



Esh Construction Limited

Annual report and
financial statements

for the year ended 31 December 2021
Registered Number 02529939



Esh Construction Limited
Annual report and financial statements
for the year ended 31 December 2021
Contents

	Page
Strategic report.....	1
Corporate Governance.....	13
Directors' report.....	16
Independent auditors' report to the members of Esh Construction Limited	21
Statement of comprehensive income for the year ended 31 December 2021	22
Balance sheet as at 31 December 2021	23
Statement of changes in equity for the year ended 31 December 2021	24
Statement of accounting policies	25
Notes to the financial statements for the year ended 31 December 2021	30

Esh Construction Limited

Strategic report

The directors present their strategic report for the year ended 31 December 2021.

Principal activities

The principal activities of the Company during the year were civil engineering, house building, and general construction.

Overview

The Company entered 2021 in a strong position. Our order book was being maintained at record levels, we had further reduced our fixed cost base during 2020 to set up a lower break even point, and we had successfully pointed the business to segments of the market that were proving to be resilient, and through channels that demonstrate a much lower level of aggressive competitiveness.

Moreover, our balance sheet was significantly simpler following intensive work over the previous years to drive cash from improved working capital cycle, resulting in the highest level of liquidity seen for many years.

This solid foundation has been hugely beneficial, and provided the stability we needed to address some of the new headwinds we faced during 2021.

Of course, the global pandemic continued to exert its influence on our industry and business during the year. Our staff and those of our supply chains were required to adhere to Government guidance to isolate when exposed to the virus. This naturally led to a shortage of trades and labour on a number of our contracts, as well as limited material availability from our core suppliers. With added Brexit-related stresses, supply chain availability emerged as the key operational challenge through the early part of 2021, which inexorably led to a degree of contract delays and programme prolongations which have had a moderate impact on our results for the year.

Similarly, it was inevitable that a constrained supply chain would lead to higher input costs. Over the latter part of 2021, and continuing into 2022, we have witnessed cost inflation at levels and frequencies not seen in a generation. Our principal efforts to manage this situation were to try to achieve cost / price neutrality across as many of our revenue streams as possible. Thankfully, due to the type of client and contractual nature of our relationships, we were able to insulate a large part of the business from these increases :-

- A) A proportion of our contracts are of a 'cost plus' nature, allowing us to achieve immediate pass through of cost inflation.
- B) Our work to install infrastructure for Private House Builders are of relatively short duration, allowing new cost rates to be priced into new jobs, with only limited impact on contracts that are in flight.
- C) A reasonable proportion of our contracts have provision for cost fluctuation based upon agreed indices.

That said, our business was not fully immune to these cost increases, and a sizeable proportion of long term, JCT contracts have experienced significant cost inflation that could not be contractually passed on. Whilst we are working with our clients to seek some recovery or compensation for such extraordinary events, we will not be able to fully offset this impact, and as such, our results for the year have been affected.

Whilst there remains little we can do about these 'in-flight' contracts, we have worked hard to protect ourselves from inflationary pressures on new contracts. Fixed price bidding is largely ended, with us working with clients to agree provisional sums for inflation or cost increase recovery mechanisms. Whilst ostensibly these measures have been accepted by clients, we are aware that a lack of cost certainty is challenging the viability of some schemes in our pipeline, which may lead to some projects being pushed back. To date, our experience of such delays has been limited, but we retain a healthy level of caution as future months unfold.

Esh Construction Limited

Strategic report (continued)

Overview (continued)

Compounding these supply chain and resource pressures were a small cluster of challenging contracts in our commercial building division. Whilst most of these contracts are now closed out, their impact upon our 2021 results were notable, albeit contained, with all liabilities now determined and accounted for.

However, whilst we undoubtedly faced some challenges during 2021, we also saw some record performances from several parts of our group:-

- A) Our General Civils division completed the group's largest contract to date, the £44m SSTC3 highways contract for Sunderland City Council – this contract contained a number of engineering challenges, but was delivered successfully, on time and on budget.
- B) Our Frameworks division, which includes the work we do for Northumbrian Water Group, continues to deliver an exceptional service, yielding growth in the volume and scope of works delivered in partnership with the global engineering giant, Stantec.
- C) With the backdrop of a very strong private housing market, our civils infrastructure division, working under the brand Lumsden and Carroll, achieved strong year on year growth in turnover from both existing and several new clients.
- D) Our social Housing Division, Esh Living, enjoyed considerable turnover growth, supported by its position on a number of key frameworks, as well as a near doubling of projects secured through our 'land led' channel to market. Both these routes to market provide a lower risk profile and stronger margin opportunities.

Whilst the company, and our group, are now much simpler in structure and focus, our efforts to deliberately design a business model that allows the smoothing of positive and negative factors across our operations has paid dividends. In maintaining a balanced portfolio across complimentary sectors of the market, we have enjoyed one of the most significant periods of growth in our history. The result is a £4.5m improvement in profit before tax compared with 2020, from a £25m increase in turnover.

Moreover, our balance sheet is now debt free, with us not drawing upon any of our credit facilities at any time during the year. We ended the year with no debt, and cash of nearly £18.4m. Added to a £7m undrawn credit facility, we recorded the highest level of liquidity in recent memory.

We are incredibly proud of the team at Esh. Their resilience, commitment and ingenuity in dealing with the many challenges we have faced over the last four years as we worked to fundamentally reposition the company, and the wider group is nothing short of amazing. This, combined with our ever loyal and supportive supply chains, and 'blue chip' client base, provides the key ingredients for our success.

And whilst we continue to face headwinds, the strength and depth of our talent pool, combined with a business model that is working, gives us the confidence to drive forward with our strategic agenda.

Esh Construction Limited

Strategic report (continued)

Strategy update

As with all good strategic plans, they remain relevant and current despite the emergence of unplanned challenges. Our strategic agenda is no different.

The Company's, and the wider Group's, restructuring programme is now complete, having divested our final non-core subsidiary, Deerness Fencing and Landscaping, in January 2022.

The Company is now organised into 2 core business units:

1. Civil engineering services to the Utilities, Private Housing and General Infrastructure sectors
2. New construction and maintenance services to the Commercial and Social Housing sectors

Both of the above are delivered in a confined Geography spanning from South Yorkshire to Northumberland, and almost exclusively on the east side of the Pennines.

Our 7 point strategic plan remains focused on the following key areas:-

1. Targeted growth

By sticking to our core competencies, and within our confined geography, we will drive a modest growth in turnover, but with a firm grip on the risk/reward equation in tenders and bids, and will target continuous margin expansion. The key driver of this will be an increase in the proportion of revenues secured via 'land led', framework appointed and partnership-based contracts, with a target of 75% of all revenues secured via this route to market. We will also maintain a manageable balance of revenues from both cyclical and non-cyclical sectors, ensuring a reasonably consistent revenue stream throughout the economic cycle.

2. Quality

Deployed through industry leading quality systems and processes, we will maintain a relentless focus on operational quality control. We will target 'right first time', reducing remedial cost and so improve customer satisfaction to drive a higher proportion of repeat business. Maintenance of robust, reliable and high-quality supply chain partnerships will be a key component of this strategy

3. Operational efficiency

By deploying tight bidding controls and contract due diligence, we will drive a controlled increase in the overall size and quality of our contracts, leveraging our operational infrastructure and scale to drive cost efficiency throughout our operations. Continuous improvement in programme management and quality control, along with an efficient back-office infrastructure utilising the latest technology will deliver a lean overall cost structure, underpinned by an optimum fixed cost base that supports a low break even point so as to avoid poor contract pricing behaviours.

