fair value, which is generally equal to face value, and subsequently held at amortised cost.

Provision is made when there is objective evidence that the group will not be able to recover balances in full, with the charge being recognised in the statement of income and expenditure.

**(p) Stock**

Stock is valued at the lower of cost or estimated selling price less selling costs (net realisable value) and includes Hospital medical goods.

**(q) Cash and cash equivalents**

Cash and cash equivalents in the statement of financial position comprise cash at banks and in hand and short-term deposits with a current maturity date of three months or less.

**(r) Financial instruments**

The group has chosen to apply the recognition and measurement provisions of IAS 39 and the disclosure requirements of sections 11 and 12 of FRS 102 in respect of financial instruments.

**(i) Financial assets**
Basic financial assets, including trade and other receivables and cash and bank balances are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest. Such assets are subsequently carried at fair value or amortised cost using the effective interest method.

At the end of each reporting period, financial assets measured at amortised cost are assessed for objective evidence of impairment. If an asset is impaired, the impairment loss is the difference between the carrying amount and the present value of the estimated cash flows discounted at the asset's original effective interest rate. The impairment loss is recognised in the statement of income and expenditure.

If there is a decrease in the impairment loss arising from an event occurring after the impairment was recognised, the impairment is reversed. The reversal is such that the current carrying amount does not exceed what the carrying amount would have been had the impairment not previously been recognised. The impairment reversal is recognised in the statement of income and expenditure.

Other financial assets which are not subsidiaries, associates or joint ventures, are initially measured at fair value, which is normally the transaction price.

Such assets are subsequently carried at fair value and the changes in fair value are recognised in the statement of other comprehensive income, except investments in equity instruments that are not publicly traded and whose fair values cannot be measured reliably are measured at cost less impairment.

Financial assets are derecognised when (a) the contractual rights to the cash flows from the asset expire or are settled, (b) substantially all the risks and rewards of the ownership of the asset are transferred to another party or (c) despite having retained some significant risks and rewards of ownership, control of the asset has been transferred to another party who has the practical ability to unilaterally sell the asset to an unrelated third party without imposing additional restrictions.

Realised gains and losses on investments are calculated as the difference between sale proceeds and purchase price, and represent the total change in fair value since an investment was acquired and is calculated using the average cost method. Movements in unrealised gains and losses on investments represent the difference between the fair value at the statement of financial position date and their purchase price or their fair value at the last statement of financial position date, together with the reversal of unrealised gains and losses recognised in earlier accounting periods in respect of investment disposals in the current period.

Dividends on equity instruments are included as investment income on the date the equity shares are quoted ex dividend and are stated net of any withholding tax.

**(ii) Financial liabilities**

Basic financial liabilities, including trade and other creditors, bank loans and loans from fellow group companies, are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future receipts discounted at a market rate of interest. Debt instruments are subsequently carried at amortised cost, using the effective interest rate method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Provision for outstanding member benefits represents the anticipated cost of all cases that have been either authorised and expected to commence treatment or have started treatment and the costs are yet to be fully charged and are thereby accrued in line with FRS 102 section 21.

Trade creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Creditors are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Trade creditors are recognised initially at transaction price and subsequently measured at amortised cost using the effective interest method.

Derivatives, including interest rate swaps and forward foreign exchange contracts, are not basic financial instruments. Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. Changes in the fair value of derivatives are recognised in profit or loss in finance costs or finance income as appropriate, unless they are included in a hedging arrangement.

Financial liabilities are derecognised when the liability is extinguished; that is when the contractual obligation is discharged, cancelled or expires.

**(s) Related party transactions**

Balances due to or from other group companies are initially recognised at fair value, and subsequently held at amortised cost, less any provision for impairment.

**(t) Members' benefits**

Consists of all the directly attributable costs of delivering services to the membership such as medical services, costs related to Benenden Hospital (including costs for third party treatment), information-based services, the cost of running the member services function as well as movements in the outstanding member benefits provision.

**(u) Expenses of management**

The expenses of management are recognised as the non-medically related costs incurred by the group and consist of all the running costs of the group excluding those categorised as 'Members' Benefits' in the financial statements. Included within expenses of management are staffing (for example salaries, pension, recruitment, training), operational costs (for example utilities, stationery, systems support and maintenance), recruitment of members, cost associated with running the Branch network, Conference, the Board, depreciation and delivery of strategic objectives.

**(v) Total members' funds**

Total members' funds are the accumulated unrestricted surpluses of the Society, its subsidiaries and controlled bodies, added to the unrealised gains on investments. Total members' funds are available for use at the discretion of the Board and increase (or decrease) the organisation's ability to absorb or respond to temporary changes in its business environment.

## 3. Critical accounting judgements and estimation uncertainty

In the preparation of these financial statements, the group is required to make estimates and judgements that affect items reported in the group and Society statement of income and expenditure, statement of financial position, and other primary statements and related notes. The key areas involving a degree of judgement or complexity, or areas where assumptions are significant to the financial statements are listed below.

**Critical judgements in applying the group's accounting policies**

**(a) Provision for outstanding members' benefits**

Management deem FRS 102 section 21 to be the appropriate accounting standard to follow when assessing what provision is required for its obligations in respect of outstanding members' benefits. This provision, at the reporting date, represents the anticipated cost of all cases that have been or are expected to be authorised and expected to commence treatment, or have started treatment and the costs are yet to be fully charged.

**(b) Investment in subsidiary**

It is management's view that the value of the Society's investment in subsidiary should be reviewed each year for evidence of impairment. Management exercises its judgement in determining whether indicators of impairment exist.

**(c) Property valuation**

The group and Society hold investment property and operational property. Property is held at depreciated cost or fair value, dependent on its asset class. Where property is held at fair value, management has based the value on the latest external valuation, adjusted for market movements since that date using market data for similar property in the same geographical area.

Within the year the accounting estimate for the depreciation of the Hospital asset has been changed, from over 40 years to over the period of the lease, to better reflect the change in value of the asset over time. The new estimate includes a residual value for the land element of the asset at the end of the lease. The land was valued as part of an independent valuation at the end of 2020. The impact of this change in accounting estimate is to reduce the depreciation charge in the year and increase the carrying value of tangible fixed assets by £214k.

**Key accounting estimates and assumptions**

**(a) Provision for outstanding members' benefits**

The valuation of the outstanding members' benefits provision is based on the expected future costs of settling cases that have been or are expected to be authorised, by reference to past experience and trends seen in the preceding months. The provision uses average take-up rates and average case costs to estimate the liability of all open cases at 31 December each year that were not settled at that date. The assumptions used are sensitive to fluctuations in demand and cost, however, the trends are analysed over the preceding months using a cohort methodology to extrapolate the underlying data (see note 18). At 31 December 2021, the provision for outstanding members' benefits was £23,090 (2020: £23,394k).

