REGISTERED NUMBER: 02387333 (ENGLAND AND WALES)

LOVELL

LOVELL PARTNERSHIPS LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

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LOVELL PARTNERSHIPS LIMITED

COMPANY INFORMATION
FOR THE YEAR ENDED 31 DECEMBER 2021

Directors	S Coleby S M Breslin S P Crummett J S Elliott D E Gough J C Morgan
Company Secretary	C Sheridan
Head Office	Marston Park Tamworth Staffordshire B78 3HN
Registered Office	Kent House 14–17 Market Place London W1W 8AJ
Independent Auditor	Ernst & Young LLP Statutory Auditor One Colmore Square Birmingham B4 6HQ United Kingdom

STRATEGIC REPORT
FOR THE YEAR ENDED 31 DECEMBER 2021

Principal activities

The Company focuses on working in partnerships with local authorities and housing associations. Activities include mixed tenure developments; building and developing homes for open market sale and for social/affordable rent. In addition the Company carries out 'design & build' house contracting and planned maintenance & refurbishment. These have not changed during the year and are not expected to change in the foreseeable future.

Business review

The results for the year and key performance indicators for the Company's continuing operations were as follows:

	Year to 31 December 2021	Year to 31 December 2020
	£000	£000
Turnover	**551,585**	441,169
Operating profit	**29,654**	16,898
Operating margin	**5.38%**	3.83%
Profit after tax	**23,285**	12,908
Secured forward order book & development pipeline	**1,497,945**	1,266,635

All revenue streams and operating profit increased in the year as the Company returned to normal trading following the Covid-19 lockdown in 2020. Revenue increased by 25% to £551.6m (2020: £441.1). The revenue generated from mixed-tenure and pure open market activities was up 16% in the year to £322.4m (2020: £277.8m) with increased demand driving up completions and house sales prices. Contracting revenue (including planned maintenance and refurbishment) was 40% higher at £229.2m (2020: £163.3m).

The Company's cost of sales were managed effectively throughout the year resulting in a proportionately lower increase relative to revenue - 23% increase to £481m (2020: £391m).

As a result of both revenue increases and effective cost control the operating profit increased to £29.7m (2020: £16.9m), up 75% and operating margin increased to 5.38%, up 155bps.

The Company ended the year in a strong position in terms of future workload, with work winning successes increasing the secured forward order book & development pipeline by 18% to £1,498m (2020: £1,266m).

For mixed tenure and pure open market revenue streams 1,343 open market and social housing units were completed compared to 1,111 in the prior year. The average sales price was £249k compared to the prior year average of £229k. A further 450 open market and social housing units were delivered in joint venture partnerships compared to 105 in the prior year.

The Company currently has a total of 48 (2020: 39) mixed tenure sites at various stages of construction and sales, with an average of 143 (2020: 101) open market units per site. Average site duration is 48 months (2020: 45), providing long-term visibility of activity.

With respect to the mixed tenure activities, four new projects were started during the year in collaboration with Together Housing Trust to deliver 650 units in Pendleton, Lancashire; 244 in Kirk Ella, East Yorkshire; 153 in Holmewood, Chesterfield and 175 in Howden, East Yorkshire. A number of further developments also began including projects at Oldbury (234 homes), Donnington (329 homes) and Birmingham (123 homes).

In addition, two sites were acquired from Homes England for which the planning permissions were secured and work commenced at Drummond Park, Wiltshire (412 homes) and Thorp Arch, Yorkshire (199 homes).

Return on capital employed increased to 15% (2020: 13%). Based upon the profile, schedule and type of mixed tenure development currently anticipated, together with the timing of the forecast contracting activities, capital employed is expected to increase in 2022.

Key contracting schemes awarded in the year included: a £50m, 211-unit scheme at Tolworth for Guinness Partnerships; a contract with Norfolk County Council-owned Repton to build 400 plus homes in Norfolk; 301 homes at Crick Road, Portskewett for Monmouthshire County Council; and the appointment onto the Your Housing Group framework, including the initial award of a £25m, 216-unit scheme at Edge Lane, Openshaw.

In addressing sustainability, the maintenance and refurbishment division within Lovell was awarded a project by Orbit Group to retrofit 69 homes in Warwick to increase their energy efficiency.

In addition, work started in the year at Ringswell Avenue in Exeter to provide 60 affordable homes for LiveWest, the South West's largest housing association. The development will be the first to meet LiveWest's new sustainable homes standards following the launch of its 'Creating Greener Futures Together' strategy.

Financial position and liquidity
The financial position of the Company is presented in the Balance Sheet. The total shareholder's funds at 31 December 2021 were £164.2m (2020: £171m). The Company had net current assets of £126.1m (2020: £123.1m), including cash of £28.2m (2020: £41m) at 31 December 2021, and intercompany payable of £57.7m (2020: £17.2m). The Company is a member of the Morgan Sindall Group plc ("the Group"), and participates in its banking arrangements (under which it is a cross guarantor). As at 31 December 2021 the Group had cash balances of £358m. The Group has £180m of committed loan facilities maturing in 2024, which were entirely undrawn as at 31 December 2021.

Principal risks and uncertainties
The management of the business and the execution of the Company's strategy are subject to a number of risks. The key business risks and uncertainties affecting the Company are considered to relate to:

- securing longer term regeneration and land development opportunities;
- influence of government stimulus on the UK housing sector;
- health and safety incidents that cause harm to an individual or the community as a result of works carried out by the Company;
- capacity constraints within the supply chain, and the continuing associated inflationary impact on raw materials and availability of contracted labour;
- skills shortages across the key construction disciplines;
- the potential impact of Brexit on consumer confidence, supply of labour, climate change and the wider macroeconomic environment;

- contractual risk (including mispricing of contracts, managing changes to contracts and contract disputes, poor project delivery and poor contract selection) ; and
- the potential impact of Covid-19 on business operations and the wider macroeconomic environment.

Further discussion of these risks and uncertainties, in the context of the Group as a whole, is provided in the strategic report in Morgan Sindall Group plc's annual report, which does not form part of this report.

Key performance indicators
The Company's financial key performance indicators are described in the business review above. Further indicators are reviewed by Directors in the monthly Lovell Board Pack. These include maintaining the five star builder standard, monitored by the Sales Director and specific health and safety measures, managed by the Head of Health & Safety. No other key performance indicators are deemed necessary to explain the development, performance or position of the Company.

Future Developments
The Company maintains a five year Strategic Plan that is reviewed annually. The plan underpins an annual budget that is agreed at Group level. The budget is generated at a regional level and performance is monitored against the budget throughout the year. In addition, there is a continual drive to win further contracts to ensure that the pipeline is able to meet the objectives outlined in the Strategic Plan. Several contracts have been awarded since year end and the Company is aiming to secure a number of potential projects during the remainder of the year.

Financial risk management objectives and policies
The Company's operations expose it to a variety of financial risks that include credit risk, liquidity risk, interest rate risk and price risk.

Credit risk
With regard to credit risk, the Company has implemented policies that require appropriate credit checks on potential customers before contracts are commenced. The Company has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers outside of the Group. Furthermore, in relation to debtors, retentions and contract assets the Company monitor the credit strength of customers to ensure current and future balances can be recouped from contracts.

Liquidity risk
This is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company aims to manage liquidity by ensuring that it will always have sufficient resources to meet its liabilities when they fall due, under both normal and stress conditions, without incurring unacceptable losses or risking damage to both the Company and Group's reputation. Liquidity is provided through cash balances and access to the Group's committed bank loan facilities.

Interest rate risk
In respect of interest rate risk the Company has interest bearing assets and liabilities. Interest bearing assets and liabilities include cash balances and overdrafts and loans to joint venture companies, all of which have interest rates applied at floating market rates. The risk is mitigated by using a range of alternative banking facilities across the Group where both assets and liabilities can be transferred to take advantage of interest rate fluctuations.

Price risk
The Company has some exposure to commodity price risk as a result of its operations, in relation to both materials and labour. This risk is managed on a project by project basis by negotiating annual purchase agreements with key suppliers. The directors will revisit the appropriateness of this policy should the Company's operations change in size or nature.

Section 172(1) statement Companies Act 2006
Throughout 2021, the directors have complied with the requirements of Section 172 of the Companies Act 2006, in promoting the long-term success of the Company for the benefit of all stakeholders. The following disclosure describes how the directors have had regard to the matters set out in section 172(1) (a) to (f) and forms the directors' statement required under section 414CZA of The Companies Act 2006.

Engagement with stakeholders
As part of its ongoing activities of engaging with stakeholders, the directors have undertaken the following activities in 2021:

Shareholders
The Company's ultimate shareholder is the Group, and creates value for the Group by generating strong and sustainable results that translate into dividends. Lovell performance is discussed in monthly management meetings with the Group's executive directors and provide executive summaries for the Group Board. The directors routinely engage with the Group on topics of strategy, governance, performance and strategic plans including information on the impact on each of the stakeholders including the community and environment.

Employees
In line with the Group's Total Commitments, protecting the health, safety and wellbeing of everyone who comes into contact with our business is the Company's number one priority. Furthermore, Lovell are committed to a diverse and inclusive work environment and helping our employees gain skills that support their personal ambitions and drive the business forward. A live action plan is utilised resulting in the roll out of diversity training and further initiatives, which are championed by Fairness, Inclusion and Respect (FIR) Ambassadors across the Company.

The Company recognises the need to ensure effective communication with employees and delivers this through virtual briefings, leadership briefings, in-house newsletters and intranet updates. Our IT infrastructure enables our people to work flexibly whilst ensuring safe working practices on all of our operational environments. The Group offers a savings-related share option plan to encourage employee engagement with the business performance and progress.

Customers
We aim to develop long-term relationships with our clients and partners. During 2021 we continued to conduct two independent customer satisfaction surveys (performed by In-House and the National House Building Council) on all property sales. This along with additional staff training has ensured that we maintained our National House Building Council/Home Builders Federation rating.

One of our core values is "the customer comes first". We apply this value in delivering all our property sales and when working with housing associations and local authorities in delivering contracting and mixed tenure affordable housing schemes. We carefully consider the needs of our customers and aim to drive excellence by focusing on quality of delivery and customer experience.

Suppliers
Our suppliers and subcontractors are critical to our operations and we take a long-term collaborative approach to working with them including regular dialogue on performance, terms and expectations. Our regional procurement teams develop relationships with local supply chain and are supplemented with a central team driving strategic alignment. The Group is signed up to the Prompt Payment Code (PPC). The PPC was created by the UK government in response to a call from businesses for a change in payment culture. It established a set of principles for businesses when dealing with and paying their suppliers that commit them to paying on time and fairly. As a result of the PPC adoption the Company's supplier payment performance has improved leading to further improvement in supplier relations.