4. Capital efficiency and Financial Stewardship

We will continue to focus on short-term working capital lock up across the business through effective management processes. We will ensure robust and effective financial controls that drive a deep understanding of our working capital profile and how cash behaves through the contract lifecycle, ensuring we have adequate liquidity to support operations as well as investment for growth. Any Shareholder distributions will be subject to thorough forward liquidity forecasts, and only when the board are comfortable that our liquidity requirements would not be compromised.

Esh Construction Limited

Strategic report (continued)

Strategy update (continued)

5. Social Value and Net Zero

We will leverage our industry leading and award winning social and economic value systems and processes to enhance our competitive position and to drive repeat business in our core geographies through our 4 point **LOCAL** agenda:

1. Employing Local
2. Buying Local
3. Educating Local
4. Engaging Local

Furthermore, we will commit to a long-range plan to achieve Net Zero carbon from our operations under all defined scopes. We will achieve this ambitious target through intensive collaboration with our client base and supply chains.

6. Talent and Skills

We will focus on attracting and retaining the best talent we can find. Through active development, succession planning, talent management and reward processes, we will strive to be an employer of choice in our core market segments. Our organisation will be underpinned by a set of core values based on Care, Trust, Integrity, Respect, Teamwork and Accountability – Values that are congruent with a modern, forward thinking organisation that people want to be part of.

7. Health, Safety and Environment

We will continue to focus on our industry leading health and safety agenda, utilising cutting edge processes and controls to embed a ‘never relax’ culture on all our sites. Our overarching ESH SAFE programme (Everybody Safely Home) underpins a comprehensive communications system that ensures safe practices are at the heart of all we do. We will also play our part towards ‘net zero’ through the application of low carbon materials, solutions and processes in our bids and projects, whilst continuing to seek low carbon opportunities in all of our operations, which includes a new Hybrid working pattern, allowing flexibility on work locations thereby reducing our carbon emissions through lower levels of commuting.

We are confident that the relentless execution of this strategic agenda will delight our customers with a quality and service level that is ‘gold standard’ and so we will become the contractor, developer and employer of choice in our operating geographies, with the ultimate goal of delivering strong growth in profitability and liquidity.

Esh Construction Limited

Strategic report (continued)

The Market

At the time of writing, considerable uncertainties have emerged in the global and domestic market environment, with rampant cost inflation, limited supply chain availability and both fiscal and monetary policy dynamics fuelling a palpable level of uncertainty,

However, by design, we have pointed the business to segments of the market that have and continue to demonstrate the following characteristics :-

1. Have resilience and/or counter cyclical behaviour over the economic cycle
2. Have a strong political / fiscal agenda that is unlikely to change over the medium term
3. Are not overly congested
4. Have reasonably high barriers to entry
5. Play to our core strengths and differentiators

And so, despite the aforementioned uncertainties, our chosen market segments continue to demonstrate these desired characteristics, which can be summarised as follows :-

Utilities

Our Utilities and associated Environmental clients remain committed to major investment in maintaining and upgrading their networks and facilities. With the current AMP programme nearing completion, there remains a large amount of pent up demand from this sector that needs to be satisfied. Through our strategic partnership with global engineering giant Stantec, we remain well placed to benefit from this demand over the next few years.

Local Authorities

Our Local Authority clients continue to present a strong pipeline of projects covering both infrastructure and general construction. Whilst their capital budgets are no doubt bearing the strain of considerable cost inflation, agendas such as 'levelling up' look set to underpin strong demand from this sector. Our position on key procurement frameworks will position the business to enjoy a healthy level of participation in this segment.

Affordable Housing

The chronic shortage of housing stock is also a key factor that underpins the considerable demand for new build affordable homes. With a new round of Government funding announced, combined with the significant amount of private placement capital funding secured by the large registered providers, we continue to expect a strong pipeline of projects across both the North East and Yorkshire. With our preferred route to market being via 'land led' channels, we expect to see our revenues demonstrate a diluted risk profile as well as further margin expansion. Whilst cost inflation pressures are challenging the viability of some schemes, particularly where land value expectations are inflated, our efficient delivery model, combined with robust supply chains should satisfy the necessary economics to support viability.

Alongside the demand for new construction, there is now a clear growth in the demand for existing stock refurbishment and retrofit of green energy solutions. Whilst some of these requirements still need to be defined and matched with supply chain capabilities, our long held pedigree in affordable housing maintenance will position us well to take advantage of these growing market segments.

Esh Construction Limited

Strategic report (continued)

Other Market Factors

Whilst our business model is pointed to robust segments of the market that are demonstrating strong demand characteristics, as discussed, our group is not immune from the supply side constraints that are prevalent across the whole economy. Whilst we have worked hard to mitigate the impact of these challenges, they have inevitably had some impact on our financial performance during 2021 and into 2022. Fortunately, our mix of revenue, and strong underlying margins have sustained a commendable level of profitability, which we expect to continue through 2022.

And whilst geopolitical events will continue to exert unwelcomed influence over the domestic and global economy, we will ensure we focus on the things that *we can control* by executing on our strategic plan, and ensuring we maintain a flexible and agile operating model that can be adjusted to suit whatever trading conditions prevail.

Key performance indicators

	2021	2020
Turnover, including share of joint ventures from continuing operations	£230.6m	£205.2m
Change in turnover from continuing operations	12.4%	11.6%
Gross profit margin from continuing operations	6.4%	4.1%
Operating profit from continuing operations	£2.4m	(£1.5m)
Profit before taxation from continuing operations attributable to owners of the parent	£2.5m	(£2.0m)
Cash at bank and in hand	£18.4m	£12.3m

Business Review

The business reported an operating profit of £2.4m. This represents a £3.9m turnaround from the previous year, which was of course heavily impacted by COVID lock downs. Whilst the global pandemic continued to exert pressure on the business during the year, these pressures transitioned from operational difficulties to supply chain constraints and elevated levels of input cost inflation. Although the acceleration of these issues was seen running through the second half of 2021 and into 2022, given the nature of long-term contract accounting, the full life impact on contracts required us to make adjustments to cumulative margins recorded through 2021. Moreover, we encountered some operational challenges on a small cluster of aforementioned Commercial Build contracts, which provided a further drag on performance.

A profit before tax for continuing operations of £2.5m is a £4.5m improvement over the previous year.

In addition to the considerable improvements in profitability, there has also been a significant improvement in the balance sheet. As the management team continued to focus on driving maximum capital efficiency, the company ended the year with cash of £18.4m and zero debt. The company's £7m revolving credit line remained undrawn at all times during the year. This is the highest level of liquidity the company has carried in recent memory, and in the interest of clarity, the company has not at any time taken advantage of any of the government backed COVID recovery credit lines.

Esh Construction Limited

Strategic report (continued)

Future Developments - Financial Year 2022 Outlook

With the ongoing challenges associated with COVID showing signs of dissipating, our financial year 2022 looks set to be dominated by ongoing supply chain constraints and further input cost inflation. The group has worked hard to use its strong supply chain relationships to mitigate these issues, and has engaged in encouraging dialogue with a broad range of empathic clients who appear willing to agree to contract value uplifts outside of the scope of the original contracts.

Fortunately, our work to shift the price basis of new contracts away from any formal fixed price element, as well as our strategic shift away from high risk and complex single stage design and build projects is yielding a much more protected and insulated forward order book.

