PAYCARE

ANNUAL REPORT AND CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED 31ST DECEMBER 2022

Company Registration Number: 00820791

PAYCARE

FINANCIAL STATEMENTS
YEAR ENDED 31ST DECEMBER 2022

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PAYCARE

STATUTORY INFORMATION

Patron	H M Lord Lieutenant for Staffordshire
President	D Whitmore
Vice President	E Reay P Stokes
Chairman	J L Knight (Non-executive director)
Directors – non-executive	S Carr (Independent) J C H Grace (Independent) M S Jaspal (Independent) H E Hooper (Independent)
Directors - executive	K A Rogers ACMA, CGMA (resigned 10th January 2023) A I Burns N Mumford (appointed 10th January 2023)
Chief Executive	A I Burns (appointed 10th January 2023)
Company Secretary	N Ashton MLIBF
Auditors	PKF Littlejohn LLP
Solicitors	FBC Manby Bowdler LLP
Actuarial Advisor	Steve Dixon Associates
Investment Managers	Royal London Asset Management (RLAM)
Pensions Advisers	Alexander House Financial Services Ltd
Company Number	00820791
Registered Office	Paycare House George Street Wolverhampton WV2 4DX Telephone: 01902 371000
Website	www.paycare.org
E-mail	enquiries@paycare.org

CHAIRMAN'S STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2022

Over the last 12 months, Paycare's medium to long term strategic planning has brought about several significant changes – aimed at balancing the challenges of an ever-dynamic marketplace, employee wellbeing, provision of good service, and an attractive product offering. All within a stringent regulatory framework, necessary for a compliant, not-for-profit, cash plan provider. Like any other business in our sector, such factors have an impact on finances. In the light of these factors, the Senior Management Team are ensuring appropriate attention and focus on financial prudence to ensure value for money across the whole Group key components of its business plan.

Notwithstanding these challenges, the sustained effort of our leadership team and employee colleagues in effecting our development strategy, has begun to show signs of tangible results.

This year brought the retirement of our Chief Executive Kevin Rogers. Anthony Burns, our new Chief Executive, was appointed in January. As part of the wider succession plan Paycare's senior management team was further strengthened with experienced colleagues, simultaneously reinforcing the necessary clear demarcation of regulatory, senior management functions. Nicola Mumford, appointed to the Board as Director of Operations and Nickeita Ashton as Head of Governance and Compliance.

Furthermore, active succession planning extends to the non-executive directors and to the Chairman. The mid-term will consequently show the Board refreshed with new officers, ready to contribute to the continuing success and regulatory compliance of the business - ever mindful of the welfare of Paycare's employees and duty to its customers.

To date, the senior management team has been working with employee colleagues on improving the effectiveness of each role and level of responsibility. I am pleased to report that, in the main, our employees have positively embraced this measure of change. Employee morale is high, feeding through to good customer outcomes.

The collaboration demonstrated by the senior management team during this period sets a notable example to all colleagues within the Group. The whole of Paycare has been engaged in the implementation of the Consumer Duty regulation, with all departments feeding into the project and sharing their view on how we can evidence good customer outcomes. We've spent considerable time completing a customer journey review – identifying opportunities to ensure that our products and services continue to offer great value and ultimately supporting our Policyholders to be happier and healthier. The benefits will speak for themselves over the coming months. It is also, worth noting the generosity of my colleagues; each making and owning their individual contributions to this worthwhile project.

Like most progressive businesses, we understand that our commercial data is valuable to all aspects of business operations. Our systems have and continue to be geared to capture every item of our data, to indicate the strategic paths we should follow.

CHAIRMAN'S STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2022

Last year, Paycare committed to a significant investment in its IT and to a new CRM system to further strengthen the operational resilience of the business and provide better information and data to support future business growth. Service that starts from the moment potential customers access our website all the way through to the prompt payment of claims to the convenient renewal of any one of our cash plan products. This is a now continuous process. Many late nights saw the project through to completion, but we believe that this approach will significantly strengthen the business.

Furthermore, our CRM investment provides greater insight into the way our customers interact with us. We can accurately maintain the balance between an attractive range of cash plans, good customer outcomes and long term sustainability.

2022 was a busy and eventful year, for Paycare. In that respect, this report is not exhaustive, covering just the key points. It has been a period of honest reflection, strategic planning, focussed on producing a clear schedule of managed change. Paycare is committed to hard work, grit, and courage, in its endeavour to point the business squarely at the future.

Next year we reach 150 years of continuous trading. Given the weight of that fact, I remain confident that all my Paycare colleagues will take us beyond this significant milestone - with the same commitment and energy, delivered in the last financial period. I look forward to reporting our progress.

J L Knight
Chairman
29 June 2023

PAYCARE

STRATEGIC REPORT TO THE MEMBERS OF PAYCARE

The directors present their strategic report for the year ended 31 December 2022.

Principal activity and review of the business

Business review

During a year that has seen the business undergo notable change, I am very proud of what we have been able to achieve alongside the completion of the next phase of our succession plan. In a year where preparations began for Consumer Duty, we also launched our new computer systems and sold more policies in this reporting period than we have in over a decade. A significant achievement for a relatively small team, I want to give my thanks to them for their hard work and commitment.

In challenging social, political and economic conditions, with an NHS under considerable pressure, and personal finances a concern for many, it is reassuring to see our policyholders continuing to receive improved value from our products and services. The number of claims received in the year increased by 8%, with the average value of claims remaining at a similar level to the prior year. We returned over £4.7 million to our Policyholders in total benefit payments, an increase of over £200k compared to 2021.

Following the COVID-19 pandemic, we have also observed an increased appetite from organisations prioritising investment in the health and wellbeing of their employees. Our website received over 1.6 million views in 2022, an increase of 27% on the previous year, and we sold over 8,000 new policies, the largest growth we have seen in over 15 years.

To support future growth, as outlined in our strategic objectives, our new computer system went live in quarter 4. This substantial investment provides us with the opportunity to ensure that our customer journey provides our policyholders with the best possible outcomes for the future. In addition, it also allows us to keep them safer by further strengthening our resilience and data security in response to the changing external environments.

The Consumer Duty Regulation provides us with the greatest opportunity to demonstrate the value and support our customers receive through engagement with Paycare. Guiding us to identify areas for product innovation to ensure we anticipate future demands and continue to meet their needs.

Next year we celebrate a milestone - 150 years of supporting our customers, community, and our people to be happier and healthier. In my first few months in role, I have been heartened by the considerable progress that we have made, however there are many more opportunities to realise and strategic challenges to navigate in the coming years. We believe the agreed strategic plan provides a roadmap for our continued sustainable growth and further strengthens our ability to offer the best customer outcomes and experience.

PAYCARE

STRATEGIC REPORT TO THE MEMBERS OF PAYCARE

Principal activity
The principal activity of the company is the provision of healthcare cash benefit insurance plans and Wellbeing solutions. The activities of each group company in which the company has investments are shown in note 11 to the financial statements.

Reserves
At the year ended 31 December 2022, the group reserves decreased to £6,014,387 (2021 – increased to £6,816,771) representing 95.5% of premium income (2021 – 110.8%). The group deficit on unrealised reserves at the year end amounted to £282,032 (2021 – surplus of £173,742).

Future developments
The group continues to develop and monitor its product range to take account of the changing needs of customers. The group will always ensure that it acts in the best interests of its policyholders and employees.

Our focus for 2023 will fall into 3 mains specific areas:

• To fully embed this phase of the succession plan to ensure the continued success of the senior management team.
• To start to realise the opportunities the new computer system brings to our customer delivery capabilities and our ability to gain valuable data insights.
• The successful delivery of the Consumer Duty Regulation.

We plan to take specific actions in five key areas:

1. Healthy Paycare

A Healthy Paycare means that we continue to grow in a sustainable way whilst maintaining sufficient capital to guard us against challenges. It means that we can help more people and make a bigger difference to our customers, people, and community; for many years to come.

During 2023 we aim to see continued growth within our corporate policyholder base, along with a heightened focus on product development – ensuring that future products continue to meet the needs of our policyholders and ultimately improve their health and wellbeing.

2. Happy Customers

We love our customers, and we want them to be happy. We hope that, through dealing with Paycare, we can help them along their journey in a way that is easy for them to understand, offers the right mix of digital and personal touch and shows them how much they mean to us. Our ongoing work to enhance our customer experience and to deliver and embed the consumer duty regulation continues during 2023. We aim to explore how we can further improve customer understanding and support using our new technology.

3. Better ways of working

The world is changing, and so must we. We must be forward thinking and open; embracing new technology, working practices and regulation to keep us strong and give us a more streamlined and agile business for the future.

In addition to the completion of the consumer duty regulation we will also look to capitalise on the opportunities presented with the new computer system and improve the availability and quality of data insights.

4. Building the best team

Our people are truly amazing. We aim to develop them to be the best that they can be, reward them for the right behaviours and inspire them to be engaged with our journey. During 2023 we are evolving our employee development, performance, and wellbeing framework to ensure that Paycare continues to attract and retain a genuinely happy and engaged workforce.

