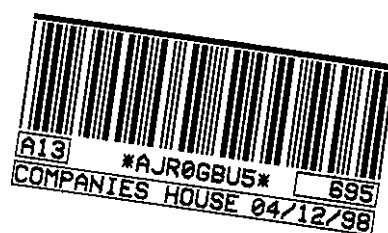


**NATIONAL HOUSE-BUILDING COUNCIL**  
(A Company limited by guarantee)

**ANNUAL REPORT**

**For the year ended 31 March 1998**  
**Registered No. 320784**



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

**Annual report**  
**for the year ended 31 March 1998**

	Page
Directors and advisers	3
Directors' report	5
Report of the auditors	10
Consolidated profit and loss account, technical account - general business	11
Consolidated profit and loss account, non-technical account	12
Consolidated statement of total recognised gains and losses	13
Note of historical cost profits 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 and advisers**

**Executive directors**

**B Bean CBE**  
(Chief Executive)  
(Retired 19 April 1997)  
**I Farookhi**  
(Chief Executive)  
(Appointed 19 April 1997)  
**I P Davis**  
(Resigned 31 July 1997)  
**M A W Hall**

**Non-executive directors**

**The Rt Hon Sir Norman Fowler MP**  
(Chairman of the Council)  
**D A Moody OBE**  
(Chairman of the Finance Committee)  
**F Eaton**  
**T Henney MBE**  
(Died 17 February 1998)  
**P D Holliday OBE**  
**B Hunt**  
**S W Parker**  
**M Pheasey**  
(Resigned 6 March 1998)  
**T R Roydon**  
**C G Toner**  
**K E Way**

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

**C W Roberts CB**  
(Appointed 23 April 1998)  
**W I Mitchell**  
(Appointed 15 May 1998)  
**D A Moody OBE**  
(Retired 16 May 1998)  
**G C Pye**  
(Appointed 16 May 1998)  
**The Rt Hon Sir Norman Fowler MP**  
(Retired 8 June 1998)  
**K E Way**  
(Retired 31 July 1998)  
**Sir Michael Pickard**  
(Chairman of Council)  
(Appointed 1 September 1998)

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

**Directors and advisers (continued)**

**Secretary and registered office**

**R S Pembroke**  
Buildmark House  
Chiltern Avenue  
Amersham,  
Buckinghamshire  
HP6 5AP

**Bankers**

Midland Bank PLC  
39 Tottenham Court Road  
London  
W1P 0AR

**Registered Auditors**

Coopers & Lybrand  
1 Embankment Place  
London  
WC2N 6NN

**Investment Managers**

Invesco Asset Management Limited  
11 Devonshire Square  
London EC2M 4YR

**Actuary**

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

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 1998**

The directors present their report and the audited financial statements for the year ended 31 March 1998.

**Principal activities**

The principal activities of the Council are as follows:-

- (i) determining from purchasers' insurance claims, conciliation applications, inspection and other sources at what level to set sound standards in house-building;
- (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 Council by registered builders;
- (iii) provision of insurance protection for purchasers of new homes to indemnify them against the cost of rectifying damage caused by major structural 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 £10.9 million (1997: £11.4 million). After allowing for taxation there was a surplus of £7.5 million (1997: £8.2 million) which has been added to the Council's reserves. The Council is a non-profit distributing body and therefore no dividend is payable. The Directors consider that the retained surplus for the year represents good progress towards the strengthening of the Council's reserves in anticipation of expected new European regulations of insurers.

The provision for claims and settlement costs before reinsurance recoveries was increased by over £109 million (1997: £65 million) and the gross amount available to meet current and predicted future liabilities is now over £770 million (1997: £661 million). The provision takes account both of the prevailing expectations of low future interest rates and of the continuing uncertainty about the impact of competition on the future level of claims.

## **National House-Building Council**

**(a company limited by guarantee)**

### **Review of the year**

Approximately £15.5 million (1997: £15 million) was paid out in claims, representing 5,500 (1997: 5,000) payments on behalf of home-owners. The number of new housing starts registered with the Council was 8% higher than last year, while the number of certificates issued (broadly equivalent to completions) was 1% lower.

	31 March 1996	31 March 1997	31 March 1998	Change on 1997
Number of registered house-builders	21,117	19,954	19,330	-3%
Number of completed dwellings covered by protection scheme	1,696,000	1,674,000	1,662,000	-1%
Number of dwellings registered in year	148,000	157,000	170,000	+8%
Number of dwellings completed in year	166,000	163,000	161,000	-1%

The change of Government in May 1997, together with media criticism (some justified, some not), gave added impetus to our wide-ranging Strategic Review. Twenty six working parties, drawing on both internal and external resources and reporting through a committee to the Board of Directors, continued to assess ways of improving NHBC's service to consumers and finding new ways of helping builders to improve standards in the house-building industry. Among other initiatives introduced in the year under review, the insurance protection provided by Buildmark was extended in May 1997 to improve protection for roof coverings, external wall cladding, floor decking, flues and chimneys; a customer charter for claimants was introduced; the second phase of the new claims handling system, which makes extensive use of electronic document management, was implemented in December 1997; a new Consumer Committee was established (its Chairman, a member of the Board, is independent of the house-building industry, as are the majority of the Committee Members); and an advisory standard for assessing Land Quality was introduced. A wide range of other initiatives have made significant progress and the target set - that 80% of the improvements will have been launched by April 1999 - seems achievable.

