MORGAN SINDALL GROUP

Annual Report 2021

Contents

We are a leading UK construction and regeneration group. Our purpose is inspiring talent to deliver excellence in the built environment.

In 2021, we delivered record results, maintained our strong balance sheet and grew our order book.

We were independently recognised as a leader for our environmental, social and governance performance.

2021 in numbers

Trading ahead of pre-pandemic levels while social and environmental value increased

Strong operating performance

£3,213m
Revenue
(2020: £3,034m) (2019: £3,0.71m)

£131.3m
Operating profit (adjusted*)
(2020: £68.5m) (2019: £93.1m)

£129.8m
Operating profit
(2020: £65.4m) (2019: £91.3m)

£8,614m
Secured workload
(2020: £8,290m) (2019: £7,593m)

Financial strength and shareholder returns

£127.7m
Profit before tax (adjusted*)
(2020: £63.9m) (2019: £90.4m)

£126.2m
Profit before tax
(2020: £60.8m) (2019: £88.6m)

£291.4m
Average daily net cash
(2020: £180.7m) (2019: £108.9m)

92.0p
Total dividend per share
(2020: 61.0p) (2019: 21.0p)

Social and environmental value

807
Apprentices and sponsorships for graduates and national vocational and professional qualifications
(2020: 761) (2019: 823)

35%
Reduction in Scope 1 and 2 carbon emissions from 2019 baseline[1]
(2020: 10%)

71p
Monetary value of social activities per £1 of project spend on 112 projects measured
(2020[2]: 68p on 83 projects measured)

AAA
MSCI[3] environmental, social and governance rating
(2020: AA) (2019: AA)

* See note 2 to the consolidated financial statements for alternative performance measure definitions and reconciliations.

1 Scope 1 emissions are direct from owned or controlled sources and Scope 2 are generated from purchased energy. Scope 1 and 2 emissions in 2019 totalled 20,903 tonnes CO_2e.

2 Data collection started in 2020.

3 MSCI provides decision support tools and services for the global investment community.

The Group at a glance

Transforming the built environment

We are a group of five specialist and complementary divisions, delivering construction and regeneration across the UK for the public, commercial and regulated sectors.

Our c6,900 talented people work to create positive change in the built environment and long-term value for our stakeholders.

Construction

Construction & Infrastructure

£1,520m revenue

Morgan Sindall Construction & Infrastructure provides construction services in the education, healthcare, commercial, defence, industrial, leisure and retail markets and delivers infrastructure projects in the highways, rail, energy, water and nuclear markets. Infrastructure also includes the BakerHicks design activities based in the UK and Switzerland.

morgansindallconstruction.com
morgansindallinfrastructure.com
bakerhicks.com

Fit Out

£795m revenue

Overbury specialises in fit out and refurbishment in commercial, central and local government offices, as well as further education.

Morgan Lovell provides office interior design and build services direct to occupiers.

overbury.com
morganlovell.co.uk

Property Services

£134m revenue

Morgan Sindall Property Services provides responsive repairs and planned maintenance for social housing and the wider public sector.

morgansindallpropertyservices.com

Regeneration

Partnership Housing

£572m revenue

Lovell Partnerships works 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, design and build house contracting and planned maintenance and refurbishment.

lovell.co.uk

Urban Regeneration

£203m revenue

Muse Developments focuses on transforming the urban landscape through partnership working and the development of multi-phase sites and mixed-use regeneration.

musedevelopments.com

Chief Executive's statement

A record year

"2021 has been an excellent year for the Group. We had four profit upgrades and delivered a record set of results 42% above our last peak in 2019. Our achievement reflects the high quality of our operations and the huge talent and commitment of our people, who I thank."

John Morgan
Chief Executive

Group revenue increased by 6% to £3,213m (2020: £3,034m), adjusted operating profit by 92% to £131.3m (2020: £68.5m) and operating margin by 180bps to 4.1% (2020: 2.3%). Trading was substantially ahead of 2019 levels before the pandemic (see page 1). We maintained a strong balance sheet and increased our average daily net cash by £110.7m.

We continued to win work throughout 2021: the Group's secured workload at the year end was £8,614m, up 4% on the prior year (2020: £8,290m). Over 46% (£3,975m) of this workload is secured for 2024 onwards.

Our strong performance was due in part to our relentless focus over many years on being selective with contracts, managing risks, delivering excellent projects, developing long-term relationships and improving our quality of earnings. This focus supports our strategy of organic growth and will continue.

Just as vital to our success is our strong culture, driven by our Core Values (see page 6). We view all our stakeholders as customers, and we put our customers first. We make sure we have people with the right skills and qualities to help us succeed both now and in the future, and we motivate them to deliver exceptional projects and customer service. We encourage our people to challenge the status quo and think differently so that the business can keep improving. Our decentralised approach empowers our teams and makes the business agile and resilient.

Being a responsible business has always been part of our culture. Our Core Values were established four decades ago and our strategy to deliver social and environmental value was formalised in 2008 with the introduction of our five Total Commitments to: protecting people; developing people; improving the environment; working together with our supply chain; and enhancing communities.

We have made good progress towards delivering our objective of net zero carbon by 2030, which we announced last year, and are pursuing Group-wide and divisional initiatives to reduce carbon on our projects and offset responsibly. I am very proud that, for the second year running, we achieved an 'A' score from CDP[1] for leadership on climate change, one of only 206 companies worldwide to do so. Also for the second year running, CDP awarded us Supplier Engagement Leader status in recognition of our work with our supply chain to reduce carbon.

In 2021, we analysed the results of a diversity and inclusion survey that we conducted towards the end of 2020 across all employees in the Group. We value diversity of thought, perspective and experience to help us challenge the status quo and drive innovation, and we want everyone in the Group to feel included and valued. The survey results indicated that we need to do more to address inclusivity. As a result, our divisions have introduced action plans relevant to their business needs but broadly aligned to changing behaviours, improving recruitment and retention processes, promoting construction as a career and supporting diversity and inclusion in our supply chain.

See pages 16 to 38 for our performance in the year against our targets across all our Total Commitments.

1 CDP is a not-for-profit charity that runs the global disclosure system for investors, companies, cities, states and regions to manage their environmental impacts.

"Our underlying commitment to maintaining a strong balance sheet and substantial net cash position continues to allow us to make the right long-term decisions for the business."

Divisional performance

Construction & Infrastructure delivered a very strong set of results, with operating profit increasing 63% to £58.1m (2020: £35.7m) despite revenue reducing 7% to £1,520m (2020: £1,637m), while its margin was up 160bps to 3.8% (2020: 2.2%). Fit Out delivered another excellent performance, with revenue, profit and margin all increasing. Revenue grew 14% to £795m (2020: £700m), while profit increased by 38% to £44.2m (2020: £32.1m) at a margin of 5.6% (2020: 4.6%). Property Services performed well, delivering improved results on 2020 as volumes recovered from the disruption caused by Covid in 2020. Revenue increased by 20% to £134m (2020: £112m) and operating profit[1] increased 310% to £4.1m (2020: £1.0m). Its operating margin[1] of 3.1% represented an increase of 220bps (2020: 0.9%).

In regeneration, Partnership Housing had a very strong year, making significant strategic and operational progress. Revenue was up 21% to £572m (2020[2]: £474m) while operating profit increased substantially, more than doubling to £33.2m, an increase of 108% (2020[2]: £16.0m). Its operating margin increased to 5.8%, up from 3.4%[2] and its return on capital was up to 21% in the year. Urban Regeneration made good progress with its long-term regeneration schemes and delivered an operating profit of £12.1m in the year, an increase of 38% (2020[2]: £8.8m). The division's return on capital employed in the year increased to 13%.

1 Before intangible amortisation of £1.5m (2020: £1.2m).

2 Restated. All 2020 and 2019 comparative numbers, including order book and capital employed, have been restated to include the impact of the revised reporting segments.

Across the Group, inflationary pressures and supply issues have been a feature of most of the year, although the impact has been managed in most cases at a divisional and local level without disruption to operations. General cost inflation also placed some project budgets under pressure, particularly in Construction & Infrastructure. Inflationary pressures are expected to continue into much of 2022, however we expect that the impact will continue to be minimised by focused sourcing through our supply chain and ongoing operational efficiency.

Upgraded divisional targets

To provide a framework for our next stage of organic growth, we have upgraded our medium-term targets for the divisions. The targets, effective from 24 February 2022, relate to revenue, operating margin, return on capital employed and/or profit and are set out in the operating review on pages 41 to 54.

Capital allocation framework

In 2021, we introduced a formalised capital allocation framework for the Group:

- maintaining balance sheet strength to enhance our competitive advantage and win future work;
- ensuring downside protection – maintaining a 'buffer' in the event of a macroeconomic downturn;
- maximising investment in the current business to drive growth, specifically investment in regeneration activities; and
- maintaining an attractive dividend policy: we expect dividend cover to be in the range of 2.0 times to 2.5 times on an annual basis, effective from 2021 onwards.

Our capital allocation framework is designed to balance the needs of all our stakeholders while enhancing the Group's market competitiveness and capabilities and maintaining our financial strength.

Our underlying commitment to maintaining a strong balance sheet and substantial net cash position continues to allow us to make the right long-term decisions for the business.

Dividend

The final dividend has increased by 55% to 62.0p per share (2020: 40.0p), resulting in a total dividend for the year of 92.0p per share (2020: 61.0p), an increase of 51%. This represents dividend cover of 2.46 times and reflects our result for the year, our strong balance sheet and the Board's confidence in the future prospects of the Group.

Outlook for 2022

The Group is in its best shape ever. We continue to make strong progress in our chosen markets, with the size and quality of our secured workload increasing in the year. This leaves us well-positioned for the future and on track to deliver a result for 2022 which is slightly above our previous expectations.

John Morgan
Chief Executive

Business model

A balanced business delivering organic growth and long-term value

We are geared towards the UK's increasing demand for affordable housing, urban regeneration and investment in public, commercial and social infrastructure.

We are diversified across key growth sectors. We use cash from our construction activities to invest in long-term regeneration schemes, which in turn provide opportunities for construction. Our decentralised approach allows our specialist divisions to respond quickly to the needs of their markets, while collaboration between them enables us to deliver large, complex schemes.

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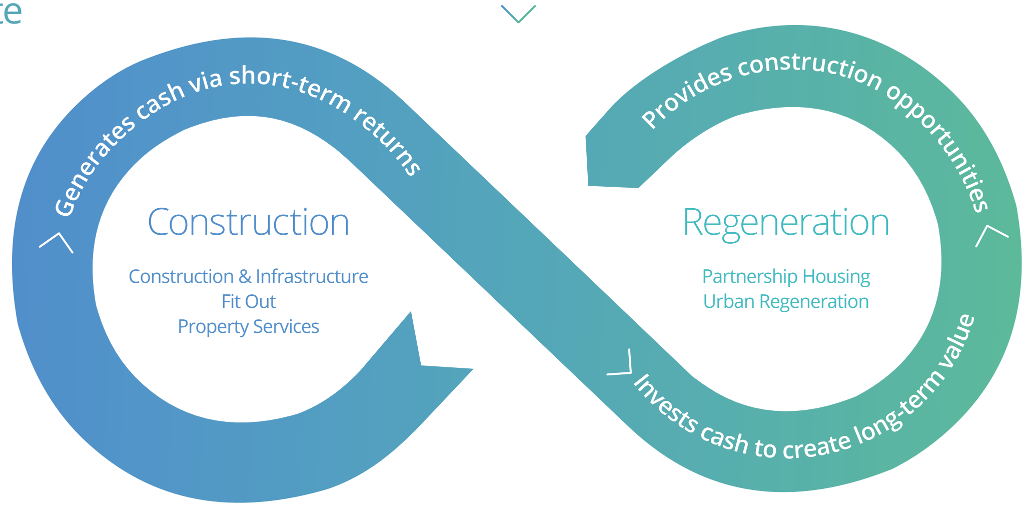
Our valued resources

Talented people	Long-term client relationships	Technology for innovation, efficiency, safety and security
High standards of health, safety and wellbeing	National network of supply chain partners	Strong balance sheet and a significant net cash balance
	Ability to build sustainably	

How we operate



Value we create

Transforming the built environment Sectors contributing over 5% of Group revenue:

Community/other public services (**21%**), Commercial (**21%**), Education (**15%**), Mixed-tenure housing (**12%**), Social housing (**12%**), Transport (**11%**)

Excellence in delivery:
88% Perfect Delivery; 5 Star homes

Helping our people succeed:
535 promoted internally

Social value:
71p per £1 spent on 112 projects

Environmental value:
37% carbon reduction since 2019

Shareholder returns:
92.0p total dividend per share
226.0p adjusted* earnings per share

Purpose, strategy and values

Our purpose is inspiring talent to deliver excellence in the built environment

We believe we can make a difference by:

- recruiting people with diverse perspectives, who are passionate about what they do and willing to challenge the status quo;
- creating places of exceptional quality where people can live, work, learn and play;
- pursuing our strategy to reach net zero carbon emissions by 2030;
- adding value to the communities where we work by procuring locally, providing job and training opportunities, and supporting local charities; and
- being guided by our Core Values in everything we do.

Our strategy is to pursue organic growth by focusing on our well-established core strengths of construction and regeneration

Our strategic priorities

The following priorities are essential to achieving our purpose and strategy:

Increase our quality of earnings, through project selectivity, operational efficiency and investment.

Secure long-term workstreams, through client and partner relationships, repeat business, negotiated work, frameworks, long-term contracts and regeneration schemes.

Excel in project delivery for our clients, partners and the end users of our buildings.

Maintain a strong balance sheet and significant levels of cash at all times.

Consistently deliver on our five Total Commitments to being a responsible business:

- Protecting people
- Developing people
- Improving the environment
- Working together with our supply chain
- Enhancing communities

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Our Core Values drive our culture

The customer comes first

Talented people are key to our success

We must challenge the status quo

Consistent achievement is key to our future

We operate a decentralised philosophy

Our Core Values, established in the 1980s and embedded across our divisions, drive the culture and behaviours that help us implement our strategy and achieve our purpose. They are interlinked: for example, our decentralised approach empowers our people to challenge the status quo, achieve their potential and consistently deliver an exceptional service for our stakeholders, all of whom we regard as our customers.

See pages 105 to 109 for detail on how our Board monitors our culture and how our culture supports our strategic priorities.

Key performance indicators

Making good progress across our strategic priorities

Strategic priorities	Key performance indicators	Performance	Medium-term targets and drivers	Performance commentary	Priorities going forward
Increase our quality of earnings	Construction operating margin	19: 2.8% 20: 1.2% **21: 3.2%**	**2.5%-3.0%**	Our construction divisions exceeded their medium-term targets, with the exception of Property Services which continued to be impacted by Covid. In regeneration, there was significant profit growth, particularly in Partnership Housing. Partnership Housing's return on capital employed was above the medium-term target, while Urban Regeneration's performance was impacted by a specific non-cash impairment in a joint venture. See pages 41 to 54 for detailed commentary on each division's performance.	We will continue to operate in our target sectors and optimise the substantial potential for growth in our regeneration markets. We will also maintain our commitment to contract selectivity and operational discipline. To provide a framework for future growth, we have upgraded our divisional medium-term targets which will apply from 24 February 2022 (see pages 44 to 54).
	Infrastructure operating margin	19: 1.8% 20: 2.8% **21: 4.4%**	**3.5%**		
	Fit Out operating profit	19: £36.9m 20: £32.1m **21: £44.2m**	**c£35m**		
	Property Services operating profit	19: £4.3m 20: £1.0m **21: £4.1m**	**£10m**		
	Partnership Housing return on average capital employed[1] (last 12 months)	20[2]: 10% **21: 21%**	**Over 20%**		
	Partnership Housing operating margin	19[2]: 4.2% 20[2]: 3.4% **21: 5.8%**	**6%**		
	Urban Regeneration return on capital employed[3] (average last three years)	**21: 12%**	**Up towards 20%**		
Secure long-term workstreams	Long-term secured workload	19: £7,593m 20: £8,290m **21: £8,614m**	We monitor our secured workload for the current year and beyond as well as the pipeline of projects for which we are 'preferred bidder' (where we have been verbally awarded the project but there is no formal contract or letter of intent in place).	We have a high-quality secured workload with 46% secured for 2024 or later. Of the total, 64% is with public sector or regulated industry clients and, within the Construction & Infrastructure division, over 90% has been secured through frameworks and partnerships.	We will continue to focus on developing and maintaining long-term partnerships, working in sectors where we have a proven track record.

Key performance indicators continued

Strategic priorities	Key performance indicators	Performance	Medium-term targets and drivers	Performance commentary	Priorities going forward
Excel in project delivery	Projects achieving 'Perfect Delivery'[4]	19 85% 20 90% **21 88%**	Each division is responsible for driving Perfect Delivery on its projects. Results are regularly monitored, reported, and reviewed at divisional board level.	Perfect Delivery performance dipped slightly compared to 2020, impacted by the significant increase in the volume of work undertaken in 2021 while operating within new site procedures introduced at the start of the pandemic. Partnership Housing was awarded a 5 Star rating[5] in 2021, based on feedback from homebuyers including how satisfied they are with the finish of their new properties, the service received and whether they would recommend Lovell Partnerships to a friend.	The divisions will continue to drive excellence by focusing on quality of delivery and customer experience.
Maintain strong balance sheet and significant levels of cash	Average daily net cash	19 £108.9m 20 £180.7m **21 £291.4m**	We have not set a target for this key performance indicator, but our cash levels are monitored on a daily basis.	Our average daily net cash increased significantly compared to the prior year.	We will continue to maintain a strong balance sheet and significant levels of cash, which enable us to make the right decisions for the business.
Protecting people	Lost time incident rate (LTIR)[6]	19 0.23 20 0.23 **21 0.29**	▪ 0.21[7]	For detailed commentary on our performance in delivering against our Total Commitments, together with the actions we are taking and our priorities going forward, see pages 16 to 38.	
Developing people	Number of training days[8] per year per employee	19 4.1 days 20 2.3 days **21 3.5 days**	▪ 5 days[7]		

Key performance indicators continued

Strategy	Key performance indicators	Performance	Targets	Performance commentary
Improving the environment	Reduction in Scope 1[9] and 2[10] carbon emissions from 2019 baseline of 20,903 tonnes CO_2e	20 10% 21 **35%**	30%[7]	For detailed commentary on our performance in delivering against our Total Commitments, together with the actions we are taking and our priorities going forward, see pages 16 to 38.
	Reduction in operational Scope 3[11] carbon emissions from 2019 baseline of 6,339 tonnes CO_2e	20 37% 21 **45%**	30%[7]	
	Supply chain (by spend) providing their own[12] carbon data	21[13] **£589m**	£500m[7]	
	Reduction in carbon emissions from the Group's vehicle fleet from 2019 baseline of 12,078 tonnes CO_2e	20 25% 21 **39%**	30%[7]	
Working with our supply chain	Percentage of total invoices paid within 30 days	20[14] 64.8% 21 **67.8%**	70%[7]	
Enhancing communities	Average monetary value of social activities delivered per £1 spent	20 68p per £1 spent on 83 projects measured[14] 21 **71p** per £1 spent on 112 projects measured	85p per £1 spent[7]	

1 Return on average capital employed = adjusted operating profit divided by average capital employed.

2 Restated. All Partnership Housing 2020 and 2019 comparative numbers, including order book and capital employed, have been restated to include the impact of the revised reporting segments.

3 Return on average capital employed = (adjusted operating profit plus interest from joint ventures) divided by average capital employed.

4 Perfect Delivery status is granted to Construction, Infrastructure and Fit Out projects that meet all four client service criteria specified by the division.

5 The 5 Star homes rating is the highest awarded by the Home Builders Federation based on its National New Homes Customer Satisfaction Survey. The 2021 rating was awarded in March 2021.

6 Number of lost time incidents x 100,000 divided by the number of hours worked. Lost time incidents are those resulting in absence from work for a minimum of one working day, excluding the day the incident incurred.

7 Total Commitment targets are for 2025 – see pages 17 to 35 for 2030 Total Commitment targets and horizon ambitions.

8 A training day is a minimum of six hours of training.

9 Direct emissions from sources owned or controlled by the Group.

10 Indirect emissions generated from purchased energy.

11 All indirect emissions not included in Scope 2 that occur in limited categories of our value chain as measured by the Toitū 'carbonreduce' scheme (see page 80).

12 Wider Scope 3 emissions outside of operational Scope 3. See Appendix for further information.

13 Data collection started in 2021.

14 Data collection started in 2020.

Note: 2019 baseline numbers have been applied as 2020 performance was impacted by the Covid pandemic.

Section 172 statement

Making informed decisions

The objective of the Board and Group management team, when taking strategic, financial and operational decisions, is to promote the success of the Group for the benefit of all our stakeholders, in line with their directors' duties as set out in Section 172 of the Companies Act 2006.

How our directors perform their duties

- The Board sets the Group's purpose, values and strategy and ensures they are aligned with our culture.

See pages 102 to 109.

- The Board reviews the Group's strategy and conducts strategy reviews with each division, to ensure the long-term sustainable success of the business with good outcomes for all our stakeholders.

See pages 102 to 103.

- The Board sets the Group's risk appetite, assesses the principal risks that could impact on our strategy, performance and stakeholders, and reviews the mitigations we have in place.

See pages 55 to 70.

- The Board engages directly or indirectly with our stakeholders, monitors the impact of our activities on multiple stakeholder groups, and takes their interests and priorities into account when making decisions.

See pages 11 to 15 and 102 to 104.

- The health, safety and environment (HSE) committee monitors our performance against our five Total Commitments to our stakeholders and wider society and reports to the Board on its activities.

See pages 123 to 125.

- Directors and senior managers undertake training on directors' duties and other relevant topics.

See pages 98 and 100.

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Our stakeholders

Understanding our stakeholders' priorities

The quality of our relationships with our key stakeholders is essential for the success and growth of our business.

We believe the best approach to developing and nurturing long-term relationships is to base them on trust, by maintaining regular dialogue, listening attentively, being open and transparent when giving information, and working collaboratively.