With work continuing to complete the residue of the challenging commercial build contracts during the year, of nearly all will be complete during 2022, we maintain our expectation for further margin expansion in the second half of 2022 and again into 2023, underpinned by the maintenance of a record secured and probable order book standing in excess of £500m for 2022 and 2023.

Furthermore, we continue to maintain solid levels of liquidity, which has permitted further investment in over £1.3m in replacement plant and machinery, a reasonable proportion of which is targeted at developing adjacent services for our utilities clients, operating under the brand name of Esh Drainage Solutions.

All these factors provide a solid backdrop for engaging with various credit providers to seek a simpler banking facility towards the latter part of 2022, with strong appetite demonstrated from both our existing, and new credit providers.

Principal risks and uncertainties

The construction industry is exposed to numerous risks and challenges, with the added dimension of the after effects of the global pandemic and the considerable pressures from supply chain constraints and input cost inflation. The management team remains vigilant to these risks and challenges, and will continue to adapt the organisation to the environments within which it operates.

The board is confident that the now rationalised and more focussed business model, combined with a set of business activities that are diverse enough, yet sufficiently complimentary, will enable effective management of risk across all of the sectors in which the company operates.

The principal risks faced by the company and the action taken to mitigate these are presented in the table below. These are considered to be the most important to the future development and performance of the business.

Esh Construction Limited

Strategic report (continued)

Principal risks and uncertainties (continued)

Risk description	How it is mitigated
<i>Project execution</i>	
<p>The company undertakes construction, refurbishment and maintenance projects. We need to continue to deliver these within programmes and match or exceed clients' requirements, profitably and within agreed financial parameters.</p> <p>Successful delivery of many of these projects depends on the successful implementation and maintenance of a range of operational and commercial procedures and controls.</p>	<p>Each business unit has defined operating procedures to address the risks inherent in project delivery. Furthermore, a well-established commercial and financial risk management framework is in operation, using structured review meetings and reporting, with key risks identified early in the project delivery.</p> <p>We also have public indemnity cover to provide further safeguards.</p>
<i>Tendering</i>	
<p>Through our different business units, we seek to win profitable work through a large number of competitive tenders and contract negotiations.</p> <p>This depends on our ability to price and add value in our tender offering, driven by an efficient operating model, and a clear focus on quality delivery and added value.</p>	<p>All bids are subject to proven, rigorous estimating and tendering processes within a defined framework, using skilled resources.</p> <p>We have delegated authority levels for approving all tenders and a formal tender review process.</p> <p>We undertake reviews following both successful and unsuccessful tenders to ensure we learn from them and apply those lessons to future tenders.</p> <p>Our culture of adding value within the communities in which we work provides a point of differentiation from many of our competitors, producing upper quartile tender success rates.</p> <p>The company has also increased the amount of turnover that is secured via 'land led', directly negotiated or two-stage tender routes, which significantly reduces the risks and challenges associated with pure competitively tendered projects.</p> <p>Furthermore, the company has all but eliminated fixed price tendering, offering clients provisional sums or pre-determined cost increase mechanisms to ensure future revenues are insulated as far as possible from the effects and volatility of input cost inflation.</p>
<i>People</i>	
<p>We need to recruit and retain the best management and employees. These members of staff should have appropriate competencies and also share our values and behaviours.</p>	<p>We measure all potential recruits for key roles in the organisation against a competency framework. We undertake staff appraisals to review the roles, competencies, performances and potential of personnel. We have a well-developed succession planning process to identify and develop high potential personnel to fill key roles.</p> <p>People matters are reviewed regularly and discussed at all levels within the organisation and by the Board.</p> <p>We have appropriate remuneration and incentive packages, which includes the selective allocation of growth equity, to help us attract and retain key employees. We also use a well-connected group of recruitment consultants and advisors to ensure we connect with the best talent within the industry.</p>

Esh Construction Limited

Strategic report (continued)

Principal risks and uncertainties (continued)

Risk description	How it is mitigated
<i>Supply chain</i>	
<p>We are reliant on our supply chain partners for successful operational delivery, which means we are also exposed to a variety of risks in the supply chain. The group is also exposed to the global issue of cost price inflation.</p>	<p>Our strategic supply chain management processes, where possible, aligns us to large, robust suppliers whose access to material and resources is preferred given their size and scale; a factor equally supported by our own size, regional presence and buying capacity.</p> <p>We develop long-term relationships with our subcontractors, working closely with them to understand their operations and work with them to ensure their capacity planning can be optimised.</p> <p>We aim to work as much as possible with preferred suppliers and subcontractors who undergo rigorous, risk-based prequalification processes and share our values. We aim to avoid becoming over reliant on any one supplier or subcontractor.</p> <p>Through selective procurement allocation, we have been able to leverage strong commitment from our supply chain to ensure maximum availability of materials and labour. The group has implemented more robust forward planning processes to provide our supply chains with as much forward visibility as possible, significantly mitigating the risk of supply shortages. Moreover, we have, where sensible, concentrated spend with core suppliers to maximise rebate opportunities in the face of enormous cost price inflation.</p>
<i>Health and safety</i>	
<p>The Group works on projects which require continuous monitoring and management of health and safety risks.</p>	<p>The Group has a highly developed health, safety and environmental process. This process is underpinned by documented procedures and working practices. Policy is set by the Board, and cascaded through the organisation via a team of dedicated health and safety professionals, who continually audit and review on site operations for compliance, as well as liaising with external verification bodies.</p> <p>Accident frequency rates remain well below the industry average.</p> <p>Health and safety remains the first agenda item at all board meetings, and is a critical focus for all directors.</p>

Esh Construction Limited

Strategic report (continued)

Principal risks and uncertainties (continued)

Risk description	How it is mitigated
<i>Regulatory, market and economic</i>	
<p>The Group operates in markets and segments that are influenced by a range of external factors. The resilience and performance of the construction sector, and the housing market in particular, is at risk from regulatory change, political change and the impact of monetary policy and financial system regulation.</p>	<p>The company maintains a diversified portfolio of operating activities, some of which behave in a counter cyclical manner, and most of which are aligned to well-funded, blue chip client bases.</p> <p>The housing market remains stable, but continues to be underpinned by favourable political support and, until recently, monetary policy. A notable shift in consumer confidence, combined with tightening monetary policy looks set to exert headwinds on this market segment over the coming months. The management team have well developed contingency plans to execute organisational changes to adapt to such challenges as they may arise.</p>
<i>Business process and IT systems</i>	
<p>To continue to expand the business, Esh Group acknowledge that information and associated technology must be robust and meet business needs.</p>	<p>The company, and the wider group, has recently made significant investments in technology that has brought together a number of disparate processes, as well as driving greater use of digital tools to make the entire 'order to cash' process more integrated. This investment is expected to provide a sufficient operating platform for the group to achieve its business objectives.</p>
<i>Business is Curtailed by COVID 19</i>	
<p>The after effects of the COVID 19 pandemic continue to exert operational challenges on the group.</p>	<p>Whilst most, if not all of the impact of COVID lockdowns have dissipated, the after effects of the pandemic can still be felt in supply chain challenges, with efforts to mitigate discussed previously.</p> <p>Although self-isolation is still recommended for employees testing positive, the declining rate of positive tests, combined with a high level of vaccination amongst our employees, is limiting the impact on operations to an almost negligible level.</p>

Esh Construction Limited

Strategic report (continued)

Streamlined Energy and Carbon Reporting (SECR) disclosure

Quantification and reporting methodology:

We have followed the 2019 HM Government Environmental Reporting Guidelines. We have also used the GHG Reporting Protocol – Corporate Standard and have used the 2021 UK Government's Conversion Factors for Company Reporting.