The Minister of Housing, Nick Raynsford MP, has taken a keen interest in the progress of the Strategic Review, both through his officials and through regular meetings with NHBC's Chief Executive and his team.

### **Outlook**

Although house prices rose marginally faster than salaries during the year under review, the affordability of new homes remains excellent. In the first quarter of 1998 Nationwide Building Society reported that the price/earnings ratio was just over 2.8, compared to a peak of nearly 4.5 at the height of the late 1980s boom.

There is, however, no sign of a return to boom conditions. High real mortgage interest rates mean that, despite supply-side constraints, house selling prices are forecast to increase broadly in line with earnings. Dwelling registrations in the year to 31 March 1999 are expected to remain at or a little below the 1998 level.

## **National House-Building Council**

**(a company limited by guarantee)**

### **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. During the year the Company was granted a full building control licence which allows the Company to provide a building control service on all forms of buildings. The Company made a pre-tax profit of £625,000 (1997: £675,000), despite continuing to hold fees to builders at 1996 levels.

PRC Homes Limited, set up during 1985/86 to approve repair systems for prefabricated reinforced concrete dwellings which fall within the scope of the Housing Defects legislation, made a pre-tax profit of £10,000 (1997: £2,000). No repair systems or addenda were submitted to the company, nor were any licensed or published during the year. One dwelling (1997: 192 dwellings) was registered. The purpose for which this subsidiary was set up has been largely discharged. New registrations have not been accepted since 30 September 1996 so the activity of the company is now minimal.

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 further range of industry related services. The company made a pre-tax loss of £530,000 (1997 £549,000). A reduced loss is forecast for the financial year ending 31 March 1999.

### **Employees**

The rapid pace of technological change, with virtually all staff affected either by the electronic recording of inspection data or by the new claims handling systems, has imposed heavy demands on our people. So too has the Strategic Review, which has affected almost everyone, either directly (through participation in working groups) or indirectly (for those who have had to cover for absent colleagues). They have responded magnificently, continuing to provide a professional service both to builders and to consumers, despite the sometimes frustrating teething problems which are an inevitable adjunct of major new systems. The Board is fully conscious of, and most grateful for, the tremendous efforts of all the staff throughout the year.

The on-going participation of the independent Staff Association who negotiate on behalf of their members remains a valued aspect of good staff relations. A formal agreement, cementing the joint commitment of management and Staff Association to the long term success of the Council, was signed during the year.

The average number of employees during the year was 764 (1997: 746) full time equivalents. At the end of the year staff numbers had risen to 769 (1997: 748). This was made up of 555 (1997: 517) males and 214 (1997: 231) females.

The employment policies of the Council 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 to confirm effective implementation and are founded on fair practices which seek to ensure that all employment decisions are based on aptitude and ability.

## **National House-Building Council**

**(a company limited by guarantee)**

### **Millennium Risks**

The year 2000 issue, which stems from computer programmes written using two digits rather than four to define the applicable year, could result in processing faults on the change of century, producing a wide range of consequences. During 1997 the Council established a dedicated project team which has conducted a review of the Council's computer systems and associated applications. The Council has an implementation plan to remediate and test those systems identified as likely to be affected. This implementation plan is being executed with the aid of external contractors. Progress towards millennium compliance is subject to regular Board review. The approximate cost of this work is estimated at £930,000 and all business-critical work is due to be completed by the end of 1998.

Year 2000 problems are unlikely to have a significant direct effect on NHBC's claims as the elements of a home which are at risk from failure of embedded chips (such as central heating control systems) are warranted by the builder in the first two years and are not insured thereafter. However, a rise in builder bankruptcies as a result of millennium problems, although unlikely, would inevitably lead to an increase in claims.

### **Financial matters**

- (i) Investment Strategy: NHBC employs two external investment advisors who manage broadly equal shares of the investment portfolio. They are given identical and specific briefs and their competitive performance is monitored regularly. The principal element of the strategy is that the investments should be matched with the predicted incidence of insurance liabilities and, with this in mind, the majority of the assets are held in dated gilt-edged or other fixed interest stocks. The strategy imposes maximum and minimum holdings for each main asset class. The maturity date of bonds must not be more than sixteen years ahead.
- (ii) Capital investment: It is the Council's normal policy to own the fixed assets which are required to support the efficient operation of the business. The principal categories are freehold and leasehold office property, the motor vehicle fleet and computer and other office equipment.

### **Directors**

The Directors of the Council during the year and as at 31 March 1998 are listed on page 3 of the Annual Report.

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

### **Charitable donations**

The donations made by the Council during the year for charitable purposes were £13,788 (1997: £2,254).



## **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 1998. 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.

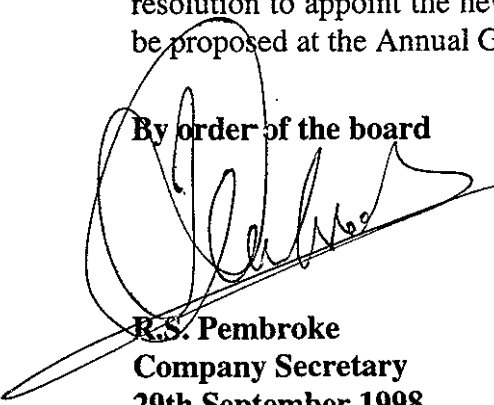
### **Corporate governance**

The directors have considered the recommendations of the Cadbury and Greenbury Committee and have decided to implement them where they are appropriate in the context of the Board and Committee structure of the Council. The Council already complies with a number of the recommendations: its Board, which, apart from the Chief Executive and his deputy, is entirely non-Executive, meets regularly and the Chairman and Chief Executive have been separate appointments for many years. The Council's Remuneration and Nominations Committees are comprised entirely of non-executive directors. All Non-Executive Directors are appointed for specified terms.

