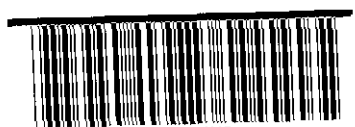


NATIONAL HOUSE-BUILDING COUNCIL
(A Company limited by guarantee)

ANNUAL REPORT

For the year ended 31st March 2001
Registered No. 320784



A04
COMPANIES HOUSE

A1QXC4NI

0726
05/10/01

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

Annual report
for the year ended 31 March 2001

	Page
Directors	3
Advisers	4
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	12
Consolidated balance sheet	13
Parent company balance sheet	15
Consolidated cash flow statement	17
Notes to the financial statements	18

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

(retired 30 September 2000)

Sir John Carter MA FIA

F Eaton

P D Holliday OBE

(retired 31 August 2000)

B A P Hunt MA DipArch RIBA FRSA

R MacEachrane MRICS ACI Arb

(appointed 1 October 2000)

G R McCallum BSc FCA

(appointed 1 September 2000)

W I Mitchell DipTP RIBA ARIAS

S W Parker

G C Pye

C W Roberts CB MA

T R Roydon BSc MBA

R J Tamayo BSc ACA

(appointed 1 October 2000)

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

F Eaton retired on 23 June 2001

B A P Hunt MA DipArch RIBA FRSA retired on 11 June 2001

M R Harris FCMA was appointed on 24 June 2001

R N Lay CBE FRICS was appointed on 12 June 2001

Secretary and registered office

P Doyle BA PhD

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 UK 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 2001

The directors present their report and the audited financial statements for the year ended 31 March 2001.

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, resolution 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 £3.3 million (2000: £7.7 million). After allowing for taxation there was a surplus of £2.6 million (2000: £6.3 million) which, together with a revaluation surplus on investment land and buildings of £0.8 million, 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 almost £75 million (2000: £13 million) and the gross amount available to meet current and predicted future liabilities is now almost £929 million (2000: £854 million). The provisions take account both of the prevailing low interest rates and of the continuing uncertainty about the future level of claims.

During the year, the value of the Company's fixed interest securities rose as yields fell. This in turn has the effect of increasing the Company's technical reserves by decreasing the expected future investment income taken into account when calculating the Company's insurance liabilities. Details of the performance of the Company's investment portfolio are disclosed in notes 5(a), 5(b) and 25 to the financial statements.

National House-Building Council

(a company limited by guarantee)

Review of the year

Approximately £24.5 million (2000: £28.0 million) was paid out in claims to the benefit of new home buyers (this figure does not include the associated claims handling costs). The number of new housing starts registered with the Company was 2% lower than last year, which is a smaller reduction than that shown in the national statistics reported by the DETR over the same period. The number of certificates issued (broadly equivalent to completions) was 7% lower.

	31 March 1999	31 March 2000	31 March 2001	Change on 2000
Number of registered house-builders	18,758	18,050	17,763	-2%
Number of completed dwellings covered by protection scheme	1,608,000	1,582,000	1,576,000	0%
Number of new dwellings registered in year	160,000	158,000	154,000	-2%
Number of new dwellings completed in year	153,000	160,000	149,000	-7%

During the year NHBC has focussed on consolidating last year's wide ranging improvements to its products and services through a programme of internal reorganisation.

The changes, now nearing completion, have been designed to improve the company's efficiency and effectiveness as well as creating greater customer focus.

There has been a move towards centralising back-office functions. As a result, new premises have been established in Milton Keynes. These now form one of two main offices, the other being in Amersham. This has been achieved whilst strengthening essential contact with customers at a local level.

NHBC's service to house-builders has significantly improved through:

- An increase in the number of Regional Directors throughout the UK with a specific brief to focus exclusively on customer requirements.
- An increase in the number of field based engineers and surveyors to support NHBC inspection staff and provide more comprehensive site-based services.
- Greater efficiency with centralised contact points for customers.

NHBC's 10 year Buildmark cover has been further extended this year to include non-load-bearing partition walls and wet applied plaster and ceilings. Throughout the year initiatives have continued to clarify to homeowners precisely what the cover includes.

