

NATIONAL HOUSE-BUILDING COUNCIL
(A Company limited by guarantee)

ANNUAL REPORT

For the year ended 31 March 2000
Registered No. 320784



National House-Building Council
(a company limited by guarantee)

Annual report
for the year ended 31 March 2000

	Page
Directors	3
Advisers	4
Directors' report	5
Report of the auditors	11
Consolidated profit and loss account, technical account - general business	12
Consolidated profit and loss account, non-technical account	13
Consolidated statement of total recognised gains and losses	13
Consolidated balance sheet	14
Parent company balance sheet	16
Consolidated cash flow statement	18
Notes to the financial statements	19

National House-Building Council
(a company limited by guarantee)

Directors

Sir Michael Pickard FCA

(Chairman of the Council)

C G Toner

(Deputy Chairman)

I Farookhi BA MSc DipLib FRSA

(Chief Executive)

M A W Hall MA

(Deputy Chief Executive)

Sir John Carter MA FIA

F Eaton

P D Holliday OBE

B A P Hunt MA DipArch RIBA FRSA

W I Mitchell DipTP RIBA ARIAS

S W Parker

G C Pye

C W Roberts CB MA

T R Roydon BSc MBA

After the end of the financial year the following changes have taken place

P D Holliday OBE retired on 31 August 2000

G R McCallum BSc FCA was appointed on 1 September 2000

Secretary and registered office

T J C Mawby FCA

Buildmark House

Chiltern Avenue

Amersham

Buckinghamshire

HP6 5AP

National House-Building Council
(a company limited by guarantee)

Advisers

Registered auditors

PricewaterhouseCoopers
Southwark Towers
32 London Bridge Street
London
SE1 9SY

Bankers

HSBC Bank plc
39 Tottenham Court Road
London
W1P 0AR

Actuary

Watson Wyatt Partners
Watson House
London Road
Reigate
Surrey
RH2 9PQ

Investment managers

Invesco Asset Management Limited
11 Devonshire Square
London
EC2M 4YR

Baillie Gifford & Co
1 Rutland Court
Edinburgh
EH3 8EY

National House-Building Council

(a company limited by guarantee)

Directors' report

for the year ended 31 March 2000

The directors present their report and the audited financial statements for the year ended 31 March 2000.

Principal activities

The principal activities of the Company are as follows:-

- (i) determining at what level to set sound standards in house-building based on purchasers' insurance claims, conciliation applications, inspection and other sources;
- (ii) encouraging builders to maintain and improve these standards by independent regulation, encompassing education, training, publicity, and the periodic inspection of every home registered with the Company;
- (iii) provision of insurance protection for purchasers of new homes to indemnify them against the cost of rectifying significant damage caused by construction defects or other defined loss due to builder bankruptcy;
- (iv) research, both technical and economic, which is related to good house-building standards and/or enabling more people to obtain good new homes;
- (v) conciliating, where required, in disputes between home-buyers and builders.

Review of business

Results for the year

The operating result for the year was a surplus before taxation of £7.7 million (1999: £7.5 million). After allowing for taxation there was a surplus of £6.3 million (1999: £5.4 million) which has been added to the Company's reserves. The Company is a non-profit distributing body and therefore no dividend is payable.

Technical provisions before reinsurance recoveries were increased by £13 million (1999: £71 million) and the gross amount available to meet current and predicted future liabilities is now £854 million (1999: £841 million). The provisions take account both of the prevailing low interest rates and of the continuing uncertainty about the future level of claims.

Following two years of exceptional capital gains on fixed interest securities, the financial year ended 31 March 2000 saw a market correction, with fixed interest security values decreasing as yields rose. As a result the Company's financial investments depreciated in value by £9.6 million (1999: appreciated by £36.7 million). The reported investment income for the financial year of £49.7 million was also considerably lower than the previous year (£107.1 million), reflecting a sharp reduction in realised investment gains for the year. Details of investment income and unrealised gains/(losses) on investments are disclosed in notes 5(a) and 5(b) to the financial statements.

National House-Building Council

(a company limited by guarantee)

Review of the year

Approximately £28.0 million (1999: £20.5 million) was paid out in claims to the benefit of new home buyers. The number of new housing starts registered with the Company was 1% lower than last year. The number of certificates issued (broadly equivalent to completions) was 5% higher.

	31 March 1998	31 March 1999	31 March 2000	Change on 1999
Number of registered house-builders	19,330	18,758	18,050	-4%
Number of completed dwellings covered by protection scheme	1,662,000	1,608,000	1,582,000	-2%
Number of dwellings registered in year	170,000	160,000	158,000	-1%
Number of dwellings completed in year	161,000	153,000	160,000	+5%

During the year the Company continued to make considerable progress towards further improving the service it provides to its two major customers – new home buyers and registered house builders. This was recently acknowledged by the Government in its Housing Green Paper ‘Quality and Choice A Decent Home for All’:

“The National House-Building Council has strengthened its independence and improved its new home warranty scheme. The scheme now provides purchasers with better safeguards against the failure of builders in the scheme to comply with Building Regulations, and with the National House-Building Council’s own additional standards.”

A number of major initiatives were introduced during the financial year including:-

- The introduction of important extensions to the 10 year Buildmark Cover, including contaminated land protection and longer cover for multiple glazing.
- Introducing a new mandatory standard on managing land quality.
- Introducing a revised and much improved inspection service.
- Increasing the focus on customer after-sales care and finishing standards.
- Introducing a new Resolution Service.
- Completing a major rewrite of the Buildmark documentation in plain English.
- Making NHBC’s Register of Builders available on our website.
- Providing a single-point help desk number for customers.

Successful implementation of these new initiatives requires well trained staff and NHBC recently achieved Investors in People accreditation.

National House-Building Council

(a company limited by guarantee)

Outlook

Despite continuing concerns expressed by some registered house builders about planning delays, the new homes market remained stable during the year under review. We believe this state of affairs is likely to continue and anticipate that dwelling registrations in the year to March 2001 will remain broadly consistent with the volumes seen over the past two years.

