

Connells Survey & Valuation Limited

ANNUAL REPORT AND FINANCIAL STATEMENTS

31 December 2020

(Registered Number 04046987)



Contents

Directors' report	3
Strategic report	5
Statement of directors' responsibilities	10
Independent auditor's report to the members of Connells Survey & Valuation Limited	11
Statement of Comprehensive Income	14
Statement of Financial Position	15
Statement of Changes in Equity	16
Statement of Cash Flows	17
Notes	18

Directors' Report

The Directors present their annual report and the audited financial statements for the year ended 31 December 2020.

INTRODUCTION AND OVERVIEW

The principal activity of the Company is the provision of residential survey and valuation services, and will continue to be so for the foreseeable future.

Connells Survey & Valuation Limited is a private limited Company incorporated in England & Wales, registered number 04046987.

DIRECTORS

The Directors who served during the year were:

WJ Wright
RTB Bowen

DIVIDENDS

During the year an interim dividend of £7,500,000 (2019: £15,000,000) was declared. The Directors do not recommend payment of a final dividend (2019: £nil).

EMPLOYEES

It is Company policy to provide employees with information concerning their roles and responsibilities and the trading performance of the Company. This policy is to ensure opportunities are available at every level to improve employees' and corporate performance. Regular meetings are held which involve directors, managers and staff.

CHARITABLE AND POLITICAL DONATIONS

The Company made charitable donations of £nil in 2020 (2019: £15,778). The Company made no political donations in 2020 (2019: £nil).

EMPLOYEE DEVELOPMENT AND EQUAL OPPORTUNITIES

The Company's approach is to ensure it recruits and promotes the right people regardless of gender, disability, age, sexual orientation or race, and is committed to a culture of meritocracy whereby career progression is based on ability. It facilitates opportunities for all employees to progress and regularly reviews practices and policies. It regards its people as its most valuable asset and is committed to investing in them to achieve their full potential, without discrimination.

People with disabilities are given equal opportunities wherever they can fulfil the requirements of the job. If an employee becomes disabled during their employment with the Company every reasonable effort is made to enable them to continue their career within the Company.

DISCLOSURE OF INFORMATION TO AUDITOR

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

Directors' Report (continued)

GOING CONCERN

The Directors have undertaken a thorough assessment of the Company's financial forecasts to 30 June 2022, including the continuing impact of Covid-19 on its operations within the UK. The impact of the Covid-19 pandemic began on 23 March 2020, when the UK housing market was effectively closed for two months. However the Company reacted quickly to the lockdown, reducing its cost base significantly during the first lockdown period and increasing the proportion of desk top valuations performed for its clients. Similarly, once the UK housing market re-opened, the Company was able to resume its activities fully, and traded well for the remainder of the year. Whilst down on the prior year, the Company achieved a reasonable profit and continued to maintain adequate resources.

The Company has modelled downturn scenarios as detailed below, which include mitigating actions including reducing headcount, capital and other discretionary spend and, where appropriate, using available government support. As a result of the modelling, the Directors have deemed it appropriate to continue to adopt the going concern basis of accounting in preparing the annual financial statements of the Company for the year ended 31 December 2020.

The Company is funded by its operating profits and the cash thereby generated. For the year ended 31 December 2020 the Company reported a net profit after tax of £8.2m (2019: £14.5m) and at 31 December 2020 had cash balances amounting to £7.2m (2019: £7.2m), even after paying a dividend of £7.5m (2019: £15m) to its shareholders. At the date of signing these accounts, the Company still has a similar cash balance and has no external debt.

In forming their view on going concern, the Directors continue to perform extensive forecasting to model the ongoing impact of the Covid-19 pandemic and its potential impact on business volumes, as detailed further in the Strategic Report. In particular the Directors have considered and modelled a number of severe but plausible scenarios, including the impact of a material downturn in the UK housing market caused by the Covid-19 pandemic or other political and economic circumstances. The key assumptions used in this severe stress scenario are as follows:

- A two month lockdown forces the UK housing market to close, reducing transactions to the level seen in April and May 2020 before slowly recovering.
- Mitigating actions to reduce headcount, capital expenditure and marketing spend.
- Government support has been assumed to be available during the lockdown months only.

The Company's financial strength means that it is well positioned to withstand any downturn. As at 31 December 2020 the Company has no long term debt and therefore no covenant tests that it must meet.

As a result of the above and following careful consideration, the Directors continue to adopt the going concern basis of accounting in preparing the annual financial statements.

AUDITOR

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and Ernst & Young LLP will therefore continue in office.

By order of the board



RTB Bowen
Director

24 March 2021

Cumbria House
16-20 Hockliffe Street
Leighton Buzzard
Bedfordshire
LU7 1GN

Strategic Report

BUSINESS REVIEW

Overview of the Business

Connells Survey & Valuation Limited is a leading provider of residential survey and valuation services to lenders, homebuyers and other participants in the UK financial and property markets.

The Company delivers a comprehensive suite of services including Panel Management, Risk Management, outsourced surveying and valuation solutions to a diverse range of clients. The business employed 520 (2019: 478) people at 31 December 2020 including 338 (2019: 275) RICS qualified Chartered Surveyors. In addition, the Company is contracted with a panel of partner Chartered Surveying firms who provide supplementary service resources.

Connells Survey & Valuation aims to deliver high quality service and great customer outcomes. This is evident across the business and is reinforced through independent reporting from clients on our performance across a range of metrics compared with competitors. The focus on sustainable quality service has been maintained and developed over the long term, and is reinforced through the Company holding ISO Quality Assurance accreditation for over two decades.

The Company's relentless focus on delivering outstanding customer service and robust risk management control for clients, resulted in a number of new long-term contracts being secured during 2020, the majority on an exclusive basis with established high street and specialist lenders in the UK residential lending sector. The business also renewed contracts with many existing clients. As a result, the Directors remain confident of the Company's future prospects.

In 2020, further investment was made by the Company in developing new customer facing technology solutions, our people and extending our next generation service and risk management model. This included a major business wide upgrade to our surveying technology, telephony and reporting systems. Alongside this, the Connells Graduate Surveyor Academy continued to train and bring fresh surveying talent into the business. Originally launched in 2014, this will have helped approximately 100 new surveyors qualify by 2021, bringing much needed additional skills and resource into the residential surveying industry.

The Company's commitment to deliver new and innovative service and risk management solutions resulted in further improvements to customer service outcomes and the rationalisation of clients' costs. Connells Survey & Valuation continues to work closely with lenders, the RICS, The Ministry of Housing, Communities and Local Government and other bodies in the development of policy and initiatives to support the evolving UK housing market.

During the year, the Company acquired the trade of Miller Metcalfe Surveyors Ltd resulting in a transfer of its staff into the Company's existing business operations. In addition to providing enhanced career opportunities for those people, this acquisition enabled the business to extend its geographical servicing capabilities to customers.

The Covid-19 pandemic had a significant impact on the housing market activity, the Company's operations and results. As a consequence, a number of changes were made to the business including the temporary home-basing of all staff and the introduction of robust Covid Secure operating processes and procedures to protect colleagues, customers and suppliers. As a result of this, service provision was maintained throughout the year and included the launch of a new remote desktop valuation service. The Company played a key role in supporting the housing market through the unprecedented challenges faced by the UK.