National House-Building Council

(a company limited by guarantee)

Review of the year continued

Following significant improvements made to NHBC's Inspection Service last year, NHBC research of the industry, carried out in January 2001, shows clearly that the service is regarded as being much improved.

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 2002 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 £1,010,000 (2000: £374,000).

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 profit of £1,000 (2000: loss of £280,000).

National House-Building Council

(a company limited by guarantee)

Employees

The internal reorganisation this year has imposed heavy demands on staff. Not least has been the upheaval involved in establishing the new premises in Milton Keynes. Throughout the process, staff have managed the change process and continued to deliver in all areas of the business. The Board is again extremely grateful for their efforts, commitment and support.

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.

This year, the Company has had its 'Investors in People' status reconfirmed, reinforcing its commitment to the development and training of its staff.

The average number of employees during the year (excluding non-executive directors) was 860 (2000: 840) full time equivalents. At the end of the year staff numbers had risen to 867 (2000: 863). This increase in manpower largely reflects continued growth of NHBC Services Limited. Year end staff numbers were made up of 625 (2000: 622) males and 242 (2000: 241) females.

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 founded on fair practices which seek to ensure that all employment decisions are based on aptitude and ability.

Directors

The directors of the Company during the year and as at 31 March 2001 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 £8,937 (2000: £11,695).

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 2001. 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.

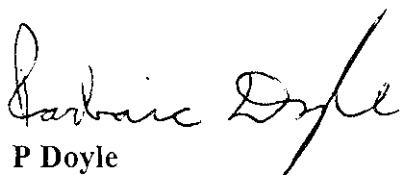
Corporate governance

The directors have considered the recommendations of the Combined Code on Corporate Governance and have implemented them where they consider them 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



P Doyle

Company Secretary

6 September 2001

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 36.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report. As described on page 9, 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 1985. 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.

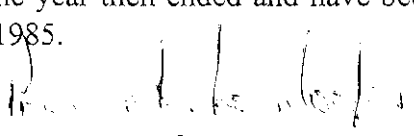
Basis of opinion

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 2001 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

6 September 2001

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

**Consolidated profit and loss account technical account - general business
for the year ended 31 March 2001**

	Notes	2001 £'000	2000 £'000
Earned premiums, net of reinsurance			
Gross premiums written		27,249	25,857
Outward reinsurance premiums		<u>(1,784)</u>	<u>(1,772)</u>
Net premiums written		25,465	24,085
Change in the gross provision for unearned premiums		(207)	(7,618)
Change in the provision for unearned premiums, reinsurers' share		<u>(2,194)</u>	<u>(1,445)</u>
Change in the net provision for unearned premiums		(2,401)	(9,063)
Earned premiums, net of reinsurance		23,064	15,022
Allocated investment return transferred from the non-technical account		63,123	38,283
Claims incurred, net of reinsurance			
Claims paid			
Gross amount		(28,259)	(31,554)
Reinsurers' share		<u>156</u>	<u>1,361</u>
Net claims paid		(28,103)	(30,193)
Change in the provision for claims			
Gross amount		7,505	(11,594)
Reinsurers' share		<u>135</u>	<u>(1,521)</u>
Change in the net provision for claims		7,640	(13,115)
Claims incurred, net of reinsurance		(20,463)	(43,308)
Changes in other technical provisions, net of reinsurance, not shown under other headings		(58,716)	1,683
Net operating expenses	4	<u>(765)</u>	<u>(743)</u>
Balance on the technical account for general business		<u>6,243</u>	<u>10,937</u>

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

**Consolidated profit and loss account non-technical account
for the year ended 31 March 2001**

	Notes	2001 £'000	2000 £'000
Balance on the general business technical account		6,243	10,937
Investment income	5(a)	58,990	49,748
Unrealised gains on investments	5(b)	4,702	-
Investment expenses and charges	6	(378)	(332)
Unrealised losses on investments	5(b)	-	(11,000)
Allocated investment return transferred to the general business technical account		(63,123)	(38,283)
Other income		38,524	36,386
Other charges		<u>(41,695)</u>	<u>(39,755)</u>
Surplus on ordinary activities before tax	9	3,263	7,701
Tax on surplus on ordinary activities	10	<u>(604)</u>	<u>(1,360)</u>
Retained surplus for the financial year	16	<u>2,659</u>	<u>6,341</u>

