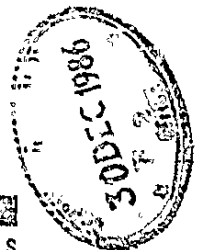


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NATIONAL HOUSE-BUILDING COUNCIL
(a company limited by guarantee)

REPORT OF THE FINANCE COMMITTEE
and
ACCOUNTS
for the year ended
31 MARCH 1986

Binder Hamlyn
CHARTERED ACCOUNTANTS



NATIONAL HOUSE-BUILDING COUNCIL
(a company limited by guarantee)

REPORT OF THE FINANCE COMMITTEE
and
ACCOUNTS
for the year ended
31 MARCH 1986

NATIONAL HOUSE-BUILDING COUNCIL
(a company limited by guarantee)

REPORT OF THE FINANCE COMMITTEE
for the year ended 31 MARCH 1986

The Finance Committee submit their report together with the accounts of the Council for the year ended 31 March 1986.

PRINCIPAL ACTIVITIES

The principal activities of the Council are as follows:-

- (i) determining from purchasers, insurance claims, inspection and other sources at what level to set sound minimum standards in house-building; encouraging builders to maintain and improve these standards by education, training and publicity, and by the periodic inspection of houses being built by house-builders registered with the Council;
- (ii) provision of insurance protection for purchasers of new houses to indemnify them against the cost of rectifying damage caused by major structural defects or other defined loss due to builder bankruptcy;
- (iii) research, both technical and economic, which is related to good house-building standards and/or enabling more people to obtain good new houses;
- (iv) conciliating, where required, in disputes between house-purchasers and builders.

SUBSIDIARY COMPANIES

A dividend of £40,000 was received from Crag Head Developments prior to liquidation. Crag Head Developments Limited and Wivenhoe Developments Limited have now been wound up.

NHBC Building Control Services Limited was set up during the year as a result of the approval granted under the Building Act 1984 for the inspection of private dwellings for building regulation purposes. The company made a loss of £298,841 in this initial period as expected because of the inevitable start-up costs (builders were not able to register dwellings for inspection until January 1986). By 31 March 1986, 396 builders had agreed to use the company for building control purposes and applications for the registration of 2,294 dwellings had been received. Further progress with the recruitment of builders is being made and the company anticipates a significant increase in the number of building control inspections over the next three years. Further losses are expected while the business is developed but the consequent funding requirements on the Council are forecast to be within the limit approved by the Council. Funds advanced by the Council to NHBC Building Control Services Limited are repayable to the Council including interest at 1% over Midland Bank base rate.

PRC Homes Limited was set up during the year in order to approve repair systems for prefabricated reinforced concrete dwellings which fall within the scope of the Housing Defects Act 1984. It also arranges structural insurance for dwellings repaired with such approved repair systems. As expected, the company made a small loss of £51,718 in the initial period, during which 36 repair systems were submitted to the company for approval. 9 of these were licensed, of which 6 were published: 41 dwellings were registered. Since the end of the financial year, further schemes have been reviewed, licensed and published, resulting in an increased flow of dwellings for registration.

NATIONAL HOUSE-BUILDING COUNCIL
(a company limited by guarantee)

REPORT OF THE FINANCE COMMITTEE
for the year ended 31 MARCH 1986
(continued)

DIRECTORS

The following, who as members of the Finance Committee are deemed to be directors as defined in the Companies Act 1985, held office during the year:-

A.W. Tait	Chairman of the Council; Director General until 31 July 1985
C.S. Shepherd	Chairman of the Finance Committee
B. Bean	Director General (appointed 1 August 1985)
P.B. Forde	
R.W. Hamilton	
A.R. Macmillan	
J.G. McLean	
D.A. Moody	
J.C. Sharp	

RESULTS

The insurance provisions were increased by over £18,000,000 and over £106,000,000 now available to meet predicted future liabilities. After taking into account an exceptional item of £620,000, profits on disposal of investments and fixed assets, and allowing for taxation, a surplus of £357,000 was achieved which has been added to the Council's reserves. The Council is a non-profit-making body and therefore no dividend is payable.

