Esh Construction Limited

Annual report and financial statements

for the year ended 31 December 2022

Registered Number 02529939

Esh Construction Limited

Annual report and financial statements

for the year ended 31 December 2022

Contents

Esh Construction Limited

Strategic Report

The directors present their strategic report for the year ended 31 December 2022

Principal activities

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

Overview

2022 presented a wide range of challenges for the construction industry. Following the bounce back in activity from the global pandemic, supply chains were placed under incredible strain as demand far outstripped supply, particularly in the Private Housing sector. Supply chains found themselves struggling to rebuild inventory and keep up with this surge in demand, leading to shortages and significantly extended lead times. This, naturally, led to a dramatic rise in input costs, which inexorably led to the highest level of construction material cost inflation in a generation.

This cost inflation was exacerbated by a similar level of pressure from labour and trade resources. Shortages of skilled labour to satisfy overall demand was compounded by several discreet factors, including significant storm damage to properties at the beginning of the year, alongside a burgeoning demand for home improvements from house holders who had accumulated capital during the lock down periods.

Construction businesses are normally adept at managing inflation risk, with contracts priced to include mechanisms to accommodate a normal level of anticipated inflation. However, the rate and pace at which input costs increased during 2022 was impossible to legislate for.

Similarly, the impact of shortages and labour constraints applied huge pressure to programmes, with contractors experiencing overruns on contracts that were priced before the pandemic.

Delays have been most prevalent in the parts of the company that have longer term contracts, particularly in our Commercial Build and Social Housing businesses (Esh Build and Esh Living respectively). The decision to target larger contracts with longer durations, was taken before the pandemic, with the overarching philosophy being that to secure such contracts attracts a better calibre of people and supply chains. This strategy, whilst laudable, was proven to be misplaced in the context of a global pandemic and its inevitable aftereffects.

A meticulously designed business model, set in place before the pandemic hit, has served to insulate us from the worst of these effects. This manifested itself in the following ways :

1. A significant proportion (~25%) of our contracts are of a ‘cost-plus’ nature, allowing us to achieve immediate pass through of cost inflation;

2. 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’;

3. A reasonable proportion of our contracts have provision for cost fluctuation based upon agreed indices;

4. Shifting the tendering emphasis away from single stage D&B competitive tenders towards Land Led (where we have control of the land) contracts, enabling better pricing of the risk/reward equation;

5. Fixed price bidding ended late 2021, with all contracts priced beyond this date containing a wide range of measures to protect from inflation and programme challenges.

Strategic Report (continued)

In addition, our leadership team has designed the business model to provide a balanced portfolio of revenue from a broad range of complimentary sectors. This finely balanced revenue model ensures that we are not overweight in any one sector, and as such, are much more able to balance out the peaks and troughs of individual segments of the market over their respective economic cycles. In fact, the segments of the market that we have chosen to participate in have cyclical, counter-cyclical, and non-cyclical behaviour patterns, providing a much more stable and predictable backdrop for future revenue expectations.

This business model is the product of a detailed restructuring programme carried out between 2017 and 2020, which pivoted the business away from a strategy of growth through the pursuit of geographic and service expansion, to one focussed on core competencies and confined geographies - sticking to what we are good at, with supply chains that we know, and with clients which we can develop long term partnerships with.

This restructuring programme, together with the implementation of 'gold standard' working capital management processes, means we have systematically deleveraged our balance sheet to end the year debt free, and with £18m of liquidity (including £6m available on our undrawn credit line).

The strength of our core revenue model, combined with a solid balance sheet have been key factors in how we have navigated the prevailing challenges in the market, and in many respects, have been the key differentiators when comparing our group with some of the large corporate failures reported during the period.

The Market

The industry has endured some of the most challenging conditions for many years, which in some respects, could be deemed to be greater than the financial crisis of 2008. At the time of writing, conditions are beginning to stabilise, albeit with the backdrop of an unpredictable macro-economic environment.

