

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

**Registered No: 320784**

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

**Annual report**

**For the year ended 31 March 2010**



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**for the year ended 31 March 2010**

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

**Directors**

Sir John Carter MA FIA (Chairman of the Council)  
I Farookhi BA MSc DipLib FRSA (Chief Executive)  
S A Baseley  
I P Davis MBA BEng CEng MICE  
G P Fitzgerald  
P J Foster FCCA  
Sir John Harman BSc Hons  
M R Harris FCMA  
Sir Graham Hart KCB  
T Hough FCIQB  
S C Kelly ACA  
Dame Yvonne Moores DBE RN RM  
R A Nicholson CBE RIBA Hon FStructE  
Dr D B B Smith OBE Dr hc MA LLB FRSA FInstD NP  
R J Tamayo BSc FCA MBA  
R G Werth BSc ACA

1 June (appointed)

23 June 2010 (resigned)

15 May 2010 (resigned)

**Secretary and registered office**

J P Hastings FCIS  
Buildmark House  
Chiltern Avenue  
Amersham  
Buckinghamshire  
HP6 5AP

**National House-Building Council**  
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**Advisors**

**Registered auditors**

PricewaterhouseCoopers LLP  
1 Hay's Lane  
Hay's Galleria  
London  
SE1 2RD

**Bankers**

HSBC Bank plc  
70 Pall Mall  
London  
SW1Y 5EZ

**Actuary**

Towers Watson Limited  
Watson House  
London Road  
Reigate  
Surrey  
RH2 9PQ

**Investment managers**

Invesco Asset Management Limited  
30 Finsbury Square  
London  
EC2A 1AG

Baillie Gifford & Co  
Calton Square  
1 Greenside Row  
Edinburgh  
EH1 3AN

# **National House-Building Council**

**(a company limited by guarantee)**

## **Directors' report for the year ended 31 March 2010**

The directors present their report and the audited financial statements for the year ended 31 March 2010

### **Principal Activities**

With more than 70 years of experience and technical expertise, NHBC is the world's leading home warranty and insurance provider for new homes. As a non-profit distributing company NHBC's primary role and purpose is to work with the home-building and wider construction industry to raise the standard of new homes and to provide consumer protection for homeowners.

NHBC does this by

- Maintaining a register of builders who must comply with NHBC's Rules and Standards
- Setting and monitoring standards for new homes
- Providing consumer protection through our comprehensive 10-year warranty and insurance cover, Buildmark
- Inspecting homes at key stages of construction
- Helping the home-building industry assess and manage risk during construction
- Providing a range of management, education and technical information and support to the home-building industry

### **Business review**

#### **Results and performance**

After the difficult economic and trading conditions experienced last year NHBC has benefited from the rise in new build market and registrations have increased by 23%. The actions taken last year resulted in a fall in the cost base.

The surplus before tax for the year was £78.4 million (2009: £35.8 million). After allowing for taxation there was a surplus of £57.2 million (2009: £25.4 million). After an increase in revaluation reserves of £0.4 million and recognising net actuarial losses of £3.5 million on the pension scheme, total gains for the year of £54.0 million (2009: £14.7 million) were added to the Group's overall reserves, thereby increasing them to £314.1 million (2009: £260.1 million).

Technical provisions before reinsurance recoveries decreased by £72.7 million (2009: decreased £32.7 million) and the gross amount available to meet current and predicted future liabilities is now £1,375.9 million (2009: £1,448.6 million). The provisions take account both of prevailing interest rates and the continuing uncertainty about the future level of claims.

This year approximately £70.4 million (2009: £58.3 million) was paid out in claims to the benefit of new homebuyers. This figure does not include the associated claims handling costs or reimbursements received from builders. The increase is primarily as a consequence of an initiative to reduce claims lifecycle duration, which has improved by 10% this year resulting in an increased number of claims being processed and paid. It is expected that claims paid will fall next year.

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

### **Directors' report** **for the year ended 31 March 2010 (continued)**

#### **Results and performance (continued)**

Throughout the year, NHBC has continued to support the home-building industry by providing ongoing skills development and training. As part of its Supporting the Industry campaign, a programme of free and subsidised training has been provided to delegates. A series of open courses were available to registered builders throughout the year on a number of topical subjects. In addition, a partnership between NHBC, the Zero Carbon Hub and Construction Skills is identifying the key skills issues facing the industry and will address the short, medium and long-term skills challenges as part of the Home Building Skills – Action Plan.

The *Consumer Code for Home Builders* was introduced on 1 April 2010 being developed by a consortium of key industry and trade bodies that included NHBC. The Code was developed in response to the OFT Market Study into house building and formalises industry best practice for customer care. The Code's purpose is to ensure that all new home buyers are fully informed about their consumer rights, both pre- and post- contract and includes a new Independent Dispute Resolution Service. All NHBC registered builders are required to comply with the Code.

NHBC advises and liaises with parliamentarians and policy makers within the UK and European Union to help produce workable policies for the benefit of the industry and consumer. Over the last year, NHBC has contributed to

- Communities and Local Government (CLG) Consultation on the proposed definition of zero carbon
- CLG Consultation on the proposed changes to Part L (Conservation of Fuel and Power) / Part F (Means of Ventilation) Building Regulations
- Department of Energy and Climate Change consultation on proposed changes to the Government's Standard Assessment Procedure

As part of the consultation on changes to Building Regulations Parts L and F and to help inform its response, NHBC held discussions with government advisers, Zero Carbon Hub colleagues, house builders, trade associations and others to inform its response.

The NHBC Foundation, our research arm, has published a range of research findings throughout the year in relation to the sustainability agenda. This has included reports on water efficiency and piled foundations for low-rise housing. It has also partnered with other organisations to produce a number of reports on topics such as acoustic performance and sustainable community infrastructure.

The Zero Carbon Hub, with NHBC's support, is leading in the delivery of the Government's zero carbon homes policy. Last year, the Hub convened a specialist Task Group of senior industry experts to urgently develop proposals and extensively consulted regarding energy efficiency standards for zero carbon homes. The result was a new Fabric Energy Efficiency Standard, which aims to deliver a high yet practical energy performance level for all new homes and secure long-lasting benefits for homeowners and occupiers.

This has been another tough year for the home-building industry. Subsequently, we have had to embark on our own measures to save money and are in the process of consolidating our

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

## **Directors' report** **for the year ended 31 March 2010 (continued)**

### **Results and performance (continued)**

offices and disposing of the Amersham, Droitwich and York offices. The staff are either transferring to Milton Keynes or becoming home-workers. This should create stronger cross-working ties and a more effective service to our customers. Similarly, we have consolidated our office in Belfast to provide further operational savings.

### **Business environment and Strategy**

The market that NHBC operates in continues to be extremely competitive and this, coupled with further Government policy and regulation relating to housing growth areas, sustainability targets for housing and the downturn experienced since the start of 2008, makes it a very challenging environment.

NHBC remains committed to its core purpose "To work with the home-building and wider construction industry to raise standards of new homes and to provide consumer protection for new homeowners" which will ensure its success.

NHBC aims to fulfil this purpose through the delivery of four Strategic Objectives

1. **Provider of Products and Services (CUSTOMER)** - Profitably provide effective consumer protection for the UK homeowner by providing a comprehensive range of home warranties and portfolio of services to the UK home-building industry to support them in building high quality new homes
2. **A National Authority on Standards and Risk Management in home-building (REPUTATION)** - Protect and enhance the reputation of NHBC as the most credible, respected and influential company and standard setting in the home building and wider construction industry
3. **Standards (STANDARDS)** - Continually improve standards and construction of quality new and newly constructed homes
4. **Financial (PROFIT)** - Ensuring sufficient funds are available to achieve NHBC's purpose

A set of tactical objectives are reviewed each year and these are developed, taking into consideration the changing market conditions, such that their achievement will ensure that NHBC maintains on course to achieve its strategic objectives. Detailed action plans are put in place and implemented each year which will deliver against the tactical objectives and these actions are tied into managers and staff reward schemes.

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

### **Directors' report** **for the year ended 31 March 2010 (continued)**

#### **Principal risks and uncertainties**

The process of risk acceptance and risk management is addressed through a framework of policies, procedures and internal controls. All policies are subject to Board approval and ongoing review by management, risk management and internal audit. Compliance with regulation, legal and ethical standards is a high priority for the Group with the compliance team and Finance department take an oversight in this regard. The Audit Committee is responsible for satisfying itself that a proper internal control framework exists to identify and manage financial risks and that controls operate effectively.