Despite Covid-19 impacts and a contraction in the number of physical valuations as lenders increased their use of remote desktop and automated valuations for-remortgage and purchase lending, the Company delivered a pre-tax profit of £10,303,000 (2019: £17,906,000).

Operational review and key performance indicators

	2020 £000	2019 £000	Change %
Revenue	51,910	65,424	-20%
EBITDA	10,909	18,576	-41%
Profit before Tax	10,302	17,906	-42%
Average Net Fee	£212	£223	-6%
Lender contracts won/renewed	5	19	-14
Surveys and valuations completed	234,087	274,235	-15%
RICS Qualified Chartered Surveyors	338	275	+23%

Strategic Report (continued)

Section 172 statement – The Board's approach

Policies and Practices

The Company's objectives are to maximise the long-term value and revenue for its shareholders, to create secure and rewarding employment for its people and to deliver a high quality service to participants in the UK residential property market. The Board considers its shareholders, customers and colleagues to be the Company's key stakeholders.

Corporate Governance

The Board is responsible for determining the Company's strategy for managing risk and overseeing its systems of internal control. The ongoing effectiveness of these internal controls are reviewed by the Board on a regular basis. The Company maintains appropriate standards of corporate governance in order to conduct its business in a prudent and well organised manner. The Board's approach is based on the principles and provisions of the UK Corporate Governance Code (the Code) published by the Financial Reporting Council. The Board's philosophy is to comply with the Code where it applies to the Company.

Employee Matters

The Company seeks to attract great people and make sure they are highly engaged in an environment where they can perform to high expectations and have the opportunity for a long, rewarding and fulfilling career.

In order to help achieve this, the Company seeks direct feedback from its workforce on areas such as leadership, reward, trust, respect, well-being and communication. All employees were given the opportunity to participate in an externally facilitated engagement survey benchmarked against leading UK employers. The analysis of the results will enable Directors to make well-informed decisions about where to focus attention to best effect. The Board also further expects to involve groups of employees in any development activities. During 2020, despite colleagues being placed on furlough, the Company maintained regular communications with all its people and agreed, from March to June, to pay everyone 100% of their basic salary plus commissions earned; well above the Government's minimum requirement under the CJRS scheme.

The Company has a number of policies and practices in place to help ensure that the working environment encourages trust, respect, recognition and good communication. These include, for example, structured career ladders, dignity at work, equal opportunities, and a well embedded health, safety and welfare policy. In addition, current projects include promoting a diverse and inclusive culture, and training to support mental health awareness. Remuneration structures are designed to reward high performance.

The Company's modern slavery policy supports the objectives of the Modern Slavery Act 2015, further details of which can be found on the Company's website. Company policies are reviewed and monitored on an ongoing basis to ensure they remain appropriate and fit for purpose. Throughout the Covid-19 pandemic, the Company has sought to operate with the safety of its colleagues and customers being its priority. It has invested heavily in PPE, provided extensive training to all its people and implemented a number of Covid-secure standards across the business.

The Company is committed to ensuring that there are no instances of bribery or corruption throughout the business. Company policies exist, drafted in line with government guidelines, to prohibit the offering, giving, solicitation or the acceptance of any bribe to or from any person or company by any individual employee, agent or other person or body acting on behalf of the Company. The policies are readily available for employees to view on our internal intranet and our employees are required to receive annual refresher training to ensure they can recognise and prevent the use of bribery.

Social Matters

During 2020 the Company worked with and supported Lionheart, the benevolent fund for the Royal Institution of Chartered Surveyors and their families.

Environmental Matters

The Board recognise that as a responsible business there is an obligation to operate in a manner that minimises the Company's impact on the environment. We operate in a sector that has a relatively low carbon footprint and impact on the environment. However, we follow relevant environmental legislation in carrying out our business and Company policy is to seek to minimise our contribution to environmental damage and maximise our contribution to safe recycling and reprocessing of waste materials.

The Company Environmental Policy outlines the ways in which the Company reduces the use of paper, utilises recycling options, reduces pollution and levels of energy use. Initiatives such as the reduction in company car CO2 emissions and the replacement of lighting with low energy units (e.g. LED spot lights and panels) are examples of the Company's commitment to operating in an environmentally sustainable way.

Further details around Streamlined Energy and Carbon Reporting (SECR) are set out in the accounts of the parent company, Connells Limited.

Strategic Report (continued)

Business Relationships

The Company closely monitors all its business relationships which allows it to provide its customers with excellent service. It assesses, on an ongoing basis, any risk of an adverse impact on its customers, people and the environment in which the Company operates as a result of these relationships, or as a result of its policies.

Relationships with key suppliers are closely monitored to ensure services are being provided in line with the terms of documented agreements. Performance of key suppliers, along with associated risks to the Company and the environment are regularly assessed with options for improvement considered where available. Regular reviews of adherence to key policies, such as Modern Slavery and GDPR are undertaken.

Board members are engaged when negotiating terms with key suppliers and in specific cases will attend strategic review meetings to guide the future approach with that supplier.

The Company is committed to providing its customers with a high level of service which is tailored to their individual needs, and provide a range of suitable products.

The Company's services are primarily delivered through surveyors, with support from centralised customer service teams who help ensure the delivery of positive customer outcomes.

Decision Making

The Board meets regularly and makes decisions which promote the success of the Company and its stakeholders. Proposals are discussed in detail and approved by the Board which ensures key decisions comply with the risk management framework detailed below. Examples of key decisions taken during 2020 include:

- The annual budget was approved following a robust and comprehensive review process. It was decided the budget would promote the success of the Company.
- Approved interim dividends – Meeting shareholder dividend expectations is a top priority to ensure the funds are able to benefit the wider Connells Group. The budget indicates the dividend level to be sustainable and still allow the Company to invest in future growth.
- The decision was made to pay all employees, from March to June, 100% of basic pay and any commissions due to those not required to work during the lockdown period; above the minimum of 80% up to £2,500 per month set by the Government.

Risks and uncertainties

The Company's objective is to appropriately manage all the risks that arise from its activities. The Company has a formal structure for managing risks throughout the Company. This has three elements:

This has three elements:

- The Company's risk appetite is documented in risk appetite statements, which are reviewed and approved annually by the Board.
- The primary responsibility for managing risk and ensuring appropriate controls are in place lies with the Company's management. The immediate and ultimate parent undertakings, Connells Limited and Skipton Building Society, through their risk and compliance functions provide monitoring and oversight on behalf of the Society's Board.
- The Board Audit Committee of Skipton Building Society oversees the effectiveness of the risk management framework and the control environment through Skipton Group's Internal Audit function, whose reports are also provided to the Company's Board.

The principal risks facing the Company, and how the Company seeks to mitigate these, are set out below:

Covid-19 pandemic

The business has been impacted significantly since March 2020 by the Covid-19 pandemic. This resulted in the Company having to cease all physical inspections involving customer contact for a seven week period from the 23rd March. Due to some work being needed to finalise outstanding reports and the ability to carry out some desktop valuation business, work volumes did not cease entirely, however did fall to a low level. The quick introduction and delivery of an alternative desktop valuation proposition resulted in the Company supporting the housing market throughout the pandemic. While the Company has been able to re-commence physical valuations, there remains uncertainty over how long restrictive measures will remain in place, how this will impact customer sentiment and the wider economic impact.