As well as ongoing dialogue with our stakeholders, we conduct a biennial 'materiality' survey with our employees and a selection of clients, suppliers, trade associations and investors about how they would prioritise a range of responsible business ambitions. The latest materiality survey took place in 2020 and the results aligned with our Total Commitments and our continued support of the UN Sustainable Development Goals (see our 2020 responsible business data sheet on our website for more information).

Group and Board engagement

The Board engages directly with our people, shareholders, analysts and funders, while our divisions manage their relationships with their people, supply chain, clients and partners and local communities. In addition, our chief executive regularly visits all parts of the business, including offices and sites, and speaks with employees, clients and subcontractors.

The executive directors supervise the divisions' engagement with their stakeholders principally through monthly board meetings with divisional senior management teams and monthly meetings with the Group management team. The executive directors then update the Board as appropriate.

See pages 102 to 104 for how the Board considered the needs and concerns of our stakeholders when making key decisions.

Our people

Who they are and why they're important to us

We directly employ around 6,900 people across the Group. They possess a broad range of expertise to support our clients through all stages of the project life cycle, from development to design, build, maintenance and refurbishment. Thirty-seven per cent of our people have been with the Group for six years or more, accumulating technical experience and an in-depth understanding of our values which they can convey to newer recruits.

Their key priorities

A fair, respectful and safe environment to work in; regard for their health and wellbeing; investment in their personal development and career progression; support for flexible working; and an open and honest culture that promotes diversity and inclusion.

How the Group engages with them

New starters receive formal induction programmes which include introducing them to our Core Values and Total Commitments. Personal development conversations are held throughout their careers with us. Our divisions update their people on their business goals, market conditions and operational performance using newsletters, emails and briefing sessions. Internal digital communications channels include intranets, social media platforms such as Yammer, Microsoft Teams and our staff benefits portals. Employees are invited to submit ideas via 'innovation portals' for ways of improving the business or on specific topics such as carbon reduction.

Annual conferences held by the divisions give senior managers and functional heads the chance to communicate key messages, and our employees the opportunity to share ideas and experiences with colleagues from different roles and regions. Group-wide and divisional forums focusing on issues such as employee concerns and health and safety meet regularly to exchange views and propose changes.

The divisions conduct regular employee surveys, analyse the feedback, and communicate the results to their employees together with the actions to be undertaken in response. Infrastructure, BakerHicks, Fit Out and Property Services conducted employee surveys in 2021, with the remaining divisions scheduling surveys in 2022. Construction engaged with employees via its newly launched People Forum which met three times in 2021, while Partnership Housing received feedback through focus groups and an Investors in People (IIP) survey (following which the division achieved a Gold IIP accreditation).

How the Board engages with them

The executive directors keep everyone informed of the Group's financial performance through newsletters, emails and videos released to coincide with the full-year and half-year results announcements and will make people aware of any external factors and significant events that might have an impact. We offer a Group-wide Savings-Related Share Option Plan (SAYE scheme) that also helps to keep people engaged with the Group's performance and progress. Over the years, we have seen a progressive increase in participation in the scheme, with a 41% take-up in 2021.

Our stakeholders: our people continued

With regard to provision 5 in the UK Corporate Governance Code 2018, we believe the most effective way for the Board to engage with our people is by distributing the responsibility equally between all non-executive directors. As part of their annual strategy reviews with the divisions (see page 103), the non-executive directors engage in project site visits and meet with and are presented to by employees. Sites visited by the non-executive directors in 2021 included: the Civic Centre Opportunities Site, St Albans; the Barking Riverside Extension, Essex; Coutts, London; Man Group, London; The Mill, Canton, Wales; Lewisham Gateway, London; and New Bailey, Salford. Presentations from employees covered topics such as sustainability, diversity and inclusion, training and development, and updates on operations in specific market sectors. In addition to the strategy reviews, the non-executive directors attended employee conferences held by the divisions as well as the Group's annual two-day management conference.

Several of the divisional managing directors presented to the health, safety and environment committee in 2021 on safety and wider responsible business activities within their respective divisions (see page 124 for more detail).

How we responded to feedback in 2021

The following are examples of actions taken as a result of feedback from employees:

- Construction retained its periodical, all-employee survey rather than replacing it with more frequent 'pulse surveys'; enhanced its family-friendly policies and paternity and maternity pay; and is testing an agile working approach with site-based colleagues on a project in St Albans.
- Infrastructure launched an 'adaptable working' approach; set up a new process that enables employees to have regular career conversations with their line managers; relaunched its employee forum, 'Let's talk', appealing for underrepresented groups, such as those who are paid weekly, to join; and is training line managers to support colleagues struggling with their wellbeing (see pages 19 and 21).
- BakerHicks began a project to revitalise job descriptions and create clear career pathways; and held a variety of social and team activities.
- Fit Out supported each of its teams in developing bespoke action plans in response to its all-employee survey, with common themes including agreeing a communications strategy and annual programme of events to promote wellbeing.
- Property Services enhanced the content and frequency of its communications; and is implementing ideas received through its new 'Diversity of Thought' innovation portal.
- Partnership Housing focused on ensuring each of its regions has a succession plan and 'people plan' in place.
- Urban Regeneration launched its volunteering policy and a 'buddy' programme to support new employees joining the business.

The Board was provided with a report at its December meeting on the divisions' engagement with their employees during the year. The report was discussed in detail, and the non-executive directors shared feedback from their meetings with employees held during their divisional strategy reviews. The Board noted that, overall, the levels of employee engagement by the divisions were good and that the employees with whom the non-executives met were open, positive and engaged, with the Group's culture coming across strongly and clearly.

The Board considered the effectiveness of its selected process for employee engagement and concluded that it should be continued, as it enables the non-executive directors to meet a broad range of employees from multiple divisions and engage with them in a variety of ways (at meetings and presentations or on site, and without management present).

The Board was also presented with a report on the findings of the Group's diversity and inclusion survey circulated in 2020 and how the divisions were responding. See pages 23 and 24 for information on the survey results and the divisions' responses.

Read more on how we develop our people and protect their health and wellbeing (pages 17 to 24).

Divisional strategy reviews by non-executive directors in 2021

Non-executive director	Division
Jen Tippin	Construction[1] and Property Services
Tracey Killen	Infrastructure[1]
Michael Findlay	BakerHicks[1]
David Lowden	Fit Out
Tracey Killen, David Lowden	Partnership Housing
Malcolm Cooper	Urban Regeneration

1 Construction, Infrastructure and BakerHicks constitute the Construction & Infrastructure division.

Our stakeholders: continued

Supply chain

Who they are and why they're important to us

We have a national network of carefully selected suppliers and subcontractors, ranging from large organisations to small local firms, who are aligned to our values and standards of delivery. They are strategically important to the Group as we depend on them to deliver our projects efficiently and to a high standard. We view our supply chain as long-term partners and work together to overcome challenges, innovate and improve.

Their key priorities

Work opportunities, including for smaller businesses; prompt payment; a safe working environment; fair treatment and respect.

How the Group engages with them

When appointing suppliers, we put in place clearly written contracts setting out roles and responsibilities along with agreed payment terms. Our divisions monitor their subcontractors' performance against set criteria and give constructive feedback. We hold a Group networking event for suppliers every two to three years and provide learning and support through the Supply Chain Sustainability School (see page 32). Our divisions communicate our culture, values and standards to subcontractors on our sites, and health, safety and wellbeing and modern slavery are discussed in site induction programmes and toolbox talks.

- Fit Out has launched a new supply chain portal which enables subcontractors to monitor how they are performing on live projects (see page 32).

Our Group director of sustainability and procurement assists in managing relationships with those subcontractors and suppliers who are common to more than one division.

How the Board is kept informed

The executive directors receive information on supply chain relationships at the monthly divisional board meetings. The Board regularly reviews the divisions' payment practices and health and safety statistics, together with the Group's strategies and actions to prevent modern slavery.

In 2021, two non-executive directors, Malcolm Cooper and Kathy Quashie, attended our suppliers' event, 'Meeting the Challenge', held at Silverstone (see page 33).

How we responded to feedback in 2021

We have continued to invest in changes to our payment systems and cash commitment across all our divisions to shorten payment terms for our suppliers. We have enhanced our relationship management with the Morgan Sindall Supply Chain Family members (see page 32) to further promote collaboration, for example sharing our pipeline of opportunities and organising 'lunch and learn' sessions. In addition, we have focused on providing our supply chain with carbon education, for example at the Meeting the Challenge event, the theme of which was addressing climate change.

Read more on how we work together with our supply chain (pages 32 to 34).

Clients and partners

Who they are and why they're important to us

We work with clients from the public, commercial and regulated sectors (such as water and transport) and our partners include local authorities, landowners and housing associations. In addition, we consider the needs of the 'end users': those who will occupy or use the spaces and infrastructure we create.

Long-term relationships with our clients and partners are key to our organic growth strategy. Where possible, we aim to secure work through partnerships, frameworks or repeat business.

Their key priorities

Excellent customer service and experience; technical knowledge and expertise; perfect delivery of projects on time and to budget; a positive, solutions-driven approach; to work with a responsible and collaborative partner; help in achieving sustainability, including lower carbon output, in their projects and buildings; solvency, cash resources and a strong balance sheet.

How we engage with them

Our divisions work to maintain long-term relationships with their clients. Our national coverage and decentralised approach enable us to engage with clients and partners at a local level and tailor our services as needed. Regular dialogue helps us to understand their priorities and expectations and ensure that we have the skills and capabilities for their projects.

"The development provided us with the best of both worlds – we were able to buy a house that was surrounded by idyllic countryside, while still being in close proximity to all the amenities and transport links we could ever need. Not only did we fall in love with the property's location, but we also enjoyed being able to design our interiors exactly how we wanted them with the help of Lovell's Inspirations team… Having a fresh, blank canvas that we could personalise and make our own before we even moved into the property made the buying process so easy."

Toni Robinson and family,
Partnership Housing home purchasers, Weston Woods, Cheshire

Our stakeholders: clients and partners continued

Our clients' priorities and objectives are discussed with them at the start of each project and we keep them informed throughout, making sure the process is as smooth as possible. We focus on the customer experience, for example Property Services launched a new 'customer charter' in 2021 that covers topics such as listening, respect and understanding when engaging with residents. We ask for clients' feedback on project completion via questionnaires and interviews. The results are shared with the project teams and analysed by the divisional managing directors to drive further improvements. We monitor levels of satisfaction using metrics appropriate to the divisions (see page 8).

How the Board is kept informed

The divisional managing directors keep the executive directors informed about client relationships at their monthly meetings, who then inform the Board of any matters of interest such as key contracts or new relationships.

How we responded to feedback in 2021

- On Construction's project for Wintringham primary school (see page 42), the staff at the school were heavily involved in the design, their input ensuring they had a space that met their needs.
- Fit Out has appointed dedicated social value champions on key projects in response to its clients' increased focus on social value. The division has also introduced 'client cornerstone' training for its operational teams, giving them the skills to gain a deep understanding from each client of their key objectives on their project.
- In response to demand to speed up the construction of new homes, Partnership Housing has been using a new and faster modern method of construction. The i-House is a prefabricated, watertight shell that provides the 'inner skin' of a house ready for follow-on trades such as bricklaying and plumbing. The material used in the i-House has an excellent thermal performance which reduces heat loss.
- Feedback requested from homebuyers by Urban Regeneration resulted in the division: bringing its customer service function back in-house; developing an improved customer relationship management system that digitally generates paperwork within minutes of a home demonstration or handover; and quality enhancements to various customer touchpoints. The changes were launched on Urban Regeneration's Lock 17 project at Hale Wharf in Tottenham (see page 53) and resulted in a 29% increase (to 81%) in customer satisfaction for dealing with defects and a 14% increase (to 86%) in satisfaction with the condition of the property, compared to the previous 12-month rolling period.
- Urban Regeneration pioneered a virtual sign-off process for the design concepts on its project for the Marriott's Moxy Hotel and Residence Inn in Slough (see page 42) in order to increase speed and efficiency, as the Marriott team were based in multiple locations. The interior designer used CGIs and materials samples to produce design concepts online, and once these were approved, full-scale mock-ups of bedrooms and bathrooms were built. These were the first Marriott hotels in the world to be signed off in this way. The attention to detail in achieving the highest-possible standards through early sign-offs and sample rooms were quoted as the best the Marriott had ever seen.

"Salford City Council has been working with Muse in delivering the long-term aspirations of the Salford Central Plan. It's been amazing what we've achieved to date. I think it's even more exciting as we move on to the major regeneration that will be happening further down, at Crescent Salford, in taking environmentally conscious development to the next level and in truly leading from the front in tackling and contributing to resolving the climate crisis. This project [the Eden building] is going to strengthen Salford City Council's green credentials for a number of reasons – not only is it going to feature Europe's largest living façade, it is also going to operate solely on renewable energy. This is really going to make it Salford's most iconic and pioneering and net zero scheme in the city to-date."

Sarah Ashurst,
Head of Investment and Programmes, Salford City Council

See page 27 for more information about the Eden building.

Local communities

Who they are and why they're important to us

We view local communities as well as wider society as a key stakeholder group. We can generate social and economic value for local communities through our construction and regeneration schemes, while society more broadly benefits from our focus on reducing carbon emissions and pollution and increasing biodiversity. Local residents are a potential source of recruits and of suppliers with local knowledge.

"We can see the new Glebe Farm School being built from our house, we are literally next door. It's a big development but Morgan Sindall are a delight to have as neighbours. My son, Ben, has special needs and Morgan Sindall has opened up the site to him, allowing him to come in and interview the workers on site to track how the school is being built for his blog. They've built my little boy up so much. Everyone on the site knows his name, every morning the guy who lets the lorries in waves to him. They've given him a little Morgan Sindall uniform of his own – it hangs up in his room. It's given everyone in the community an insight into the development from the inside."

Rhian Evans,
resident near the Construction's Glebe Farm School site in Milton Keynes

Our stakeholders: local communities continued

Their key priorities

Enhancements to the local surroundings and quality of life that meet local needs and requirements; buildings and developments that are sustainable; a considerate constructor that causes minimal disruption; and investment in the local economy through job creation and use of local suppliers and services.

How we engage with them

Our divisions have dedicated teams responsible for liaising with local residents and communities before and during our projects. Where appropriate, they engage members of the local community in consultation on the project's development; for example, Urban Regeneration arranges planning consultations on all its projects and phases. We partner with schools to introduce construction as a career option. Project teams in all divisions get involved in local charities and events.

How the Board is kept informed

The Board is kept informed of the divisions' community initiatives and any issues through the executive directors' board meetings with the divisions.

How we responded to feedback in 2021

No material issues arose in the year.

Read more about how we engage with and create value for local communities (pages 35 to 38).

Shareholders

Who they are and why they're important to us

Our shareholders provide the Group with funds for investment in long-term growth. We value the stewardship of our institutional investors and the views of all shareholders and analysts.

Their key priorities

Robust financial and risk management; good governance; effective communication of strategy; share price growth; sound capital investment decisions; a progressive dividend policy; a responsible business that creates social and environmental value; and a remuneration policy that promotes sustainable growth.

How the Board engages with them

We keep all our shareholders updated via regulatory newswires, our website and our annual report. Our chair, senior independent director and committee chairs are available to meet with shareholders at any time.

The executive directors communicate regularly with institutional shareholders and analysts covering the Company's activities through private meetings and presentations following our results announcements. Any written feedback we receive following these interactions is distributed to all members of the Board. In addition, feedback and reports from Institutional Shareholder Services, the Investment Association and Pensions & Investment Research Consultants are circulated to the Board ahead of our AGM each year.

In 2021, our half-year results presentation was delivered as an in-person event, with a live video communications link that enabled investors and analysts unable to attend in person to take part in the live Q&A discussion.

All shareholders are invited to attend our AGM and, outside of any pandemic-related restrictions, we encourage everyone to attend for the opportunity to meet and put questions to the directors. In 2021, a closed AGM was held as public gatherings were prohibited by the UK government. Shareholders were notified of this in advance and encouraged to appoint the chair as proxy with their voting instructions. The chair invited shareholders to email any questions which would then be published on our website in advance of the meeting (no questions were submitted). Our 2022 AGM is intended to be held as a live event on Thursday, 5 May (see the Notice of Meeting on our website for more detail).

The executive directors engaged with investors during the year via email and meetings. Topics covered included general information about the Group, 2020 full-year and 2021 half-year results, areas for growth, cash management and capital allocation.

How we responded to feedback in 2021

All resolutions were passed at our 2021 AGM. The feedback received following the full- and half-year results was very positive, and additionally we received some very encouraging feedback on our environmental performance.

The Group's new capital allocation framework and dividend policy were received positively by investors.

During the year, our remuneration committee consulted with our largest shareholders on two proposed amendments to our executive remuneration. See pages 126 to 128 for detail on the feedback received and the committee's decision-making process.

Funders and performance bond issuers

Who they are and why they're important to us

Our funders and performance bond issuers provide us with access to competitively priced banking, bonding and debt facilities. See page 39 for further information on the Group's financing facilities.

Their key priorities

Robust management of working capital and risk.

How we engage with them and keep the Board informed

The Group's finance director and director of tax and treasury meet with our banks and performance bond issuers following the full-year and half-year results to update them on the Group's performance and discuss any expectations they may have. These meetings help us to maintain sufficient loan and bond facilities. Our finance director reports to the Board on any updates relating to the Group's funding requirements.

How we responded to feedback in 2021

No issues or concerns arose during meetings with our funders and performance bond issuers during the year that required consideration by the Board.

Our Total Commitments are a strategic priority for the Group

Delivering on our Commitments supports our purpose and helps us achieve sustainable growth.

Our Total Commitments focus on the needs of our stakeholders and the environment and provide the framework for our responsible business strategy.

Being a responsible business means conducting our activities ethically, sensitively and without causing harm to people or the environment. It is about delivering social value and environmental protection and enhancement that remain long after we have completed our work.

What social value means for us

Social value is about supporting our people, our supply chain and the wider communities in which we work. Our Total Commitments help us create social value by keeping people who come into contact with our work safe and well, developing our employees and subcontractors through education and training, building long-term supplier relationships and enhancing local communities by providing training and work opportunities and supporting local community projects. The promotion of diversity and inclusion is important to us, both within our own organisation and through the creation of opportunities for people who live locally to our projects, including young people and those who have been out of work for a long time.

Through our core activities of construction and regeneration, we provide new, improved and efficient housing, workplaces, health and education facilities and national infrastructure. Where we can, we procure locally and from smaller businesses, which together with our contribution towards upskilling people from local communities, helps to create economic resilience. In addition, the regeneration of towns and cities attracts people and businesses to the area and stimulates local economies.

In 2021, we delivered 71p of social value per £1 spent through 112 projects, as measured by our social value bank; trained 650 of our Property Services engineers in domestic abuse awareness; and paid 67.8% of our suppliers' invoices within 30 days.

Improving the environment

We are a leader in our sector in addressing climate change and have been independently recognised as such. In 2021, we reduced our Scope 1, Scope 2 and operational Scope 3 carbon emissions by 37% against our 2019 baseline of 27,242 tonnes CO_2e and invested in creating nine new woodlands on the Blenheim Estate in Oxfordshire. We achieved an 'A' score for leadership on climate change from CDP[1] for the second year running, one of only 206 companies globally to attain this level. This is the sixth year our leadership in this area has been acknowledged by CDP. In addition, in January 2022, the Group was awarded 'AAA' under MSCI's[2] environmental, social and governance ratings, upgraded from 'AA'; and in February, we were awarded a Platinum 'Carbon Reduce' certificate from Toitū for having been measuring our emissions for over 10 years and maintaining our commitment to managing and reducing our emissions.

Our people are highly engaged in our commitment to achieving net zero carbon emissions by 2030 and contribute through their significant efforts to switch to low-carbon solutions, for example when selecting fuel, energy or materials.

1 CDP is a not-for-profit charity that runs the global disclosure system for investors, companies, cities, states and regions to manage their environmental impacts.
2 MSCI provides decision support tools and services for the global investment community.

Using targets to drive and track our performance

Our Total Commitments are driven by key performance indicators (KPIs) and clear targets. We regularly review our targets to ensure they are sufficiently challenging and fit for the future. Following a review in 2020, we updated our KPIs and targets and used them to measure our 2021 performance.

Our performance in the year against our 2025, 2030 and horizon targets is set out on pages 17 to 38.

Our performance against our full set of responsible business metrics is contained in our responsible business data sheet, on our website.

Our Total Commitments are aligned with the UN Sustainable Development Goals, the following six being those where we believe we can have the biggest impact:

Protecting people

2021 performance

0.29
lost time incident rate[1]

2025 target
0.21

2030 target
0.18

Horizon ambition
Zero incidents

1 Number of lost time incidents x 100,000 divided by the number of hours worked. Lost time incidents are those resulting in absence from work for a minimum of one working day, excluding the day the incident incurred.

We want to provide our employees and subcontractors with a safe and healthy work environment and support their physical and mental wellbeing. Our goal is that everyone who comes into contact with our activities, on or off site, goes home safe and well.

Health and safety

In 2021, the number of lost time incidents in the Group increased to 134 (2020: 108; 2019: 127). The number of RIDDOR[1] accidents rose to 44 in 2021 (2020: 28; 2019: 41) and our accident frequency rate rose to 0.09 (2020: 0.06; 2019: 0.08).

During the year, we continued to manage the challenges posed by Covid and the large number of changes to government guidance, ensuring we remained aligned to the Construction Leadership Council's site operating procedures. We were disappointed with our safety performance as we always endeavour to improve year on year. Our divisions responded to the drop in performance experienced early in 2021 by sharing learning and producing targeted improvement plans. As a result, we saw an improvement in performance during the second half of the year, when the number of RIDDOR accidents reduced by 37% and the number of lost time incidents by 19%.

1 The Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 2013.

A large number of our accidents in 2021 were caused by falls at the same level and being hit by falling or moving objects. To reduce these incidents, in addition to encouraging everyone to be more aware of the basic risks, we have applied principles of 'safe by design', where safety is considered throughout the design process so that safe behaviours become instinctive. We have also undertaken campaigns to prevent hand injuries and raise awareness of the need to tether tools and maintain tidy sites.