During the COVID-19 pandemic, government guidance and restrictions resulted in changes in member behaviour and the availability of certain clinical and treatment facilities. The Society reacted to the unprecedented restrictions by relaxing the usual requirement for members to take up services within six months of approval. All cases approved during 2020 remain open for take up until 30 June 2022.

The provision is estimated using cohort methodology with management exercising judgement where projection results appear to be outside of the expected range of values based on previous experience. These judgements have been used on the more extreme fluctuation in the cohort cost estimates, mostly impacted by the timing of billing. Judgement has also been applied in estimating the impact of the extended period of exposure for members to take up service packs so that modest residual reserves are held for earlier months in 2020 which were severely impacted by COVID restrictions.

In assessing the level of provision at the year end, management has considered different scenarios for the development to maturity of take up rate and average cost assumptions for cases opened in 2020 and 2021. Guidance from the Financial Reporting Council requests disclosure of sensitivity analysis or ranges of possible outcomes to be provided for areas subject to significant estimation uncertainty. Management view the provision for outstanding members' benefits as a key estimate and consider that the estimated range of outcomes for member benefits could result in the provision being between £3.4m lower up to £3.8m higher for the year.

The lower estimate reflects the potential outcomes for take up rates being 2% lower than assumed. The higher estimate reflects the impact of the average take up rate being 2% higher and an inflation rate being 4% higher than assumed in the reserve.

**(b) Investment in subsidiary**

The recoverable amount of the cash-generating unit is based on value in use calculations. The calculations are based upon expected pre-tax cash flows. The estimation of pre-tax cash flows is sensitive to the periods for which forecasts are available and to assumptions regarding the long-term sustainable cash flows. While forecasts are compared with actual performance and external economic data, expected cash flows reflect management's view of future performance. At 31 December 2021 the Society's investment in subsidiary was valued at £1,750k (2020: £1,750k).

**(c) Property valuation**

Management engaged an independent professional valuer to undertake a valuation at 31 December 2020. The methodology for this calculation is detailed in note 11. The Society has undertaken an internal valuation of its property at 31 December 2021, using the 2020 external valuation as its base and adjusting for market movements using publicly available market data. This revaluation has resulted in a net increase in value in the year of £1,479k (2020: impairment of £11,153k). At 31 December 2021 the group's and Society's property was valued at £56,059k (2020: £55,720k).

**(d) Pension benefit obligation**

The valuation of the pension benefit obligation for the group's defined benefit scheme requires actuarial assumptions relating to discount rates, inflation, longevity and future pension increases. Due to the long-term nature of these obligations, the estimates are subject to significant uncertainty. Details of the principal assumptions used for the defined benefit scheme are disclosed in note 20. At 31 December 2021 the pension benefit obligation was £29,036k (2020: £47,265k).

| 4. Investment income | Group | | Society | |
|---|---|---|---|---|
| | 2021<br>£'000 | 2020<br>£'000 | 2021<br>£'000 | 2020<br>£'000 |
| Collective investment income | **430** | 164 | **430** | 164 |
| Rental income | **288** | 295 | **2,584** | 3,510 |
| Interest received | **94** | 128 | **94** | 126 |
| **Income from investments** | **812** | 587 | **3,108** | 3,800 |

The above investment income includes; income generated from group investment holdings (note 12), rental income and from cash on deposit held across the group.

| 5. Members' benefits | Group | | Society | |
|---|---|---|---|---|
| | 2021<br>£'000 | 2020<br>£'000 | 2021<br>£'000 | 2020<br>£'000 |
| Treatment services | **16,505** | 12,041 | **16,505** | 12,041 |
| Consultation service | **32,511** | 25,938 | **32,511** | 25,938 |
| Financial assistance | **220** | 214 | **220** | 214 |
| Grants and donations | **-** | - | **23,208** | 25,630 |
| Hospital running costs | **33,356** | 36,491 | **-** | - |
| Information based services | **2,805** | 2,535 | **2,805** | 2,535 |
| **Total members' benefits** | **85,397** | 77,219 | **75,249** | 66,358 |

**Regulated activity**

Less than 0.1% of the total members' benefits relates to the regulated activity of provision of approved treatment for tuberculosis or any allied condition.

| 6. Expenses of management include the following expenditure | Group | | Society | |
|---|---|---|---|---|
| | 2021 £'000 | 2020 £'000 | 2021 £'000 | 2020 £'000 |
| Officers' emoluments and other payments* | **1,152** | 1,078 | **1,152** | 1,078 |
| Auditor's remuneration (including VAT) | **312** | 253 | **223** | 176 |
| Expenses paid to the Board | **24** | 14 | **24** | 14 |
| Operating lease rentals - plant and machinery | **146** | 146 | **91** | 91 |
| Depreciation and impairment | **3,462** | 15,085 | **1,296** | 12,842 |
| Amortisation | **1,127** | 744 | **958** | 744 |
| | | | | |
| **Officers' emoluments and other payments*** | | | | |
| Chief Executive Officer | **371** | 321 | **371** | 321 |
| Chief Financial Officer | **308** | 271 | **308** | 271 |
| Secretary | **100** | 97 | **100** | 97 |
| Non-Executive Directors | **373** | 389 | **373** | 389 |
| **Total** | **1,152** | 1,078 | **1,152** | 1,078 |
| | | | | |
| **Amount receivable (excluding VAT) by the group's auditor and its associates in respect of:** | | | | |
| **Audit of financial report and financial statements** | | | | |
| - fees and expenses in respect of current year | **186** | 172 | **186** | 172 |
| - over provision in relation to previous year end | **-** | (25) | **-** | (25) |
| Audit of the financial statements of the subsidiaries | **74** | 64 | **-** | - |
| **Total** | **260** | 211 | **186** | 147 |

* Officers' emoluments and other payments represent the amounts paid in the year on salaries, bonus (including accrued and not yet paid), car allowance and the employers pension contributions.