Management reacted quickly at the on-set of the pandemic to preserve cash by placing the majority of colleagues on furlough and cutting back on capital and other discretionary spending. The Company has invested in personal protective equipment (PPE), devised comprehensive working practices and rolled out training to allow for a safe and secure environment for its people and customers. The Directors have also taken a number of actions and contingency planning to safeguard the future profitability and viability of the business, which is discussed further in the going concern section, and through the business' continuity planning team continue to monitor developments and take appropriate action. The Company's IT systems have enabled those people who can work from home to do so, and the Company has continued to be able to operate throughout the pandemic.

Strategic Report (continued)

Capital

In common with other survey and valuation businesses, the Company is highly operationally geared. Performance is dependent on the volume and value of reports that each surveyor carries out daily. In the short term, many costs are fixed as these relate to staff employment, and so when income falls it may have a direct and adverse impact on profits and cash flows. The residential housing market is volatile and a material downturn could impact the Company's profitability disproportionately. The Company's policy is to retain sufficient cash and capital resources to allow it to withstand market volatility and achieve its corporate objectives.

The Market

The UK housing market is cyclical and its strength correlates closely with the general strength of the UK economy. Changes in house prices and the volume of properties sold impact the results of the business. The Covid-19 pandemic significantly impacted the housing market in 2020, and although the stamp duty holiday increased demand, the continuing pandemic may impact transaction levels during 2021. The impact of Brexit on the UK economy could also impact market sentiment and transaction levels. However, the Board believes that the medium to long term outlook for the UK housing market remains positive, driven partially by the ongoing imbalance between the demand for properties against the available supply.

The Board continues to review leading indicator KPIs and other economic and sector data regularly, in order that appropriate action is taken to manage short term market uncertainties whilst ensuring that the Company is well positioned to capitalise when market conditions change for the better.

Competitors and industry landscape

The Company continues to monitor changing trends in the markets in which it operates and will continue to invest in both its systems and people so that it can address any relevant changes to customers' behaviour and expectations.

Alongside technology advances, we envisage that the increased use of Automated Valuation Models may reduce the requirement for some RICS valuation reports on lower risk lending. Connells' service model is continuing to evolve to meet such needs. We are also extending our RICS surveying capabilities to reflect the enhanced servicing requirements of clients and demand for private survey reports.

Regulatory Compliance

The business continually develops its focus on risk, customer outcomes, and compliance with RICS requirements to reflect industry best practice. The business provides extensive training to and supervision of its operational teams, supported by centralised compliance and risk teams which closely monitor existing business activities and assess proposed new developments. A robust complaints handling process exists, with root cause analysis being fed back into operational activities.

IT Infrastructure and information security

The Company depends on efficient systems for its day to day operations and maintenance of its financial records. A significant interruption to its IT services, or breach of data security, would have an adverse impact on the ability to trade. The Company's systems could also be subject to the increasing risk of a cyber-attack.

The Company continues to invest in its IT and data security systems to ensure that its systems adequately support its expanding operations and address the changing needs of the business. Regular penetration and business recovery testing is carried out. Regular training is provided to all colleagues to advise them of good security procedures and data protection requirements.

Professional indemnity exposure

Business performance is also impacted by the actual level of claims and potential professional indemnity claims in relation to surveys and valuations performed by the Company. This risk is commonplace across the industry. To reduce the likely incidence of such claims in the future, robust training, supervision and quality assurance processes are in place. The Company also actively defends claims and adopts a prudent provisioning policy, taking into account the strength of the Company's case and its history of successfully defending claims. While the level of future claims is uncertain, claim volumes have remained at a low level in 2020 with current claims being well managed by an experienced team.

Financial misstatement and fraud

Material financial misstatement arising due to an error or fraud could cause reputational damage, financial loss or lead to inappropriate decision making. The Company's financial controls, including segregation of duties, are designed to operate throughout the business to address this risk. These controls are supplemented by comprehensive monitoring of financial performance to budget and expectations.

Loss of a major contract

The Company has entered into a number of important customer contracts, the loss of which would adversely affect the income and performance of the Company. Regular review meetings are held with clients to identify any potential issues and allow issues to be escalated and resolved at an early stage.

Strategic Report (continued)

Customers

The Company is firmly committed to delivering good outcomes for all customers. This means ensuring that the range of products and services offered meet the needs of customers, that the 'end to end' processes for delivering these services are appropriate and effective, and that our people have our customers' best interests at heart at all times. Management seek to develop and maintain this ethos within the culture of the business overall.

People

The Company is a people business and as such is reliant on the ability, training, skills and motivation of its staff. A key risk to the business is colleague retention, particularly its Chartered Surveyors. In order to combat this, the Board ensure that service agreements, remuneration packages, training and development and human resources policies are aimed at attracting, rewarding and retaining key people.

By order of the board



RTB Bowen
Director

Cumbria House
16-20 Hockliffe Street
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Bedfordshire
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24 March 2021

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE STRATEGIC REPORT, THE DIRECTORS' REPORT AND THE FINANCIAL STATEMENTS

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006.

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 in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors and 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 IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the financial position and financial performance;
- in respect of the financial statements, state whether international accounting standards in conformity with the requirements of the Companies Act 2006 have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is 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 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 and 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.

The directors confirm, to the best of their knowledge:

- that the financial statements, prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006, give a true and fair view of the assets, liabilities, financial position and profit of the company;
- that the financial statements, including the strategic report, includes a fair review of the development and performance of the business and the position of the company, together with a description of the principal risks and uncertainties that they face; and
- that they consider the financial statements, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the company's position, performance, business model and strategy.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CONNELLS SURVEY & VALUATION LIMITED

Opinion

We have audited the financial statements of Connells Survey & Valuations Limited for the year ended 31 December 2020 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, Statement of changes in Equity, Statement of Cash Flows and the related notes 1 to 20, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Accounting Standards in conformity with the requirements of the Companies Act 2006.

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 31 December 2020 and of its profit for the year then ended;
- have been properly prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006;
- 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.

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 the period to 30 June 2022, 15 months from when the financial statements are authorised for issue.

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 this 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 there is 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 the 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 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 material misstatements in the strategic report or directors' report.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CONNELLS SURVEY & VALUATION LIMITED (Continued)

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 10, 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 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.

Our approach was as follows:

We obtained an understanding of the legal and regulatory frameworks that are applicable to the company and determined that the most significant are; The Estates Agents Act 2019, The Consumer Rights Act 2015, The Consumers, Estate Agents and Redress Act 2007, International Accounting Standards, Companies Act 2006, Data Protection Act 1998, Health and Safety at Work Act 1974, HMRC regulations, The Coronavirus Act 2020 Functions of Her Majesty's Revenue and Customs (Coronavirus Job Retention Scheme), UK Bribery Act, Equality Act and Anti-Money Laundering Regulations.