Action taken to prevent accidents

Outlined below are examples of steps taken by the divisions to increase awareness and promote safe behaviours.

- Construction: developed an animation, 'Introduction to 100% Safe' which is included as part of site registration; produced new visual safety standards and guidance; continued to deploy its 'observations tool' to identify trends and patterns; and developed new 'Behavioural Essentials' e-learning modules for its employees and supply chain including how to design a safe site set up.

  In response to an increased number of underground services strikes in late 2020 to early 2021, the division refreshed its standards and guidance and launched a national training campaign, and has since seen a reduction in such incidents.

- Infrastructure increased investment in its 'human factors' programme. Human factors is about taking into consideration, when planning a project, the tasks people are being asked to undertake, the environment in which they are working, and human and individual characteristics that influence behaviours at work. Effective planning can reduce the likelihood of accidents resulting from human error or interfaces between different trades. The programme uses models such as AWIC (Accessible, Workable, Intelligent, Correct), a guide that helps identify any potential for misunderstanding or error in a new procedure; and CSHEL (Culture, Software, Hardware, Environment, Live), a model that takes into account that a human being is rarely, if ever, the sole cause of an accident.

  In 2021, Infrastructure: increased its human factors training and awareness (40 human factor practitioners were trained in the year); applied its models to some of the division's more complex projects and specific risk areas such as reducing hand injuries; piloted a trade interface management tool; and introduced new tools to investigate incidents and prevent practical drift away from desired performance levels.

  To date, improvements have been identified in the collection and analysis of data, while the effect of the programme on the number of incidents will be monitored during 2022.

Responsible business strategy and performance: protecting people continued

- In addition to progressing its human factors programme, Infrastructure: produced and ran a high-impact 'Reducing the Risk' safety film in the year, showing actual and high potential incidents; held safety forums for project managers; and reviewed how it engages with subcontractors on safety.
- Fit Out launched a Safety Improvement Plan in 2021 for its employees and subcontractors. The Plan focuses on the division's key causes of accidents and high potential incidents: movement and storage of materials, housekeeping, management of floor voids and slips and trips. The launch was supported by a poster campaign with QR codes through which 'Toolbox Talks' could be downloaded. Fit Out's high potential incidents reduced from 13 in 2020 to three in 2021.
- Fit Out has also created a new role within its safety team of 'supply chain health and safety manager, tasked with ensuring that all suppliers comply with the division's site standards. The new manager works with the project teams to understand their priorities and produce a plan of action; this includes site inspections and audits, engagement with the directors of supplier companies where necessary, and effecting change through improvement planning, coaching support and training. Progress will be regularly monitored and reviewed.
- Partnership Housing launched 'L7 Minimum Standards' in the year to address seven areas that most commonly lead to serious injury, ill health or damage, such as excavations, housekeeping, occupational health and scaffolding.

In their 2021 strategy reviews with the divisions, the non-executive directors reviewed the divisions' performance against the objectives of the Group's health, safety and wellbeing framework which had been updated at the start of the year (see page 124 for details).

Action taken to protect occupational health

All divisions are now accredited to ISO 45001, the international standard for occupational health and safety that provides a framework to increase safety and enhance health and wellbeing at work. Our occupational health policies and standards cover all employees as well as subcontractors working on our projects.

During the year, we increased our occupational health surveillance with the end objective of eradicating incidents of hand-arm vibration and noise-induced hearing loss.

- Construction organised online events and blogs for its employees and supply chain covering topics such as hand-arm vibration management, dust management, skin care and summer working, manual handling and noise on site, and developed a series of 'Managers' Guides' for employees and suppliers to promote occupational health knowledge. With the support of a supplier, the division held seven project-based dust awareness sessions and trained 70 individuals in its supply chain in formal 'face fit testing' of dust masks.
- Infrastructure introduced £200 contributions for employees towards hearing tests and, if needed, hearing aids. The offer is extended to those who work in an operational environment, currently wear a hearing aid at work, or are referred by the division's occupational health partner.
- Fit Out has run project-specific initiatives, such as a challenge for engineering students to find solutions to reducing hand-arm vibration and hosting a seminar on noise reduction. The division also provided free health screenings to all employees.
- Partnership Housing ran a health surveillance programme in the year for its direct-employed labourers, including the following tests: hearing, vision, colour blindness, respiratory, dermatology, musculoskeletal, hand-arm vibration syndrome and blood pressure.

Keeping hands safe

Hand injuries accounted for a third of injuries within Infrastructure in 2021. These injuries are often caused by poor perception of risk, lack of concentration, or fatigue. To address this, the business conducted a 'Safe Hands' campaign which resulted in employees designing a pair of safety gloves printed with the message 'Don't be an Oucher!'. The gloves use the 'nudge' theory to remind people to keep their hands safe.

Physical and mental wellbeing

The pandemic has increased the challenges and importance of maintaining physical and mental wellbeing. We continue to offer our colleagues a range of benefits that include access for all employees to a digital GP service and an employee assistance programme that provides legal and counselling services. Sixty-one per cent of our employees are covered for private medical support and 81% for death-in-service benefits. Our divisions provide mental health first aid training and publish regular bulletins containing tips and guidance on wellbeing including links to national campaigns such as Mental Health Awareness Day. Financial worries can be a major source of stress, and, using a third-party specialist, we provide employees with an educational resource to help them manage their finances. In December 2021, we worked with the Financial Conduct Authority during its annual loan fee fraud campaign to raise awareness and protect our employees and subcontractors from becoming victims. A toolkit of materials, including posters, was shared across divisions whose subcontractors are statistically at higher risk of such fraud, including Construction, Property Services and Partnership Housing.

The following are examples of initiatives taken by the divisions in 2021 to promote physical and mental wellbeing:

- Construction launched: a 'Wellbeing Toolkit' displaying all employee benefits in one place; a 'Sleep School' app; and live webinars on topics such as work/life balance, alcohol use and exercise.
- Infrastructure: conducted a 'Wellbeing and Feeling Safe' survey and in response to the feedback ran new campaigns such as 'Healthy Heart'; provided advice on optimising conversations between employees and line managers (see page 21); and introduced 'Building better mental health' awareness training for line managers to help identify and support anyone struggling with wellbeing. Towards the end of the year, a follow-up survey indicated that 93% of respondents felt safe at work.
- BakerHicks organised social activities to keep people engaged and connected, such as its #BakerHicksinBloom sunflower and Photographer of the Year competitions, and physical activity challenges that promote health and wellbeing, such as Reach for the Skye and Virgin Pulse GO.
- Fit Out reviewed the performance of its 'BeWell' app and agreed goals and targets for mental health first aid and awareness training.
- Partnership Housing sponsored its employees to undertake 50-mile walks, swims, runs or cycles and collectively undertake 50 days of volunteering, to celebrate the 50th anniversary of its first partnership.
- Urban Regeneration held events such as 'lunch and learn' sessions, off-site team building activities, 'at-desk' de-stress massages, and photograph competitions. The division also increased mental health first aid training and the use and function of social spaces in its offices.

As more people are working from home more often, Construction, Infrastructure and Partnership Housing each developed 'adaptable working' policies, with toolkits and guidance to help employees and managers agree working arrangements that suit both the individual and the business.

Human rights

We fully support human rights and do not prevent or deter anyone who works for us from joining or taking part in a trade union. In 2021, we launched a new Group Code of Conduct stating our commitment to the UN Declaration on Human Rights and providing a framework for how we should act when engaging with our clients, colleagues and suppliers. The Code is rooted in our culture, being structured around our Core Values and Total Commitments. Every employee received a copy direct from our chief executive and was required to undertake an e-learning module to help embed the Code's principles. The Code was circulated to the members of our Supply Chain Family as we expect them to apply the same standards in their dealings with their clients, employees and suppliers.

Read more about our Code of Conduct on pages 81 and 82 and on page 100.

"Our Group Code of Conduct states our commitment to the UN Declaration on Human Rights."

Responsible business strategy and performance: protecting people continued

Preventing modern slavery

In late 2020, we took part in a modern slavery pilot study along with some of our peers, to develop a methodology for trying to identify the extent of modern slavery in the construction industry. An independent third party, &Wider, conducted an anonymous survey among subcontractors working on a number of projects (including nine of our own) about their working conditions.

Following the initial pilot survey, a number of issues with the survey process were identified such as that many of our projects are delivered to short programmes: the call cycles for the survey take place every six weeks and we may have different subcontractors working on our sites from one cycle to the next. We are staying in touch with &Wider as they continue to develop their survey for the construction industry, to monitor whether it becomes possible to apply the process on our larger projects.

During 2021, we undertook the following to manage our modern slavery risk:

- commenced the evaluation of our labour practices against the ELS BES 6002 Ethical Labour Standard;
- commenced our assessment for ISO 20400:2017 Responsible Procurement registration;
- included a section on modern slavery in our Code of Conduct e-learning module;
- were assisted by our labour desk, run by five specialist recruitment agencies, in better managing the risks of off-payroll working and in remaining compliant when recruiting contingent labour and temporary staff, by providing second and third verification of candidates. The agencies also ensured that we maintained scrutiny of payment and entitlements provided to workers hired through the labour desk;
- encouraged our divisions to use Sedex, an organisation that audits working conditions in supply chains, to review the labour practices of their material suppliers;
- prepared a guide for our site teams to help to identify signs of modern slavery and the questions they should ask if they suspect there may be an issue;
- clarified the support available for site teams should an incidence of modern slavery be suspected;
- liaised regularly with the Gangmasters and Labour Abuse Authority (GLAA);
- liaised with Safecall (our raising concerns helpline service provider) to ensure that their teams are able to detect if a call relates to a modern slavery issue, and with our site teams to ensure that our raising concerns posters are being displayed on all sites.

While no instances of modern slavery were raised internally or via our whistleblowing service, we assisted both the police and the GLAA with their inquiries into two separate allegations concerning right-to-work permissions and modern slavery. Each of these inquiries arose from isolated incidents in our supply chain and no wrongdoing was identified on our part.

Our 2021 modern slavery statement will be published in June 2022. Further details on our commitment to preventing modern slavery can be found on page 109 and in our 2020 modern slavery statement on our website.

Addressing domestic abuse

Property Services partnered with the Domestic Abuse Housing Alliance (DAHA) to develop the DAHA Contractors Accreditation by developing systems and processes for identifying people who may be at risk. The division became the first contractor to receive formal accreditation, evidencing how its frontline employees have been able to detect signs of domestic abuse when carrying out repairs. Property Services also provided business support and advice to the domestic abuse charity, Your Sanctuary, via the Pilotlight charity and social enterprise support scheme.

- In 2021, Property Services trained 650 employees in identifying signs of domestic abuse via 200 one-and-a-half-hour sessions. The division runs four training modules tailored for different roles.
- Infrastructure launched a domestic abuse policy and guidance in the year and engaged an Independent Domestic Violence Adviser (IDVA) to provide support to any employee who may need it. The division worked with the domestic abuse charity, Hestia, which helped source the IDVA. The support offered extends to all employees and also offers the facility to allow a manager to make an additional payment to an employee facing domestic abuse, to help them to leave the home.

Responsible business strategy and performance continued

Developing people

2021 performance

3.5
training days[1] per employee per year

2025 target
5 days

2030 target
6 days

Horizon ambition
7 days

1 A training day is a minimum of six hours of training.

We want an inclusive work environment where everyone has access to the knowledge, technology and services they need to achieve their personal ambitions, deliver the best outcomes for our clients and drive the business forward. We are working to increase our diversity and to ensure that no discrimination occurs, however unintentional it may be.

We recruit talented people and give them the resources they need to perform well. These include collaborative office environments, flexible working arrangements, and training and mentoring to help them increase their skills and knowledge. We promote internally where we can.

Training and career development

During the year we provided an average of 3.5 training days per employee (2020: 2.3 days) and sponsored 532 people completing national vocational and professional qualifications (2020: 540).

Our divisions work with industry bodies and initiatives to attract people into the industry. These include Women into Construction and the 5% Club, a national campaign to generate opportunities for graduates and apprentices.

The table below shows the percentage of Group employees making up the 5% Club.

	2021	2020
Apprentices	**231**	197
New graduates recruited	**61**	44
Sponsored students	**44**	24
Total structured trainees	**336**	265
Percentage of total employees[1]	**5%**	4.3%

1 Based on number of UK employees at 31 December.

We support our employees in progressing their careers through personal development plans, access to training courses that suit their needs and interests, mentoring and 'buddy' programmes. General skills training includes topics such as inclusive leadership, media and presentation skills and assertiveness.

The divisions use their intranets to provide access for their employees to a wide range of learning and development resources, with some divisions running online 'Academies'.

- In 2021, Infrastructure launched a new range of learning resources to help people boost their skills together with a suite of videos, workshops and guidance called 'It's my conversation' that aims to improve the quality and outcomes of conversations around development and careers between employees and their line managers.
- Partnership Housing launched seven new e-learning topics to its Academy, on topics such as safety and customer care.

We ensure that people are trained in new technical developments and software to keep their skills up to date and future-proofed. For example, in 2021 we enrolled 12 people from across the Group on an in-depth CISL (Cambridge Institute for Sustainability Leadership) carbon learning course run by Cambridge University. In addition:

- BakerHicks rolled out company-wide LinkedIn Learning in the year, a library of instructional videos to equip employees with the latest business, technology and creative skills.
- Partnership Housing trained 37 site managers and assistant site managers in Asta Powerproject to ensure they have the latest digital skills for programming and project management.

Responsible business strategy and performance: developing people continued

Employees identified within succession plans are given further support such as one-to-one business coaching and training in topics such as site manager development, management excellence, business leadership and organisational resilience. At Group level, we run an off-site leadership development programme aimed at providing participants with enhanced leadership and management skills. In 2021, two cohorts (20 people in total) took part in the programme, fewer than usual owing to social distancing rules in place and the importance of face-to-face interaction for this course. In 2022, four cohorts are scheduled to take part (around 54 people in total).

Leadership training run by the divisions in 2021 included the following:

- Construction developed a management and leadership behavioural framework and rolled it out to its entire senior management team of c80 people.
- Infrastructure introduced a 'Stepping up to Management and Leadership' programme, with 138 people taking part in the year.
- BakerHicks introduced a 'core competencies' programme offering employees training in modules such as 'emotional intelligence' or 'range of influence' to develop skills suited to the roles they aspire to.
- Fit Out launched a succession planning initiative, assisted by an external specialist agency, to examine what a leader in Fit Out looks like. Bespoke development plans will be produced for future leaders identified through the process. The division also ran an 'exceptional leadership' programme for selected employees.
- Property Services developed and expanded its 'people management training programme' and is now offering 11 different modules to line managers to improve their line management skills.
- Urban Regeneration ran one-to-one coaching sessions as part of individual career development and overall succession planning. The division has been Investors in People 'Gold' accredited for the past 10 years.

Investing in secure and innovative technology

We continue to invest in new technology to enable people to attain high standards while enjoying a better working experience. This includes data analytics and business intelligence as well as enhancements to business-specific operational, procurement, commercial and financial systems. In 2021, we invested £3.2m in technology and business innovation. We invested c£1m in transitioning more systems to new cloud-based solutions for improved efficiency, reliability and accessibility. Our divisions invested c£2m in digital, commercial, client engagement and responsible business solutions – these included Property Services' goldeni software (see page 47) and Construction & Infrastructure's CarboniCa carbon measurement tool (see page 27) along with BIM (Building Information Modelling), risk management and project management tools. We have also continued to invest in the latest security technology and strategies (see page 68 for information on how we manage cyber security risk).

"I left school at 16 and joined Overbury as a management trainee. I started on site, labouring, and looking back it was a fantastic place to gain an understanding of our sites, our teams and our product. I was sponsored through college, and then through university, where I studied quantity surveying. For me, challenging the status quo is such a precious Core Value of Morgan Sindall – it empowers you, gives you a voice, and a complete forum to be yourself. Overbury enabled me to experience working within different positions across the business. The trust the Group puts into people who live by the Core Values shows the level of opportunity within Overbury and the Morgan Sindall Group. If you can prove you can do it, it's there for you."

Olley Watson,
Managing Director, Overbury's London-based corporate partnerships and education team

Responsible business strategy and performance: developing people continued

Diversity and inclusion

Diversity of thought, perspectives and experience is vital to our long-term success, helping us to challenge the status quo and drive innovation. We consider diversity in the broadest sense, including age, gender, ethnicity, culture, socio-economic background, disability and sexuality.

Over the past decade, we have introduced a number of initiatives across the Group, such as flexible working and family-friendly working practices, to attract more diverse employees. We employ people from a variety of different socio-economic and educational backgrounds and when recruiting, we consider the future potential of each individual candidate as well as their past education and experience.

Our chief executive has made each division responsible for devising its own diversity and inclusion strategy.

We give full and fair consideration to job applications made by disabled people, commit to making reasonable adjustments to their roles and responsibilities, and offer the training and support they need to give them the same opportunities for career progression as our other employees.

- In 2021, Property Services reviewed the support it provides employees with a disability or health condition that affects their role and committed to introducing an informal 'check in' to ensure that people's changing needs continue to be met.
- We offer work experience, training and apprenticeships in local communities where we work; undergraduate sponsorships and graduate training programmes; and returnships for people who have had a career break; all of which bring new and varied talent into the business. We also engage with local schools and colleges to encourage young people to pursue careers in construction. See pages 35 and 36 for more detail on how we offer training and work opportunities to local residents of our projects.

Our diversity statistics

The table below shows the gender split throughout the Group.

	2021		2020	
	Men	**Women**	Men	Women
Board[1]	**5**	**3**	5	2
Senior management (Group management team)[1]	**10**	**1**	10	1
Group management team direct reports[2]	**60**	**21**	54	10
All employees	**4,904**	**1,605**	4,668	1,496
Number of UK employees at 31 December, on which data is based	**6,509**		6,164	

1 John Morgan and Steve Crummett included in both Board and senior management numbers.
2 Excludes John Morgan's direct reports as these are all members of the Group management team.

Our representation of people from a Black, Asian, or minority ethnic (BAME) background has remained unchanged from 2020 at 15%, while our female representation has increased slightly from 24% to 25% (see table below left for the numbers) and we recognise that we have further work to do to ensure that we have a fully diverse and inclusive business. Our key challenge is to improve diversity in our senior management teams and their succession pipelines. The percentage of women who are direct reports of the Group management team has increased to 21% (2020: 14%). See pages 112 and 113 for more information on Board and Group management team diversity.

Our gender pay gap

Our 2021 median gender pay gap based on our April data is 29.6% (2020: 33.6% at April and 29.1% at November[1]). The gap remains high and reflects a higher number of senior male employees in the Group. We recognise that we need to make further progress in helping more of our female employees progress into senior positions. Women make up 11% (2020: 10%) of the upper pay quartile compared to 39% (2020: 40%) in the lower quartile. Although initiatives have been introduced across the Group to attract more women into the industry at junior levels, and to develop and retain women who already work across the Group, it will take time for their careers to be developed into more senior roles and therefore to reduce our pay gap. See our gender pay gap report on our website for more information.

1 Our 2020 data was impacted by a number of people across the Group agreeing to reduce their salaries for a two- or three-month period either due to the impact of Covid and the number of people on furlough in April 2020. We therefore re-ran our data in November 2020 when the payroll data was not distorted by Covid-related measures.

The outcomes of our 2020 diversity and inclusion survey

In 2020, we surveyed all our employees to understand how they perceive the Group in respect of diversity and inclusion.

In 2021, the divisions communicated the key findings to their employees together with the strategies and actions they would be implementing as a result. The results of the survey varied between divisions, but overall indicated that we need to do more work to address our inclusivity.

In response to the feedback, the divisions set up employee working groups and developed strategic plans to drive diversity and improve people's sense of inclusion. While the actions being undertaken vary according to the specific business needs of each division, they are broadly aligned to the following themes: changing behaviours; recruitment and retention processes; promoting construction as a career; and supporting diversity and inclusion in our supply chain. Examples of actions being undertaken are summarised on the following page.

Responsible business strategy and performance: developing people continued

Changing behaviours to become more inclusive

- Training and awareness programmes to improve people's understanding of inclusion and how their behaviour can affect others, including unconscious bias training and diversity and inclusion leadership courses for managers.
- The launch of a campaign to increase awareness of invisible diversity such as mental health.
- Programmes such as 'Allyship' and 'Active Bystander' to encourage support for colleagues from minority groups.
- The formation of a diversity and inclusion committee to gain feedback from employees and explore areas for improvement.

Recruitment and retention

- Review of existing policies and processes.
- Improving wording on careers websites and in job advertisements to remove barriers and ensure the language is accessible to everyone.
- Increasing diversity in graduate programmes (Fit Out's intake in 2021 were 50% women and 15% from a BAME background); BakerHicks' graduate scheme welcomed six women (55% of its graduate intake) into the business in 2021, more than in any single prior year.
- New work/life balance initiatives such as Urban Regeneration's parental transition programme to support male and female colleagues in their journey to becoming parents and its offer of paid leave for employees undergoing IVF treatment or to support their partners through the process.
- Monitoring employees' careers to ensure everyone is being given the opportunity to succeed.