The number of remunerated non-executive directors at the end of 2021 was 11 (2020:12).

| 7. Employee number and costs | Group | | Society | |
|---|---|---|---|---|
| | **2021 £'000** | 2020 £'000 | **2021 £'000** | 2020 £'000 |
| Wages and salaries | **22,187** | 20,925 | **12,077** | 11,418 |
| Social security costs | **2,074** | 1,982 | **1,232** | 1,216 |
| Contributions to defined contribution pension plan | **2,801** | 2,650 | **1,553** | 1,471 |
| Redundancy costs | **296** | - | **-** | - |
| | **27,358** | 25,557 | **14,862** | 14,105 |
| | | | | |
| | **No.** | No. | **No.** | No. |
| Board | **13** | 14 | **13** | 14 |
| Management | **5** | 5 | **4** | 4 |
| Medical services | **333** | 359 | **-** | - |
| Administration and support | **451** | 431 | **328** | 308 |
| **Number of employees** | **802** | 807 | **345** | 324 |

**Senior Management**

Full disclosure of the Chief Executive Officer's and Chief Financial Officer's employee benefits are shown in the Directors Remuneration Report on pages 92 to 101.

| 8. Non-recurring costs | Group | | Society | |
|---|---|---|---|---|
| | **2021 £'000** | 2020 £'000 | **2021 £'000** | 2020 £'000 |
| Legal costs | **31** | 63 | **31** | 63 |
| **Total non-recurring costs** | **31** | 63 | **31** | 63 |

The legal costs of £31k (2020: £63k) were incurred relating to the investigation in relation to issues raised in 2016 about how the Society was run between January 2015 and July 2016. This investigation is now complete.

| 9. Intangible assets | Computer intangible | |
|---|---|---|
| | Group | Society |
| **Cost** | **£'000** | **£'000** |
| At 1 January 2021 | 9,342 | 8,372 |
| Additions | 1,721 | 801 |
| Disposals | (74) | (74) |
| Reclassification from tangible fixed assets | 280 | 280 |
| **At 31 December 2021** | **11,269** | **9,379** |
| | | |
| **Amortisation and impairment** | | |
| At 1 January 2021 | 6,305 | 6,305 |
| Amortisation charge for the year | 1,127 | 958 |
| Disposals | (2) | (2) |
| Reclassification from tangible fixed assets | 221 | 221 |
| **At 31 December 2021** | **7,651** | **7,482** |
| | | |
| Net book value 31 December 2020 | 3,037 | 2,067 |
| **Net book value 31 December 2021** | **3,618** | **1,897** |

| 10. Tangible fixed assets | Land and buildings | | Fixtures and fittings | Motor vehicles | Furniture and equipment | Total |
|---|---|---|---|---|---|---|
| Group | @Revaluation | @Cost | | | | |
| **Cost** | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** |
| At 1 January 2021 | 2,819 | 51,450 | 10,919 | 153 | 12,936 | 78,277 |
| Additions | - | - | 18 | - | 910 | 928 |
| Disposals | - | - | - | (26) | (10) | (36) |
| Reclassification to intangibles | - | - | - | - | (280) | (280) |
| **At 31 December 2021** | **2,819** | **51,450** | **10,937** | **127** | **13,556** | **78,889** |
| | | | | | | |
| **Depreciation** | | | | | | |
| At 1 January 2021 | 70 | 13,851 | 4,484 | 114 | 8,045 | 26,564 |
| Provided in the year | 68 | 1,072 | 436 | 19 | 1,867 | 3,462 |
| Disposals | - | - | - | (21) | (5) | (26) |
| Reclassification to intangibles | - | - | - | - | (221) | (221) |
| **At 31 December 2021** | **138** | **14,923** | **4,920** | **112** | **9,686** | **29,779** |
| | | | | | | |
| Net book value 31 December 2020 | 2,749 | 37,599 | 6,435 | 39 | 4,891 | 51,713 |
| **Net book value 31 December 2021** | **2,681** | **36,527** | **6,017** | **15** | **3,870** | **49,110** |

| 10. Tangible fixed assets (Continued) | Land and buildings | | Furniture and equipment | Total |
|---|---|---|---|---|
| **Society** | **@Revaluation** | **@Cost** | | |
| **Cost** | **£'000** | **£'000** | **£'000** | **£'000** |
| At 1 January 2021 | 2,819 | 51,450 | 1,070 | 55,339 |
| Additions | - | - | 169 | 169 |
| Disposals | - | - | (10) | (10) |
| Reclassification to intangibles | - | - | (280) | (280) |
| **At 31 December 2021** | **2,819** | **51,450** | **949** | **55,218** |
| | | | | |
| **Depreciation and impairment** | | | | |
| At 1 January 2021 | 70 | 13,851 | 707 | 14,628 |
| Provided in the year | 68 | 1,072 | 156 | 1,296 |
| Disposals | - | - | (5) | (5) |
| Reclassification to intangibles | - | - | (221) | (221) |
| **At 31 December 2021** | **138** | **14,923** | **637** | **15,698** |
| | | | | |
| Net book value 31 December 2020 | 2,749 | 37,599 | 363 | 40,711 |
| **Net book value 31 December 2021** | **2,681** | **36,527** | **312** | **39,520** |

The group and Society occupied land and buildings for its own use and the use of its members with a value of £39,208k at the year end (2020: £40,348k).

In 2021 the Society has undertaken an internal valuation of its property, using an external valuation undertaken in 2020 as its base and adjusting for market movements using publicly available data. As a result, the value of operational properties reduced by £nil (2020: £11,218k).

| 11. Investments - Land and buildings | Investment property (at fair value) |
|---|---|
| **Group and Society** | |
| **Cost** | **£'000** |
| At 1 January 2021 | 15,372 |
| Unrealised gain to members' funds | 1,479 |
| **At 31 December 2021** | **16,851** |
| | |
| Net balance at 31 December 2020 | 15,372 |
| **Net balance at 31 December 2021** | **16,851** |

At 31 December 2021, the Society performed a revaluation review with reference to online market resources. The movements in property markets were reflected on the properties' values held at the start of the year which generated a revaluation adjustment of £1,479k in investment properties.

## Investment property

The group's investment properties are valued annually as at 31 December of each financial year at fair value.

At 31 December 2021, the fair value of the investment properties was determined by an internal review of market movements in the year. These movements, which were obtained from online resources such as the Office for National Statistics, were then applied to the balances as at 31 December 2020 which were obtained from an independent, professionally qualified valuer.

The independent valuation at 31 December 2020 was undertaken in accordance with Royal Institution of Chartered Surveyors' ("RICS") Valuation – Global Standards 2020 incorporating the IVSC International Valuation Standards (the RICS Red Book) issued November 2019 and effective from 31 January 2020, and where appropriate the RICS Valuation – Professional Standards UK, January 2014 (revised April 2015), in particular in accordance with the requirements of VPS 3 entitled Valuation Reports and VPGA 2 Valuation of interests for secured lending, as appropriate.

The key assumption in this valuation is the definition of market value (as per Valuation Standard VPS 4 of the RICS Red Book) as being the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion.

A profit on revaluation of investment properties of £1,479k (Society - £1,479k) has been recognised in the statement of income and expenditure for the year.