The inevitable tightening of monetary policy on the back of significant inflationary pressures, combined with limited scope for fiscal policy changes due to constrained public finances and the desire not to undo the efforts of the central bank, means that general economic conditions are not conducive to stimulating growth in our industry. Whilst this is not ideal, many would comment that the heat had to come out of demand in order to allow supply chains and prices to stabilise.

All that said, there remains opportunities for growth within a number of subsectors of the construction industry, with our core strategy being to pursue segments that demonstrate the following characteristics:

1. Have resilience and cyclical 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.

Such dynamics across our targeted segments can be described as follows:

Utilities

Regulator expectations for major upgrades to wastewater networks are leading to a significant increase in capital programmes for Water companies, as well as related government agencies. Through our strategic partnership with global engineering giant Stantec Inc, we remain well placed to benefit from high levels of demand over the remainder of the current AMP (Asset Management Plan), and into the next.

Local Authorities

Our Local Authority clients continue to present a strong pipeline of projects covering infrastructure, public realm and general construction works. Capital budgets have clearly become more challenged on the back of rampant cost inflation, with many of our Local Authority clients prioritising essential works over longer-term development plans. However, strong funding streams, including ‘Levelling Up’ are ensuring that these projects make progress, with our position on key procurement frameworks ensuring we enjoy a healthy level of participation in this segment.

Private Housing

The private housing market has inevitably entered a period of uncertainty. High levels of consumer inflation has weighed heavily on the cost of living, which itself has been compounded by the highest level of interest rates since before the financial crisis of 2008. Following significant house price inflation in the aftermath of the pandemic, these factors are all serving to put pressure on prices and affordability, and consequently, buyer sentiment. Supply side constraints also prevail, and whilst labour and material availability has improved markedly, a number of regulatory constraints associated with planning and the need to balance nutritional elements (nitrates and phosphates emanating largely from wastewater management) on new developments is inhibiting the amount of new housing starts.

Lumsden and Carroll, which provides infrastructure services to PLC housebuilders has seen some moderate slow down in instructions, but nothing that would suggest a market collapse. This segment is being watched carefully, as many of the monetary measures that the central bank has deployed may have a lagged effect. However, it would appear that the national rhetoric associated with this segment does not reflect regional variations. The North East, particularly, has not seen aggressive house price inflation over the previous 2 years, as compared with regions such as London, the South East and the Home Counties. Moreover, employment levels in a region that has a large amount of public sector workers, has remained reasonably stable. So for now, the regional private housing market has not collapsed. However, management remain focussed on all leading indicators, and are ready to adapt the business to whatever conditions ultimately prevail. That said, longer term fundamentals remain strong, with the ongoing shortage in housing supply only being exacerbated by the short-term factors at play.

Affordable Housing

At a micro level, registered landlords and social housing providers have seen their capital budgets come under considerable pressure due to the levels of construction cost inflation over the last 18 months. In a similar manner as Local Authorities, they have worked to prioritise schemes rather than pursue previously set targets. Moreover, grant funding has been in a state of flux, with new grant programmes from Homes England in transition, leading to some delayed starts. All this has been compounded by ongoing challenges in the planning system, with constrained planning resources at local authority level exacerbated by issues surrounding the satisfaction nutritional and bio-diversity regulations.

Strategic Report (continued)

Whilst these matters are frustrating, at a macro level, the demand for affordable housing is set to increase on the back of reduced activity in the private sector limiting the availability of new Section 106 stock, alongside growing pressures in the affordability of private rented properties. Long term, the fundamentals for this sector remain incredibly strong, and with cross party consensus on the need for more affordable housing, this segment of the market has strong appeal.

Moreover, our strategy to pivot our route to market to be more land led (where we control the land) has created a pipeline of opportunities that have a long horizon, and once at optimum level, should ensure that over two thirds of our affordable new build revenues arise via this channel, increasing market share whilst simultaneously reducing risk.

Alongside the longer-term opportunities in new build affordable housing is a growing momentum in affordable housing repair and maintenance (R&M). This itself set to be turbocharged by the need to decarbonise a huge amount of existing affordable housing stock. In the first instance, this will principally involve the extensive insulation of homes, preparing them ultimately for the installation of new, lower carbon, heating solutions. Our R&M division is exceptionally well placed to capitalise on this opportunity having recently secured places on key procurement frameworks for this kind of work.