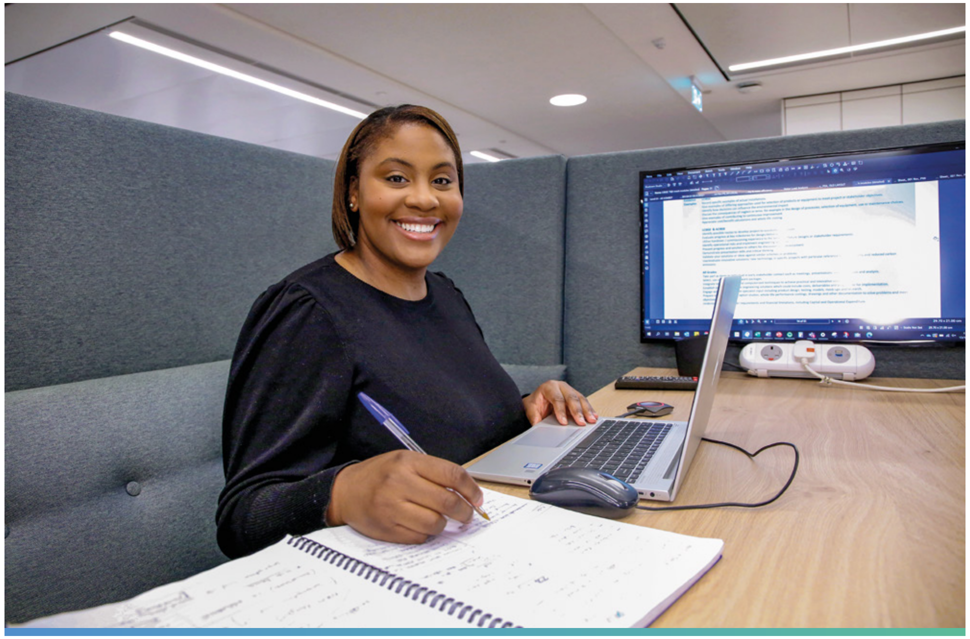
Promoting construction as a career

- Promoting the industry and contributing to social mobility in local communities through outreach programmes for groups such as schools, charities, long-term unemployed, ex-offenders and veterans.
- Construction developed partnerships in the year with Working Families/Working Mums, BPIC (Black Professionals in Construction) and Build Force UK.
- Property Services has partnered with the Women's Trade Network to attract women into trade roles; piloted the 'Phoenix' programme with Westminster Council to offer training opportunities to domestic abuse survivors; and joined the Housing Diversity Network mentoring scheme through which it has enrolled five employees to date.
- Partnership Housing works with Women in Construction and BAME in Property to help increase diversity in candidate pools.

Supporting diversity and inclusion in our supply chain

- Working with our supply chain to help improve their recruitment practices and raise awareness of the importance of inclusive management.
- Promoting procurement from smaller businesses led by minority groups.

A full report on the divisions' plans and activities in response to the diversity and inclusion survey was presented to the Board for consideration at its December meeting and, following a detailed discussion, the Board agreed to continue to review the Group's progress on diversity and inclusion in 2022.



"I did an architectural engineering degree. It looks at the systems within a building and I found myself being drawn to the building services modules, so when I had finished my degree, I worked at an engineering consultancy and that was it. I went on to study for a Masters in environmental design and engineering at UCL. Moving to BakerHicks was a strategic move. I'd had some mechanical experience but I knew I wanted to build on that. I've been taken aback by how easy it is to speak to someone senior at BakerHicks. I've had knowledge shared – that genuine, easy, free-flowing communication and contact with people who are at a much more senior level than you. That's so unusual. I feel I can build a whole career here… you have people who you can talk to, to help you understand. That's very pivotal for someone in their career, to help you learn and progress. You can carry it with you and also pay it forward. One day, I'd like to be able to give someone the same amount of time and care that I received."

Sochima Onyenemelu,
Mechanical Engineer, BakerHicks

Improving the environment

2021 performance

35% reduction in Scope 1 and 2 carbon emissions from 2019 baseline[1]	**45%** reduction in operational Scope 3 carbon emissions from 2019 baseline[2]	**£589m** supply chain by spend providing their own carbon data[3]	**39%** reduction in carbon emissions from the Group's vehicle fleet from 2019 baseline[4]
2025 target: 30%	2025 target: 30%	2025 target: £500m	2025 target: 30%
2030 target: 60%	2030 target: 60%	2030 target: £1bn	2030 target: 60%
Horizon ambition: Zero emissions	Horizon ambition: Zero emissions	Horizon ambition: 100% of supply chain spend by spend	Horizon ambition: 100% of vehicle fleet fully electric

1 Scope 1 is direct emissions from sources owned or controlled by the Group and Scope 2 is indirect emissions generated from purchased energy. The 2019 baseline was 20,903 tonnes CO_2e. A 2019 baseline has been applied as 2020 performance was impacted by Covid.
2 All indirect emissions not included in Scope 2 that occur in limited categories of our value chain as measured by the Toitū 'carbonreduce' scheme (see page 80). The 2019 baseline was 6,339 tonnes CO_2e.
3 Wider Scope 3 emissions outside of operational Scope 3. See Appendix for further information.
4 The 2019 baseline was 12,078 tonnes CO_2e.

We are acting to combat climate change by working towards net zero carbon emissions by 2030 and reducing the level of carbon in the projects and buildings we deliver. We are focusing on increasing biodiversity and reducing air pollution, water usage and waste.

In 2021, we achieved a 73% reduction in our total carbon emissions since we began measuring them in 2010, and a 37% reduction from our 2019 baseline. Our carbon intensity (tonnes CO_2e emissions per £m revenue) reduced to 5.3 from 7.5 in 2020. By reducing our gas oil consumption, we saved 3,217 tonnes of carbon in our Scope 1 emissions. We replaced 598,200 litres of gas oil with hydrotreated vegetable oil (HVO), an initiative led by our Partnership Housing division for which HVO constitutes 50% of its bulk fuel purchases.

While we have been successful in reducing our Scope 1, Scope 2 and operational Scope 3 emissions, our challenge continues to be to address our wider Scope 3 emissions, incurred from our supply chain and the running of buildings and infrastructure once handed over to our clients. We are working with our clients and supply chain to help them report and reduce their emissions.

See page 71 for Task Force on Climate-related Financial Disclosures (including climate change scenarios).
See page 80 for Streamlined Energy and Carbon Reporting disclosures (including greenhouse gas emissions and energy use).

Responsible business strategy and performance: improving the environment continued

In this section, we address how we can reduce carbon emissions in our own activities and help reduce emissions in the design and operation of buildings. On page 33, we describe how we are working with our supply chain to reduce their emissions.

Our roadmap to net zero carbon emissions

Based on science

We have committed to a policy of achieving net zero carbon emissions by 2030 based on our Scope 1, 2 and operational Scope 3 emissions. We drive progress using targets accredited by the Science-Based Targets Initiative, and in 2021, revised our targets to align with restricting global warming to the lower limit of 1.5°C required in the 2015 Paris Agreement and reinforced in the 2021 Glasgow Climate Pact. Our new targets will be submitted to the Science Based Targets Initiative for approval using the latest audited emissions data.

Using science and modelling, we have calculated the amounts by which we will need to reduce our carbon emissions from specified activities each year to achieve net zero by 2030, taking into account the growth of the business over the period. Our roadmap entails reducing travel emissions, switching to alternative fuel and renewable energy, achieving site efficiencies and adopting and supporting new technologies.

Our carbon action panel consists of representatives from each division and meets four times a year to report on progress in emissions reduction and share best practice across the Group. During 2021, the panel oversaw the implementation of our net zero carbon strategy and the roll out of our Carbon*i*Ca carbon measurement tool (see page 27). An online database of project case studies was developed, to improve information-sharing on emissions reduction initiatives. This database enabled us to further strengthen our 2021 CDP climate disclosure and achieve an 'A' score (see page 16).

Greener fuel and energy use

Our Scope 1, Scope 2 and operational Scope 3 emissions arise predominantly from bulk fuel used on sites, our vehicle fleet and electricity use. We have significantly reduced fossil fuel emissions by reducing the use of diesel generators, using solar-powered site cabins, switching from gas oil to HVO and replacing petrol and diesel-fuelled vehicles with hybrid and electric. Currently, 72% of our electricity is purchased from renewable sources, and we are working towards 100% in 2022. A key factor of many of Urban Regeneration's schemes is to develop areas around public transport nodes, encouraging workers, residents and visitors to use public transport rather than drive.

Our divisions are using HVO on as many site vehicles as possible and encouraging their supply chains to replace diesel with HVO in their vehicles. HVO is made largely of vegetable oil and waste animal fat and reduces emissions by up to 90%. Partnership Housing is also rolling out the use of HVO fuel to power the generators on its sites.

Currently, 43% of our total Group fleet and 70% of our car fleet are hybrid or electric.

- Property Services, which accounts for 24% of the Group's fleet, replaced 22 (7.2%) of its 389 small/medium diesel vans with electric in 2021, returning the rented diesel vans to their owner. The switch will reduce carbon emissions from the fleet by 52.8 tonnes CO_2e per year. Replacing the division's 85 large vans will depend on advances in technology, as these vans currently require heavier batteries which reduce the loads they can carry. Property Services has committed to switching all its small/medium vans to electric by 2023, excluding any contracts where there is an unusually high daily mileage. In addition, the division is installing electric charging points at all its offices, while also exploring the possibility of installing charging points at the homes of its engineers.
- Partnership Housing is also working to ensure all of its offices have electric charging points as more employees switch to electric cars.

Telehandlers are a major source of emissions on site for some divisions.

- Partnership Housing introduced a policy in the year to limit engine idling time and has trialled an electric telehandler.
- Construction used an electric telehandler on a school project, saving 30 tonnes of carbon.

Property Services' electric van fleet

Responsible business strategy and performance: improving the environment continued

Driving innovation in carbon reduction

From 1 January 2021, we introduced a Group-wide internal carbon charge to drive innovation in reducing emissions. The charge is based on the volume of emissions incurred by our divisions and the money raised has been placed in a climate fund for investment in climate change initiatives.

In 2021, our divisions developed climate change strategies and action plans appropriate to their respective needs. At our senior management conference in October, seven teams put forward ideas for carbon reduction projects and a shortlist of projects are being reviewed for potential investment from the climate change fund.

Other carbon reduction initiatives in the year included the following:

- Construction developed a 'Carbon Literacy Project' that will promote change in how the Group, and the industry as whole, designs, procures and builds in order to reduce carbon emissions. The project, due to launch in 2022, will entail training 30 employees to present to clients, the supply chain and local schools and communities.
- During National Environment Week in October, Construction launched a '10-tonne carbon challenge' to those working on live sites to reduce emissions on their projects by a minimum of 10 tonnes CO_2e. As a result, 1,471 tonnes of carbon were saved on 14 projects using methods such as sourcing lower-carbon steel, replacing reinforced concrete with a lightweight steel frame, and upgrading insulation and air tightness. On many of these projects, we used our Carbon*i*Ca tool (see below) to verify the carbon savings.
- Infrastructure launched a 'Great Green Challenge' inviting employees to suggest ways of reducing carbon in key areas such as materials procurement, alternative fuels, behaviour change, and site set up and accommodation.

The Carbon*i*Ca carbon calculator

Our Carbon*i*Ca tool, developed by a team led by one of our colleagues who is an expert in carbon modelling (see box at right), and independently verified to the RICS standard by engineering and design consultancy, Arup, can be used to promote lower-carbon designs to our clients. Carbon*i*Ca calculates the total carbon emissions of a project and building at an early stage of the design, including carbon embodied in the materials (incurred in production, transport and waste) and projected emissions from the building throughout its life cycle. The tool highlights elements in the design that will result in higher emissions and suggests lower-carbon alternatives for the client, designer and supply chain to consider. Having been piloted in 2020 by Construction, Carbon*i*Ca was rolled out to the other divisions during 2021.

- On Construction's project to build a health and community hub in Gorton, Manchester, Carbon*i*Ca was used to save over 500 tonnes of carbon through sourcing lower-carbon steel.
- Fit Out used the tool to demonstrate on its current project for Arup that around 25% of the embodied carbon would come from a steel staircase in the design. The client opted instead for a wooden version, reducing the carbon footprint of this element of the project from 18 tonnes CO_2e to nearer four.

In 2021, 41 of our projects used the Carbon*i*Ca carbon reduction tool.

Looking forward, we are developing a web-based Carbon*i*Ca app that will be ready for use by the second quarter of 2022. The app will provide a secure platform on which to accelerate our research and development and enhance the tool's performance across the Group. We have pledged to use Carbon*i*Ca, or an equivalent client-mandated tool, on all projects across the Group valued over £10m from 1 January 2023.

The capability to build to Passivhaus standards

A Passivhaus building requires very little energy to achieve a comfortable temperature year round, typically offering space-related heating and cooling energy savings of up to 75% compared to the average new build.

- Construction is building a Passivhaus school pilot project for the Department of Education in North Lincolnshire.
- BakerHicks has been involved in the design of Passivhaus school buildings, including North Muirton Primary School, the first Passivhaus primary school in Scotland; two of the business's architects achieved certified Passivhaus designer status in 2021, and more are undergoing training.
- Urban Regeneration obtained planning approval for a 115,000 sq ft office building at New Bailey, Salford, which will be the first in the region to meet the UK Green Building Council's (UKGBC) 'net zero' in operation targets. The Eden building, now under construction, will be as resource-efficient as possible with enhanced insulation in line with

"The problem that many people put down on the table is that business and the economy don't go hand in hand with saving the planet. But I just think that is a problem to solve. And when we look at issues like this pragmatically – what the business wants to achieve and what's better for the planet – often there are solutions in there, we just need to find them. Carbon*i*Ca is a tool I created that allows users to answer a series of simple questions which are then converted into carbon data so they can actually see the carbon involved in the whole life cycle of their building. It then suggests lower-carbon alternatives for a more sustainable design and build."

Tim Clement,
Head of Carbon and the Environment, Morgan Sindall Construction

the Passivhaus standard, improved ventilation, an air source heat pump to provide low-carbon heating and cooling and CO_2 heat pumps to provide highly energy-efficient hot water. The building will be wrapped in one of Europe's largest living walls, which will help cool the structure, improve the wellbeing of its occupants and contribute to biodiversity. Eden has been selected as a London Energy Transformation Initiative Pioneer. Urban Regeneration is working to define new Passivhaus levels of performance to be applied to all new homes in its developments.

The importance of low-carbon fit out

According to the UKGBC, the built environment contributes around 25% of the UK's total carbon footprint. Additionally, 80% of buildings that we will be using in 2050 have already been built. While new buildings might be more energy efficient, decarbonising existing properties will have a much bigger impact on reducing carbon emissions.

- Fit Out's design and build business designed the London offices of ethical investment firm, Generation Investment Management, to reduce its environmental impact and reflect the firm's ethical ethos. New lighting and air conditioning systems were installed to increase energy efficiency, while reclaimed timber, repurposed furniture and wall finishes made from recycled paper, moss and bamboo helped reduce the use of virgin materials. The project achieved a SKA Gold environmental rating.

Energy-efficient homes to reduce carbon emissions and fuel bills

- Partnership Housing has secured a contract to retrofit 69 homes for Orbit Group (see page 51) with the goal of increasing energy efficiency. The division's development for LiveWest in Exeter (see page 51) will be the first to meet the housing association's new sustainable homes standards. All homes will be insulated to a higher standard than required by building regulations and fitted with solar photovoltaic panels to generate their own electricity.
- Property Services is leading a programme for Basildon Council to install insulation to the outside walls of council homes which helps to maintain a constant temperature inside. Since 2018, the division has installed the external wall insulation to 581 homes with c200 more planned for 2022, together with double-glazed windows and doors and eco-tech combi boilers. As well as reducing emissions, the new insulation will cut energy bills for residents.

"By insulating homes as much as possible in construction, we can avoid the need to return in years to come and add more. Similarly, installing solar panels from day one means that all of the necessary infrastructure is in place so that they can be upgraded in future as technology improves. Reducing electricity bills is a vital step in tackling fuel poverty and we look forward to the day when our rooftops can generate enough electricity to meet a family's entire energy needs."

Adam Preece,
New Business Manager for LiveWest

The potential for decarbonising construction

The 'Circular Twin' project was a theoretical exercise to explore what changes would need to be made to the design of a building if the key priority was to reduce embodied and whole life carbon. A school built by Construction five years previously was digitally redesigned, with the virtual, mirror version achieving a reduction of more than two thirds in whole life carbon (67%) and almost three quarters in embodied carbon (72%). The project was a collaboration involving architects Lungfish and HLM, engineering consultancy Cundall and 25 supply chain partners, and demonstrated the potential for reducing carbon in the built environment through the use of technology and new ways of working.

Responsible business strategy and performance: improving the environment continued

Transparent and responsible offsetting

To achieve net zero carbon by 2030, we aim to reduce our Scope 1, Scope 2 and operational Scope 3 emissions by 60% and invest in offsetting the residual emissions. We want to be clear and transparent about how we offset. We intend our investments in carbon removal to be long-term, sustainable, multi-generational and based in the UK. We expect the projects that we invest in to achieve added benefits of biodiversity, increase in natural capital and the promotion of wellbeing.

In preparation for offsetting our residual emissions, we have signed an agreement with Blenheim Estate in Oxfordshire to create nine new woodlands, planting more than a quarter of a million trees across 138 hectares (see box at right).

We are also investing in a scheme which will match clients with ethical offset schemes in communities local to their own construction and regeneration projects. The scheme will offer clients high-quality carbon credits and the income raised will be used to support local authorities and housing associations with home improvements and to help address fuel poverty.

We have achieved a CDP 'B' score again this year for our forest disclosure. We are unlikely to be able to achieve a higher rating as we do not produce timber products ourselves or manage the production of timber as a raw material.

Personal carbon pledge for employees

In 2021, our chief executive wrote to every employee asking them to sign a personal carbon pledge to make tangible changes to the way they work that will help cut carbon. The pledge was incorporated within an e-learning programme on carbon and how it contributes to climate change.

Improving biodiversity and the natural environment

Biodiversity net gain (BNG) is an approach to development that leaves biodiversity in a better state than before, or 'nature positive'. It typically involves creating new habitats or enhancing existing ones and begins with a survey of the existing plot to establish a baseline. It is anticipated that from Summer 2023, a minimum of 10% BNG will be legally required for all development projects in England.

We measure the biodiversity impacts on our projects and target a net gain where we can. A large element of our work is regenerating city centres and developing areas of landscaped public realm such as parks, canal sides and cycle paths which help increase biodiversity, as well as air quality and the wellbeing of local residents and workers.

- Urban Regeneration has set goals for enhancing biodiversity on its developments as part of its newly introduced sustainable development action plan.

We are signatories to UK Constructors Declare Climate and Biodiversity Emergency, and during the year BakerHicks signed up to Architects Declare and Engineers Declare. We are a founder member of Get Nature Positive, a campaign to engage businesses in protecting natural resources and promoting biodiversity, and a contributor to its Nature Handbook for businesses.

Our largest current biodiversity project is our woodlands scheme in Oxfordshire (see box right).

In addition to the Blenheim project:

- Construction commits to a BNG target on every project and has been working with a specialist consultancy to identify how it can increase its BNG.

  The business has trialled DEFRA's new Biodiversity Metric 3.0 (a tool that measures nature losses and gains resulting from development or changes in land management) on a community engagement project in Liverpool. The project involved clearing a disused piece of land and planting it with wildflower seeds to create a site for the charity Blackburne House's BEE You project, which teaches young people the art of beekeeping.

  Having assessed the project in-house using DEFRA's tool, it was found to have achieved a BNG of 1,424.7%.

Offsetting carbon and promoting biodiversity at Blenheim

Over the next 25 years, the nine woodlands we are planting at the Blenheim Estate in Oxfordshire will absorb a total of 22,000 tonnes of carbon from the atmosphere. Seven woodlands are being planted in winter 2021/2022, with the remaining two in 2022/2023. The 28 varieties of carefully chosen trees will purify the air, their roots will hold the soil of the sloping fields and they will provide a home to birds, insects, animals and fungi. A small percentage of conifer will be planted to provide winter habitats for wildlife. Clover-rich grass seeding has already been completed, which starts the carbon sequestering and biodiversity increase straight away before the trees are planted. We have also completed our baseline soil and biodiversity surveys which will be used to measure increase in biodiversity over the coming years. We are creating a forest school and amphitheatre on the site, where people can come to learn about biodiversity.

Responsible business strategy and performance: improving the environment continued

- Natural spaces are a feature of Urban Regeneration's development schemes, contributing to wellbeing for local residents and workers as well as biodiversity. On its Manor Road project in Newham, the division is creating a two-acre linear park, while at Stockport Exchange a 265 sqm green 'living' wall is being installed in a multi-storey car park. The wall will enhance biodiversity, reduce the 'urban heat island' effect and slow the flow of extreme rainfall.
- Various project-level initiatives across the Group have included hedgehog houses and highways, wildlife cameras, bug hotels, bee bricks and bird boxes.

Using water responsibly

We do not use an extensive volume of water in our operations and have not set targets for water reduction. However, our aim is to reduce our water usage, harvest rainwater where possible, procure less water-intense materials and use less water-intense equipment. To reduce our reliance on fresh water, we use recycled water for dust suppression, cleaning, plant watering, toilets and industrial process use. We use sustainable drainage systems in our developments, which reduce surface water flooding and improve water quality, and install water-saving devices such as flow saver taps in the new homes we build; Property Services installed 1,205 showers in 2021 with integrated water-saving devices.

We maintained our CDP 'C' score for our water disclosure in 2021. We are reviewing what we need to do over the next two to three years in order to improve our water management.

The divisions look for different ways to reduce water use on their projects.

- At Glebe Farm school in Milton Keynes, Construction is recycling water from the machine that washes the wheels of vehicles as they exit the site, meaning it only needs to be filled with water once, at the start of the project; and on its Novotel project in Paddington Village, Liverpool, the division used 'side stream filtration' to flush the heating and cooling systems as part of the commissioning process, saving around 7,200 litres of mains water per hour.
- Infrastructure's new site solar-powered welfare cabin (see page 34) harvests rainwater, a feature that the division worked with the supplier to create.

Maintaining air quality

We aim to reduce the impact of our activities on air quality. Our construction divisions' environmental management systems contain procedures to prevent pollution on our projects.

One way of achieving this is by switching to cleaner fuel (see page 26).

- Infrastructure introduced 'telemetry' on some sites in the year, using drones rather than vehicles to conduct detailed inspections of its vast sites.
- Property Services' goldeni tool (see page 47) monitors the air quality in homes and issues an alert if a boiler needs servicing or replacing. Initial analysis of the data is helping identify properties at risk of damp and mould which can impact air quality. The tool is also being used to monitor air quality in Property Services' offices, which will provide a baseline to ensure employees are working in a healthy environment.
- On its project The Spine, a multi-storey office building in Liverpool, Fit Out ensured high levels of air quality on site by using dust cube air cleaners and air flushing to remove pollutants, and by training its site operatives in dust management. Materials were selected for the project that had low 'volatile organic compounds' (a type of pollutant) and the air quality in the building was tested prior to the client moving in.