If investment property had been accounted for under the historic cost accounting rules, the property would have been measured as follows:

| Net book value on historic cost basis | Group & Society | |
|---|---|---|
| | **2021**<br>**£'000** | **2020**<br>**£'000** |
| Historic cost | **5,675** | 5,675 |
| Accumulated depreciation and impairments | **(4,870)** | (4,728) |
| **Net book value** | **805** | 947 |

| 12. Investments - Other investments<br><br>Group | At fair value<br>Fixed maturity securities | <br>Equity securities | <br>Other investments (including derivatives) | <br>Total investments |
|---|---|---|---|---|
| | **£'000** | **£'000** | **£'000** | **£'000** |
| Balance at 1 January 2021 | 77,320 | 14,395 | 38,554 | 130,269 |
| Additions | 31,839 | 13,454 | 3,594 | 48,887 |
| Disposals | (12,377) | (11,214) | (24,343) | (47,934) |
| Gain to members' funds or income statement | 2,872 | 2,619 | 216 | 5,707 |
| **Balance at 31 December 2021** | **99,654** | **19,254** | **18,021** | **136,929** |
| | | | | |
| Net investments at 31 December 2020 | 77,320 | 14,395 | 38,554 | 130,269 |
| **Net investments at 31 December 2021** | **99,654** | **19,254** | **18,021** | **136,929** |
| | | | | |
| **Society** | | | | |
| | **£'000** | **£'000** | **£'000** | **£'000** |
| Balance at 1 January 2021 | 77,320 | 14,395 | 38,554 | 130,269 |
| Additions | 31,552 | 13,125 | 3,460 | 48,137 |
| Disposals | (12,377) | (11,214) | (24,343) | (47,934) |
| Gain to members' funds or income statement | 2,869 | 2,615 | 214 | 5,698 |
| **Balance at 31 December 2021** | **99,364** | **18,921** | **17,885** | **136,170** |
| | | | | |
| Net investments at 31 December 2020 | 77,320 | 14,395 | 38,554 | 130,269 |
| **Net investments at 31 December 2021** | **99,364** | **18,921** | **17,885** | **136,170** |

Within investments, there are significant additions and disposals in the year which relate to the Society's investments with Ruffer LLP. Unlike the Society's other fund-based investments, Ruffer invests the funds under their management directly, thereby generating a large number of transactions. In line with accounting standards the Society records these investment transactions as additions and disposals in the period.

In the year, Benenden Wellbeing Limited invested £750k in a Ruffer Absolute Return Fund following the success achieved by Ruffer while managing the Society's investment fund.

Also in the year, the Society disinvested £22,975k from the L&G Cash Trust, re-investing £13,675k and £9,300k into Janus Henderson and Ruffer respectively, following the appropriate approvals within the Society.

| 13. Society investment in subsidiary undertakings | |
|---|---|
| | 2021<br>£'000 |
| **Cost** | |
| At 1 January and 31 December 2021 | **4,801** |
| | |
| **Accumulated impairment** | |
| At 1 January and 31 December 2021 | **3,051** |
| | |
| Net balance at 31 December 2020 | 1,750 |
| **Net balance at 31 December 2021** | **1,750** |

Of the accumulated impairment loss brought forward, £2,301k relates to the impairment of the Society's investment in The Friendly Healthcare Organisation Limited (FHOL) in 2016. FHOL ceased to trade in July 2015 following the sale of its trade and assets to Benenden Wellbeing Limited, another group company. FHOL has been dormant since 3 August 2016.

The remaining £750k relates to the impairment of the Society's investment in Benenden Wellbeing Limited. At 31 December 2021, management reviewed the forecast performance of Benenden Wellbeing Limited; the results of which gave no indication that the net book value of £1,750k was no longer appropriate. The Society has therefore applied no impairment (2020: £150k) in the year.

## Investment in subsidiaries

At 31 December 2021 the group and Society had interests in the following subsidiaries, all of which are included in the consolidated figures:

| Company name | Subsidiary of | Business activity | Registered office address | Country of incorporation | Proportion of shares held | Share class | Shares issued |
|---|---|---|---|---|---|---|---|
| **Benenden Wellbeing Limited** | Society | Insurance intermediary | Holgate Park Drive, York, YO26 4GG | England | 100% | Ordinary | 2,500,000 |
| **Best Health Limited** | Society | Dormant | Holgate Park Drive, York, YO26 4GG | England | 100% | Ordinary | 2 |
| **The Friendly Healthcare Organisation Limited** | Society | Dormant | Holgate Park Drive, York, YO26 4GG | England | 100% | Ordinary | 1 |
| **Benenden Hospital Limited** | Society | Dormant | Holgate Park Drive, York, YO26 4GG | England | 100% | Ordinary | 100 |

In the year, Benenden Hospital Limited was incorporated and is a wholly owned subsidiary of the Society.

These consolidated results include the financial statements of The Benenden Charitable Trust and The Benenden Hospital Trust as they represent controlled bodies, for the reasons below:

**The Benenden Charitable Trust**

The Benenden Charitable Trust is a controlled body of the Society under the provisions of the Friendly Societies Act 1992. Control is effected by the Charity's constitution allowing the majority of its trustees to be appointed by the members of which the Society is the sole member of the Trust.

Audited financial statements for The Benenden Charitable Trust are publicly accessible from The Charity Commission, Registrar of Companies or directly from The Benenden Charitable Trust, Holgate Park, York, YO26 4GG.

**The Benenden Hospital Trust**

The Benenden Hospital Trust became a controlled body of the Society under the provisions of the Friendly Societies Act 1992 with effect from 1 July 2003. Control was effected by the Trust's constitution being changed to allow the majority of its trustees to be appointed by the Society and the Society being admitted as a member of the Trust.

The transfer of control has been treated in accordance with UK Generally Accepted Accounting Practices and as such fair values were assigned to the net assets of The Benenden Hospital Trust and its subsidiary undertakings.

No consideration was paid by the Society in respect of the assessed fair value of assets as stated above. The financial results since acquisition have been incorporated into the consolidated financial statements of the Society.

Audited financial statements for The Benenden Hospital Trust are publicly accessible from the Charity Commission, Registrar of Companies or directly from The Benenden Hospital Trust, Goddard's Green Road, Benenden, Cranbrook, Kent, TN17 4AX.

## Financial instruments

The group and Society uses financial instruments to invest liquid asset balances and generate income through the return generated by these financial instruments.

Financial assets and liabilities are measured on an ongoing basis either at fair value or at amortised cost. This note describes how the classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised.