- We understood how Connells Survey & Valuations Limited is complying with those frameworks by making enquiries of those charged with governance and management. We understood the potential incentive and ability to override the controls. We considered management's attitude and tone from the top to embed a culture of honesty and ethical behaviour whereby a strong emphasis is placed on fraud prevention which may reduce opportunities for fraud to take place. We further understood the adoption of accounting standards and considered the compliance with the above laws.
- We assessed the susceptibility of the Company's financial statements to material misstatement, including how fraud might occur by obtaining and reading internal policies, holding enquiries of management and those charged with governance and the in-house legal counsel as to any fraud risk framework within the entity.
- Based on this understanding we designed our audit procedures to identify noncompliance with such laws and regulations. Our procedures involved:
 - Enquiry of management and those charged with governance as to any fraud risk framework within the entity, including whether a formal fraud risk assessment is completed.
 - Enquiry of management, those charged with governance and the entity's in-house legal team around actual and potential litigation and claims.
 - Enquiry of entity staff in tax and compliance functions to identify any instances of non-compliance with laws and regulations, including communications with regulators and tax authorities.
 - Reading minutes of meetings of those charged with governance.
 - Reading internal audit reports.
 - Enquiry of management over reports to whistleblowing hotlines.
 - Reading financial statement disclosures and testing to supporting documentation to assess compliance with applicable laws and regulations.
 - Auditing the risk of management override of controls, including through testing journal entries and other adjustments for appropriateness.
 - Data analytics to highlight potentially anomalous transactions in areas of the business which are determined to have an elevated fraud risk.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CONNELLS SURVEY & VALUATION LIMITED (Continued)

- Evaluating the business rationale of significant transactions outside the normal course of business, and;
- Challenging judgements made by management. This included corroborating the inputs and considering contradictory evidence.

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

Joanne Mason (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Luton
Date 26/03/2021

Statement of Comprehensive Income

FOR THE YEAR ENDED 31 DECEMBER 2020

	Notes	Year ended 2020 £000	Year ended 2019 £000
Revenue	3	51,910	65,424
Employee benefit expenses	5	(25,337)	(27,885)
Other operating expenses		<u>(16,359)</u>	<u>(19,733)</u>
Operating profit	2	10,214	17,806
Presented as:			
Earnings before interest, tax, depreciation and amortisation		10,909	18,576
Depreciation of property, plant and equipment	7	(333)	(399)
Amortisation of intangibles	8	(362)	(371)
Operating profit		<u>10,214</u>	<u>17,806</u>
Finance income	4	<u>88</u>	<u>100</u>
Profit before tax		10,302	17,906
Tax expense	6	<u>(2,025)</u>	<u>(3,410)</u>
Profit for the year being total comprehensive income		<u><u>8,277</u></u>	<u><u>14,496</u></u>

Acquisitions in the current year are disclosed in note 19. In 2019, the Company made no material acquisitions and had no discontinued operations.

There were no recognised income and expense items in the current year (2019: £nil) other than those reflected above.

The notes on pages 18 to 31 form part of these financial statements.

Statement of Financial Position

AT 31 DECEMBER 2020

	Notes	31 December		31 December	
		2020	2019	2020	2019
		£000	£000	£000	£000
Non-current assets					
Property, plant and equipment	7	986		1,232	
Intangible assets	8	20,712		20,624	
Deferred tax assets	9	138		200	
Total non-current assets			21,836		22,056
Current assets					
Trade and other receivables	10	7,390		7,784	
Cash and cash equivalents		7,175		7,187	
Total current assets			14,565		14,971
Total assets			36,401		37,027
Current liabilities					
Trade and other payables	11	8,945		8,712	
Provisions for liabilities	12	2,844		2,730	
Tax liabilities		22		1,739	
Total current liabilities			11,811		13,181
Non-current liabilities					
Trade and other payables	11	356		389	
Provisions for liabilities	12	1,225		1,225	
Total non-current liabilities			1,581		1,614
Total liabilities			13,392		14,795
Equity– attributable to equity holders of the Company					
Share capital	13	-		-	
Retained earnings	13	23,009		22,232	
Total equity			23,009		22,232
Total equity and liabilities			36,401		37,027

These accounts were approved by the Board of Directors on 24 March 2021 and signed on its behalf by:



RTB Bowen
Director

Company registration number: 04046987

The notes on pages 18 to 31 form part of these accounts.

Statement of Changes in Equity

FOR THE YEAR ENDED 31 DECEMBER 2020

	Share Capital £000	Retained Earnings £000	Total Equity £000
Balance at 1 January 2020	-	22,232	22,232
Total comprehensive income for the year	-	8,277	8,277
Dividends paid in the year	-	(7,500)	(7,500)
Balance at 31 December 2020	-	23,009	23,009
Balance at 1 January 2019	-	22,736	22,736
Total comprehensive income for the year	-	14,496	14,496
Dividends paid in the year	-	(15,000)	(15,000)
Balance at 31 December 2019	-	22,232	22,232

The dividend per share totalled £75,000 (2019: £150,000).

The notes on pages 18 to 31 form part of these financial statements.

Statement of Cash Flows

FOR THE YEAR ENDED 31 DECEMBER 2020

	Notes	Year ended 2020 £000	Year ended 2019 £000
Cash flows from operating activities			
Profit for the year		8,277	14,496
Adjustments for:			
Depreciation of property, plant and equipment	7	333	399
Amortisation of intangibles	8	362	371
Profit on disposal of property, plant and equipment		(21)	(12)
Interest received	4	(88)	(100)
Tax expense	6	2,025	3,410
		<u>10,888</u>	<u>18,564</u>
Operating profit before changes in working capital and provisions			
Decrease / (increase) in trade receivables		387	(48)
Decrease / (increase) in other receivables		7	(173)
Increase in trade and other payables		201	93
Increase in provisions		114	248
		<u>11,597</u>	<u>18,684</u>
Cash generated from operations			
Tax paid		(3,681)	(3,431)
		<u>7,916</u>	<u>15,253</u>
Net cash inflow from operating activities			
Cash flows from investing activities			
Purchases of property, plant and equipment	7	(193)	(265)
Purchases of business assets	8,19	(450)	-
Proceeds on disposal of property, plant and equipment		127	103
		<u>(516)</u>	<u>(162)</u>
Net cash outflow from investing activities			
Cash flows from financing activities			
Interest received		88	100
Dividends paid		(7,500)	(15,000)
		<u>(7,412)</u>	<u>(14,900)</u>
Net cash outflow from financing activities			
Net increase in cash and cash equivalents			
Cash and cash equivalents at 1 January		7,187	6,996
		<u>7,175</u>	<u>7,187</u>
Cash and cash equivalents at 31 December			

The notes on pages 18 to 31 form part of these accounts.

NOTES TO THE FINANCIAL STATEMENTS

1. Accounting policies

Connells Survey & Valuation Limited (the "Company") is a Company incorporated and domiciled in the UK. The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Company's accounts:

a) Basis of accounting

The Company's financial statements have been prepared and approved by the Directors in accordance with International Accounting Standards in conformity with the requirements of the Companies Act ("Adopted IFRSs") and effective as at 31 December 2020.

During the year the Directors have adopted the following new or amended accounting standards and interpretations, all of which are effective for accounting periods starting on or after 1 January 2020 and are EU endorsed:

- Amendments to References to Conceptual Framework in IFRS Standards
- Definition of a Business (Amendments to IFRS 3)
- Definition of Material (Amendments to IAS 1 and IAS 8)
- Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)

These amendments have had no material impact on these Financial Statements.

Measurement convention

The financial statements are prepared on the historical cost basis.

Currency presentation

These financial statements are presented in pounds sterling and, except where otherwise indicated, have been rounded to the nearest one thousand pounds. The functional currency is pounds sterling.