### **Auditors**

Our auditors, Coopers & Lybrand, merged with Price Waterhouse on 1 July 1998 and a resolution to appoint the new firm, PricewaterhouseCoopers, as auditors to the company will be proposed at the Annual General Meeting.

**By order of the board**



**R.S. Pembroke**  
**Company Secretary**  
**29th September 1998**

## **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 11 to 34

#### **Respective responsibilities of directors and auditors**

As described on page 9 the Company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

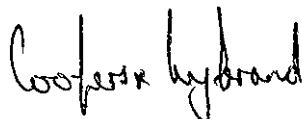
#### **Basis of opinion**

We conducted our audit in accordance with Auditing Standards 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 1998 and of the Group's profit, total recognised gains and cash flows for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



**Coopers & Lybrand**

**Chartered Accountants and Registered Auditors**

**London** 30 September 1998

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

**Consolidated profit and loss account technical account - general business  
for the year ended 31 March 1998**

	Notes	1998		1997	
		£'000	£'000	£'000	£'000
<b>Earned premiums, net of reinsurance</b>					
Gross premiums written		26,534		24,103	
Outward reinsurance premiums		<u>(1,513)</u>		<u>(1,461)</u>	
Net premiums written			25,021		22,642
Change in the gross provision for unearned premiums		(10,139)		(8,856)	
Change in the provision for unearned premiums, reinsurers' share		<u>(1,255)</u>		<u>(1,014)</u>	
Change in the net provision for unearned premiums			<u>(11,394)</u>		<u>(9,870)</u>
<b>Earned premiums, net of reinsurance</b>			13,627		12,772
Allocated investment return transferred from the non-technical account			96,022		56,060
<b>Claims incurred, net of reinsurance</b>					
Claims paid					
Gross amount		(18,338)		(17,373)	
Reinsurers' share		<u>812</u>		<u>1,782</u>	
Net claims paid			<u>(17,526)</u>		<u>(15,591)</u>
Change in the provision for claims					
Gross amount		(3,029)		(1,339)	
Reinsurers' share		<u>(1,267)</u>		<u>(553)</u>	
Change in the net provision for claims			<u>(4,296)</u>		<u>(1,892)</u>
<b>Claims incurred, net of reinsurance</b>			(21,822)		(17,483)
Changes in other technical provisions, net of reinsurance, not shown under other headings			(79,007)		(41,366)
Net operating expenses	4		<u>(628)</u>		<u>(474)</u>
<b>Balance on the technical account for general business</b>			<u>8,192</u>		<u>9,509</u>

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

**Consolidated profit and loss account non-technical account  
for the year ended 31 March 1998**

	Notes	1998 £'000	1997 £'000
Balance on the general business technical account		8,192	9,509
Investment income	5(a)	54,956	42,593
Investment expenses and charges	6	(276)	(257)
Unrealised gains on investments	5(b)	41,514	13,862
Allocated investment return transferred to the general business technical account		(96,022)	(56,060)
Other income		34,317	31,316
Other charges		<u>(31,817)</u>	<u>(29,581)</u>
<b>Surplus on ordinary activities before tax</b>	9	10,864	11,382
Tax on surplus on ordinary activities	10	<u>(3,346)</u>	<u>(3,165)</u>
<b>Retained surplus for the financial year</b>	16	<u>7,518</u>	<u>8,217</u>

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

**Consolidated statement of total recognised gains and losses**

	Notes	£'000	£'000
Surplus for the financial year	16	7,518	8,217
Unrealised surplus/(deficit) on revaluation of properties	16	<u>(270)</u>	<u>76</u>
Total recognised gains/(losses) relating to the year		<u>7,248</u>	<u>8,293</u>

**Note of historical cost profits and losses**

	Notes	1998 £'000	1997 £'000
Reported surplus on ordinary activities before tax		10,864	11,382
Difference between historical cost depreciation and actual charge on revalued land and buildings		20	15
Difference between historical cost loss and actual loss on disposal of revalued land and buildings		3	4
Increase in future investment return anticipated in respect of the unexpired risk provision		33,006	11,965
Unrealised gains on investments	5(b)	<u>(41,514)</u>	<u>(13,862)</u>
Historical cost surplus on ordinary activities before tax		<u>2,379</u>	<u>9,504</u>
Historical cost surplus on ordinary activities after tax		<u>1,670</u>	<u>6,965</u>