REVIEW OF THE YEAR

Over £10.5m was paid out to the benefit of about 5,100 home-owners. Almost 90% of these payments related to homes built in the 1970's. The number of private housing starts registered with the Council was 2% higher than last year, while the number of certificates issued (broadly equivalent to completions) was 1% higher than the previous year. Both figures were the best for 12 years.

	31 March 1984	31 March 1985	31 March 1986	% change on 1985
Number of registered house-builders	23,583	25,756	26,440	+ 3%
Number of completed dwellings covered by protection scheme	1,406,000	1,418,000	1,438,000	+ 1%
Number of applications for inspection	172,000	174,000	177,000	+ 2%
Number of certificates issued	162,000	169,000	170,000	+ 1%

OUTLOOK

The early signs are that the Technical Specification changes introduced at the end of 1980 will reduce the level of claims on homes built subsequently. Nevertheless, the high absolute level of claims in the past year inevitably led to an increase in NHBC's insurance costs with effect from 1 April 1986. This in turn resulted in increased builders' registration and renewal fees from 1 April 1986 although the Council was able to defer the increase in dwelling registration fees until 1 October 1986 so that it could coincide with the introduction of a new premium rating system.

It is now expected that private housing starts in the year to 31 March 1987 will exceed 150,000. Beyond this date the future is unclear: much will depend on the level of interest rates and the continued availability of an adequate supply of building land, and mortgage funds.

NATIONAL HOUSE-BUILDING COUNCIL
(a company limited by guarantee)

REPORT OF THE FINANCE COMMITTEE
for the year ended 31 MARCH 1986
(continued)

EMPLOYEES

Sincere thanks are expressed to all the staff for their continued effort and co-operation throughout the year.

At 31 March 1986, the number of persons employed by the Council was 658 compared with 561 a year earlier. The average for the year was 609 (1985 - 534). The aggregate remuneration paid was £5,208,000 (1985 - £4,305,000). The increases were largely attributable to additional inspection staff recruited for building control.

The Council recognises that its ability to improve the quality of house-building and to serve home-owners effectively is crucially dependent on the commitment and efficiency of its staff. Regular formal meetings are held with the Staff Association and, at Regional level, with field staff. In addition there is an annual three-day Staff Conference, which is attended by all field staff as well as senior head office employees, and training sessions are held throughout the year as necessary. A regular newsletter is circulated to all employees, covering all matters, including financial progress, which might affect staff.

The Council's policy is to give full and fair consideration to applications for employment from disabled people whenever suitable vacancies arise.

CHARITABLE DONATIONS

During the year donations totalling £2,350 were made for charitable purposes.

AUDITORS

A resolution will be submitted to the annual general meeting to re-appoint Binder Hamlyn as auditors.

By Order of the Finance Committee

M. A. Lewis

Secretary.

58, Portland Place,
London, W.1.

22 October 1986.

REPORT OF THE AUDITORS TO THE MEMBERS OF
NATIONAL HOUSE-BUILDING COUNCIL

We have audited the financial statements on pages 5 to 13 in accordance with approved Auditing Standards.

In our opinion the financial statements comply with the provisions of the Companies Act 1985 applicable to insurance companies.



22 October 1986

Chartered Accountants.

NATIONAL HOUSE-BUILDING COUNCIL
(a company limited by guarantee)

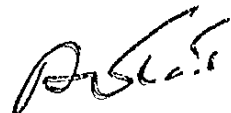
CONSOLIDATED INCOME AND EXPENDITURE ACCOUNT
for the year ended 31 MARCH 1986

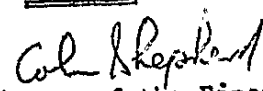
	<u>Notes</u>	<u>1986</u>	<u>1985</u>
		£'000 00	£'000 £'000
INCOME RECEIVABLE FOR THE YEAR			
Insurance premiums		16,773	14,706
Registration and certificate fees		9,363	8,105
Renewal fees		<u>2,035</u>	<u>1,274</u>
Turnover		28,171	24,085
Income from listed investments		10,002	8,600
Realised surplus on sale of investments and fixed assets		86	29
Interest on deposits		1,446	919
Dividend receivable - Crag Head Developments Limited		<u>40</u>	<u>-</u>
		<u>11,574</u>	<u>9,548</u>
		39,745	33,633
EXPENDITURE FOR THE YEAR			
Reinsurance premiums		1,722	1,453
Claims incurred less reinsurance recoveries	6	8,074	6,139
Provision for future claims and settlement costs	7	16,723	15,625
Additional provision for specific housing generations	8	<u>1,420</u>	<u>730</u>
		27,939	23,947
Other operating expenditure	12	<u>11,751</u>	<u>9,600</u>
		39,690	33,547
SURPLUS BEFORE TAXATION AND EXCEPTIONAL ITEM		55	86
Exceptional item	13	<u>620</u>	<u>-</u>
		675	86
SURPLUS BEFORE TAXATION		(318)	14
TAXATION (CHARGE) CREDIT	14		
SURPLUS AFTER TAXATION AND EXCEPTIONAL ITEM		357	100
Accumulated balance at 1 April 1985		<u>7,219</u>	<u>7,119</u>
Accumulated balance at 31 March 1986		<u>7,576</u>	<u>7,219</u>