The Group has developed a framework for identifying the risks that each business sector, and the Group as a whole, are exposed to along with their impact on economic capital. The process is risk based and uses Individual Capital Assessment principles to manage the capital requirements and to ensure NHBC has the financial strength and capital adequacy to support the growth of the business and to meet the requirements of policyholders and regulators.

The principal risks from the insurance operations arise from inaccurate pricing, fluctuations in the timing, frequency and severity of claims compared to our expectations, inadequate reinsurance protection, and inadequate reserving. All underwriting and reinsurance strategies are approved by the Board and communicated clearly throughout the business through policy statements and guidelines.

#### **Corporate governance**

The directors remain committed to high standards of corporate governance and recognise the best practice principles set out in the revised Combined Code. As a private company NHBC is not bound to comply with the Combined Code, however the directors have adopted those sections appropriate to the Company, its Board and Committee structure.

The directors have reviewed the Company's approach to risk management and internal controls and consider that this is in full compliance with the relevant provisions of the Combined Code.

#### **Key performance indicators and future outlook**

NHBC had a challenging year as the impact of global economic downturn affected the new home-building industry. Despite this NHBC continued to build its financial strength and activity levels are summarised below.

	31 March 2010	31 March 2009	Change on 2009
Number of registered home builders	17,500	20,300	-14%
Number of completed homes protected by 'Buildmark' Cover	1,588,000	1,644,000	-3 %
Number of new homes registered in year	101,000	82,000	23 %
Number of completion certificates issued for new homes in year	112,000	139,000	-19 %



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

### **Directors' report** **for the year ended 31 March 2010 (continued)**

#### **Key performance indicators and future outlook (continued)**

The outlook for the coming year for the home-building market remains extremely uncertain with the changes in government policy in favour of a localism agenda, withdrawal of funding for various government housing initiatives and the shortage of mortgage funds restricting the sale of new homes. Given the encouraging start to the financial year it is expected that volumes for the 2011 financial year will be marginally higher than 2010.

However, with the continuing shortage of housing, it is expected that market volumes will return to levels experienced in the recent past, but it may take several years. Any changes in future market size may have a corresponding effect on NHBC's volumes.

#### **Directors**

The directors of the Company during the year and at 31 March 2010 are listed on page 2 of the Annual Report.

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

#### **Employees**

The Company remains committed to providing personal and career development opportunities to all employees.

The average number of employees during the year (including executive directors) was 1,051 (2009: 1,160) full time equivalents.

The Company's policies provide for equality of treatment for all staff in training, development and career progression. Applications for employment are given unbiased consideration and are welcome from all sectors of the community. The policies are founded on fair practices which aim to ensure that all employment decisions are based on aptitude and ability irrespective of sex, sexual orientation, religion or beliefs, marital status, age or disability.

#### **Disabled persons**

Applications for employment by disabled persons are always fully considered, bearing in mind the respective aptitudes and abilities of the applicant concerned. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the Group continues and appropriate training is arranged. It is the policy of the Group that the training, career development and promotion of a disabled person should as far as possible be identical to that of a person who does not suffer from a disability.

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

### **Directors' report** **for the year ended 31 March 2010 (continued)**

#### **Employees (continued)**

##### **Employee involvement**

Consultation with employees or their representatives has continued at all levels, with the aim of ensuring that their views are taken into account when decisions are made that are likely to affect their interests. All employees are aware of the financial and economic performance of their business units and of the Group as a whole, and are rewarded according to the results through our annual bonus scheme.

Communication with all employees continues through a variety of methods. In 2009/10 Executive Directors visited offices and teams to participate in question and answer sessions. In addition to these, the use of podcasts, an intranet based employee information system, the company magazine and regular group briefings covering business progress against plan all contribute to ensuring our employee are informed of the direction and performance of the organisation.

#### **Subsidiary undertakings**

The two trading subsidiaries during the financial year were

NHBC Building Control Services Limited - provides a Building Control service for residential and commercial buildings in England and Wales. The Company made a pre-tax profit of £584,000 (2009 £32,000)

NHBC Services Limited - provides a range of construction industry related services. These services centre around the provision of health and safety consultancy, energy and sustainability services, engineering, training and acoustic consultancy. The Company made a pre-tax loss of £141,000 (2009 Loss £281,000)

#### **Financial risk management**

##### **Financial risk management objectives**

The Group is exposed to financial risk through its financial assets, financial liabilities, reinsurance assets and policyholder liabilities. In particular, the key financial risk is that the proceeds from financial assets are not sufficient to fund the obligations arising from policies as they fall due. The most important components of this financial risk are interest rate risk, credit risk and liquidity risk. The Group has no material financial assets or liabilities denominated in currency other than sterling and does not therefore have any material exposure to currency risk.

The Group manages its funds within an asset liability management framework that has been developed to ensure, as far as possible that the Group is in a position to meet its insurance liabilities as they fall due. The Group outsources the investment management of its financial assets (other than operational cash balances) to the two investment managers listed on page 3 of the accounts. Both managers are given Investment Portfolio Guidelines ("IPG") which set parameters for asset allocation, maturity, liquidity, and counterparty and other concentration risks. The investment managers are then required to maximise investment returns within these parameters and their performance is regularly reviewed against industry benchmarks. The IPG

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**Directors' report**  
**for the year ended 31 March 2010 (continued)**

**Financial risk management (continued)**

**Financial risk management objectives (continued)**

are selected to ensure an appropriate match of assets to the Group's insurance liabilities. The guidelines require the Group to invest predominantly in good quality fixed interest and index-linked securities which it believes represent a good match for the Group's insurance liabilities.

The Group has maintained its policy of putting in place substantial reinsurance cover against the risk of unusually high levels of claims. The reinsurers' share of technical provisions has, however, fallen as the gross provision and the proportion of this gross provision subject to reinsurance have both declined. The Group models its insurance liabilities, both gross and net of reinsurance, using mainly deterministic methods.

The Group does not have any derivatives and therefore does not use hedge accounting.

**Interest rate risk**

Interest rate risk arises primarily from investments in fixed interest securities. In addition, to the extent that claims inflation is correlated to interest rates, liabilities to policyholders are exposed to interest rate risk.

The Group manages interest rate risk by setting parameters within its IPG for the mean duration of the investment portfolio. These parameters are approximately matched to the estimated mean duration of policyholder liabilities.

**Credit risk**

Credit risk is the risk that a counterparty will be unable to pay amounts in full when due. Key areas where the Group is exposed to credit risk are:

- exposure to corporate bonds,
- reinsurers' share of insurance liabilities,
- amounts due from reinsurers' in respect of claims already paid, and
- provision of road and sewer bonds to registered builders.

The Group's IPG sets limits on its investment exposure to a single counterparty or group of counterparties and sets minimum acceptable credit ratings for all bonds. The Board agrees the policy and financial limits for the gross value of road and sewer bonds that can be provided to its registered builders.

Reinsurance is used to manage insurance risk. This does not, however, discharge the Group's liability as primary insurer. If a reinsurer fails to pay a claim, the Group remains liable for the payment to the policyholder. The creditworthiness of reinsurers' is considered on an annual basis by reviewing their financial strength prior to finalisation of any contract. Reinsurance assets are regularly reviewed for collectability and appropriate provision is made for potential future credit default.

**National House-Building Council**  
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**Directors' report**  
**for the year ended 31 March 2010 (continued)**

**Financial risk management (continued)**

**Liquidity risk**

The Group's IPG has been set to minimise the risk that cash may not be available to pay obligations as they fall due while remaining mindful of the need to obtain a reasonable return on its assets

**Charitable donations and corporate social responsibility**

NHBC remains committed to the development of its corporate and social responsibility and has also invested in modifying its systems, processes and behaviour to benefit the environment and the community at large

**Charitable work**

NHBC's charitable work helps communities at a local and national level and this year has maintained its relationship with the UK homelessness charity Shelter whilst retaining its links with Habitat for Humanity

NHBC is also increasing its support of a variety of UK-based charities and local community projects through fundraising and supporting staff engagement in community work.