Communities
We aim to leave a 'Lovell Legacy' everywhere that we work by leaving behind a positive and lasting impression. To achieve this, we work closely with local communities to ensure both economic and social benefits are realised.

During 2021 Lovell Partnerships Limited carried out numerous community projects, employed dedicated community liaison officers, held onsite community events and sponsored local events and sporting teams.

Further information about how we and the Group engage with stakeholders can be found in the Group's 2021 report and accounts and the 2021 responsible business report:
(www.morgansindall.com/investors/reports-results-and-presentations/).

Principal decisions
We define principal decisions as those that are material to the Company and to the Group and those that are significant to our key stakeholder groups as above. As set out below, we have given examples of how the directors have considered the outcomes from our stakeholder engagement as well as the need to maintain the Company's reputation for high standards of business conduct and to act fairly between the members of the Company in some of the principal decisions we have taken during the year.

During the year, the directors renewed their five-year strategic plan outlining the direction the business will take over the period. It took due consideration of all stakeholders and provided a forecast taking into account the markets and risk profile agreed with Group.

Contract selectivity was carefully considered on every tender submission. Contract terms and conditions, including payment terms, are carefully balanced against existing resource and contract commitments.
Subcontractors were selected from an approved database which monitors quality performance, financial standing, health and safety performance, workload and resources. The list of preferred subcontractors is reviewed regularly with supply chain members being demoted from or added to the list based on their scores.

The directors monitor key performance indicators on all total commitments on a monthly basis and adjust custom and practices accordingly to ensure targets are met.

For further information on how the Group Board has considered stakeholders in its decision making please see the corporate governance and Directors report in the 2021 Report and Accounts.

Approved by the Board and signed on its behalf by:

Steve Breslin

S M Breslin
Director
29 April 2022

DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2021

The directors present their annual report and the audited financial statements for the year ended 31 December 2021. The annual report comprises the strategic report and the directors' report, which together provide the information required by the Companies Act 2006. The financial statements have been prepared under FRS101 United Kingdom Accounting Standards.

Strategic Report
The Companies Act 2006 requires the Company to prepare a Strategic Report, set out on pages 2 to 7. The Strategic Report includes information about the Company's activities, financial performance throughout the year, future developments, key performance indicators, and principal risks.

Corporate governance statement
In line with The Companies (Miscellaneous Reporting) Regulations 2018 the following section sets out the corporate governance arrangements that the Company has had in place during the year. Further information which demonstrates how the Board makes decisions for the long-term success of the Company and its stakeholders, including how the directors ensure the Company complies with section 172 of the Companies Act 2006 can be found in the strategic report on pages 2 to 7.

The Company's ultimate parent, Morgan Sindall Group plc ("the Group"), applies the UK Corporate Governance Code (the "Code") to fulfil its Governance reporting requirements (a copy of the Group's consolidated accounts can be found at morgansindall.com). Having taken this into account, we have chosen not to apply a separate code however, this report explains how the Company has embedded the corporate governance arrangements established by the Morgan Sindall Group into its operations.

Board leadership and company purpose
The Group operates a decentralised philosophy in which each division operates independently within its own markets and areas of expertise. To ensure good governance practices are in place and the desired culture is embedded throughout the Group, the executive directors of the ultimate parent company are appointed as directors on each of the divisional companies' boards in order to ensure that clear lines of communication between the Group board and the Company's Board are maintained.

The overall Group purpose which is to inspire talent to deliver excellence in the built environment is reinforced by the Company through the expertise it offers in construction and infrastructure. The Group has a common set of core values and Total Commitments and our Perfect Delivery and 100% Safe approach to work forms an integral part of our culture and business strategy. The directors ensure that the values, strategy and culture align, are implemented and communicated consistently through the Company's work force, for example through inductions for all new starters and regular on-site health and safety briefings for employees and supply chain.

Division of responsibilities
The Group's decentralised philosophy gives the Company's directors the flexibility and autonomy to tailor resources and respond quickly to the needs of our own clients and partners. The Group's delegated authorities empowers decision making at the appropriate management levels dependent on knowledge and industry experience. Divisional delegated authorities ensure that oversight is always maintained and that the directors retain control of key decisions affecting the Company.

The managing directors of the Company are directors of the Group Management Team which meets regularly to consider strategic and operational matters affecting the Group as a whole. These include risk, health and safety, strategy, the Group budget and responsible business strategy.

Representatives from the Company also participate in several Group led forums which include a health and safety forum, HR forum and commercial directors' forum which act as a channel for sharing ideas and best practice and ensuring that good governance is adopted across the Group.

Composition, succession and evaluation
A biography for the executive directors of the Group Board and the managing directors of the Company can be found in the Group's Governance report. The Company's directors are supported by a management team, of which details can be found on our websites:
https://corporate.lovell.co.uk/our-people/our-board/ and www.morgansindallinfrastructure.com.

Our succession plans are reviewed by the Group Board's nomination committee. The Group and Company are committed to ensuring a diverse workforce where everyone, regardless of background, can feel included and respected. Further information on inclusion and our recent successes in promoting diversity can be found in the 'working with us' section of our website.

While we do not formally evaluate the board of the Company, the directors and employees are subject to an annual appraisal process which includes the setting of objectives and identification of individual training and development needs.

Audit, risk and internal control
The Group board's audit committee is responsible for overseeing the relationship and appointing the Group's external auditor. As part of the internal review process of the external auditor, the Company's finance team feeds back on various matters to the Group audit committee to facilitate their assessment of the external auditor's effectiveness.

The Group board is responsible for setting the Group risk appetite. To support the Group's risk review process, the Company carries out a twice-yearly detailed review of risk, recording significant matters in our risk register. Each risk is evaluated, both before and after the effect of mitigation, on its likelihood of occurrence and severity of impact on our strategy. The Group head of assurance and internal control reviews the Company's risk register as part of the process of compiling the Group risk register. Further information on our principal risks can be found in our strategic report on pages 4 to 5.

Remuneration
The Company's remuneration practices are in line with the remuneration policy established by the Group Board's remuneration committee to ensure a coherent and fair approach is taken across the Group. Our primary objectives are to set remuneration that is competitive in the marketplace which helps motivate and retain the calibre of employees required to deliver the Company's and Group strategy. Details of staff costs including directors' remuneration and information regarding the Company's pension commitments are provided in the notes to these accounts on pages 35 to 48.

For further information on the Group's corporate governance arrangements, please see the Corporate Governance section of the Group's 2021 Report and Accounts at morgansindall.com/investors.

Environmental performance
The group has announced plans to achieve net zero carbon emissions by 2030 and is going to reduce Scope 1, 2 and operational Scope 3 emissions by 30% by 2025 and by 60% by 2030, based on a 2019 baseline, with any remaining emissions being offset in the UK. Group has a history of leadership, transparency and openness around its sustainability goals. Group was one of the first construction

companies in the world to gain accreditation by the Science-Based Targets Initiative, using targets which represent sector-specific actual reductions in overall emissions. The group's (including the Company's) emission figures have been independently audited by Achilles, under the Carbon Reduce Scheme (formerly CEMARS), for over a decade.

In 2021, group's actions to tackle climate change were independently recognised with an A score for leadership on climate change from the CDP (2020: A), a voluntary climate impact reporting scheme. In 2021, CDP again named MS Group a Supplier Engagement Leader, for its work to drive action on climate change along its supply chain.

For further details of the Group's environmental performance and a copy of the Group's reporting under the Task Force on Climate-related Financial Disclosure (TCFD) requirements please see the Morgan Sindall Group plc 2021 Annual Report www.morgansindall.com.

In Lovell the Company saw a number of positive changes to our environmental performance, particularly improvements in our carbon reduction performance and continuing our focus on the impact of our operations within local communities.

A Carbon Forum has been established utilising Carbon Ambassadors from all Lovell regions working together to incite change and achieve Company environmental performance targets, providing feedback on any local initiatives and sharing best practice. These workstreams focus on areas such as whole life carbon reduction, biodiversity improvements and natural capital, stakeholder influence and employee empowerment.

The Company have been working closely with our supply chain to support innovation and our decarbonisation journey. Recent initiatives include the improvements to supplier packaging, achieving the objective to prevent pollution, reduce waste and minimise the consumption of resources.
A selection of other suppliers have also changed the materials used to produce safety signage from plastic based material to cardboard based, further supporting the drive for positive changes in environmental performance.

Further areas of focus include the transition away from the use of conventional diesel fuel on projects. During the year the Company saw the introduction of HVO (Hydrotreated Vegetable Oils) fuel, as an alternative. The change will contribute to a 90% reduction in carbon emissions, resulting in approximately a 700tCO2e saving in 2022 due to utilising HVO for 40% of bulk fuel usage. This provides a significant improvement in air quality on Lovell's sites and within the surrounding communities.
As of October 2021, HVO fuel has been the only fuel type available to order from the Company's e-system and the majority of sites have been successful in adopting the cleaner fuel solution. This is a significant step forward on the Company's journey toward net zero carbon in 2030.

The Company is committed to minimising its environmental impact both now and in the longer term. We balance this with the need to undertake construction activities for our clients which can have a direct and indirect impact on the environment. Where possible, we encourage our clients to consider more environmentally sustainable products with a longer life expectancy. We also seek to deliver projects in ways that will minimise their impact on the environment by re-using waste and reducing our carbon impact as well as extending the life cycle of the buildings that we construct. The Group's Total Commitment to 'improving the environment' sets the strategy for managing our environmental impact. Within this Commitment the Group focuses on climate change and caring for the natural environment by reducing our carbon footprint and re-using and recycling waste where possible. The Group's Commitment sets out clear KPIs and targets for measuring performance and driving improvement. As a subsidiary company, the Company is exempt from reporting separately under the Streamlined Energy and Carbon Reporting programme, further disclosures on the Group's performance, including details of its Green House Gas emissions is disclosed in the strategic report of the Group's 2021 annual report.

Going Concern

The Company's business activities, together with the factors likely to affect its future development, performance and position as well as the financial position of the Company, its cash flows, liquidity position and the borrowing facilities, are described in the Strategic Report on pages 2 to 7.

In determining the appropriate basis of preparation of the financial statements, the Directors are required to consider whether the Company can continue in operational existence during the going concern period, which the Directors have defined as the date of approval of the 31 December 2021 financial statements through to 30 April 2023.

The Company participates in the Group's banking arrangements (under which it is a cross guarantor). As at 31 December 2021 the Group had net cash balances of £358m. The Group also had £180m of committed loan facilities maturing (£15m maturing in March 2024 and £165m maturing in October 2024), which were entirely undrawn as at 31 December 2021.

The Group has provided a letter of support that it is willing and able to provide financial support to the Company for a period through to 30 April 2023 in order for the Company to meet its financial liabilities as and when they fall due, to the extent that the Company has insufficient funds to meet such liabilities.