Summary

So whilst there remains a prevailing uncertainty over the whole construction market, the leadership team is confident that the sectors of the industry in which the business is pointed towards demonstrate robust short-term and long-term fundamentals, as well as ensuring that the balance of exposure to cyclical, countercyclical and non-cyclical revenue patterns should provide a stable outlook for the group.

Key factors in our future success will continue to be our team of highly skilled and dedicated colleagues, our valued clients, our supportive and loyal supply chains and our community of broader stakeholders. Through their combined efforts we continue to execute upon our agreed strategic objectives with vigour, diligence, resilience, and creativity. We would like to thank them all for their continued support.

Key Performance Indicators

	2022	2021
	£	£
Turnover, including share of joint ventures	**£239.7m**	£230.6m
Change in turnover	**3.9%**	12.4%
Gross profit margin	**5.5%**	6.4%
Operating profit	**£2.5m**	£2.4m
Profit before taxation attributable to owners of the parent	**£3.1m**	£2.5m
Cash at bank and in hand	**£11.9m**	£18.4m

Business Review

The company reported an profit before taxation of £3.1m. Earnings have been impacted by double digit unrecoverable input cost inflation on a number of fixed price contracts, alongside a range of operational and delivery challenges on projects where supply chains have been unable to meet programmes. These challenges have been most acute in our Commercial Build division, where we have also had to manage one particularly challenging contract to completion. These issues have led to a change in approach to Commercial Building, with the leadership team shifting focus away from multi-room residential and mixed-use schemes to focus more on Local Authority led projects that are predominantly in the Education and Blue Light sectors.

Whilst these factors have weighed heavily on our Affordable Housing and Commercial Build earnings, our Civils division has delivered record results. This demonstrates the beneficial portfolio effect of our group.

The company continues to maintain a strong balance sheet at £17.8m, £11.9m of which is in net cash, with further liquidity of £6m available on the company's undrawn credit line. This liquidity has been maintained despite our cash investment of £2m into new plant and machinery. The company remains focussed on driving capital efficiency across all of its operations, with 'gold standard' working capital processes. In order to facilitate future growth, the company has recently completed on a refinance exercise that provides a replacement £6m, three-year credit line at considerably lower cost than the previous facility, despite increased bank base rates.

Future Developments - Financial Year 2023 Outlook

2023 looks set to be defined by two distinct periods. Early 2023 will continue to show the impact of contracts that have been heavily impacted by inflation and delays. However, those contracts are almost entirely complete in the first half, with second half revenues emanating from contracts that were priced with protection embedded from both inflationary and programme risk. Our Civils division has secured a number of large, prestigious contracts that will commence in the second half of 2023, alongside some significant contract wins for our Social Housing division. Consequently, we expect significant volume and margin expansion in the second half of 2023 compared with the first half.

This expectation is reinforced by what is turning out to be a moderating inflationary environment, with cost inflation expected to drop from double digit percentages in the first half to low to mid-single digit towards the end of the second half of 2023. With labour and material resources eminently more available, the group is expecting less volatile conditions to prevail towards the end of 2023 moving into 2024.

And with an order book maintained at near record levels, which includes 100% of our turnover forecast for 2023, and 65% of our turnover forecast for 2024 secured, the company is looking forward with cautious optimism.

Principal risks and uncertainties

The construction industry is exposed to numerous risks and challenges, which most recently has included macro-economic uncertainty and considerable pressures from supply chain constraints and input cost inflation. Our 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 group operates.

The principal risks faced by the group 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.