The tables below analyse the group's and Society's assets and liabilities by financial classification:

| 14. Carrying values by category | Held at amortised cost | | Held at fair value | |
|---|---|---|---|---|
| Group | Loans and receivables | Financial assets and liabilities at amortised cost | Available for sale | Total |
| | £'000 | £'000 | £'000 | £'000 |
| **Financial assets** | | | | |
| Cash and cash equivalents | 36,310 | - | - | 36,310 |
| Members' contributions receivable | 1,516 | - | - | 1,516 |
| Other assets | - | 7,663 | 136,929 | 144,592 |
| **Total financial assets** | 37,826 | 7,663 | 136,929 | 182,418 |
| | | | | |
| Non-financial assets | | | | 70,453 |
| **Total assets** | | | | 252,871 |
| | | | | |
| **Financial liabilities** | | | | |
| Amounts owed to members and suppliers | - | 25,223 | - | 25,223 |
| Other liabilities | - | 19,988 | - | 19,988 |
| **Total financial liabilities** | - | 45,221 | - | 45,221 |
| | | | | |
| Non-financial liabilities | | | | 29,036 |
| **Total liabilities** | | | | 74,257 |

| 14. Carrying values by category<br><br>Society | Held at amortised cost | | Held at fair value | |
|---|---|---|---|---|
| | Loans and receivables | Financial assets and liabilities at amortised cost | Available for sale | Total |
| | £'000 | £'000 | £'000 | £'000 |
| **Financial assets** | | | | |
| Cash and cash equivalents | 31,751 | - | - | 31,751 |
| Members' contributions receivable | 1,516 | - | - | 1,516 |
| Other assets | - | 5,151 | 136,170 | 141,321 |
| **Total financial assets** | 33,267 | 5,151 | 136,170 | 174,588 |
| | | | | |
| Non-financial assets | | | | 60,892 |
| **Total assets** | | | | 235,480 |
| | | | | |
| **Financial liabilities** | | | | |
| Amounts owed to members and suppliers | - | 23,551 | - | 23,551 |
| Other liabilities | - | 20,778 | - | 20,778 |
| **Total financial liabilities** | - | 44,329 | - | 44,329 |
| | | | | |
| Non-financial liabilities | | | | 29,036 |
| **Total liabilities** | | | | 73,365 |

At the year end, the group and Society had loan commitments of £nil (2020: £4,167k).

**Derivative financial instruments – Forward contracts**

The group and Society enters into forward foreign currency contracts to mitigate the exchange rate risk for certain foreign currency payables within the investment portfolios. At 31 December 2021, the outstanding contracts all mature within 6 months (2020: all mature within 6 months) of the year end. The group and Society are committed to buy €2,156k and US$12,716k and pay a sterling amount (2020: €1,308k, US$7,820k and JP¥353,257k).

The forward currency contracts are measured at fair value, which is determined using valuation techniques that utilise observable inputs. The key inputs used in valuing the derivatives are the forward exchange rates for GBP:USD, GBP:JPY and GBP:EUR. The fair value of the forward-foreign currency contracts is £208k (2020: £334k).

## Valuation of financial instruments carried at fair value

The group and Society hold certain financial assets and liabilities at fair value, grouped into Levels 1 to 3 of the fair value hierarchy (see below).

Fair values are determined using the following fair value hierarchy that reflects the significance of the inputs in measuring fair value:

**Level 1**
The unadjusted quoted price in an active market for identical assets or liabilities that the entity can access at the measurement date.

**Level 2**
Inputs other than quoted prices included within Level 1 that are observable (i.e. developed using market data) for the asset or liability, either directly or indirectly.

**Level 3**
Inputs are unobservable (i.e. for which market data is unavailable) for the asset or liability.

The tables below summarise the fair values of the group's and Society's financial assets and liabilities that are accounted for at fair value, analysed by the valuation methodology used by the group and Society to derive the financial instruments fair value:

| 14. Fair value<br>Group | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **Financial assets**<br>Available for sale | £'000 | £'000 | £'000 | £'000 |
| **Other financial investments** | | | | |
| Fixed maturity securities | 99,654 | - | - | 99,654 |
| Equity securities | 19,254 | - | - | 19,254 |
| Other investments (including derivatives) | 8,415 | 9,606 | - | 18,021 |
| | | | | |
| **Other assets held at fair value** | | | | |
| Investment property | - | 16,851 | - | 16,851 |
| | | | | |
| **Society** | | | | |
| **Financial assets**<br>Available for sale | £'000 | £'000 | £'000 | £'000 |
| **Other financial investments** | | | | |
| Fixed maturity securities | 99,364 | - | - | 99,364 |
| Equity securities | 18,921 | - | - | 18,921 |
| Other investments (including derivatives) | 8,279 | 9,606 | - | 17,885 |
| | | | | |
| **Other assets held at fair value** | | | | |
| Investment property | - | 16,851 | - | 16,851 |

## Credit risk

Credit risk is defined as the risk of loss if a counterparty fails to perform its obligation; it also may arise in terms of default or deterioration in a counterparty. Exposure to credit risk may arise in connection with a single transaction or an aggregation of transactions (not necessarily the same type) with a single counterparty.

The group's and Society's maximum credit risk exposure is detailed in the table below:

| 14. Credit risk | Group | | Society | |
|---|---|---|---|---|
| | 2021 £'000 | 2020 £'000 | 2021 £'000 | 2020 £'000 |
| Cash and cash equivalents | **36,310** | 17,710 | **31,751** | 14,487 |
| Members' contributions receivable | **1,516** | 1,344 | **1,516** | 1,344 |
| Debtors | **6,689** | 5,754 | **5,120** | 5,031 |
| Investments | **136,929** | 130,269 | **136,170** | 130,269 |
| **Total statement of financial position exposure** | **181,444** | 155,077 | **174,557** | 151,131 |

The group and Society does not use credit derivatives, or similar instruments, to manage its credit risk. None of the above assets are either past due or impaired. The group and Society's investments and cash are all held in investment grade assets.

## Liquidity risk

Liquidity risk is the risk that the group and Society cannot make payments as they become contractually due because there are insufficient assets in cash form.

The group and Society encounters potential liquidity risk exposures from its different business activities. It principally arises from an unexpected increase in member benefit payments. Liquidity is maintained to a prudent level, with a buffer to cover contingencies including the provision of temporary liquidity to The Benenden Hospital Trust. The group Investment and Treasury Policy and associated standards have been set to maintain sufficient liquid assets.

At a group level there is a liquidity risk appetite statement which requires that sufficient liquid resources are maintained to cover net cash outflows both on a business as usual basis and under stressed conditions.

The group and Society manage this by:

- Maintaining forecasts of cash requirements and adjusting investment management strategies as appropriate to meet these requirements, both in the short and long term;
- Maintaining sufficient expected fund levels to be able to settle liabilities as these fall due; and
- Forecasting additional cash demands and management actions to be taken to liquidate sufficient assets to meet the increased demands

**Maturity analysis for financial liabilities**

The tables below set out the remaining contractual maturities for the group's and Society's financial liabilities. In practice, contractual maturities are not always reflected in actual experience.

| 14. Liquidity risk<br>Group | On demand | Not more than three months | More than three months but not more than one year | More than one year but not more than five years | Total |
|---|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 | £'000 |
| **Financial liabilities** | | | | | |
| Amounts due to members and suppliers | - | 15,000 | 30,221 | - | 45,221 |
| **Total liabilities** | - | 15,000 | 30,221 | - | 45,221 |
| | | | | | |
| **Society** | | | | | |
| **Financial liabilities** | | | | | |
| Amounts due to members and suppliers | - | 15,000 | 29,329 | - | 44,329 |
| **Total liabilities** | - | 15,000 | 29,329 | - | 44,329 |

## Market risk

Financial market risk is defined as the risk that arises from adverse fluctuations or increased volatility in asset values, asset income or interest rates. This includes credit spreads widening. The group manages these risks by aligning the investment strategy, asset allocation and performance benchmarks with the group's risk appetite.