Subsidiary undertakings

NHBC Building Control Services Limited was set up during 1985/86 as a result of the approval granted under the Building Act 1984, to inspect private dwellings for building regulation purposes in England and Wales. The Company made a pre-tax profit of £374,000 (1999: £267,000).

PRC Homes Limited was set up during 1985/86 to approve repair systems for prefabricated reinforced concrete dwellings which fall within the scope of the Housing Defects legislation. The Company did not enter into any financial transactions during the year.

NHBC Pension Trustee Limited was incorporated on 10 July 1991 to act as the corporate trustee of the NHBC Pension Scheme. The Company did not enter into any financial transactions during the year.

NHBC Services Limited was set up during 1995/96 to provide a range of industry related services. These services centre around the provision of health and safety consultancy, training services and the provision of home energy ratings. The company made a pre-tax loss of £280,000 (1999: £416,000). A substantially reduced loss is planned for the financial year ending 31 March 2001.

National House-Building Council

(a company limited by guarantee)

Employees

Continuing to implement an improved service to new home buyers and registered builders has again imposed heavy demands on our staff. As before, the response has been excellent, with staff continuing to deliver in all areas of the business and, at the same time, managing the changes, new systems and ways of working. The Board is again extremely grateful for the efforts and achievements of all staff throughout the year.

The on-going participation of the independent Staff Association, which represents and negotiates on behalf of its members, remains a valued aspect of good staff relations. Almost two-thirds of NHBC employees are members of the Staff Association.

The average number of employees during the year (excluding non-executive directors) was 840 (1999: 795) full time equivalents. At the end of the year staff numbers had risen to 863 (1999: 816). This increase in manpower reflects continued growth of NHBC Services Limited and increases in inspection and technical staff to improve the quality of service to registered house builders. Year end staff numbers were made up of 622 (1999: 586) males and 241 (1999: 230) females.

During the year, the Company achieved 'Investors in People' accreditation, reinforcing its commitment to the development and training of its staff.

The employment policies of the Company provide for equality of treatment for all staff in terms of progression, training and development. Applications for employment are given unbiased consideration and are welcomed from all sectors of the community, including disabled persons. The policies are supported by monitoring and are founded on fair practices which seek to ensure that all employment decisions are based on aptitude and ability.

National House-Building Council
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Millennium Risks

The Company completed its programme of amendments to its mainframe computer software systems and testing of these systems continued right up to the eve of the millennium. A comprehensive programme of updating and testing PC's and other computer hardware to ensure millennium compliance was completed on target.

The total cost of achieving Year 2000 compliance can only broadly be measured as compliance is often achieved as a by-product of other improvement projects. It is estimated however that the total cost to the Company did not exceed £1.5 million.

No disruption to the Company's operations arose from Year 2000 issues.

Directors

The directors of the Company during the year and as at 31 March 2000 are listed on page 3 of the Annual Report.

The Company maintains liability insurance cover on behalf of directors and named officers of the Company and its subsidiary undertakings.

Charitable donations

The donations made by the Company during the year for charitable purposes were £11,695 (1999: £15,043).

National House-Building Council
(a company limited by guarantee)

Directors' responsibilities

The directors are required by UK company law to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Company and the Group as at the end of the financial year and of the surplus or deficit of the Group for that period.

The directors confirm that suitable accounting policies have been used and applied consistently and that reasonable and prudent judgements and estimates have been made in the preparation of the financial statements for the year ended 31 March 2000. The directors also confirm that applicable accounting standards have been followed and that the financial statements have been prepared on the going concern basis.

The directors are responsible for keeping proper accounting records, and for taking reasonable steps to safeguard the assets of the Group and prevent and detect fraud and other irregularities.

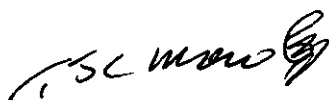
Corporate governance

The directors have considered the recommendations of the Combined Code on Corporate Governance and have implemented them where they are appropriate in the context of the Company and its Board and Committee structure. The Company is committed to an ongoing process of benchmarking its Corporate Governance practices against similar organisations.

Auditors

A resolution to reappoint the auditors, PricewaterhouseCoopers, will be proposed at the Annual General Meeting.

By order of the Board



T J C Mawby
Company Secretary
7 September 2000

National House-Building Council
(a company limited by guarantee)

**Report of the auditors to the members of the
National House-Building Council**

We have audited the financial statements on pages 12 to 34.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report. As described on page 10, this includes responsibility for preparing the financial statements, in accordance with applicable United Kingdom accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the United Kingdom Companies Act. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

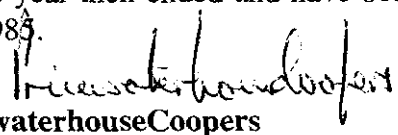
Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the affairs of the Company and the Group at 31 March 2000 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.


PricewaterhouseCoopers

Chartered Accountants and Registered Auditors

London 7 September 2000

National House-Building Council

(a company limited by guarantee)

Consolidated profit and loss account technical account - general business for the year ended 31 March 2000

	Notes	2000 £'000	1999 £'000
Earned premiums, net of reinsurance			
Gross premiums written		25,857	23,946
Outward reinsurance premiums		<u>(1,772)</u>	<u>(1,219)</u>
Net premiums written		24,085	22,727
Change in the gross provision for unearned premiums		(7,618)	(7,342)
Change in the provision for unearned premiums, reinsurers' share		<u>(1,445)</u>	<u>(1,804)</u>
Change in the net provision for unearned premiums		(9,063)	(9,146)
Earned premiums, net of reinsurance		15,022	13,581
Allocated investment return transferred from the non-technical account		38,283	82,888
Claims incurred, net of reinsurance			
Claims paid			
Gross amount		(31,554)	(25,134)
Reinsurers' share		<u>1,361</u>	<u>230</u>
Net claims paid		(30,193)	(24,904)
Change in the provision for claims			
Gross amount		(11,594)	(9,229)
Reinsurers' share		<u>(1,521)</u>	<u>838</u>
Change in the net provision for claims		(13,115)	(8,391)
Claims incurred, net of reinsurance		(43,308)	(33,295)
Changes in other technical provisions, net of reinsurance, not shown under other headings		1,683	(54,198)
Net operating expenses	4	<u>(743)</u>	<u>(624)</u>
Balance on the technical account for general business		10,937	8,352