Operational scopes:

We have measured our scopes 1, 2 and certain scope 3 emissions.

	Current year	Previous year
UK Greenhouse gas emissions and energy use data for the period 1st January to 31 December	2021	2020
Energy consumption used to calculate emissions (kWh)	34,125,404	30,447,249
Energy consumption breakdown (kWh):		
• gas	178,858	166,439
• electricity	197,472	175,704
• wood burning	0	0
• purchased fuel	33,749,074	30,105,106
SCOPE 1 emissions in metric tonnes CO ₂ e		
Gas consumption	36.19	32.31
Purchased fuel - diesel, petrol & gas oil	8,783.42	7,858.87
Wood burning	0	0
Total Scope 1	8,819.61	7,891.18
SCOPE 2 emissions in metric tonnes CO ₂ e		
Purchased electricity	37.98	38.80
Total Scope 2	37.98	38.80
SCOPE 3 emissions in metric tonnes CO ₂ e		
Business Travel in employee owned vehicles	33.13	25.84
Total Scope 3	33.13	25.84
Total gross emissions in metric tonnes CO ₂ e	8,890.72	7,955.82
Intensity ration Tonnes per employee	13.87	11.84

Intensity measurement:

The chosen intensity measurement ratio is total gross emissions in metric tonnes CO₂e per employee.

Growth in emissions in 2021:

The growth in the emissions in 2021 reflects the return to normal working following the reduced activities in 2020 due to the periods of lockdown as a result of the Coronavirus.

Esh Construction Limited

Strategic report (continued)

Measures taken to improve energy efficiency:

- 1. Reduce the carbon footprint of our workforce**
Employing a local workforce, video meetings, electric pool cars (site), car sharing, increased use of public transport, reducing city centre travel (train/park and ride) and providing home printing facilities.
- 2. Reduce the distance travelled by inbound materials**
Procuring from local businesses and local depots, and prioritising suppliers who source local.
- 3. Reduce the distance travelled by outbound materials**
Identifying local tips and recycling centres and eliminating outbound material travel by reusing materials on site.
- 4. Reduce diesel and gas oil fuel consumption**
Site grid connection reducing diesel generator use, hybrid/all electric company car fleet, Euro6 engines, electric plant machinery, driver training, vehicle monitoring and reduced idling/cab heaters.
- 5. Reduce the carbon footprint of our office buildings and temporary site accommodation**
Increased use of renewable technologies e.g. photovoltaics, efficient lighting, introducing carbon neutral / environmentally friendly site cabins.
- 6. Reduce water consumption**
Therefore reducing CO2 emissions in the treatment of waste water.
- 7. Reduce embodied carbon by design**
Reuse buildings instead of constructing new ones, specify low-carbon concrete mixes, limit carbon-intensive materials, reuse materials, use high-recycled content materials, maximize structural efficiency, use fewer finish materials and minimise waste.
- 8. Carbon offsetting**
Compensate for our emissions by funding an equivalent CO2 saving elsewhere, such as tree planting.
- 9. Environmental Investment**
Enhance the natural environment by creating new, and improving existing environments in the areas we work.
- 10. Develop an environmentally conscious workforce culture**
Qualified training, continued professional development, toolbox talks, internal communication, enhanced signage and workforce incentives.

Renewable electricity generated from owned or controlled sources:

In 2021 we generated 31,682 (2020: 33,340) kWh of electricity from the PV panels on Esh House, Bowburn.

Standards held in relation to energy & environmental:

The Group currently hold the accreditations: ISO 50001:2018 and ISO 14001:2015.

Esh Construction Limited

Corporate Governance

Esh Group Guiding Principles

The Esh Group Board are committed to maintaining and, where appropriate, improving standards of Corporate Governance. Whilst adherence to the Combined Code on Corporate Governance issued by the Financial Reporting Council is not obligatory for Esh Group, embracing the spirit of the Code ensures the creation and maintenance of sound business systems and an appropriate level of embedded internal control. The Code requires, as a minimum, an annual review of all key internal controls; including financial, operational, compliance and risk management systems.

The governance model outlined below has been designed by the Esh Group Board as an adaptation of the traditional best practice, three lines of defence to risk management.

Esh Group Sector Directors and Management

Sector Directors and Management own the risks and take responsibility for directly assessing, controlling and mitigating risks in their areas by way of organisation strength, a strong and well understood chain of command and strict oversight and scrutiny. They employ a range of internal controls which are built into the design of the control environment using either manual processes or system generated control, which forms the first line of defence in the Esh Group governance model to manage risks.

Esh Group maintains a program of continuous improvement in respect of all its internal control.

The Esh Group Board and Group Policies

The Board consists of both Executive and Non-Executive members and therefore draws on a wide range of experience both internally and externally when considering the establishment of Group Strategy and Policy. It has established the foundations that are the core of Esh Group in terms of its culture, vision and values. The Esh Group Corporate Values are documented and communicated directly to all employees, workers and business partners.

The Board delegate to the Sector Directors and Management, the day to day operation of the businesses within clear well-defined authority limits. Where appropriate, business decisions are reached following a structured and documented review of potential opportunities and threats. The process is designed to manage or mitigate any residual risk exposure identified.

However, the Board retains a schedule of matters reserved for its approval only, namely; the company strategy and review of performance, the appointment of key executives, approval of accounts, approval of the business plan, budget and financial policies, consideration of potential major projects, acquisitions or disposals of business sectors, opportunities in new markets, health and safety, the environment, business ethics, risk management, human rights and other social issues.

The Board set Group Policies and formal delegations of authority as appropriate to all companies, subsidiaries and associations. The Group Policies provided by the Board, require that all procedures and systems of control must be built and operated in line with any mandatory requirements and these therefore formulate a second line of defence in the Esh Group governance model.

Esh Construction Limited

Corporate Governance (continued)

Health and Safety Policy and Procedures (continued)

The Group recognises the importance of health and safety in all its undertakings. It relies upon the active participation of management and workforce including sub-contractors to maintain safe working practices and procedures in order to fulfil its legal obligations under the Health & Safety at Work Act 1974 and all other relevant health and safety legislation. In addition to fulfilling its legal obligations, the aim of the Group is to achieve best health and safety practice in all that it does primarily through adherence to ESH SAFE – Everyone Safely Home our bespoke brand and commitment.

Esh Construction Limited

Directors' report

The directors present their directors' report and audited consolidated financial statements for the year ended 31 December 2021.

Financial instruments

The Company's financial instruments comprise borrowings share capital, cash, and various items arising directly from operations (such as trade debtors, trade creditors etc).

The Company's cash balance of £18.4m (2020: £12.3m) carries interest at variable rates but the levels of interest receivable are not significant to this group's results.

Financial instrument risks are managed at the Esh Group level, and further details can be obtained from the Esh Holdings Limited financial statements.

Paid dividends

£nil dividends were paid in respect of the previous year (2020 £1.5m).

Result for the year

The result for the year is set out in the Strategic report.

Directors

The directors who were in office during the year and up to the date of signing the financial statements were as follows:

M A Sowerby (Resigned 31 January 2021)

A E Radcliffe

P Watson (Resigned 30 April 2022)

S T Wilkie

A Law

All of the directors benefited from qualifying third-party indemnity provisions during the year and at the date of this report.