Consolidated statement of total recognised gains and losses

	Notes	2001 £'000	2000 £'000
Surplus for the financial year	16	2,659	6,341
Unrealised surplus on revaluation of properties	16	<u>763</u>	<u>199</u>
Total recognised gains relating to the year		<u>3,422</u>	<u>6,540</u>

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

**Consolidated balance sheet
at 31 March 2001**

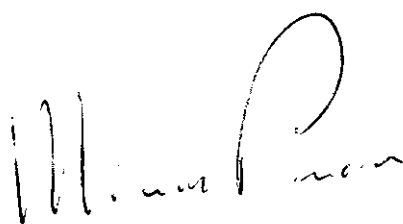
	Notes	2001 £'000	2000 £'000
Assets			
Investments			
Land and buildings	12(a)	13,115	12,322
Other financial investments	12(b)	<u>887,553</u>	<u>827,018</u>
		<u>900,668</u>	<u>839,340</u>
Reinsurers' share of technical provisions			
Provision for unearned premiums		19,361	21,555
Claims outstanding		302	167
Other technical provisions	19	<u>78,778</u>	<u>55,646</u>
		<u>98,441</u>	<u>77,368</u>
Debtors			
Debtors arising out of direct insurance operations	14	1,778	1,107
Other debtors	14	<u>7,805</u>	<u>9,509</u>
		<u>9,583</u>	<u>10,616</u>
Other assets			
Tangible assets	15	7,138	6,949
Cash at bank and in hand		<u>669</u>	<u>490</u>
		<u>7,807</u>	<u>7,439</u>
Prepayments and accrued income			
Accrued interest and rent		15,381	15,822
Deferred acquisition costs		4,000	3,750
Other prepayments and accrued income		<u>909</u>	<u>823</u>
		<u>20,290</u>	<u>20,395</u>
Total assets		<u>1,036,789</u>	<u>955,158</u>

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

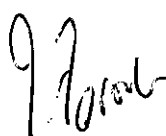
**Consolidated balance sheet
at 31 March 2001 (continued)**

	Notes	2001 £'000	2000 £'000
Liabilities			
Reserves			
Revaluation reserve	16	3,084	2,321
Accumulated surpluses	16	<u>67,964</u>	<u>65,305</u>
Accumulated reserves	17	<u>71,048</u>	<u>67,626</u>
Technical provisions			
Provision for unearned premiums		287,785	287,578
Claims outstanding		47,693	55,198
Other technical provisions	19	<u>593,077</u>	<u>511,229</u>
		<u>928,555</u>	<u>854,005</u>
Provisions for other risks and charges	20	<u>3,172</u>	<u>4,400</u>
Creditors			
Creditors arising out of direct insurance operations	21	4,796	4,155
Other creditors including taxation and social security	22	<u>21,185</u>	<u>17,299</u>
		<u>25,981</u>	<u>21,454</u>
Accruals and deferred income		<u>8,033</u>	<u>7,673</u>
Total liabilities		<u>1,036,789</u>	<u>955,158</u>

The financial statements on pages 11 to 36 were approved by the Board of Directors on 6 September 2001 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 2001**