5. Making a difference

We want to make the biggest impact on our community whilst making the smallest impact on our Earth. Our goal is to increase community support whilst reducing our footprint on the planet: making it a better place for the future.
We shall continue with our work in the community to make a positive contribution and difference to it.
Our aim is to reduce our carbon footprint on the world. We shall work internally to reduce the impact of our operations and work with our Investment managers to ensure that they appropriately consider climate impact in their portfolio management.

The group uses the Own Risk and Solvency Assessment (ORSA) process to ensure that it has enough capital resources to meet the needs of its future developments.

Principal risks and uncertainties

Within the Directors' Report, the Company has explained its compliance with the AFM Corporate Governance Code, one element if which relates to Opportunity and Risk (principle 4). Within this section of the annual report, the Company explain what it views as its principal risks and uncertainties. Please refer to pages 14-18.

Capital management

We are experiencing a period of financial turbulence in Financial markets. The war in Ukraine and ongoing uncertainty created by Brexit means managing capital can be a challenge. We take a very proactive approach to this challenge. We regularly assess the impact of the turbulent market conditions and its impact on the business. Where necessary we adjust our strategies to ensure our regulatory solvency levels are adhered to.

Section 172 statement

In accordance with Section 172 of the Companies Act 2006, the directors continue to prioritise the interests of the Company's employees and other stakeholders, and act in good faith to promote the long-term success of the Company.

The Board believe the key stakeholders for Paycare are our employees, customers, suppliers, and regulators. We have built and maintained relationships with each of these stakeholder groups throughout the year and in accordance with Section 172 (1) the following is a summary of how we have engaged with them:

Stakeholder	Engagement
Employees	Our people are key to the success of our business and delivery of our strategic plan. The wellbeing of our staff is at the forefront of our decision making and we continue to act as a responsible employee when reviewing performance, pay and benefits. We engage with employees throughout the year through regular staff briefings. We continuously ask our staff for feedback to the Senior Management team during the year, most notably on hybrid working and throughout the delivery of our new CRM system which proved successful and can be attributed to high levels of staff engagement. The challenges of 2022 bought about a cost-of-living crisis, and in recognition of this we issued a one-off cost of living payment to all employees, excluding Directors, to help ease the pressure of inflation and increasing bills.
Customers	Customers are at the heart of what we do and our purpose to make our customers happier and healthier is at the core of our business plan and decision making. We continually engage with our customers providing support toward their everyday health and wellbeing. We actively seek feedback to improve the overall customer experience to ensure that we prioritize the needs of our customers
Suppliers	We work value all our business relationships and work closely with our suppliers and outsourced arrangements to ensure the delivery of high-quality services. Through daily interaction and regular meetings, we have strong oversight of these relationships, to ensure that our operations activities and services provided are efficient and effective and are aligned to our strategic plan.
Regulators	Acting with integrity and doing the right thing is at the heart of our culture and our values are aligned with those of our regulators. We have strong Governance and Risk & Compliance frameworks in place that are aligned to FCA and PRA regulation, which remain proactive and reactive in an ever-changing regulatory landscape. Our decision making and strategic plan is directly aligned to these Frameworks to ensure compliance. We proactively engage with our regulators and are open and transparent in these interactions. We actively respond to consultation papers directly and through the Association of Financial Mutuals to ensure the right outcomes for our customers.

PAYCARE

STRATEGIC REPORT TO THE MEMBERS OF PAYCARE

On behalf of the board

Anthony Burns
CEO

PAYCARE

DIRECTORS' REPORT TO THE MEMBERS OF PAYCARE

The directors have pleasure in submitting their fifty seventh annual report, together with the audited financial statements for the year ended 31st December 2022.

The group operates healthcare cash benefit plans by means of a mutual contributory scheme. Paycare is an insurance company approved and authorised by the Prudential Regulatory Authority and regulated by the Prudential Regulatory Authority and the Financial Conduct Authority.

Directors

The directors who held office during the year and up to the date of signature of the financial statements were as follows:

K A Rogers (resigned 10th January 2023)
N Mumford (appointed 10th January 2023)
A I Burns
J L Knight
S Carr
M S Jaspal
J C H Grace
H E Hooper

Statement of directors' responsibilities

The directors are responsible for preparing the directors' report, the strategic report, and the financial statements in accordance with applicable law and regulations and in accordance with United Kingdom Generally Accepted Accounting Practice.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless the directors are satisfied that they give a true and fair view of the state of affairs of the group and of the surplus or deficit of the group for that period. In preparing these financial statements, the directors are required to:

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

DIRECTORS' REPORT TO THE MEMBERS OF PAYCARE

Statement of directors' responsibilities (continued)
The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the group's transactions and disclose with reasonable accuracy at any time the financial position of the group and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

Directors' and Officers' Liability
During the year, the group-maintained insurance cover for the directors and officers against liability incurred whilst acting in their capacity as directors and officers of the group.

Constitution
The group is limited by guarantee and has no share capital. In the event of a winding up, each member undertakes to contribute to the assets of the group for the payment of liabilities such amount as may be required not exceeding £1.

Charitable and political donations
During the year, charitable donations of £16,600 (2021 - £39,525) were paid by the group. Paycare is very much part of our local community. We look to support charitable causes within our community whenever we are able to.

We continue to extend our charitable giving to the Rachael Heyhoe-Flint Accessible lounge at Wolves. Our support of this fantastic facility through the Wolverhampton Wanderers Foundation will now extend to 26 years.

In 2017 we welcomed Sickle Cell Thalassemia charity to use spare office space we had in our building. This space is rent free and has helped the charity save significant funds in rent that they were able to redirect to their frontline services. We are delighted to report that this initiative has now been extended to three other organisations. The notional rent cost to the business is £30,000. We shall continue to promote this initiative to other charitable and third sector organisations. We would urge all businesses to consider this initiative as an alternative method of charitable giving.

The group makes no political donations.

Corporate Governance

The group will always endeavour to apply the highest standards of corporate governance and has a goal of continuous improvement in governance processes.

The role of the Board

The board is responsible for creating the framework within which the group operates and is collectively responsible to the group's stakeholders for the direction, promotion, and oversight of the group to ensure its long-term success. It provides leadership for the group, devises strategy, ensures the necessary resources are available, and sets controls and standards. In doing so, the directors comply with their duties under section 172 of the Companies Act 2006.

Other core activities include obtaining assurance that material risks to the group are identified, defining the group's appetite for risk, and ensuring that appropriate systems of risk management and internal control exist to mitigate such risks, as well as responsibility for ensuring the effectiveness of, and reporting on, the system of corporate governance. It also monitors performance and approves budgets and material initiatives and commitments. The board has a clearly articulated set of matters which are specifically reserved for its determination and has approved terms of reference for all board committees. The board is responsible for setting the levels of delegated authority, whilst retaining overall responsibility for the governance of the group. The board's schedule of matters reserved includes:

- Strategy
- Structure and capital
- Financial reporting and controls
- Internal controls and risk management
- Authorisation and approval levels
- Board membership
- Delegation of authority and policy development
- Corporate governance matters
- Major acquisitions, projects, and contracts

For the year ended 31 December 2022 the company has applied the Association of Financial Mutuals (AFM) corporate governance code. The code sets an expectation that members apply all the six principles and explain how they have interpreted and approached them.

Principle One: Purpose and Leadership

An effective board promotes the purposes of an organisation and ensures that its values, strategy, and culture align with its purpose.

Our purpose is to help the UK be happier and healthier through a range of products that are designed to meet our customers' needs. Helping businesses and individuals achieve more, whilst supporting the work of our community and the amazing NHS.

DIRECTORS' REPORT TO THE MEMBERS OF PAYCARE

Through the leadership of the board a clear vision for the Group's purpose and values is articulated, which will underpin and define the strategy and culture of the organisation. This is embedded at every level of management.

- **You're special to us**
  We strive to go above and beyond for our customers, showing integrity always.

- **We're stronger together**
  We believe a collaborative approach is always better and work closely with our customers to provide for their needs.

- **We embrace change**
  We're always looking for new, innovative solutions for our customers and more efficient ways of working.

- **We keep it simple**
  We believe in transparency and clarity in our work and communications

Policies and protocols are in place to support the execution of the group's purpose and values across the organisation, which drives overall engagement with our policyholders, our customers, our employees, and our community across the operating businesses.

Group wide initiatives such as My Giving and My Journey are examples of how purpose is brought to life and benchmarked.

Principle two: Board composition
Effective board composition requires an effective chair and a balance of skills, backgrounds, experience, and knowledge, with individual directors having enough capacity to make a valuable contribution. The size of a board will be guided by the scale and complexity of the organisation.

The group operates through clear board protocols and governance processes. These are set out in its terms of reference and standing items for the board and its committee. This allows for both independent challenge and transparency in decision making.

The board is supported through the executive and senior management team and its internal governance protocols. Accountability is driven through routine evaluations of the board and its composition is balanced between executive and independent non-executive directors.