National House-Building Council
(a company limited by guarantee)

**Consolidated profit and loss account non-technical account
for the year ended 31 March 2000**

	Notes	2000 £'000	1999 £'000
Balance on the general business technical account		10,937	8,352
Investment income	5(a)	49,748	107,065
Investment expenses and charges	6	(332)	(323)
Unrealised loss on investments	5(b)	(11,000)	(23,673)
Allocated investment return transferred to the general business technical account		(38,283)	(82,888)
Other income		36,386	34,734
Other charges		<u>(39,755)</u>	<u>(35,775)</u>
Surplus on ordinary activities before tax	9	7,701	7,492
Tax on surplus on ordinary activities	10	<u>(1,360)</u>	<u>(2,078)</u>
Retained surplus for the financial year	16	<u>6,341</u>	<u>5,414</u>

Consolidated statement of total recognised gains and losses

	Notes	2000 £'000	1999 £'000
Surplus for the financial year	16	6,341	5,414
Unrealised surplus on revaluation of properties	16	<u>199</u>	<u>1,643</u>
Total recognised gains relating to the year		<u>6,540</u>	<u>7,057</u>

National House-Building Council
(a company limited by guarantee)

**Consolidated balance sheet
at 31 March 2000**


	Notes	2000 £'000	1999 £'000
Assets			
Investments			
Land and buildings	12(a)	12,322	11,899
Other financial investments	12(b)	<u>827,018</u>	<u>801,380</u>
		<u>839,340</u>	<u>813,279</u>
Reinsurers' share of technical provisions			
Provision for unearned premiums		21,555	23,000
Claims outstanding		167	1,688
Other technical provisions	19	<u>55,646</u>	<u>60,119</u>
		<u>77,368</u>	<u>84,807</u>
Debtors			
Debtors arising out of direct insurance operations	14	1,107	1,795
Other debtors	14	<u>9,509</u>	<u>10,233</u>
		<u>10,616</u>	<u>12,028</u>
Other assets			
Tangible assets	15	6,949	6,509
Cash at bank and in hand		<u>490</u>	<u>549</u>
		<u>7,439</u>	<u>7,058</u>
Prepayments and accrued income			
Accrued interest and rent		15,822	13,148
Deferred acquisition costs		3,750	3,650
Other prepayments and accrued income		<u>823</u>	<u>798</u>
		<u>20,395</u>	<u>17,596</u>
Total assets		<u>955,158</u>	<u>934,768</u>

National House-Building Council
(a company limited by guarantee)


**Consolidated balance sheet
at 31 March 2000 (continued)**

	Notes	2000 £'000	1999 £'000
Liabilities			
Reserves			
Revaluation reserve	16	2,321	2,122
Accumulated surpluses	16	<u>65,305</u>	<u>58,964</u>
Accumulated reserves	17	<u>67,626</u>	<u>61,086</u>
Technical provisions			
Provision for unearned premiums		287,578	279,960
Claims outstanding		55,198	43,604
Other technical provisions	19	<u>511,229</u>	<u>517,385</u>
		<u>854,005</u>	<u>840,949</u>
Provisions for other risks and charges			
Deferred tax	20	<u>4,400</u>	<u>4,531</u>
Creditors			
Creditors arising out of direct insurance operations	21	4,155	3,797
Other creditors including taxation and social security	22	<u>17,299</u>	<u>16,492</u>
		<u>21,454</u>	<u>20,289</u>
Accruals and deferred income		<u>7,673</u>	<u>7,913</u>
Total liabilities		<u>955,158</u>	<u>934,768</u>

The financial statements on pages 12 to 34 were approved by the Board of Directors on 7 September 2000 and were signed on its behalf by:-


Sir Michael Pickard
(Chairman of the Council)


I Farookhi
(Chief Executive)


T R Roydon
(Chairman of the Finance
and Audit Committee)

National House-Building Council
(a company limited by guarantee)

**Parent company balance sheet
at 31 March 2000**

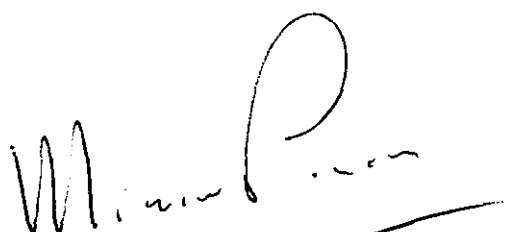
	Notes	2000 £'000	1999 £'000
Assets			
Investments			
Land and buildings	12(a)	12,322	11,899
Investments in group undertakings and participating interests	13	1,953	1,888
Other financial investments	12(b)	<u>827,018</u>	<u>801,380</u>
		<u>841,293</u>	<u>815,167</u>
Reinsurers' share of technical provisions			
Provision for unearned premiums		21,555	23,000
Claims outstanding		167	1,688
Other technical provisions	19	<u>55,646</u>	<u>60,119</u>
		<u>77,368</u>	<u>84,807</u>
Debtors			
Debtors arising out of direct insurance operations	14	1,107	1,795
Other debtors	14	<u>10,359</u>	<u>11,026</u>
		<u>11,466</u>	<u>12,821</u>
Other assets			
Tangible assets	15	6,949	6,509
Cash at bank and in hand		<u>491</u>	<u>492</u>
		<u>7,440</u>	<u>7,001</u>
Prepayments and accrued income			
Accrued interest and rent		15,822	13,148
Deferred acquisition costs		3,750	3,650
Other prepayments and accrued income		<u>823</u>	<u>798</u>
		<u>20,395</u>	<u>17,596</u>
Total assets		<u>957,962</u>	<u>937,392</u>