Employees

The Company gives full consideration to applications for employment from people with disabilities where the requirements of the job can be adequately fulfilled. Where existing employees become disabled, it is the Company's policy wherever practicable to provide continuing employment under normal terms and conditions and to provide training, career development and promotion to employees with disabilities wherever appropriate.

During the year, the policy of providing employees with information about the Company has been continued through internal media methods and holding regular meetings to review the Company's performance. Employees participate in the success of the business through the Company's bonus scheme.

Political contributions

Neither the Company nor any of its subsidiaries made any political donations or incurred any political expenditure during the year.

Esh Construction Limited

Directors' report (continued)

Statement of directors' responsibilities

The directors are responsible for preparing the Annual 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 prepared the Group and Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS "the Financial Reporting Standard applicable in the UK and Republic of Ireland" 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 and Company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and 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; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Parent Company will continue in business.

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

The directors are responsible for the maintenance and integrity of the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Disclosure of information to auditors

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware; and each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Future developments

The future developments of the entity are disclosed within the Strategic Report.

Independent auditors

Pursuant to Section 487 of the Companies Act 2006, the auditors will be deemed to be re-appointed and PricewaterhouseCoopers LLP will therefore continue in office.

Esh Construction Limited

Directors' report (continued)

Section 172 (1) statement

The Esh Holdings' board believes that all matters it is responsible for under Section 172 (1) of the Companies Act 2006 have been considered to an appropriate extent. Each director, acting in good faith, promotes the success of the company for the benefit of its stakeholders as a whole, and in doing so has regard to relevant matters where appropriate. To the extent necessary for an understanding of the development, performance and position of Esh Holdings, examples of how the board has considered the matters set out in Section 172 (1) are detailed in the table below:

Considering likely consequences of any decision in the long term	The group has a strong culture of monthly forecasting and has a 3 year strategic plan. The consequences of changes to monthly forecasts are therefore considered for longer term impact on the 3 year plan and beyond.
Taking the interests of the Esh Construction's employees into account	Employee feedback is actively sought through staff surveys, team meetings and informal communication. The Leadership Team of the Esh Group take this feedback seriously and have an ongoing improvement plan for further enhancing employee engagement.
Fostering the company's business relationships with suppliers customers and others, and maintaining a reputation for high standards of business conduct	As outlined in the Corporate Governance section of this report, the group maintains and enforces a suite of policies, notably on ethical behaviour.
The impact of Esh Construction on the community and the environment	'Constructing Local' is a key strategic initiative of the Group, as outlined in the Strategic report. This places the communities and stakeholders in the geographies that we operate at the heart of all that we do.
Acting fairly as between members of the company	The Esh Holdings board includes representatives of all material shareholders. There is a Board ethos of openness, transparency and consensus decision making such that all major decisions require unanimous approval. Minority shareholders are, in the main, also employees of the company and often consulted through other mediums described above, however, due legal processes are followed when required by Company Law or the Articles of Association.

On behalf of the board

A E Radcliffe
Director
29 September 2022

Esh House
Bowburn North Industrial Estate
Bowburn
Durham
DH6 5PF

Esh Construction Limited

Independent auditors' report to the directors of Esh Construction Limited

Report on the audit of the financial statements

Opinion

In our opinion, Esh Construction Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2021 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report, which comprise: Balance Sheet as at 31 December 2021; Statement of comprehensive income and Statement of changes in equity for the year then ended; the Statement of accounting policies; and the notes to the financial statements.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the company's ability to continue as a going concern.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

Independent auditors' report to the directors of Esh Construction Limited (continued)

Reporting on other information (continued)

With respect to the Strategic report and Directors' report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic report and Directors' report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' report for the year ended 31 December 2021 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of directors' responsibilities, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to the Companies Act 2006 and tax legislation, and we considered the extent to which non-compliance might have a material effect on the financial statements. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to increase the group's profitability or reduce any loss. Audit procedures performed by the engagement team included:

- Discussions with management, including consideration of known or suspected instances of non-compliance with laws and regulations and fraud;
- Review of board minutes;
- Review of legal expenditure in the year to identify potential non-compliance with laws and regulation;
- Challenging assumptions and judgements made by management in their significant accounting estimates and forecasts;
- Identifying and testing journal entries, in particular any journal entries posted with unusual account combinations.

Esh Construction Limited

Independent auditors' report to the directors of Esh Construction Limited (continued)

Auditors' responsibilities for the audit of the financial statements (continued)

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's directors as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

We have no exceptions to report arising from this responsibility.

Other matter

The company Statement of comprehensive income and corresponding notes for the year ended 31 December 2020, forming the corresponding figures of the financial statements for the year ended 31 December 2021, are unaudited.

Jonathan Greenaway (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Newcastle upon Tyne
29 September 2022

Esh Construction Limited

Statement of comprehensive income for the year ended 31 December 2021

	Note	2021 £'000	Unaudited 2020 £'000
Turnover	1	230,582	205,174
Cost of sales		(215,912)	(195,729)
Gross profit		14,670	8,445
Administrative expenses		(12,260)	(11,667)
Other operating income		-	1,711
Operating profit/(loss)	2	2,410	(1,511)
Profit on sale of fixed assets		75	-
Loss on sale of investments		-	(471)
Interest receivable and similar income	5	-	1
Interest payable and similar expenses	6	-	-
Profit/(loss) before taxation		2,485	(1,981)
Tax on profit/(loss)	7	656	649
Profit/(loss) for the financial year		3,141	(1,332)
Other comprehensive income		-	-
Total comprehensive income/(loss) for the year		3,141	(1,332)

The company had no other comprehensive income during the current or preceding year other than that reflected in the statement of comprehensive income.

Esh Construction Limited

Balance sheet as at 31 December 2021

	Note	£'000	2021 £'000	2020 £'000
Fixed assets				
Intangible assets	9		-	-
Tangible assets	10		2,269	2,678
Investments	11		1,500	1,500
			3,769	4,178
Current assets				
Stocks	12	403		339
Debtors	13	47,925		47,638
Cash at bank and in hand		18,442		12,317
			66,770	60,294
Creditors: amounts falling due within one year	14		(55,380)	(52,454)
Net current assets			11,390	7,840
Total assets less current liabilities			15,159	12,018
Creditors: amounts falling due after more than one year	15		-	-
Net assets			15,159	12,018
Capital and reserves				
Called up share capital	17		978	978
Profit and loss account	18		14,181	11,040
Total shareholders' funds			15,159	12,018

These financial statements on pages 22 to 41 were approved by the board of directors on 29 September 2022 and were signed on its behalf by:


A E Radcliffe

Director

Company registered number: 02529939

Esh Construction Limited

Statement of changes in equity for the year ended 31 December 2021

	Called up share capital £'000	Profit and loss account £'000	Total shareholders' funds £'000
Balance at 1 January 2020	978	13,872	14,850
Loss for the financial year	-	(1,332)	(1,332)
Other comprehensive income	-	-	-
Total comprehensive profit for the year	-	(1,332)	(1,332)
Dividends	-	(1,500)	(1,500)
Balance at 31 December 2020	978	11,040	12,018
Profit for the financial year	-	3,141,	3,141
Other comprehensive income	-	-	-
Total comprehensive loss for the year	-	3,141	3,141
Dividends	-	-	-
Balance at 31 December 2021	978	14,181	15,159

Esh Construction Limited

Statement of accounting policies

Statement of compliance and general information

The Company is a private company limited by shares and is incorporated in the United Kingdom and registered in England. The registered address is Esh House, Bowburn North Industrial Estate, Bowburn, Durham, DH6 5PF. These financial statements have been prepared in compliance with the United Kingdom Accounting Standards, including Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS 102") and the Companies Act 2006.