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

**Consolidated balance sheet**  
**at 31 March 1998**

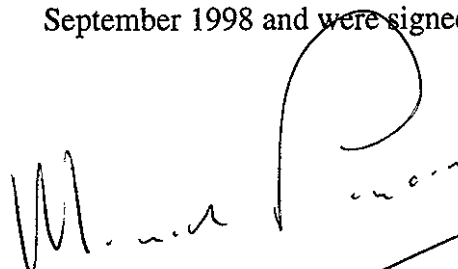
	Notes	1998 £'000	1997 £'000
<b>Assets</b>			
<b>Investments</b>			
Land and buildings	12(a)	10,409	11,080
Other financial investments	12(b)	<u>725,729</u>	<u>623,408</u>
		<u>736,138</u>	<u>634,488</u>
<b>Reinsurers' share of technical provisions</b>			
Provision for unearned premiums		24,804	26,059
Claims outstanding		850	2,117
Other technical provisions	19	<u>60,066</u>	<u>43,013</u>
		<u>85,720</u>	<u>71,189</u>
<b>Debtors</b>			
Debtors arising out of direct insurance operations	14	2,603	4,107
Other debtors	14	<u>10,166</u>	<u>5,490</u>
		<u>12,769</u>	<u>9,597</u>
<b>Other assets</b>			
Tangible assets	15	6,398	5,911
Cash at bank and in hand		<u>424</u>	<u>286</u>
		<u>6,822</u>	<u>6,197</u>
<b>Prepayments and accrued income</b>			
Accrued interest and rent		10,534	10,965
Deferred acquisition costs		3,500	3,400
Other prepayments and accrued income		<u>522</u>	<u>564</u>
		<u>14,556</u>	<u>14,929</u>
<b>Total assets</b>		<u>856,005</u>	<u>736,400</u>

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

**Consolidated balance sheet  
at 31 March 1998 (continued)**

	Notes	1998 £'000	1997 £'000
<b>Liabilities</b>			
<b>Reserves</b>			
Revaluation reserve	16	479	749
Accumulated surpluses	16	<u>53,550</u>	<u>46,032</u>
<b>Accumulated reserves</b>	17	<u>54,029</u>	<u>46,781</u>
<b>Technical provisions</b>			
Provision for unearned premiums		272,618	262,479
Claims outstanding		34,375	31,346
Other technical provisions	19	<u>463,134</u>	<u>367,074</u>
		<u>770,127</u>	<u>660,899</u>
<b>Provisions for other risks and charges</b>			
Deferred tax	20	<u>6,316</u>	<u>6,208</u>
<b>Creditors</b>			
Creditors arising out of direct insurance operations	21	3,436	3,418
Other creditors including taxation and social security	22	<u>15,455</u>	<u>13,479</u>
		<u>18,891</u>	<u>16,897</u>
<b>Accruals and deferred income</b>		<u>6,642</u>	<u>5,615</u>
<b>Total liabilities</b>		<u>856,005</u>	<u>736,400</u>


The financial statements on pages 11 to 34 were approved by the Board of Directors on 29th September 1998 and were signed on its behalf by:-



**Sir Michael Pickard**  
(Chairman of the Council)



**Imtiaz Farookhi**  
(Chief Executive)



**T R Roydon**  
(Chairman of the  
Finance Committee)

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

**Parent company balance sheet**  
**at 31 March 1998**

	Notes	1998 £'000	1997 £'000
<b>Assets</b>			
<b>Investments</b>			
Land and buildings	12(a)	10,409	11,080
Investments in group undertakings and participating interests	13	1,991	1,918
Other financial investments	12(b)	<u>725,729</u>	<u>623,408</u>
		<u>738,129</u>	<u>636,406</u>
<b>Reinsurers' share of technical provisions</b>			
Provision for unearned premiums		24,804	26,059
Claims outstanding		850	2,117
Other technical provisions	19	<u>60,066</u>	<u>43,013</u>
		<u>85,720</u>	<u>71,189</u>
<b>Debtors</b>			
Debtors arising out of direct insurance operations	14	2,603	4,107
Other debtors	14	<u>10,957</u>	<u>5,881</u>
		<u>13,560</u>	<u>9,988</u>
<b>Other assets</b>			
Tangible assets	15	6,398	5,911
Cash at bank and in hand		<u>346</u>	<u>266</u>
		<u>6,744</u>	<u>6,177</u>
<b>Prepayments and accrued income</b>			
Accrued interest and rent		10,534	10,965
Deferred acquisition costs		3,500	3,400
Other prepayments and accrued income		<u>522</u>	<u>564</u>
		<u>14,556</u>	<u>14,929</u>
<b>Total assets</b>		<u>858,709</u>	<u>738,689</u>



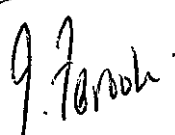
**National House-Building Council**  
(a company limited by guarantee)


**Parent company balance sheet**  
**at 31 March 1998 (continued)**

	Notes	1998 £'000	1997 £'000
<b>Liabilities</b>			
<b>Reserves</b>			
Revaluation reserve	16	2,470	2,667
Accumulated surpluses	16	<u>51,559</u>	<u>44,114</u>
<b>Accumulated reserves</b>	17	<u>54,029</u>	<u>46,781</u>
<b>Technical provisions</b>			
Provision for unearned premiums		272,618	262,479
Claims outstanding		34,375	31,346
Other technical provisions	19	<u>463,134</u>	<u>367,074</u>
		<u>770,127</u>	<u>660,899</u>
<b>Provisions for other risks and charges</b>			
Deferred Tax	20	<u>6,316</u>	<u>6,208</u>
<b>Creditors</b>			
Creditors arising out of direct insurance operations	21	3,436	3,418
Other creditors including taxation and social security	22	<u>18,197</u>	<u>15,829</u>
		<u>21,633</u>	<u>19,247</u>
<b>Accruals and deferred income</b>		<u>6,604</u>	<u>5,554</u>
<b>Total liabilities</b>		<u>858,709</u>	<u>738,689</u>