National House-Building Council
(a company limited by guarantee)


Parent company balance sheet
at 31 March 2000 (continued)

	Notes	2000 £'000	1999 £'000
Liabilities			
Reserves			
Revaluation reserve	16	4,274	4,010
Accumulated surpluses	16	<u>63,352</u>	<u>57,076</u>
Accumulated reserves	17	<u>67,626</u>	<u>61,086</u>
Technical provisions			
Provision for unearned premiums		287,578	279,960
Claims outstanding		55,198	43,604
Other technical provisions	19	<u>511,229</u>	<u>517,385</u>
		<u>854,005</u>	<u>840,949</u>
Provisions for other risks and charges			
Deferred Tax	20	<u>4,400</u>	<u>4,531</u>
Creditors			
Creditors arising out of direct insurance operations	21	4,155	3,797
Other creditors including taxation and social security	22	<u>20,135</u>	<u>19,174</u>
		<u>24,290</u>	<u>22,971</u>
Accruals and deferred income		<u>7,641</u>	<u>7,855</u>
Total liabilities		<u>957,962</u>	<u>937,392</u>

The financial statements on pages 12 to 34 were approved by the Board of Directors on 7 September 2000 and were signed on its behalf by:-


Sir Michael Pickard
(Chairman of the Council)


I Farookhi
(Chief Executive)


T R Roydon
(Chairman of the Finance
and Audit Committee)

National House-Building Council
(a company limited by guarantee)

**Consolidated cash flow statement
for the year ended 31 March 2000**

	Notes	2000 £'000	1999 £'000
Consolidated cash flow statement			
Operating activities			
Net cash inflow from operating activities	23	36,368	37,719
Taxation			
Corporation tax paid		-	(25)
Tax refunds received		<u>2,333</u>	<u>4,125</u>
Net cash inflow from taxation		2,333	4,100
Capital expenditure			
Purchase of tangible fixed assets		(5,140)	(4,386)
Sale of tangible fixed assets		<u>1,847</u>	<u>1,663</u>
Net cash outflow from capital expenditure		<u>(3,293)</u>	<u>(2,723)</u>
Increase in cash in the period	25	<u>35,408</u>	<u>39,096</u>
Cash flows were invested as follows:			
Net portfolio investment			
Purchase of ordinary shares		45,464	6,551
Sale of ordinary shares		<u>(7,371)</u>	<u>(10,749)</u>
		38,093	(4,198)
Purchase of fixed income securities		705,368	720,600
Sale of fixed income securities		<u>(548,207)</u>	<u>(855,379)</u>
		157,161	(134,779)
Purchase of land and buildings		478	47
Sale of land and buildings		<u>-</u>	<u>-</u>
		<u>478</u>	<u>47</u>
Net cash (inflow)/outflow on portfolio investments		195,732	(138,930)
(Decrease)/increase in cash holdings	24	<u>(160,324)</u>	<u>178,026</u>
Net investment of cash flows	25	<u>35,408</u>	<u>39,096</u>

National House-Building Council

(a company limited by guarantee)

Notes to the financial statements for the year ended 31 March 2000

1 Accounting policies

The consolidated financial statements have been prepared in accordance with applicable Accounting Standards in the United Kingdom and with the Statement of Recognised Practice issued by the Association of British Insurers, except that revaluation adjustments of predominantly owner occupied properties are not included as part of the investment return. Compliance with SSAP 19 "Accounting for investment properties" requires departure from the requirements of the Companies Act 1985 relating to depreciation and an explanation of the departure is given in the note relating to investments below. In all other respects the consolidated financial statements have been prepared in accordance with Section 255A of, and the special provisions relating to insurance companies of Schedule 9A to, the Companies Act 1985. The balance sheet of the Company has been prepared in accordance with Section 255 of, and the special provisions of Schedule 9A to, the Companies Act 1985.

A summary of the more important accounting policies, which have been applied consistently except where otherwise stated, is set out below.

Basis of accounting

The financial statements are prepared in accordance with the historical cost convention modified by the revaluation of certain assets as required by the Regulations.

Insurance technical result

The technical result is determined on an annual basis whereby the incurred cost of claims, commission and related expenses are charged against the earned proportion of premiums, in both cases net of reinsurance, as follows:

- (i) Premiums written relate to business incepted during the year, together with any difference between booked premiums for prior years and those previously accrued. Premiums written are shown net of those premium refunds to registered builders which were approved in respect of the financial year.
- (ii) Unearned premiums represent the proportion of premiums written in the year and in previous years that relate to unexpired terms of policies in force at the balance sheet date. Premiums are earned over the period of the policy commensurate with the incidence of claims based on past experience.
- (iii) Acquisition costs, which represent the direct and indirect costs incurred in the conclusion of insurance contracts, are deferred and amortised over the period in which the related premiums are earned.
- (iv) Claims incurred net of reinsurance comprise claims and related expenses paid in the year and changes in provisions for outstanding claims, including provisions for claims incurred but not reported and related expenses, together with any other adjustments to claims from previous years. Where applicable, deductions are made for salvage, reinsurance and other recoveries.

National House-Building Council

(a company limited by guarantee)

- (v) Provision for unexpired risks is made where the expected claims, related expenses and deferred acquisition costs are expected to exceed unearned premiums, after taking account of future investment income.

The Board believes that the technical provisions are fairly stated; however the provisions involve actuarial and statistical projections of the amounts which the Board expects that ultimate settlement will cost, based on the current facts and circumstances and subjective factors such as the future rate of inflation, the impact of competition and other possible future changes in liability. These projections inevitably contain inherent uncertainties because significant periods of time may elapse between the commencement of a policy, the manifestation of an event giving rise to a claim, the notification of a claim to the Company and the Company's final settlement of the claim. Subsequent information and events may show that the ultimate liability and related reinsurance recoverable is either less or greater than the amounts provided. The methods used in the calculation of the Company's overall technical insurance provisions have been reviewed by Watson Wyatt Partners, independent actuaries, and found to be appropriate.