Risk description	How it is mitigated
Project execution	
The group 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. Successful delivery of many of these projects depends on the successful implementation and maintenance of a range of operational and commercial procedures and controls.	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. We also have public indemnity cover to provide further safeguards.
Tendering	
Through our different business units, we seek to win profitable work through a large number of competitive tenders and contract negotiations. 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.	All bids are subject to proven, rigorous estimating and tendering processes within a defined framework, using skilled resources. We have delegated authority levels for approving all tenders and a formal tender review process. We undertake reviews following both successful and unsuccessful tenders to ensure we learn from them and apply those lessons to future tenders. Our culture of delivering social value within the communities in which we work provides a point of differentiation from many of our competitors, producing upper quartile tender success rates. The group 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. The group maintains strict controls around risk pricing, particularly associated with input cost inflation and resource availability, ensuring that the significant impact of recent inflationary pressures and shortages is mitigated going forward.

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Strategic Report (continued)

Risk description	How it is mitigated
People	
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	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. People matters are reviewed regularly and discussed at all levels within the organisation and by the Board. 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 in the industry.
Supply chain	
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.	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. 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. 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. 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 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 extensive cost price inflation.

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Strategic Report (continued)

Risk description	How it is mitigated
Health and safety	
The group works on projects which require continuous monitoring and management of health and safety risks.	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. Accident frequency rates remain well below the industry average. Health and safety remains the first agenda item at all board meetings, and is a critical focus for all directors.
Regulatory, market and economic	
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.	The group 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. The Board is alive to the challenges currently faced by the private housing market and has plans in place to mitigate the impact of any material decline by shifting resources to carry out intercompany work, as well as rightsizing the operating cost base to align to any significant reduction in turnover. Moreover, the group is confident that its balanced portfolio of revenues will permit a reasonable smoothing of cyclical patterns across industry segments, with other revenue streams rising to compensate for falls elsewhere.
Business process and IT systems	
To continue to expand the business, Esh Group acknowledges that information and associated technology must be robust and meet business needs.	The 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.
Business is curtailed by COVID-19	
The after effects of the COVID-19 pandemic continue to exert operational challenges on the group.	With inflationary pressures now subsiding, and supply chains restored to near normal levels, the Board considers the impact of the COVID-19 pandemic to be insignificant for the group going forward. However, the learning from the pandemic is now embedded in our risk management processes, with appropriate tools ready to be deployed should such a situation re-occur.

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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	**2022**	**2021**
Energy consumption used to calculate emissions (kWh)	**36,696,732**	**34,125,404**
Energy consumption breakdown (kWh):		
• gas	204,710	178,858
• electricity	135,258	197,472
• wood burning	0	0
• purchased fuel	36,356,764	33,749,074
SCOPE 1 emissions in metric tonnes CO2e		
Gas consumption	36.85	36.19
Purchased fuel - diesel, petrol & gas oil	9,309.06	8,783.42
Wood burning	0	0
Total Scope 1	**9,345.91**	**8,819.61**
SCOPE 2 emissions in metric tonnes CO2e		
Purchased electricity	26.16	37.98
Total Scope 2	**26.16**	**37.98**
SCOPE 3 emissions in metric tonnes CO2e		
Business Travel in employee owned vehicles	24.61	33.13
Total Scope 3	**24.61**	**33.13**
Total gross emissions in metric tonnes CO2e	**9,396.68**	**8,890.72**
Intensity ration Tonnes per employee	**14.93**	**13.87**

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Strategic Report (continued)

Intensity measurement:

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

Reasons for change in emissions:

In 2022 the Group got back to working in a more normal way after the pandemic. A new hybrid working policy was introduced for office staff with a minimum three days working in the office. This has meant that fuel usage has raised slightly for office staff.

Fuel emissions are not as high as would have been projected due to the Group stopping using gas oil before 1st April 2022. Site fuel has moved from gas oil to diesel which has a lower emissions factor.

Measures taken to improve energy efficiency:

Virtual meetings were still used as much as possible to save on travel where possible. Solar pod trials on sites to power cabins are still on going as replacements for diesel generators. A carbon reduction plan was developed with the help of Smart Carbon with plans on how to help reduce emissions. An in-cab driving coach has been installed in commercial vehicles to help reduce fuel usage.

Renewable electricity generated from owned or controlled sources:

In 2022 we generated an estimated 33,420 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 the Integrated Management System - ISO 14001:2015.

AE Radcliffe
Director
28 September 2023

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.