The key types of financial market risk to which the group is exposed are:

**Investment property**

The group has a significant exposure to the UK property market through the carrying value of its land and buildings. If there is a sudden down turn in the UK property market this could result in the group and Society booking a significant impairment loss to the statement of income and expenditure. The group manages this risk by monitoring market conditions and utilising a sensitivity analysis as described below.

**Market fluctuations**

The group has an exposure to the stock market through its investment portfolio, which in turn has a greater exposure to market conditions. Management manages this risk by reference to the group's investment managers and by monitoring market conditions. A sensitivity analysis has been provided below.

**Interest rate risk**

Interest rate risk covers two principal areas, firstly as the risk that the cash flows resulting from the group's utilisation of credit facilities will vary as market rates of interest vary. The group and Society currently has a £nil (2020: £4,167k) facility that is fully utilised. Secondly, the group has an exposure to interest rate risk through its investment portfolio and specifically through the group's fixed maturity securities of £18,343k (2020: £12,595k). Also within investments, the Society has cash investments of £9,607k (2020: £31,633k), all of which are exposed to interest rate movements. After consideration by the group, the impact of interest rate movements are trivial and therefore no sensitivities have been included below.

**Foreign currency exchange rate risk**

The group solely operates within the UK and therefore does not have significant exposure to the currency markets through its operations. However, the group's investment strategy and policies allow for a level of investment in overseas markets.

| 14. Market risk sensitivity analysis (Group) | Net investment | Change in market price by | Effect on income and on equity | Net investment | Change in market price by | Effect on income and on equity |
|---|---|---|---|---|---|---|
| **Percentage change in:** | **2021 £'000** | **2021 %** | **2021 £'000** | **2020 £'000** | **2020 %** | **2020 £'000** |
| Property market | **56,059** | **10** | **5,606** | 55,770 | 10 | 5,577 |
| Stock market | **127,322** | **10** | **12,732** | 121,639 | 10 | 12,164 |

## Capital risk

The group's members' funds of £178,614k (2020: £141,958k) less the net assets of The Benenden Charitable Trust and The Benenden Hospital Trust £16,723k (2020: £17,201k) represents the group's available capital. Both The Benenden Charitable Trust and The Benenden Hospital Trust are registered charities and must apply their funds solely in the pursuit of their charitable objectives, as such these funds are not available for the general purposes of the group. Consequently the group has available capital of £161,891k (2020: £124,757k) at 31 December 2021.

The Society has members' funds of £162,115k (2020: £125,224k), this represents the Society's available capital at 31 December 2021.

Benenden Wellbeing Limited is subject to FCA regulated minimum capital requirements, Benenden Wellbeing Limited has complied with these requirements in the period.

The Board monitors both the Society's and group's capital position to ensure that both entities are able to meet their commitments as they fall due. The capital position is monitored against benchmarks to ensure that sufficient capital is available to the group and Society. The capital requirements calculations have remained consistent and the entities have complied with these requirements in 2021.

| 15. Stock | Group | | Society | |
|---|---|---|---|---|
| | 2021<br>£'000 | 2020<br>£'000 | 2021<br>£'000 | 2020<br>£'000 |
| Medical stock | **662** | 534 | **-** | - |
| **Total stock** | **662** | 534 | **-** | - |

| 16. Debtors | Group | | Society | |
|---|---|---|---|---|
| | 2021<br>£'000 | 2020<br>£'000 | 2021<br>£'000 | 2020<br>£'000 |
| Other debtors | **6,689** | 5,754 | **4,956** | 5,006 |
| Amounts due from group undertakings | **-** | - | **164** | 25 |
| **Total debtors** | **6,689** | 5,754 | **5,120** | 5,031 |

Amounts owed by group undertakings are unsecured, interest free, have no fixed date for repayment and are repayable on demand. Further details of inter-entity transactions can be found in note 25.

| 17. Creditors | Group | | Society | |
|---|---|---|---|---|
| | 2021<br>£'000 | 2020<br>£'000 | 2021<br>£'000 | 2020<br>£'000 |
| Trade creditors | **2,143** | 1,828 | **461** | 513 |
| Other taxes and social security | **340** | 325 | **340** | 325 |
| Amounts due to group undertakings | **-** | - | **2,143** | 2,386 |
| Corporation tax | **-** | 5 | **-** | 5 |
| Other creditors | **186** | 5 | **57** | 5 |
| **Total creditors** | **2,669** | 2,163 | **3,001** | 3,234 |

| 18. Provisions (Group & Society) | |
|---|---|
| | Outstanding members' benefits £'000 |
| At 1 January 2021 | 23,394 |
| Additions dealt with in income and expenditure | 22,016 |
| Amounts utilised | (17,227) |
| Unused amounts reversed to income and expenditure | (5,093) |
| **Balance at 31 December 2021** | **23,090** |

## Outstanding members' benefits

The group estimates the expected cost of future requests for assistance arising from cases that have been or expected to be authorised by reference to past experience and projected trends of the potential number and magnitude of these requests. As discretionary benefits are expected to be used within the period specified in Your Guide to Benenden Health, the projections require financial modelling over the expected take-up period.
At the end of 2021, management's estimate of this potential future cost was £23,090k (2020: £23,394k). The assumptions used are sensitive to fluctuations in demand and cost, however, the trends are analysed over the preceding months using a cohort methodology to extrapolate the underlying data. Management recognises that changes in take up rates and average cost development patterns in 2020 and 2021 have been materially impacted by members delaying treatment and service provider availability during the COVID pandemic. As such judgement has been applied in setting the level of reserves at December 2021 and management has estimated the range of potential outcomes which is disclosed within the critical accounting judgements and estimation uncertainty on page 124.

Member benefit claims have historically been relatively short in duration and usually reach fully paid status within 12 months of the case being approved. As COVID severely impacted member behaviour and access to services for several months in 2020 and the first quarter of 2021, the Society extended the time for members to take up services from 6 months from approval to any time up to 30 June 2022. As such the exposure period for all claim months from January 2020 to December 2021 has been extended from the usual 6-12months to up to 30 months at the extreme (being January 2020 to June 2022). The extension to the take up period means that the provision includes outstanding cost estimates for all service pack approval months from January 2020 to December 2021. Within the £23.1m of the provision at year end, £1.1m relates to estimates of outstanding 2020 service pack costs. The Society has reinstated the take up limit of six months for service packs approved from 1 January 2022. This will result in the provision gradually reducing to a smaller number of outstanding months as 2022 progresses.