The following accounting policies have been applied consistently, in the historical cost basis, in dealing with items which are considered material in relation to the financial statements.

Basis of preparation

As the company is a wholly owned subsidiary of Esh Holdings Limited, the company has taken advantage of the exemption contained in paragraph 33.1A of FRS 102 and has therefore not disclosed transactions or balances with wholly owned subsidiaries which form part of the group.

Prior year comparatives

In the prior year, audited consolidated accounts were prepared for the company and its subsidiaries. In the current year, the directors have taken the decision to prepare company accounts as the company is included in the consolidated accounts of both Esh Holdings Limited and Esh Investments Limited. The prior year consolidated accounts included the company Balance Sheet but not the company Statement of Comprehensive Income. As such the prior year Statement of Comprehensive Income and corresponding notes are shown as unaudited.

Exemptions for qualifying entities under FRS 102

FRS 102 allows a qualifying entity certain disclosure exemptions, subject to certain conditions, which have been complied with, including notification of and no objection to, the use of exemptions by the Company's shareholders.

The Company has taken advantage of the following exemptions:

- (i) from preparing a statement of cash flows, on the basis that it is a qualifying entity and a parent company consolidated statement of cash flows includes the Company's cash flows; and
- (ii) from the requirement to present a reconciliation of the number of shares outstanding at the beginning and end of the period as required by paragraph 4.12(a)(iv).

Going concern

The Company meets its financing requirements through its cash resources and debt associated with the Group finance facility. The Company also has balances with other companies in the group headed by Esh Investments Limited.

The Company is subject to a group banking arrangement with its immediate parent undertaking, Esh Holdings Limited, and certain other group undertakings. Detailed information regarding the financial position of the group headed by Esh Investments Limited, its cash flows, liquidity position and borrowing facilities are included in the financial statements of Esh Investments Limited, which can be obtained from Companies House.

The Group headed by Esh Holdings Limited recorded a profit before taxation attributable to owners of the parent for the year of £3.0m from continuing operations and had net assets at 31 December 2021 of £31.9m including cash of £20.8m.

Esh Construction Limited

The group headed by Esh Holdings Limited trades with a large number of customers and suppliers across a number of sectors and expects to meet its day to day working capital requirements through its existing considerable cash reserves and ongoing trade.

After making detailed enquiries and taking into account the factors discussed above, the Board is confident that the Company and the Group headed by Esh Construction Limited has adequate resources to continue in operational existence for the foreseeable future and accordingly continues to prepare the financial statements on a going concern basis.

Statement of accounting policies (continued)

Goodwill

Purchased goodwill (representing the excess of the fair value of the consideration given over the fair value of the separable net assets acquired) arising on business combinations in respect of acquisitions since 1 January 1998 is capitalised. Positive goodwill is amortised to nil by equal annual instalments over its estimated useful life.

Negative goodwill arising on consolidation in respect of acquisitions in the year is included within fixed assets and released to the profit and loss accounts in the periods in which the fair values of the non-monetary assets purchased on the same acquisition are recovered, whether through depreciation or sale. On the subsequent disposal or termination of a business acquired since 1 January 1998, the profit or loss on disposal or termination is calculated after charging the unamortised amount of any related goodwill.

Investments

In the Company's financial statements, investments in subsidiary undertakings are stated at cost less amounts written off.

Tangible fixed assets and depreciation

Depreciation is provided to write off the cost less the estimated residual value of tangible fixed assets by instalments over their estimated useful economic lives as follows:

Freehold property	- 4% per annum straight line
Plant and machinery	- 20% reducing balance and 33% straight line
Fixtures, fitting and equipment	- 33% straight line
Motor vehicles	- 30% reducing balance

No depreciation is provided on freehold land.

Government grants

Capital based government grants are included within accruals and deferred income in the balance sheet and credited to the profit and loss account over the estimated useful lives of the assets to which they relate.

Leases

Assets acquired under finance leases are capitalised and the outstanding future lease obligations are shown in creditors. Operating lease rentals are charged to the profit and loss account on a straight-line basis over the period of the lease.

Post-retirement benefits

The Group operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the Group in an independently administered fund. The amount charged to the profit and loss account represents the contributions payable to the scheme in respect of the accounting period.

Esh Construction Limited

Statement of accounting policies (continued)

Stocks

Stocks are stated at the lower of cost and estimated selling price less cost to complete and sell. In determining the cost of raw materials, consumables and goods purchased for resale, the weighted average purchase price is used.

At the end of each reporting period stocks are assessed for impairment. If an item of stock is impaired, the identified stock is reduced to its selling price less costs to complete and sell and an impairment charge is recognised in the consolidated statement of comprehensive income. Where a reversal of the impairment is required the impairment charge is reversed, up to the original impairment loss, and is recognised as a credit in the consolidated statement of comprehensive income.

Long-term contracts

The amount of profit attributable to the stage of completion of a long-term contract is recognised when the outcome of the contract can be estimated reliably as per paragraph 23.14 of FRS 102. Turnover for such contracts is stated at cost appropriate to their stage of completion plus attributable profits, less amounts recognised in previous years. Turnover includes the initial amount agreed in the contract plus any variations in contract work to the extent that it is probable that they will result in revenue and can be measured reliably. The stage of completion of contracts is assessed by reference to completion of a physical proportion of the contract work. Provision is made for any losses as soon as they are foreseen.

Contract work in progress is stated at costs incurred, less those transferred to the profit and loss account, after deducting foreseeable losses and payments on account not matched with turnover.

Amounts recoverable on contracts are included in debtors and represent turnover recognised in excess of payments on account.

Taxation

Taxation expense for the period comprises current and deferred tax recognised in the reporting period. Tax is recognised in the statement of comprehensive income, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case tax is also recognised in other comprehensive income or directly in equity respectively. Current or deferred taxation assets and liabilities are not discounted.

Current tax is the amount of income tax payable in respect of the taxable profit for the year or prior years. Tax is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the period end.

Deferred tax arises from timing differences that are differences between taxable profits and total comprehensive income as stated in the financial statements. These timing differences arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in financial statements.

Deferred tax is recognised on all timing differences at the reporting date. Unrelieved tax losses and other deferred tax assets are only recognised when it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Deferred tax is measured using tax rates and laws that have been enacted or substantively enacted by the period end and that are expected to apply to the reversal of the timing difference.

Dividends

Dividends are only recognised as a liability to the extent that they are declared prior to the year end. Unpaid dividends that do not meet these criteria are disclosed in the notes to the financial statements.

Esh Construction Limited

Statement of accounting policies (continued)

Turnover

Turnover is measured at the fair value of consideration received or receivable net of discounts and VAT, provided that it can be measured reliably.

Turnover on long-term contracts is recorded at cost appropriate to the stage of completion plus attributable profits, less amounts recognised in previous years, as set out in the accounting policy for long-term contracts.

Turnover on short-term contracts is recognised when the contract is completed.

Turnover from services is recognised when the service has been performed.

Classification of financial instruments issued by the Group

Financial instruments issued by the Group are treated as equity (i.e. forming part of shareholders' funds) only to the extent that they meet the following two conditions:

- (a) they include no contractual obligations upon the Company (or Group as the case may be) to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Company (or Group); and
- (b) where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the Company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

Finance payments associated with financial liabilities are dealt with as part of interest payable and similar charges. Finance payments associated with financial instruments that are classified as part of shareholders' funds (see dividends policy), are dealt with as appropriations.