NATIONAL HOUSE-BUILDING COUNCIL
(a company limited by guarantee)

CONSOLIDATED BALANCE SHEET AT 31 MARCH 1986

	<u>Notes</u>	<u>1986</u>		<u>1985</u>	
		£'000	£'000	£'000	£'000
FIXED ASSETS	2		3,349		2,814
LISTED INVESTMENTS	3		107,299		94,848
INTEREST IN SUBSIDIARIES not consolidated	4		-		1
CURRENT ASSETS					
Amounts due from reinsurers		1,857		1,807	
Other debtors and prepayments	5	4,381		3,883	
Taxation recoverable		2,893		2,390	
Building society deposits		664		948	
Other short term deposits		16,906		7,640	
Bank balances and cash		662		1,148	
		<u>27,363</u>		<u>17,816</u>	
CURRENT LIABILITIES					
Amounts due to subsidiaries		-		61	
Outstanding claims	6	12,332		9,374	
Amounts due to reinsurers		751		592	
Other creditors and accrued charges		<u>1,969</u>		<u>2,386</u>	
		<u>15,052</u>		<u>12,413</u>	
NET CURRENT ASSETS			<u>12,311</u>		<u>5,403</u>
			122,959		103,066
INSURANCE FUNDS AND RESERVES					
Provision for future claims and settlement costs	7	96,680		79,957	
Additional provision for specific housing generations	8	<u>10,010</u>		<u>8,590</u>	
		106,690		88,547	
CERTIFICATE FEES RECEIVED IN ADVANCE	9	6,625		5,407	
BUILDERS' EX-GRATIA RESERVE	10	301		339	
BUILDERS' DEPOSITS	11	1,067		1,172	
DEFERRED TAXATION	15	<u>700</u>		<u>382</u>	
			<u>115,383</u>		<u>95,847</u>
			7,576		7,219
REPRESENTING					
ACCUMULATED BALANCE ON INCOME AND EXPENDITURE ACCOUNT			7,576		7,219

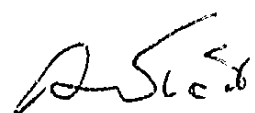

Chairman of the Council

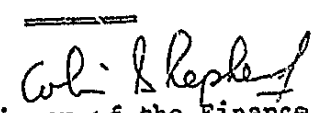

Chairman of the Finance Committee

NATIONAL HOUSE-BUILDING COUNCIL
(a company limited by guarantee)

BALANCE SHEET AT 31 MARCH 1986

	<u>Notes</u>	<u>1986</u>		<u>1985</u>	
		£'000	£'000	£'000	£'000
FIXED ASSETS	2		3,349		2,814
LISTED INVESTMENTS	3		107,299		94,848
INTEREST IN SUBSIDIARIES	4		-		1
CURRENT ASSETS					
Amounts due from reinsurers		1,857		1,807	
Other debtors and prepayments	5	4,349		3,883	
Taxation recoverable		2,893		2,390	
Building society deposits		664		948	
Other short term deposits		16,906		7,640	
Bank balances and cash		645		1,148	
		<u>27,314</u>		<u>17,816</u>	
CURRENT LIABILITIES					
Amounts due to subsidiaries		-		61	
Outstanding claims	6	12,332		9,374	
Amounts due to reinsurers		751		592	
Other creditors and accrued charges		<u>1,920</u>		<u>2,386</u>	
		<u>15,003</u>		<u>12,413</u>	
NET CURRENT ASSETS			<u>12,311</u>		<u>5,403</u>
			122,959		103,066
INSURANCE FUNDS AND RESERVES					
Provision for future claims and settlement costs	7	96,680		79,957	
Additional provision for specific housing generations	8	<u>10,010</u>		<u>8,590</u>	
		106,690		88,547	
CERTIFICATE FEES RECEIVED IN ADVANCE	9	6,600		5,407	
BUILDERS' EX-GRATIA RESERVE	10	301		339	
BUILDERS' DEPOSITS	11	1,067		1,172	
DEFERRED TAXATION	15	<u>700</u>		<u>382</u>	
			<u>115,358</u>		<u>95,847</u>
			7,601		7,219
<u>REPRESENTING</u>					
ACCUMULATED BALANCE ON INCOME AND EXPENDITURE ACCOUNT	16		<u>7,601</u>		<u>7,219</u>