Board attendance
The table below sets out details of all directors who have served during the year and their membership of board committees. This includes details of each member's attendance at the board meetings held in 2022. There are separate attendance statements in respect of the nomination, remuneration and audit and risk committees within the directors' report.

DIRECTORS' REPORT TO THE MEMBERS OF PAYCARE

Director	Role (I = Independent)	Committee (C= current chair)	Attendance record
James Knight	Chair		6/6
Anthony Burns	Chief Executive Officer (appointed 10th January 2023)		6/6
Sajida Carr	Non-executive director (I)	Remuneration (C)	4/6
Jeremy Grace	Non-executive director (I)	Audit & Risk (C)	6/6
Milkinder Jaspal	Non-executive director (I)		5/6
Helen Hooper	Non-executive director(I)		6/6
Kevin Rogers	Chief Executive Officer (resigned 10th January 2023)		3/6

Principle three: Director responsibilities
The 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.

Board appointments have been made with care and to ensure that its membership includes the right and appropriate levels of skills and experience to address the challenges that the business currently faces along with those of the future.

The Nominations Committee is charged principally with:

- Conducting an annual review of the Board's composition and consideration of any proposed changes for proposal to the Board;
- The formation of a strategic succession and replacement plan for the Board; and
- Leading the process for identifying and making recommendations to the Board regarding candidates for appointment as directors.

During 2022, nominations matters have continued to be overseen by the Board.

DIRECTORS' REPORT TO THE MEMBERS OF PAYCARE

The Company Secretary ensures that the board has been given enough infrastructure to allow them to undertake their work with due care, which is aligned to achieving the group's long-term success and vision.

The board continues to be focused on its operational governance to ensure that the group's corporate purpose and strategy remains at the centre of its decision-making protocols.

Principle four: 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.

Through clear definition of the group's corporate purpose and values, the board's decisions are focused on promoting and delivering long term value; at the heart of which are its policyholders, customers, employees, and community. This is embedded across the group's key operating businesses and strategic decision-making areas.

Principal risks have been identified across the group and at the operating business level with robust reporting to the board on the plans to address and mitigate these. These are articulated further in this annual report and are set out in the organisation's Own Risk Solvency Assessment (ORSA).

The Audit and Risk Committee is charged principally with:

- Monitoring the integrity of the financial statements;
- Review of the financial statements and their recommendation to the Board for approval;
- Review of the Group's internal controls and risk management systems;
- Major capital expenditure reviews;
- Review of the internal and external audit plan;

The committee consists of a Chair (Jeremy Grace) and two non-executive directors. The committee is supported by Executive directors and senior management when required.

The table below sets out details of all directors who have served during the year. This includes details of each member's attendance at the committee meetings held in 2022.

Director	Role	Attendance record
Jeremy Grace	Non-executive director (C)	3/3
Milkinder Jaspal	Non-executive director	2/3
James Knight	Non-executive director	3/3

The Audit and Risk Committee looks to meet a minimum of three times each year to assess and discuss risks.

In order to fulfil their responsibilities, the directors have implemented an ongoing process for identifying, evaluating and managing the significant risks faced by the group. As part of this process, the Audit and Risk Committee and senior management meet together at least once each year to re-assess the areas of risk that are significant to the achievement of business objectives, as defined by the board in setting strategic direction. The senior management team are responsible for ensuring that the system of internal control manages these areas of risk appropriately and that its effectiveness is adequately monitored and include their findings in regular reports to the directors.

Principle four: Opportunity and risk *(continued)*

Market risk

Market risk is the risk of adverse financial impact as a consequence of market movements such as currency exchange rates, interest rates and other price changes. Market risk arises due to fluctuations in both the value of assets held and the value of liabilities. The objective of the group in managing its market risk is to ensure risk is managed in line with the group's risk appetite. Market risks to which the Group is exposed are discussed in note 16 to the financial instruments.

Insurance risk management

The group accepts insurance risk through its insurance contracts where it assumes the risk of loss from policyholders that are directly subject to the underlying loss. The group is exposed to the uncertainty surrounding the timing, frequency, and severity of claims under these contracts. Losses are however limited to a claim period after pecuniary loss to the policyholder of 13 weeks. The group manages its risk via its underwriting strategy within an overall risk management framework. Pricing is based on assumptions which have regard to trends and past experience.

Operational risk

Operational risk relates to the risk of loss resulting from inadequate or failing internal processes, people, and systems, loss, or failure of key suppliers or from external events such as a cyber-incidents, natural disaster or terrorist attack.

Material operational risks that are assessed include:

- Cyber/data security – the risk of the inability to protect data from unauthorised use, disclosure, disruption, modification and /or destruction.

The Company mitigates this risk through regular staff Cyber training, multiple backups of all our data and software taken both onsite and offsite at multiple locations based in the UK, penetration tests on our public facing website, VPN to protect Paycare online privacy, and robust physical and IT security controls over personal data. The Company also holds specific Cyber Security insurance that includes access to technical experts in the event of a cyber incident.

- Outsourcing – the risk of failure, non-performance, and/or ineffective management oversight of key suppliers/outsourcers.

The Company mitigates this risk through effective supplier selection and procurement practices. All significant suppliers are credit checked, capital ratios and other financial information are monitored regularly. We conduct regular monitoring as part of our oversight of material, critical and important outsource providers, which includes quarterly oversight meetings where performance is monitored. We have appropriate Risk Management systems and controls to manage risk associated with each third-party relationship.

- People – the risk of inadequate recruitment process, development, management, or retention of employees and/or contractors

The company's performance depends on its staff. There can be key person dependency in areas where experience and /or knowledge is very difficult to replace in short term. The risk is mitigated by a strong staff development program, succession planning and training and competency framework for the business.

Data protection & cyber risk

The protection of personal data is fundamental to Paycare's reputation and performance. The company is, like most businesses at risk of potential data protection breaches that could lead to loss of customers and potential regulatory fines. We believe this to be an ever-increasing risk with attacks becoming ever more sophisticated.

The company takes its obligations to protect its data extremely seriously and mitigates this risk through the training of its staff, best practice recruitment referencing and robust physical and IT security controls over personal data, supplier selection and procurement practices.

To ensure minimum disruption in the event of a cyber-attack Paycare holds specific cyber insurance that includes access to technical experts.

Financial risks of Climate Change

Climate change, and society's response to it, presents many financial risks. Whilst the financial risks from climate change may crystallise in full over a longer time horizon, they are also becoming apparent now.

Financial risks from climate change arise from two primary channels, or 'risk factors': physical and transition risk.

- Physical climate risks, which includes both long-term changes in climate, as well as changes to the frequency and magnitude of extreme weather events, can cause direct damage to assets or property, changes to income and costs, and changes to the cost and availability of insurance;

- Transition climate risks, which include risks related to changes in domestic and international policy, technological innovation, social adaptation, and market changes, which can result in changes to costs, income and profits, investment preferences and asset viability;

The Board has considered the financial risks and the associated materiality of both the physical risk and transitional risk associated with climate change on Paycare.

As the potential transition risk identified relates to the value of the underlying assets contained within the collective funds, we recognise, as do our asset managers, Royal London Asset Management (RLAM), the potential impact on the financial outcomes if not managed appropriately.

We understand the importance of climate change and we work with RLAM, to ensure we take the necessary steps in ensuring our investments are invested responsibly. On our behalf, RLAM engage with the companies we invest in to help them improve their Environmental, Social and Governance credentials. Sharing a similar view as RLAM, we recognise the science of climate change and believe it can have an impact on the financial outcomes if not managed appropriately. The impacts of climate change create both risks and opportunities for the companies and issuers we invest in. Our strong preference is to address climate risks through engagement, advocacy, and prudent investment risk management rather than by adopting strict company or sector exclusions.

The insurance policies underwritten by Paycare are not impacted directly by climate related weather events, although there is some potential impact of any changes to underlying health related issues as a result of global warming. Any requirements for Paycare's products to develop to mitigate these changes will be incorporated into the existing product development and pricing processes. We do not deem climate change to be material for Paycare nor a principal risk. We recognise the importance of this topic and would refer the reader to the greenhouse gas emission disclosure page 20.

Principle five: Remuneration

A board should promote executive remuneration structures aligned to the long-term sustainable success of an organisation, considering pay and conditions elsewhere in the organisation.

The group's remuneration policy is set out and monitored by its Remuneration Committee, with clear objectives to incentivise management based on the long-term success of its strategic goals and business plans.

Succession planning and talent retention are key focus areas for the group and its operating business levels.

The Remuneration Committee is charged principally with:

- Reviewing the ongoing appropriateness, relevance and efficiency of remuneration policy and practice;
- Reviewing the design of performance-related pay schemes; and
- Reviewing and approving the total annual payments made under such schemes

The committee consists of a Chair (Sajida Carr) and the non-executive directors. The committee is supported by Executive directors and senior management when required.

DIRECTORS' REPORT TO THE MEMBERS OF PAYCARE

The table below sets out details of all directors who have served during the year. This includes details of each member's attendance at the committee meetings held in 2022.