Going concern

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report on pages 5 to 9. The financial position of the Company, its cash flows, and liquidity position are shown on pages 14 to 17. In addition, the Directors' Report and notes to these financial statements include the Company's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments; and its exposures to credit risk and liquidity risk.

The Directors have undertaken a thorough assessment of the Company's financial forecasts to 30 June 2022, including the continuing impact of Covid-19 on its operations within the UK. The impact of the Covid-19 pandemic began on 23 March 2020, when the UK housing market was effectively closed for two months. However the Company reacted quickly to the lockdown, reducing its cost base significantly during the first lockdown period and increasing the proportion of desk top valuations performed for its clients. Similarly, once the UK housing market re-opened, the Company was able to resume its activities fully, and traded well for the remainder of the year. Whilst down on the prior year, the Company achieved a reasonable profit and continued to maintain adequate resources.

The Company has modelled downturn scenarios as detailed below, which include mitigating actions including reducing headcount, capital and other discretionary spend and, where appropriate, using available government support. As a result of the modelling, the Directors have deemed it appropriate to continue to adopt the going concern basis of accounting in preparing the annual financial statements of the Company for the year ended 31 December 2020.

The Company is funded by its operating profits and the cash thereby generated. For the year ended 31 December 2020 the Company reported a net profit after tax of £8.3m (2019: £14.5m) and at 31 December 2020 had substantial cash balances amounting to £7.2m (2019: £7.2m), even after paying a dividend of £7.5m (2019: £15m) to its shareholders. At the date of signing these accounts, the Company still has a substantial cash balance and has no external debt.

In forming their view on going concern, the Directors continue to perform extensive forecasting to model the ongoing impact of the Covid-19 pandemic and its potential impact on business volumes, as detailed further in the Strategic Report. In particular the Directors have considered and modelled a number of severe but plausible scenarios, including the impact of a material downturn in the UK housing market caused by the Covid-19 pandemic or other political and economic circumstances. The key assumptions used in this severe stress scenario are as follows:

- A two month lockdown forces the UK housing market to close, reducing transactions to the level seen in April and May 2020 before slowly recovering.
- Mitigating actions to reduce headcount, capital expenditure and marketing spend.
- Government support has been assumed to be available during the lockdown months only.

The Company's financial strength means that it is well positioned to withstand any downturn. As at 31 December 2020 the Company has no long term debt and therefore no covenant tests that it must meet.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

1. Accounting policies (continued)

a) Basis of accounting (continued)

As a result of the above and following careful consideration, the Directors continue to adopt the going concern basis of accounting in preparing the annual financial statements.

b) Revenue recognition

Revenue, which excludes value added tax, represents total invoiced sales of the Company. Revenue is recognised on the date that the survey / valuation report is completed. Revenue and costs are recognised gross of sub-contracted panel fees. Invoices are usually payable within 30 days of the report being raised, at which point all performance obligations are considered to have completed.

c) Property, plant and equipment

Property, plant and equipment are stated in the Statement of Financial Position at cost less accumulated depreciation. Depreciation is charged so as to write off the cost of assets over their estimated useful lives on the following basis:

Fixtures and fittings	-	5 to 10 years
Office equipment	-	3 to 5 years
Motor vehicles	-	25% of net book value

All depreciation is charged on a straight-line basis, except motor vehicles, which is calculated on a reducing balance basis. Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

d) Intangible assets

Intangible assets include acquired customer contracts and relationships, software development costs and purchased software that in the opinion of the directors meets the definition of an intangible asset. Amortisation is charged to the Income Statement on a straight-line basis over the estimated useful lives of intangible assets. Intangible assets are amortised from the day they are available for use. The estimated useful lives are as follows:

Computer software	-	3 to 5 years
Customer contracts	-	3 to 6 years

Intangible assets are assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method are reviewed at least at each financial year end.

e) Goodwill

Goodwill arising on the acquisition of businesses represents the excess of the fair value of consideration over the fair value of identifiable net assets and contingent liabilities acquired at the date of acquisition.

Negative goodwill arising on an acquisition is recognised directly in the Income Statement.

f) Impairment

In accordance with IAS 36, Impairment of Assets, goodwill and intangible assets with an indefinite life is not amortised but is tested for impairment at each year end or when there is an indication of impairment. The recoverable amount of goodwill is determined as the higher of its fair value less costs to sell and its value in use.

The Company applies discount rates based on its estimated current cost of capital of the subsidiary. Impairment of a subsidiary's associated goodwill is recognised where the present value of future cash flows of the subsidiary is less than its carrying value. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

Any impairment loss in respect of goodwill is not reversed. On the sale of a subsidiary, the profit or loss on sale is calculated after charging or crediting the net book value of any related goodwill.

g) Trade and other receivables

Trade and other receivables are stated at their nominal amount (discounted if material) less impairment losses.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

1. Accounting policies *(continued)*

h) Cash and cash equivalents

For the purpose of the Statement of Cash Flows, cash comprises cash in hand and balances with banks and similar institutions. Cash equivalents comprise highly liquid investments which are convertible into cash with an insignificant risk of changes in value with original maturities of three months or less. The Statement of Cash Flows has been prepared using the indirect method.

The Company recognises an allowance for expected credit losses (ECLs). The Company takes a simplified approach and recognises a loss allowance based on lifetime ECLs at each reporting date. The Company uses a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and economic environment. This is applied to third party and intercompany receivables and cash balances.

i) Taxation

Income tax on the profits for the year comprises current tax and deferred tax. Income tax is recognised in the Income Statement except where items are recognised directly in other comprehensive income, in which case the associated income tax charge or credit is recognised in other comprehensive income.

Current tax is the expected tax payable on the taxable profit for the year, using tax rates enacted or substantively enacted at the year end, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. It is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which temporary differences reverse, based on tax rates and laws enacted or substantively enacted at the reporting date.

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Future taxable profits are determined based on the reversal of relevant taxable temporary differences. If the amount of taxable temporary differences is insufficient to recognise a deferred tax asset in full, then future taxable profits, adjusted for reversals of existing temporary differences, are considered, based on the business plans for the company.

The carrying amount of deferred tax assets is reviewed at each year end and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each year end and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

j) Trade and other payables

Trade and other payables are stated initially at their fair value and then measured subsequently at amortised cost.

k) Employee benefits

Certain employees are members of the Connells (2014) Group Pension Scheme. As it is not possible to split the cost of the plan attributable to the Company, the net defined benefit cost of the pension plan is recognised fully by Connells Limited, the Company's immediate holding company.

Certain employees are also members of the Connells Limited Group personal pension plan, the assets of which are held separately from those of the Company, as independently administered funds. Obligations for contributions to defined contribution pension plans are recognised as an expense in the Statement of Comprehensive Income as incurred.