Chairman of the Council


Chairman of the Finance Committee

NATIONAL HOUSE-BUILDING COUNCIL
(a company limited by guarantee)

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF THE COUNCIL'S FUNDS
for the year ended 31 MARCH 1986

	1986		1985
	£'000	£'000	£'000
<u>SOURCE OF FUNDS</u>			
FUNDS GENERATED FROM OPERATIONS			
Surplus before taxation		675	86
Adjustments for items not involving the movement of funds:-			
Depreciation	702		627
Taxation deducted at source	(2,895)		(2,388)
Increase in insurance funds and reserves, including outstanding claims	21,101		18,808
Release from certificate fees received in advance	(5,432)		(4,598)
Decrease in builders' ex gratia reserve	(38)		(68)
		<u>13,438</u>	<u>12,381</u>
		14,113	12,467
WORKING CAPITAL			
Decrease/(increase) in net amount due from reinsurers	109		(1,050)
Increase in other debtors and prepayments	(498)		(1,676)
(Decrease)/increase in other creditors and accrued charges	(417)		426
		(806)	(2,300)
FUNDS FROM OTHER SOURCES			
Proceeds of sale of fixed assets	787		556
Taxation recovered	2,392		1,568
Certificate fees received in advance	6,650		5,319
Interest in subsidiaries not consolidated	(60)		131
		<u>9,769</u>	<u>7,574</u>
		23,076	17,741
<u>APPLICATION OF FUNDS</u>			
Purchases of fixed assets	2,024		2,094
Net decrease in builders' deposits	105		144
		<u>2,129</u>	<u>2,238</u>
TOTAL AVAILABLE FOR INVESTMENT		20,947	15,503
<u>CHANGES IN INVESTMENTS AND NET LIQUID FUNDS</u>			
Increase in listed investments		12,451	12,816
Decrease in building society deposits		(284)	(643)
Increase in other short term deposits		<u>9,266</u>	<u>2,423</u>
		21,433	14,596
(Decrease)/increase in bank balances and cash		(486)	907
		<u>20,947</u>	<u>15,503</u>

NATIONAL HOUSE-BUILDING COUNCIL
(a company limited by guarantee)

NOTES TO THE ACCOUNTS
for the year ended 31 MARCH 1986

1. ACCOUNTING POLICIES

Group accounts

(a) The consolidated accounts deal with the Council and its present subsidiaries. The Council and its previous subsidiaries were not consolidated on the grounds of dissimilar activities but group accounts were presented in the form of the accounts of the Council together with, but separate from, the accounts of its subsidiaries.

(b) Depreciation

Depreciation is charged to write down fixed assets to their expected realisable value over their estimated useful lives, on the following basis:-

- (i) Freehold buildings - straight line over fifty years
- (ii) Leasehold property - straight line over the period of the lease or forty years whichever is the shorter period
- (iii) Office furniture and equipment - reducing balance at 15% per annum
- (iv) Motor cars - straight line over four years

(c) Income from investments

Investment income is accrued on a day-to-day basis.

(d) Deferred taxation

Taxation deferred by capital allowances and other timing differences is provided only to the extent that a liability is expected to arise in the foreseeable future.