NHBC made direct charitable donations of £75,214 (2009 £34,969) In addition, NHBC contributed £465,982 (2009 £338,087) in support of the NHBC Foundation

**Environment**

In the past 12 months NHBC has taken further steps to improve its environmental performance

During 2009/10 NHBC was assessed for the Business in the Community (BitC) Corporate Responsibility (CR) index. The index evaluates the organisations corporate responsibility which includes environment, community, workplace and markets in which the company operates. NHBC achieved bronze status and has targeted further improvement for 2010/11

**National House-Building Council**  
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**Directors' report**  
**for the year ended 31 March 2010 (continued)**

**Statement of disclosure of information to auditors**

The directors confirm that

- as far as each Director is aware, there is no relevant audit information of which the Company's auditors are unaware, and
- each director has taken all the relevant steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information

**Statement of directors' responsibilities in respect of the Annual Report and the financial statements**

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations

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

- select suitable accounting policies and then apply them consistently,
- make judgements and accounting estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements,
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business

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

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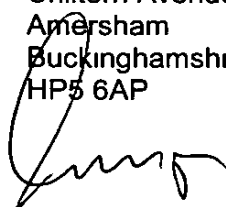
**Directors' report**  
**for the year ended 31 March 2010 (continued)**

**Auditors**

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and a resolution concerning their re-appointment will be proposed at the Annual General Meeting

By Order of the Board

Buildmark House  
Chiltern Avenue  
Amersham  
Buckinghamshire  
HP5 6AP



J Hastings  
Secretary  
24 June 2010

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

**Independent auditors' report to the members of the National House-Building Council (continued)**

**Opinion on financial statements**

In our opinion the financial statements

- give a true and fair view of the state of the group's and the parent company's affairs as at 31 March 2010 and of its profit and cash flows for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

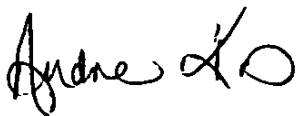
**Opinion on other matter prescribed by the Companies Act 2006**

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

**Matters on which we are required to report by exception**

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

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



Andrew Kail (Senior Statutory Auditor)  
For and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
London  
24 June 2010

**National House-Building Council**  
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**Consolidated profit and loss account, technical account - general business for the year ended 31 March 2010**

	Notes	2010 £'000	2009 £'000
<b>Earned premiums, net of reinsurance</b>			
Gross premiums written	2	27,170	26,932
Outward reinsurance premiums		(2,848)	(3,164)
<b>Net premiums written</b>		<b>24,322</b>	<b>23,768</b>
Change in the gross provision for unearned premiums		28,583	18,449
Change in the provision for unearned premiums, reinsurers share		(2,784)	(1,396)
Change in the net provision for unearned premiums		<b>25,799</b>	<b>17,053</b>
<b>Earned premiums, net of reinsurance</b>		<b>50,121</b>	<b>40,821</b>
Allocated investment return transferred from the non-technical account		<b>80,364</b>	<b>86,675</b>
<b>Claims incurred, net of reinsurance</b>			
Claims paid			
Gross amount		(72,365)	(63,249)
Reinsurers' share		23	3
<b>Net claims paid</b>		<b>(72,342)</b>	<b>(63,246)</b>
Change in the provision for claims			
Gross amount		(12,541)	(20,339)
Reinsurers' share		(11)	(7)
Change in the net provision for claims		<b>(12,552)</b>	<b>(20,346)</b>
<b>Claims incurred, net of reinsurance</b>		<b>(84,894)</b>	<b>(83,592)</b>
Changes in other technical provisions, net of reinsurance		<b>40,321</b>	<b>8,085</b>
Net operating expenses	4	<b>(1,953)</b>	<b>(2,069)</b>
<b>Balance on the technical account for general business</b>		<b>83,959</b>	<b>49,920</b>



**National House-Building Council**  
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**Consolidated profit and loss account, non-technical account  
for the year ended 31 March 2010**

	Notes	2010 £'000	2009 £'000
Balance on the general business technical account		83,959	49,920
Investment income	5 1	83,664	83,932
Unrealised increase on investments		52,742	56,231
Unrealised decrease on investments		(55,279)	(52,521)
Net unrealised (decrease)/increase on investments	5 2	(2,537)	3,710
Investment expenses and charges	6	(742)	(728)
Allocated investment return transferred to the general business technical account		(80,364)	(86,675)
Other income	2	45,900	50,467
Other charges	1 3 7	(51,449)	(64,808)
<b>Surplus on ordinary activities before tax</b>	9	<b>78,431</b>	<b>35,818</b>
Tax on surplus on ordinary activities	10	(21,239)	(10,422)
<b>Retained surplus for the financial year</b>		<b>57,192</b>	<b>25,396</b>

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

	Notes	2010 £'000	2009 £'000
Surplus for the financial year		57,192	25,396
Actuarial (loss) relating to pension scheme	22 2 4	(4,907)	(13,002)
Deferred taxation relating to pension scheme actuarial (loss)	22 2 5	1,374	3,641
Disposal of land & buildings	16	1,119	-
Transfer to profit and loss account reserve	16	54,778	16,035
Revaluation reserve movement	16	360	(1,371)
Disposal of land & buildings	16	(1,119)	-
<b>Total gains recognised since last annual report</b>		<b>54,019</b>	<b>14,664</b>

**National House-Building Council**  
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**Consolidated balance sheet  
at 31 March 2010**

	Notes	2010 £'000	2009 £'000
<b>Assets</b>			
<b>Investments</b>			
Land and buildings	12 1	11,702	11,920
Other financial investments	12 2	1,433,659	1,407,179
		<b>1,445,361</b>	<b>1,419,099</b>
<b>Reinsurers' share of technical provisions</b>			
Provision for unearned premiums		31,249	34,033
Claims outstanding		1	12
Other technical provisions	18	259,766	276,137
		<b>291,016</b>	<b>310,182</b>
<b>Debtors</b>			
Debtors arising out of direct insurance operations	14	1,693	1,646
Deferred tax	19	957	538
Other debtors	14	5,938	8,407
		<b>8,588</b>	<b>10,591</b>
<b>Other assets</b>			
Tangible assets	15	6,463	6,799
Cash at bank and in hand		12,841	21,050
		<b>19,304</b>	<b>27,849</b>
<b>Prepayments and accrued income</b>			
Accrued interest and rent		12,051	17,920
Deferred acquisition costs		8,146	7,840
Other prepayments and accrued income		1,301	1,656
		<b>21,498</b>	<b>27,416</b>
<b>Total assets</b>		<b>1,785,767</b>	<b>1,795,137</b>

**National House-Building Council**  
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**Consolidated balance sheet**  
**at 31 March 2010 (continued)**

	Notes	2010 £'000	2009 £'000
<b>Liabilities</b>			
<b>Reserves</b>			
Revaluation reserve	16	3,584	4,343
Profit and loss account	16	310,500	255,722
<b>Accumulated reserves</b>	17	314,084	260,065
<b>Technical provisions</b>			
Provision for unearned premiums		407,341	435,924
Claims outstanding		137,348	124,807
Other technical provisions – provision for unexpired risks	18	831,170	887,862
		<b>1,375,859</b>	<b>1,448,593</b>
<b>Creditors</b>			
Creditors arising out of direct insurance operations	20	26,207	26,254
Other creditors including taxation and social security	21	19,495	6,877
		<b>45,702</b>	<b>33,131</b>
<b>Accruals and deferred income</b>	23	<b>44,541</b>	<b>43,017</b>
<b>Total liabilities excluding pension deficit</b>		<b>1,780,186</b>	<b>1,784,806</b>
Defined benefit pension plan deficit	22 2 3	5,581	10,331
<b>Total liabilities</b>		<b>1,785,767</b>	<b>1,795,137</b>

The financial statements on pages 16 to 52 were approved by the Board of Directors on 24 June 2010 and were signed on its behalf by -



**Sir John Carter**  
(Chairman of the Council)



**I Farookhi**  
(Chief Executive)

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

**Parent company balance sheet  
at 31 March 2010**

	Notes	2010 £'000	2009 £'000
<b>Assets</b>			
<b>Investments</b>			
Land and buildings	12 1	11,702	11,920
Investments in group undertakings and participating interests	13	4,577	2,563
Other financial investments	12 2	1,433,659	1,407,179
		<b>1,449,938</b>	<b>1,421,662</b>
<b>Reinsurers' share of technical provisions</b>			
Provision for unearned premiums		31,249	34,033
Claims outstanding		1	12
Other technical provisions	18	259,766	276,137
		<b>291,016</b>	<b>310,182</b>
<b>Debtors</b>			
Debtors arising out of direct insurance operations	14	1,693	1,646
Deferred tax	19	944	525
Other debtors	14	6,693	9,054
		<b>9,330</b>	<b>11,225</b>
<b>Other assets</b>			
Tangible assets	15	6,463	6,799
Cash at bank and in hand		12,775	20,665
		<b>19,238</b>	<b>27,464</b>
<b>Prepayments and accrued income</b>			
Accrued interest and rent		12,051	17,920
Deferred acquisition costs		8,146	7,840
Other prepayments and accrued income		472	1,645
		<b>20,669</b>	<b>27,405</b>
<b>Total assets</b>		<b>1,790,191</b>	<b>1,797,938</b>