Short term benefits

Short term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonuses or profit share plans if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

l) Provisions for liabilities and charges

A provision is recognised in the Statement of Financial Position when the Company has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

m) Net financing costs

Interest income and interest payable are recognised in the Statement of Comprehensive Income as they accrue, using the effective interest method.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

1. Accounting policies (continued)

n) Government grants

Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as income against the related cost, on a systematic basis over the periods the cost is incurred. When the grant relates to an asset, it is recognised as income in equal amounts over the expected useful life of the related asset.

o) Critical accounting estimates, and judgements in applying accounting policies

The Company makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. The Company also has to make judgements in applying its accounting policies which affect the amounts recognised in the financial statements. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The key estimates, assumptions and judgements are set out below:

Impairment of investments and goodwill

In determining whether an impairment loss should be recognised in the Income Statement, management compare the future cash flows of CGU against its carrying value. The key assumptions for the value in use calculations are those regarding the cash flows, discount rates and growth rates. The Company prepares cash flow forecasts on the assumption that the CGU is held for long-term investment. The cash flows are derived from the most recent financial budgets for the next five years, which take into account the risks inherent in the businesses. For all CGU's the cash flows are extrapolated for subsequent years based on long-term growth rate of 2.5% (2019: 2.5%). The Company estimates discount rates based on the current cost of capital adjusted for the risks inherent in its subsidiaries. The pre-tax discount rate used in 2020 was 13.55% (2019: 10.00%). Refer to note 8 for sensitivities.

Provisions

Provision is made for professional indemnity claims and potential claims that arise during the normal course of business in relation to surveys and valuations performed by the Company. Where a formal letter of claim has been received a provision is made on a case by case basis, taking into account the strength of the Company's case, and its history of successfully defending claims. Where initial notification of claims has been received, an estimate is made of the proportion of these expected to lead to a formal claim based upon historical trends. Finally, provision is also made for the estimated level of claims incurred but not yet reported at the reporting date (IBNR), taking into account market conditions and a prudent attitude to risk.

2. Expenses and auditor's remuneration

	Year ended 2020 £000	Year ended 2019 £000
Profit before tax is stated after charging / (crediting) the following:		
Depreciation of property, plant and equipment	333	399
Amortisation of intangibles	362	371
Impairment loss on trade receivables	1	1
Profit on disposal of property, plant and equipment	(21)	(12)
Auditor's remuneration and expenses:		
Audit of these financial statements	25	21

3. Revenue

All revenue in the Company is considered to originate from contracts with customers. The table below disaggregates the revenue from contracts with customers into the significant service lines. All revenues are derived by the Company in the UK.

	Products and services transferred at a point in time 2020 £000	Total 2020 £000
Survey and valuation fees	49,770	49,770
Panel management fees	1,920	1,920
Other income	220	220
	51,910	51,910

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

3. Revenue (continued)

	Products and services transferred at a point in time 2019 £000	Total 2019 £000
Survey and valuation fees	62,664	62,664
Panel management fees	2,404	2,404
Other income	356	356
	<u>65,424</u>	<u>65,424</u>

4. Finance income

	Year ended 2020 £000	Year ended 2019 £000
Interest receivable from group undertakings	<u>88</u>	<u>100</u>

5. Staff numbers and costs

The average monthly number of persons employed by the Company (including directors) during the year was as follows:

	Year ended 2020 No.	Year ended 2019 No.
Directors	2	2
Surveyors	337	296
Administrative	<u>182</u>	<u>182</u>
	<u>521</u>	<u>480</u>

The aggregate payroll costs of those persons was as follows:

	£000	£000
Wages and salaries	21,704	24,157
Social security costs	2,699	2,741
Other pension costs	934	987
	<u>25,337</u>	<u>27,885</u>

Wages and salaries are stated after crediting £2,433,000 (2019: £nil) of government grants received under the Coronavirus Job Retention Scheme (CJRS). Further details are provided in note 15.

Directors' emoluments:

	Year ended 2020 £000	Year ended 2019 £000
Remuneration as directors	302	379
Company contributions to defined contribution pension schemes	12	13
	<u>314</u>	<u>392</u>

The aggregate emoluments of the highest paid director were £188,582 (2019: £251,521). The amount paid to defined contribution pension plans on behalf of the highest paid director was £7,500 (2019: £7,882).

There are not considered to be further key management personnel other than the Directors of the Company noted above.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

6. Tax expense	Year ended 2020 £000	Year ended 2019 £000
a) Analysis of expense in the year at 19% (2019: 19%)		
Current tax expense		
Total current tax at 19% (2019: 19%)	1,964	3,489
Adjustment for prior years	-	(19)
Total current tax	<u>1,964</u>	<u>3,470</u>
Origination and reversal of temporary differences	80	(80)
Effects of changes in tax rates	(23)	-
Adjustment for prior years	4	20
Total deferred tax	<u>61</u>	<u>(60)</u>
Tax expense	<u>2,025</u>	<u>3,410</u>

b) Factors affecting current tax expense in the year

The tax assessed in the Statement of Comprehensive Income is higher (2019: higher) than the standard UK corporation tax rate due to the following factors:

Profit before tax	10,302	17,906
Tax on profit at UK standard rate of 19% (2019: 19%)	1,957	3,402
Effects of:		
Expenses not deductible for tax purposes	87	1
Adjustments in respect of prior years	4	(2)
Other adjustments	(23)	9
Tax expense	<u>2,025</u>	<u>3,410</u>

7. Property, plant and equipment

	Fixtures and fittings £000	Motor Vehicles £000	Office Equipment £000	Total £000
Cost				
At 1 January 2020	144	3,018	350	3,512
Additions	2	191	-	193
Disposals	(19)	(424)	(350)	(793)
At 31 December 2020	<u>127</u>	<u>2,785</u>	<u>-</u>	<u>2,912</u>
Accumulated depreciation and impairment				
At 1 January 2020	43	1,887	350	2,280
Depreciation charge for the year	26	307	-	333
Disposals	(19)	(318)	(350)	(687)
At 31 December 2020	<u>50</u>	<u>1,876</u>	<u>-</u>	<u>1,926</u>
Carrying amounts				
At 1 January 2020	101	1,131	-	1,232
At 31 December 2020	<u>77</u>	<u>909</u>	<u>-</u>	<u>986</u>

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

7. Property, plant and equipment (continued)

	Fixtures and fittings £000	Motor Vehicles £000	Office Equipment £000	Total £000
Cost				
At 1 January 2019	19	3,180	350	3,549
Additions	125	140	-	265
Disposals	-	(302)	-	(302)
At 31 December 2019	144	3,018	350	3,512
Accumulated depreciation and impairment				
At 1 January 2019	17	1,726	349	2,092
Depreciation charge for the year	26	372	1	399
Disposals	-	(211)	-	(211)
At 31 December 2019	43	1,887	350	2,280
Carrying amounts				
At 1 January 2019	2	1,454	1	1,457
At 31 December 2019	101	1,131	-	1,232

8. Intangible assets

	Goodwill £000	Computer Software £000	Customer contracts and relationships £000	Total £000
Cost				
At 1 January 2020	20,000	-	2,176	22,176
Arising on acquisition	450	-	-	450
At 31 December 2020	20,450	-	2,176	22,626
Amortisation and impairment losses				
At 1 January 2020	-	-	1,552	1,552
Amortisation charge for the year	-	-	362	362
At 31 December 2020	-	-	1,914	1,914
Carrying amounts				
At 1 January 2020	20,000	-	624	20,624
At 31 December 2020	20,450	-	262	20,712
Cost				
At 1 January 2019	20,000	-	2,176	22,176
At 31 December 2019	20,000	-	2,176	22,176
Amortisation and impairment losses				
At 1 January 2019	-	-	1,181	1,181
Amortisation charge for the year	-	-	371	371
At 31 December 2019	-	-	1,552	1,552
Carrying amounts				
At 1 January 2019	20,000	-	995	20,995
At 31 December 2019	20,000	-	624	20,624

All amortisation charges in the year have been charged through operating expenses.