Our net zero plan is based on the following principles:

- **Report**: ensuring all our relevant carbon data is measured, reported and independently verified; including Scope 1, Scope 2 and operational Scope 3 in our net zero boundary; and using our new carbon charge to measure the cost of carbon we produce.
- **Remove:** assessing various carbon reduction initiatives to remove carbon from our activities where possible.
- **Reduce:** encouraging stakeholders to reduce their own and the Group's emissions, through initiatives such as supplier engagement (supply chain portal) and employee engagement (climate pledge and e-learning).
- **Replace:** considering low-carbon alternatives, such as electric vehicles, and designing low- and zero-carbon buildings, to replace carbon intensive activities.
- **Offset:** we will only offset any residual emissions once removal, reduction and replacement have been applied.

Responsible business strategy and performance: improving the environment continued

Reducing and recycling waste

In 2021, we reduced our total waste by 30% to 859,081 tonnes (2020: 1,223,394), of which 99% was diverted from landfill. Our waste intensity (total tonnes of waste produced per £m of revenue) decreased by 34% to 267 (2020: 403). Our construction waste reduced by 47% to 40,662 tonnes (2020: 77,360) and 97% of our construction waste was diverted from landfill.

The amount of waste that we produce varies according to the nature of our activities (for example, tunnelling generates a higher volume than constructing buildings). For our projects, we mostly purchase products that have been designed and manufactured rather than raw materials.

We aim to support the circular economy by reducing waste and recycling or reusing waste that we cannot reduce. Our sustainable procurement policy requires our employees to adopt best practice (reduce, reuse and recycle) in their buying decisions. We decided at the start of 2021 to participate in a greater number of manufacturer take-back schemes and to improve our ordering and material selection with waste reduction as an objective. For example, we have worked with a supplier to return protection boards to the factory after use for reconstitution into new boards.

Our site waste management plans are supported by our waste service providers, resulting in the sharing of best practice and lessons learned and increased opportunities to reduce waste at source or recycle. In 2021, we agreed a process for a new waste desk to help us reduce and manage our waste more effectively by consolidating the number of waste service providers that we use and providing access to waste liaison officers and improved waste reporting systems. The desk will be piloted in the Infrastructure business in the first quarter of 2022.

During the year, the Group signed up to The Pallet Loop, a circular economy pallet reuse scheme for the construction sector. Pallets are used to transport building materials and are usually used once and discarded – fewer than 10% are currently recycled. The Pallet Loop replaces the single-use approach with a system for returning pallets to be repaired and reused, thereby cutting waste, timber use and carbon. Pallet Loop pallets are made from 100% FSC timber and engineered to be over 100% stronger, allowing them to be reused multiple times.

New initiatives by the divisions to reduce or recycle waste included:

- Construction joined the SCAPE public sector framework's 'Construction Waste Portal', a platform that helps construction companies predict, manage, reduce and prevent construction waste.
- On a project for the University of Glasgow, Construction recycled 100 bar stools, 1,000 carpet tiles, 58 mattresses and 14 microwave ovens.
- Infrastructure worked with a supplier to use a precast road safety barrier on a number of projects for National Highways, reducing waste and enabling quicker installation.
- Fit Out and Partnership Housing have replaced plastic site signage with recyclable products.
- Fit Out has worked with the online platform, REYOOZ, to recycle unwanted materials and furniture from its projects. On one project in London, over £62,000 of goods were donated to local causes.

The Pallet Loop

Working together with our supply chain

2021 performance

67.8%
of total invoices paid within 30 days

2025 target
70%

2030 target
80%

Horizon ambition
95%

We have built longstanding relationships with our supply chain partners. Together we are always looking for innovative ways to achieve quality for our clients and fulfil our responsible business goals. Where needed, we work with our supply chain partners to help them succeed.

Our supply chain partners play a fundamental role in our resilience and success (see page 13).

Our Morgan Sindall Supply Chain Family of suppliers and manufacturers, set up nearly 20 years ago, now has 413 members.

These relationships are critical to ensure that we can maintain the supply of key materials for our projects. We have Group-wide procurement agreements in place that give our subcontractors access to better pricing. In 2021, 81% of our supplier spend was through Group-wide agreements (2020: 72%).

Our subcontractors are monitored for performance against set criteria and given feedback either to recognise their achievement or, if appropriate, help them improve. Construction, which holds regional award ceremonies for its supply chain, held a national event in 2021, presenting awards in nine categories including safety, Perfect Delivery, social value and innovation. Some divisions award their subcontractors preferred status when they perform exceptionally well.

- Fit Out has 319 firms on its preferred subcontractor list, having promoted 29 in 2021, which together account for 61% of the division's total subcontractor spend. During the year, Fit Out launched a supply chain portal for its subcontractors which was built using their feedback and input. The portal provides subcontractors with a real-time overview of how they are performing on their projects in areas such as health and safety, risk assessments, environmental aspects and snags.

We were a founder member of, and continue to support, the Supply Chain Sustainability School (SCSS) which provides free training in topics such as waste management, energy management, biodiversity, modern slavery, fairness, inclusion and respect, mental health and wellbeing, and community liaison.

- In 2021, Construction and Infrastructure, which each operate an online 'Academy' for employees, extended their learning platforms to their supply chains, and around 100 subcontractors to date have accessed the training. Modules cover topics such as carbon, technical training, and advance learning required for access to certain sites such as rail.
- Construction and Fit Out extended their employee assistance programmes to their subcontractors during the year, giving around 6,400 people access to a range of legal and counselling advisory services.

Procuring locally, from smaller suppliers

We use smaller, local suppliers and subcontractors where we can.

- Of Fit Out's supply chain, 85% are classified as small- to medium-sized businesses. On one particular project in London, the division sourced 75% of the project value from UK manufacturers.
- On Partnership Housing's brownfield regeneration (see page 35), 90% of the works are being carried out by employees and subcontractors who live within 15 miles of the sites.

Responsible business strategy and performance: working together with our supply chain continued

- On its development of the old library site in Slough (see page 53), 29% of Urban Regeneration's project spend was procured locally while 51% was with small- to medium-sized businesses.
- On the Moxy Hotel and Residence Inn in Slough, delivered by Construction on the same development, 300 people working for regional subcontractors were from the local area.

Work Radar

Construction was a founding member of the Work Radar scheme, launched in 2020, which connects individual tradespeople, microbusinesses and social enterprises with large construction firms working on projects in their area. Those who have signed up receive alerts of local opportunities while contractors are able to develop local supply chains. The platform is funded by contractors' subscriptions and free for those who register to work. It is being used by thousands of organisations and is expected to address issues such as skills shortages, unemployment and diversity and to help reduce carbon emissions by shortening the distances being travelled to projects. As at 31 December 2021, a total of 129 tradespeople were registered with Work Radar, 175 microbusinesses and 10 social enterprises. These figures include users not connected with the Group.

Paying promptly

We aim to pay our suppliers fairly and have worked hard to reduce our average days to pay invoices, in line with the Prompt Payment Code.

- Partnership Housing converted more of its suppliers to electronic invoicing, from 61% of invoices in 2020 to 76% in 2021, helping to reduce payment times.

Working together on sourcing supplies

Our strong supplier relationships have continued to help us manage the reduced availability of certain materials. We share our project delivery requirements early enough to allow advance planning, sufficient lead-in periods, and for suppliers to build their capacity.

- Partnership Housing has, where necessary, purchased materials a little earlier than it would normally have done to enable suppliers to hold stock.

Working together to improve safety

- On its Lewisham Gateway scheme, Urban Regeneration worked with its supplier to design a safety cage around the base of cranes that would prevent people from climbing them. A prototype was trialled and has now been adopted by the supplier as its new standard for all crane installations.

Working together on climate change

In 2021, we were again awarded Supplier Engagement leader status by CDP for our action to measure and reduce environmental risks within our supply chain.

To help measure and reduce our indirect Scope 3 carbon emissions (see page 25), we are working with our supply chain to encourage and assist them in measuring, reporting and reducing their own emissions. In 2021, we rolled out a new carbon portal to all our suppliers that enables them to upload their emissions. To date, 60 of 147 suppliers contacted (16% of Group supplier spend) have submitted data via the portal. As it was proving challenging to collect data this way, due to our supply chain being large, mobile and decentralised, we set up a collaboration with three Tier 1 contractors together with the SCSS, and now have 900 companies registering to provide data, with c200 having already submitted their data.

In 2021, we held an event for our Supply Chain Family called 'Meeting the Challenge' on the theme of how we can work together to tackle climate change. The event brought together 1,000 suppliers, employees and clients at Silverstone, and provided an opportunity for our suppliers to meet with our procurement and management teams, our clients, and each other to share ideas about new products and innovations and discuss other industry challenges such as materials supply. Our divisions exhibited tools such as Carbon*i*Ca (see page 27) and goldeni (see page 47) and Construction hosted a stand titled 'Come and speak to us about carbon'.

Driving prompt payment of suppliers

Our divisions have reported the following data under the payment practices regulations for the six months to 31 December 2021.

Construction & Infrastructure, our largest division by revenue, further improved and reduced its average time taken to pay invoices to 25 days from 27, with 98% of invoices paid within 60 days. Fit Out reported its average time taken to pay invoices as 23 days, with 97% paid within 60 days, while Partnership Housing reported 32 days as its average time to pay, an improvement of one day from the last reporting period, with 96% of its invoices being paid within 60 days. Property Services showed an average of 37 days to pay invoices, an improvement of one day from the prior reporting period and with 96% of invoices being paid within 60 days. Urban Regeneration paid 94% of invoices within 60 days, taking an average of 26 days to pay. We do not use any supplier finance arrangements.

Responsible business strategy and performance: working together with our supply chain continued

- As a result of the event, Partnership Housing has installed a solar hybrid generator on two of its sites to date, and trialled a battery generator and an electric telehandler.

Together with our supply chain we continuously explore ways of reducing carbon in our projects. These include reducing embodied carbon in materials, consolidating deliveries, reducing fossil fuel use and finding more sustainable construction methods. Our supply chain was instrumental in providing us with embodied carbon data for our Carbon*i*Ca tool. We are currently working with our supply chain on logistical solutions ahead of the planned expansion of low emission zones over the next two to three years. We have also developed a plant alliance with 32 companies, which is assisting in driving the transition to HVO fuel across the Group.

- Construction worked with two suppliers on the Summerdown special educational needs school project in Eastbourne to source a lower-carbon concrete. The alternative used contains 70% 'ground granulated blast furnace slag', recycled from the iron manufacturing process, which is as strong and durable as concrete but reduced the project's carbon by more than 52 tonnes. The Carbon*i*Ca tool was used to calculate the carbon savings.
- Construction has developed a 'carbon maturity framework' to rank the progress of supply chain partners in reducing their carbon emissions. Level 1 indicates that key staff will have received some training on carbon in the built environment, while Level 5 signifies science-based carbon-reduction targets in place and circular economy thinking. The rankings are designed not to reward or penalise, but to identify where we can help and advise subcontractors on improving their own carbon performance.
- During Supply Chain Carbon Week in September, Construction circulated a digital newsletter to 2,955 individuals within the Group's Supply Chain Family, informing them of the carbon maturity framework and the kind of data we will be requesting from them to help us report our indirect Scope 3 emissions; how they can support us in our 10-tonne challenge; sustainability e-learning modules available through the new online supply chain Academy (see page 32); an invitation to sign up to the Group's carbon pledge, adapted for the supply chain to help them achieve Level 1 of the maturity framework; and videos showing examples of suppliers who have innovated to reduce carbon.
- Fit Out hosted a webinar for manufacturers setting out practical steps for obtaining environmental certificates for their products. The live virtual event was addressed by three industry experts and attended by around 70 people, with more requesting a copy of the recording afterwards. The event generated significant interest within Fit Out's supply chain and the division is planning further sessions on the subject in 2022.
- Partnership Housing developed written guidance for its small- to medium-sized supply chain partners on what will be expected of them as the industry moves towards net zero. The guidance includes: a description of the Group's science-based targets and the data that our supply chain will need to record; a 'plant charter' that sets out minimum standards for non-road mobile machinery; a recommendation to use HVO fuel; and tips on reducing waste.

Eco-friendly site facilities

Sometimes hundreds of people may be working on a large infrastructure site, often throughout the night. Having access to modern welfare units with a kitchen, canteen, office, hot water and hygienic sanitary facilities is vital. Infrastructure worked with supplier Welfare Hire, to introduce next generation mobile welfare units. Replacing traditional models, which predominantly run on generators, these innovative eco-friendly facilities use lithium battery and solar hybrid power to reduce noise pollution, fuel use and carbon emissions. The units have the capability to save more than 1,000kg of CO_2e per month.

Enhancing communities

2021 performance

71p

of social value per £1 spent on 112 projects

2025 target

85p

per £1 spent

2030 target

90p

per £1 spent

Horizon ambition

£1.01

per £1 spent

We want to leave a positive legacy by improving the built environment and creating social and economic value for the communities where we work.

Through our core activities of construction and regeneration, we deliver new, improved and more efficient housing, workplaces, education facilities and national infrastructure, and regenerate towns and cities. In addition, we contribute to local communities by procuring locally, providing training and work opportunities, and supporting community projects and charities.

During 2021, our Group social value panel, made up of representatives from across the divisions, presented divisional social value strategies to our Group director of sustainability and procurement for inclusion in the Group social value approach (see page 16), organised the delivery of virtual work experience and met to share best practice such as Property Services' workstream for identifying domestic abuse (see page 20).

Regenerating towns and cities

Our regeneration schemes revive town centres with new housing, leisure, work and retail facilities, and landscaped open spaces, with a focus on developing brownfield sites and underutilised public-owned land. Urban Regeneration works with local communities, local authorities and other stakeholders to repurpose each town centre with the right mix of uses according to its historical strengths and characteristics. This is particularly important as town centres are becoming less dominated by retail, a trend that has been accelerated by the Covid pandemic. Local economies are stimulated as a regeneration scheme progresses, through local procurement and the attraction of people and businesses to the area.

- The completion of the first phase of Urban Regeneration's development at Hale Wharf in Tottenham (see page 53) has transformed an underused waterside area to create 249 mixed-tenure new homes with public spaces and walking routes. A new bridge has improved movement for local residents between the high street and Lea Valley, provides easier access to transport routes and creates attractive canal-side public realm.
- Partnership Housing has acquired four brownfield sites in the West Midlands to deliver 709 multi-tenure homes, 48% affordable, and high-quality open public space. The division has secured £10.5m of brownfield funding from the West Midlands Combined Authority and obtained full planning consent for all sites.
- Partnership Housing built 3,130 new homes in 2021 and refurbished c7,150.

Local apprenticeships, work and training opportunities

We endeavour to develop a genuine understanding of communities where we work that are in particular need of support. We run social enterprises in these areas that provide job and training opportunities for local young people and disadvantaged groups, including people who have been out of work for long periods of time and ex-offenders.

- Morgan Sindall All Together Cumbria is a community interest company, owned by Construction & Infrastructure, that works with recruitment specialists to connect local people in Cumbria looking for work with businesses that need their skills.

Responsible business strategy and performance: enhancing communities continued

- Property Services offers training in trades and employability skills, structured work experience, pre-apprenticeships and employment opportunities to local residents of its social housing schemes. To date, 100 residents in Basildon have completed the 'BasWorx' training initiative, 41 residents in Westminster have completed the 'CityFutures Work to Learn' programme and 12 residents have taken part in Property Services' 'employability academy' for college students in Yorkshire.

In addition to the social enterprises:

- Construction offers dedicated learning facilities called 'Knowledge Quads' on its projects, where requested by the client. The Quads focus on four key areas: 'skills', 'education', 'employment' and 'discovery'. The success of the Knowledge Quad on The Spine project in Liverpool (see page 30) has led to new facilities being established on projects at Salford University and Kingsbrook Secondary School in Buckinghamshire.
- In Scotland, Construction has joined with Tigers (Training Initiatives Generating Effective Results Scotland) to create an apprenticeship programme for local young people, some of whom have experienced multiple barriers into employment. The programme includes a mix of classroom learning and onsite training and provides technical, digital and sustainability knowledge as well as personal and employability skills. Across South Ayrshire and Glasgow, 31 candidates have completed their training and been employed by the division as apprentices.
- Construction and Property Services have joined the government's Kickstart Scheme, where employers are given funding to create six-month work placements for 16- to 24-year-olds on Universal Credit who are at risk of long-term unemployment. During the year, Construction provided 10 placements and Property Services provided 20. Roles have varied between marketing, construction, administration, customer service, gardening and property maintenance.
- Urban Regeneration launched a comprehensive sustainable development strategy in 2021 aimed at improving the life chances of people who live in the areas it develops. At the outset of every project, the division, in conjunction with local community groups and the local authority, develops a detailed social value strategy, setting targets based on meeting local needs. The strategy includes offering training, apprenticeship and employment opportunities to the local community including those out of full-time work or education. The division works closely with its supply chain to help deliver the strategy, commits to a project charter and monitors and reports on performance using the social value bank (see page 37).

Working with schools and colleges

We work closely with schools, colleges and universities to encourage young people to consider careers in construction, to help increase diversity and address potential skills shortages in the industry. Our activities range from mentoring, STEM (science, technology, engineering and mathematics) activities and workshops to career talks, site visits and work experience.

On its Repton project in Norfolk (see page 51), Partnership Housing has worked with a non-profit education trust (The Wensum Trust), to sponsor two students from the local Acle Academy which will lead to apprenticeships on the scheme in 2022. In the longer term, the division will be providing 11- to 16-year-olds with on-site learning. The division has also organised career talks for young people on next steps after completing their GCSEs and virtual or on-site work experience.

The Group has to date entered 42 formal partnerships with schools – 21 through Construction, nine through Infrastructure, and 12 through Partnership Housing – that pledge to support pupils with learning and development so that they make career choices that are right for them, the industry and the local community. The partnerships commit to the Gatsby benchmarks of good career guidance. Gatsby is a charitable foundation committed to strengthening the UK's science and engineering skills. A template of the schools partnership agreement was rolled out across the Group in 2021.

Social distancing restrictions introduced as a result of the pandemic have not only interrupted children's education but also threatened teenagers' access to work experience. Our divisions have used digital technology to overcome this challenge.

- Construction, Infrastructure, Property Services and Partnership Housing have worked with Speakers for Schools to offer virtual work experience (VWEx) programmes. Speakers for Schools is a charity that aims to give state school students the same access to top speakers and work experience as those from fee-paying schools. Using Google Classroom, the week-long placements task students with projects such as designing a building, with experts from the divisions providing guidance. The students can develop skills such as maths, digital design, science, English, art and collaborative working. In 2021, 716 students took part, up from 204 in 2020.
- Property Services worked with the Construction Youth Trust and Fulham Boys School in the year on the Trust's 'Building Brighter Futures' programme, which aims to help young people discover construction and built environment professions that suit their skills and interests. Volunteers from Property Services ran virtual sessions for a group of Year 9 students, introducing them to the range of careers available in the industry; challenging them to design a wellbeing space in their school for students and teachers; and giving guidance on budget, location and sourcing materials. The students presented their proposals to the school and Property Services and a selection of ideas were implemented.

Responsible business strategy and performance: enhancing communities continued

Community projects and charities

Our divisions regularly support local charities and community schemes while working on their projects.

- Partnership Housing planted 100 trees at its Ymyl Yr Afon housing development in Merthyr Vale and invited local primary school children to help plant the final 30. The trees were planted as part of the Queen's Green Canopy initiative to mark the Platinum Jubilee in 2022. The division also donated a bench, which was installed on a polished concrete slab, for residents and the wider community to enjoy.

We run corporate volunteering schemes where employees are given a day's paid leave per year to volunteer with a registered charity. The divisions support requests for charity donations and offer financial contributions and goods in kind, such as refurbishing community facilities or volunteering on allotments and community gardens. More than £124,000 was raised for or donated to charities in the year by the Group.

Addressing local needs

Property Services, which carries out repairs and maintenance to social housing, is well-placed to help address local needs. The division runs community initiatives that include:

- Training engineers to detect signs of vulnerability such as domestic abuse (see page 20), poor living conditions, overcrowding, hoarding, mental ill health, physical disability, vulnerable children or language barriers. The engineers relay significant issues to the local authority so that they can organise help. In 2021, the engineers reported c700 cases of vulnerability.
- Virtual energy workshops for social housing tenants, giving participants guidance on making their homes more energy efficient and paying energy bills and providing them with access to the government's Energy Redress Scheme; during the winter of 2020–2021, the division supported 371 households with vouchers worth c£34,000 in total to help fight fuel poverty.
- A 'digital inclusion' scheme for residents in sheltered housing schemes, to give them the skills they need to keep in touch with friends and family online as well as doing shopping and other tasks. With the help of two of the division's Kickstart trainees, the first session took place in November in Waltham Forest and will be rolled out to other locations in 2022.
- Property Services' new goldeni software that helps keep social housing on its schemes healthy, legally compliant and more energy efficient (see page 47).

Measuring the social value we create

We use a social value bank tool, developed with Simetrica-Jacobs and aligned to HM Treasury's Green Book, to measure in monetary terms the social, economic and environmental value we add to local communities. In 2021, we used the bank on 112 projects and it calculated that we contributed 71p of social value for every £1 spent. Examples of social value delivered on these projects included:

- 545 apprenticeships and training opportunities for young people;
- 643 job opportunities for unemployed people;
- 407 job opportunities for local people;
- 7,979 hours supporting schools; and
- 9,620 hours community volunteering.

The social value bank has been adapted in the year to encourage robust whole life assessment and reduction of carbon and the adoption of Carbon*i*Ca.

Property Services uses the 'Wellbeing Valuation Approach' of external verifier HACT (Housing Association Charitable Trust) to calculate its social value impact. The HACT valuation confirmed that between April 2020 and March 2021 (HACT's reporting cycle), the division achieved over £1.8m of social value, with every £1 spent generating £12 in social value across its contracts.