The Company's future workload is healthy with a secured forward order book & development pipeline of £1,498m (2020: £1,266m). The Company has a strong financial position at the year end with net current assets of £164.3m (2020: £171m), including cash of £28.2m as at 31 December 2021 (2020: £41m).

The Company has continued to operate safely during the Covid-19 pandemic under the Site Operating Procedures ('SOP') agreed by the Construction Leadership Council and following the advice from the UK Government, the devolved administrations and public health authorities. The Company has operated profitably with positive operating cash flows for the year ended 31 December 2021 whilst under these restrictions and, whilst there continues to be uncertainty over any further restrictions due to the pandemic, the Company expects the business to remain resilient under any guidelines issued for the foreseeable future until the end of the pandemic.

Based on the above, the Directors consider there to be no material uncertainties that may cast significant doubt on the Company's ability to continue to operate as a going concern. They have formed a judgement that there is a reasonable expectation that the Company have adequate resources to continue in operational existence for the going concern period from the date of signing. For this reason, they continue to adopt the going concern basis in the preparation of these financial statements. Further details can be found in the principal accounting policies in the financial statements.

Directors
The Directors of the Company who served during the year and up to the date of signing unless otherwise stated were as follows:

S Coleby
S M Breslin
S P Crummett
J S Elliott
D E Gough
J C Morgan
J C Leary (Resigned 31.3.2021)

None of the directors had any interest in the shares of the Company during the year ended 31 December 2021.

Directors' indemnities
The Company indemnifies the directors in its Articles of Association to the extent allowed under section 232 of the Companies Act 2006. Furthermore, the Group maintains liability insurance for its directors and officers and those of its directors and officers of its associated companies. The Group has also indemnified certain directors of its Group companies to the extent permitted by law against any liability incurred in relation to acts or omissions arising in the ordinary course of their duties.

The Company has not made qualifying third-party indemnity provisions for the benefit of its directors during the year.

Dividends
A £30m interim dividend was paid during the year (2020: nil). The directors do not recommend the payment of a final dividend (2020: £nil).

Post balance sheet events
On 23 February 2022, the Russian Government commenced its invasion of Ukraine, subsequently we have begun to see price increases for certain commodities starting to emerge. At this stage we are not seeing a significant impact on our projects, and we continue to work with our customers and supply chain partners to mitigate the impact on our projects wherever possible. The Company has determined that these events are non-adjusting subsequent events, the duration and impact of the Russian war remains unclear at this time.

Political and charitable contributions
The Company made no political contributions during the year (2020: none). Charitable donations were £5,618 (2020: £406).

Employment policies
The Company insists that a policy of equal opportunity employment is demonstrably evident at all times. Selection criteria and procedures and training opportunities are designed to ensure that all individuals are selected, treated and promoted on the basis of their merits, abilities and potential.
Applications for employment by disabled persons are always fully considered, bearing in mind the respective aptitudes and abilities of the applicant concerned. In the event of members of staff becoming disabled every effort is made to ensure that their employment with the Company continues and the appropriate training is arranged. It is the policy of the Company that the training, career development and promotion of a disabled person should as far as possible, be identical to that of a person who does not suffer from a disability.

Engagement with employees and other stakeholders
Details on engagement with other stakeholders can be found in the Strategic report on pages 2 to 7.

Independent auditor and disclosure of information to the independent auditor
Each of the persons who is a director at the date of approval of this report confirms that:

- so far as each director is aware, there is no relevant audit information (that is, information needed by the Company's auditor in connection with preparing their report) of which the Company's auditor is unaware; and
- each director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Ernst & Young LLP have expressed their willingness to continue in office as auditor and pursuant to Section 487 of the Companies Act 2006, Ernst & Young LLP is deemed to be reappointed as auditor.

Directors' responsibilities statement
The directors are responsible for preparing the Strategic Report, the Director's report and the financial statements in accordance with applicable United Kingdom law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the Company's financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101"). 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 Company and of the profit or loss of the Company for that period.

In preparing these financial statements the directors are required to:

- select suitable accounting policies then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in FRS 101 is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Company financial position and financial performance;
- state whether FRS 101 has 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 appropriate to presume that the Company will not continue in business.

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

Under applicable law and regulations, the directors are also responsible for preparing a strategic report, directors' report that comply with that law and those regulations. The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website.

Approved by the Board and signed on its behalf by:

Steve Breslin

S M Breslin
Director
29 April 2022

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF LOVELL PARTNERSHIPS LIMITED FOR THE YEAR ENDED 31 DECEMBER 2021

We have audited the financial statements of Lovell Partnerships Ltd for the year ended 31 December 2021 which comprise the statement of comprehensive income, the balance sheet, the statement of changes in equity and the related notes 1 to 22, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

In our opinion the 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; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion
We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report.
We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern
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.

The Company is part of Morgan Sindall Group plc (the 'Group') and is a participant in the Group's cash pooling arrangement. The day to day liquidity requirements of the Company are sourced either from within the Company or, where necessary, from the continued support of the Group, such support having been confirmed in writing as available through to 30 April 2023. Given these factors, the going concern assessment is focused on the ability of the Company to satisfy its own liquidity requirements supplemented by any financial support from the Group as necessary.

Our evaluation of the directors' assessment of Company's ability to continue to adopt the going concern basis of accounting included:

- In conjunction with our walkthrough of the Company's financial statement close process, we confirmed our understanding of management's going concern assessment process and also engaged with management early to ensure key factors were considered in their assessment, including factors which we determined from our own independent risk assessment.
- We obtained management's Board-approved forecast cash flows which covers the period to 30 April 2023. We have reviewed the forecasts and have modelled four downside scenarios. Scenarios one assumes delay in project start date and impact on profits. Scenario two assumes a reduction in margins. Scenario three assumes a failure in securing pipeline revenue and scenario four reflects the outcome resulting from a reduction in open market sales demand.
- We assessed the appropriateness of the scenarios modelled by management which included assessing how these compare with principal risks and uncertainties of the Company.

- We assessed the reasonableness of the cash flow forecast by analysing management's historical forecasting accuracy, and evaluating the key assumptions used in the forecast. This included assessing whether key factors specific to the entity, such as Covid, the economic environment and market/sector trends, were considered in management's assessment. We also assessed the completeness and appropriateness of the scenarios modelled by management and how they compare with principal risks of the Company. We considered management's assessment of the impact of climate change on the Company's cash flow forecasts.
- We have considered the methodology used to prepare the forecast. We also tested the clerical accuracy and logical integrity of the model used to prepare the Company's going concern assessment.
- We performed further sensitivity analysis and our own reverse stress testing in order to identify what scenarios (for example, the extent operating profit would need to deteriorate) could lead to the Company utilising all liquidity during the going concern period, and whether these scenarios were plausible.
- Our analysis also considered the mitigating actions that management could undertake in an extreme downside scenario and whether these were achievable and in control of management.
- We assessed the reasonableness of the management forecasts for the year 2022 by comparing the forecasts made for the three months ended 31 March 2022 with the actual financial performance.
- We reviewed the financial position of the Group and its forecast liquidity through to 30 April 2023 and evaluated whether it has sufficient financial resources to support the Company, if needed, to meet its financial liabilities as and when they fall due.
- Reviewed the letter of support provided by the Group to the Company, noting they were willing and able to provide financial support, as needed, for the period through to 30 April 2023.
- Inquired of management as to their knowledge of events or conditions beyond the period of their assessment that may cast significant doubt on the entity's ability to continue as a going concern and compared their response to their forward order book and market forecasts (e.g., in respect of inflation risk).
- We considered whether the going concern disclosures included in the financial statements were appropriate and in conformity with applicable reporting standards.

The results from both management's evaluation and our independent sensitivity analysis and reverse stress testing indicates that in order to exhaust its available funding throughout the going concern period, the Company's revenue and margin would need to shrink to a position that is significantly worse than the financial effect of the disruption caused by the Covid pandemic during 2020.

As at 31 December 2021, the Company has a secured order book of £0.7bn, of which £0.3bn relates to the 12 months ending 31 December 2022, and it has a net cash balance of £40m. The Company also has a £10m receivable from other group entities as a part of the group cash pooling arrangements.

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, which the Directors have defined as the date of approval of the 31 December 2021 financial statements through to 30 April 2023.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Company's ability to continue as a going concern.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

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 course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. 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 in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or directors' report.

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

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

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 13 and 14, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors 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.

Auditor's 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 auditor's 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.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. 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. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Company and determined that the most significant are those that relate to the reporting framework (UK adopted International Accounting Standards, the Companies Act 2006, The Companies (Miscellaneous Reporting) Regulations 2018) and the relevant tax compliance regulations in the UK.
- We understood how Lovell Partnerships Ltd is complying with those frameworks by making enquiries of management, internal audit, those responsible for legal and compliance procedures and the Company Secretary. We corroborated our enquiries through our review of board minutes and papers provided to the Board and the Group's Audit Committee, noting the strong emphasis of transparency and honesty in the Company's culture and the levels of oversight the Board and Group management have over the Company despite the decentralised operating model of the Group.
- We assessed the susceptibility of the Company's financial statements to material misstatement, including how fraud might occur by meeting with management to understand where it considered there was a susceptibility to fraud. We also considered performance targets and their propensity to influence efforts made by management to manage earnings. We considered the programmes and controls that the Company has established to address risks identified, or that otherwise prevent and detect fraud; and how senior management monitor those programmes and controls. Where the risk was considered to be higher, we performed audit procedures to address each identified fraud risk. These procedures are set out below and were designed to provide reasonable assurance that the financial statements were free from material fraud and error.
    - We performed risk assessment of the contract population and selected a sample of higher-risk contracts (based on value and/or complexity) and obtained an understanding of the contract terms, key operational or commercial issues, judgements impacting the contract position and contract revenue and margin recognised. Factors we considered when determining higher-risk contracts to select

includes the size of the contract, contracts with significant accrual balances, low margin and loss-making contracts or contracts with a significant deterioration in margin, and stage of completion.