Tangible assets

The cost of tangible assets is their purchase cost, together with any incidental costs of acquisition. Depreciation is calculated so as to write off the cost of tangible assets, less their estimated residual values, on a straight line basis over the expected useful economic lives of the assets concerned. The expected useful economic lives used for this purpose are:

Motor vehicles	4 Years
Fixtures and fittings	5 Years
Computer equipment	3 Years

Deferred taxation

Provision is made for deferred taxation, using the liability method, on all material timing differences to the extent that it is probable that a liability or asset will crystallise within the foreseeable future. Provision is made at the rate which is expected to be applied when the liability or asset is expected to crystallise.

Investments

Land and buildings, other than those predominantly occupied by the Company for its own purposes, are treated as investment properties and valued at open market valuation. Full valuations are made by external professionally qualified valuers every three years. In the intervening years these valuations are updated by directors with the assistance of independent professional advice as required. Land and buildings predominantly occupied by the Company for its own purposes are similarly revalued and any increases or decreases in values are transferred to the revaluation reserve. They are then depreciated over 50 years or the remaining term of the lease if shorter.

National House-Building Council

(a company limited by guarantee)

In accordance with SSAP 19 no depreciation or amortisation is provided in respect of freehold investment properties. The requirement of the Companies Act 1985 is to depreciate all properties. This requirement conflicts with the generally accepted accounting principle set out in SSAP 19. The directors consider that, as these properties are held for investment, to depreciate them would not give a true and fair view, and that it is necessary to adopt SSAP 19 in order to give a true and fair view. If this departure from the Act had not been made the profit for the financial year would have been reduced by depreciation on the investment properties of £58,000 (1999: £58,000).

Investments in group undertakings are valued in the Company's accounts by reference to the net assets of those undertakings, with the aggregate surplus or deficit on revaluation taken to the revaluation reserve.

Other financial investments are stated at market value excluding any accrued interest, with any realised or unrealised appreciation or diminution in value during the year being accounted for separately in the non-technical account.

Investment income

Income from investments is included, together with the related income tax credit, in the non-technical account on an accruals basis. Account is taken of dividend income at the "ex-dividend" date of the related investment. Realised investment gains and losses are taken through the profit and loss account in the period in which the transaction occurs. They represent the difference between the sales proceeds and purchase price (in both cases excluding accrued interest).

Transfer of investment return

A transfer of investment return, net of expenses and charges, is made from the non-technical account to the general business technical account to reflect the return made on those assets directly attributable to the insurance business.

Other income

Other income represents sales of goods and services relating to risk management and the efficient construction of good quality housing. Income is recognised on an accruals basis and stated excluding Value Added Tax.

Pension costs

The Group operates a defined benefit pension scheme which is opted out of the state scheme. The funds are valued every three years by a professionally qualified independent actuary, the rates of contribution payable being determined by the actuary. In the intervening years the actuary reviews the continuing appropriateness of the rates. Pension costs are accounted for on the basis of charging the expected cost of providing pensions over the period during which the company benefits from the employees' services. The effects of variations from regular cost are spread over the expected average remaining service lives of members of the scheme.

National House-Building Council
(a company limited by guarantee)

2 Segmental information

Group activities consist of two main segments within the United Kingdom, being direct underwriting activities and other activities relating to risk management and the efficient construction of good quality housing. The direct underwriting operations of the Group consist primarily of one class of business, being pecuniary loss insurance.

	Turnover		Surplus/(deficit) before tax		Net assets	
	2000 £'000	1999 £'000	2000 £'000	1999 £'000	2000 £'000	1999 £'000
Direct underwriting activities	25,857	23,946	10,937	8,352	32,837	29,599
Other activities	<u>36,386</u>	<u>34,734</u>	<u>(3,236)</u>	<u>(860)</u>	<u>34,789</u>	<u>31,487</u>
Total	<u>62,243</u>	<u>58,680</u>	<u>7,701</u>	<u>7,492</u>	<u>67,626</u>	<u>61,086</u>

3 Movements in prior year's claims provisions

	2000 £'000	1999 £'000
Net loss provision brought forward as at 1 April	41,916	33,525
Net payments during the year in respect of these provisions	(24,501)	(19,703)
Net loss provision carried forward in respect of claims provided at 1 April	<u>(16,762)</u>	<u>(13,899)</u>
Over/(under) provision of prior year's provision	<u>653</u>	<u>(77)</u>

4 Net operating expenses

	2000 £'000	1999 £'000
Acquisition costs	556	547
Increase in deferred acquisition costs	(100)	(150)
Administrative expenses	<u>287</u>	<u>227</u>
Net operating expenses	<u>743</u>	<u>624</u>

No commission was incurred during the year in respect of direct insurance (1999: £Nil).

National House-Building Council
(a company limited by guarantee)

5(a) Investment income

	2000 £'000	1999 £'000
Income from investments other than participating interests		
Income from land and buildings	247	282
Income from listed investments	40,034	36,755
Income from other investments and deposits	<u>8,089</u>	<u>9,675</u>
	48,370	46,712
Net gains on realisation of listed investments	<u>1,378</u>	<u>60,353</u>
	<u>49,748</u>	<u>107,065</u>

5(b) Unrealised gains/(losses) on investments

Overall the Company's financial investments depreciated in value by £9.6 million (1999: appreciated by £36.7 million). After realising £1.4 million (1999: £60.4 million) of gains, the portfolio's unrealised gains at the year end decreased by £11.0 million (1999: decreased by £23.7 million).