Director	Role	Attendance record
Sajida Carr	Chair (I)	2/2
James Knight	Non-executive director (I)	2/2
Jeremy Grace	Non-executive director (I)	2/2
Milkinder Jaspal	Non-executive director (I)	2/2
Helen Hooper	Non-executive director (I)	1/2

Principle six: Stakeholder relationships and engagement
Directors should foster effective stakeholder relationships aligned to 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.

Through the group's defined purpose, underpinned by its values, stakeholder engagement is embedded at all levels of the organisation with clear direction and endorsement from the board and senior management across each of the operating businesses.

The group promotes an ongoing cycle of engagement with its stakeholders.

Regulation
Paycare is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and Prudential Regulation Authority.

Regulation for healthcare cash benefit plans has continued to increase. In order to maintain compliance, during 2022 the directors and managers took part in a range of training activities covering regulatory issues and have continued to review and enhance internal systems and procedures.

Paycare continue work to enhance processes and systems in conjunction with our actuaries, software providers and investment managers to ensure compliance under the Solvency II regime. The costs associated with compliance to the Solvency II regime continue to escalate. The directors are concerned that regulators have not yet demonstrated enough proportionality in the administration of the Solvency II regime to businesses of our nature and complexity.

The directors continue to be satisfied that the group is well-placed to meet all present and future regulatory requirements.

Emissions and energy consumption

We believe that we are all responsible for evaluating and reducing our impact on our planet.

Paycare has always tried to consider the impact of its operations on the world, but we identify our need to understand more about how we can make a difference in this area, and our short-term aims will be to increase our knowledge and develop our future strategy to make a bigger impact.

Our total annual carbon footprint has been calculated at tonnes of carbon dioxide equivalents and based on emissions made classified as Scope 2 (Indirect emissions - electricity, heating, cooling) and Scope 3 (Indirect emissions - supply chain, employee waste, water, business travel, commuting) within the UK only:

	Unit	**2022**	**2021**
Total for Scope 2	t CO2e	47.8	58.5
Total for Scope 3	t CO2e	2.1	0.7
Total	t CO2e	49.9	59.2
Intensity metrics	t CO2e/sq ft	0.00425	0.00504

Progress against our climate change commitments

Risk management

We considered climate change within our risk management and business planning and have developed a climate risk appetite statement with associated metrics and where possible, identified opportunities to reduce the risks.

Operating efficiently

Climate change is also considered within our business operations. We continued to deliver against our operational climate pledges and are ahead of target in the decarbonisation of our direct operations. Our focus has been extended to all our operational emissions, which will enable us to establish our pathway to net zero in our indirect operational emissions too.

With risks, there are potential opportunities, and the company has concentrated efforts in defining a paperless claims journey for our customers, (75% of claims received are online). We are also developing our processes for supplier onboarding and management to understand how they are responding to climate change and what they are doing to mitigate its risk.
We are focussing our efforts towards reduction, reuse, and even recycling of the products used with the firm.

Property
In accordance with FRS 102, the portion of the property occupied by Paycare is classified as freehold land and buildings and carried at revaluation less depreciation. That which is leased to third parties is classified as investment property and carried at the directors' assessment of fair value.

PAYCARE

DIRECTORS' REPORT TO THE MEMBERS OF PAYCARE

Investments
The market value of the company's investments is shown in the notes to the financial statements. The investments are currently registered in the name of Royal London Asset Management. The board meets with our fund managers at least once a year to discuss the performance of the fund and our requirements going forward. Senior management have regular correspondence with our fund managers and actuaries.

Employees
The company is committed to developing employees to help improve performance and achieve business objectives. Employees at all levels are aware of the aims and objectives of the organisation, and each individual is provided with full information on any matter that concerns them. The communication process is facilitated by a programme of regular departmental and company meetings, as well as individual review interviews.

People really are at the heart of everything we do as a business. We are committed to continue to invest in our people. In 2022 we continued our work on a variety of health and wellbeing initiatives, these are well received and clearly demonstrate that we take this seriously.

Statement of disclosure to auditors
So far as the directors are aware, there is no relevant audit information of which the company's auditors are unaware. Additionally, the directors have taken all steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

On behalf of the board

J L Knight
Chairman
29 June 2023

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF PAYCARE

Independent Auditors' Report to the Members of Paycare

Opinion

We have audited the financial statements of Paycare (the 'parent company') and its subsidiaries (the 'group') for the year ended 31 December 2022 which comprise the Consolidated Statement of Comprehensive Income –Technical and Non-Technical Accounts, the Consolidated and Parent Company Statements of Changes in Equity, the Consolidated Balance Sheet, the Company Balance Sheet, the Consolidated Cash Flow Statement and Notes to the Consolidated Financial Statements, including significant accounting policies. The financial reporting framework that has been applied in the preparation of the group and parent company financial statements is applicable law and United Kingdom Accounting Standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* (United Kingdom Generally Accepted Accounting Practice).

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2022 and of the group's surplus for the year then ended;
- the group and parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

Conclusions relating to going concern

In auditing the group and parent company 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 parent company's ability to continue to adopt the going concern basis of accounting included:

- obtaining and reviewing the directors' going concern assessment process, which covers detailed forecasts for 2023 and 2024;
- for the inputs used in management's going concern assessment, assessing their accuracy with reference to supporting documentation;
- evaluating the liquidity and solvency position of the group and parent company by reviewing base case liquidity and solvency projections, as well as reviewing the Solvency and Financial Condition Report submitted to the Prudential Regulation Authority;
- reading minutes of meetings of the Board and its committees; and
- assessing the appropriateness of the going concern disclosures by comparing the disclosures with management's going concern assessment and for compliance with the relevant reporting requirements.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF PAYCARE

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 or parent company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

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

Our application of materiality

We determined the materiality for the group to be £185,930 (2021: £139,430) and parent company to be £184,070 (2021: £139,430) which is approximately 3% (2021: 2%) of the closing Net Assets (Reserves). We have selected Net Assets (Reserves) as a benchmark for the purposes of the materiality calculation as it is one of the key metrics used by the regulator as well as management. The regulator and management seek to ensure that the group and parent company meet the solvency requirements as set out by the regulator, which is driven by the Reserves held. Based on our review of historical results, Net Assets is also the least volatile benchmark.

Based on our risk assessments of the group and parent company, together with our assessment of the group and parent company's overall control environment, our judgement was that performance materiality be set at 80% (2021: 65%) of our overall materiality, which is £148,740 (2021: £90,630) for the group and £147,250 (2021: £90,630) for the parent company. We agreed with the Audit and Risk Committee that we would report to them all uncorrected audit differences in excess of 5% of overall materiality, which is £9,290 (2021: £6,930) for the group and £9,200 (2021: £6,930) for the parent company. Differences below this threshold were also reported which, in our view, warranted reporting on qualitative grounds.

Our approach to the audit

The assessment of audit risk, evaluation of materiality and allocation of performance materiality determine the audit scope. This enables us to form an opinion on the group and parent company financial statements. We take into account the account size, risk profile and the organisation of the group and parent company and the effectiveness of controls, including controls and changes in the business environment when assessing the level of work to be performed. Following our work to ensure we had a sufficient understanding of the group and parent company's operations, including its systems and controls and the risks within the business, we designed our audit approach. This approach was designed so as to place appropriate focus on the most material areas and particularly those which are subject to the greatest amount of estimation uncertainty and involve the use of expert judgement. The most important area is detailed within the Key audit matters section of this report. We ensured that our team consisted of individuals with appropriate skills and experience, including the use of experts, to be able to challenge the data, assumptions, models and results in these areas.

Key audit matters

Key audit matters are those matters that, in our professional judgment, 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) we identified, including 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.

Key Audit Matter	How our scope addressed this matter
Valuation of provision for claims outstanding **Refer to Note 2, "Accounting estimates and judgements" and Note 17 "Technical provisions"**	
The provision for claims outstanding within technical provision represents amounts due to policyholders for reported claims, as well as claims incurred but not reported (IBNR). **Due to the significant level of estimation and judgement involved, the reserve for oustanding claims liabilities is subject to the risk of bias. This is further exacerbated by the impact of Covid-19 on policyholders' ability to claim in recent years. We hence view this area as a significant risk.** **Paycare calculates the IBNR by applying a 2.5% provision to the total claims paid for the financial year. The claims run-off for the previous financial period is also assessed against the calculated provision for the current financial year to ensure that the provision held is sufficient.** **There is a risk that inappropriate reserve projections are made, whether from use of inaccurate underlying data, or the use of inappropriate assumptions.** **Total technical provisions for the year ended 31 December 2022 were £367,112 (31 December 2021: £237,256).**	To address this risk, we performed the following procedures: • Assessed and tested the relevant controls over the calculation of the provision, including management's review of any key assumptions used in the calculation and any manual adjustments made by management to the calculation; • Tested the underlying claims paid data used in the provision calculation by agreeing a sample back to the policy administration system and bank statements; • Obtained management's calculation and recalculated it to assess the mathematical accuracy against stated methodology; • Challenged any key assumptions used to understand if these are reasonable given any specific events in the year or emerging trends; • Performed sensitivity analysis around the key assumptions used within the model; • Analysed the run-off of the 31 December 2021 reserve to the actual development in 2022; and • Assessed whether post year end the 31 December 2022 provision is running off as would be expected, comparing to the typical run-off curve observed in previous periods. ***Key observations:*** Based on the procedures performed above, we are satisfied that the valuation of provision for outstanding claims is not materially misstated.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF PAYCARE

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 group and parent company 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.