- Performed walkthroughs of the significant classes of revenue transactions recognised over time and assessed the design effectiveness of key controls.
- Discussed management's contract risk tracker with the Finance Controller, Commercial Director and the respective regional Commercial Directors;
- Performed site visits at a selection of higher-risk contracts in order to corroborate the contract positions in person through review of the operations and discussions with contract personnel on-site to form an independent view on the judgements taken;
- Performed a detailed review of the signed contract agreements to understand the commercial terms and review of any legal correspondence or expert advice that has been obtained to support any contract positions recorded;
- Assessed the appropriateness of supporting evidence and the requirement of IFRS 15 and the Company's accounting policy;
- Considered the appropriateness of the accruals at the year end and assessed whether these have been incurred and not materially overstated/understated;
- Reviewed contract asset balances and challenged management on both the recognition criteria together with the recovery of balances at the year end which have not been provided for including the consideration of counterparty risk;
- Inspected correspondence with counterparties and lawyers in respect of contract claims for and against the Company and assessed the judgements made in respect of the of existence of assets and the completeness of liabilities including liquidated damages;
- Assessed the reasonableness of calculations of estimated costs to complete, which included understanding the risks/outstanding works on the contract, the impact of any delays or other delivery issues and the related provisions for cost escalations that have been recognised;
- Assessed the appropriateness of cost allocations across contracts including evaluation of whether there has been any manipulation of costs between profit-making and loss-making contracts;
- Challenged the rationale for material provisions held at a contract level and concluded if these are appropriate;
- Challenged the level of onerous contract provisions recognised for loss-making contracts as well as any cost contingencies on the remaining contracts at year end;
- Assessed the correlation between revenue, receivables and cash balances using data analytical tools or through other substantive test of detail procedures; and
- Reviewed material manual journals recorded to assess whether these have been properly authorised, are appropriately substantiated and are for a valid business purpose.

- Based on this understanding we designed our audit procedures to identify noncompliance with such laws and regulations. Our procedures involved journal entry testing with a focus on journals indicating unusual transactions based on our understanding of the business, enquiries of management, and focussed testing as defined above. In addition, we completed procedures to conclude on the compliance of the disclosures in the Financial Statements with the requirements of the relevant accounting standards and applicable UK legislation.

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

Use of our report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Ernst & Young LLP

Adrian Roberts (Senior statutory auditor)
For and on behalf of Ernst & Young LLP, Statutory Auditor
Birmingham, United Kingdom
29 April 2022

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2021

	Note	2021 £000	2020 £000
Revenue	1	551,585	441,169
Cost of sales		(480,715)	(391,179)
Gross profit		70,870	49,990
Administrative expenses		(42,259)	(33,394)
Other operating income		1,043	302
Operating profit	2	29,654	16,898
Interest receivable	5	567	372
Interest payable	5	(310)	(1,016)
Profit before tax		29,911	16,254
Tax	6	(6,626)	(3,346)
Profit for the financial year attributable to owners of the company	16	23,285	12,908
Other comprehensive income		-	-
Total comprehensive income for the year attributable to owners of the Company		23,285	12,908

Continuing operations

The results for the current and previous financial years all derive from continuing operations.

The notes on pages 35 to 48 form an integral part of these financial statements.

LOVELL PARTNERSHIPS LIMITED

BALANCE SHEET
AS AT 31 DECEMBER 2021

	Notes	2021 £000	2020 £000
Non-current assets			
Intangible assets	**7**	**26,594**	26,594
Property, plant and equipment	**8**	**7,377**	7,683
Investments in subsidiaries and joint ventures including loans	**9**	**44,857**	21,398
		78,828	55,675
Current assets			
Inventories	**10**	**236,422**	220,935
Trade and other receivables	**11**	**55,533**	36,984
Contract assets	**12**	**37,900**	19,215
Cash and bank balances		**28,183**	40,963
		358,038	318,097
Total assets		**436,866**	373,772
Current liabilities			
Trade and other payables	**13**	**(224,596)**	(179,279)
Current tax liabilities		**(137)**	(1,028)
Contract liabilities	**12**	**(7,781)**	(13,677)
Lease liabilities	**19**	**(833)**	(1,056)
		(233,347)	(195,040)
Net current assets		**124,691**	123,057
Non-current liabilities			
Trade and other payables	**13**	**(32,794)**	(1,723)
Lease liabilities	**19**	**(4,033)**	(3,820)
Deferred tax liabilities	**14**	**(2,421)**	(2,203)
		(39,248)	(7,746)
Total liabilities		**(272,595)**	(202,786)
Net assets		**164,271**	170,986
Capital and reserves			
Called up share capital	**15**	**114,500**	114,500
Retained earnings	**16**	**49,771**	56,486
Total shareholder's funds		**164,271**	170,986

The financial statements of Lovell Partnerships Limited (Company number 02387333) were approved by the Board and authorised for issue on 29 April 2022. They were signed on its behalf by:

Steve Breslin

S M Breslin
Director
29 April 2022

The notes on pages 35 to 48 form an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2021

	Notes	Share capital £000	Retained earnings £000	Total £000
At 1 January 2020		114,500	43,578	158,078
Total comprehensive income		-	12,908	12,908
At 31 December 2020		**114,500**	**56,486**	**170,986**
Total comprehensive income		-	23,285	23,285
Dividends paid	**21**	-	(30,000)	(30,000)
At 31 December 2021		**114,500**	**49,771**	**164,271**

The notes on pages 35 to 48 form an integral part of these financial statements.

General information

Lovell Partnerships Limited (the 'Company') is a private company limited by shares, incorporated and domiciled in the United Kingdom under the Companies Act 2006 registered in England and Wales. The nature of the Company's operations and its principal activities are set out in the Strategic Report on pages 2 to 7. The address of the registered office is given in the Company Information on page 1.

Basis of accounting

The Company meets the definition of a qualifying entity under FRS 100 (Financial Reporting Standard 100) issued by the Financial Reporting Council. Accordingly, the Company has prepared its financial statements in accordance with FRS 101 (Financial Reporting Standard 101) 'Reduced Disclosure Framework' as issued by the Financial Reporting Council.

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to financial instruments, capital management, presentation of comparative information in respect of certain assets, presentation of a cash flow statement, presentation of standards not yet effective and related party transactions. Where required, equivalent disclosures are given in the consolidated accounts of Morgan Sindall Group plc, which are available to the public at www.morgansindall.com.

The financial statements have been prepared under the historical cost convention except for the revaluation of certain financial instruments that are measured at fair value at the end of each reporting period, as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for the goods and services.

These financial statements are presented in pounds sterling which is the Company's functional currency. The values are rounded to the nearest pound (£000) except when otherwise stated.

The immediate parent undertaking of the Company is Morgan Sindall Holdings Limited, which is registered in England and Wales.

The directors consider that the ultimate parent undertaking and ultimate controlling party of this Company is Morgan Sindall Group plc, which is registered in England and Wales. It is the only group into which the results of the Company are consolidated. Copies of the consolidated financial statements of Morgan Sindall Group plc are publicly available from www.morgansindall.com or from its registered office Kent House, 14-17 Market Place, London W1W 8AJ.

The Company is exempt by virtue of section 400 of the Companies Act 2006 from the preparation of consolidated financial statements because it is included in the Group accounts of Morgan Sindall Group plc. These financial statements are separate financial statements and present information about the Company as an individual undertaking and not of the Group.

Adoption of new and revised standards

(a) New and revised accounting standards adopted by the Company
During the year, the Company has adopted the following new and revised standards and interpretations. Their adoption has not had any significant impact on the accounts or disclosures in these financial statements.

- Interest Rate Benchmark Reform – Amendments to IFRS 9 'Financial Instruments', IAS 39 'Financial Instruments – recognition and measurement', IFRS 7 'Financial Instruments: Disclosures', IFRS 4 'Insurance Contracts' and IFRS 16 'Leases';
- Amendments to IFRS 16 'Covid-19 Related Rent Concessions'.

(b) New and revised accounting standards and interpretations which were in issue but were not yet effective and have not been adopted early
At the date of the financial statements, the Company has not applied the following new and revised IFRSs that have been issued but are not yet effective:

- IFRS 17 'Insurance Contracts';
- IFRS 10 and IAS 28 (amendments) 'Sale or Contribution of Assets between an Investor and its Associate or Joint Venture';
- Amendments to IAS 1 'Classification of Liabilities as Current or Non-current';
- Amendments to IFRS 3 'Reference to the Conceptual Framework';
- Amendments to IAS 16 'Property, Plant and Equipment – Proceeds before Intended Use';
- Amendments to IAS 37 'Onerous Contracts – Cost of Fulfilling as Contract';
- Annual Improvements to IFRS Standards 2018-2020 Cycle;
- Amendments to IAS 1 'Presentation of Financial Statements' and IFRS Practice Statement 2 'Making Materiality Judgements – Disclosure of Accounting Policies';
- Amendments to IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors – Definition of Accounting Estimates'; and
- Amendments to IAS 12 'Income Taxes – Deferred Tax related to Assets and Liabilities arising from a Single Transaction'.

The Company is currently assessing the impact of the standards but do not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the Company in future periods.

The accounting policies as set out below have been applied consistently to all periods presented in these financial statements.

Going concern
The Company's business activities, together with the factors likely to affect its future development, performance and position as well as the financial position of the Company, its cash flows, liquidity position and the borrowing facilities, are described in the Strategic Report on pages 2 to 7.

In determining the appropriate basis of preparation of the financial statements, the Directors are required to consider whether the Company can continue in operational existence during the going concern period, which the Directors have defined as the date of approval of the 31 December 2021 financial statements through to 30 April 2023.

The Company participates in the Group's banking arrangements (under which it is a cross guarantor). As at 31 December 2021 the Group had net cash balances of £358m. The Group also had £180m of committed loan facilities maturing (£15m maturing in March 2024 and £165m maturing in October 2024), which were entirely undrawn as at 31 December 2021.

The Group has provided a letter of support that it is willing and able to provide financial support to the Company for a period through to 30 April 2023 in order for the Company to meet its financial liabilities as and when they fall due, to the extent that the Company has insufficient funds to meet such liabilities.

The Company's future workload is healthy with a secured forward order book & development pipeline of £1,498m (2020: £1,266m). The Company has a strong financial position at the year end with net current assets of £164.3m (2020: £171m), including cash of £28.2m as at 31 December 2021 (2020: £41m).

The Company has continued to operate safely during the Covid-19 pandemic under the Site Operating Procedures ('SOP') agreed by the Construction Leadership Council and following the advice from the UK Government, the devolved administrations and public health authorities. The Company has operated profitably with positive operating cash flows for the year ended 31 December 2021 whilst under these restrictions and, whilst there continues to be uncertainty over any further restrictions due to the pandemic, the Company expects the business to remain resilient under any guidelines issued for the foreseeable future until the end of the pandemic.

Based on the above, the Directors consider there to be no material uncertainties that may cast significant doubt on the Company's ability to continue to operate as a going concern. They have formed a judgement that there is a reasonable expectation that the Company have adequate resources to continue in operational existence for the going concern period from the date of signing. For this reason, they continue to adopt the going concern basis in the preparation of these financial statements. Further details can be found in the principal accounting policies in the financial statements.

Joint arrangements
A joint arrangement is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control, which requires unanimous consent for strategic, financial and operating decisions.