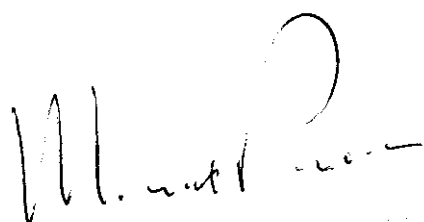
	Notes	2001 £'000	2000 £'000
Assets			
Investments			
Land and buildings	12(a)	13,115	12,322
Investments in group undertakings and participating interests	13	2,661	1,953
Other financial investments	12(b)	887,553	827,018
		<u>903,329</u>	<u>841,293</u>
Reinsurers' share of technical provisions			
Provision for unearned premiums		19,361	21,555
Claims outstanding		302	167
Other technical provisions	19	78,778	55,646
		<u>98,441</u>	<u>77,368</u>
Debtors			
Debtors arising out of direct insurance operations	14	1,778	1,107
Other debtors	14	8,733	10,359
		<u>10,511</u>	<u>11,466</u>
Other assets			
Tangible assets	15	7,138	6,949
Cash at bank and in hand		592	491
		<u>7,730</u>	<u>7,440</u>
Prepayments and accrued income			
Accrued interest and rent		15,381	15,822
Deferred acquisition costs		4,000	3,750
Other prepayments and accrued income		909	823
		<u>20,290</u>	<u>20,395</u>
Total assets		<u>1,040,301</u>	<u>957,962</u>

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

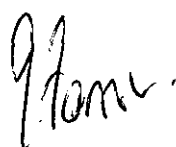
Parent company balance sheet
at 31 March 2001 (continued)

	Notes	2001 £'000	2000 £'000
Liabilities			
Reserves			
Revaluation reserve	16	5,745	4,274
Accumulated surpluses	16	<u>65,303</u>	<u>63,352</u>
Accumulated reserves	17	<u>71,048</u>	<u>67,626</u>
Technical provisions			
Provision for unearned premiums		287,785	287,578
Claims outstanding		47,693	55,198
Other technical provisions	19	<u>593,077</u>	<u>511,229</u>
		<u>928,555</u>	<u>854,005</u>
Provisions for other risks and charges	20	<u>3,172</u>	<u>4,400</u>
Creditors			
Creditors arising out of direct insurance operations	21	4,796	4,155
Other creditors including taxation and social security	22	<u>24,775</u>	<u>20,135</u>
		<u>29,571</u>	<u>24,290</u>
Accruals and deferred income		<u>7,955</u>	<u>7,641</u>
Total liabilities		<u>1,040,301</u>	<u>957,962</u>

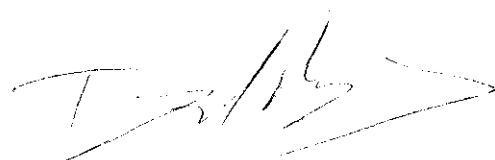
The financial statements on pages 11 to 36 were approved by the Board of Directors on 6 September 2001 and were signed on its behalf by:-



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 2001**

	Notes	2001 £'000	2000 £'000
Consolidated cash flow statement			
Operating activities			
Net cash inflow from operating activities	23	48,029	36,368
Taxation			
Corporation tax paid		-	-
Tax refunds received		<u>4,359</u>	<u>2,333</u>
Net cash inflow from taxation		4,359	2,333
Capital expenditure			
Purchase of tangible fixed assets		(4,707)	(5,140)
Sale of tangible fixed assets		<u>1,665</u>	<u>1,847</u>
Net cash outflow from capital expenditure		<u>(3,042)</u>	<u>(3,293)</u>
Increase in cash in the period	25	<u>49,346</u>	<u>35,408</u>
Cash flows were invested as follows:			
Net portfolio investment			
Purchase of ordinary shares		52,805	45,464
Sale of ordinary shares		<u>(31,142)</u>	<u>(7,371)</u>
		21,663	38,093
Purchase of fixed income securities		458,836	705,368
Sale of fixed income securities		<u>(432,227)</u>	<u>(548,207)</u>
		26,609	157,161
Purchase of land and buildings		296	478
Sale of land and buildings		<u>-</u>	<u>-</u>
		296	478
Net cash outflow on portfolio investments		48,568	195,732
Increase/(decrease) in cash holdings	24	<u>778</u>	<u>(160,324)</u>
Net investment of cash flows	25	<u>49,346</u>	<u>35,408</u>

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

Notes to the financial statements
for the year ended 31 March 2001

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 inception 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.

National House-Building Council

(a company limited by guarantee)

- (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.
- (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.

National House-Building Council

(a company limited by guarantee)

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.