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

**Parent company balance sheet**  
**at 31 March 2010 (continued)**

	Notes	2010 £'000	2009 £'000
<b>Liabilities</b>			
<b>Reserves</b>			
Revaluation reserve	16	8,060	6,805
Profit and loss account	16	307,725	253,260
<b>Accumulated reserves</b>	17	315,785	260,065
<b>Technical provisions</b>			
Provision for unearned premiums		407,341	435,924
Claims outstanding		137,348	124,807
Other technical provisions – provisions for unexpired risks	18	831,170	887,862
		1,375,859	1,448,593
<b>Creditors</b>			
Creditors arising out of direct insurance operations	20	26,207	26,254
Other creditors including taxation and social security	21	25,261	12,666
		51,468	38,920
<b>Accruals and deferred income</b>	23	41,498	40,029
<b>Total liabilities excluding pension deficit</b>		1,784,610	1,787,607
Defined benefit pension plan deficit	22 2 3	5,581	10,331
<b>Total liabilities</b>		1,790,191	1,797,938

The financial statements on pages 16 to 52 were approved by the Board of Directors on 24 June 2010 and were signed on its behalf by -



**Sir John Carter**  
(Chairman of the Council)



**I Farookhi**  
(Chief Executive)

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

**Consolidated cash flow statement  
for the year ended 31 March 2010**

	Notes	2010 £'000	2009 £'000
<b>Operating activities</b>			
Net cash inflow from operating activities	24	2,610	4,068
<b>Taxation</b>			
Corporation tax paid		(8,828)	(21,207)
Tax refunds received		706	-
<b>Net cash outflow from taxation</b>		<b>(8,122)</b>	<b>(21,207)</b>
<b>Capital</b>			
Purchase of tangible fixed assets		(3,076)	(2,912)
Sale of tangible fixed assets		652	1,385
Purchase of land and buildings		(825)	(10)
Sale of land and buildings		1,569	-
<b>Net cash outflow from capital expenditure</b>		<b>(1,680)</b>	<b>(1,537)</b>
<b>Decrease in cash in the period</b>	26	<b>(7,192)</b>	<b>(18,676)</b>
<b>Cash flows were invested as follows.</b>			
<b>Net portfolio investment</b>			
Purchase of ordinary shares		-	17,131
Sale of ordinary shares		-	(42,627)
	26	-	(25,496)
Purchase of fixed income securities		2,702,744	1,820,613
Sale of fixed income securities		(2,668,093)	(1,856,125)
	26	34,651	(35,512)
<b>Net cash inflow/(outflow) on portfolio investments</b>		<b>34,651</b>	<b>(61,008)</b>
<b>(Decrease)/Increase in cash holdings</b>	25	<b>(41,843)</b>	<b>42,332</b>
<b>Net investment of cash flows</b>	26	<b>(7,192)</b>	<b>(18,676)</b>

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

## **Notes to the financial statements for the year ended 31 March 2010**

### **1 Accounting policies**

#### **1.1 Basis of Preparation**

The Group financial statements have been prepared on a going concerned basis under the provision of The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 ("SI2008/410") relating to insurance groups and in accordance with the Statement of Recommended Practice on Accounting for Insurance Business issued by the Association of British Insurers ("the ABI SORP") dated December 2005, as amended in December 2006

The financial statements have been prepared in accordance with applicable accounting standards

#### **1.2 Basis of Consolidation**

The consolidated financial statements incorporate the assets, liabilities and results of the Company and its subsidiary undertakings drawn up to 31 March each year

#### **1.3 Basis of Accounting**

##### **1.3.1 Insurance Technical Result**

The Technical Result is determined on an annual basis whereby the incurred cost of claims and related expenses, together with any change in other technical provisions, is charged against the earned proportion of premiums, net of reinsurance, as follows

*(i) Premiums written*

Premiums written relate to business incepted during the year, together with any differences between booked premiums for prior years and those previously accrued

Premiums written are shown net of those premium refunds to registered builders who were approved in respect of the financial year. Premiums written also exclude insurance premium taxes, with any unpaid taxes included within other creditors in the balance sheet

*(ii) Unearned premiums*

The Company's insurance policies provide protection to policyholders for periods of ten years or more. Premiums are earned over the period of the policy commensurate with the expected incidence of risk. In reaching its assessment of the pattern of risk the Company makes reference to past claims experience. 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

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

**Notes to the financial statements**  
**for the year ended 31 March 2010 (continued)**

**1 Accounting policies (continued)**

**1.3 Basis of Accounting (continued)**

**1.3.1 Insurance Technical Result (continued)**

*(iii) Acquisition costs*

Acquisition costs, which represent the direct and indirect costs incurred in the conclusion of insurance contracts, are deferred and amortised over the period in which the related premiums are earned

*(iv) Claims incurred*

Claims incurred comprise claims and related expenses paid in the year and changes in the provision 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. Claims are typically reported relatively quickly after the claims event and are therefore subject to significantly less uncertainty than future claims events.

In estimating the cost of claims notified but not paid, the Company has regard to the claim circumstances as reported, information available from surveyors, loss adjusters or other relevant professionals and the cost of settling claims with similar characteristics in previous periods.

*(v) Unexpired risk provisions*

An unexpired risk provision is made where the estimated costs of claims, related expenses and deferred acquisitions costs exceed unearned premiums, after taking account of future investment income.

An assessment is made at the year-end for the estimated cost of claims which may arise during the unexpired terms of policies in force at the balance sheet date. The estimated cost of claims includes expenses to be incurred in settling claims and a deduction for the expected value of salvage and other recoveries. Provisions are calculated gross of any related reinsurance recoveries which are estimated separately and disclosed as part of reinsurer's share of technical provisions.

The provisions are inevitably subject to inherent uncertainties because of the range of factors which could give rise to potentially significant claims over the ten-year or greater period covered by the unexpired risk provision. The time expected to elapse between the inception of policies, the manifestation of events giving rise to claims, and the notification to and settlement by the Company of such claims accentuate these uncertainties.



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

**Notes to the financial statements**  
**for the year ended 31 March 2010 (continued)**

**1 Accounting policies (continued)**

**1.3 Basis of Accounting (continued)**

**1.3.1. Insurance Technical Result (continued)**

*(v) Unexpired risk provisions (continued)*

In calculating the estimated cost of future claims, actuarial and statistical projections of the frequency and severity of future claims events are used to project ultimate settlement costs. Such projections are based upon both current facts and circumstances, and a subjective analysis of a range of factors including future inflation, the impact of competition and its effect on builder behaviour in making repairs which would otherwise fall as insurance claims to the company, the impact of large losses including those made evident by extreme weather or latent defects caused by defective building materials, the effect of increases in cover and changes in consumer expectations and in the legal environment. Because of these inherent uncertainties a significant degree of caution has been included in exercising the judgement required for setting the unexpired risk provision.

The Company takes all reasonable steps to ensure that it has appropriate information regarding the assessment of claims in this regard. However, given the inherent uncertainty in estimating the cost of future claims, it is likely that the final outcome will prove to be different from the estimate established at the balance sheet date. Any consequential adjustments to amounts previously reported will be reflected in the results of the year in which they are identified.

The Company in setting its unexpired risk provisions takes account of the future investment income that will be generated between the balance sheet date and settlement of the expected claims on the assets held to cover such provision.

The methods used in the calculation of the Company's overall technical provisions have been reviewed by Towers Watson Limited independent actuaries, and found to be appropriate.

*(vi) Reinsurance recoveries*

Reinsurance recoveries are the amounts which will be recovered under the reinsurance policies in force at the balance sheet date, assuming that the estimates of claims outstanding and future claims in respect of the unexpired risks prove to be correct. An assessment is made of the recoverability of reinsurance having regard to market data on the financial strength of each of the Company's reinsurers.

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

**Notes to the financial statements**  
**for the year ended 31 March 2010 (continued)**

**1 Accounting Policies (continued)**

**1.3 Basis of Accounting (continued)**

**1.3.2 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 are

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

**1.3.3 Deferred taxation**

Provision is made for deferred taxation, using the liability method, on all material timing differences including revaluation gains and losses on investments. Deferred tax is calculated at the rates at which it is expected that the tax will arise. Deferred tax is recognised in the profit and loss account for the period, except to the extent that it is attributable to a gain or loss that is recognised directly in the statement of total recognised gains and losses. Deferred tax balances are not discounted.