Critical accounting judgements and key source of estimation uncertainty

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the application of the accounting policies and the reported amounts of assets and liabilities, revenue and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are reasonable under the circumstances. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Esh Construction Limited

Statement of accounting policies (continued)

Critical accounting judgements and key source of estimation uncertainty (continued)

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below:

(i) *Turnover recognition*

The Group's turnover recognition policies, which are set out above, are central to the way the Group values the work it has carried out in each financial year and have been consistently applied. These policies require forecasts to be made of the outcomes of long-term construction and service contracts, which require assessments and judgements to be made on changes in work scopes, contract programmes and maintenance liabilities.

(ii) *Long-term contracts*

The amount of profit attributable to the stage of completion of a long-term contract is recognised when the outcome of the contract can be foreseen with reasonable certainty. Turnover for such contracts is stated at cost appropriate to their stage of completion plus attributable profits, less amounts recognised in previous years. Turnover includes the initial amount agreed in the contract plus any variations in contracted work, to the extent that it is probable that they will result in revenue and can be measured reliably. The stage of completion of a contract is assessed by reference to completion of a physical proportion of the contract work. Provision is made for any losses as soon as they are foreseen.

Esh Construction Limited

Notes to the financial statements for the year ended 31 December 2021

Turnover

All turnover arises in the United Kingdom from the following activities:

1	2021	Unaudited 2020
	£'000	£'000
Construction	204,732	186,432
Property services	25,850	18,692
	230,582	205,124

Operating profit/(loss)

2	2021	Unaudited 2020
	£'000	£'000
Operating profit/(loss) is stated after charging:		
Depreciation of tangible assets:		
Owned assets	746	-
Leased assets	-	-
Amortisation of goodwill	-	-
Hire of plant and machinery - operating leases	7,196	6,614
Hire of other assets – operating leases	1,340	1,225

Auditors' remuneration

3	2021	2020
	£'000	£'000
Audit of company	115	88

Remuneration of directors

	2021	2020
	£'000	£'000
Directors' emoluments	58	257
Company contributions to money purchase pension schemes	2	5
	60	262

Esh Construction Limited

Notes to the financial statements for the year ended 31 December 2021 (continued)

3 Remuneration of directors (continued)

The aggregate of emoluments of the highest paid director were £57,727 (2020: £256,520 and company pension contributions of £1,500 (2020: £5,479) were made to a money purchase scheme on his behalf. Several directors were remunerated through the group companies.

	2021 Number	2020 Number
Retirement benefits are accruing to the following number of directors under:		
Money purchase schemes	-	1

Staff numbers and costs

4

The average monthly number of persons employed by the company (including directors) during the year, analysed by category, was as follows:

	2021 Number	Unaudited 2020 Number
Production staff	242	244
Administrative staff	379	387
	621	631

The aggregate payroll costs of these persons were as follows:

	2021 £'000	Unaudited 2020 £'000
Wages and salaries	26,757	27,626
Social security costs	2,798	2,708
Other pension costs (note 21)	1,083	1,034
Coronavirus Job Retention Scheme claims	-	(1,711)
	30,638	30,403

Included in staff costs for the group are redundancy payments of £10,614 (2020: £53,167).

Esh Construction Limited

Notes to the financial statements for the year ended 31 December 2021 (continued)

Interest receivable and similar income

	2021	Unaudited 2020
	£'000	£'000
5 Interest receivable from group undertakings	-	1

Interest payable and similar expenses

	2021	Unaudited 2020
	£'000	£'000
6 Finance charges payable in respect of finance leases and hire purchase contracts	-	-

7 Tax on profit/(loss)

Analysis of credit in year:

	2021	Unaudited 2020
	£'000	£'000
UK corporation tax		
Current tax on profit/(loss) for the financial year	-	-
Adjustments in respect of prior periods	(157)	(1)
Total current tax	(157)	(1)
Deferred tax (see note 16)		
Origination/reversal of timing differences	(499)	(562)
Adjustments in respect of prior periods	-	24
Effect of tax rate change	-	(110)
Total deferred tax	(499)	(648)
Total tax credit	(656)	(649)

Esh Construction Limited

Notes to the financial statements for the year ended 31 December 2021 (continued)

7 Tax on profit/(loss) (continued)

Factors affecting the tax credit for the current year

The tax credit for the year is lower (2020: lower) than the standard rate of corporation tax in the UK 19% (2020: 19%). The differences are explained below:

	2021 £'000	Unaudited 2020 £'000
Total tax reconciliation		
Profit/(loss) before taxation	2,485	(1,981)
Current tax at 19% (2020: 19%)	472	(376)
<i>Effects of:</i>		
Expenses not deductible for tax purposes	17	99
Capital allowances for the year in excess of depreciation	-	-
Deferred tax not provided	-	-
Tax rate changes	(434)	(110)
Group relief paid for at less than full UK tax rate	(554)	-
Transfer pricing adjustments	-	(285)
Adjustments in respect of prior periods	(157)	23
Income not taxable	-	-
Total current tax credit (see above)	(656)	(649)

Tax rate changes

In the Spring Budget 2021, the Government announced that from 1 April 2023 the corporation tax rate will increase to 25%. The proposal to increase the rate to 25% has been substantively enacted at the balance sheet date, its effects are included in these financial statements.

Esh Construction Limited

Notes to the financial statements for the year ended 31 December 2021 (continued)

Dividends

The aggregate amount of dividends comprises:

8	2021	2020
	£'000	£'000
Dividends paid in respect of the current year	-	1,500

The aggregate amount of dividends proposed and not recognised as liabilities as at the year-end is £nil (2020: £1.5m).

Intangible assets

- 9 Negative goodwill arose on the acquisition of Border Construction Limited during 2014.

Goodwill of £251,000 arose on the acquisition of Wilkinson Facilities Services Limited on 31 May 2007. This was amortised over 10 years which is the period over which the directors considered that the Group will derive continuing economic benefit.

Goodwill of £259,000 arose on the group acquisition of Stephen Easten Building Limited on 31 May 2006 and was fully amortised in the year of acquisition.

	Goodwill £'000
Cost	
At 1 January and 31 December 2021	757
Accumulated amortisation	
At 1 January 2021	757
Charged in year	-
At 31 December 2021	757
Net book value	
At 31 December 2021	-
At 31 December 2020	-

The goodwill arose in the Company on the acquisition of the trade and net liabilities of Stephen Easten Building Limited on 31 August 2009.

Esh Construction Limited

Notes to the financial statements for the year ended 31 December 2021 (continued)

Tangible assets

10	Freehold property £'000	Leasehold property £'000	Plant and machinery £'000	Fixtures, fittings and equipment £'000	Motor vehicles £'000	Total £'000
Cost						
At 1 January 2021	12	56	6,295	46	1,410	7,819
Additions	-	-	421	-	26	447
Disposals	-	-	(814)	-	(115)	(929)
At 31 December 2021	12	56	5,902	46	1,321	7,337
Accumulated depreciation						
At 1 January 2021	12	23	4,308	39	759	5,141
Charge for year	-	7	596	3	140	746
On disposals	-	-	(731)	-	(88)	(819)
At 31 December 2021	12	30	4,173	42	811	5,068
Net book value						
At 31 December 2021	-	26	1,729	4	510	2,269
At 31 December 2020	-	33	1,987	7	651	2,678

Included in the total net book value is £nil (2020: £nil) in respect of assets held under finance leases and similar hire purchase contracts. Depreciation for the year on these assets was £nil (2020: £nil).