Goodwill acquired in a business combination is allocated at acquisition to the individual cash generating units (CGU's) that are expected to benefit from that business combination. The only CGU is the Survey & Valuation Business. The recoverable amount of the CGU is determined from value in use calculations.

There was no impairment charge during the year. The recoverable amounts of goodwill and brands are determined from value-in-use calculations for the CGU's identified above.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

8. Intangible assets (continued)

Key assumptions

The calculation of value-in-use is most sensitive to the following assumptions:

- Forecast cash flows
- Long term growth rate
- Discount rates

Forecast cash flows reflect how management believe the business will perform over the short term five year period and are used to calculate the value-in-use of the CGUs. The Company prepares cash-flow forecasts on the assumption that the CGU's are held for long-term investment, and are derived from the most recent financial budgets for the next five years, which take into account the risks inherent in the business.

The growth rate reflects how management believe the business will perform over the long term, and extrapolate cash flows for subsequent years based on a long-term growth rate of 2.5% (2019: 2.5%).

Discount rates reflect management's estimate of the post-tax Weighted Average Cost of Capital (WACC) of the Company and this is the benchmark used by management to assess operating performance and to evaluate future acquisition proposals. The pre-tax discount rate was 13.55% (2019: 10.00%).

Sensitivities

Management has undertaken sensitivity analyses to determine the effect of changes in assumptions on the 2020 impairment review. The key assumptions driving the carrying values are the discount rate applied to the cash flow forecasts and the growth rates within the cash flow forecast. It would require a significant decline in performance to trigger an impairment. To test the sensitivity the discount rate was increased, for increases up to 50% the CGUs carrying values would still exceed the asset value. The sensitivity to the long term growth rate was also decreased, for decreases up to 100% the CGUs carrying values would still exceed the asset value. For the five year cash flows growth rate decreases up to 70% basis points, the carrying value would still exceed the asset value.

9. Deferred tax

	Year ended 2020 £000	Year ended 2019 £000
The movement on the deferred tax asset is as shown below:		
At 1 January	199	139
Adjustment in respect of prior years	(4)	(20)
Credited to income statement	(57)	80
At 31 December	138	199

Deferred tax assets are attributable to the following items:

	Asset/ (liability) £000	(Charged)/ credited to income £000
2020		
Capital allowances	137	(5)
Intangible assets	(91)	58
Provisions	92	4
	138	57
2019		
Capital allowances	133	18
Intangible assets	(29)	32
Provisions	96	11
	200	61

The UK Government announced on 3 March 2021 its intention to increase the UK rate of corporation tax to 25% from 19% from 1 April 2023. As this rate was not substantively enacted at the year end, deferred tax has been calculated based on the prevailing rate of 19%. The maximum impact of the new 25% rate on the deferred tax asset would be an increase of £44k.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

10. Trade and other receivables

	Year ended 2020 £000	Year ended 2019 £000
Trade receivables	6,069	6,457
Prepayments and accrued income	706	644
Amounts due from ultimate parent undertaking	601	630
Amounts due from group companies	20	60
Bad debt provision	(6)	(7)
	<u>7,390</u>	<u>7,784</u>

The ageing of trade receivables (which all arose in the UK) at the year-end was:

	2020 £000 Gross	2020 £000 Impairment	2019 £000 Gross	2019 £000 Impairment
Not overdue	5,944	-	6,326	-
Overdue 0 – 30 days	101	-	119	-
Overdue 31 – 120 days	18	-	12	(7)
Overdue 120 days plus	6	(6)	-	-
	<u>6,069</u>	<u>(6)</u>	<u>6,457</u>	<u>(7)</u>

The movement in the allowance for impairment in respect of trade receivables during the year was:

	Year ended 2020 £000	Year ended 2019 £000
At 1 January	(7)	(3)
Provision made during the year	(34)	(18)
Receivables written off during the year	13	1
Provision no longer required	22	13
At 31 December	<u>(6)</u>	<u>(7)</u>

The Company does not require collateral in respect of trade and other receivables. Management believes that the unimpaired amounts that are overdue are still collectible in full, based on historical payment behaviour and analysis of customer credit risk.

11. Trade and other payables

	Year ended 2020 £000	Year ended 2019 £000
Due within one year		
Trade payables	570	1,037
Accruals	4,753	5,026
Other payables	2,349	1,854
Amounts owed to parent undertaking	1,226	720
Amounts owed to other group undertakings	47	75
	<u>8,945</u>	<u>8,712</u>
Due after more than one year		
Other payables	<u>356</u>	<u>389</u>

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

12. Provisions

	Year ended 2020 £000	Year ended 2019 £000
Professional Indemnity Claims		
At 1 January	3,955	3,707
Provisions utilised during the year	(120)	(430)
New provisions made during the year	531	678
Provisions released during the year	(297)	-
At 31 December	4,069	3,955
Due within one year or less	2,844	2,730
Due after more than one year	1,225	1,225
	4,069	3,955

Provision is made for professional indemnity claims and potential claims that arise during the normal course of business. The provision is based upon the expected level of future professional indemnity claims relating to services provided by the Company as well as ongoing current claims. The provision includes valuation and defect claims. It is not possible to estimate the timing of payment of all claims and therefore a proportion of the provision has been classified as non-current. Although it is expected a significant proportion of the provision will be settled within the next 2 years some may take longer to settle entirely.

Valuation claims

The value provided on each valuation claim is the estimated exposure net of any Professional Indemnity insurance cover. To assess the level of future claims, analysis is performed on the number of preliminary notifications expected to turn into future claims, and on historical claim trends to forecast the number of future claims where a notification is yet to be received. Historical data on claims success frequency and value is also used to estimate the size of the liability. The provision will be utilised as individual claims are settled and the settlement amount may vary from the amount provided depending on the outcome of each claim. It is not possible to estimate the timing of payment of all claims and therefore a proportion of the provision has been classified as non-current.

Defect claims

The Company also provides for defect claims where it is found that a property has a defect subsequent to the survey being performed and the Company expects to incur a liability. In some cases, the survey may not have identified the defect and this leads to claims being brought against the Company. The value provided for each claim is the expected value of said claim, net of any Professional Indemnity insurance cover. To assess the level of future claims, analysis is performed on the number of surveys that lead to future claims and the average level of payments made. This data is then used to form an expectation of the number of claims that will be raised based on the number of surveys performed by the Company.

13. Share capital

	Year ended 2020 £000	Year ended 2019 £000
Allotted, called up and fully paid		
100 (2019: 100) £1 Ordinary shares	-	-

The Company has 1,000 authorised shares.

Management of capital

Capital is considered to be the audited retained earnings and ordinary share capital in issue.

	Year ended 2020 £000	Year ended 2019 £000
Capital		
Ordinary shares	-	-
Retained earnings	23,009	22,232
	23,009	22,232

The Company's objectives when managing capital are:

- to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders;
- to provide an adequate return to shareholders by pricing products and services commensurate with the level of risk; and
- the capital position is reported to the Board regularly. The capital position is also given due consideration when corporate plans are prepared.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

14. Related party transactions

The Company has related party relationships within the Skipton Group as detailed below. All such transactions are priced on an arm's-length basis.