**1.3.4 Investments**

Land and buildings predominantly occupied by the Company for its own purposes are valued at open market valuation. Full valuations are made by external professionally qualified valuers at least every three years. In the intervening years these valuations are updated by directors with the assistance of independent professional advice as required. Any increases or decreases in values are transferred to the revaluation reserve. Where valuations are below cost such loss in value is directly charged to the profit and loss account. Such properties are then depreciated over the lower of 50 years, the remaining term of the lease, or an estimate made by an external professionally qualified valuer of their remaining useful economic life.

Investments in Group undertakings are valued in the Company's accounts by reference to the net assets of those undertakings with any surplus on revaluation taken to the revaluation reserve. Any permanent diminution in value is charged to the profit and loss account.

Other financial investments are stated at market value (valued on a bid basis) 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.

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

**Notes to the financial statements**  
**for the year ended 31 March 2010 (continued)**

**1 Accounting Policies (continued)**

**1.3 Basis of Accounting (continued)**

**1.3.5 Investment return**

Investment return comprises all investment income, realised investment gains and losses and movements in unrealised gains and losses, net of investment expenses, charges and interest. Income from investments is included 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).

Movements in unrealised gains and losses on investments represent the difference between the valuation at the balance sheet date and their purchase price or, if they have been previously valued, their valuation at the previous balance sheet date, together with the reversal of unrealised gains and losses recognised in earlier accounting periods in respect of investment disposals in the current period.

**1.3.6 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.

**1.3.7 Other income and other charges**

Other income represents sales of goods and services relating to the construction of good quality housing. Other income is stated excluding Value Added Tax. Other income is recognised on an accruals basis. Other charges represent non-technical account expenditure.

**1.3.8 Pension costs**

*Defined benefit scheme*

The Group operates a defined benefit pension scheme. The pension liability recognised in the balance sheet is the value of the scheme's assets less the present value of the scheme's liabilities.

The pension cost for the scheme is analysed between current service cost, past service cost and net return on pension scheme assets. Current service cost is the actuarially calculated present value of the benefits earned by the active employees in each period.

Net expected return on the pension asset comprises the expected return on the pension scheme assets less interest on scheme liabilities.

The actuarial gains and losses which arise from a valuation and from updating the latest actuarial valuation to reflect conditions at the balance sheet date are taken to the statement of total recognised gains and losses for the period. The attributable deferred taxation is shown separately in the statement of total recognised gains and losses.

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

**Notes to the financial statements**  
**for the year ended 31 March 2010 (continued)**

**1 Accounting Policies (continued)**

**1.3 Basis of Accounting (continued)**

**1.3.8 Pension costs (continued)**

*Defined contribution scheme*

The Group also operates a defined contribution pension scheme. Contributions are charged to the profit and loss account as they become payable. The assets of this scheme are held separately from those of the Group in independently administered funds.

**1.3.9 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 insurance activities and other activities relating to 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, which is gross insurance premiums written, and other income, and surplus before tax are derived wholly from continuing operations.

	Turnover		Surplus before tax		Net assets	
	2010 £'000	2009 £'000	2010 £'000	2009 £'000	2010 £'000	2009 £'000
Insurance activities	27,170	26,932	83,959	49,920	154,732	128,751
Other activities	45,900	50,467	(5,528)	(14,102)	159,352	131,314
<b>Total</b>	<b>73,070</b>	<b>77,399</b>	<b>78,431</b>	<b>35,818</b>	<b>314,084</b>	<b>260,065</b>

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

**Notes to the financial statements**  
**for the year ended 31 March 2010 (continued)**

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

	<b>2010</b> <b>£'000</b>	<b>2009</b> <b>£'000</b>
Net claims provisions brought forward as at 1 April	124,795	104,449
Net payments during the year in respect of these provisions	(56,205)	(48,174)
Net claims provisions carried forward in respect of claims provided at 1 April	(69,078)	(64,409)
<b>Movement in prior year's provision</b>	<b>(488)</b>	<b>(8,134)</b>

**4 Net operating expenses**

	<b>2010</b> <b>£'000</b>	<b>2009</b> <b>£'000</b>
Acquisition costs	1,472	1,369
Increase in deferred acquisition costs	(306)	(120)
Administrative expenses	787	820
<b>Net operating expenses</b>	<b>1,953</b>	<b>2,069</b>

**5.1 Investment income**

	<b>2010</b> <b>£'000</b>	<b>2009</b> <b>£'000</b>
<b>Income from investments other than participating interests</b>		
Income from land and buildings	176	95
Income from listed investments	55,019	60,013
Income from other investments and deposits	468	3,288
Net gains on realisation of listed investments	28,001	20,536
	<b>83,664</b>	<b>83,932</b>

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

**Notes to the financial statements**  
**for the year ended 31 March 2010 (continued)**

**5.2 Unrealised gains on investments**

	Note	2010 £'000	2009 £'000
Unrealised gains brought forward 1 April		68,999	65,289
Net realised gains during the year		(28,001)	(20,536)
Increase in the value of other financial investments held during the year	26	25,464	24,246
Net unrealised (decrease)/increase on investments		(2,537)	3,710
Unrealised gains carried forward 31 March		66,462	68,999

**6 Investment expenses and charges**

	2010 £'000	2009 £'000
Investment management expenses	742	728

**7 Employee information**

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

	2010	2009
Insurance activities	249	221
Other direct activities	630	767
Administration	172	172
	1,051	1,160

Other direct activities relate to the construction of good quality housing

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

**Notes to the financial statements**  
**for the year ended 31 March 2010 (continued)**

**7 Employee information (continued)**

**Staff costs for the above persons were:**

	<b>2010</b> <b>£'000</b>	<b>2009</b> <b>£'000</b>
Wages and salaries	<b>37,334</b>	42,401
Social security costs	<b>3,800</b>	4,327
Pension costs	<b>4,249</b>	4,008
	<b>45,383</b>	50,736

**8 Directors' emoluments**

	<b>2010</b> <b>£'000</b>	<b>2009</b> <b>£'000</b>
Aggregate emoluments	<b>1,316</b>	1,238

During the year retirement benefits accrued to 1 director (2009 1 director) under a defined benefit scheme and 3 directors (2009 3 directors) under money purchase schemes

The following amounts were earned by the highest paid director -

	<b>2010</b> <b>£'000</b>	<b>2009</b> <b>£'000</b>
Aggregate emoluments	<b>270</b>	259
Pension contributions to money purchase scheme	<b>40</b>	42

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

**Notes to the financial statements**  
**for the year ended 31 March 2010 (continued)**

**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
		2010 £	2010 £	2010 £	2010 £	2009 £
<b>Non-Executive Chairman</b>						
Sir John Carter		115,000			115,000	115,000
<b>Executive Directors</b>						
Imtiaz Farookhi		204,552	1,113	64,548	270,213	259,346
Ian P Davis		147,819	556	38,836	187,211	167,969
Sandra C Kelly		143,489	97	36,769	180,355	173,569
Richard J Tamayo		139,545	12,805	39,147	191,497	184,427
<b>Non-Executive Directors</b>						
Stewart A Baseley		32,000	-	-	32,000	32,000
Peter J Foster		39,000	-	-	39,000	39,000
Sir John Harman	1	32,000	-	-	32,000	8,000
Malcolm R Harris		39,000	-	-	39,000	39,000
Sir Graham Hart		39,000	-	-	39,000	39,000
Timothy Hough		39,000	-	-	39,000	39,000
Dame Yvonne Moores		39,000	-	-	39,000	39,000
Robin E Nicholson		42,000	-	-	42,000	32,000
Dr David B B Smith		39,000	-	-	39,000	39,000
Richard G Werth		32,000	-	-	32,000	32,000
		<b>1,122,405</b>	<b>14,571</b>	<b>179,300</b>	<b>1,316,276</b>	<b>1,238,311</b>

No retirement benefits accrued to any non-executive directors during this year (2009 nil)

Notes 1 Sir John Harman was appointed on 1 January 2009



**National House-Building Council**  
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**Notes to the financial statements**  
**for the year ended 31 March 2010 (continued)**

**8 Directors' emoluments (continued)**

Each executive director is eligible to participate in the Company's medium term incentive plan ("MTIP") The remuneration committee annually agrees the MTIP objectives and targets for a three-year period