Internal and independent of operational management, are a range of Group functional teams. These include teams in Health, Safety Quality and Environment, Commercial, HR, IT and Internal Audit. All compliance teams report directly to the Board and have access to expert or specialist resources from professional advisors as required. The Compliance team will assess the adherence to Group Policies and Procedures. The outcome of compliance assessments will be reported to the Board and an appropriate action plan devised with management, who are supported through to implementation. These compliance teams bring up the third line of defence in the Esh Group governance model.

Deviation from any aspect of a Group Policy requires the express consent of the Chief Executive Officer in writing in advance.

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Corporate Governance (continued)

The Esh Group Board and Group Policies (continued)
All Group Policies are also publicly available in full detail on our website and intranet, but specific comment is made on the following core areas:

Employment Policies and Procedures
For all our employees, across all companies in the Group, there is a comprehensive Employee Handbook. This Handbook explains the required and mandatory standards of employee and manager behaviour and incorporates specifically: the Esh Group Values, Employee Code of Conduct and aspects of Health, Safety and Wellbeing.

It is also required that all workers for Esh Group, irrespective of engagement status, that they understand and comply with the above standards where they are appropriate for their role.

The Group supplements the Employee Handbook with other related policies or statements covering Slavery & Human Trafficking, Gender Pay and Equality & Diversity.

Ethical Governance Approach
Through the Ethical Governance Approach, the highest standards of integrity and accountability are put into practice by the Board. These standards are expected to be adopted and adhered to by all company directors, employees and third parties, including sub-contractors and their workers, and are evident throughout all relevant Group Policies.

A range of whistle blowing, anti-corruption and bribery policies and procedures support a culture of open, honest and fair dealing. These policies and procedures are designed to minimise the risks of fraud or corruption occurring, as well as to maximise the rate of detection and subsequent corrective action. Any employee, worker or member of the public is encouraged to speak out if they see any wrong-doing or area of concern and to enable this, the Group provides a range of reporting routes to facilitate this in a safe, appropriate and confidential manner.

Health and Safety Policy and Procedures
It is Esh Group Policy that its operations shall be conducted in such a way as to ensure, so far as is reasonably practicable, the health, safety and welfare of all its employees, subcontractors and site visitors and that its activities will not adversely affect the health and safety of others i.e. members of the public, children and any other interested parties. We believe there is no conflict between our requirement to keep our workforce and members of the public safe and our long-term financial success.

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 financial statements for the year ended 31 December 2022.

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 £11.9m (2021: £18.4m) carries interest at variable rates but the levels of interest receivable are not significant to this company'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 (2021 nil).

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:

AE Radcliffe
S T Wilkie
A Law
P Watson (resigned 30 April 2022)

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.

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.

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Directors' report (continued)

Section 172 (1) statement
The Esh Group's 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 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
28 September 2023

Esh House
Bowburn North Industrial Estate
Bowburn
Durham
United Kingdom
DH6 5PF

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 2022 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, including 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 and financial statements (the "Annual Report"), which comprise: Balance Sheet as at 31 December 2022; 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 2022 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 company'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.

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.

Jonathan Greenaway (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Newcastle upon Tyne
28 September 2023

Esh Construction Limited

Statement of comprehensive income
for the year ended 31 December 2022

	Note	**2022**	2021
		£'000	£'000
Turnover	1	**239,734**	230,582
Cost of sales		**(226,568)**	(215,912)
Gross Profit		**13,166**	14,670
Administrative expenses		**(10,686)**	(12,260)
Operating profit	2	**2,480**	2,410
Profit on sale of fixed assets		**147**	75
Profit on sale of investments		**452**	-
Profit before taxation		**3,079**	2,485
Tax on profit	5	**(481)**	656
Total comprehensive income for the year		**2,598**	3,141

All results derive from continuing operations.