Esh Construction Limited

Notes to the financial statements for the year ended 31 December 2021 (continued)

Investments

	Shares in group undertakings £'000
11 Cost and net book value	
At 1 January 2021	1,500
Disposals	-
Additions	-
At 31 December 2021	1,500

The undertakings in which the Company's interest at the year-end is more than 20% are as follows:

Subsidiary undertaking	Class and percentage of shares held	Nature of business
Border Construction (Holdings) Limited	100% Ordinary	Civil engineering and building contractor
Border Construction Limited ¹	100% Ordinary	Civil engineering and building contractor
David Wilkinson Building Contractors ¹	100% Ordinary	Dormant
Dunelm National Projects Limited ¹	100% Ordinary	Property development
Dunelm Property Services Limited	100% Ordinary	Housing construction and refurbishment
Esh Stantec Limited	50% Ordinary	Civil engineering
Lumsden & Carroll Limited	100% Ordinary	Commercial builder
Stephen Easten Building Limited	100% Ordinary	Commercial builder
Wilkinson Facilities Services Limited ¹	100% Ordinary	Building and maintenance services

¹Investment held indirectly

All companies are incorporated in England and have a registered office of Esh House, Bowburn North Industrial Estate, Bowburn, Durham, DH6 5PF, except for Border Construction (Holdings) Limited which is registered in Scotland and has a registered office of Botany Mill, Roxburgh Street, Galashiels, TD1 1PB.

The directors believe that the carrying value of the investments is supported by their underlying net assets.

Esh Construction Limited

Notes to the financial statements for the year ended 31 December 2021 (continued)

Stocks

	2021 £'000	2020 £'000
12 Raw materials and consumables	403	339

The amount of stock recognised as an expense during the year was £2,221,054 (2020: £2,214,702).

Debtors

	2021 £'000	2020 £'000
13 Trade debtors	6,152	9,781
Amounts recoverable on contracts	23,938	17,241
Amounts owed by group undertakings	14,711	17,955
Amounts owed by undertakings in which the ultimate parent company has a participating interest (note 23)	-	91
Deferred tax asset (note 16)	2,105	1,606
Corporation tax	-	-
Other debtors	44	226
Prepayments and accrued income	975	738
	47,925	47,638

An element of the deferred tax asset is expected to be recovered over more than one year.

Amounts owed by group undertakings do not bear interest and are not secured.

Esh Construction Limited

Notes to the financial statements for the year ended 31 December 2021 (continued)

Creditors: amounts falling due within one year

	2021 £'000	2020 £'000
14 Obligations under finance leases and hire purchase contracts (note 15)	-	-
Payments received on account	5,510	6,027
Trade creditors	7,544	5,539
Amounts owed to group undertakings	2,533	2,413
Amounts owed to undertakings in which the ultimate parent company has a participating interest (note 23)	-	27
Corporation tax	38	195
Other taxation and social security	4,451	3,161
Other creditors	1,432	1,347
Accruals and deferred income	33,872	33,745
	55,380	52,454

Amounts owed to group undertakings do not bear interest and are not secured.

15 Creditors: amounts falling due after more than one year

	2021 £'000	2020 £'000
Obligations under finance leases and hire purchase contracts	-	-

The maturity of obligations under finance leases and hire purchase contracts is as follows:

	2021 £'000	2020 £'000
Within one year	-	-
In the second to fifth years	-	-
Less future finance charges	-	-
	-	-

Esh Construction Limited

Notes to the financial statements for the year ended 31 December 2021 (continued)

Deferred taxation

	2021 £'000	2020 £'000
16 At beginning of year -- asset	1,606	958
Credit to the statement of comprehensive income for the year	499	672
Credit to the statement of comprehensive income for prior year	-	(24)
Disposal of business	-	-
At end of year -- asset	2,105	1,606

The elements of deferred taxation are as follows:

	2021 £'000	2020 £'000
Differences between accumulated depreciation and capital allowances	(2)	164
Short term timing differences	17	17
Losses	2,091	1,425
Deferred tax asset	2,105	1,606

17

Called up share capital

	2021		2020	
	Number of shares	£000	Number of shares	£000
18 Authorised, Allotted, called up and fully paid				
Ordinary shares of £1 each	978,150	978	978,150	978

Profit and loss account

	£'000
At 1 January 2021	11,040
Profit for the financial year	3,141
Dividend	-
At 31 December 2021	14,181

Esh Construction Limited

Notes to the financial statements for the year ended 31 December 2021 (continued)

Contingent liabilities

- 19 The company is party to a group funding arrangement with certain of the companies in the Esh group. Funding of up to £9.2m is available to be drawn down against the debtors of Esh Construction Limited and Deerness Fencing & Landscaping Limited. Security is provided to the funder, Nucleus Commercial Finance Limited, by means of charges on the Land and Buildings held within Esh Holdings Limited and Plant and Machinery held in Esh Construction Limited and Deerness Fencing & Landscaping Limited, together with a first ranking debenture across the assets and liabilities of certain group companies (including the Company). The amount drawn on the facility at 31 December 2021 amounted to approximately £nil (2020: £0.5m).

Commitments

- 20 Capital commitments at the end of the financial year for which no provision has been made are as follows:

	2021 £'000	Unaudited 2020 £'000
Contracted	-	26

Annual commitments under non-cancellable operating leases are as follows:

	Other		Land and buildings	
	2021 £'000	Unaudited 2020 £'000	2021 £'000	Unaudited 2020 £'000
Operating leases which expire:				
Within one year	128	214	-	5
In the second to fifth years inclusive	291	195	70	70
21	419	409	-	75

Pension scheme

The Company operates a defined contribution pension scheme. The pension cost charge for the year represents contributions payable by the Company to the scheme and amounted to £1,083,000 (2020: £1,034,000).

There were outstanding contributions at the end of the financial year of £207,000 (2020: £180,000).

Esh Construction Limited

Notes to the financial statements for the year ended 31 December 2021 (continued)

Related party disclosures

22	Group							
	Sales		Purchases		Debtors		Creditors	
	2021 £'000	2020 £'000	2021 £'000	2020 £'000	2021 £'000	2020 £'000	2021 £'000	2020 £'000
Participating interests								
West Park JV	31	39	-	-	-	16	-	-
Middleton St George JV	29	54	-	-	-	27	-	-
Micropump (NE) Ltd	-	9	-	55	-	-	-	8
Salutation Road	-	-	4	-	-	-	-	-
Eastbourne JV	97	-	-	19	-	16	-	19
Heighington JV	14	30	-	-	-	32	-	-
	171	132	4	74	-	91	-	27

Participating interests represent companies in which the ultimate parent company, Esh Holdings Limited, holds a participating interest. The Group's investment in Micropump (NE) Ltd was disposed on in 2021.

The 2020 figures are unaudited.

23 **Ultimate parent company and parent undertaking of larger group of which the company is a member**

The Company is a subsidiary undertaking of Esh Investments Limited, the ultimate parent company incorporated in England and Wales. The immediate parent company is Esh Holdings Limited.

The largest group in which the results of the Company are consolidated is that headed by Esh Investments Limited, and the smallest group is that headed by Esh Holdings Limited, both incorporated in England and Wales. The consolidated financial statements of this group are available to the public and may be obtained from Companies House.

The directors do not consider there to be an individual ultimate controlling party.