The financial statements on pages 11 to 34 were approved by the Board of Directors on 29th September 1998 and were signed on its behalf by:-

  
**Sir Michael Pickard**  
(Chairman of the Council)

  
**Imtiaz Farookhi**  
(Chief Executive)

  
**T R Roydon**  
(Chairman of the  
Finance Committee)

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

**Consolidated cash flow statement  
for the year ended 31 March 1998**

		1998	1997
	Notes	£'000	£'000
Consolidated cash flow statement			
Operating activities			
Net cash inflow from operating activities	23	50,171	43,228
Taxation			
Corporation tax paid		(124)	(21)
Tax refunds received		<u>-</u>	<u>7,099</u>
Net cash inflow from taxation		(124)	7,078
Capital expenditure			
Purchase of tangible fixed assets		(4,457)	(4,327)
Sale of tangible fixed assets		<u>1,867</u>	<u>1,449</u>
Net cash outflow from capital expenditure		<u>(2,590)</u>	<u>(2,878)</u>
Increase in cash in the period	25	<u>47,457</u>	<u>47,428</u>
Cash flows were invested as follows:			
Net portfolio investment			
Purchase of ordinary shares		3,503	17,209
Sale of ordinary shares		<u>(18,874)</u>	<u>(6,322)</u>
		(15,371)	10,887
Purchase of fixed income securities		279,661	240,847
Sale of fixed income securities		<u>(228,882)</u>	<u>(207,177)</u>
		50,779	33,670
Purchase of land and buildings		77	17
Sale of land and buildings		<u>(221)</u>	<u>(118)</u>
		<u>(144)</u>	<u>(101)</u>
Net cash outflow on portfolio investments		35,264	44,456
Increase in cash holdings	24	<u>12,193</u>	<u>2,972</u>
Net investment of cash flows	25	47,457	47,428

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

**Notes to the financial statements**  
**for the year ended 31 March 1998**

**1 Accounting policies**

The consolidated financial statements have been prepared in accordance with applicable Accounting Standards in the United Kingdom and with the guidance on accounting for insurance business issued by the Association of British Insurers. 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 Council 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 subject to recoverability 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 Council and the Council'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 Council'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 principal rates used for this purpose are:

	%
Motor vehicles	20
Fixtures and fittings	20
Computer equipment	33 <sup>1</sup> / <sub>3</sub>

### 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 Council 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, and any increases or decreases in values are transferred to the revaluation reserve. Land and buildings occupied by the Council for its own purposes are similarly revalued and are then depreciated over 50 years or the remaining term of the lease if shorter.

## **National House-Building Council**

**(a company limited by guarantee)**

The aggregate surplus or deficit on revaluation is taken to the revaluation reserve. 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 £64,000.

Investments in group undertakings are valued in the Council'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 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 technical account-general business 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 before tax		Net assets	
	1998 £'000	1997 £'000	1998 £'000	1997 £'000	1998 £'000	1997 £'000
Direct underwriting activities	26,534	24,103	8,192	9,509	26,019	22,431
Other activities	<u>34,317</u>	<u>31,316</u>	<u>2,672</u>	<u>1,873</u>	<u>28,010</u>	<u>24,350</u>
Total	<u>60,851</u>	<u>55,419</u>	<u>10,864</u>	<u>11,382</u>	<u>54,029</u>	<u>46,781</u>

**3 Movements in prior year's claims provisions**

	1998 £'000	1997 £'000
Net loss provision brought forward as at 1 April	29,229	27,337
Net payments during the year in respect of these provisions	(14,645)	(12,673)
Net loss provision carried forward in respect of claims provided at 1 April	<u>(13,924)</u>	<u>(11,048)</u>
(Under)/over provision of prior year's provision	<u>660</u>	<u>3,616</u>

**4 Net operating expenses**

	1998 £'000	1997 £'000
Acquisition costs	516	407
Increase in deferred acquisition costs	(100)	(100)
Administrative expenses	<u>212</u>	<u>167</u>
Net operating expenses	<u>628</u>	<u>474</u>

No commission was incurred during the year in respect of direct insurance (1997: £Nil).

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

**5(a) Investment income**

	1998 £'000	1997 £'000
<b>Income from investments other than participating interests</b>		
Income from land and buildings	227	310
Income from listed investments	37,155	34,651
Income from other investments and deposits	<u>4,148</u>	<u>2,950</u>
	41,530	37,911
Net gains on realisation of listed investments	13,481	4,747
Net losses on realisation of land and buildings	<u>(55)</u>	<u>(65)</u>
	<u>54,956</u>	<u>42,593</u>

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

The unrealised gain for the year of £41,514,000 (1997: £13,862,000) represents the change in the aggregate excess of market value over purchase price of listed investments held at the year end. The movement in the year can be further analysed as follows:-

	1998 £'000	1997 £'000
Unrealised gains brought forward at 1 April 1997	29,026	15,164
Net realised gains during the year	(13,481)	(4,747)
Increase in the value of investments held during the year	<u>54,995</u>	<u>18,609</u>
	<u>41,514</u>	<u>13,862</u>
Unrealised gains carried forward at 31 March 1998	<u>70,540</u>	<u>29,026</u>