Four of the executive directors participated in the MTIP scheme maturing this year earning £86,115 (2009 Three executive directors earning £60,990) No amount is finally determined on the two MTIP schemes maturing in the next two years until the end of the three year period to which the scheme relates A provision for amounts payable on all three schemes has been made in the accounts of £424,000 (2009 £383,000)

The Company does not have a share option scheme

**9 Surplus on ordinary activities before tax**

	2010 £'000	2009 £'000
<b>Surplus on ordinary activities before tax is stated after:</b>		
Depreciation charge for year		
Other land and buildings	236	315
Tangible owned fixed assets	3,180	3,602
<i>Auditors' remuneration for audit services</i>		
Fees payable to the Company's auditor for the audit of the Company and Group accounts	114	120
<i>Non-audit services fees payable to the Company's auditor and its subsidiary companies for other services</i>		
The audit of the Company's subsidiaries, pursuant to legislation	9	11
Other services pursuant to legislation, including the audit of the regulatory return	14	14
Taxation services	135	126
Other services not included above	34	22
Operating lease rentals		
Land and buildings	139	140
Other operating leases	10	-

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

**Notes to the financial statements**  
**for the year ended 31 March 2010 (continued)**

**10 Tax on surplus on ordinary activities**

	Note	2010 £'000	2009 £'000
<b>Tax on surplus on ordinary activities.</b>			
UK Corporation tax			
Current at 28% (2009 28%)		19,126	9,367
Deferred at 28% (2009 28%)		2,801	1,075
(Over)/under provision in respect of prior years			
Current		(688)	(248)
Deferred		-	228
		<b>21,239</b>	<b>10,422</b>
<b>Comprising</b>			
Current taxation		18,438	9,119
Deferred taxation	19	(419)	56
Deferred taxation on pension contributions in excess of pension charges	22 2 5	3,220	1,247
		<b>21,239</b>	<b>10,422</b>

**National House-Building Council**  
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**Notes to the financial statements**  
**for the year ended 31 March 2010** (continued)

**10 Tax on surplus on ordinary activities** (continued)

The current tax charge for the year is lower (2009 lower) than the standard rate of corporation tax in the UK (28%) for the following reasons -

	2010 £'000	2009 £'000
<b>Surplus on ordinary activities before tax</b>	<b>78,431</b>	<b>35,818</b>
Surplus on ordinary activities multiplied by the standard rate of corporation tax in the UK of 28% (200 28%)	21,961	10,029
Marginal Relief	(1)	17
<b>Effects of:-</b>		
Income not chargeable for tax purposes	(175)	(324)
Expenses not deductible for tax purposes	140	540
Adjustments to tax charge in respect of previous periods	(688)	(248)
Depreciation for period in excess of capital allowances	69	353
Other short term timing differences	15	(1)
Realisation of unrealised gains	337	-
Pension contributions in excess of pension charges	(3,220)	(1,247)
<b>Current corporation tax charge on surplus on ordinary activities for the year</b>	<b>18,438</b>	<b>9,119</b>

The deferred tax movement in the year is shown as follows

	2010 £'000	2009 £'000
Origination & reversal of timing differences with respect to capital allowances	(25)	(250)
Realisation of gains on investments	(337)	-
Origination & reversal of timing differences with respect to general provisions	(6)	240
Origination & reversal of other timing differences	(51)	66
<b>Deferred tax movement in the year</b>	<b>(419)</b>	<b>56</b>

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

**Notes to the financial statements**  
**for the year ended 31 March 2010 (continued)**

**11 Parent company**

The retained profit dealt with in the profit and loss account of the Company for the year ended 31 March 2010 is £56.9 million (2009 £26.1 million). As permitted by section 408 of the Companies Act 2006 the profit and loss account of the Company has not been included in these financial statements.

**12.1 Investments: land and buildings**

	The Group and the Company £'000
<b>Cost or valuation</b>	
At 1 April 2009	11,920
Additions	825
Surplus on revaluation	368
Disposals	(1,411)
As at 31 March 2010	11,702
<b>Depreciation</b>	
At 1 April 2009	-
Charge for the year	236
Revaluations	(210)
Disposals	(26)
As at 31 March 2010	-
<b>Net book value at 31 March 2010</b>	<b>11,702</b>
Net book value at 31 March 2009	11,920

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

**Notes to the financial statements**  
**for the year ended 31 March 2010** (continued)

**12.1 Investments: land and buildings** (continued)

All land and buildings are predominantly occupied by the Company for its own activities

Land and buildings at net book value comprise

	<b>The Group and the Company</b>	
	<b>2010</b>	<b>2009</b>
	<b>£000</b>	<b>£000</b>
Freeholds	<b>11,310</b>	<b>11,325</b>
Long Leaseholds	<b>392</b>	<b>595</b>
	<b>11,702</b>	<b>11,920</b>

All land and buildings are regularly revalued in accordance with the Company's stated investments accounting policy (as set out in note 1.3.4). If land and buildings had not been revalued in this manner they would have been included at the following amounts

	<b>The Group and the Company</b>	
	<b>2010</b>	<b>2009</b>
	<b>£'000</b>	<b>£'000</b>
Cost	<b>13,457</b>	<b>13,651</b>
Accumulated depreciation based on cost	<b>(2,715)</b>	<b>(2,864)</b>
Net book value based on cost	<b>10,742</b>	<b>10,787</b>

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**Notes to the financial statements**  
**for the year ended 31 March 2010 (continued)**

**12.2 Investments: other financial investments**

The Group and the Company				
	2010		2009	
	Market Value £'000	Cost £'000	Market Value £'000	Cost £'000
Debt securities and other fixed interest securities	1,417,971	1,351,509	1,357,856	1,288,857
Deposits with credit institutions	15,688	15,688	49,323	49,323
	1,433,659	1,367,197	1,407,179	1,338,180

All 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 their net asset value of £4,577,000 (2009 £2,563,000) in accordance with the Company's accounting policies. The resulting gain over book value of £4,477,000 (2009 £2,462,000) is included in the Company's revaluation reserve. In 2009 the negative value of NHBC Services Limited balance sheet had been deducted from investments and the revaluation reserve in NHBC's entity accounts. This has now been reversed in 2010 such that the investment in NHBC Services Limited is NIL in 2010.

The Company's subsidiary undertakings were wholly owned and registered in England and Wales. At 31 March 2010 they were as follows -

- NHBC Building Control Services Limited - issued and fully paid 50,000 £1 ordinary shares. The Company is an Approved Inspector for Building Regulation purposes in England and Wales.
- PRC Homes Limited - issued and fully paid 100 £1 ordinary shares. The Company did not trade during the year.
- NHBC Pension Trustee Limited - issued and fully paid 100 £1 ordinary shares. The Company arranges the provision of pensions to many of NHBC's present and past employees. The Company did not trade during the year.
- NHBC Services Limited - issued and fully paid 50,000 £1 ordinary shares. The Company provides services to the home-building and related industries.

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**Notes to the financial statements**  
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**14 Debtors**

**Debtors arising out of direct insurance operations**

	<b>The Group and the Company</b>	
	<b>2010</b>	<b>2009</b>
	<b>£'000</b>	<b>£'000</b>
Due from reinsurers	6	9
Other debtors	1,687	1,637
	<b>1,693</b>	<b>1,646</b>

**Other debtors**

	<b>Group</b>		<b>Company</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Amount owed by subsidiary undertakings		-	2,685	2,713
Other debtors	5,938	8,407	4,008	6,341
	<b>5,938</b>	<b>8,407</b>	<b>6,693</b>	<b>9,054</b>

Included in the other debtors figure above for both the Group and the Company are £1,483,000 (2009 £2,962,000) representing the cost of properties which have either been purchased from policyholders or purchased to provide alternative accommodation for policyholders. Expected future claims costs related to these properties are included within the provision for claims outstanding.