During the first year of phase two of Urban Regeneration's Lewisham Gateway development, the division used a tool called the Social Value Portal to measure over £61m of social and economic value generated for the local community. Key impacts included £52m spent locally; 93,820 car miles saved; 40 hours' career support sessions; 23 weeks' work experience; and £7,148 community support.

We have been working with Simetrica-Jacobs to adapt our social value bank so that it is tailored to our regeneration divisions. The new version of the social value bank is being piloted by Urban Regeneration and is expected to be rolled out in the third quarter of 2022.

Property Services engineer

The Catalyst Programme

Construction has developed a new initiative to optimise its social value activity, support carbon reduction and leave a positive lasting impact for communities. The programme's goals are to:

- reduce harm to the planet;
- improve people's life chances; and
- identify the value of Construction's actions for individuals and organisations.

To achieve these objectives, the programme will introduce:

- Catalyst Materials Marketplace, a web-based platform to redistribute redundant materials for use by local communities and other projects;
- Catalyst Outreach, a scheme that will use Work Radar (see page 33) to identify microbusinesses and social enterprises to work with the division on its projects and provide them with access to upskilling support so that they can meet minimum standards and secure work;
- The Catalyst Knowledge Quad, which will provide multi-purposed bases on projects providing training, education and employment (see page 36 for information on Knowledge Quads already in place on Construction projects); and
- Catalyst Community, of digital alumni: people who have already benefited from the division's social value, employment and training activity provided through its projects and will provide skills and employment opportunities to new participants.

The programme is scheduled for launch in the second quarter of 2022.

Hackney Britannia

Construction put social value at the heart of two projects completed for Hackney Council in 2021. A new secondary school and leisure centre were delivered at Hackney Britannia, a mixed-use community development that forms part of the council's plans to regenerate the area. During the project, the team became involved in the Shoreditch Trust charity, events to support local residents such as an 'Elders Feast', school careers talks and job fairs. They also worked with Women into Construction to support 15 local women with mentoring, employment skills and CV support.

£78m	34	57	800+
social value	apprentices	new jobs created	volunteer hours

Financial and operating review

A strong performance across the Group

Steve Crummett
Finance Director

Financial performance

Revenue for the year increased 6% to £3,213m (2020: £3,034m), with adjusted* operating profit increasing 92% to £131.3m (2020: £68.5m). This resulted in an adjusted* operating margin of 4.1%, an increase of 180bps compared to the prior year (2020: 2.3%). Reported operating profit was up 98% to £129.8m (2020: £65.4m).

The net finance expense decreased to £3.6m (2020: £4.6m) primarily due to the Group drawing down on its committed bank facilities as a precautionary measure in the prior year, during the early stages of the pandemic. Adjusted* profit before tax was £127.7m, up 100% (2020: £63.9m).

The tax charge for the year is £28.3m, which equated to an effective tax rate of 22.4% and was higher than the UK statutory rate of 19% due to the effect of changing the tax rate used to calculate deferred tax to account for the future increase in the UK statutory rate to 25% from 1 April 2023. The adjusted tax charge is £23.5m (2020: £14.5m). Almost all of the Group's operations and profits are in the UK, and we maintain an open and constructive working relationship with HMRC.

The adjusted* earnings per share increased 108% to 226.0p (2020: 108.6p). Reported basic earnings per share was 212.4p (2020: 99.8p). The total dividend for the year increased 51% to 92.0p per share (2020: 61.0p).

	2021	2020
Revenue	**£3,213m**	£3,034m
Operating profit – adjusted*	**£131.3m**	£68.5m
Operating profit – reported	**£129.8m**	£65.4m
Profit before tax – adjusted*	**£127.7m**	£63.9m
Profit before tax – reported	**£126.2m**	£60.8m
Earnings per share – adjusted*	**226.0p**	108.6p
Basic earnings per share – reported	**212.4p**	99.8p
Year-end net cash*	**£358.0m**	£332.8m
Average daily net cash*	**£291.4m**	£180.7m
Total dividend per share	**92.0p**	61.0p

* See note 2 to the consolidated financial statements for alternative performance measure definitions and reconciliations.

Details on performance by division are shown on pages 41 to 54.

Financing facilities

During 2021, the Group increased the size of its main revolving credit facility by £15m to £165m, and (with the agreement of the lending banks) exercised an option to extend the maturity date of the facility to 2024. Together with an additional £15m revolving credit facility agreed during the year, which also matures in 2024, the Group has maintained a total of £180m of available bank facilities. No drawings on the facilities were made during the year. The banking facilities are subject to financial covenants, all of which were met throughout the year.

In the normal course of our business, we arrange for financial institutions to provide client guarantees (bonds) to provide additional assurance that the client will have the ability for the works to be carried out. We pay a fee and provide a counter-indemnity to the financial institutions for issuing the bonds. As at 31 December 2021, contract bonds in issue under uncommitted facilities covered £137.2m (2020: £124.6m) of our contract commitments.

Further information on the Group's capital management strategy and use of financial instruments is given in note 25 to the consolidated financial statements.

Tax strategy

The Group's tax strategy, which is approved by the Board (see page 108), is published on our website at morgansindall.com.

Financial and operating review continued

Secured workload

The Group's secured workload[1] at 31 December 2021 was £8,614m, an increase of 4% on the prior year end (2020: £8,290m). The divisional split is shown below.

	2021 £m	2020 £m	Change %
Construction & Infrastructure	**2,715**	2,537	+7%
Fit Out	**897**	410	+119%
Property Services	**945**	970	-3%
Partnership Housing	**1,498**	1,445	+4%
Urban Regeneration	**2,574**	2,929	-12%
Inter-divisional orders	**(15)**	(1)	
Total	**8,614**	8,290	+4%

1 Secured workload is the sum of the committed order book, the framework order book and (for the regeneration divisions only) the Group's share of the gross development value of secured schemes (including the development value of open market housing schemes). The committed order book represents the Group's share of future revenue that will be derived from signed contracts or letters of intent. The framework order book represents the Group's expected share of revenue from the frameworks on which the Group has been appointed. This excludes prospects where confirmation has been received as preferred bidder only, with no formal contract or letter of intent in place. Divisional comparatives for Partnership Housing and Urban Regeneration have been restated to reflect the reorganisation of the Investments division.

Net cash

Operating cash flow in the year was an inflow of £117.6m, after reducing the capital employed invested in regeneration activities by £10m (Partnership Housing: £10m and Urban Regeneration: £23m). The net cash inflow for the year was £25.2m, resulting in closing net cash of £358.0m (2020: £332.8m).

The average daily net cash* for the year increased by £110.7m to £291.4m (2020: £180.7m), providing significant balance sheet strength and competitive advantage.

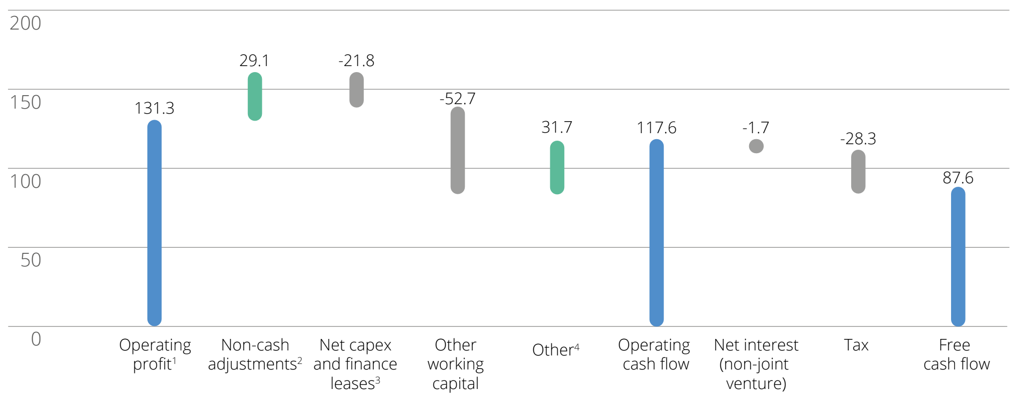
Net working capital

Net working capital is defined as 'inventories plus trade and other receivables (including contract assets), less trade and other payables (including contract liabilities) adjusted'. Net working capital has increased by £51.9m to (£153.6m) as shown below:

	2021 £m	2020[1] £m	Change £m
Inventories	**288.5**	294.2	-5.7
Trade and other receivables[2]	**559.9**	405.1	+154.8
Trade and other payables[3]	**(1,002.0)**	(904.8)	-97.2
Net working capital	**(153.6)**	(205.5)	+51.9

1 Includes the restatement to correct a historic error (see basis of preparation on page 174).
2 Adjusted to exclude capitalised arrangement fees of £1.0m (2020: £1.3m).
3 Adjusted to exclude accrued interest of £0.5m (2020: £0.4m).

Cash flow
(£m)



1 Adjusted.
2 'Non-cash adjustments' include depreciation £20.5m, movement of shared equity loans receivable £1.9m and share option expense £12.1m; less share of equity accounted joint ventures £5.4m.
3 Includes repayment of lease liabilities £15.2m, purchase of property, plant and equipment £6.7m and purchase of intangible fixed assets £1.3m; less proceeds on disposal of property, plant and equipment £1.4m.
4 Includes provision movements £26.4m, impairment of investments £1.2m, shared equity redemptions £2.1m, proceeds on disposal of investment properties £1.9m, interest from joint ventures £0.6m; less gain on disposal of property, plant and equipment £0.5m.

Construction & Infrastructure

Revenue (£m)

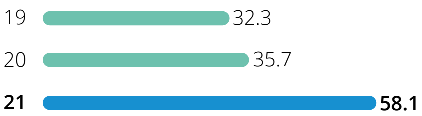
-7%

from 2020, +2% from 2019

Operating profit (£m)

+63%

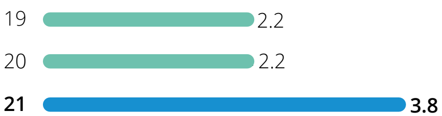
from 2020, +80% from 2019



Operating margin (%)

+160bps

from 2020, +160bps from 2019



Construction & Infrastructure delivered a very strong set of results in the year, with substantial margin and profit growth.

Although revenue reduced to £1,520m (2020: £1,637m), operating profit grew 63% up to £58.1m (2020: £35.7m) with the operating margin increasing to 3.8%, up 160bps on the prior year (2020: 2.2%). Both Construction and Infrastructure (including Design)[1] contributed strongly to this overall result.

Of the divisional revenue split by type of activity, Construction accounted for 46% of divisional revenue at £694m, with 54% being Infrastructure[1] at £826m.

The division also performed well in terms of winning work and growing its future workload. The secured order book at the year end was £2,715m, up 7% compared to the prior year.

1 Design results are reported within Infrastructure.

Construction

Construction's revenue increased 4% to £694m (2020: £670m) while operating profit increased 167% to £21.9m (2020: £8.2m). The focus on improved operational delivery, disciplined contract selectivity and risk management over many years, together with a favourable project mix in the year, all contributed towards increasing its operating margin to 3.2% (2020: 1.2%). The first half margin was 2.4%, which increased to 3.9% in the second half primarily due to a higher weighting of project completions in the second half, particularly projects in the education sector.

In addition, Construction had a very strong year of winning work. The order book at the year end was £810m, an increase of 58% on the prior year (2020: £512m) and up 25% from the half-year position (HY 2021: £648m). Of the total, £599m (74% by value) is secured for 2022. Construction also had c£540m of work at preferred bidder stage at the year end. In line with the preferred risk profile of work undertaken, c99% of the order book value is derived through either negotiated, framework or two-stage bidding procurement processes.

In education, Construction's largest sector, project wins included: a £61m project for the University of Hertfordshire to build a new home for its School of Physics, Engineering and Computer Science; Maybole Community Campus, a new £54m primary and secondary education campus in South Ayreshire; a £23m contract to build a new combined primary school campus (Carnbroe and Sikeside) in North Lanarkshire; and the new £31m Glebe Farm School in Milton Keynes.

The division also won projects to expand Horsforth School in Leeds (£5m) which will create 365 new places, and Chantry Academy in Ipswich (£3m) which will create 150 new places and a facility for children with special educational needs and/or disability (SEND). In addition, Construction was appointed to deliver a number of dedicated SEND schools, including the £18m Freemantle secondary school in Woking, Surrey; the £16.1m Summerdown School in Eastbourne; and the £9.8m Salmon's Brook Special School in Enfield for children with social, emotional and mental health needs.

Completions in the year included the £7.6m Castleward Spencer Academy primary school in Derby, delivered via the public sector procurement authority, SCAPE; and the £14.2m Wintringham Primary Academy in St Neots, Cambridgeshire.

In healthcare, Construction has been selected to deliver the initial works as part of the wider redevelopment of the North Manchester General Hospital in Crumpsall, one of the 40 new hospitals pledged under the UK government's health infrastructure plan, and appointed to build a new £13m facility for the London Institute of Healthcare Engineering at St Thomas' campus, London.

In other sectors, project wins included: the £107m Manor Road Quarter scheme in Canning Town, London, a 34-storey, mixed-use development of 355 apartments (50% affordable) and 8,000 sq ft of commercial and retail space, being delivered through Urban Regeneration's English Cities Fund joint venture; and a c£18m manufacturing facility in East Sussex for GW Pharmaceuticals. Completions included a £48m, nine-storey Moxy Hotel and Residence Inn in Slough (both Marriott hotels), delivered through Urban Regeneration's Slough Urban Renewal joint venture, which opened three months ahead of schedule; and Hackney Britannia Leisure Centre (see page 38), set over four storeys and featuring rooftop sports pitches to make the best use of space.

Framework appointments included: the SCAPE Construction frameworks to deliver education, healthcare, housing and government building projects across England, Wales and Scotland, with a cumulative value of £5bn over four years (two lots in England and Wales, valued up to £7.5m and £7.5m–£75m, and two lots in Scotland, valued up to and over £7.5m); Lots 4 (£7m–£14m), 5 (£14m–£25m) and 6 (£25m+) on the new £1.6bn Public Buildings Construction and Infrastructure (PB3) framework run by public sector procurement organisation, LCH; and the medium band (£6m–£12m) of the Department for Education's four-year, £5bn construction framework.

Infrastructure

Although Infrastructure's revenue was 15% lower at £826m (2020: £967m) primarily due to the timing of its project workload, operating profit increased significantly, up 32% to £36.2m (2020: £27.5m). This resulted in an operating margin of 4.4%, up from 2.8% in the prior year and was driven by strong operational delivery on site and by the type of work.

The first half margin was 3.3%, while this increased to 5.5% in the second half, benefiting from work mix, efficiencies and final account settlements on a number of projects.

Sustainability at its core

Wintringham Primary Academy in Cambridgeshire was designed for maximum contact with the outdoors. Each classroom faces a central courtyard containing a planted 'grove', providing daylight from both sides. Vegetables and herbs are grown in the grove and made into soup, as part of an approach that encourages children to love the environment. The school is built of cross-laminated timber instead of steel, which is both sustainable and quicker to install.

"This school already has a fantastic impact on the children. It encourages them to learn and it inspires them. The children are in awe of it but the teachers made it beautiful as well, because the school has to have a heart, it has to have an identity and it's really important that we the people who work in it, give it that heart, and give it that identity. Morgan Sindall were really supportive and they involved us all the way through. The process meant we were incredibly excited about it, we could talk to our children about it as it was happening and it allowed them to become involved and then it becomes much more yours. The experience just enhanced what we have already."

Tracy Bryden,
Head Teacher

Financial and operating review: Construction & Infrastructure continued

Infrastructure's order book at the year end was £1,905m, down 6% on the previous year end (2020: £2,025m), however was up 1% on the half year position (HY 2021: £1,894m). In excess of 90% of the value of the order book is derived through frameworks, consistent with the strategic focus on long-term workstreams from its clients.

The focus for the division remained on its key sectors of highways, rail, nuclear, energy and water.

In highways, work won included the appointment by National Highways (formerly Highways England) to the Concrete Roads Programme – Reconstruction Works Framework, a four-year programme worth c£130m to repair or replace the concrete surface of motorways or major A roads in England; and the detailed design for the Carlisle Southern Link Road by Cumbria County Council. In addition, Infrastructure was awarded a place on National Highways' new Scheme Delivery Framework, a £3.6bn, six-year programme to deliver vital renewals to maintain safety and reliability; the division was selected for the General Civil Engineering Central Region. Work completed in the year on enhancements to the M1 junction 23 and A512 scheme in Loughborough to improve journey times and safety for motorists, delivered for Leicestershire County Council through the Midlands Highways Alliance.

In rail, Infrastructure secured a position as one of three partners on Lot 1 of Transport for London's London Rail Infrastructure Improvement Framework and was subsequently awarded early contractor involvement works for Surrey Quays and Surrey Canal Road stations. In addition, the division was appointed as principal contractor on Northumberland County Council's framework to build six new stations on the Northumberland Line. The initial part of the Northumberland project, which aims to restore regular passenger trains between Ashington and Newcastle by 2024, will see the conclusion of comprehensive design and delivery plans for the stations and bridges. Subject to government confirmation of funding and approval of the Transport and Works Act Order application, the framework provides for the division to undertake £40m of construction work, set to start in early 2022. Other wins included a £28m contract for Network Rail to construct an extension to the rockfall shelter over the railway line between Dawlish and Holcombe in Devon; a c£9m project to upgrade Maidenhead and Slough Crossrail stations as part of Network Rail's CP6 framework, Western region; and c£9m of station upgrade and access-for-all schemes via the Merseyrail framework. Work completed on: the remodelling of London King's Cross station; the £160m Werrington Grade Separation project for Network Rail to increase passenger capacity; and the construction of the new Whitechapel Station for Crossrail, including a new ticket hall and step-free access.

In nuclear, the division secured a third term extension to the Infrastructure Strategic Alliance for Sellafield Ltd and continued to deliver the £1.6bn Programme and Project Partners contract, a 20-year programme to clean up the legacy of early operations at Europe's largest nuclear site. Infrastructure also continued its work on the 10-year Clyde Commercial Framework for the Defence Infrastructure Organisation.

In energy, National Grid awarded Infrastructure a place on its RIIO-2 electricity construction EPC (Engineer, Procure and Construct) framework which involves the construction, refurbishment and decommissioning of overhead line and underground cable systems operating between 33kV to 400kV across its transmission network. The framework, expected to be worth up to £1.5bn, is for an initial term of five years with an option for a two-year extension. The division secured additional work as part of the Scottish & Southern Electricity Networks (SSEN) overhead lines framework. Work completed on a £31.9m project in Cairngorms National Park to replace overhead lines and transmission towers with underground cables between Boat of Garten and Nethy Bridge, the first project in SSEN's VISTA (Visual Impact of Scottish Transmission Assets) initiative.

Barking, Riverside

Infrastructure, working in joint venture, is helping to connect communities in East London through the 4.5km extension of the Gospel Oak to Barking Overground line east of Barking Station. The line will terminate at a new elevated station in the main square of the Barking Riverside residential development. This infrastructure will serve 10,800 homes being built at Barking Riverside and provide the new community with transport links to Central London. The works include a 1.5km viaduct, terminus station and new railway line, as well as modifications to existing infrastructure. The station will be a focal point of the local community, with retail space and communal areas. During 2021, work completed on the viaduct, platforms, electrical systems, and the station's glazed façade. The line is due to open to passengers in 2022.

In water, work continued as part of the long-term AMP7 framework with Welsh Water and on the Thames Tideway 'super sewer' project to expand London's sewer network and help prevent pollution in the Thames.

In the BakerHicks design business, projects underway include: the provision of principal designer advisory services on the Medicines Manufacturing Innovation Centre (MMIC) in Renfrewshire; a new advanced manufacturing facility in Macclesfield to enable AstraZeneca to meet demand for its cancer drug Zoladex; an extension to GlaxoSmithKline's Aseptic Manufacturing Facility in Barnard Castle; the provision of construction and design support for Boehringer Ingelheim's new biologicals development centre in Biberach, Germany; civil and structural engineering services for the £42.5m Allander Health and Leisure Centre in Bearsden, East Dunbartonshire; and the design of a new substation in Barking which will power 10,800 homes, local businesses and a new rail station.

Divisional outlook

The focus for Construction & Infrastructure remains on contract selectivity and risk management, operational delivery and developing long-term relationships with its clients.

The new medium-term target for Construction has been upgraded, with a target of increasing revenue to £1bn per year while maintaining its operating margin within the previous range of 2.5%–3.0% per year. Progress towards this target is expected in 2022 with its margin moving back to within its target range.

Infrastructure's new and upgraded medium-term target is to achieve revenue of £1bn per year while delivering an operating margin within the range of 3.5%–4.0% per year. Progress towards this target is expected in 2022, although due to the timing and nature of the business's project workload for the year, its margin is expected to move back to within its target range, off slightly lower revenue compared to 2021.

Construction

Upgraded medium-term targets

£1bn

Revenue

2.5%–3.0%

Operating margin

Route map

- Maintain margin quality over volume
- Continue disciplined risk management
- Use enhanced geographical presence to grow market share

Market conditions

- Balance sheet more important to clients
- Cost and conversion risk presented by inflation and resource availability, which are being managed
- Social, environmental and carbon agendas remain high
- Increased framework opportunities

Infrastructure

Upgraded medium-term targets

£1bn

Revenue

3.5%–4.0%

Operating margin

Route map

- Long-term relationships and workstreams
- Continuous concentration on operational efficiency
- JVs only when clear competitive advantage

Market conditions

- Fairly strong market for infrastructure
- Clients increasingly value strong relationships and partnerships
- Stable market for our design business

Fit Out

Revenue (£m)

+14%

from 2020, -5% from 2019

Operating profit (£m)

+38%

from 2020, +20% from 2019

Operating margin (%)

+100bps

from 2020, +120bps from 2019

Fit Out delivered an excellent performance in the year, driven by consistently strong project delivery, a continued focus on enhanced customer experience and a high-quality workload.

With revenue increasing 14% to £795m (2020: £700m), operating profit increased 38% to £44.2m, a record result for the division. The operating margin of 5.6% was up 100bps on prior year (2020: 4.6%).