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 (2000: £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.

National House-Building Council

(a company limited by guarantee)

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.

Operating leases

Rentals payable under operating leases are charged to the profit and loss account as incurred over the lease term.

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	
	2001 £'000	2000 £'000	2001 £'000	2000 £'000	2001 £'000	2000 £'000
Direct underwriting activities	27,249	25,857	6,243	10,937	34,194	32,837
Other activities	38,524	36,386	(2,980)	(3,236)	36,854	34,789
Total	65,773	62,243	3,263	7,701	71,048	67,626

3 Movements in prior year's claims provisions

	2001 £'000	2000 £'000
Net loss provision brought forward as at 1 April	55,031	41,916
Net payments during the year in respect of these provisions	(19,248)	(24,501)
Net loss provision carried forward in respect of claims provided at 1 April	(24,023)	(16,762)
Over provision of prior year's provision	11,760	653

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

4 Net operating expenses

	2001 £'000	2000 £'000
Acquisition costs	621	556
Increase in deferred acquisition costs	(250)	(100)
Administrative expenses	394	287
	<hr/>	<hr/>
Net operating expenses	765	743
	<hr/>	<hr/>

No commission was incurred during the year in respect of direct insurance (2000: £Nil).

5(a) Investment income

	2001 £'000	2000 £'000
Income from investments other than participating interests		
Income from land and buildings	297	247
Income from listed investments	47,833	40,034
Income from other investments and deposits	4,079	8,089
	<hr/>	<hr/>
	52,209	48,370
Net gains on realisation of listed investments	6,781	1,378
	<hr/>	<hr/>
	58,990	49,748
	<hr/>	<hr/>

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

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

Overall the Company's financial investments appreciated in value by £11.5 million (2000: depreciated by £9.6 million). After realising £6.8 million (2000: £1.4 million) of gains, the portfolio's unrealised gains at the year end increased by £4.7 million (2000: decreased by £11.0 million).

	2001		2000	
	£'000	£'000	£'000	£'000
Unrealised gains brought forward at 1 April 2000		35,867		46,867
Net realised gains during the year	(6,781)		(1,378)	
Increase/(decrease) in the value of investments held during the year	<u>11,483</u>		<u>(9,622)</u>	
Increase/(decrease) in unrealised gains		<u>4,702</u>		<u>(11,000)</u>
Unrealised gains carried forward at 31 March 2001		<u>40,569</u>		<u>35,867</u>

6 Investment expenses and charges

	2001	2000
	£'000	£'000
Investment management expenses	<u>(378)</u>	<u>(332)</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:

	2001 Number	2000 Number
Direct underwriting business	141	136
Other direct activities	533	520
Administration	<u>186</u>	<u>184</u>
	<u>860</u>	<u>840</u>

Staff costs for the above persons were:

	2001 £'000	2000 £'000
Wages and salaries	22,338	21,389
Social security costs	2,051	2,010
Pension costs	<u>2,843</u>	<u>2,783</u>
	<u>27,232</u>	<u>26,182</u>

8 Directors' emoluments

	2001 £'000	2000 £'000
Aggregate emoluments	<u>518</u>	<u>429</u>

During the year retirement benefits accrued to 3 directors (2000: 1 director) under a defined benefit scheme and 1 director (2000: 1 director) under a money purchase scheme.

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

	2001 £'000	2000 £'000
Aggregate emoluments	160	148
Pension contributions	21	21

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)

The aggregate emoluments of the Directors of the Company for services to the Company and its subsidiary undertakings were as follows:

	Notes	Salary/ Fees	Benefits	Bonus	Total emoluments	Total emoluments
		2001 £	2001 £	2001 £	2001 £	2000 £
Non-Executive Chairman						
Sir M Pickard		48,659	-	-	48,659	48,659
Executive Directors						
I Farookhi		118,435	8,444	33,500	160,379	147,872
M A W Hall	1	61,533	149	-	61,682	96,688
R MacEachrane	2	45,336	5,231	8,100	58,667	-
R J Tamayo	3	41,727	3,972	7,200	52,899	-
Non-Executive Directors						
Sir J Carter		12,000	-	-	12,000	12,000
F Eaton	4	-	-	-	-	-
P D Holliday	5	6,667	-	-	6,667	16,000
B A P Hunt		16,000	-	-	16,000	16,000
G R McCallum	6	9,333	-	-	9,333	-
W I Mitchell		16,000	-	-	16,000	16,000
S W Parker		16,000	-	-	16,000	16,000
G C Pye		12,000	-	-	12,000	12,000
C W Roberts		16,000	-	-	16,000	16,000
T R Roydon		16,000	-	-	16,000	16,000
C G Toner		16,000	-	-	16,000	15,293
		451,690	17,796	48,800	518,286	428,512

No retirement benefits accrued to any non-executive directors during this year (2000: nil).

Notes:

- 1 M A W Hall retired 30 September 2000
- 2 R MacEachrane was appointed 1 October 2000
- 3 R J Tamayo was appointed 1 October 2000
- 4 F Eaton waived his entitlement to receive fees for both years
- 5 P D Holliday retired 31 August 2000
- 6 G R McCallum was appointed 1 September 2000

National House-Building Council

(a company limited by guarantee)

9 Surplus on ordinary activities before tax

	2001 £'000	2000 £'000
Surplus on ordinary activities before tax is stated after:		
Depreciation charge for year:		
Other land and buildings	266	254
Tangible owned fixed assets	2,644	2,598
Auditors' remuneration for:		
Audit	91	93
Other services	249	67
Operating lease rentals:		
Land and buildings	151	113

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

	2001 £'000	2000 £'000
Tax on surplus on ordinary activities:		
UK Corporation tax		
Current at 30% (2000: 30%)	2,749	2,165
Deferred at 30% (2000: 30%)	(2,158)	(131)
Under/(over) provision in respect of prior years		
Current	13	(674)
Deferred	-	-
	<hr/>	<hr/>
Tax charge for the year	604	1,360

11 Parent company

The retained profit dealt with in the profit and loss account of the Company for the year ended 31 March 2001 is £1,951,000 (2000: £6,276,000). 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 2000	2,900	9,672
Additions	-	296
Surplus on revaluation	600	103
Disposals	-	-
At 31 March 2001	3,500	10,071
Depreciation		
At 1 April 2000	-	250
Charge for the year	-	266
Revaluations	-	(60)
Eliminated in respect of disposals	-	-
At 31 March 2001	-	456
Net book value at 31 March 2001	3,500	9,615
Net book value at 31 March 2000	2,900	9,422

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	
	2001 £'000	2000 £'000	2001 £'000	2000 £'000
Freeholds	3,500	2,900	9,140	9,144
Long Leaseholds	-	-	475	278
	3,500	2,900	9,615	9,422

All land and buildings are regularly revalued in accordance with the Company's stated investments accounting policy (as set out on page 20). 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	
	2001 £'000	2000 £'000	2001 £'000	2000 £'000
Cost	3,193	3,193	9,177	8,881
Aggregate depreciation based on cost	-	-	(2,120)	(1,921)
Net book value based on cost	3,193	3,193	7,057	6,960

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

12(b) Investments: other financial investments

	2001		2000	
	Market Value £'000	Cost £'000	Market Value £'000	Cost £'000
Shares and other variable yield securities and units in unit trusts	74,622	73,196	55,861	48,896
Debt securities and other fixed interest securities	733,988	694,845	692,994	664,092
Deposits with credit institutions	<u>78,943</u>	<u>78,943</u>	<u>78,163</u>	<u>78,163</u>
	<u>887,553</u>	<u>846,984</u>	<u>827,018</u>	<u>791,151</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 £2,661,000 (2000: £1,953,000) 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 2001 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

	2001 £'000	2000 £'000
Due from reinsurers	316	262
Other debtors	<u>1,462</u>	<u>845</u>
	<u>1,778</u>	<u>1,107</u>

Other debtors

	Group		Council	
	2001 £'000	2000 £'000	2001 £'000	2000 £'000
Amounts owed by subsidiary undertakings	-	-	1,559	1,357
Other debtors	<u>7,805</u>	<u>9,509</u>	<u>7,174</u>	<u>9,002</u>
	<u>7,805</u>	<u>9,509</u>	<u>8,733</u>	<u>10,359</u>

Included in the other debtors figure above for both Group and Council are £3,179,000 (2000: £2,349,000) representing the cost of properties which have either been purchased from policyholders or purchased to provide alternative accommodation for policyholders.