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**Notes to the financial statements**  
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**15 Tangible assets**

<b>The Group and the Company:</b>	<b>Motor vehicles £'000</b>	<b>Computer equipment £'000</b>	<b>Fixtures and fittings £'000</b>	<b>Total £'000</b>
<b>Cost</b>				
At 1 April 2009	8,833	2,590	4,170	15,593
Additions	2,684	242	150	3,076
Disposals	(2,039)	(1,351)	(238)	(3,628)
<b>As at 31 March 2010</b>	<b>9,478</b>	<b>1,481</b>	<b>4,082</b>	<b>15,041</b>
<b>Depreciation</b>				
At 1 April 2009	4,157	1,956	2,681	8,794
Charge for the year	2,053	375	752	3,180
Disposals	(1,813)	(1,345)	(238)	(3,396)
<b>As at 31 March 2010</b>	<b>4,397</b>	<b>986</b>	<b>3,195</b>	<b>8,578</b>
<b>Net book value at 31 March 2010</b>	<b>5,081</b>	<b>495</b>	<b>887</b>	<b>6,463</b>
Net book value at 31 March 2009	4,676	634	1 489	6,799



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**Notes to the financial statements**  
**for the year ended 31 March 2010 (continued)**

**16 Reserves**

	<b>Group</b>		<b>Company</b>	
	<b>Profit and loss account £'000</b>	<b>Revaluation Reserve £'000</b>	<b>Profit and loss account £'000</b>	<b>Revaluation Reserve £'000</b>
At 1 April 2009	255,722	4,343	253,260	6,805
NHBC Services Ltd revaluation adjustment (see note 13)	-	-	-	1,590
Revised 1 April 2009	255,722	4,343	253,260	8,395
Retained surplus for the year	57,192	-	56,879	-
Net actuarial loss on pension scheme	(3,533)	-	(3,533)	-
Revaluation of land and buildings	-	360	-	360
Disposal of land and buildings	1,119	(1,119)	1,119	(1,119)
Revaluation surplus, net of tax on group undertakings and participating interests	-	-	-	424
<b>As at 31 March 2010</b>	<b>310,500</b>	<b>3,584</b>	<b>307,725</b>	<b>8,060</b>

**17 Reconciliation of movements in accumulated reserves**

	<b>Group</b>		<b>Company</b>	
	<b>2010 £'000</b>	<b>2009 £'000</b>	<b>2010 £'000</b>	<b>2009 £'000</b>
Retained surplus for the financial year	57,192	25,396	56,879	26,046
Net actuarial (loss)/gain on pension scheme	(3,533)	(9,361)	(3,533)	(9,361)
Other recognised (losses) and gains relating to the year (net)	360	(1,371)	784	(2,021)
NHBC Services Ltd reserves	-	-	1,590	-
Net addition to accumulated reserves	54,019	14,664	55,720	14,664
Opening accumulated reserves	260,065	245,401	260,065	245,401
<b>Closing accumulated reserves</b>	<b>314,084</b>	<b>260,065</b>	<b>315,785</b>	<b>260,065</b>

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**Notes to the financial statements**  
**for the year ended 31 March 2010 (continued)**

**18 Other technical provisions**

Unexpired risks provision

	<b>The Group and the Company</b>	
	<b>2010 £'000</b>	<b>2009 £'000</b>
Gross	831,170	887,862
Reinsurance	(259,766)	(276,137)
<b>Net</b>	<b>571,404</b>	<b>611,725</b>

The unexpired risk provision is stated after taking account of future investment income of £162 million (2009 £174 million)

**19 Provisions for other risks and charges**

	<b>Group</b>	<b>Company</b>
	<b>2010 £'000</b>	<b>2010 £'000</b>
<b>Deferred tax</b>		
As at 1 April 2009	(538)	(525)
Credited to the profit and loss account	(419)	(419)
<b>As at 31 March 2010</b>	<b>(957)</b>	<b>(944)</b>

Deferred tax has been fully provided in the financial statements as follows

	<b>The Group</b>		<b>The Company</b>	
	<b>2010 £'000</b>	<b>2009 £'000</b>	<b>2010 £'000</b>	<b>2009 £'000</b>
Unrealised gains on property	-	49	-	49
Unrealised gains on investments	-	337	-	337
Other short term differences	(79)	(73)	(79)	(73)
Excess of depreciation over capital allowances	(878)	(851)	(865)	(838)
	<b>(957)</b>	<b>(538)</b>	<b>(944)</b>	<b>(525)</b>

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**Notes to the financial statements**  
**for the year ended 31 March 2010 (continued)**

**19 Provisions for other risks and charges (continued)**

Due to the indexation of the properties NHBC hold it is unlikely that any gains will arise in the foreseeable future. Therefore no deferred tax has been provided with respect to existing capital tax losses arising on disposal of buildings. The undiscounted value of these losses is £185,000 based on prevalent tax rate of 28% (2009 £187,000 at 28%).

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

	The Group and the Company	
	2010 £'000	2009 £'000
Amounts due in less than one year	26,207	26,254

Included in the above are £22.0 million (2009 £22.7 million) of builders' deposits. These monies are deposited with the Company as surety by individual builders.

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

	Group		Company	
	2010 £'000	2009 £'000	2010 £'000	2009 £'000
Amount owing to subsidiary undertakings	-	-	6,715	5,852
Corporation tax	13,442	3,127	13,312	3,179
Other creditors	6,053	3,750	5,234	3,635
	19,495	6,877	25,261	12,666

**22 Pensions and retirement benefits**

**22.1 Defined contribution scheme**

The Group operated a stakeholder defined contribution scheme during the year. Pension contributions in respect of this scheme were £876,000 (2009 £713,000). There were no prepaid or accrued contributions to this scheme at the year-end.

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**Notes to the financial statements**  
**for the year ended 31 March 2010 (continued)**

**22 Pension and retirement benefits (continued)**

**22.2.1 Defined benefit scheme**

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 scheme closed to new entrants from 31 December 2003. The closure of the scheme would be expected to be followed by a gradual ageing of the active membership and consequential increases to the projected unit method contribution rate.

The most recent formal actuarial valuation was at 31 March 2008 and at that date the market value of the relevant assets was £111.2 million and the level of funding as at that date was 88%, representing a deficit of £14.5 million on an actuarial basis. The company made a lump sum contribution of £9.0 million in April 2009 and a further lump sum contribution of £1.2 million in March 2010 with a final payment being made in April 2010 thereby clearing the actuarial deficit identified at 31 March 2008 (2009: £3.5 million).

The valuation used has been based on the most recent actuarial valuation at 31 March 2008, updated to take account of the requirements of Financial Reporting Standard 17 ("Retirement Benefits") in order to assess the liabilities of the scheme at 31 March 2010.

**22.2.2 Principal financial assumptions**

The financial assumptions used to calculate scheme liabilities under FRS 17 on the projected unit basis are:

	31 March 2010 %	31 March 2009 %
Price inflation rate	3.75	3.00
Rate of in-service revaluation pension entitlements	3.75	3.00
Rate of increases of pensions in payment	4.00	3.25
Rate of increase for deferred pensioners	3.75	3.00
Discount rate	5.50	6.25

The demographic assumptions adopted, including the allowance for promotional salary increases, are identical to those used for the formal actuarial valuation of the Scheme as at 31 March 2008. In that valuation the assumed rates of mortality in retirement were updated to the standard S1 series of mortality tables published by the UK Actuarial Profession. An additional allowance was made for further increases in longevity in the future, equivalent to a 1% per annum improvement to mortality rates from 2003. The resulting average remaining life expectancy for a male and female aged 65 as at 31 March 2010 are 20 years (2009: 20 years) and 23 years (2009: 22 years) respectively.

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**Notes to the financial statements**  
**for the year ended 31 March 2010 (continued)**

**22 Pension and retirement benefits (continued)**

**22.2.3 Market value of assets and expected rate of return**

The fair value of the assets at 31 March 2010 and expected rates of return were

	Longer term rate of return expected at 31 March 2010 %	Value at 31 March 2010 £'000	Longer term rate of return expected at 31 March 2009 %	Value at 31 March 2009 £'000	Longer term rate of return expected at 31 March 2008 %	Value at 31 March 2008 £'000
Equities	8.05	83,174	8.00	57,163	7.65	64,842
Bonds	5.00	39,933	5.50	26,471	5.75	33,220
Property	7.65	8,813	6.70	4,816	6.45	6,069
Other	7.00	3,372	7.20	4,038	5.25	2,651
Total market value of assets		135,292		92,488		106,782
Present value of scheme liabilities		(143,045)		(106,837)		(112,582)
Deficit in the scheme		(7,753)		(14,349)		(5,800)
Related deferred tax asset		2,172		4,018		1,624
Net pension deficit		(5,581)		(10,331)		(4,176)

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**Notes to the financial statements**  
**for the year ended 31 March 2010 (continued)**