**6 Investment expenses and charges**

	1998 £'000	1997 £'000
Investment management expenses	<u>(276)</u>	<u>(257)</u>

## National House-Building Council

(a company limited by guarantee)

### 7 Employee information

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

By Activity

	1998 Number	1997 Number
Direct underwriting business	118	112
Other direct activities	464	437
Administration	182	197
	<u>764</u>	<u>746</u>

Staff costs for the above persons were:

	1998 £'000	1997 £'000
Wages and salaries	17,076	15,864
Social security costs	1,499	1,438
Pension costs	1,948	1,973
	<u>20,523</u>	<u>19,275</u>

### 8 Directors' emoluments

	1998 £'000	1997 £'000
Aggregate emoluments	302	351
Sums paid to third parties for directors' services	74	65
Compensation for loss of office	-	93
	<u>376</u>	<u>509</u>

During the year retirement benefits accrued to 2 directors (1997: 3 directors) under a defined benefit scheme and one director (1997: nil) under a money purchase scheme.

The above figures include the following amounts paid to the highest paid director:-

	1998 £'000	1997 £'000
Aggregate emoluments	136	86
Pension contributions	20	-
Compensation for loss of office	-	93

For the 1997 comparative period the highest paid director was in receipt of an annual pension of £2,686 from 1 October 1996. There was no associated lump sum.

Included in the comparative figure for compensation for loss of office is a non-cash consideration representing the transfer of a company vehicle.

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



# National House-Building Council

(a company limited by guarantee)

Individual Directors' emoluments for the year were as follows:

	Notes	Salary	Benefits	Bonus	Fees paid to third parties	Total emoluments
		1998 £	1998 £	1998 £	1998 £	1998 £
<b><u>Non-Executive Chairman</u></b>						
Sir N Fowler		35,000	9,152	-	-	44,152
<b><u>Executive Directors</u></b>						
B Bean	1	6,860	-	-	-	6,860
I P Davis	2	24,128	2,270	-	-	26,398
I Farookhi	3	90,000	25,528	20,250	-	135,778
M A W Hall		76,266	430	-	-	76,696
<b><u>Non-Executive Directors</u></b>						
F Eaton	4	-	-	-	-	-
T Henney	5	-	-	-	10,462	10,462
P D Holliday		-	-	-	12,000	12,000
B A P Hunt		-	-	-	8,000	8,000
D A Moody		-	-	-	12,000	12,000
W S Parker		12,000	-	-	-	12,000
M Pheasey	6	-	-	-	7,333	7,333
T R Roydon		-	-	-	8,000	8,000
C G Toner		-	-	-	8,000	8,000
K E Way		-	-	-	8,000	8,000
		244,254	37,380	20,250	73,795	375,679

No retirement benefits accrued to Non-Executive Directors during the year.

## Notes:

- 1 B Bean was appointed 19 August 1996 and resigned 19 April 1997.
- 2 I P Davis resigned 31 July 1997.
- 3 I Farookhi was appointed 19 April 1997. The 1998 benefits figure of £25,528 includes £19,650 paid in respect of a relocation package.
- 4 F Eaton waived his entitlement to £8,000 of fees in respect of the financial year
- 5 T Henney died 17 February 1998
- 6 M Pheasey was appointed 4 February 1997 and resigned 6 March 1998

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

**9 Surplus on ordinary activities before tax**

	<b>1998</b>	<b>1997</b>
	<b>£'000</b>	<b>£'000</b>
<b>Surplus on ordinary activities before tax is stated after:</b>		
Depreciation charge for year:		
Other land and buildings	201	207
Tangible owned fixed assets	2,061	1,582
Auditors' remuneration for:		
Audit	100	99
Other services	56	139

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

	<b>1998</b>	<b>1997</b>
	<b>£'000</b>	<b>£'000</b>
<b>Tax on surplus on ordinary activities:</b>		
UK Corporation tax		
Current at 31% (1997 33%)	3,017	4,771
Deferred at 31% (1997 31%)	108	(1,691)
Tax on franked investment income	221	211
Under/(over) provision in respect of prior years		
Current	-	(126)
Deferred	-	-
<b>Tax charge for the year</b>	<b><u>3,346</u></b>	<b><u>3,165</u></b>

**11 Parent company**

The retained profit dealt with in the profit and loss account of the Council for the year ended 31 March 1998 is £7,445,000 (1997: £8,131,000). As permitted by section 230 of the Companies Act 1985 the profit and loss account of the Council has not been included in these accounts.

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

**12(a) Investments: land and buildings**

	<b>Investment properties £'000</b>	<b>Other land &amp; buildings £'000</b>
<b>Cost or valuation</b>		
At 1 April 1997	3,193	8,085
Additions	-	77
Deficit on revaluation	(293)	(11)
Disposals	-	(250)
<b>At 31 March 1998</b>	<b>2,900</b>	<b>7,901</b>
<b>Depreciation</b>		
At 1 April 1997	-	198
Charge for the year	-	201
Revaluations	-	-
Eliminated in respect of disposals	-	(7)
<b>At 31 March 1998</b>	<b>-</b>	<b>392</b>
<b>Net book value at 31 March 1998</b>	<b>2,900</b>	<b>7,509</b>
Net book value at 31 March 1997	3,193	7,887