The unused amounts reversed to the statement of income and expenditure of £5.1m relate to 2020 reserves reversed in 2021. The prior year's provision was established using prudent estimates given the uncertainty of the COVID impact on the level of take-up rate and average cost of member benefits and the extended period for take up. The release is predominantly due to lower take-up rates than had been estimated, while average costs have also been lower than estimated.

Potential costs arising from member benefits not notified at the year-end do not constitute a liability, contingent or otherwise, and are therefore not recognised in the statement of financial position.

| 19. Loans to fund the hospital development (Group & Society) | | |
|---|---|---|
| **Loans repayable, included within creditors, are analysed as follows:** | | |
| | 2021<br>£'000 | 2020<br>£'000 |
| Wholly repayable within five years | - | 4,167 |
| | - | 4,167 |

During the year the group held a term loan that incurred commitment fees at market rates and interest at LIBOR plus 1.75%. On 17 February 2021, the loan was repaid in full following approval from the Board. Total interest charges in the year amounted to £7k (2020: £166k).

The loan was denominated in pounds sterling and was secured by a floating charge over the Society's assets.

| 20. Pension obligations | | |
|---|---|---|
| | 2021<br>£'000 | 2020<br>£'000 |
| Fair value of plan assets | **104,235** | 88,246 |
| Present value of defined benefit obligation | **(133,271)** | (135,511) |
| **Net scheme liability** | **(29,036)** | (47,265) |
| | | |
| **Reconciliation of the opening and closing balances of the defined benefit obligation** | | |
| Defined benefit obligation at 1 January | **135,511** | 124,589 |
| Benefits paid | **(3,801)** | (4,430) |
| Interest cost | **1,672** | 2,448 |
| Actuarial (gains) and losses | **(111)** | 12,899 |
| Past service cost including curtailments | - | 5 |
| **Defined benefit obligation at the end of the period** | **133,271** | 135,511 |
| | | |
| **Reconciliation of the opening and closing balances of the fair value of plan assets** | | |
| Fair value of the plan assets at 1 January | **88,246** | 80,390 |
| Interest income | **1,177** | 1,584 |
| Return on plan assets excluding interest income | **8,576** | 8,702 |
| Contributions by employer | **10,037** | 2,000 |
| Benefits paid | **(3,801)** | (4,430) |
| **Fair value of plan assets at the end of the period** | **104,235** | 88,246 |
| | | |
| **Defined benefit costs recognised in the income statement** | | |
| Past service cost including curtailments | - | 5 |
| Interest on the net defined benefit liability | **495** | 864 |
| **Defined benefit costs recognised in the income statement** | **495** | 869 |

| 20. Pension obligations (Continued) | | |
|---|---|---|
| | 2021<br>£'000 | 2020<br>£'000 |
| **Total amounts taken to other comprehensive income** | | |
| Actual return on Plan assets – gains | **9,753** | 10,286 |
| Less: amounts included in net assets in net interest on the defined benefit liability | **(1,177)** | (1,584) |
| **Remeasurement gains – Return on Plan assets excluding interest income** | **8,576** | 8,702 |
| Remeasurement and gains and (losses) - actuarial gains and (losses) | **111** | (12,899) |
| **Remeasurement gain/(loss) recognised in other comprehensive income** | **8,687** | (4,197) |

At 31 December 2021, the remeasurement gain varied from the amount shown on the Statement of Changes in Members' Funds. The pension disclosures are prepared on a cash received basis whereas these financial statements are prepared on an accruals basis, consequently a £213k difference arose between the note and Statement of Changes in Members' Funds.

| 20. Pension obligations (Continued) | | |
|---|---|---|
| | 2021<br>% | 2020<br>% |
| **Assets** | | |
| Equity | **20.8** | 19.9 |
| Diversified growth funds | **25.6** | 25.5 |
| Absolute return bond fund | **8.7** | 8.9 |
| Multi asset credit fund | **15.7** | 16.9 |
| Property | **2.1** | 2.2 |
| Real liability driven investment | **21.7** | 25.9 |
| Cash and insured policies | **5.4** | 0.7 |
| | **100.0** | 100.0 |

The return on plan assets was a gain of £9,753k, +11.1% (2020: £10,286k, 12.8%). None of the fair values of the assets above included any of the group's own financial instruments or any property occupied by, or other assets used by, the group.

| 20. Pension obligations (Continued) | 2021<br>% | 2020<br>% |
|---|---|---|
| **Assumptions:** | | |
| Discount rate (%) | **1.85** | 1.25 |
| Retail Prices Index (RPI) inflation | **3.25** | 2.90 |
| Consumer Prices Index (CPI) inflation | **2.80** | 2.30 |
| Life expectancy of male aged 65 at balance sheet date | **22.4** | 22.0 |
| Life expectancy of male aged 65 – 20 years after at balance sheet date | **23.8** | 23.0 |
| Life expectancy of female aged 65 at balance sheet date | **24.9** | 24.4 |
| Life expectancy of female aged 65 – 20 years after at balance sheet date | **26.3** | 25.5 |

The Trustee Board of The Benenden Healthcare Pension Plan ("the Scheme") is required by law to act in the best interest of the Scheme participants and is responsible for setting the investment, funding and governance policies of the Scheme fund. A representative of the employer attends Trustee Board meetings primarily to provide the group's view on investment strategy; however, the decision-making authority rests with the trustees.

The defined benefit pension scheme is funded by employers through their respective contributions, with the employers having the power to set the contribution rates. One of the Society's subsidiaries (The Benenden Hospital Trust) also participates in the Scheme. There is no contractual agreement or stated policy for charging the net defined benefit cost between the Society and The Benenden Hospital Trust ("Hospital Trust"). In light of this, the Society recognises the full cost of the Scheme including the Hospital Trust's portion of the FRS102 Scheme liability of £24,681k (2020: £40,175k) in line with accounting standards.

On 29 January 2021, the Society and the Hospital Trust agreed to pay deficit repair contributions of £3,000k a year from 1 April 2021. Furthermore, on 17 March 2021, the Society paid a one-off contribution of £7,500k to the pension scheme to reduce the deficit.

The last full actuarial valuation was carried out as at 31 March 2019, the next one being due at 31 March 2022. The Scheme exposes the group to inflation risk, interest rate risk, market investment risk and demographic risk.

The Society operates a defined contribution pension scheme for the auto-enrolment of all eligible employees and any existing employee who has chosen not to be in the defined benefit pension scheme. The Society's principal subsidiary, The Benenden Hospital Trust, participates in this scheme. The Society makes guaranteed fixed contributions on a regular basis relative to the level of the employee contribution. The future benefits are not guaranteed and the Society will have no legal or constructive obligation to pay further amounts.

The assets of the defined contribution schemes are held separately from those of the group in independently administered funds. The pension costs and charge represents contributions payable by the group to the funds and amounted to £2,801k (2020: £2,650k).

Details of the cost to the group and Society of the defined contribution and defined benefit pension plans are shown in note 7.