Opinions on other matters prescribed by the Companies Act 2006

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.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the group and the parent company and their environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

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

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of directors

As explained more fully in the Statement of directors' responsibilities, the directors are responsible for the preparation of the group and parent company 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 group and parent company financial statements, the directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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

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:

- We obtained an understanding of the group and parent company and the sector in which they operate to identify laws and regulations that could reasonably be expected to have a direct effect on the financial statements. We obtained our understanding in this regard through discussions with management, review of board minutes and performing walkthroughs of group and parent company controls.
- We determined the principal laws and regulations relevant to the group and parent company in this regard to be those arising from the Prudential Regulation Authority ("PRA"), the Financial Conduct Authority ("FCA") and the Companies Act 2006.
- We designed our audit procedures to ensure the audit team considered whether there were any indications of non-compliance by the group and parent company with those laws and regulations. These procedures included, but were not limited to:
  - Enquiries of management;
  - Review of minutes and legal and regulatory correspondence; and
  - Reviewing financial statement disclosures for consistency with regulatory requirements.
- We also identified the risks of material misstatement of the financial statements due to fraud. We considered, in addition to the non-rebuttable presumption of a risk of fraud arising from management override of controls, that the short form report valuation carried out for the 2022 year-end as an addendum to the property valuation undertaken during 2021 was conducted consistently with the relevant accounting standards and RICS guidance and regulations.
- As in all of our audits, we addressed the risk of fraud arising from management override of controls by performing audit procedures which included, but were not limited to: the testing of journals; reviewing accounting estimates for evidence of bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

Because of the inherent limitations of an audit, there is a risk that we will not detect all irregularities, including those leading to a material misstatement in the financial statements or non-compliance with regulation. This risk increases the more that compliance with a law or regulation is removed from the events and transactions reflected in the financial statements, as we will be less likely to become aware of instances of non-compliance. The risk is also greater regarding irregularities occurring due to fraud rather than error, as fraud involves intentional concealment, forgery, collusion, omission or misrepresentation.

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

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF PAYCARE

Other matters which we are required to address

We were appointed by the Audit Committee on 5 April 2022 to audit the financial statements for the period ending 31 December 2021 and subsequent financial periods. Our total uninterrupted period of engagement is two years, covering the periods ended 31 December 2021 to 31 December 2022.

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

Our audit opinion is consistent with the additional report to the Audit Committee.

Use of our report

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

M. R. Watson

Martin Watson (Senior Statutory Auditor)
For and on behalf of PKF Littlejohn LLP
Statutory Auditor
30 June 2023

3rd Floor
One Park Row
Leeds LS1 5HN

PAYCARE

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME TECHNICAL ACCOUNT YEAR ENDED 31ST DECEMBER 2022

	Note	2022 £	2021 £
Technical Account – General Business			
Earned premiums			
Gross premiums written	3	6,329,987	6,137,942
Allocated investment gain/(loss) transferred from the non-technical account		(84,113)	121,039
Claims incurred			
Claims paid gross		(4,593,019)	(4,513,994)
Change in the provision for claims		(129,856)	6,341
		1,522,999	1,751,328
Net operating expenses	4	(2,186,368)	(2,051,991)
Balance on technical account for general business		(663,369)	(300,663)

All of the activities of the group derive from continuing operations.

PAYCARE

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME NON-TECHNICAL ACCOUNT
YEAR ENDED 31ST DECEMBER 2022

	Note	2022 £	2021 £
Non-Technical Account			
Balance on technical account for general business		(663,369)	(300,663)
Investment income	8	215,561	185,912
Unrealised gains/(losses) on investments		(470,681)	171,328
Investment expenses and charges		(5,743)	(11,353)
Allocated investment (gain)/loss transferred to the general business technical account		84,113	(121,039)
Other income		17,606	55,314
Other charges	9	(12,871)	(39,525)
Revaluation of investment property		-	52,321
Surplus/(deficit) on ordinary activities before tax		(835,384)	(7,705)
Tax on surplus/(deficit) on ordinary activities	10	33,000	(53,000)
Surplus/(deficit) for the year on Ordinary Activities		(802,384)	(60,705)
Other Comprehensive Income			
Revaluation of land & buildings		-	172,673
Deferred taxation arising from revaluation of land and buildings	10	-	(43,000)
Surplus/(Deficit) for the year transferred to revenue reserve		(802,384)	68,968

All of the activities of the group derive from continuing operations.

PAYCARE

STATEMENTS OF CHANGES IN EQUITY
YEAR ENDED 31ST DECEMBER 2022

Group

	Realised	Unrealised	Total
	£	£	£
Balance at 1st January 2022	6,643,029	173,742	6,816,771
Surplus/(deficit) for the year	(332,083)	(470,301)	(802,384)
Profit on realisation of investment	18,473	(18,473)	-
Deferred tax movement	(33,000)	33,000	-
Balance at 31st December 2022	6,296,419	(282,032)	6,014,387

Company

	Realised	Unrealised	Total
	£	£	£
Balance at 1st January 2022	6,797,938	173,742	6,971,680
Surplus/(deficit) for the year	(290,501)	(470,301)	(760,802)
Profit on realisation if investment	18,473	(18,473)	-
Deferred tax movement	(33,000)	33,000	-
Balance at 31st December 2022	6,492,910	(282,032)	6,210,878

PAYCARE

CONSOLIDATED BALANCE SHEET
AT 31ST DECEMBER 2022

	Note	2022 £	2022 £	2021 £	2021 £
ASSETS					
Investments					
Investments in equity instruments	11		4,420,707		5,391,008
Investment property	11		318,741		318,741
			4,739,448		5,709,749
Debtors					
Debtors arising out of direct insurance operations – policyholders		240,418		227,628	
			240,418		227,628
Other assets					
Tangible fixed assets	12	1,448,389		1,059,851	
Bank and cash		531,814		557,753	
			1,980,203		1,617,604
Prepayments, accrued income and other debtors			116,569		126,874
			7,076,638		7,681,855

PAYCARE

CONSOLIDATED BALANCE SHEET
AT 31ST DECEMBER 2022

	Note	2022 £	£	2021 £	£
LIABILITIES					
Reserves		6,014,387			6,816,771
Technical provisions					
Claims outstanding	17	367,112		237,256	
Provisions for liabilities					
FSCS Levy	13	63,203		61,635	
Deferred taxation	14	56,000		89,000	
Creditors	15	349,594		322,794	
Accruals and deferred income		226,342		154,399	
			1,062,251		865,084
			7,076,638		7,681,855

Approved and authorised for issue by the Board of Directors on 29 June 2023

J L Knight – Chairman

A I Burns – Chief Executive

Company Registration No: 00820791

PAYCARE

COMPANY BALANCE SHEET
AT 31ST DECEMBER 2022

	Note	2022 £	2022 £	2021 £	2021 £
ASSETS					
Investments					
Investments in equity instruments	11		4,420,707		5,391,008
Investment property	11		318,741		318,741
Investment in subsidiary	11		100		100
			4,739,548		5,709,849
Debtors					
Debtors arising out of direct insurance operations – policyholders		240,418		227,628	
			240,418		227,628
Other assets					
Tangible fixed assets	12	1,448,389		1,059,851	
Bank and cash		515,448		528,484	
			1,963,837		1,588,335
Prepayments, accrued income and other debtors			327,347		304,798
			7,271,150		7,830,610

PAYCARE

COMPANY BALANCE SHEET
AT 31ST DECEMBER 2022

	Note	2022 £	2022 £	2021 £	2021 £
LIABILITIES					
Reserves			6,210,878		6,971,680
Technical provisions					
Claims outstanding	17	367,112		237,256	
Provisions for liabilities					
FSCS Levy	13	63,203		61,635	
Deferred taxation	14	56,000		89,000	
Creditors	15	349,594		322,542	
Accruals and deferred income		224,363		148,497	
			1,060,272		858,930
			7,271,150		7,830,610

Approved and authorised for issue by the Board of Directors on 29 June 2023

J L Knight – Chairman

A I Burns – Chief Executive

Company Registration No: 00820791

PAYCARE

CONSOLIDATED CASH FLOW STATEMENT
YEAR ENDED 31ST DECEMBER 2022

	Note	2022 £	2021 £
Net cash inflow/(outflow) from operating activities	21	(79,221)	(64,665)
Taxation			
Taxation paid		(6,515)	(2,630)
Net cash (used in)/generated from operating activities		(85,736)	(67,295)
Cash flow from investing activities			
Purchase of tangible fixed assets		(450,923)	(137,738)
Receipts from the sale of investments		500,000	-
Purchases of investments		-	(700,000)
Net cash (used in)/generated by investing activities		49,077	(837,738)
Net increase/(decrease) in cash at bank and in hand		(36,659)	(905,033)
Cash and cash equivalents at the beginning of the year		546,817	1,451,850
Cash and cash equivalents at the end of the year		510,158	546,817

Cash and cash equivalents consist of:

	2022 £	2021 £
Bank and cash	531,814	557,753
Claims bank account	(21,656)	(10,936)
Cash and cash equivalents	510,158	546,817

1. Accounting Policies

Company information

Paycare is a private company limited by guarantee and is an insurance company domiciled and incorporated in England and Wales. The registered office is Paycare House, George Street, Wolverhampton, WV2 4DX.