(i) Joint ventures
A joint venture generally involves the establishment of a corporation, partnership, or other entity in which each venturer has an interest. The Company operates a number of joint ventures for which it performs design and build construction work. The Company accounts for the results of this work as a normal contract, but amounts owed under these contracts are reported as amounts owed by joint ventures under note 11 in the notes to the financial statements. Investment in, and loans to, joint ventures are reported separately under note 9 in the notes to the financial statements. The results, assets and liabilities of joint ventures are not incorporated in the accounts as the Company is exempt by virtue of section 400 of the Companies Act 2006 from the preparation of consolidated financial statements because it is included in the Group accounts of Morgan Sindall Group plc.

(ii) Joint operations
Construction contracts carried out as a joint arrangement without the establishment of a legal entity are joint operations. The Company operates an unincorporated joint arrangement with Northshore Development Partnership Limited, a fellow subsidiary of Morgan Sindall Group plc. The arrangement

is supported by a Joint Venture Agreement dealing with the responsibility of each partner and their share of the contract outcome. The Company's share of the results and net assets of the arrangement are included under each relevant heading in the statement of comprehensive income and the balance sheet.

Intangible fixed assets - goodwill
Goodwill arises on business combinations and represents the excess of the cost of an acquisition over the Company's share of the identifiable net assets acquired at the acquisition date. Where the cost is less than the Company's share of the identifiable net assets, the difference is recognised in the income statement as a gain from a bargain purchase.

Goodwill arising on acquisitions before the date of transition to IFRS has been retained at the previous UK GAAP amounts subject to being tested for impairment at that date.

Goodwill is tested for impairment annually. The projects associated with the goodwill are assessed based on their profit and cash flow projections to ensure the benefits generated are in excess of the book value.

Property, plant and equipment
Freehold and leasehold property, plant and equipment are stated at cost less accumulated depreciation and any recognised impairment loss. Depreciation is provided in equal annual instalments at rates calculated to write off the cost of the assets, over their estimated useful lives as follows:

Freehold Buildings	50 years
Plant, equipment, fixtures and fittings	between three and ten years
Right of use - Leasehold buildings	the period of the lease
Right of use - Plant, equipment, fixtures and fittings	the period of the lease

The carrying value of assets are reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable, and are written down immediately to their recoverable amount. The estimated lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Investments in subsidiaries and joint ventures including loans
Investments and loans to joint ventures held as fixed assets are stated at cost less provision for impairment. Investments are reviewed for impairment at the earlier of the Company's reporting date or where an indicator of impairment is identified. The carrying value of assets are reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable, and are written down immediately to their recoverable amount. Loans to joint ventures are held as fixed assets and are not included in impairments.

Inventories
Inventories are stated at the lower of cost and net realisable value. Costs include materials and direct labour. Net realisable value is based on estimated selling price, less further costs expected to be incurred to complete and sell the asset. Provision is made for obsolete, slow-moving or defective items where appropriate.

Revenue
Revenue represents the value of work executed on long term contracts during the year and the sales value of properties where the ownership has been legally transferred to the purchaser. The sale proceeds of properties taken in part exchange are not included in revenue.

(a) Construction contracts
A significant portion of the Company's revenue is derived from construction and infrastructure services contracts. These services are provided to customers across a wide variety of sectors and the size and duration of the contracts can vary significantly from a few weeks to a number of years.
The majority of contracts are considered to contain only one performance obligation for the purposes of recognising revenue. Whilst the scope of works may include a number of different components, in the context of construction and infrastructure services activities these are usually highly interrelated and produce a combined output for the customer.

Contracts are typically satisfied over time. For fixed price construction contracts progress is measured through a valuation of the works undertaken by a professional quantity surveyor, including an assessment of any elements for which a price has not yet been agreed such as changes in scope.

Variations are not included in the estimated total contract price until the customer has agreed the revised scope of work.

Where the scope has been agreed but the corresponding change in price has not yet been agreed, only the amount that is considered highly probable not to reverse in the future is included in the estimated total contract price. Where delays to the programme of works are anticipated and liquidated damages would be contractually due, the estimated total contract price is reduced accordingly. This is only mitigated by expected extensions of time or commercial resolution being achieved where it is highly probable that this will not lead to a significant reversal in the future.

For cost reimbursable contracts, expected pain share is recognised in the estimated total contract price immediately whilst anticipated gain share and performance bonuses are only recognised at the point that they are agreed by the customer.

In order to recognise the profit over time it is necessary to estimate the total costs of the contract. These estimates take account of any uncertainties in the cost of work packages which have not yet been let and materials which have not yet been procured, the expected cost of any acceleration of or delays to the programme or changes in the scope of works and the expected cost of any rectification works during the defects liability period.

Once the outcome of a construction contract can be estimated reliably, margin is recognised in the income statement in line with the stage of completion. Where a contract is forecast to be loss-making, the full loss is recognised immediately in the income statement.

(b) Mixed tenure construction contracts
Revenue includes the fair value of the consideration received or receivable on amounts contractually due at the balance sheet date relating to the stage of completion of the agreement as verified by surveys performed by the relevant customer as this reflects the performance obligations delivered at the balance sheet date.

(c) Sale of properties
The Company derive a significant portion of revenue from the sale and development of residential properties.

Contracts are typically satisfied at a point in time. This is usually deemed to be legal completion as this is the point at which the Company has an enforceable right to payment. The only exception to this is pre-let forward sold developments where the customer controls the work in progress as it is created; or where the Company is unable to put the asset being constructed to an alternative use due to legal or practical limitations and has an enforceable right to payment for the work completed to date. Where these conditions are met, the contract is accounted for as mixed tenure construction contract in accordance with paragraph (b) above.

Revenue from the sale of residential properties is measured at the transaction price agreed in the contract with the customer. While deferred payment terms may be agreed in rare circumstances, the deferral never exceeds twelve months. The transaction price is therefore not adjusted for the effects of a significant financing component. The Company no longer utilises shared equity loan schemes for the sale of residential properties.

Proceeds from the sale of properties taken in part exchange is not included in revenue but is treated as a reduction in costs.

In order to recognise the profit it is necessary to estimate the total costs of a development. These estimates take account of any uncertainties in the cost of work packages which have not yet been let and materials which have not yet been procured and the expected cost of any rectification works during the defects liability period which is 12 months for commercial property and 24 months for residential property.

Profit is recognised by allocating the total costs of a scheme to each unit at a consistent margin. For mixed tenure schemes which also incorporate a construction contract, the margin recognised for the open market units is consistent with the construction contract element of the development.

Contract costs
Costs to obtain a contract are expensed unless they are incremental, i.e. they would not have been incurred if the contract had not been obtained, and the contract is expected to be sufficiently profitable for them to be recovered.

Costs to fulfil a contract are expensed unless they relate to an identified contract, generate or enhance resources that will be used to satisfy the obligations under the contract in future years and the contract is expected to be sufficiently profitable for them to be recovered, in which case they are capitalised to the extent they will be recovered in future periods.

Where costs are capitalised, they are amortised over the shorter of the period for which revenue and profit can be forecast with reasonable certainty and the duration of the contract except where the contract becomes loss making. If the contract becomes loss making, all capitalised costs related to that contract are immediately expensed.

Leases

Where the Company is a lessee, a right-of-use asset and lease liability are recognised at the outset of the lease other than those that are less than one year in duration or of a low value. The lease liability is initially measured at the present value of the lease payments that are not paid at that date based on the Company's expectations of the likelihood of lease extension or break options being exercised. In calculating the present value of lease payments, the Company uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. The lease liability is subsequently adjusted to reflect imputed interest, payments made to the lessor and any lease modifications and is shown separately in the balance sheet. The right-of-use asset is initially measured at cost, which comprises the amount of the lease liability, any lease payments made at or before the commencement date, less any lease incentives received, any initial direct costs incurred by the Company and an estimate of any costs that are expected to be incurred at the end of the lease to dismantle or restore the asset. The right-of-use assets are presented within the property, plant and equipment line in the balance sheet and depreciated in accordance with the Company's accounting policy on property, plant and equipment. The amount charged to the income statement comprises the depreciation of the right-of-use asset and the imputed interest on the lease liability. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

Pensions

The Company contributes to The Morgan Sindall Retirement Benefits Plan and to other employees' personal pension arrangements, which are of a defined contribution type. For all schemes the amount charged to the statement of comprehensive income is equal to the contributions payable in the year. Differences between contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

Shared equity loan receivables

The Company has granted loans under shared equity home ownership schemes allowing qualifying home buyers to defer payment of part of the agreed sales price, up to a maximum of 25%, until the earlier of the loan term (10 or 25 years depending upon the scheme), remortgage or resale of the property. On occurrence of one of these events, the Company will receive a repayment based on its contributed equity percentage and the applicable market value of the property as determined by a member of the Royal Institution of Chartered Surveyors. Early or part repayment is allowable under the scheme and amounts are secured by way of a second charge over the property. The loans are non-interest bearing.

The shared equity receivable balance designated as at fair value through profit or loss under IAS 39 on the basis of an accounting mismatch will continue to be accounted for as fair value through profit or loss on the same basis at the date of initial application of IFRS 9. Fair value movements are recognised in operating profit and the resulting financial asset is presented under note 11 in the notes to the financial statements either within amounts falling due within one year, or amounts falling due after one year. However, considering they fall due within the normal operating cycle of the company, they have been considered and presented as a current asset.

Fair value movements include accreted interest. There have been no transfers between categories in the fair value hierarchy in the current and preceding year.

Income tax
The income tax expense represents the current and deferred tax charges. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity.

Current tax is the Company's expected tax liability on taxable profit for the year using tax rates enacted or substantively enacted at the reporting date and any adjustments to tax payable in respect of previous years.
Taxable profit differs from that reported in the income statement because it is adjusted for items of income or expense that are assessable or deductible in other years and is adjusted for items that are never assessable or deductible.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the corresponding tax bases used in tax computations. Deferred tax is not recognised for the initial recognition of assets or liabilities in a transaction that is not a business combination and affects neither accounting nor taxable profits, or differences relating to investments in subsidiaries and joint ventures to the extent that it is probable that they will not reverse in the foreseeable future. Deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax is recognised on temporary differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at the tax rates expected to apply when they reverse, based on the laws that have been enacted or substantively enacted at the reporting date. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted and are only offset where this is a legally enforceable right to offset current tax assets and liabilities.

Dividends
Dividends to the Company shareholders are recognised as a liability in the financial statements in the period in which the dividends are approved by the Company's shareholders.

Interest receivable
Interest receivable is made up of bank interest, interest received from investments in joint ventures. All amounts are recognised in the Statement of comprehensive income.

Interest payable
Interest payable is made up of bank interest, the unwind of discounted future land payment accruals, together with the interest payable on the Company's lease liabilities. All amounts are recognised in the Statement of comprehensive income.