	Ultimate parent undertaking £000	2020 Immediate Parent undertaking £000	Other group companies £000	Ultimate parent undertaking £000	2019 Immediate Parent undertaking £000	Other group companies £000
a) Net interest						
Interest receivable	-	88	-	-	100	-
Total	<u>-</u>	<u>88</u>	<u>-</u>	<u>-</u>	<u>100</u>	<u>-</u>
b) Sales of goods and services						
Commission receivable	6,656	-	1,174	8,663	-	1,589
Total	<u>6,656</u>	<u>-</u>	<u>1,174</u>	<u>8,663</u>	<u>-</u>	<u>1,589</u>
c) Purchase of goods and services						
Commissions payable	-	-	-	-	-	-
Administration charges	-	(1,383)	(319)	-	(1,617)	-
Total	<u>-</u>	<u>(1,383)</u>	<u>(319)</u>	<u>-</u>	<u>(1,617)</u>	<u>-</u>
d) Outstanding balances						
Receivables from related parties	601	-	20	630	-	60
Payables to related parties	-	(1,226)	47	-	(720)	(75)
Total	<u>601</u>	<u>(1,226)</u>	<u>67</u>	<u>630</u>	<u>(720)</u>	<u>(15)</u>

There are no provisions in respect of goods and services to Related Parties, either at 31 December 2020 or at 31 December 2019. All transactions are dealt with on normal credit terms. Included in cash and cash equivalents is £4,410,000 (2019: £4,700,000) of cash held on deposit with the parent undertaking, Connells Limited.

15. Government grants

	Year ended 2020 £000	Year ended 2019 £000
At 1 January	-	-
Received during the year	(2,433)	-
Released to the income statement	2,433	-
At 31 December	<u>-</u>	<u>-</u>

Government grants have been received relating to government Coronavirus Job Retention Scheme, included within employee benefit expenses in note 5. During the year the Company also deferred its Q2 VAT payments of £1,600,000, but this was paid before the year end.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

16. Financial instruments

Financial risks

A financial instrument is a contract that gives rise to a financial asset of one entity and a financial liability of another entity.

The principal financial risks to which the Company is exposed are liquidity risk, market risk and credit risk, these are monitored on a regular basis by management. Each of these is considered below.

Liquidity risk

Liquidity risk is the risk that the Company is not able to meet its financial obligations as they fall due or can do so only at excessive cost.

The Company's liquidity policy is to maintain sufficient liquid resources to cover imbalances and fluctuations in funding, to maintain solvency of the Company and to enable the Company to meet its financial obligations as they fall due. This is achieved through maintaining a prudent level of liquid assets and through rigorous management control of the growth of the business.

The following are contractual maturities of financial liabilities, including interest payments and excluding the impact of netting agreements:

2020	Carrying amount £000	Contractual cash flows £000	In not more than three months £000	In more than 3 months but not less than 1 year £000	In more than one year but not more than 5 years £000	In more than 5 years £000
Trade and other payables	8,028	8,028	7,672	-	356	-
Amounts owing to parent company	1,226	1,226	1,226	-	-	-
Amounts owing to group companies	47	47	47	-	-	-
Total	9,301	9,301	8,945	-	356	-
2019	Carrying amount £000	Contractual cash flows £000	In not more than three months £000	In more than 3 months but not less than 1 year £000	In more than one year but not more than 5 years £000	In more than 5 years £000
Trade and other payables	8,306	8,306	7,813	-	493	-
Amounts owing to parent company	720	720	720	-	-	-
Amounts owing to group companies	75	75	75	-	-	-
Total	9,101	9,101	8,608	-	493	-

There are no differences between the fair values of financial assets and liabilities and their carrying amounts showing in the Statement of Financial Position.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises two types of risk: interest rate risk and currency risk.

Currency risk

The Company is not exposed to any currency risk as all transactions are denominated in Sterling.

Interest rate risk

The Company has no interest bearing liabilities, and the Company monitors this exposure on a continuous basis.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

16. Financial instruments *(continued)*

Credit risk

Credit risk is the risk of financial loss to the Company if a customer fails to meet its contractual obligations, and arises principally from the Company's receivables from customers. For maximum credit exposure see note 10. Management carefully manages its exposure to credit risk.

The Company's financial assets at the year end were as follows:

	Year ended 2020 £000	Year ended 2019 £000
Cash and cash equivalents	7,175	7,187
Trade receivables	6,069	6,457
Amounts due from group companies	621	690
	<u>13,865</u>	<u>14,334</u>

As stated in note 10, trade and other receivables are current assets and are expected to convert to cash over the next twelve months.

There are no significant concentrations of credit risk within the Company. The Company is exposed to credit risk from sales. It is Company policy to assess the credit risk of major new customers before entering contracts. The majority of the commercial customers and the major lenders are large financial institutions and as such the credit risk is not significant. The maximum credit risk exposure relating to financial assets is represented by the carrying value as at the balance sheet date. The following table presents a breakdown of the gross trade receivables between the three main types of customer:

	Year ended 2020 £000	Year ended 2019 £000
Individual customers	3	5
UK mortgage lenders	6,019	6,328
Other commercial customers	47	124
	<u>6,069</u>	<u>6,457</u>

The cash and cash equivalents consist only of bank balances, held with an institution with an A+ credit rating.

The Company uses an allowance matrix to measure the expected credit losses (ECLs) of trade receivables, which comprise a large number of small balances. Loss rates are based on actual credit loss experience over the previous year, and adjusted for the Company's view of current economic conditions over the expected lives of the receivables. However given the low levels of impairment loss experience, the ECL allowance is very small.

Capital management

The Board's policy is to maintain a strong capital base so as to maintain creditor and market confidence and to sustain future development of the business. The Board monitors the return on capital and level of dividends to the ordinary shareholder.

There were no changes in the Company's approach to capital management during the year. The Company is not subject to externally imposed capital requirements.

17. Capital commitments

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

	Year ended 2020 £000	Year ended 2019 £000
Motor vehicles	-	-
Fixtures and fittings	-	24
At 31 December	<u>-</u>	<u>24</u>

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

18. Pensions

Defined contribution schemes

The Company operates a defined contribution pension scheme, the assets of which are held separately from those of the Company, in independently administered funds. The amount charged to the Income Statement in respect of the defined contribution schemes is the contribution payable in the year and amounted to £933,809 (2019: £987,000). There were no outstanding or prepaid contributions at either the beginning or end of the financial year.

19. Acquisition

On 15 January 2020, the Company completed the purchase of the trade of Miller Metcalfe Surveyors Ltd for a consideration of £450,000. The acquisition supports the Company's ongoing expansion plans and further strengthens the Company's customer service capabilities.

The full amount of the consideration was recognised as Goodwill as no assets or liabilities were acquired.

From the date of acquisition to 31 December 2020, the amount the business contributed to the Company's income was £2,396,000 and profit before tax was £607,000.

20. Ultimate parent undertaking

The Company is a wholly owned subsidiary of Connells Limited. The ultimate parent undertaking is Skipton Building Society, which is registered in the United Kingdom. The largest group in which the results are consolidated is that headed by Skipton Building Society. The smallest group in which the results are consolidated is that headed by Connells Limited, and the consolidated accounts of that company are available to the public and can be obtained from:

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