(a) Basis of preparation

Except as noted below, the financial statements have been prepared under the historical cost convention as modified by the revaluation of investments and in accordance with FRS102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland ("FRS 102"), FRS103 "Insurance Contracts" ("FRS 103") and the requirements of the Companies Act 2006.

The financial statements are prepared in sterling, which is the functional currency of the group and the company. Monetary amounts in these financial statements are rounded to the nearest £.

The group financial statements consolidate the financial statements of Paycare and all its subsidiary undertakings for the year ended 31 December 2022 using the acquisition method of accounting. The results of the subsidiary undertakings are included from the date of acquisition.

The company has taken advantage of section 408 of the Companies Act 2006 and has not included its own statement of income and retained earnings in these financial statements. The company's result for the year was a £(760,802) deficit (2021 - £131,434 surplus).

In accordance with FRS 103, the company has applied existing accounting policies for insurance contracts.

The business activities, together with the factors likely to affect future development, performance and position are set out in the strategic report. The directors' report also describes financial position, cash flows, objectives, and risk management policies.

(b) Going concern

The directors have reviewed the Group's profit and loss forecasts over a 3 year period from 2023 to 2025, and the Solvency II capital requirements and coverage ratios, including stress testing on the Solvency II coverage tolerance levels. Based on this detailed analysis, which has been approved by the Board, the directors have at the time of approving the financial statements, a reasonable expectation that the company has adequate resources to continue in operational existence for a period of at least 12 months from the date of these accounts. Thus, they continue to adopt the going concern basis of accounting in preparing the financial statements.

1. Accounting Policies (continued)

(c) Insurance classification

The company's contracts are classified at inception, for accounting purposes, as insurance contracts. A contract that is classified as an insurance contract remains an insurance contract until all rights and obligations are extinguished or expire. Insurance contracts are those contracts that transfer significant insurance risk, if and only if, an insured event could cause an insurer to make significant additional benefits in any scenario, excluding scenarios that lack commercial substance. Such contracts may also transfer financial risk.

(d) Premiums

Premiums represent the proportion of premiums received, net of Insurance Premium Tax in the year relating to cover provided for the year.

(e) Claims

Claims payable are recognised in the accounting period in which the insured event occurs. Provision is made for the estimated cost of claims incurred but not paid at the balance sheet date. The provision for outstanding claims represents the estimated cost of claims which have been reported, as well as those which have been incurred but not reported.

(f) Taxation

The company is a mutual insurance company and is therefore not liable to Corporation Tax on dealings with policyholders. The taxation shown in the financial statements represents the liability on rents received, capital gains and investment income.

(g) Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost or valuation, net of depreciation and any provision for impairment. Depreciation has been provided to write off the cost of tangible fixed assets over their expected useful lives on a straight-line basis and, in addition, where there is evidence of impairment, tangible fixed assets will be written down to their recoverable amounts. The following expected useful lives have been used:

Computer Equipment	3-15 years
Furniture & Fittings	4 years
Short Life Assets included in Freehold Property	10 years
Freehold Property	100 years

1. Accounting policies (continued)

(g) Tangible fixed assets and depreciation (continued)

Property whose fair value can be measured reliably are held under the revaluation model and are carried at a revalued amount, being fair value at the date of valuation. The fair value of the land and building is considered to be their market value.

Revaluation gains and losses are recognised in other comprehensive income and accumulated in the other component of equity (Revaluation surplus).

Tangible fixed assets are reviewed for any indication that the asset may be impaired at each balance sheet date. If such indication exists, the recoverable amount of the asset, or the asset's cash generating unit, is estimated, and compared to the carrying amount.

(h) Investment properties

The fair value of investment properties is assessed every financial year with any surplus or deficit being recognised in the statement of comprehensive income – non-technical account and hence transferred to realised reserves. No depreciation is provided on investment properties.

(i) Investment in subsidiary

Interests in subsidiaries are initially measured at cost and subsequently measured at cost less any accumulated impairment losses. The investments are assessed for impairment at each reporting date and any impairment losses or reversals of impairment losses are recognised immediately in comprehensive income . A subsidiary is an entity controlled by the company. Control is the power to govern the financial and operating policies of the entity so as to obtain benefits from its activities.

(j) Leases

Rentals payable under operating leases, including any lease incentives received, are charged to income on a straight-line basis over the term of the relevant lease except where another more systematic basis is more representative of the time pattern in which economic benefits from the lease asset are consumed.

(k) Pension costs

The company operates a defined contribution pension scheme for all employees. The pension cost charge represents contributions payable by the company to the scheme in respect of the year.

1. Accounting policies (continued)

(l) Investments

Listed investments are included in the balance sheet at market value.

Investment income includes dividends, interest, rents and gains and losses on the realisation of investments and is initially dealt with in the non-technical account. Dividends are recorded when received. Interest and rents are accounted for when received.

A transfer of the net investment return, including unrealised gains and losses, is made from the non-technical account to the technical account in order to reflect the return on the assets directly attributable to the insurance business.

Realised gains and losses are calculated as the difference between net sales proceeds and purchase price. If the investment has been held since the previous year end, the realised gain or loss will be calculated as the difference between net sales proceeds and book value. The difference between book value and purchase price is transferred from unrealised reserves to realised reserves.

Unrealised gains are initially taken to the non-technical account.

(m) Other financial assets

The Company has elected to apply the provisions of Section 11 'Basic Financial Instruments' and Section 12 'Other Financial Instruments Issues' of FRS 102 to all of its financial instruments.

Financial assets are recognised in the company's balance sheet when the company becomes party to the contractual provisions of the instrument.

Financial assets are classified into specified categories. The classification depends on the nature and purpose of the financial assets and is determined at the time of recognition.

Basic financial assets, which include trade and other receivables, are initially measured at transaction price including transaction costs and are subsequently carried at amortised cost, 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. Other financial assets classified as fair value through profit or loss are measured at fair value.

1. Accounting policies (continued)

(m) Other financial assets

Debtors and other receivables
Trade debtors and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'debtors' and are measured at amortised cost less any impairment.

Interest is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial. The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating the interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the debt instrument to the net carrying amount on initial recognition.

Cash and cash equivalents
Cash and cash equivalents are basic financial assets and include cash in hand, deposits held at call with banks and bank overdrafts.

Impairment of financial assets
Financial assets, other than those held at fair value through profit and loss, are assessed for indicators of impairment at each reporting end date.

Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows have been affected. The impairment loss is recognised in profit or loss.

De-recognition of financial assets
Financial assets are derecognised only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership to another entity.

1. Accounting policies (continued)

(n) Financial liabilities

Basic financial liabilities are initially measured 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. Other financial liabilities classified as fair value through profit or loss are measured at fair value.

Other financial liabilities
Other financial liabilities are initially measured at fair value, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability to the net carrying amount on initial recognition.

De-recognition of financial liabilities
Financial liabilities are derecognised when, and only when, the company's obligations are discharged, cancelled, or they expire.

(o) Deferred taxation

Deferred tax is recognised in respect of taxation deferred by timing differences between the treatment of certain items for taxation and accounting purposes. The deferred tax balance has not been discounted.

The carrying amount of deferred tax assets is reviewed at each reporting end date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the non-technical account, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax relating to property, plant and equipment is measured using the revaluation model. Deferred tax assets and liabilities are offset when the company has a legally enforceable right to offset current tax assets and liabilities and the deferred tax assets and liabilities relate to taxes levied by the same tax authority.

2. Accounting estimates and judgements

In the application of the accounting policies, the directors are required to make judgements, estimates and assumptions about the carrying amount of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised, if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. The estimates and assumptions which have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities are outlined below.

Key sources of estimation uncertainty in applying the Company's accounting policies

Provisions for claims outstanding

Provision is made for liabilities arising from outstanding claims and settlement expenses incurred at the balance sheet date including an estimate for the cost of claims incurred but not reported at that date. Management estimates the provision based on their judgement and levels of claims in previous years and typically a claim can take up to 13 weeks to be processed. Adjustments to the amounts of claim provisions established in prior years are reflected in the financial statements for the period in which the adjustments are made.

Property valuation

The fair value of £880,000 of Paycare House has been based on valuation carried out on 7th July 2021 undertaken by an independent valuer who holds a recognised and relevant professional qualification and has experience in the location and class of the investment property being valued.