2. FIXED ASSETS

	Freehold property £'000	Leasehold property Long lease £'000	Short lease £'000	Office furniture and equipment £'000	Motor cars £'000	Total £'000
Cost -						
At 1 April 1985	454	848	83	830	1,640	3,855
Additions	162	15	42	231	1,574	2,024
Disposals	(8)	-	(16)	(4)	(1,193)	(1,221)
At 31 March 1986	608	863	109	1,057	2,021	4,658
Aggregate depreciation	38	115	27	496	633	1,309
Net book amount -						
At 31 March 1986	570	748	82	561	1,388	3,349
At 31 March 1985	428	756	47	466	1,117	2,814

NATIONAL HOUSE-BUILDING COUNCIL
(a company limited by guarantee)

NOTES TO THE ACCOUNTS
for the year ended 31 MARCH 1986

1. ACCOUNTING POLICIES

Group accounts

- (a) The consolidated accounts deal with the Council and its present subsidiaries. The Council and its previous subsidiaries were not consolidated on the grounds of dissimilar activities but group accounts were presented in the form of the accounts of the Council together with, but separate from, the accounts of its subsidiaries.

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2. FIXED ASSETS

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Cost -						
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Disposals	(8)	-	(16)	(4)	(1,193)	(1,221)
At 31 March 1986	608	863	109	1,057	2,021	4,658
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Net book amount -						
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At 31 March 1985	428	756	47	466	1,117	2,814

NATIONAL HOUSE-BUILDING COUNCIL
(a company limited by guarantee)

NOTES TO THE ACCOUNTS
for the year ended 31 MARCH 1986
(continued)

3. LISTED INVESTMENTS

	Cost £'000	Market value £'000	Maturity value £'000
British Government securities, redeemable 1986 - 1999	105,484	116,293	114,026
Other fixed interest securities, redeemable 1986 - 1993	<u>1,815</u>	<u>1,927</u>	<u>1,945</u>
At 31 March 1986	107,299	118,220	115,971
At 31 March 1985	<u>94,848</u>	<u>96,711</u>	<u>98,987</u>

The maturity value of British Government securities includes index-linked securities at nominal value indexed to 31 March 1986.

4. INTEREST IN SUBSIDIARIES

	1986 £'000	1985 £'000
Group:		
Shares in subsidiaries not consolidated at cost	-	1
Company:		
Shares in subsidiaries at cost	1	1
Less provision	<u>(1)</u>	<u>-</u>
	-	1

The Council's subsidiaries at 31 March 1986 were wholly owned and as follows:
NHBC Building Control Services Limited
PRC Homes Limited

5. OTHER DEBTORS AND PREPAYMENTS

	Group 1986 £'000	1985 £'000	Company 1986 £'000	1985 £'000
Estimated recoveries from rescue and ex-gratia schemes	1,008	609	1,008	609
Others	<u>3,373</u>	<u>3,274</u>	<u>3,341</u>	<u>3,274</u>
	<u>4,381</u>	<u>3,883</u>	<u>4,349</u>	<u>3,883</u>

NATIONAL HOUSE-BUILDING COUNCIL
(a company limited by guarantee)

NOTES TO THE ACCOUNTS
for the year ended 31 MARCH 1986
(continued)

6. OUTSTANDING CLAIMS

Full provision is made for the estimated cost of all claims notified but not settled at the date of the balance sheet, less related reinsurance recoveries, using information available at that time. Provision is also made for the Council's share of the cost of claims incurred but not reported (IBNR's) until after the balance sheet date and for the estimated administrative expenses that will be incurred after the balance sheet date in settling all claims outstanding at that date, including IBNR's. Significant delays are experienced in both the notification and settlement of claims. Accordingly a substantial measure of experience and judgement is required in assessing such outstanding claims, the ultimate cost of which cannot be known with certainty at the balance sheet date. Differences between the provisions for outstanding claims at a balance sheet date and subsequent revisions and settlements are included in the income and expenditure account of later years.

7. PROVISION FOR FUTURE CLAIMS AND SETTLEMENT COSTS

The incidence and costs of future claims are calculated having regard to past experience and trends, making due allowance for future inflation, and the provision for future claims is calculated by discounting these costs. The methods used in these calculations have been approved by William M. Mercer Fraser Limited, independent actuaries. The expected incidence of claims costs, thus computed, is approximately matched by investment in dated fixed interest stocks.