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

15 Tangible assets

	Motor vehicles £'000	Computer equipment £'000	Fixtures and fittings £'000	Total £'000
Cost				
At 1 April 2000	6,249	3,375	1,920	11,544
Additions	3,341	689	677	4,707
Disposals	(3,122)	(262)	-	(3,384)
At 31 March 2001	6,468	3,802	2,597	12,867
Depreciation				
At 1 April 2000	1,342	2,281	972	4,595
Charge for the year	1,609	674	361	2,644
Disposals	(1,248)	(262)	-	(1,510)
At 31 March 2001	1,703	2,693	1,333	5,729
Net book value at 31 March 2001	4,765	1,109	1,264	7,138
Net book value at 31 March 2000	4,907	1,094	948	6,949

16 Reserves

	Group		Council	
	Accumulated surpluses £'000	Revaluation reserve £'000	Accumulated surpluses £'000	Revaluation reserve £'000
At 1 April 2000	65,305	2,321	63,352	4,274
Retained surplus for the year	2,659	-	1,951	-
Revaluation surplus on investment properties and land and buildings	-	763	-	763
Revaluation surplus, net of tax on group undertakings and participating interests	-	-	-	708
At 31 March 2001	67,964	3,084	65,303	5,745

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

17 Reconciliation of movements in accumulated reserves

	Group		Council	
	2001	2000	2001	2000
	£'000	£'000	£'000	£'000
Surplus for the financial year	2,659	6,341	1,951	6,276
Other recognised gains and losses relating to the year (net)	<u>763</u>	<u>199</u>	<u>1,471</u>	<u>264</u>
Net addition to accumulated reserves	3,422	6,540	3,422	6,540
Opening accumulated reserves	<u>67,626</u>	<u>61,086</u>	<u>67,626</u>	<u>61,086</u>
Closing accumulated reserves	<u>71,048</u>	<u>67,626</u>	<u>71,048</u>	<u>67,626</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 £2,843,000 (2000: £2,783,000). The outstanding pension prepayment, which represents the excess of amounts funded to the pension scheme over the cumulative pension cost charge was £766,000 (2000: £822,500).

19 Other technical provisions

Unexpired risks provision

	2001 £'000	2000 £'000
Gross	593,077	511,229
Reinsurance	<u>(78,778)</u>	<u>(55,646)</u>
Net	<u>514,299</u>	<u>455,583</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 £317 million (2000: £363 million) is taken into account.

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

20 Provisions for other risks and charges

	Reorganisation/ Restructuring provision £'000	Deferred tax £'000	Total £'000
As at 1 April 2000	-	4,400	4,400
Charged/ (credited) to the profit and loss account	930	(2,158)	(1,228)
Utilised during the year	-	-	-
As at 31 March 2001	930	2,242	3,172

An organisational restructuring of the group's operations was announced on 27 June 2000. This restructuring, which involved the closure of several branch offices and the introduction of a new corporate structure will result in the loss of approximately 100 existing staff in total and the redeployment of many others. This restructuring should be substantially complete by 30th September 2001. Included within the restructuring provision is £740,000 for amounts payable to those made redundant, where notice had been given prior to the Balance Sheet date. The balance of the provision relates to property costs incurred over the next financial year.

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

	Amount provided		Amount unprovided	
	2001 £'000	2000 £'000	2001 £'000	2000 £'000
Short term timing differences	2,401	4,449	-	-
Excess of capital allowances over depreciation	(159)	(49)	-	-
	<u>2,242</u>	<u>4,400</u>	<u>-</u>	<u>-</u>

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

21 Creditors arising out of direct insurance operations

	2001 £'000	2000 £'000
Amounts due in less than one year	<u>4,796</u>	<u>4,155</u>

Included in the above are £3,003,000 (2000: £2,451,000) of builders' deposits. These monies are deposited with the Company as surety by individual builders.