	2000 £'000	£'000	1999 £'000	£'000
Unrealised gains brought forward at 1 April 1999		46,867		70,540
Net realised gains during the year	(1,378)		(60,353)	
Decrease/(increase) in the value of investments held during the year	<u>(9,622)</u>		<u>36,680</u>	
Decrease in unrealised gains		<u>(11,000)</u>		<u>(23,673)</u>
Unrealised gains carried forward at 31 March 2000		<u>35,867</u>		<u>46,867</u>

6 Investment expenses and charges

	2000 £'000	1999 £'000
Investment management expenses	<u>(332)</u>	<u>(323)</u>

National House-Building Council

(a company limited by guarantee)

7 Employee information

The average number of persons (including executive directors) employed by the Company during the year was:

By activity:

	2000 Number	1999 Number
Direct underwriting business	136	130
Other direct activities	520	483
Administration	<u>184</u>	<u>182</u>
	<u>840</u>	<u>795</u>

Staff costs for the above persons were:

	2000 £'000	1999 £'000
Wages and salaries	21,389	19,250
Social security costs	2,010	1,692
Pension costs	<u>2,783</u>	<u>1,980</u>
	<u>26,182</u>	<u>22,922</u>

8 Directors' emoluments

	2000 £'000	1999 £'000
Aggregate emoluments	429	334
Sums paid to third parties for directors' services	<u>-</u>	<u>4</u>
	<u>429</u>	<u>338</u>

During the year retirement benefits accrued to 1 director (1999: 1 director) under a defined benefit scheme and 1 director (1999: 1 director) under a money purchase scheme.

The following amounts were paid to the highest paid director:-

	2000 £'000	1999 £'000
Aggregate emoluments	148	126
Pension contributions	<u>21</u>	<u>21</u>

The Company does not have a share option or long-term incentive scheme.

National House-Building Council

(a company limited by guarantee)

8 Directors' emoluments (Continued)

Individual directors' emoluments for the year were as follows:

	Notes	Fees	Benefits	Bonus	Total emoluments	Total emoluments
		2000 £	2000 £	2000 £	2000 £	1999 £
<u>Non-Executive Chairman</u>						
Sir M Pickard	1	48,659	-	-	48,659	27,913
Sir N Fowler	2	-	-	-	-	13,526
<u>Executive Directors</u>						
I Farookhi		107,327	8,345	32,200	147,872	125,796
M A W Hall		96,382	306	-	96,688	82,568
<u>Non-Executive Directors</u>						
Sir J Carter	3	12,000	-	-	12,000	3,000
F Eaton	4	-	-	-	-	-
P D Holliday		16,000	-	-	16,000	12,000
B A P Hunt		16,000	-	-	16,000	8,322
W I Mitchell	5	16,000	-	-	16,000	10,500
D A Moody	6	-	-	-	-	1,462
S W Parker		16,000	-	-	16,000	12,000
G C Pye	7	12,000	-	-	12,000	7,011
C W Roberts	8	16,000	-	-	16,000	11,277
T R Roydon		16,000	-	-	16,000	11,494
C G Toner	9	15,293	-	-	15,293	8,000
K E Way	10	-	-	-	-	2,667
		387,661	8,651	32,200	428,512	337,536

No retirement benefits accrued to any non-executive directors during this year (1999: nil).

Notes:

- 1 Sir M Pickard was appointed 1 September 1998.
- 2 Sir N Fowler retired 8 June 1998
- 3 Sir J Carter was appointed 1 January 1999
- 4 F Eaton waived his entitlement to receive fees for both years
- 5 W I Mitchell was appointed 15 May 1998
- 6 D A Moody retired 16 May 1998
- 7 G C Pye was appointed 16 May 1998
- 8 C W Roberts was appointed 23 April 1998
- 9 C G Toner was appointed as Deputy Chairman on 7 June 1999
- 10 K E Way retired 31 July 1998

National House-Building Council

(a company limited by guarantee)

9 Surplus on ordinary activities before tax

	2000 £'000	1999 £'000
Surplus on ordinary activities before tax is stated after:		
Depreciation charge for year:		
Other land and buildings	254	201
Tangible owned fixed assets	2,598	2,360
Auditors' remuneration for:		
Audit	93	110
Other services	67	108

10 Tax on surplus on ordinary activities and on recognised gains and losses

	2000 £'000	1999 £'000
Tax on surplus on ordinary activities:		
UK Corporation tax		
Current at 30% (1999 31%)	2,165	3,841
Deferred at 30% (1999 30%)	(131)	(1,785)
Tax on franked investment income	-	107
Over provision in respect of prior years		
Current	(674)	(85)
Deferred	-	-
	<hr/>	<hr/>
Tax charge for the year	1,360	2,078

11 Parent company

The retained profit dealt with in the profit and loss account of the Company for the year ended 31 March 2000 is £6,276,000 (1999: £5,517,000). As permitted by section 230 of the Companies Act 1985 the profit and loss account of the Company has not been included in these accounts.

National House-Building Council
(a company limited by guarantee)

12(a) Investments: land and buildings

	Investment properties £'000	Other land & buildings £'000
Cost or valuation		
At 1 April 1999	2,900	9,070
Additions	-	478
Surplus on revaluation	-	124
Disposals	-	-
At 31 March 2000	2,900	9,672
Depreciation		
At 1 April 1999	-	71
Charge for the year	-	254
Revaluations	-	(75)
Eliminated in respect of disposals	-	-
At 31 March 2000	-	250
Net book value at 31 March 2000	2,900	9,422
Net book value at 31 March 1999	2,900	8,999

All "other land and buildings" included above are predominantly occupied by the Company for its own activities.