As with previous years, there was a second half weighting to the operating margin (H1 2021: 5.1%, H2 2021: 6.0%) which was driven by project mix and by the successful completion of a number of contracts falling towards the end of the year.

As expected, the proportion of revenue derived from the commercial office sector reverted back to more normal levels, contributing 76% of revenue (2020: 66%), with work in the public sector and for local authorities dropping back to 16% of revenue (2020: 25%). The higher education and retail banking sectors made up the remainder as usual.

Kingsley Napley, London – fast-track fit out

Overbury transformed 55,000 sq ft of shell and core across six floors into a modern, activity-based working environment that brought together three offices into one unified workforce for leading UK law firm, Kingsley Napley. To meet the client's crucial move-in date, the team fast-tracked the fit out by working with their consultants and supply chain during a 10-week preconstruction period to prepare detailed design and construction programmes. By coordinating these plans with the procurement of labour, materials and finishes, as well as carrying out building surveys while the base build completed, the fit out works were guaranteed to get going from day one.

Financial and operating review: Fit Out continued

Revenue outside of the London region increased strongly to 42% of the total, up from 31% in the prior period, however the London region remained the division's largest market at 58% of revenue (2020: 69%). Looking ahead to future periods, the proportion of revenue from the London region is expected to revert back to a more normal proportion of c70% of divisional revenue.

In terms of type of work delivered in the year, 80% related to traditional fit out work (2020: 86%), while 20% related to design and build (2020: 14%). The proportion of revenue generated from the fit out of existing office space increased slightly to 78% (2020: 72%), with the fit out of new office space reducing to 22% (2020: 28%). Of the fit out of existing office space, work was broadly split evenly between refurbishment 'in occupation' and non-occupied space.

The market for Fit Out's services remains strong. At the year end, the secured order book was £897m, more than double the size of the order book at the previous year end (2020: £410m) and an increase of 54% on the position at the half year (HY 2021: £581m). Within this total, the division secured a number of larger contracts which will generate revenue over a number of years, giving the division better long-term visibility compared to its usual project cycle.

Of the year-end order book of £897m, £528m (59%) relates to 2022 and this level of orders for the next 12 months is 36% higher than it was at the same time last year. In addition to these secured orders, the division had over £100m of potential work 'pending decision' at the year end, as well as in excess of £500m of tender opportunities identified for the first quarter of 2022. The average value of enquiries received through the year was around £4m.

Traditional fit out projects won in the year included: 366,000 sq ft of office space at Five Bank Street, Canary Wharf; 200,000 sq ft for BP in North Colonnade, Canary Wharf; 200,000 sq ft for BT in Bristol, awarded following completion of a 186,000 sq ft project for BT in Birmingham; 150,000 sq ft of Cat A space in Thames Valley Park, Reading; 93,000 sq ft of office, sales and support facilities for MathWorks in Cambridge; 90,000 sq ft of Cat A space in Coventry for landlord IM Properties; and 30,000 sq ft for landlord Quadrature Capital in the Leadenhall Building, London.

Project completions included Norton Motorcycles' new 70,000 sq ft state-of-the-art facility in Solihull, and a 56,000 sq ft office in Bristol for the BBC.

In design and build, significant wins included: the Cat A fit out of 180,000 sq ft at Campus Reading, one of the largest office developments in the Thames Valley; Hutchison 3G UK/Three's new 117,000 sq ft workspace in Reading; nine projects for space provider Instant Group, creating 135,000 sq ft of lettable office space; and 17,000 sq ft in Bracknell for big data analytics provider, IRI.

Fit Out's public sector portfolio continued to expand in 2021 as the division secured: a 12,000 sq ft refurbishment of the North West Regional Control Centre for National Highways (formerly Highways England); a 60,000 sq ft fit out for the University of Leicester via the Pagabo framework; and multiple projects totalling £51.8m under The Mayor's Office for Policing and Crime (MOPAC) framework with a further £40.7m secured for 2022 and beyond.

Divisional outlook

Fit Out's new and upgraded medium-term target is to deliver average annual operating profit through the cycle of £40m–£45m per year. For 2022, based on timing of projects in the order book and the current visibility the division has of future workload later in the year, Fit Out is expected to deliver a performance which is around the mid-point of this target range.

Fit Out

Upgraded medium-term target

£40m–£45m

Average annual operating profit through the cycle

Route map

- Retain market share in commercial office and higher education market
- Increase ratio of public sector business
- Expand life sciences offering
- Expand design and build offering
- Drive high levels of repeat business from large space occupier
- Increase average job size

Market conditions

- Market remains buoyant
- Clients seeking to repurpose space for the new working environment
- Several large pre-let projects in construction

Property Services

Revenue (£m)

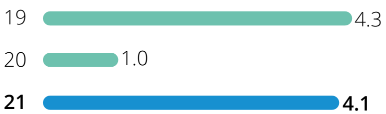
+20%

from 2020, +17% from 2019

Operating profit[1] (£m)

+310%

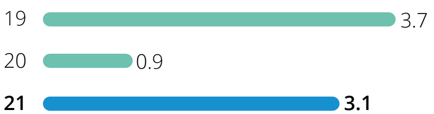
from 2020, -5% from 2019



Operating margin[1] (%)

+220bps

from 2020, -60bps from 2019



1 Before intangible amortisation of £1.5m (2020: £1.2m).

Property Services performed well in the year, delivering improved results on the prior year as volumes recovered from Covid disruption in 2020.

Revenue increased by 20% to £134m and operating profit[1] increased 310% to £4.1m. The operating margin of 3.1% represented an increase of 220bps ahead of prior year.

The division has continued to focus on delivering repairs and planned maintenance with a strong social value offering, servicing public sector housing through its integrated contracts with housing associations and local authorities. Although most of the division's repairs contracts were restored to more normal volumes in the year following the impact of Covid in 2020, planned maintenance activity was slower to recover.

Investment continues in Property Services' technology offering for managing repairs and maintenance and planned activities, with a significant focus on the provision of data insight and the improvement of the all-round customer experience. During the year, the division launched its new software platform, goldeni (see box right), that provides social housing landlords and residents with real-time data to help ensure their properties are healthy, compliant and energy efficient. Of the overall investment in goldeni, £0.6m was expensed during the year and included in the operating result.

goldeni - helping to keep homes healthy and energy-efficient

Using discreet sensors, Property Services' goldeni software collects data on temperature, air pressure, light levels, humidity and carbon dioxide in homes. It monitors energy consumption, can detect water leaks and offers practical advice such as opening more windows to prevent mould or suggesting when a boiler needs servicing. By tracking which homes are using central heating too often or too little, goldeni can help identify properties that need more insulation and help social housing providers understand the prevalence of fuel poverty in their communities. goldeni is already being used on social housing in Basildon, St Albans and Hammersmith and Fulham.

At the year end, the secured order book was £945m, down 3% from the prior year end (2020: £970m) and down 3% from the half-year position (HY 2021: £973m). Of this total, in excess of 85% is for 2023 and beyond.

In addition (and not yet reflected in the order book), the division was selected to deliver a new 10-year contract with South East housing association, Moat, to provide services to 11,500 homes across south east London, Kent, Essex and Sussex. The contract is worth over £200m and has the potential to be extended by a further five years. Moat residents were consulted extensively during the tendering process, with over 1,000 providing feedback on how Moat's new partner could deliver social value through the scheme. Contracts are expected to be signed in the first quarter of 2022 with the project to start in April 2022 following a three-month mobilisation period.

Divisional outlook

Based on the current order book and pipeline of opportunities, together with the division's operating model, the new medium-term target for Property Services has been upgraded to it delivering £15m operating profit per year.

This target will be delivered through both revenue growth and continued margin improvement and progress will be made towards this in 2022.

Property Services

Upgraded medium-term target

£15m

Operating profit

Route map

- Revenue and margin growth
- Targeting long-term contracts of 10 years plus
- Increasing use of technology as competitive advantage

Market conditions

- Large available market
- Maintaining contract selectivity is key
- Social value increasingly important
- Barrier to entry increasing - market consolidating
- Labour shortages an issue

Partnership Housing

Revenue (£m)

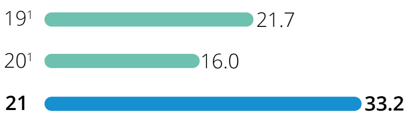
+21%

from 2020, +10% from 2019

Operating profit (£m)

+108%

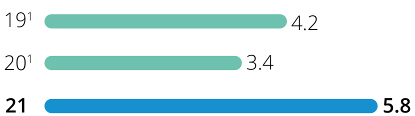
from 2020, +53% from 2019



Operating margin (%)

+240bps

from 2020, +160bps from 2019



Average capital employed[2] (last 12 months) (£m)

-£11.2m

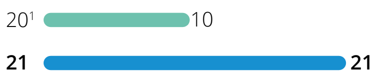
from 2020

Capital employed[2] at year end (£m)

+£25.0m

from 2020

Return on capital employed[3] (last 12 months) (%)



1 Restated. All 2020 and 2019 comparative numbers, including order book and capital employed, have been restated to include the impact of the revised reporting segments.
2 Capital employed is calculated as total assets (excluding goodwill, intangibles and cash) less total liabilities (excluding corporation tax, deferred tax, inter-company financing and overdrafts).
3 Return on average capital employed = (adjusted operating profit plus interest from joint ventures) divided by average capital employed.

Partnership Housing had a very strong year, with significant strategic and operational progress made.

Revenue for the year was up 21% to £572m (2020: £474m), with both mixed tenure and contracting performing well. Split by type of activity, mixed-tenure revenue was up 16% to £323m (56% of divisional revenue) and contracting revenue (including planned maintenance and refurbishment) was up 27% to £249m (44% of divisional total).

Operating profit increased substantially, more than doubling to £33.2m, an increase of 108% (2020: £16.0m). The operating margin increased to 5.8%, up from 3.4% supported by the higher mixed-tenure and contracting revenue as well as benefiting from continued operational efficiencies.

During the year, the division experienced a number of significant price increases in certain product categories and some increases in lead times for product deliveries to site. Any additional costs attached to sourcing some materials have generally been offset by a combination of operational efficiencies and sales price inflation.

The secured order book at the year end was £1,498m, an increase of 4% on the prior year end (2020[1]: £1,445m).

The average capital employed for the last 12-month period was £155.8m, a reduction of £11.2m on the prior year. The return on capital employed increased to 21%, a much improved performance and significantly in excess of prior years. The capital employed at year end was £155.6m, an increase of £25.0m from the prior year end.

Mixed tenure

A key aspect of the division's growth strategy is to increase the number and size of its mixed-tenure sites. Significant progress has been in this area, with currently a total of 48 mixed-tenure sites at various stages of construction and sales (up from 39 at the prior year end), with an average of 143 open market units per site (up from 101 at the prior year end). Average site duration is 48 months, providing long-term visibility of activity.

Financial and operating review: Partnership Housing continued

During the year, 1,653 units were completed across open market sales and social housing (including through joint ventures), significantly higher than in the prior year (2020: 1,216 units). The average sales price of £249k compared to the prior year average of £229k.

Work won included the regeneration of the former Llanwern and Whiteheads steelworks sites in Newport, valued at £105m and £85m respectively. The two schemes, being delivered in partnership with Pobl Group, have started on site and will deliver a combined total of over 1,000 homes. Other significant wins included: a £120m scheme with Abri housing association to build 500 homes in Weymouth; and a 188-unit development in Whalley, Lancashire with Trafford Housing Trust. In addition, the division exchanged contracts for the former site of a Philips factory in Hamilton, South Lanarkshire to develop 166 new homes (42 affordable) for Clyde Valley Housing Association; and secured planning permission for a further 766 homes on its One Woolwich programme with the Royal Borough of Greenwich.

Converting brownfield sites into new communities

Partnership Housing formed a strategic partnership in 2019 with West Midlands Combined Authority to unlock 4,000 homes on brownfield sites. As part of the agreement, the division pledged to deliver: high-quality mixed-tenure housing; collaborative solutions to meet local housing needs; opportunities on brownfield land close to schools and public transport; innovative construction solutions; low-carbon technologies, with a pledge to build zero-carbon homes by 2040; and local jobs and apprenticeships to tackle youth and long-term employment.

The former industrial site at Saints Quarter, Steelhouse Lane, Wolverhampton, located near the city centre and West Midlands Metro, was the first to be identified as a sustainable location for a new community. The project delivered 151 mixed-tenure homes in 32 months, c12 months faster than a traditional open market housing scheme.

- 40% affordable housing
- 129 electric vehicle charging points and 830 sqm of solar panels
- £14,000 investment in local community organisations and initiatives
- 24 apprentice positions created or sustained
- 259 hours of work experience and community or education engagement
- 90% of work procured from within 15 miles
- using LM3[1], for every £1 spent, £2.32 generated for the local economy
- Named as a good place to live after receiving the government-endorsed Building for Life accreditation

1 Local Multiplier 3 (LM3) is a tool which measures how every pound spent on a project with suppliers, subcontractors and employees can benefit the local community. It calculates where and how the money is re-spent and what proportion remains local.

Financial and operating review: Partnership Housing continued

Partnership Housing formally executed a new, long-term joint venture in the year with West Sussex County Council, with an initial 10 sites (582 units) immediately under option. The aim of the joint venture is to develop surplus land owned by the council into new homes and commercial premises that will generate funds for reinvestment in frontline services. Preferred bidder status was achieved in December 2021 for a similar long-term strategic joint venture with Suffolk County Council. An initial five sites will be committed to the joint venture, including two significant urban extensions, potentially delivering approximately 2,800 homes across the county. Contract close is aimed for by Spring 2022.

Work started in the year on four new projects 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. In the Midlands, project starts included 234 homes in Oldbury, 329 in Donnington and 123 in Birmingham. Planning permission was secured and work started on two sites acquired from Homes England: 412 homes in Drummond Park, Wiltshire; and 119 in Thorp Arch, Yorkshire.

Contracting

In contracting, the total number of equivalent units built was 1,477, up from 978 in the prior year.

Of the total divisional order book, the contracting secured order book was 6% lower at £506m (2020: £538m), of which £224m is for 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.

The division was awarded a refurbishment project by Orbit Group to retrofit 69 homes in Warwick to increase their energy efficiency. Partnership Housing worked with Orbit to secure £4m towards the project from the Social Housing Decarbonisation Fund (SHDF) demonstrator, run by the Department for Business, Energy & Industrial Strategy (BEIS), to improve the energy efficiency of social housing.

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.

Divisional outlook

Partnership Housing has made significant strategic and operational progress over recent years, which has been evidenced by its vastly improved financial results. The market opportunity for the division remains substantial and the pathway for its next stage of development is set out in its new and upgraded medium-term targets: firstly, to generate a return on average capital employed of up towards 25% and secondly, to deliver an operating margin of 8%. In 2022, the average capital employed is expected to increase up towards c£190m and further progress is expected.

Partnership Housing

Upgraded medium-term targets

25%

Return on capital employed up towards 25%

8%

Operating profit

Route map

- More and larger schemes
- Increase number of mixed tenure schemes
- More UK geographical coverage

Market conditions

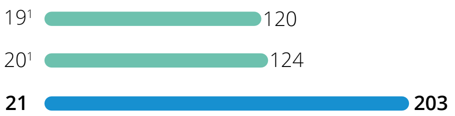
- Market remains strong
- Large partnership schemes coming to market
- Cost inflation currently offset by sales inflation
- Impact of challenges with materials and trade resources being managed
- The new West Sussex joint venture will act as a platform to build a new South Central Region

Urban Regeneration

Revenue (£m)

+64%

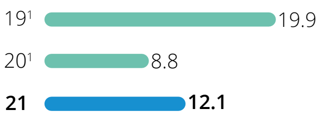
from 2020, +69% from 2019



Operating profit (£m)

+38%

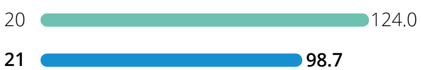
from 2020, -39% from 2019



Average capital employed[2] (last 12 months) (£m)

-£25.3m

from 2020

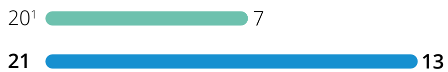


Capital employed[2] at year end (£m)

-£16.8m

from 2020

Return on capital employed[3] (last 12 months) (%)



Return on capital employed[3] (average last three years) (%)

Urban Regeneration delivered an operating profit of £12.1m in the year, an increase of 38% on the prior year (2020: £8.8m). The return on capital employed in the year increased to 13%, based on the average capital employed in the year of £98.7m.

Key contributors to performance were profit and development fees generated from: the Salford Central regeneration scheme, being delivered by the English Cities Fund (ECF) joint venture with Legal & General and Homes England; the delivery of 520 new homes at New Victoria in Manchester; a land sale at Hucknall; the continuation of development at Phase 2 of Lewisham Gateway; and completion of the first phase at Hale Wharf in Tottenham via Waterside Places, the division's joint venture with the Canal & River Trust (see page 53). Profits were also earned from the sale of new homes at: Salford Central; Wapping Wharf, Bristol; Griffon Fields, Hucknall; Novus, Slough; Northshore, Stockton-on-Tees; and Millbay, Plymouth.

The operating result also includes the £5.6m non-cash impairment of the division's investment in the Bournemouth Development Company, a joint venture with Bournemouth Christchurch and Poole Council. The impairment relates to one specific scheme within the joint venture where construction cost inflation as well as other factors have challenged the viability of the scheme. Following the impairment, the carrying value of the division's investment in the joint venture is reduced to £3.2m.

Adjusting for the impact of this impairment, the return on capital employed for the year would be 19%.

During the year, Urban Regeneration signed a major deal at New Victoria, Manchester with Morgan Capital investing £60m to take forward a 150,000 sq ft office building, the second and final phase of the £190m scheme. In addition, agreements were exchanged for 96 affordable homes designed to the Passivhaus 'Classic' energy performance standard at Salford and a land sale was completed at Chester to Progressive Living for the development of up to 128 homes. The last remaining plot at Logic Leeds was sold to MCM Investments.

1 Restated. All 2020 and 2019 comparative numbers, including order book and capital employed, have been restated to include the impact of the revised reporting segments.
2 Capital employed is calculated as total assets (excluding goodwill, intangibles and cash) less total liabilities (excluding corporation tax, deferred tax, inter-company financing and overdrafts).
3 Return on average capital employed = (adjusted operating profit plus interest from joint ventures) divided by average capital employed.

Financial and operating review: Urban Regeneration continued

Significant new appointments included: preferred development partner to West Sussex County Council to deliver Horsham Enterprise Park, a new, 18.5 acre neighbourhood situated on a former Novartis site that will provide up to 270,000 sq ft of offices, research and development facilities, an 'Enterprise Hub', up to 300 new homes (35% affordable), local amenities and generous outdoor spaces; preferred development partner to Barnet Council to redevelop Bunns Lane car park in London, which will provide c130 homes for rent (50% affordable), commuter parking and retail and leisure space; and, via the Pagabo framework, development partner to Scarborough Borough Council to deliver a new bus interchange integrated into the town's rail station, a new commercial building for the council, redevelopment of the council's office building, repurposing of a Victorian spa building, and public realm. In addition, Bury Council approved a joint venture with the division to regenerate Prestwich village, with proposals including a community hub, library, fitness suite and performance area.

Construction began during the year on two developments at Salford Central: a 175,000 sq ft office for BT; and 115,000 sq ft of speculative office space that will be ultra-low in energy consumption and fossil-fuel free (see description of the Eden building on pages 14, 27 and 28). Work also started on two office buildings in Birkenhead totalling 150,000 sq ft, both pre-let to Wirral Council; residential-led schemes at Islington Wharf (106 homes), Manor Road Quarter (355 homes with 50% affordable) and West Cliff Mansions, Bournemouth (44 homes); and a 144-room Holiday Inn in Blackpool. Enabling works began on Phase 2 of Hale Wharf and Phase 3 of Brentford Lock West.

Residential developments completed included 256 new homes at Wapping Wharf, Bristol, 211 at Atelier and Valette Square in Salford Central and 46 for rent at Treetops, Bournemouth. Work also completed on a new Jobcentre Plus in South Shields; a 45,000 sq ft office development for Eli Lilly in Basingstoke; and the transformation of the old library site in Slough, delivering a Moxy Hotel and Residence Inn together with 64 apartments.

The division achieved a number of planning consents in the year, including for: 1.4m sq ft of mixed-use development at Birkenhead, Wirral; 312 new homes and public realm at Stoke Wharf, Slough; 274 homes (51% affordable) at Stroudley Walk, London; 212 homes at Montem Lane, Slough; a 64,000 sq ft office development and 400-space multi-storey car park at Stockport Exchange; and One City Park, a 56,400 sq ft office development in Bradford.

Connecting communities at Hale Wharf, Tottenham

The first phase of Hale Wharf, delivered as part of the Waterside Places joint venture with Canal & River Trust, has transformed an underused waterfront to create 249 mixed-tenure homes and attractive public realm. The new Hale Wharf Bridge, extending across the river Lee Navigation, connects local communities, provides easier access to transport routes and creates walking routes for everyone to enjoy. The pedestrian bridge represents a vital part of Haringey Council's 'green and open space' strategy, giving local residents of Tottenham access from the high street to the Lea Valley. The Hale Wharf scheme is part of the Mayor of London's Housing Zones programme.

Urban Regeneration's development portfolio continues to be both active and diverse, with 14 projects on site at the year end across 11 developments, totalling £980m gross development value, and a further 17 projects expected to start on site in 2022.

At the year end, the division's regeneration order book amounted to £2.57bn, a reduction of 12% on the prior year end, and within this there is a diverse geographic and sector split:

- by value, 38% is in the North West, 52% in London and the South East, 8% in Yorkshire and the North East and 2% in the rest of the UK; and
- by sector, 52% by value relates to residential, 33% to offices, and the remainder is broadly split between retail, leisure, and industrial.

Divisional outlook

Based on the current profile and type of scheme activity across the portfolio, the average capital employed for 2022 is expected to increase to c£110m.

The medium-term target for Urban Regeneration has not changed and is to increase its rolling three-year average return on capital employed up towards 20%. Good progress towards this target is expected in 2022.