**22 Pension and retirement benefits (continued)**

**22.2.4 Reconciliation of present values of schemes liabilities**

	31 March 2010 £'000	31 March 2009 £'000
Deficit in the scheme at the beginning of the year	(14,349)	(5,800)
Contributions paid	13,438	6,481
Current service cost	(2,628)	(2,516)
Other finance income	693	488
Actuarial loss	(4,907)	(13,002)
Deficit in the scheme at the end of the year	(7,753)	(14,349)

**22.2.5 Deferred taxation**

	£'000
Deferred taxation asset on scheme deficit at 1 April	4,018
Amount charged to the statement of recognised gains and losses	1,374
Amount charged to the profit and loss account	(3,220)
Deferred taxation asset on scheme deficit at 31 March	2,172

**22.2.6 Amounts charged to operating profit**

An operating charge of £2,628,000 (2009 £2,516,000) has been charged to operating profit in respect of the defined benefit scheme

**22.2.7 Amount charged to other finance expense**

Analysis of amounts that have been (charged)/credited to other finance income in respect of the defined benefit scheme under the requirements of FRS17

	31 March 2010 £'000	31 March 2009 £'000
Interest on pension scheme liabilities	(6,353)	(6,886)
Expected return on pension scheme assets	7,046	7,374
Net income credited to other finance income	693	488

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**Notes to the financial statements**  
**for the year ended 31 March 2010 (continued)**

**22 Pension and retirement benefits (continued)**

**22.2.8 Statement of total recognised gains and losses**

Analysis of amounts recognised in the statement of total recognised gains and losses in respect of defined benefit scheme

	<b>31 March 2010</b> <b>£'000</b>	<b>31 March 2009</b> <b>£'000</b>
Actual return less expected return on pension scheme assets	<b>26,577</b>	(27,139)
Experience (loss)/profit arising on scheme liabilities	<b>(96)</b>	10,417
Change in assumptions underlying the scheme liabilities	<b>(31,388)</b>	3,720
Actuarial loss	<b>(4,907)</b>	(13,002)

**22.2.9 History of experience gains and losses:**

	<b>2010</b> <b>£'000</b>	<b>2009</b> <b>£'000</b>	<b>2008</b> <b>£'000</b>	<b>2007</b> <b>£'000</b>	<b>2006</b> <b>£'000</b>
Gain/(loss) on scheme assets	<b>26,577</b>	(27,139)	(13,376)	(354)	10,751
Percentage of scheme assets	<b>19.64%</b>	29.34%	12.53%	0.31%	10.13%
Experience (loss)/gain on scheme liabilities	<b>(96)</b>	10,417	(773)	(2,298)	(2,399)
Percentage of the present value of scheme liabilities	<b>0.07%</b>	9.75%	0.69%	1.98%	2.16%
Total (loss)/gain recognised in statement of total recognised gains and losses before adjustment for tax	<b>(4,907)</b>	(13,002)	(3,973)	757	5,745
Percentage of the present value of scheme liabilities	<b>3.43%</b>	12.16%	3.53%	0.65%	5.18%

**22.3.1 Money purchase pension scheme**

Two Directors elected to be responsible for their own pension arrangements and had employer's contributions during the year of £65,000 (2009 £68,000) payable into their personal money purchase pension scheme. One Director is in the Company stakeholder scheme and had employer's contributions during the year of £25,000 (2009 £24,000) paid into the NHBC stakeholder scheme.

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**Notes to the financial statements**  
**for the year ended 31 March 2010 (continued)**

**22 Pension and retirement benefits (continued)**

**22.3.2 Sensitivity Analysis of the Pension Scheme Liabilities**

The sensitivity of the present value of the scheme's liabilities is explained below,

If the inflation rate had been 0.25% per annum lower the balance sheet position as at 31 March 2010 would have been £5.4 million more favourable. If the discount rate had been 0.25% per annum lower the balance sheet position as at 31 March 2010 would have been £6.7 million less favourable.

**23 Accruals and deferred income**

	Group		Company	
	2010 £'000	2009 £'000	2010 £'000	2009 £'000
Accruals	24,188	21,128	24,109	21,110
Certificate fees in advance	19,515	20,972	17,389	18,919
Other deferred income	838	917	-	-
	44,541	43,017	41,498	40,029

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.



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**Notes to the financial statements**  
**for the year ended 31 March 2010 (continued)**

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

	2010 £'000	2009 £'000
Surplus on ordinary activities before tax	78,431	35,818
Depreciation and decrease in value of assets	2,079	6,058
Decrease in revaluation reserve	1,119	-
Increase in technical provisions	(53,568)	(4,792)
Realised gains on investments and fixed assets	(28,604)	(20,907)
Decrease/(Increase) in unrealised gains on investments	2,537	(3,710)
(Increase)/Decrease in insurance debtors	(47)	2,018
Decrease in other debtors	2,469	3,487
Decrease/(Increase) in prepayments and accrued income	5,918	(944)
(Decrease) in insurance creditors	(47)	(2,106)
Increase/(Decrease) in other creditors	2,303	(2,433)
Increase/(Decrease) in accruals and deferred income	1,524	(3,968)
Difference between pension charge and cash contributions	(11,504)	(4,453)
<b>Net cash inflow from operating activities</b>	<b>2,610</b>	<b>4,068</b>

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

	At 31 March 2010 £'000	Cash Flow £'000	At 31 March 2009 £'000	Cash Flow £'000	At 31 March 2008 £'000
Cash at bank in hand	12,841	(8,209)	21,050	8,244	12,806
Deposits with credit institutions	15,689	(33,634)	49,323	34,088	15,235
	<b>28,530</b>	<b>(41,843)</b>	<b>70,373</b>	<b>42,332</b>	<b>28,041</b>

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**Notes to the financial statements**  
**for the year ended 31 March 2010 (continued)**

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

	At 31 March 2010	Cash Flow	Changes to market Value	At 31 March 2009	Cash Flow	Changes to market Value	At 31 March 2008
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Ordinary shares	-	-	-	-	(25,496)	(17,161)	42,657
Fixed income securities	1,417,971	34,651	25,464	1,357,856	(35,512)	41,407	1,351,961
Deposits with credit Institutions	15,689	(33,634)	-	49,323	34,088	-	15,235
Other financial investments	1,433,660	1,017	25,464	1,407,179	(26,920)	24,246	1,409,853
Cash at bank and in hand	12,841	(8,209)	-	21,050	8,244	-	12,806
<b>TOTAL</b>	<b>1,446,501</b>	<b>(7,192)</b>	<b>25,464</b>	<b>1,428,229</b>	<b>(18,676)</b>	<b>24,246</b>	<b>1,422,659</b>

**27 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

	2010 £'000	2009 £'000
Operating leases on land and buildings which expire -		
Within one year	29	-
Between one and five years	30	139
Over 5 years	97	-
	<b>156</b>	<b>139</b>
Other operating leases which expire -		
Between one and five years	13	-

**28 Liability of members**

At 31 March 2010 there were 63 (2009 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

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**Notes to the financial statements**  
**for the year ended 31 March 2010 (continued)**

**29 Related party transactions**

Transactions between subsidiaries, which are related parties, have been eliminated on consolidation, as have transactions between the Company and its subsidiaries during this period

Some of NHBC's Directors are also Directors of some of NHBC's customers, suppliers and industry partners. NHBC trades in the normal course of business, on an arms length basis, with all these parties in the provision of both new build building related and secretariat services. Expenditure relates to financial support to the Zero Carbon Hub and services provided by the other industry partners. Non Executive Director fees are those paid to the companies listed below on behalf of the Directors.

The table below details the related parties,

<b>Customers</b>	<b>Industry Partners</b>	<b>Non Executive Director Fees</b>
Banner Homes Group PLC Bovis Homes Group PLC Miller Homes Ltd	Construction Skills (CITB) House Builders Federation The Commission for Architecture and the Built Environment (CABE) The Housing Forum Zero Carbon Hub	Bovis Homes Group PLC Edward Cullinan Architects Miller Homes Ltd Werth Ltd

Material transactions and balances between the Group and its related parties are disclosed below

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**Notes to the financial statements**  
**for the year ended 31 March 2010 (continued)**

**29 Related party transactions (continued)**

	Sales to related parties		Expenditure to related parties		Amounts owed by related parties		Amounts owed to related parties	
	2010 £'000	2009 £'000	2010 £'000	2009 £'000	2010 £'000	2009 £'000	2010 £'000	2009 £'000
Customers	1,404	1,462	-	39	52	141	64	49
Industry Partners	225	41	275	282	277	38	-	-
Non Executive Director Fees	-	-	130	147	-	-	-	-