Investment properties and other land and buildings at net book value comprise:

	Investment properties		Other land and buildings	
	2000 £'000	1999 £'000	2000 £'000	1999 £'000
Freeholds	2,900	2,900	9,144	8,714
Long Leaseholds	-	-	278	285
	2,900	2,900	9,422	8,999

All land and buildings are regularly revalued in accordance with the Company's stated investments accounting policy (as set out on pages 20 and 21). If investment properties and other land and buildings had not been revalued in this manner they would have been included at the following amounts:

	Investment properties		Other land and buildings	
	2000 £'000	1999 £'000	2000 £'000	1999 £'000
Cost	3,193	3,193	8,881	8,403
Aggregate depreciation based on cost	-	-	(1,921)	(1,732)
Net book value based on cost	3,193	3,193	6,960	6,671

National House-Building Council

(a company limited by guarantee)

12(b) Investments: other financial investments

	2000		1999	
	Market Value £'000	Cost £'000	Market Value £'000	Cost £'000
Shares and other variable yield securities and units in unit trusts	55,861	48,896	14,247	9,532
Debt securities and other fixed interest securities	692,994	664,092	548,976	506,824
Deposits with credit institutions	<u>78,163</u>	<u>78,163</u>	<u>238,157</u>	<u>238,157</u>
	<u>827,018</u>	<u>791,151</u>	<u>801,380</u>	<u>754,513</u>

All shares and debt securities held are listed on a recognised investment exchange.

13 Investment in group undertakings and participating interests

In the parent company balance sheet, investments in group undertakings and participating interests are valued at net asset value in accordance with the Company's accounting policies. The resulting gain over book value of £1,953,000 (1999: £1,888,000) has been credited to the Company's revaluation reserve.

The Company's subsidiary undertakings were wholly owned and registered in England and Wales. At 31 March 1999 they were as follows:-

NHBC Building Control Services Limited - Issued and fully paid 100 £1 Ordinary shares. Inspects private dwellings for building regulation purposes in England and Wales.

PRC Homes Limited - Issued and fully paid 100 £1 ordinary shares. Approves repair systems for prefabricated reinforced concrete dwellings which fall within the scope of the Housing Defects legislation.

NHBC Pension Trustee Limited - Issued and fully paid 100 £1 ordinary shares. Arranges the provision of pensions to NHBC's present and past employees.

NHBC Services Limited - Issued and fully paid 100 £1 ordinary shares. Provides sundry house-building related services.

National House-Building Council
(a company limited by guarantee)

14 Debtors

Debtors arising out of direct insurance operations

	2000 £'000	1999 £'000
Due from reinsurers	262	1,229
Other debtors	<u>845</u>	<u>566</u>
	<u>1,107</u>	<u>1,795</u>

Other debtors

	Group		Council	
	2000 £'000	1999 £'000	2000 £'000	1999 £'000
Amounts owed by subsidiary undertakings	-	-	1,357	1,282
Other debtors	<u>9,509</u>	<u>10,233</u>	<u>9,002</u>	<u>9,744</u>
	<u>9,509</u>	<u>10,233</u>	<u>10,359</u>	<u>11,026</u>

Included in the other debtors figure above for both Group and Council are £2,349,000 (1999: £2,341,000) representing the cost of properties which have either been purchased from policyholders or purchased to provide alternative accommodation for policyholders.

15 Tangible assets

	Motor vehicles £'000	Computer equipment £'000	Fixtures and fittings £'000	Total £'000
Cost				
At 1 April 1999	5,587	3,866	1,633	11,086
Additions	3,906	947	287	5,140
Disposals	<u>(3,244)</u>	<u>(1,438)</u>	<u>-</u>	<u>(4,682)</u>
At 31 March 2000	<u>6,249</u>	<u>3,375</u>	<u>1,920</u>	<u>11,544</u>
Depreciation				
At 1 April 1999	1,110	2,808	659	4,577
Charge for the year	1,376	909	313	2,598
Disposals	<u>(1,144)</u>	<u>(1,436)</u>	<u>-</u>	<u>(2,580)</u>
At 31 March 2000	<u>1,342</u>	<u>2,281</u>	<u>972</u>	<u>4,595</u>
Net book value at 31 March 2000	<u>4,907</u>	<u>1,094</u>	<u>948</u>	<u>6,949</u>
Net book value at 31 March 1999	<u>4,477</u>	<u>1,058</u>	<u>974</u>	<u>6,509</u>

National House-Building Council
(a company limited by guarantee)

16 Reserves

	Group		Council	
	Accumulated surpluses £'000	Revaluation reserve £'000	Accumulated surpluses £'000	Revaluation reserve £'000
At 1 April 1999	58,964	2,122	57,076	4,010
Retained surplus for the year	6,341	-	6,276	-
Revaluation surplus on investment properties and land and buildings	-	199	-	199
Revaluation surplus, net of tax on group undertakings and participating interests	-	-	-	65
	<u>65,305</u>	<u>2,321</u>	<u>63,352</u>	<u>4,274</u>
At 31 March 2000				

17 Reconciliation of movements in accumulated reserves

	Group		Council	
	2000 £'000	1999 £'000	2000 £'000	1999 £'000
Surplus for the financial year	6,341	5,414	6,276	5,517
Other recognised gains and losses relating to the year (net)	<u>199</u>	<u>1,643</u>	<u>264</u>	<u>1,540</u>
Net addition to accumulated reserves	6,540	7,057	6,540	7,057
Opening accumulated reserves	<u>61,086</u>	<u>54,029</u>	<u>61,086</u>	<u>54,029</u>
Closing accumulated reserves	<u>67,626</u>	<u>61,086</u>	<u>67,626</u>	<u>61,086</u>

National House-Building Council

(a company limited by guarantee)

18 Pensions

The NHBC Pension Scheme is a funded defined benefit scheme. Pension cost and provision figures are assessed in accordance with the advice of a professionally qualified actuary. The actuarial method used for valuations of the NHBC Pension Scheme is the projected unit method.

The most recent formal actuarial valuation was at 31 March 1999. The principal assumptions used in the actuarial valuation were that the annual return on new investments would exceed annual increases in salaries by 3.25% until 31st March 2002 and 2.75% thereafter and would also exceed annual increases in pensions by 4.5% in the long term. The annual rate of dividend increases assumed was 1.0% more than the annual rate of pension increases.