For the 2022 year end, the directors have obtained a short form report valuation as an addendum to the previous valuation, which reports that the market value of the building is unchanged.

Paycare House consists of 4 floors, of which a portion of the First floor and the entire Third floor is occupied by tenants. The remainder of Paycare House is owner-occupied. The fair value of £880,000 is therefore split between Investment Property of £318,741 (Note 11) and Freehold Property excluding accumulated depreciation of £561,259 (Note 12). The split between Investment Property and Freehold Property is calculated based on the square footage occupied by tenants and the square footage occupied by Paycare respectively.

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3. Gross premiums written

	2022	2021
	£	£
Premiums received	7,095,501	6,884,667
Less personal accident insurance premium	(6,000)	(6,000)
Less insurance premium tax	(759,514)	(740,725)
	6,329,987	6,137,942

4. Net operating expenses

	2022	2021
	£	£
Staff costs (Note 6)	1,348,340	1,273,802
Sales and marketing	275,111	251,404
Administration costs	562,917	526,785
	2,186,368	2,051,991

5. Net operating expenses include

	2022	2021
	£	£
Depreciation of owned assets (Note 12)	62,053	(69,486)
Fees payable to the company's auditor for the audit of the company's financial statements	49,150	45,000
Fees payable to the company's auditor for the audit of the subsidiary's financial statements	-	-
Operating lease rentals	-	1,147
Commissions paid	49,838	40,839

6. Staff costs

	2022 £	2021 £
Wages and salaries	1,083,975	1,008,903
Social security costs	129,744	127,923
Pension costs	134,621	136,976
	1,348,340	1,273,802

Average number of persons employed:

	2022 No.	2021 No.
Management and administration	26	27
Sales and marketing	7	7
	33	34
Full-time equivalent	30	30
Non-executive directors	5	5

7. Directors' remuneration

	2022	2021
	£	£
Emoluments including benefits in kind	230,990	213,819
Company contributions to defined contribution pension scheme	27,540	33,613
	258,530	247,432

At 31st December 2022 there are two directors to whom retirement benefits are accruing (2021: two).

Key management personnel is deemed to solely comprise the directors of the Group.

8. Investment income

	2022	2021
	£	£
Income from freehold land and buildings		
Rent received	9,000	20,667
Property management fees	-	(2,100)
Other financial investments		
Dividends received	205,413	164,578
Interest on cash deposits	768	2,767
Gain on the realisation of investments	380	-
	215,561	185,912

PAYCARE

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED 31ST DECEMBER 2022

9. Other charges

	2022	2021
	£	£
Charitable donations	12,871	39,525
	12,871	39,525

10. Tax on surplus/(deficit) on ordinary activities

	2022	2021
	£	£
Corporation tax due at 19% (2021 – 19%)		
UK corporation tax on gains and investment income	-	-
Total current tax		-
Deferred tax		
Deferred tax charge/(credit)	(33,000)	96,000
Tax on surplus/(deficit) on ordinary activities	(33,000)	96,000

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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10. Tax on surplus/(deficit) on ordinary activities (continued)

	2022	2021
	£	£
Factors affecting the tax charge/(credit) for the year		
Surplus/(deficit) on ordinary activities before taxation	(835,384)	(7,705)
Surplus/(deficit) on ordinary activities multiplied by the standard rate of corporation tax in the UK of 19% (2021 – 19%)	(158,723)	(1,464)
Mutual trading profits not tax deductible	98,813	57,745
	(59,910)	56,281
Effects of:		
Dividends received not taxable	(32,840)	(28,771)
Movement in market value of equities	89,429	(32,552)
Revaluation of Investment property	-	(9,941)
Donations not utilised	(72)	3,115
Remeasurement of deferred tax for change in tax rates	(7,920)	7,832
Deferred tax on national chargeable gains	(89,376)	75,320
Movement in deferred tax not recognised	67,689	24,717
Deferred tax (charged)/credited directly to OCI	-	(43,000)
Other comprehensive income		
Origination and reversal of timing differences	-	43,000
Tax charge/(credit) for the year	(33,000)	96,000

11. Investments

Investment property – Group and company

	£
Fair value and net book value	
At 1st January 2022	318,741
Revaluation surplus	-
31st December 2022	318,741

11. Investments (continued)

Investments in equity instruments – Group and company

	Market Value		Cost	
	2022	2021	2022	2021
	£	£	£	£
Equity instruments	4,420,707	5,391,008	4,776,640	5,257,787
	4,420,707	5,391,008	4,776,640	5,257,787

Investment in subsidiary – Company

	2022	2021
	£	£
Cost and net book value	100	100

The company holds a 100% interest in the ordinary share capital of Paycare Wellbeing Ltd, a company incorporated and registered in the United Kingdom. Paycare Wellbeing Ltd's principal activity is the provision of health and wellbeing services and its registered office is the same as Paycare. Paycare Wellbeing Ltd (company number 10604559) is exempt from audit by virtue of a parental guarantee under s479A of the Companies Act 2006.

PAYCARE

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED 31ST DECEMBER 2022

12. Tangible fixed assets – Group and company

	Freehold Property	Furniture & Fittings	Computer Equipment	Total
	£	£	£	£
Cost				
At 1st January 2022	561,259	176,152	1,036,898	1,774,309
Additions		-	450,923	450,923
Disposals	-	(4,967)	(15,310)	(20,277)
At 31st December 2022	561,259	171,185	1,472,511	2,204,955
Depreciation				
At 1st January 2022	3,781	161,147	549,530	714,458
Charge for the year	11,345	6,684	44,024	62,053
Disposals	-	(4,635)	(15,310)	(19,945)
At 31st December 2022	15,126	163,196	578,244	756,566
Net book value				
At 31st December 2022	546,133	7,989	894,267	1,448,389
At 31st December 2021	557,478	15,005	487,368	1,059,851

13. Provisions for liabilities – FSCS Levy – Group and company

	2022	2021
	£	£
At 1st January	61,635	65,087
Profit and loss account charge	1,568	(3,452)
At 31st December	63,203	61,635

The FSCS levy is required by the FCA to cover unforeseen circumstances which would result in a position whereby the company would be unable to make payments to its claimants. The levy is calculated at 1% of turnover and can be requested for up to 1 year after transactions have taken place.

14. Provisions for liabilities – Deferred taxation – Group and company

	2022	2021
	£	£
At 1st January	89,000	(7,000)
Deferred tax charge/(credit)	(33,000)	96,000
At 31st December	56,000	89,000

15. Creditors

Group and company

	2022	2021
	£	£
Claims bank account	21,656	10,936
Corporation tax	(15,777)	(9,262)
Taxation and social security	191,986	186,937
Other creditors	151,729	133,931
	349,594	322,542

All amounts included within creditors fall due for payment within one year.

16. Financial instruments

Financial assets are held at fair value or amortised cost. Fair value is determined using the valuation from the market price on the date of the financial statements. Changes in fair value are recognised through the surplus/deficit on ordinary activities.

FRS 102 Fair value measurement establishes a fair value hierarchy that categorises into three levels the inputs to valuation techniques used to measure fair value . A fair value measurement is categorised in its entirety on the basis of the lowest level input that is significant to the fair value measurement in its entirety.

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 (ie 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

Listed investments totalling £4,420,707 (2021-£5,391,008) are stated at bid market price and all based on level1 inputs.

Group

16.Financial instruments (continued)

	2022	2021
	£	£
Financial assets		
Measured at fair value		
Investments in equity instruments	4,420,707	5,391,008
	4,420,707	5,391,008
Measured at amortised cost		
Debtors arising out of direct insurance operations	240,418	227,628
Prepayments, accrued income and other debtors	116,569	126,874
	356,987	354,502
Measured at cost		
Cash and cash equivalents	531,814	557,753

	2022	2021
	£	£
Financial liabilities		
Measured at cost		
Claims bank account	21,656	10,936
Measured at amortised cost		
Other creditors	151,729	134,183
Taxation and social security	191,986	186,937
	343,715	321,120

All the group's financial liabilities fall due for payment within one year.

Company

16.Financial instruments (continued)

	2022	2021
	£	£
Financial assets		
Measured at fair value		
Investments in equity instruments	4,420,707	5,391,008
	4,420,707	5,391,008
Measured at amortised cost		
Debtors arising out of direct insurance operations	240,418	227,628
Prepayments, accrued income and other debtors	327,347	304,798
	567,765	532,426
Measured at cost		
Cash and cash equivalents	515,448	528,484

Other debtors include amounts due from group undertakings of £212,628 (2021 - £184,251).

	2022	2021
	£	£
Financial liabilities		
Measured at cost		
Claims bank account	21,656	10,936
Measured at amortised cost		
Other creditors	151,729	133,931
Taxation and social security	191,986	186,937
	343,715	320,868

All the company's financial liabilities fall due for payment within one year.

Financial risk management

The principal financial risks arising from the normal activities are credit risk; liquidity risk, and market risk, which is comprised primarily of interest rate risk, equity price risk, currency risk. Below, the Group's exposure to and management of each risk is covered in more detail.