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

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

	<b>Investment properties</b>		<b>Other land and buildings</b>	
	<b>1998 £'000</b>	<b>1997 £'000</b>	<b>1998 £'000</b>	<b>1997 £'000</b>
Freeholds	2,900	3,193	7,216	7,587
Long Leaseholds	-	-	293	300
	<b>2,900</b>	<b>3,193</b>	<b>7,509</b>	<b>7,887</b>

All land and buildings were valued at the balance sheet date or during the last three years prior to the balance sheet date at open market value by firms of independent Chartered Surveyors. If investment properties and other land and buildings had not been revalued they would have been included at the following amounts:

	<b>Investment properties</b>		<b>Other land and buildings</b>	
	<b>1998 £'000</b>	<b>1997 £'000</b>	<b>1998 £'000</b>	<b>1997 £'000</b>
Cost	3,193	3,193	8,356	8,614
Aggregate depreciation based on cost	-	-	(1,549)	(1,429)
Net book value based on cost	<b>3,193</b>	<b>3,193</b>	<b>6,807</b>	<b>7,185</b>

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

**12(b) Investments: other financial investments**

	1998		1997	
	Market Value £'000	Cost £'000	Market Value £'000	Cost £'000
Shares and other variable yield securities and units in unit trusts	17,522	11,248	25,541	22,051
Debt securities and other fixed interest securities	647,998	583,732	549,576	524,040
Deposits with credit institutions	<u>60,209</u>	<u>60,209</u>	<u>48,291</u>	<u>48,291</u>
	<u>725,729</u>	<u>655,189</u>	<u>623,408</u>	<u>594,382</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 Council's accounting policies. The resulting gain over book value of £1,991,000 (1997: £1,918,000) has been credited to the Council's revaluation reserve.

The Council's subsidiary undertakings were wholly owned and registered in England and Wales. At 31 March 1998 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**

	<b>1998</b>	<b>1997</b>
	<b>£'000</b>	<b>£'000</b>
Due from reinsurers	2,221	3,813
Other debtors	<u>382</u>	<u>294</u>
	<u>2,603</u>	<u>4,107</u>

**Other debtors**

	<b>Group</b>		<b>Council</b>	
	<b>1998</b>	<b>1997</b>	<b>1998</b>	<b>1997</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Amounts owed by subsidiary undertakings	-	-	1,111	546
Other debtors	<u>10,166</u>	<u>5,490</u>	<u>9,846</u>	<u>5,335</u>
	<u>10,166</u>	<u>5,490</u>	<u>10,957</u>	<u>5,881</u>

**15 Tangible assets**

	<b>Motor vehicles</b>	<b>Computer equipment</b>	<b>Fixtures and fittings</b>	<b>Total</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Cost</b>				
At 1 April 1997	4,835	2,680	553	8,068
Additions	3,363	592	502	4,457
Disposals	<u>(2,932)</u>	<u>(20)</u>	<u>(11)</u>	<u>(2,963)</u>
<b>At 31 March 1998</b>	<u>5,266</u>	<u>3,252</u>	<u>1,044</u>	<u>9,562</u>
<b>Depreciation</b>				
At 1 April 1997	990	910	257	2,157
Charge for the year	1,006	903	152	2,061
Disposals	<u>(1,037)</u>	<u>(13)</u>	<u>(4)</u>	<u>(1,054)</u>
<b>At 31 March 1998</b>	<u>959</u>	<u>1,800</u>	<u>405</u>	<u>3,164</u>
<b>Net book value at 31 March 1998</b>	<u>4,307</u>	<u>1,452</u>	<u>639</u>	<u>6,398</u>
<b>Net book value at 31 March 1997</b>	<u>3,845</u>	<u>1,770</u>	<u>296</u>	<u>5,911</u>

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

**16 Reserves**

	<b>Group</b>		<b>Council</b>	
	<b>Accumulated surpluses</b>	<b>Revaluation reserve</b>	<b>Accumulated surpluses</b>	<b>Revaluation reserve</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
At 1 April 1997	46,032	749	44,114	2,667
Retained surplus for the year	7,518	-	7,445	-
Revaluation deficit on investment properties and land and buildings	-	(270)	-	(270)
Revaluation surplus, net of tax on group undertakings and participating interests	-	-	-	73
<b>At 31 March 1998</b>	<b>53,550</b>	<b>479</b>	<b>51,559</b>	<b>2,470</b>

**17 Reconciliation of movements in accumulated reserves**

	<b>Group</b>		<b>Council</b>	
	<b>1998</b>	<b>1997</b>	<b>1998</b>	<b>1997</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Surplus for the financial year	7,518	8,217	7,445	8,131
Other recognised gains and losses relating to the year (net)	(270)	76	(197)	162
Net addition to accumulated reserves	7,248	8,293	7,248	8,293
Opening accumulated reserves	46,781	38,488	46,781	38,488
Closing accumulated reserves	54,029	46,781	54,029	46,781

# 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 1996. The principal assumptions used in the actuarial valuation were that, over the long term, the annual return on new investments would exceed annual increases in salaries by 2.5% and annual increases in pensions by 5%. The annual rate of dividend increases assumed was 0.5% more than the annual rate of pension increases.

The market value of the relevant assets as at 31 March 1996 was £35,799,000 and the level of funding as at that date was 105% after allowing for specific pension augmentations arising from restructuring. These augmentations were actually granted after 31 March 1996 but a special contribution to the pension fund was made prior to 31 March 1996.