The group and Society had the following future minimum lease payments under non-cancellable operating leases for each of the following periods:

| 21. Leases | Group | | Society | |
|---|---|---|---|---|
| | 2021 £'000 | 2020 £'000 | 2021 £'000 | 2020 £'000 |
| **Leases as lessor** | | | | |
| Not later than one year | **78** | 37 | **2,379** | 3,257 |
| Later than one year, less than five years | **-** | - | **9,200** | 12,875 |
| Later than five years | **-** | - | **36,800** | 54,721 |
| **Total leases as lessor** | **78** | 37 | **48,379** | 70,853 |
| | | | | |
| **Leases as lessee** | | | | |
| Not later than one year | **99** | 59 | **82** | 43 |
| Later than one year, less than five years | **105** | 28 | **105** | 13 |
| Later than five years | **-** | - | **-** | - |
| **Total leases as lessee** | **204** | 87 | **187** | 56 |

The group and Society rents out residential property and farmland to staff and other third parties; these leases are on a rolling 6-12 month basis. Contracts are charged at market rates.

The Society leases the Hospital to a fellow group entity, The Benenden Hospital Trust ("Hospital Trust"). On 12 March 2021, the Society and the Hospital Trust agreed that from 1 January 2021, the Hospital Trust would pay rent of £2,300k per annum (2020: £3,219k).

There are no finance lease commitments within the group.

| 22. Commitments | Group | | Society | |
|---|---|---|---|---|
| | 2021 £'000 | 2020 £'000 | 2021 £'000 | 2020 £'000 |
| Not later than one year | **3,000** | 2,000 | **3,000** | 2,000 |
| Later than one year less than five years | **12,000** | 8,000 | **12,000** | 8,000 |
| Later than five years | **10,750** | 500 | **10,750** | 500 |
| **Total commitments** | **25,750** | 10,500 | **25,750** | 10,500 |

The commitments referred to above of £25,750k, are repayments to fund the pension scheme deficit (see note 20) over the next 9 years.

In the year, the group entered an agreement with the trustees of the pension scheme that starting from 1 April 2021, the group would pay £3,000k per annum until 31 July 2030.

| 23. Taxation (Group) | | |
|---|---|---|
| | **2021 £'000** | **2020 £'000** |
| **(a) Corporation tax charge:**<br>Current year tax charge: | | |
| Current year | **5** | - |
| Adjustment in respect of prior years | **-** | 5 |
| **Total current tax** | **5** | 5 |
| | | |
| **Deferred tax:** | | |
| Temporary differences | **-** | - |
| Adjustment in respect of prior years | **-** | - |
| **Total deferred tax** | **-** | - |
| **Total corporation tax** | **5** | 5 |
| | | |
| **(b) Reconciliation of tax charge:** | | |
| Profit for the year | **25,409** | 16,132 |
| Total tax credit | **5** | 5 |
| **Profit excluding taxation** | **25,414** | 16,137 |
| | | |
| Tax using UK Corporation tax rate of 19% (2020: 19%) | **4,829** | 3,066 |
| Tax on income not subject to Corporation tax | **(4,824)** | (3,061) |
| Release of deferred tax | **-** | - |
| **Total tax credit included within the income statement** | **5** | 5 |

### (c) Corporation tax liability

An amount of £nil (2020: £5k) is included in creditors on the face of the statement of financial position. In 2021, of the consolidated entities only the Society and Benenden Wellbeing Limited are subject to corporation tax.

In the year ended 31 December 2021 the tax rate is 19% (2020: 19%).

| 24. Deferred taxation (Group) | | |
|---|---|---|
| | **2021 £'000** | **2020 £'000** |
| **Analysis of deferred taxation temporary differences:** | | |
| Total tax credit - short term timing differences | **-** | - |
| **Recognised deferred tax liability** | **-** | - |
| | | |
| Losses and other deductions | **(41)** | (71) |
| **Unrecognised deferred tax asset** | **(41)** | (71) |
| **Net deferred tax asset** | **(41)** | (71) |

In the 2021 Budget on 24 May 2021, it was substantively enacted that the UK tax rate would increase from 19% to 25% (effective from 1 April 2023) and therefore, the unrecognised asset above is based on this tax rate.

## 25. Related party disclosures

Related party transactions between the subsidiaries and controlled bodies are disclosed within their individual financial statements. Copies can be obtained from the registered office by writing to The Secretary, The Benenden Healthcare Society Limited, Holgate Park Drive, York, YO26 4GG.

All of the following transactions between the subsidiaries and The Benenden Healthcare Society Limited were entered into on an arms-length basis:

**The Benenden Hospital Trust:**

The Society made payments to The Benenden Hospital Trust to the value of £25,800k (2020: £20,307k).

Furthermore, properties at Benenden Hospital were leased to the Trust under a 25-year lease at an annual rental of £2,300k (2020: £3,219k).

At 31 December 2021, the total amount due from The Benenden Healthcare Society Limited to The Benenden Hospital Trust was £2,143k (2020: £2,384). Also at this date, the amount due from The Benenden Hospital Trust to The Benenden Healthcare Society was £108k (2020: £nil).

**The Benenden Charitable Trust:**

In 2021 the Society made donations of £192k (2020: £78k) to The Benenden Charitable Trust; £150k (2020: £nil) was a donation to help fund the issued grants and £42k (2020: £78k) related to resources to cover the running costs of the charity.

**Benenden Wellbeing Limited:**

At 31 December 2021 the amount due to The Benenden Healthcare Society Limited from Benenden Wellbeing Limited was £56k (2020: £23k).

**Trustees of the Benenden Healthcare Pension Plan**

The Benenden Healthcare Society Limited paid trustees' insurance for the trustees of the Benenden Healthcare Pension Plan of £4k in the year (2020: £3k).

**Members of the Board of Directors, Society Executive and Hospital Executive**

Some members of the Board of Directors, Society Executive and Hospital Executive have insurance policies through Benenden Wellbeing Limited. These policies are issued under normal business terms and conditions.

# Supporting Documents

## Appendix - Strategic risk report


1. ONS
2. OECD
3. FT
4. LaingBuisson UK Healthcare Market Review, 33rd edition
5. LaingBuisson UK Healthcare Market Review, 33rd edition
6. LaingBuisson UK Healthcare Market Review, 33rd edition
7. ONS
8. Health & Protection
9. Cover
10. Benenden Health internal research
11. Health & Protection
12. FT
13. LaingBuisson UK Cosmetic Market Report, 2nd edition
14. NHS
15. CQC
16. Benenden Health internal research
17. The Health Foundation
18. The Health Foundation
19. BBC
20. HSJ
21. NI Health & Social Care Board
22. NHS England
23. NHS Providers
24. NHS England
25. NHS Scotland
26. NHS Scotland
27. NHS Wales
28. NHS Wales
29. NHS NI
30. NHS NI
31. NHS NI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