Credit risk

Credit risk refers to the risk that a counter-party will default on its contractual obligations resulting in financial loss to the group. The key areas of exposure to credit risk for the group are in relation to its investment portfolio, reinsurance programme and to a lesser extent amounts due from policyholders and intermediaries. The objective of the group in managing its credit risk is to ensure risk is managed in line with the group's risk appetite. The group has established policies and procedures in order to manage credit risk and methods to measure it. There were no changes in the group's credit risk exposure in the financial year nor to the objectives, policies, and processes for managing credit risk.

Liquidity risk

Liquidity risk is the risk that the group cannot meet its obligations associated with financial liabilities as they fall due. The group has adopted an appropriate liquidity risk management framework for the management of the group's liquidity requirements. The group manages liquidity risk by maintaining banking facilities and investments by continuously monitoring forecast and actual cash flows and matching the maturity profiles of assets and liabilities. The group is exposed to liquidity risk arising from policyholders on its insurance contracts. Liquidity management ensures that the group has sufficient access to funds necessary to cover insurance claims. In practice, most of the group's assets are marketable securities which could be converted into cash when required. There were no changes in the group's liquidity risk exposure in the financial year nor to the objectives, policies, and processes for managing liquidity risk.

In order to fulfil their responsibilities, the directors have implemented an ongoing process for identifying, evaluating and managing the significant risks faced by the group. As part of this process, the audit and risk committee and senior management meet together at least once each year to re-assess the areas of risk that are significant to the achievement of business objectives, as defined by the board in setting strategic direction. The senior management team are responsible for ensuring that the system of internal control manages these areas of risk appropriately and that its effectiveness is adequately monitored and include their findings in regular reports to the directors.

The group holds considerable cash to meet its obligation to pay claims and has significant investments (see Note 11) which could be sold immediately if required.

Market risk:
Market risk is the risk arising from changes in the market values or other features correlated with market values such as interest and inflation rates. It includes the consequences of asset value changes on liability values and asset-liability mismatching.

The company is exposed to market risk (which includes interest rate risk, currency risk and equity price risk) in respect of its financial assets carried at fair value. The company also holds deposits, cash and trade receivables which are exposed to both credit and liquidity risk. The instruments held in Collective Investment funds are valued at £4,421K (2021: £5,391K).

These assets are managed by independent third-party fund managers on a discretionary basis, subject to certain mandated conditions determined by the company. Movements in the regulated markets can drive volatility within the valuation of these assets. The company uses the investment stresses defined under Solvency II to assess the impact on solvency of interest rate risk, equity risk, property risk, currency risk, spread risk, and concentration risk. The combined impact of market risk stresses using the Solvency II stresses is £1,298K (2021: £1,494K) and the Board are of the opinion we hold sufficient capital reserves.

i) Interest rate risk:
Interest rate risk arises from changes in interest rates, which could include impact on customer behaviour as well as the financial impact.

Interest rate risk occurs principally from fixed interest assets, such as government and corporate bonds. The internal sensitivity analysis for interest rate risk utilises the approach of the Solvency II insurance regulatory regime. This applies a prescribed shock to the yield of each bond asset based on the duration of each bond. The increase in the term structure of interest rates would lead to a capital requirement charge of £353K (2021: £203K) and the decrease in the term structure of interest rates would originate a capital requirement credit of £296K (2021: £89K).

ii) Currency risk:
Currency risks is the risk of an adverse variation in return or cost resulting from changes in foreign exchange rates.

Paycare's operations are conducted entirely in the UK. The company's exposure to currency risk is restricted to foreign currency assets that are part of collective investment funds, mainly Euro and US dollars. The foreign currency assets held within the Collective investment funds are valued at £994K (2021: £1,067K).

The impact on the company's assets of a 25% increase or decrease in the value of pound sterling relative to all foreign currencies would result in a loss or gain in the capital resources of £259K (2021: £293K).

iii) Equity price risk:
Equity risk is the risk that the value of investments will change as a result of prescribed equity value fluctuations.

The equity risk capital requirement is calculated using prescribed factors based on the market level at the valuation date and whether the investment is in a major liquid market, which is assumed to have lower volatility, or other markets.

Other tangible assets on the balance sheet are assumed to the Other Assets and included in the calculation of equity risk. The impact on the capital resources of the prescribed movement in asset prices is £610K (2021 – 748K).

Capital Management risk

Paycare is subject to insurance solvency regulations which specify the minimum amount of capital that it must hold in addition to its insurance liabilities. Paycare manages it capital in accordance for Solvency II regulations and its internal capital management policy. Paycare has an internal target capital ratio operating zone of 2.5 to 3.0 times SCR cover.

- 2021 SCR Cover 2.95 (unaudited)
- 2022 SCR Cover 2.49 (unaudited)

Paycare does not have shareholders and therefore its capital originates from retained earnings and company own funds remain a combination of the historical retained earnings. Paycare maintains capital at a level well in excess of these minimum requirements and has complied with all externally regulated capital requirements throughout the year.

17. Technical provisions

		2022	2021
		£	£
Claims outstanding	17		
- Incurred but not reported (IBNR)		144,694	177,844
- Reported		222,418	59,412
Total claims outstanding		367,112	237,256

17a) Claims outstanding

	2022	2021
	£	£
At 1st January	237,256	243,597
Movement in provision	(33,150)	-
Movement in claims reported	163,006	(6,341)
At 31st December	367,112	237,256

17b) Risk arising from insurance contracts

Insurance risk is the likelihood that an insured event will occur, and a claim paid. The risk lies in movements that impact the profit and loss account. Risks relating to catastrophic events, which may cause a short-term increase in claims, are included within this risk.

As a healthcare cash plan within the general insurance sector, Paycare's business and insurance risk are within the UK only and the Board consider the primary risks relating to insurance contracts to be:

- Abnormally high claims rates
- Sudden loss of major customers and policyholders

Risks arising from insurance contracts are also identified separately in detail within our ORSA (Own Risk and Solvency Assessment).

The impact of a catastrophic event has been reviewed by the Board but is not considered material due to our product's terms and conditions regarding hospitalisation and treatments.

Abnormally high claims rates

We have set our risk tolerance level to be a rolling 6-month increase of 10% in claims rates. Premiums and claims levels are monitored monthly and weekly to identify trends.

Product pricing is an important factor and we regularly review and design our products for profitability and viability within the risk tolerance thresholds.

Our business is such that claims are high in volume but low in value and as our contracts are monthly renewable, amendments to pricing and or benefits can quickly be implemented.

Based on the 2022 claims rate, for every percentage point increase in the claims rate, the group's result before tax for 2022 and balance sheet reserves at 31 December 2022 would reduce by £63,300 (2021- £60,971).

Sudden loss of major customers and policyholders
We have set our risk tolerance level to our policyholder numbers being not less than 10% of current levels.

We pride ourselves in our high standard of customer service to minimise the loss of existing policyholders. Leavers are monitored as part of our customer retention processes.

We establish and maintain personal relationships with key decision makers at major customers.

17b) Risk arising from insurance contracts (continued)

Local, regional, and national economic conditions are monitored, and our sales and marketing strategy is adjusted as necessary.

We establish controls over both the size of groups that we currently deal with and those groups that we look to acquire as new business in the future.

Based on policyholder numbers at 31 December 2022 and using the claims rate for 2022 as above, for every percentage point decrease in policyholder numbers the group's result before tax for 2022 and balance sheet reserves at 31 December 2022 would reduce by £18,243 (2021 - £17,654).

18. Operating lease commitments

Lessee
At the reporting date, the group had no outstanding commitments for future minimum lease payments under non-cancellable operating leases.

19. Pension costs

The group operates a defined contribution pension scheme for all employees.

The pension cost charge represents contributions payable for the year by the group to the scheme and amounted to £134,621 (2021 – 136,976). At 31st December 2022, there were £Nil contributions outstanding (2021 - £Nil).

20. Related party transactions

The company has taken advantage of the exemption in FRS 102 not to disclose details of transactions with Paycare Wellbeing Ltd, the company's wholly owned subsidiary.
There were no related party transactions during the year.

21. Reconciliation of consolidated surplus/(deficit) on ordinary activities before tax to net cash inflow from operating activities

	2022	2021
	£	£
Surplus/(deficit) on ordinary activities before tax	(835,384)	(7,705)
Depreciation	62,053	(69,486)
(Profit)/loss on disposal of fixed assets	332	-
Reversal Depreciation(Revaluation Building)	-	135,662
Revaluation Investment Property	-	(52,321)
Realised (gains)/losses on investments	(380)	-
Unrealised (gains)/losses on investments	470,681	(171,328)
Decrease/(increase) in insurance debtors	(12,790)	23,377
Decrease/(increase) in other debtors and prepayments	10,305	(41,004)
Increase/(decrease) in creditors and accruals	257,544	121,592
Increase in FSCS levy	1,568	(3,452)
(Decrease)/increase in provisions for claims	(33,150)	-
Net cash inflow from operating activities	(79,221)	(64,665)