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

Esh Construction Limited

Balance sheet as at 31 December 2022

	Note		**2022**		2021
		£'000	**£'000**	£'000	£'000
Fixed assets					
Tangible assets	7		**3,292**		2,269
Investments	8		**1,271**		1,500
			4,563		3,769
Current assets					
Stocks	9	**721**		403	
Debtors: amounts falling due within one year	10	**53,290**		47,925	
Cash at bank and in hand		**11,946**		18,442	
		65,957		66,770	
Creditors: amounts falling due within one year	11	**(52,763)**		(55,380)	
Net current assets			**13,194**		11,390
Total assets less current liabilities			**17,757**		15,159
Net assets			**17,757**		15,159
Capital and reserves					
Called up share capital	13		**978**		978
Profit and loss account	14		**16,779**		14,181
Total shareholders' funds			**17,757**		15,159

The financial statements on pages 19 to 38 were approved by the board of directors on 28 September 2023 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 2022

	Called up share capital	Profit and loss account	Total shareholders' funds
	£'000	£'000	£'000
Balance at 1 January 2021	978	11,040	12,018
Profit for the financial year	-	3,141	3,141
Other comprehensive income	-	-	-
Total comprehensive income for the year	-	3,141	3,141
Share issuance	-	-	-
Dividend on shares	-	-	-
Balance at 31 December 2021	**978**	**14,181**	**15,159**
Profit for the financial year	-	2,598	2,598
Other comprehensive income	-	-	-
Total comprehensive income for the year	-	2,598	2,598
Share issuance	-	-	-
Dividend on shares	-	-	-
Balance at 31 December 2022	**978**	**16,779**	**17,757**

Esh Construction Limited

Statement of accounting policies

Statement of compliance and general information
The Company is limited by shares and is incorporated in the United Kingdom. The registered address is Esh House, Bowburn North Industrial Estate, Bowburn, Durham, United Kingdom, 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 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.

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.

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;

(ii) from the requirement to present a reconciliation of the number of shares outstanding at the beginning and end of the year 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 £2.0m from continuing operations and had net assets at 31 December 2022 of £33.4m including cash of £12.4m.

After making detailed enquiries and taking into account the factors discussed above, the Board is confident that the Company 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.

Esh Construction Limited

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
Operating lease rentals are charged to the profit and loss account on a straight-line basis over the year 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.

Stocks and work in progress
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 year comprises current and deferred tax recognised in the reporting year. 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 loss for the year. Tax is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the year 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 year 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.

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.

Statement of accounting policies (continued)

Classification of financial instruments issued by the company
Financial instruments issued by the company 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 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; 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 in the reconciliation of movements in shareholders' funds.

Turnover

Turnover from private housing sales and land is recognised when transactions have legally completed. Sales incentives are substantially cash in nature but include part-exchange costs which mainly relate to amounts written down, where the part-exchange allowance given to the purchaser of the new home is greater than the valuation of the part-exchange property. Incentives are accounted for by reducing the house build revenue by the cost to the company of providing the incentive.

Sales incentives also include shared equity schemes which are accounted for in other debtors. Revenue is recognised at initial fair value.

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

Critical judgements and estimates in applying the accounting policies

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, income 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 year in which the estimates are revised and in any future years affected.

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:

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.

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.

Notes to the financial statements for the year ended 31 December 2022

1 Turnover

	2022	2021
	£'000	£'000
Construction	**218,407**	204,732
Property services	**21,327**	25,850
Turnover	**239,734**	230,582

2 Operating profit

	2022	2021
	£'000	£'000
Operating profit/(loss) is stated after charging:		
Depreciation of tangible fixed assets:		
Owned	**744**	746
Hire of plant & machinery - operating leases	**6,734**	7,196
Hire of other assets - operating leases	**1,866**	1,340

Auditors' remuneration

	2022	2021
	£'000	£'000
Audit of the financial statements	**125**	115

3 Remuneration of directors

	2022	2021
	£'000	£'000
Directors' emoluments	**-**	58
Company contributions to money purchase pension schemes	**-**	2

The aggregate of emoluments of the highest paid director were £nil (2021: £57,727) and company pension contributions of £nil (2021: £1,500) were made to a money purchase scheme on his behalf. Several directors were remunerated through the group companies.

The number of directors who accrued retirement benefits under Money purchase schemes was £nil (2021: £nil).