22 Other creditors including taxation and social security

	Group		Council	
	2001 £'000	2000 £'000	2001 £'000	2000 £'000
Amounts owing to subsidiary undertakings	-	-	5,910	4,513
Certificate fees in advance	14,983	12,832	13,575	11,882
Bank overdraft	991	810	991	810
Corporation tax	303	112	-	-
Other creditors	<u>4,908</u>	<u>3,545</u>	<u>4,299</u>	<u>2,930</u>
	<u>21,185</u>	<u>17,299</u>	<u>24,775</u>	<u>20,135</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.

National House-Building Council

(a company limited by guarantee)

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

	2001 £'000	2000 £'000
Surplus on ordinary activities before tax	3,263	7,701
Net depreciation of tangible assets	2,910	2,852
Increase in technical provisions	53,477	20,495
Tax on investment income deducted at source	(2,741)	(2,997)
Realised gains on investments and fixed assets	(6,571)	(1,124)
(Increase)/decrease in unrealised gains on investments	(4,702)	11,000
(Increase)/decrease in insurance debtors	(671)	688
Increase in other debtors	(2,486)	(73)
Decrease/(increase) in prepayments and accrued income	105	(2,799)
Increase in insurance creditors	641	358
Increase in other creditors	3,514	507
Increase in provisions for other risks and charges	930	-
Increase/(decrease) in accruals and deferred income	360	(240)
Net cash inflow from operating activities	48,029	36,368

24 Increase/(decrease) in cash holdings

	At 31 March 2001 £000's	Cash Flow £000's	At 31 March 2000 £000's	Cash Flow £000's	At 31 March 1999 £000's
Cash at bank and in hand	669	179	490	(59)	549
Bank overdraft	(991)	(181)	(810)	(271)	(539)
Deposits with credit institutions	<u>78,943</u>	<u>780</u>	<u>78,163</u>	<u>(159,994)</u>	<u>238,157</u>
	<u>78,621</u>	<u>778</u>	<u>77,843</u>	<u>(160,324)</u>	<u>238,167</u>

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

25 Movement in cash, portfolio investments and financing

	At 31 March 2001 £000's	Cash Flow £000's	Changes to market value £000's	At 31 March 2000 £000's	Cash Flow £000's	Changes to market value £000's	At 31 March 1999 £000's
Ordinary shares	74,622	21,663	(2,902)	55,861	38,093	3,521	14,247
Fixed income securities	733,988	26,609	14,385	692,994	157,161	(13,143)	548,976
Deposits with credit institutions	<u>78,943</u>	<u>780</u>	<u>-</u>	<u>78,163</u>	<u>(159,994)</u>	<u>-</u>	<u>238,157</u>
Other financial investments	887,553	49,052	11,483	827,018	35,260	(9,622)	801,380
Land and buildings	13,115	296	497	12,322	478	(55)	11,899
Cash at bank and in hand	669	179	-	490	(59)	-	549
Bank overdraft	<u>(991)</u>	<u>(181)</u>	<u>-</u>	<u>(810)</u>	<u>(271)</u>	<u>-</u>	<u>(539)</u>
TOTAL	<u>900,346</u>	<u>49,346</u>	<u>11,980</u>	<u>839,020</u>	<u>35,408</u>	<u>(9,677)</u>	<u>813,289</u>

26 Guarantees and Financial Commitments

Annual commitments in respect of non-cancellable operating leases on land and buildings for both the Group and Council are as follows:

	2001 £'000	2000 £'000
Operating leases on land and buildings which expire: -		
Within one year	19	16
Between one and five years	334	24
After five years	<u>67</u>	<u>67</u>
	<u>420</u>	<u>107</u>

27 Liability of members

At 31 March 2001 there were 71 (2000: 69) 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.