Cash and cash equivalents
Cash and cash equivalents comprise cash held at bank and in hand. The Company participates in the Group's banking arrangements, where cash pooling is utilised.

Trade and other receivables
Trade and other receivables are stated at fair value (plus any directly attributable transaction costs) upon initial recognition. Subsequent to initial recognition, they are recognised at amortised cost using the effect interest method.

The Company forms a provision for impairment equal to the size of the lifetime expected credit losses from trade and other receivables. The loss provision is determined on the basis of historical payment data and forward looking information.

Trade and other payables
Trade payables are obligations to pay for goods and services that have been acquired in the ordinary course of business from suppliers. Trade payables are classed as current liabilities if payment is due within one year or less. If not they are presented as non-current liabilities.

Trade payables are recognised initially at the transaction price and subsequently measured at amortised cost using effective interest method.

Provisions
Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, considering the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Current/non-current classification
Current assets include assets held primarily for trading purposes, cash and cash equivalents, and assets expected to be realised in, or intended for sale or consumption as part of the Company's normal identifiable operating cycle. All other assets are classified as non-current assets.
Current liabilities include liabilities held primarily for trading purposes in line with the Company's identifiable normal operating cycle. These liabilities are expected to be settled as part of the Company's normal course of business. All other liabilities are classified as non-current liabilities.

Grants
Grants received to encourage the building of affordable housing are credited to the statement of comprehensive income during the life of the project to which they relate or, for grants received from the Construction Industry Training Board, as training is provided to employees. Differences between the amount recognised in the statement of comprehensive income and the amount received are shown as either deferred income or accrued income in the balance sheet.

Contract assets and liabilities
The contract assets primarily relate to the Company's right to consideration for construction work completed but not invoiced at the balance sheet date. The contract assets are transferred to trade receivables when the amounts are certified by the customer. On most contracts certificates are issued by the customer on a monthly basis.

The Company has taken advantage of the practical expedient in paragraph 94 of IFRS 15 to immediately expense the incremental costs of obtaining contracts where the amortisation period of the assets would have been one year or less.

The contract liabilities primarily relate to the advance consideration received from customers in respect of performance obligations which have not yet been fully satisfied and for which revenue has not been recognised. All contract liabilities held at 31 December 2021 are expected to satisfy performance obligations in the next 12 months.

Financial assets
Financial assets are recognised in the Company's balance sheet when the Company becomes party to the contractual provisions of the instrument.

Derecognition of financial assets
The Company derecognises a financial asset only when the contractual rights to the cash flows from the finance asset expire.

Financial liabilities
Financial liabilities are classified as either financial liabilities at fair value through profit and loss or other financial liabilities

Derecognition of financial liabilities
The Company derecognises financial liabilities when, and only when, the Company's obligations are discharged, cancelled or they expire.

Financial instruments
Financial assets and financial liabilities are recognised in the Company's balance sheet when the Company becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Critical accounting judgements and key sources of estimation uncertainty
The preparation of financial statements requires the Company's management to make judgements, assumptions and estimates that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expense. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements and estimates in applying the Company's accounting policies
The following are the critical judgements, apart from those involving estimations (which are dealt with separately below), that the directors have made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognised in the financial statements:

Revenue recognition for mixed tenure schemes

The Company acts as developer and/or contractor on a number of mixed-use schemes. In some instances, judgement is required to determine whether the revenue on a particular element of the scheme should be recognised as work progresses or upon legal completion.

When acting as a contractor a detailed assessment is performed of the contractual agreements with the customer as well as the substance of the transaction to determine whether performance obligations have been satisfied over time. Relevant factors that are considered include the point at which legal ownership of the land passes to the customer, the degree to which the customer can specify the major structural elements of the design prior to construction work commencing and the degree to which the customer can specify modifications to the major structural elements of the building during construction.

Revenue and profit recognition for long term contracts (judgement and estimate)

In order to determine the revenue and profit recognition in respect of the Company's construction contracts, the Company has to estimate the total costs to deliver the contract as well as the final contract value. The Company has to allocate total expected costs between the amount incurred on the contract to the end of the reporting period and the proportion to complete in a future period. The assessment of the total costs to be incurred and final contract value requires a degree of judgement and estimation.

The final contract value may include assessments of the recovery of variations which have yet to be agreed with client, as well as additional compensation claim amounts. The amount of variations and claims are often not fully agreed with the customer due to timing and requirements of the normal contractual process. Therefore, assessments are based on an estimate of the potential cost impact of the compensation claims and revenue is constrained to amounts that the Company believes are highly probable of being received. The estimation of costs to complete is based on all available relevant information and may include judgements and estimates of any potential defect liabilities or liquidated damages for unagreed scope or timing variations. Costs incurred in advance of the contract that are directly attributable to the contract may also be included as part of the total costs to complete the contract. Judgement is required to consider when any pre-contract costs are directly attributable to a specific contract.

Impairment of goodwill

Goodwill is tested annually for impairment, or more frequently if there are indications that goodwill might be impaired. In testing goodwill for impairment, the recoverable amount has been estimated from value-in-use calculations. The key assumptions for value-in-use calculations are those regarding the forecast revenue and margin, discount rates and long term growth rates in the market sector. Forecast revenue and margin are based on past performance, secured workload and workload likely to be achievable in the short to medium term.

Cash flow forecasts have been determined by using Board approved strategic plans for the next five years. Cash flows beyond 5 years have been extrapolated using an estimated nominal growth rate (this does not exceed the long term average for the market).

Discount rates are pre-tax and reflect the current market assessment of the time value of money and the specific risks to the business. The risk adjusted nominal rate used for the goodwill balance is 10.7% (2020: 10.4%). In carrying out this exercise, no impairment of goodwill or other intangible assets has been identified.

1. Analysis of revenue

All revenue relates to the Company's principal activity carried out in the UK. Revenue is analysed below:

	2021 £000	2020 £000
Revenue from construction contracts	**229,180**	163,356
Revenue from mixed tenure construction contracts	**54,507**	47,399
Revenue from sale of properties (mixed tenure and pure open market)	**267,898**	230,414
Total revenue	**551,585**	441,169

2. Operating profit

	2021 £000	2020 £000
Operating profit is stated after charging:		
Staffing costs (see note 3)	**65,236**	55,049
Depreciation of tangible fixed assets (see note 8)		
- owned assets	**1,159**	1,147
- right of use assets	**970**	1,311
Cost of inventories recognised as an expense (see note 10)	**217,860**	208,996
Fees payable to the Company's auditor for the audit of the Company's annual accounts	**180**	150
Bad debt provision - trade receivables (see note 11)	**900**	-
Bad debt provision - amounts owed by group undertakings (see note 11)	**(94)**	1,203

Non-audit fees payable by the Company during the year were £nil (2020: £nil) relating to other services. Prior year fees for the audit of the Company's annual accounts were payable to Deloitte LLP.

3. Staff costs

	2021 £000	2020 £000
Wages and salaries	**56,145**	47,823
Social security costs	**6,721**	4,703
Redundancy costs	**599**	1,102
Pension costs	**1,771**	1,421
Total staff costs	**65,236**	55,049

	No.	No.
The average monthly number of employees (including executive directors) during the year was:	**886**	850

4. Directors' remuneration

	2021 £000	2020 £000
Directors' remuneration		
Emoluments	**2,658**	2,600
Company contributions to money purchase pension scheme	**21**	37
	2,679	2,637

Remuneration of the highest paid director		
Emoluments	**744**	648
Company contributions to money purchase pension scheme	**4**	5

The highest paid director exercised one option over shares in the financial year (2020: 1).

	No.	No.
The number of directors who:		
- are members of money purchase pension schemes	**4**	5
- exercised options over shares in the ultimate Group	**2**	2

Total emoluments excludes amounts in respect of share options (granted and/or exercised), pension contributions, benefits under pension schemes and benefits under long term incentive plans. Two current directors of the Company received no emoluments (2020: nil) in their capacity as directors of this Company. These individuals are remunerated by another company in the Group.

5. Interest receivable/payable

	2021 £000	2020 £000
Bank interest receivable	**43**	28
Interest receivable from joint ventures	**9**	163
Other interest receivable	**515**	181
Interest receivable	**567**	372
Other interest payable	**(5)**	(74)
Unwind of discounted future land payments accrual	**(171)**	(719)
Lease liabilities	**(134)**	(223)
Interest payable	**(310)**	(1,016)

6. Tax

	2021 £000	2020 £000
UK corporation tax charge on profit for the year	**6,297**	3,212
Adjustment in respect of previous years	**111**	116
Total current tax	**6,408**	3,328
Origination and reversal of timing differences	**724**	156
Adjustment in respect of previous years	**(506)**	(138)
Total deferred tax (note 14)	**218**	18
Total tax charge	**6,626**	3,346

Corporation tax is calculated at 19.0% (2020: 19.0 %) of the taxable profit for the year. The tax on profit before tax for the year is higher than the standard rate of corporation tax in the UK (2020: higher than the standard rate of corporation tax in the UK of 19% (2020: 19%)), for the reasons set out in the following reconciliation:

	2021	2020
	£000	£000
Profit before tax	**29,911**	16,254
Tax on profit at standard rate	**5,683**	3,088
Factors affecting the charge for the year:		
Tax liability upon joint venture profits / partnership income	**353**	-
Non-taxable income and expenses	**18**	9
Effect of change in tax rate used to calculate deferred tax balances	**713**	257
Other items	**254**	14
Adjustments to tax charge in respect of previous years	**(395)**	(22)
Total tax charge	**6,626**	3,346

During 2021 it was announced that the UK statutory tax rate will increase from 19% to 25% from 1 April 2023. Consequently the applicable tax rate for the Company (taking into account its December year end) is expected to be 19% in 2021 and 2022, 23.5% in 2023, and 25% in 2024 (and beyond). Deferred taxes at the balance sheet date are measured at the enacted rates that are expected to apply to the unwind of each asset or liability. Accordingly deferred tax balances as at 31 December 2021 have been calculated at a mix of 19%, 23.5% and 25%. Deferred tax balances as at 31 December 2020 were calculated at 19%.

During 2021 it was announced that Residential Property Developer Tax ("RPDT") will be introduced from 1 April 2022 at a rate of 4%, on profits arising from residential property development. A £25m annual tax-free allowance will apply in aggregate for the Morgan Sindall Group. The Company expects RPDT to increase its effective tax rate from 2022 onwards. As RPDT had not been substantively enacted as at 31 December 2021, the deferred tax balances have not been revalued to take account of RPDT. However, if the deferred tax balances had been revalued to take into account the effect of RPDT then the effect upon deferred tax balances would not have been significant.