4 Staff numbers and costs

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

	Number of employees	
	2022	2021
Production staff	**258**	242
Administrative staff	**367**	379
	625	621

The aggregate payroll costs of these persons were as follows:

	2022	2021
	£'000	£'000
Wages and salaries	**28,364**	26,757
Social security costs	**3,166**	2,798
Other pension costs (note 17)	**1,180**	1,083
	32,710	30,638

Included in staff costs for the group are redundancy payments of £54,283 (2021: 10,614)

Esh Construction Limited

Notes to the financial statements for the year ended 31 December 2022 (continued)

5 Tax on profit

Analysis of charge/(credit) in year:

	2022	2021
	£'000	£'000
UK corporation tax:		
Current tax on income for the year	**1**	-
Adjustments in respect of prior years	**-**	(157)
Total current tax	**1**	(157)
Deferred tax in respect of prior year	**509**	-
Deferred tax in respect of current year	**(29)**	-
Origination/reversal of timing differences	**-**	(499)
Total deferred tax	**480**	(499)
Tax on profit/(loss)	**481**	(656)

Factors affecting the tax charge for the current year
The current tax charge for the year is less than the standard rate of corporation tax in the UK of 19%. The differences are explained below:

	2022	2021
Total tax reconciliation	**£'000**	£'000
Profit/(loss) before taxation	**3,079**	2,485
Current tax at 19% (2021: 19%)	**585**	472
Effects of:		
Income not taxable	**(131)**	-
Tax rate changes	**(81)**	(434)
Transfer pricing adjustments	**(333)**	-
Group relief surrendered/claimed	**-**	(554)
Items not taxable or deductible	**(84)**	-
Expenses not deductible for tax purposes	**16**	17
Adjustments in respect of prior years	**509**	(157)
Total tax charge/(credit) for the year (see above)	**481**	(656)

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

6 Intangible assets

	Goodwill £'000
Cost	
At 1 January and 31 December 2022	757
Accumulated amortisation	
At 1 January 2022	757
Charged in year	-
At 31 December 2022	757
Net book value	
At 31 December 2022	-
At 31 December 2021	-

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

7 Tangible assets

	Freehold property £'000	Leasehold property £'000	Plant & Machinery £'000	Fixtures, fittings & equipment £'000	Motor vehicles £'000	Total £'000
Cost						
At 1 January 2022	12	56	5,902	46	1,321	7,337
Acquisition	-	-	1,826	-	144	1,970
Disposal	-	-	(1,423)	-	(144)	(1,567)
At 31 December 2022	12	56	6,305	46	1,321	7,740
Accumulated depreciation						-
At 1 January 2022	12	30	4,173	42	811	5,068
Disposal	-	-	(1,255)	-	(109)	(1,364)
Charged in year	-	6	593	3	142	744
At 31 December 2022	12	36	3,511	45	844	4,448
Net book value						-
At 31 December 2022	-	20	2,794	1	477	3,292
At 31 December 2021	-	26	1,729	4	510	2,269

Included in the total net book value is £nil (2021: £nil) in respect of assets held under finance leases and similar hire purchase contracts. Depreciation for the year on these assets was £nil (2021: £nil).

8 Investments

	Shares in group undertakings £'000
Cost and net book value	
At 1 January 2022	1,500
Acquisition	-
Disposal	(229)
At 31 December 2022	1,271

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
Board Construction Limited*	100% Ordinary	Civil engineering and building contractor
David Wilkinson Building Contractors*	100% Ordinary	Dormant
Dunelm National Projects Limited*	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*	100% Ordinary	Building and maintenance services

**Investment 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.

9 Stocks

	2022	2021
	£'000	£'000
Raw materials and consumables	721	403

The amount of stock recognised as an expense during the year was £3,194,929 (2021: £2,221,054)

10 Debtors: amounts falling due within one year

	2022	2021
	£'000	£'000
Trade Debtors	10,159	6,152
Amounts recoverable on contracts	24,295	23,938
Amounts owed by group undertakings	14,171	14,711
Amount owed by undertakings in which the entity has a participating interest (note 18)	4	-
Other Debtors	1,771	44
Deferred tax (note 12)	1,625	2,105
Prepayments and accrued income	1,265	975
	53,290	47,925

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.