The market value of the relevant assets as at 31 March 1999 was £55,613,000 and the level of funding as at that date was 89% representing a deficit of £4,744,000 on an actuarial basis. To take account of this deficit, company contributions have been increased to 14.1% of pensionable salaries and member contributions to 6%. At this contribution level, the deficit is expected to be funded over the working lifetime of the existing members (12 years).

The pension cost charge for the period was £2,783,000 (1999: £1,980,000). The primary reason for the increase in pension cost is the recognition of the costs of funding the deficit revealed in the valuation, over the expected working lifetime of the existing members. The outstanding pension prepayment, which represents the excess of amounts funded to the pension scheme over the cumulative pension cost charge, was £822,500 (1999: £798,000).

19 Other technical provisions

Unexpired risks provision

	2000 £'000	1999 £'000
Gross	511,229	517,385
Reinsurance	<u>(55,646)</u>	<u>(60,119)</u>
Net	<u>455,583</u>	<u>457,266</u>

In setting the level of premium for new policies, the Company takes account of both the future investment income that will be earned on premiums before claims are paid, and any surpluses emerging on policies written in previous years. As a result the premium charged and therefore the unearned premium reserve is less than the expected ultimate value of claims and administrative expenses. An unexpired risks provision is therefore required and in assessing the level of provision made, expected future investment income of £363 million (1999: £280 million) is taken into account.

National House-Building Council
(a company limited by guarantee)

20 Provisions for other risks and charges

	Deferred tax £'000
As at 1 April 1999	4,531
Movement on deferred tax provision	<u>(131)</u>
As at 31 March 2000	<u>4,400</u>

Deferred tax provided in the financial statements and the amount unprovided in respect of the total liability are as follows:

	Amount provided		Amount unprovided	
	2000	1999	2000	1999
	£'000	£'000	£'000	£'000
Short term timing differences	4,449	4,620	-	-
Excess of capital allowances over depreciation	<u>(49)</u>	<u>(89)</u>	<u>-</u>	<u>-</u>
	<u>4,400</u>	<u>4,531</u>	<u>-</u>	<u>-</u>

21 Creditors arising out of direct insurance operations

	2000 £'000	1999 £'000
Amounts due in less than one year	<u>4,155</u>	<u>3,797</u>

Included in the above are £2,451,000 (1999: £2,319,000) of builders' deposits. These monies are deposited with the Company as surety by individual builders.

National House-Building Council
(a company limited by guarantee)

22 Other creditors including taxation and social security

	Group		Council	
	2000	1999	2000	1999
	£'000	£'000	£'000	£'000
Amounts owing to subsidiary undertakings	-	-	4,513	4,192
Certificate fees in advance	12,832	12,310	11,882	11,385
Bank overdraft	810	539	810	539
Other creditors	<u>3,657</u>	<u>3,643</u>	<u>2,930</u>	<u>3,058</u>
	<u>17,299</u>	<u>16,492</u>	<u>20,135</u>	<u>19,174</u>

Certificate fees received in advance represents amounts set aside to cover the cost of inspection of homes under construction and their subsequent certification. These amounts are released from the balance sheet to the non-technical account in approximately the same periods as the related inspection costs are incurred.

23 Reconciliation of surplus on ordinary activities before tax to net cash flow from operating activities

	2000	1999
	£'000	£'000
Surplus on ordinary activities before tax	7,701	7,492
Net depreciation of tangible assets	2,852	2,561
Increase in technical provisions	20,495	71,735
Tax on investment income deducted at source	(2,997)	(5,960)
Realised gains on investments and fixed assets	(1,124)	(60,101)
Decrease in unrealised gains on investments	11,000	23,673
Decrease in insurance debtors	688	808
Increase in other debtors	(73)	(2,184)
Increase in prepayments and accrued income	(2,799)	(3,040)
Increase in insurance creditors	358	361
Increase in other creditors	507	1,103
(Decrease)/increase in accruals and deferred income	<u>(240)</u>	<u>1,271</u>
Net cash inflow from operating activities	<u>36,368</u>	<u>37,719</u>

National House-Building Council

(a company limited by guarantee)

24 Increase/(decrease) in cash holdings

	At 31 March 2000 £000's	Cash Flow £000's	At 31 March 1999 £000's	Cash Flow £000's	At 31 March 1998 £000's
Cash at bank and in hand	490	(59)	549	125	424
Bank overdraft	(810)	(271)	(539)	(47)	(492)
Deposits with credit institutions	<u>78,163</u>	<u>(159,994)</u>	<u>238,157</u>	<u>177,948</u>	<u>60,209</u>
	<u>77,843</u>	<u>(160,324)</u>	<u>238,167</u>	<u>178,026</u>	<u>60,141</u>

25 Movement in cash, portfolio investments and financing

	At 31 March 2,000 £000's	Cash Flow £000's	Changes to market value £000's	At 31 March 1999 £000's	Cash Flow £000's	Changes to market value £000's	At 31 March 1998 £000's
Ordinary shares	55,861	38,093	3,521	14,247	(4,198)	923	17,522
Fixed income securities	692,994	157,161	(13,143)	548,976	(134,779)	35,757	647,998
Deposits with credit institutions	<u>78,163</u>	<u>(159,994)</u>	<u>-</u>	<u>238,157</u>	<u>177,948</u>	<u>-</u>	<u>60,209</u>
Other financial investments	827,018	35,260	(9,622)	801,380	38,971	36,680	725,729
Land and buildings	12,322	478	(55)	11,899	47	1,443	10,409
Cash at bank and in hand	490	(59)	-	549	125	-	424
Bank overdraft	<u>(810)</u>	<u>(271)</u>	<u>-</u>	<u>(539)</u>	<u>(47)</u>	<u>-</u>	<u>(492)</u>
TOTAL	<u>839,020</u>	<u>35,408</u>	<u>(9,677)</u>	<u>813,289</u>	<u>39,096</u>	<u>38,123</u>	<u>736,070</u>

26 Liability of members

At 31 March 2000 there were 69 (1999: 60) members of the Council. Under the Articles of Association the liability of each of the members is limited by guarantee to a maximum of £1.