7. Intangible fixed assets

	Goodwill
	£000
Cost and net book value	
As at 31 December 2021	**26,594**
As at 31 December 2020	26,594

Goodwill represents the value of people, track record and expertise acquired within acquisitions that are not capable of being individually identified and separately recognised. Goodwill is tested annually for impairment, or more frequently if there are indications that goodwill might be impaired. In testing goodwill for impairment, the recoverable amount has been estimated from value-in-use calculations. The key assumptions for value-in-use calculations are those regarding the forecast revenue and margin, discount rates and long term growth rates in the market sector. Forecast revenue and margin are based on past performance, secured workload and workload likely to be achievable in the short to medium term (more detail regarding past performance and order book can be found in the Strategic Report on page 2).

Cash flow forecasts have been determined by using Board approved strategic plans for the next five years. Cash flows beyond 5 years have been extrapolated using an estimated nominal growth rate of 2.1% (2020: 2.1%). This growth rate does not exceed the long term average for the market.

Discount rates are pre-tax and reflect the current market assessment of the time value of money and the specific risks to the business. The risk adjusted nominal rate used for the goodwill balance is 10.7% (2020: 10.4%). In carrying out this exercise, no impairment of goodwill or other intangible assets has been identified.

8. Property, plant and equipment

	Plant & equipment	Right of use assets - Buildings	Right of use assets – Plant & equipment	Total
	£000	£000	£000	£000
Cost				
At 1 January 2021	8,190	6,214	497	14,901
Additions	962	986	-	1,948
Disposals	(241)	(402)	(100)	(743)
As at 31 December 2021	**8,911**	**6,798**	**397**	**16,106**
Depreciation				
As at 1 January 2021	(4,994)	(1,989)	(235)	(7,218)
Charge for the year	(1,159)	(823)	(147)	(2,129)
Disposals	241	276	101	618
As at 31 December 2021	**(5,912)**	**(2,536)**	**(281)**	**(8,729)**
Net Book Value				
As at 31 December 2021	**2,999**	**4,262**	**116**	**7,377**
As at 31 December 2020	3,196	4,225	262	7,683

Assets fully written down during the financial year had a cost and accumulated depreciation of £0.53m (2020: £0.48m).

9. Investments in subsidiaries and joint ventures including loans

	Subsidiaries Equity Investment	Joint Venture Equity Investment	Joint Venture Loans	Total
	£000	£000	£000s	£000
Opening Balance as at 1 January 2021	-	1,285	20,113	21,398
Additions/loans advanced during the year	6,748	-	18,714	25,462
Interest capitalised during the year	-	-	547	547
Loans repaid during the year	-	-	(2,550)	(2,550)
Closing balance as at 31 December 2021	**6,748**	**1,285**	**36,824**	**44,857**

The details of the Company's direct subsidiaries and joint ventures are shown below. The country of incorporation and principal place of business is the UK and the address of the registered office of each entity is the same as the registered office of this Company unless otherwise indicated.

Name of Company	Principal activity	Proportion of ordinary shares held
Abbey Walk Management Company Limited*	Real estate management	100%
Anthem Lovell LLP	Regeneration	50%
Blossomfield (Thorp Arch) Management Company Limited	Real estate management	100%
Caldon Quay Residents Management Company Limited*	Real estate management	100%
Cherry Pie Meadow Residents Management Company Limited	Real estate management	100%
Community Solutions Living Limited	Development of supported living	100%
Compendium Regeneration Limited**	Regeneration	50%
Crosse Courts (Basildon) Management Company Limited*	Real estate management	100%
Crown Meadows Residents Management Company Limited	Real estate management	100%
Eden Valley Management Company Limited*	Real estate management	100%
Electric Quarter Residents Management Company Limited*	Real estate management	100%
Exford Drive Management Company Limited*	Real estate management	100%
Fairfields Management Company Limited*	Real estate management	100%
Firs Park Residents Management Company Limited*	Real estate management	100%
Fountain Court Residents Management Company Limited*	Real estate management	100%
Foxglove Meadows Residents Management Company Limited	Real estate management	100%
Gallus Fields Residents Management Company Limited*	Real estate management	100%
Golwg Y Bryn Residents Management Company Limited	Real estate management	100%
HB Villages Developments (Crewe Ltd)	Development of supported living	100%
HB Villages Developments (Stoke Ltd)	Development of supported living	100%
Heath Farm Residents Management Company Limited*	Real estate management	100%
Ingleby View Management Company Limited	Real estate management	100%
Keepers Gate (WSM) Residents Management Company Limited*	Real estate management	100%
Kensington Gardens Management Limited*	Real estate management	100%
Laxton Close Management Company Limited*	Real estate management	100%
Lockside Residents Management Company Limited	Real estate management	100%
Lovell Bow Limited	Dormant	100%
Lovell Director Limited*	Dormant	100%
Lovell Flagship LLP	Regeneration	50%
Lovell Guf Limited*	Real estate management	100%
Lovell Latimer LLP	Regeneration	50%
Lovell Later Living LLP	Real estate management	100%
Lovell Plus Limited	Dormant	97%
Lovell Property Rental Limited	Property letting	100%

Lovell Together LLP	Regeneration	50%
Lovell/ Abri Weymouth LLP	Regeneration	50%
Lovell Together (Pendleton) LLP	Real estate management	50%
Lymington Mews Management Company Limited*	Real estate management	100%
Meggeson Management Company Limited*	Real estate management	100%
Minshull Way Residents Management Company Limited*	Real estate management	100%
Morgan Sindall Consortium LLP	Regeneration	50%
Mount View (Melton Mowbray) Residents Company Limited*	Real estate management	100%
Oakfield Grange (Llantarnum) Residents Management Company Limited*	Real estate management	100%
Oaktree Grange Residents Management Company Limited*	Real estate management	100%
Oriel View Residents Management Company Limited*	Real estate management	100%
Pich Management Company Limited*	Real estate management	100%
Principal Point Residents Management Company Limited	Real estate management	100%
Queensbury Park Management Company Limited*	Real estate management	100%
RMC The Meadows, Clifton-upon-Teme Limited*	Real estate management	100%
Ruby Brook Estate Management Company Limited*	Real estate management	100%
Ruby Brook Management Company Limited*	Real estate management	100%
Saints Quarter (Steelhouse Lane) Residents Management Company Limited*	Real estate management	100%
Saddlers Grange (Howden) Management Company Limited	Real estate management	100%
Saredon Gardens Residents Management Company Limited*	Real estate management	100%
Shawbrook Manor (Residents) Management Company Limited*	Real estate management	100%
Somerford Park Residents Management Company Limited	Real estate management	100%
St Mary’s View (Residents) Management Company Limited*	Real estate management	100%
Station Fields Residents Management Company Limited*	Real estate management	100%
Station House (Stourbridge) Management Company Limited	Real estate management	100%
Tennyson Fields Management Company Limited*	Real estate management	100%
The Acorns (Walsham Le Willows) Residents Management Company Limited	Real estate management	100%
The Compendium Group Limited	Regeneration	50%
The East Avenue 2 Residents Management Company Limited*	Real estate management	100%
The East Avenue Residents Management Company Limited*	Real estate management	100%
The Laureates Residents Management Company Limited*	Real estate management	100%

The Mill (Site 1) Residents Management Company Limited*	Real estate management	100%
The Mill (Site 2) Residents Management Company Limited*	Real estate management	100%
The Spires Residents Management Company Limited*	Real estate management	100%
The Sycamores (Kirk Ella) Management Company Limited	Real estate management	100%
The Way Beswick (Zone 1) Management Limited*	Real estate management	100%
The Way Beswick (Zone 2) Management Limited*	Real estate management	100%
The Way Beswick (Zone 3) Management Limited*	Real estate management	100%
The Way Beswick (Zone 4) Management Limited*	Real estate management	100%
The Way Beswick (Zone 5) Management Limited*	Real estate management	100%
The Way Beswick (Zone 6) Management Limited*	Real estate management	100%
The Way Beswick (Zone 7) Management Limited*	Real estate management	100%
Tixall View Residents Management Company Limited	Real estate management	100%
Trinity Walk Residents Management Company Limited*	Real estate management	100%
Victoria Court (Newport No 1) Residents Management Company Limited	Real estate management	50%
Waterside Quay Residents Management Company Limited	Real estate management	100%
Wensum Grange Management Company Limited*	Real estate management	100%
West Sussex Property Development LLP	Real estate management	50%
Westcroft 12 Management Company Limited*	Real estate management	100%
Weston Woods Residents Management Company Limited	Real estate management	100%
William's Park Residents Management Company Limited	Real estate management	100%.
Willow Grange (Lakeside) Residents Management Company Limited*	Real estate management	100%
Woodlark Chase (Warren Drive) Residents Management Company Limited YMYL Yr Afon Residents Management Company Limited	Real estate management	100%
YMYL YR Afon Residents Management Company Limited*	Real estate management	100%

*Registered office: One Eleven
Edmund Street
Birmingham
B3 2HJ

** The Company has an indirect holding by virtue of its 50% holding in The Compendium Group Ltd. The registered office is the same as the Company.

10. Inventories

	2021	2020
	£000	£000
Residential developments and undeveloped land	**236,422**	220,935

Lovell offer part exchanges on a selection of mixed tenure schemes, in 2021 part exchange payments added to inventories was £0.3m (2020: £1.3m) and total part exchange receipts deducted from inventories was £1.0m (2020: £2.1m). Inventory expensed during the year was £218m (2020: £209m). The inventory balance is shown, including provisions recognised during the year, amounting to £9.6m (2020:£4.9m).

11. Trade and other receivables

	2021	2020
	£000	£000
Amounts falling due within one year		
Trade receivables	**10,812**	12,743
Amounts owed by group undertakings	**21,444**	13,114
Amounts owed by joint ventures	**12,739**	-
Other receivables	**2,710**	2,681
Prepayments and accrued income	**1,506**	733
Shared equity loans	**1,218**	-
	50,429	29,271
Amounts falling due after more than one year		
Trade receivables	**4,879**	2,272
Shared equity loans	**225**	5,441
	55,533	36,984

Trade receivables are stated after provisions for non-recovery of £1.9m (2020: £1.0m). Trade receivables include retentions within held by customers for contract work at 31 December 2021 were £10.8m (2020: £8.8m). These will be collected in the normal operating cycle of the Company. The Company manages the collection of retentions through its post completion project monitoring procedures and ongoing contract with clients to ensure that potential issues that could lead to the non-payment of retentions are identified and addressed promptly. Shared equity loans are also recovered in the normal operating cycle of the business. The directors consider that the carrying amount of trade and other receivables approximates to their fair value.