8. ADDITIONAL PROVISION FOR SPECIFIC HOUSING GENERATIONS

Provision is made towards expected future claims where payments by the Council in excess of its legal liability may be appropriate. Transfers to this provision are made at the discretion of the Finance Committee.

9. CERTIFICATE FEES RECEIVED IN ADVANCE

Certificate fees received in advance represents amounts set aside to cover the cost of inspection of houses under construction and their subsequent certification. These amounts are released to the income and expenditure account when inspection is completed.

10. BUILDERS' EX-GRATIA RESERVE

A proportion of certificate fees received during the year ended 31 March 1979 was set aside to make awards to builders who might otherwise suffer serious financial difficulty as a result of the cost of compensation paid to house-owners.

NATIONAL HOUSE-BUILDING COUNCIL
(a company limited by guarantee)

NOTES TO THE ACCOUNTS
for the year ended 31 MARCH 1986
(continued)

11. BUILDERS' DEPOSITS

Builders' deposits are amounts paid by builders to the Council as a surety and are repayable at the Council's discretion.

12. OTHER OPERATING EXPENDITURE

	<u>1986</u>	<u>1985</u>
	£'000	£'000
Salaries and other staff costs	6,207	5,188
Auditors' remuneration	41	27
Depreciation and amortisation	702	627
Interest payable	83	84
Other operating expenditure	<u>4,718</u>	<u>3,674</u>
	11,751	9,600
	<u>=====</u>	<u>=====</u>

No member of the Finance Committee received remuneration in that capacity, other than the Director-General (a full-time employee) who received emoluments of £36,583. The emoluments of the former Director-General, including emoluments as Chairman of NHBC Building Control Services Limited, were in the range £30,000 to £35,000 (1985 - £59,564). Two other members of the Finance Committee were also directors of NHBC Building Control Services Limited and in that capacity received emoluments in the range nil to £5,000. The total emoluments of the members of the Finance Committee including pension contributions amounted to £74,414 (1985 - £66,329).

One other employee of the Council received emoluments in the range £30,000 - £35,000 (1985 - none).

13. EXCEPTIONAL ITEM

This represents the net recovery of costs previously written off in connection with the rescue scheme for homeowners at Valentia Road, Blackpool.

14. TAXATION

	<u>1986</u>	<u>1985</u>
	£'000	£'000
The charge/(credit) for taxation, based on the results for the year, is shown below:-		
Deferred taxation at 35% (1985 - 35%)	318	24
Prior year adjustments - Current tax	-	(6)
- Deferred tax	<u>-</u>	<u>(32)</u>
	318	(14)
	<u>=====</u>	<u>=====</u>

NATIONAL HOUSE-BUILDING COUNCIL
(a company limited by guarantee)

NOTES TO THE ACCOUNTS
for the year ended 31 MARCH 1986
(continued)

15. DEFERRED TAXATION - GROUP AND COMPANY

	Provided in full in these accounts		Total potential deferred taxation	
	1986	1985	1986	1985
	£'000	£'000	£'000	£'000
Short term timing differences	800	704	800	704
Other timing differences:-				
Capital allowances	53	58	53	58
Other items	-	-	(116)	(130)
Losses	(153)	(380)	(153)	(380)
	700	382	584	252
	=====	=====	=====	=====

16. INCOME AND EXPENDITURE ACCOUNT

The movement on the Council's income and expenditure account has been as follows:

	£'000
Balance at 31 March 1985	7,219
Surplus for the year	<u>382</u>
Balance at 31 March 1986	<u>7,601</u>

17. LIABILITY OF MEMBERS

At 31 March 1986 there were 66 (1985 - 66) 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.

18. CAPITAL COMMITMENTS

At 31 March 1986 expenditure amounting to £2,600,000 (for which no provision has been made in these accounts) had been committed in respect of stage payments on purchase of Government securities. At that date the Council had also authorised and contracted £20,000 (1985 - £50,000) of expenditure on fixed assets.

19. PREPARATION OF ACCOUNTS

As an insurance company the Council is permitted by the Companies Act 1985 to prepare accounts in accordance with the accounting regulations which apply to special category companies. Consequently these accounts have been drawn up in accordance with Sections 258 and 259 of and Schedule 9 to the Companies Act 1985.

20. APPROVAL OF ACCOUNTS

These accounts were approved at a meeting of the Finance Committee on 22 October 1986.