The pension cost charge for the period was £1,948,000 (1997: £1,973,000). The outstanding pension prepayment was £522,000 (1997: £356,000).

## 19 Other technical provisions

### Unexpired risks provision

	1998 £'000	1997 £'000
Gross	463,134	367,074
Reinsurance	<u>(60,066)</u>	<u>(43,013)</u>
Net	<u>403,068</u>	<u>324,061</u>

In setting the level of premium for new policies, the Council takes account of both the future investment income that will be earned on premiums before claims are paid, and any surpluses 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 is taken into account.

The significant increase in the unexpired risk provision reflects the substantial appreciation in the market value of the Council's investment portfolio, which predominantly consists of dated fixed income securities. This appreciation has the effect of reducing the anticipated future rate of return on the Council's investments which, in turn, is taken into account when determining the requirement for an unexpired risk provision.

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

**20 Provisions for other risks and charges**

	Deferred tax £'000
As at 1 April 1997	6,208
Movement on deferred tax provision	<u>108</u>
<b>As at 31 March 1998</b>	<u><b>6,316</b></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	
	1998	1997	1998	1997
	£'000	£'000	£'000	£'000
Short term timing differences	6,227	6,095	-	-
Excess of capital allowances over depreciation	<u>89</u>	<u>113</u>	<u>-</u>	<u>-</u>
	<u><b>6,316</b></u>	<u><b>6,208</b></u>	<u><b>-</b></u>	<u><b>-</b></u>

**21 Creditors arising out of direct insurance operations**

	Group		Council	
	1998	1997	1998	1997
	£'000	£'000	£'000	£'000
Amounts due in less than one year	<u>3,436</u>	<u>3,418</u>	<u>3,436</u>	<u>3,418</u>
	<u><b>3,436</b></u>	<u><b>3,418</b></u>	<u><b>3,436</b></u>	<u><b>3,418</b></u>

Included in the above are £1,936,000 (1997: £2,244,000) of builders' deposits. Builders' deposits are amounts paid by builders to the Council as surety and are repayable at the Council's discretion.



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

**22 Other creditors including taxation and social security**

	<b>Group</b>		<b>Council</b>	
	<b>1998</b>	<b>1997</b>	<b>1998</b>	<b>1997</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Amounts owing to subsidiary undertakings	-	-	4,120	3,625
Certificate fees in advance	11,642	10,103	10,698	9,268
Bank overdraft	492	629	492	629
Other creditors	<u>3,321</u>	<u>2,747</u>	<u>2,887</u>	<u>2,307</u>
	<u>15,455</u>	<u>13,479</u>	<u>18,197</u>	<u>15,829</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**

	<b>1998</b>	<b>1997</b>
	<b>£'000</b>	<b>£'000</b>
Surplus on ordinary activities before tax	10,864	11,382
Net depreciation of tangible assets	2,262	1,789
Increase in technical provisions	94,697	53,128
Tax on investment income deducted at source	(6,811)	(6,665)
Realised gains on investments and fixed assets	(13,481)	(4,518)
Unrealised gains on investments	(41,514)	(13,862)
Decrease in insurance debtors	1,504	1,487
Increase in other debtors	(772)	(31)
(Increase)/decrease in prepayments and accrued income	373	(1,892)
Increase/(decrease) in insurance creditors	18	(276)
Increase in other creditors	2,004	497
Increase in accruals and deferred income	<u>1,027</u>	<u>2,189</u>
<b>Net cash inflow from operating activities</b>	<u>50,171</u>	<u>43,228</u>

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

**24 Increase/(decrease) in cash holdings**

	At 31 March 1998 £000's	Cash Flow £000's	At 31 March 1997 £000's	Cash Flow £000's	At 31 March 1996 £000's
Cash at bank and in hand	424	138	286	209	77
Bank overdraft	(492)	137	(629)	(629)	-
Deposits with credit institutions	<u>60,209</u>	<u>11,918</u>	<u>48,291</u>	<u>3,392</u>	<u>44,899</u>
	<u>60,141</u>	<u>12,193</u>	<u>47,948</u>	<u>2,972</u>	<u>44,976</u>

**25 Movement in cash, portfolio investments and financing**

	At 31 March 1998 £000's	Cash Flow £000's	Changes to market value £000's	At 31 March 1997 £000's	Cash Flow £000's	Changes to market value £000's	At 31 March 1996 £000's
Ordinary shares	17,522	(15,371)	7,352	25,541	10,887	3,037	11,617
Fixed income securities	647,998	50,779	47,643	549,576	33,670	15,572	500,334
Deposits with credit institutions	<u>60,209</u>	<u>11,918</u>	<u>-</u>	<u>48,291</u>	<u>3,392</u>	<u>-</u>	<u>44,899</u>
Other financial investments	725,729	47,326	54,995	623,408	47,949	18,609	556,850
Land and buildings	10,409	(144)	(527)	11,080	(101)	(197)	11,378
Cash at bank and in hand	424	138	-	286	209	-	77
Bank overdraft	<u>(492)</u>	<u>137</u>	<u>-</u>	<u>(629)</u>	<u>(629)</u>	<u>-</u>	<u>-</u>
<b>TOTAL</b>	<u>736,070</u>	<u>47,457</u>	<u>54,468</u>	<u>634,145</u>	<u>47,428</u>	<u>18,412</u>	<u>568,305</u>

**26 Liability of members**

At 31 March 1998 there were 62 (1997: 70) 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.