11 Creditors: amounts falling due within one year

	2022	2021
	£'000	£'000
Payments received on account	6,763	5,510
Trade creditors	7,484	7,544
Amounts owed to group undertakings	1,610	2,533
Other taxation and social security	3,059	4,451
Other creditors	1,812	1,432
Corporation tax	39	38
Accruals and deferred income	31,996	33,872
	52,763	55,380

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

12 Deferred Taxation

	2022	2021
	£'000	£'000
At beginning of year - asset	2,105	1,606
Credit to the statement of comprehensive income for the year	29	499
Charge to the statement of comprehensive income for prior year	(509)	-
At end of year - asset	1,625	2,105

The elements of deferred taxation are as follows:

	2022	2021
	£'000	£'000
Differences between accumulated depreciation and capital allowances	(404)	(2)
Short term timing differences	19	17
R&D expenditure credit	29	-
Losses	1,981	2,090
Deferred tax asset	1,625	2,105

13 Called up share capital

	2022		2021	
	Number of shares	**£'000**	Number of shares	£'000
Authorised, Allotted, called up and fully paid				
Ordinary shares of £1 each	**978,150**	**978**	978,150	978

14 Profit and loss account

	£'000
At 1 January 2022	14,181
Profit for the financial year	2,598
Dividends	-
At 31 December 2022	**16,779**

15 Contingent Liabilities

The company is party to a group funding arrangement with certain of the companies in the Esh group, which will be replaced in 2023. Funding of up to £7m is available to be drawn down against the debtors of Esh Construction 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, 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 2022 amounted to £nil (2021: £nil).

The replacement group funding arrangement will provide funding of up to £6m, available to be drawn down against the debtors of Esh Construction Limited. Security is provided to the funder, Bibby Financial Services, by means of charges on the Land and Buildings held within Esh Holdings Limited and Plant and Machinery held in Esh Construction Limited, together with a first ranking debenture across the assets and liabilities of certain group companies (including the Company).

16 Commitments

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

	2022	2021
	£'000	£'000
Contracted	**-**	-

	Other		**Land and Buildings**	
	2022	2021	**2022**	2021
	£'000	£'000	**£'000**	£'000
Operating leases which expire:				
Within one year	**405**	128	**-**	-
In the second to fifth years inclusive	**343**	291	**-**	-
	748	419	**-**	-

17 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 £1,180,000 (2021: £1,083,000).
There were outstanding contributions at the end of the financial year of £22,000 (2021: £207,000).

18 Related party transactions

Transactions with related companies during the year ended 31 December 2022 and 31 December 2021 were:

	Sales		Purchases		Debtors		Creditors	
	2022	2021	**2022**	2021	**2022**	2021	**2022**	2021
	£'000	£'000	**£'000**	£'000	**£'000**	£'000	**£'000**	£'000
West Park JV Ltd								
Trade	**-**	31	**53**	-	**-**	-	**-**	-
Middleton St George Ltd								
Trade	**-**	29	**-**	-	**-**	-	**-**	-
Salutation Road Ltd								
Trade	**-**	-	**-**	4	**-**	-	**-**	-
Esh DBC Ltd								
Trade	**-**	-	**13**	-	**-**	-	**-**	-
Heighington JV Ltd								
Trade	**-**	97	**-**	-	**-**	-	**-**	-
Neasham Road JV Ltd								
Trade	**-**	14	**12**	-	**4**	-	**-**	-
	-	171	**78**	4	**4**	-	**-**	-

Participating interests represent companies in which the ultimate parent company, Esh Holdings Limited, holds a participating interest.

19 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.

20 Post balance sheet events

At the end of the financial year the group had an asset backed loan facility of £7m that allows the group to draw down loan against the level of debtors which are outstanding at any time, and to manage its working capital in an effective and flexible manner.

In 2023 the group completed a refinance exercise that provides a replacement facility of £6m for three years.

This event is not expected to have an impact on the company's financial position, results of operations of cash flows in the future.