Amounts owed by group undertakings are payable on demand and are not interest bearing. Due to the group’s cash pooling arrangement £10m (2020: nil) was recognised in amounts owed by group undertakings.
During 2020, a provision for impairment losses of £1.2m was recognised against amounts owed by group undertakings. This was in relation to an amount owed by a wholly owned subsidiary company; Community Solutions Living Ltd. This provision for impairment was reassessed during 2021 and reduced to £1.1m. The bad debt provision recognised reduces the carrying value of the amount receivable from this wholly owned subsidiary to £1.0m (2020: £0.9m).

In relation to shared equity loans, the Company's maximum credit exposure is limited to the carrying value of the shared equity loan receivables granted. The Company’s credit risk is partially mitigated as the shared equity loan receivables are secured by way of a second charge over the property. There were no defaults during the year (2020: no defaults).

12. Construction contracts

The Company has recognised the following revenue-related contract assets and liabilities:

	2021	2020
	£000	£000
Contract assets	**37,900**	19,215
Contract liabilities	**(7,781)**	(13,677)

Significant changes in the contract assets and the contract liabilities during the period are as follows:

	2021 £000		2020 £000	
	Contract assets	**Contract liabilities**	Contract assets	Contract liabilities
At 1 January	**19,215**	**(13,677)**	25,264	(28,762)
Revenue recognised				
- performance obligations satisfied in the current period	**283,687**	**13,677**	210,755	28,762
Cash received for performance obligations not yet satisfied	**-**	**(7,781)**	-	(13,677)
Amounts transferred to trade receivables	**(265,002)**		(216,804)	
As at 31 December	**37,900**	**(7,781)**	19,215	(13,677)

The following table includes revenue expected to be recognised in the future related to performance obligations that are unsatisfied or partially unsatisfied at the balance sheet date:

	2022	**2023**	**2024+**	**Total**
	£m	**£m**	**£m**	**£m**
As at 31 December 2021	**319**	**190**	**213**	**722**

13. Trade and other payables

	2021	2020
	£000	£000
Amounts falling due within one year		
Trade payables	**40,805**	44,892
Amounts owed to group undertakings	**59,220**	17,213
Social security and other taxes	**2,410**	1,802
Other payables	**5,251**	3,590
Accruals for future land payments	**8,749**	8,313
Other accruals and deferred income	**108,161**	103,469
	224,596	179,279
Amounts falling due after one year		
Accruals for future land payments	**32,794**	1,723
	32,794	1,723

Amounts owed to group undertakings are payable on demand and are not interest bearing.

Trade payables include amounts relating to retentions payable to sub-contractors, a proportion of which £3.1m (2020: £2.9m) are expected to be settled after a period of more than 12 months. However, considering they fall due within the normal operating cycle of the company, they have been considered and presented as a current liability.

Other accruals and deferred income include contracting cost accruals of £95.7m (2020: £95.4m), the balance are administrative expense accruals £12.8m (2020: £8m).

Non-current other payables have been discounted by £3.3m (2020: £0.5m) to reflect the time value of money. Accruals for future land payments represents amounts committed to future land payments dated between 2022 and 2024.

The directors consider that the carrying amount of trade payables approximates to their fair value.

14. Deferred tax liability

	2021	2020
	£000	£000
Balance at 1 January	**2,203**	2,185
Statement of Comprehensive Income charge (note 6)	**218**	18
Balance at 31 December	**2,421**	2,203

Deferred tax liabilities consist of the following amounts:

	2021	2020
	£000	£000
Accelerated capital allowances	**(237)**	(267)
Goodwill	**3,481**	2,525
Short term timing differences	**(823)**	(55)
Balance at 31 December	**2,421**	2,203

15. Share capital

	2021	2020
	£000	£000
Allotted, called up and fully paid		
114,500,000 authorised, ordinary shares of £1 each	**114,500**	114,500

The Company has one class of ordinary share which carries no rights to fixed income.

16. Retained earnings

	2021	2020
	£000	£000
Balance as at 1 January	**56,486**	43,578
Profit for the year	**23,285**	12,908
Dividends	**(30,000)**	-
Balance as at 31 December	**49,771**	56,486

17. Pension commitments

The Company contributes to the Morgan Sindall Retirement Benefits Plan and to other employees' personal pension arrangements. The Morgan Sindall Retirement Benefits Plan is a defined contribution post-retirement benefit plan under which the Company pays fixed contributions to a separate entity and has no legal or constructive obligation to pay further amounts. The assets of the schemes are held separately from those of the Company in funds under the control of trustees. The total costs charged to the statement of comprehensive income of £1,771,000 (2020: £1,421,000) represent contributions payable to the Plan by the Company. The pension creditor at 31 December 2021 was £284,000 (2020: £250,000).

18. Contingent liabilities

Performance bonds have been entered into in the normal course of business. Performance bond facilities and banking facilities of the Group are supported by cross guarantees given by the Company and other participating companies in the Group. It is not anticipated that any liability will accrue.

Contingent liabilities may also arise in respect of subcontractor and other third party claims made against the Company, in the normal course of trading. These claims can include those relating to cladding/legacy fire safety matters, and defects. A provision for such claims is only recognised to the extent that the Directors believe that the Company has a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefit will be required to settle the obligation. However, such claims are predominantly covered by the Company's insurance arrangements.

Cladding and fire safety review

The Company has considered the public letter to Residential Property Developer industry from the Department for Levelling Up, Housing & Communities dated 10 January 2022, as well as the letter dated 22 January 2022 to the Construction Products Association and all other related Government press releases, communications and publications.

The Company fully agrees that the costs of remediation should not be borne by leaseholders and is supportive of working with the Government, industry and other key stakeholders to determine a solution to the issue of historic cladding and fire safety defects in buildings.
The Company has considered the scope of relevant cases across its business in line with the criteria set out in the 10 January 2022 letter and this review is ongoing. It is possible that a small number of cases will be identified where the Company has a liability leading to remediation. In accordance with the Company's past practice, the Company is committed to meeting its liabilities as they are identified.

Whilst any such costs incurred are not expected to be material and will likely span a number of years, the industry-wide solution to the issues set out in the 10 January 2022 letter is still being determined and therefore any liability arising therefrom cannot be reliably estimated.

19. Lease liabilities

The company leases assets including property, plant and vehicles. The average lease term is 5 years. There are no variable terms to any of the leases. The maturity profile for the lease liabilities at 31 December 2021 are set out below:

	Leasehold Property		**Other Assets**		**Total Lease liabilities**	
	2021	2020	**2021**	2020	**2021**	2020
	£000	£000	**£000**	£000	**£000**	£000
Maturity analysis						
Within one year	**752**	969	**81**	87	**833**	1,056
Within two to five years	**2,761**	2,529	**84**	165	**2,845**	2,694
After more than five years	**1,188**	1,126	**-**	-	**1,188**	1,126
	4,701	4,624	**165**	252	**4,866**	4,876

	2021			2020		
	Leasehold Property	**Other Assets**	**Total**	Leasehold Property	Other Assets	Total
	£000	**£000**	**£000**	£000	£000	£000
As at 1 January	**4,624**	**252**	**4,876**	7,930	397	8,327
Additions	**985**	**-**	**985**	218	-	218
Terminations	**-**	**-**	**-**	(2,418)	-	(2,418)
Repayments	**(1,036)**	**(93)**	**(1,129)**	(1,319)	(154)	(1,473)
Interest expenses	**128**	**6**	**134**	213	9	222
As at 31 December	**4,701**	**165**	**4,866**	4,624	252	4,876

Lease rental payments of £1.1m were made in 2021 (2020: £1.4m).

20. Related party transactions

In the ordinary course of business, the Company has traded with its parent company Morgan Sindall Group plc together with its subsidiaries. Advantage has been taken of the exemption permitted by FRS 101 not to disclose transactions with entities that are wholly owned by the Group. Balances with these entities are disclosed in notes 11 and 13 of these financial statements.

In the ordinary course of business, the Company has traded with its associated companies, The Compendium Group Limited, Compendium Regeneration Limited, Anthem Lovell LLP, Lovell Latimer LLP, Lovell Flagship LLP, Chalkdene Developments LLP, Lovell Together LLP, Lovell Abri Weymouth LLP, Laurus Lovell Whalley LLP, Lovell Together (Pendleton) LLP and West Sussex Property Development LLP all of whom are companies registered in England and Wales. The transaction listed in the table below relate to construction work performed by Lovell.

	Revenue		Due at 31 December	
	2021	2020	**2021**	2020
	£000	£000	**£000**	£000
Compendium Regeneration Limited	**7,563**	11,798	**513**	88
Anthem Lovell LLP	**9,201**	2,299	**904**	-
Lovell Latimer LLP	**6,577**	6,753	**729**	691
Lovell Flagship LLP	**11,709**	6,462	**1,784**	-
Chalkdene Developments LLP	**14,955**	6,892	**1,944**	844
Lovell Together LLP	**17,805**	-	**3,311**	-
Lovell Abri Weymouth LLP	**642**	-	**320**	-
Laurus Lovell Whalley LLP	**6,157**	-	**495**	-
Lovell Together (Pendleton) LLP	**5,965**	-	**2,739**	-
West Sussex Property Development LLP	**263**	-	**-**	-
	80,837	34,204	**12,739**	1,623

The Company received a loan repayment of £2,325,000 from The Compendium Group Limited (2020: £3,200,000 payment from The Compendium Group), £225,000 from Lovell Latimer LLP (2020: £2,157,000 loan funding). The loans were originally to finance community regeneration projects.

In addition, the Company provided £1,142,000 to Anthem Lovell LLP (2020: Nil), £9,220,000 to Lovell Together LLP (2020: £2,549,000), £165,000 to Lovell Abri Weymouth LLP (2020: £139,000), £7,516,000 Laurus Lovell Whalley LLP (2020: Nil), £602,000 to West Sussex Property Development LLP (2020: Nil) and £69,000 to Lovell Flagship LLP (2020: £5,545,000). The loans are to finance regeneration projects of a primarily residential nature. In addition, capitalised interest of £547,000 was added to the loans in 2021 (2020: £82,000).

This brings the cumulative funding plus capitalised interest to £36,824,000 included in investments in joint ventures at 31 December 2021 (2020: £20,113,000).

21. Dividends

Amounts recognised as distributions to equity holders in the year:

	2021	2020
	£000	£000
Interim dividend for the year ended 31 December 2021	**30,000**	-
	30,000	-

The directors do not recommend the payment of a final dividend (2020: nil).

22. Subsequent events

On 23 February 2022, the Russian Government commenced its invasion of Ukraine, subsequently we have begun to see price increases for certain commodities starting to emerge. At this stage we are not seeing a significant impact on our projects, and we continue to work with our customers and supply chain partners to mitigate the impact on our projects wherever possible. The Company has determined that these events are non-adjusting subsequent events, the duration and impact of the Russian war remains unclear at this time.