Urban Regeneration

Medium-term target

20%

Three-year rolling average return on capital employed up towards 20%

Route map

- Larger schemes
- More efficient use of capital
- Increase geographical coverage, with focus on the Midlands and South West
- Secure additional partnerships
- Potential growth via The English Cities Fund and wider relationship with Homes England through its new position on the Pagabo procurement framework

Market conditions

- Demand side strong
- Construction inflation challenging viability of schemes

Managing risk

Our approach to risk is based on sound governance

Risk is inherent in our business and cannot be completely eliminated, however our risk governance model ensures that our principal risks and robust internal controls are under regular review at all levels.

Our operational teams are highly skilled in their relative fields and valued for their ability to identify and manage the risk embedded in our day-to-day operations, and the mix of skills and experience of our people is a valuable resource at all key stages, from project selection, through bidding to project delivery. A detailed system of delegated authorities allows our people the agility to perform while at the same time being responsible and accountable for their actions. Our senior management teams at divisional and Group level, aided by our internal reporting process, maintain oversight to ensure that all actions and outcomes remain in line with our expectations and risk appetite.

Risk governance

Group Board

Responsible for setting the Group's risk appetite and for ongoing risk management, including assessing the principal risks that threaten our strategy and performance.

Audit committee

Assists the Board in monitoring risk management and internal control and by conducting formal reviews of Group and divisional risk registers.

Divisional boards

Each division identifies the risks facing its business and takes measures to mitigate the impacts. Senior managers take ownership of specific risks and ensure that tolerance levels are not exceeded.

Risk committee

Consists of heads of key Group functions, including legal, company secretarial, IT, finance, internal audit, tax, treasury and commercial. Identifies risks for the Group risk register and reviews Group and divisional risk registers before they are presented to the Board and audit committee. Ensures that inherent and emerging risks across the Group are identified and managed appropriately.

Risk reviews

Twice a year each division carries out a detailed risk review, recording significant matters in its risk register. Each risk is evaluated, both before and after the effect of mitigation, as to its likelihood of occurrence and severity of impact on strategy. The Group head of audit and assurance follows the same process for identifying and reviewing Group risks, conferring with the risk committee.

Strategic planning

Risk management is part of our annual business planning process. Objectives and strategies are set to align with the risk appetite defined by the Board. Any changes are reviewed at the monthly Group and divisional board meetings to ensure matters are addressed in an ongoing and timely manner.

Delegated authorities

Our finance director and Group head of audit and assurance have produced a schedule of delegated authorities (updated in 2021) that assigns approval of material decisions – such as project selection, tender pricing and capital requirements – to appropriate levels of management. Board approval is required before undertaking large or complex projects. The approval system is regularly reviewed.

Divisional reporting

The divisional risk registers record the activities needed to manage each risk, with mitigating activities embedded in day-to-day operations for which every employee has some responsibility. Rigorous reporting procedures are in place to monitor significant risks throughout the divisions and ensure they are communicated to the Group's board reporting and delegated authorities process.

Internal audit

The Group head of audit and assurance reviews and collates the divisional risk registers and draws from them when compiling the Group risk register. An annual review across the Group is undertaken, focusing on significant projects and trends, and areas of concern.

Read more about risk governance on pages 119 to 122.

Our risk profile

The Group's risk profile continues to be supported by a strong balance sheet and secured workload, and a continued focus on contract selectivity.

Following initial Covid issues, all divisions are fully operational. We recognise there may be subsequent waves and remain vigilant. However the Group is well placed to maintain future activity without material disruption.

We have not had to make any significant change to our business model or the markets in which we operate as a result of Brexit, Covid or increasing carbon regulations. Indeed our markets have largely continued to receive high levels of government support owing to their contribution to the UK economy and underlying demand. In addition, the Group has demonstrated resilience and agility during these periods, which provides comfort should future events occur.

This resilience is a result of a number of factors, including our decentralised approach and ability to respond quickly to change, and our long-term focus on contract selectivity, high quality of delivery, prudent risk management and strong client and supply chain relationships (see pages 13 and 14). Should any further restrictions come into place as a result of Covid variants, our strict adherence to safe operating procedures, together with the government's clear directive that construction activity should continue, give us confidence that future activity can be maintained without material disruption.

The macroenvironment

UK construction continues to benefit from sustained government investment commitments, confirmed in its Spending Review and National Infrastructure Strategy, both of which continue to support our business model, particularly in housebuilding and regeneration (primary UK areas targeted for growth) and construction and infrastructure. In addition, our diversity of offering protects the business from cyclical changes in individual markets.

Materials availability and inflation

We have witnessed significant materials demand and inflationary pressures as a result of the discrepancy between high demand and lagging supply, dwindling product stockpiles, logistical challenges and a particularly busy housing market.

Despite the considerable challenges presented by these issues, our project teams have managed the impacts well, resulting in minimal disruption to our operations. Our supply chain partners have been very supportive, due partly to the Group's standing in the industry but also, importantly, to the excellent working relationships and practices we have established with them in recent years.

Our preferred and predominant two-stage and negotiated procurement routes help significantly by allowing early collaboration with the client and supply chain and providing increased price and programme certainty. Outside of these arrangements, other options available include contingency allowances and/or indexation provisions on contracts. During construction, we closely monitor the procurement and delivery of materials and intervene with support for our supply chain where required.

In limited cases, inflation has stretched budgets and resulted in us, our clients and our partners delaying decisions; however, our current order book and predominant public sector focus do offer some resilience, particularly as underlying demand is still strong.

There is a risk that some supply chain partners may be trading with strained finances as a result of inflationary pressures compounded by the introduction of the VAT reverse charge and unwind of government pandemic measures. Our teams are aware of this and are increasing their due diligence as well as providing support where appropriate. We do expect to see some disruption during 2022, but not material.

Partnerships and public sector clients

The divisions remain focused on long-term partnerships, our favoured route to market as it allows us to work with clients and in environments where we have a track record in delivery, thereby enabling more predictable outcomes. In addition, a substantial proportion of our regeneration schemes and construction order book are supported by public sector and regulated clients, via frameworks and joint venture arrangements secured over the medium to longer term. Our regeneration activities consist mostly of lower risk, non-speculative arrangements that ensure more efficient use of capital, underpinned by a long-term visible pipeline.

Divisional perspectives

Construction & Infrastructure's long-term focus on selecting the right projects has resulted in its underlying margin and positive cash position and reflects the work of the division over the past few years to improve risk management in all areas of its operation. Construction & Infrastructure's future order book predominantly consists of public sector work via two-stage or negotiated procurement routes.

Fit Out, while more susceptible to GDP and macroeconomic fluctuations, also enjoys a high level of two-stage/negotiated work within its order book. Despite predictions of the demise of the office as a result of the pandemic, the division has not witnessed any significant change in client behaviour; on the contrary, its order book is at record levels and its pipeline shows good visibility into the early part of 2022.

Managing risk: our risk profile continued

Property Services has resumed normal levels of activity following Covid restrictions. Any future challenges around access to properties should be manageable by adhering to strict operating procedures.

Partnership Housing and Urban Regeneration continue to witness high levels of residential demand with sales exceeding expectations across a broad UK portfolio. Following the challenges that accompanied the start of the pandemic, the speed of decision-making by potential partners for new development schemes improved during 2020 and is now back to normal levels. While we work closely with our local authority partners, challenges relating to planning delays continue to have the potential to impact development programmes. Our work in preparation for the government's Building Safety Bill, which will tighten safety regulations for residential buildings, is well advanced, with key divisions having reviewed and updated their methodology and approach to ensure that project specifications are compliant and quality is maintained.

In the medium term, we are reassured that our housing capability is geared towards the UK's underlying need for housing, and the fact that the homes we build, aimed at the affordable end of the market, remain in demand. This is currently reflected in the high level of forward reservations into 2022.

There are a number of macro uncertainties, such as inflation, reductions in government incentives and increases in interest rates that could put pressure on our residential portfolio. However, mortgage availability and employment prospects remain positive and options are available to help mitigate and manage any negative fluctuations should they arise. The majority of our schemes are subject to viability conditions, are eligible for gap funding and include profit-sharing arrangements which reduce our risk. In addition, future phases can be remodelled or deferred, the pace of build can be accelerated or reduced, robust risk and capital controls are in place to manage exposure, and there is the possibility of further government interventions to help stimulate the market.

Financing

In terms of resourcing our medium- and long-term plans, the Group remains in a strong financial position (see pages 39 and 40 for detail of our average daily net cash and committed credit facility).

People

Voluntary employee turnover within the divisions is at healthy levels and where we are recruiting, we are witnessing significant interest in the new positions we have created to help us achieve our strategic objectives. A culture where people feel included and empowered continues to be a key ingredient of our success and initiatives such as our commitment to reduce climate impacts and tackle responsible business topics are considered key in our ability to attract and retain the talent we need to grow the business. Read more on how we engage with and develop our people on pages 11, 12 and 21 to 24.

This review should be read in conjunction with the viability statement on pages 83 to 85.

Managing risk continued

Principal risks

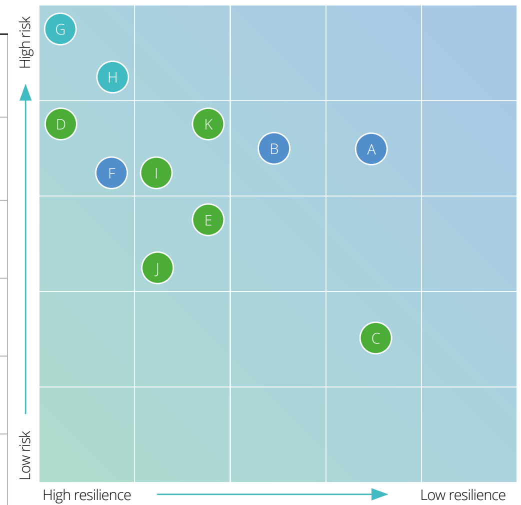
Our principal risks are those we consider the most significant in terms of potential impact to the business and have been extensively reviewed.

The risks have not changed significantly: those that have changed reflect UK macroeconomic uncertainty and inflationary headwinds that require navigating, which the Group is well placed to manage. The risk map at right indicates the Group's principal risks (after mitigation) in terms of severity and resilience. In 2021, the Board conducted its annual review of the Group's risk appetite and concluded that no significant changes had occurred. The adjacent table indicates our risk appetite and risk velocity (the speed at which the risk would impact the Group).

Risk appetite and velocity

	Principal risk	Risk appetite	Risk velocity	Risk category	Internal or external risk	Strategic priority
A	Economic change and uncertainty	Medium	✓✓	Strategic	External	
B	Exposure to the UK residential market	Medium	✓✓	Strategic	External	
C	Climate change	Low	✓	Strategic	External	
D	Health and safety incident	Low	✓✓✓	Operational	Internal	
E	Talent retention and attraction	Medium	✓	People	Internal	
F	Partner insolvency or adverse change of behaviour	Low	✓✓✓	Financial and Operational	Internal	
G	Inadequate funding	Low	✓	Financial	Internal	
H	Mismanagement of working capital and investments	Low	✓	Financial	Internal	
I	Poor contract selectivity	Medium	✓✓	Operational	Internal	
J	Poor project delivery	Low	✓✓✓	Operational	Internal	
K	Cyber activity/Failure to invest in IT	Low	✓✓✓	Operational	External and internal	

Risk severity and resilience



Risk change key

- Increase
- Stable
- Decrease

Risk velocity

- ✓✓✓ Within three months
- ✓✓ Within one year
- ✓ Over a year

Strategy key

- Increase our quality of earnings
- Excel project delivery for our clients
- Consistently deliver on our Total Commitments
- Secure long-term workstreams
- Maintain a strong balance sheet

Managing risk: principal risks continued

Economic change and uncertainty

Increase – Despite possible economic headwinds, our market sectors remain structurally secure which, together with our strong balance sheet and short- to medium-term secured workload, provides comfort. We believe the quality and volume of our pipeline of opportunities and secured workload in both regeneration and construction will provide a level of insulation against any specific adverse market conditions should they occur.

Principal risk and impact	Update on risk status	Mitigation
There could be fewer or less profitable opportunities in our chosen markets including a decline in construction activity caused by macroeconomic weakness and/or further UK lockdowns. Allocating resources and capital to declining markets or less attractive opportunities would reduce our profitability and cash generation. **Responsibility:** The Board	▪ The continued scrutiny of UK construction balance sheets underpins our competitive position in the sector and gives confidence to our clients, employees and supply chain. ▪ The UK is expected to continue investing in areas that complement our strategy, including affordable housing, infrastructure and regeneration. Our business model is designed to provide a mix of earnings across different market cycles. ▪ The Group has shown strong credentials throughout the pandemic and we expect to navigate any subsequent variant waves without material disruption. ▪ Our public and regulated sector focus, pipeline and order book, coupled with a strong underlying demand for buildings in these sectors, provides some comfort around inflationary challenges provided government funding continues to accommodate price increases.	▪ The diversity of our operations protects against fluctuations in individual markets while our decentralised approach enables our divisions to respond quickly to change. ▪ The Board regularly reviews the economic environment in which we operate to assess whether any changes to the outlook justify a reassessment of our risk appetite or business model. ▪ We stress test our business plan against the current economic outlook to ensure our financial position is sufficiently flexible and resilient. ▪ We are strategically focused on a high-quality order book underpinned by a strong balance sheet and financial strength. ▪ A high proportion of our secured workload is with public sector and regulated entities via long-term arrangements, with a healthy level of demand and typically preferential terms. ▪ We continue to be very selective and our procurement routes, margins, contract terms and secured workload remain favourable. ▪ We use analytical software to enhance our understanding of our medium-term pipeline quality, enabling us to predict trends more accurately and adjust our strategy in response.

Exposure to the UK residential market

Increase – Government support for housing and the dynamics of underlying demand complement our product positioning. Cost inflation continues to challenge viability, although it has been manageable to date. While government housing incentives have reduced, homebuyers continue to be supported by mortgage availability, employment levels (including high job vacancies), wage growth and loan-to-value ratios which are favourable and expected to remain so over the short to medium term.

Principal risk and impact	Update on risk status	Mitigation
The UK housing sector is strongly influenced by government stimulus and consumer confidence. Inflationary pressures could challenge scheme viability, slowing down our secured order book conversion. If mortgage availability, affordability or consumer confidence is reduced, this could impact on demand, make existing schemes difficult to sell and future developments unviable, reducing profitability and tying up capital. Responsibility: The Board Executive directors Divisional senior management teams	▪ Residential sales and volumes have returned to pre-Covid levels and, on certain schemes, we have accelerated build to meet increased demand. ▪ Some tapering is expected into 2022 but underlying demand is still expected to be healthy which, combined with the geographical characteristics of our residential portfolio, should help even out any regional imbalances, should they occur. ▪ There continues to be clear government support for new affordable housing, which supports our business model and market positioning. ▪ In Urban Regeneration, there are short-term viability challenges to navigate while inflationary costs get absorbed into the consumer market. ▪ Negative housing dynamics such as a reduction in consumer confidence (or the prospect of increased interest rates) could impact sales; however, government stimuli, such as 'Help to Buy: Equity Loan' and the recently introduced mortgage guarantee scheme for properties up to £600k, complement our product offering. ▪ Constrained planning remains a frustration and has the potential to delay our schemes. However, anticipated improvements in the system could allow further efficiencies and the speed at which we bring development forward. ▪ There are some headwinds to navigate including the prospect of a further increase in interest rates, although this is from historic lows and expected to remain gradual if applied (all highly uncertain as the government seeks various options to tackle the post-pandemic economy). In terms of household inflation, commentators suggest that this should ease in the second half of 2022 which should help alleviate affordability issues.	▪ A rigorous, three-stage formal appraisal approval process is undertaken before committing to development schemes and capital commitments. ▪ We work closely with public sector partners and government agencies such as Homes England to secure extra development funding if required. ▪ We use mostly non-speculative, risk-sharing development models, subject to viability conditions that lessen any negative impacts from market fluctuations. ▪ On selected large-scale residential schemes, we seek to forward sell and/or fund sections to targeted institutional investors in order to reduce risk. ▪ Our residential portfolio has a wide geographical spread, offering protection against regional market variations, and is geared towards providing an affordable product. ▪ Rather than building up a land bank, we prefer to target option agreements with landowners that limit and/or defer long-term exposure and boost return on capital employed. ▪ We regularly monitor and forecast our pipeline of development opportunities and secured workload, which includes monitoring key UK statistics such as unemployment, lending and affordability. ▪ For a large proportion of current schemes in our portfolio, we have the ability to slow down (or accelerate) build rates should the need arise.

Managing risk: principal risks continued

Climate change

Stable – We have been recognised as leaders in our sector for our work in reducing carbon emissions (see page 16). However, there is still much to do as we progress towards our 2030 goal of net zero.

Principal risk and impact	Update on risk status	Mitigation
The Group's key environmental impact is via the carbon emissions and waste that we produce. Our activities can be impacted by changes in temperature, high winds from increasing severity of storms and flooding. We have not needed to change our business model in response to any longer-term impacts associated with climate change. However, we do need to ensure that we can adapt to the changing needs of our clients and maintain the necessary credentials to be awarded work. See pages 25 to 31 for more information on our broader environmental performance.. Responsibility: Executive directors Group management team Divisional senior management teams Group climate action panel	▪ We are considered leaders in our sector in addressing climate change and have been independently recognised as such, having received a leadership score of A from CDP (see page 71). ▪ We introduced an internal carbon charge in 2020 to help encourage our divisions to reduce their own emissions. The money raised will be used to fund future climate change initiatives. ▪ We are working with our supply chain to encourage and support them in reporting their own emissions so that we can have a better understanding of our wider Scope 3 emissions and can introduce meaningful reduction plans. ▪ During 2020, we introduced Carbon*i*Ca, a tool that calculates building carbon footprints and lifecycle emissions and suggests alternative lower-carbon methods. We are currently optimising the tool with a software solution and discussing its future development with leading industry and technology innovators. ▪ Our credentials in responding to climate change ensure we can support clients with the tools and capability needed to meet their requirements and maintain and/or grow our work-winning capability and market share. ▪ We retain a cautious approach in using new products and techniques to reduce the impact of climate change until sufficiently proven. This is to avoid overpromising and possible latent defects that could ultimately prove costly.	▪ Our divisions are responsible for delivering relevant actions to meet our net zero target and for day-to-day management of climate-related risks and opportunities. ▪ Our carbon action panel shares best practice on climate-related matters. ▪ We have accredited science-based targets. ▪ All our construction divisions have ISO 14001- compliant environmental management systems in place. ▪ Engaging with consultants and specialists during our project planning phase to ensure that climate impacts such as flood risk are considered. ▪ Avoid building on floodplains and areas at high risk of increased physical climate impacts and are actively involved in securing pipeline projects relating to climate-change adaptation (such as flood resilience projects). ▪ Climate change presents opportunities for the Group including government plans to increase spend in infrastructure, repurposing existing buildings and the ability to attract clients through our track record in delivering climate-related solutions.

Read more about climate-related risks and opportunities in our statement on Task Force on Climate-related Financial Disclosures (TCFD) on pages 71 to 79.

Managing risk: principal risks continued

We cause a major health and safety incident and/or adopt a poor safety culture

Stable – We were disappointed with our safety performance in the first half of 2021 and took steps to remedy this. As a result, we witnessed improvements during the second half, when the number of RIDDOR and lost time incidents reduced.

Principal risk and impact	Update on risk status	Mitigation
Our number one priority is to protect the health and safety of our key stakeholders and the wider public. Health and safety will always feature significantly in the risk profile of a construction business. We carry out a significant portion of our work in public areas and complex environments. Accidents could result in legal action, fines, costs and insurance claims as well as project delays and damage to reputation. Poor health and safety performance could also affect our ability to secure future work and achieve targets. Responsibility: The Board Group management team Health, safety and environment committee Divisional senior management teams	▪ We continued to manage the challenges posed by Covid and changes to government guidance, ensuring we remained aligned to the Construction Leadership Council's site operating procedures. ▪ We have applied the principles of 'safe by design', where safety is considered throughout the design process. ▪ The divisions took renewed steps in the year to increase safety awareness and promote safe behaviours, including campaigns to prevent hand injuries and remind people of the need to tether tools and maintain tidy sites. Construction developed an animation, 'Introduction to 100% Safe', and developed new 'Behavioural Essentials' e-learning modules for its employees and supply chain. ▪ We increased our occupational health surveillance with the end objective of eradicating incidents of hand-arm vibration and noise-induced hearing loss. ▪ Our divisions will continue to share learning, innovation and best practices and work together to reduce the overall number of accidents, with the following initiatives being considered in 2022: – Construction: visualisation of information and guides, which the division has found to result in better uptake than text-based versions; – Infrastructure: shifting the focus from accidents to high potential incidents; – Fit Out: new safety improvement plan on the theme of 'site conditions'; – Property services: prioritising reducing hand injuries, with particular attention to cuts; and – Partnership Housing: improving adherence to high-risk trade supervisor-to-worker ratios and maintaining absolute focus on root cause investigation and escalation procedures.	▪ We have a Board health, safety and environment committee that focuses on our health and safety culture to drive better behaviour and performance. ▪ Individuals in each division, and on the Board and Group management team, are given specific responsibility for health and safety matters. ▪ Our Group health and safety forum meets quarterly, with representatives from all divisions sharing share best practice and exchanging information on emerging risks. ▪ We have well-established procedures in place including safety systems, audits, site visits, incident investigation and root-cause analysis, monitoring and reporting, and reporting of near-miss incidents and incidents that could potentially have resulted in serious injury. ▪ Our regular health and safety training includes behavioural change, housekeeping on site and leadership engagement in driving site standards. ▪ Each division's health and safety policy is communicated to all its employees and senior managers are appointed to ensure the policies are implemented. ▪ We have developed major incident management and business continuity plans, which are periodically tested and reviewed. ▪ All divisions are accredited to ISO 45001 (see page 120). ▪ We continue to offer our colleagues a range of benefits that promote physical and mental wellbeing (see page 19).

Read more about our commitment to health, safety and wellbeing on pages 17 to 20.

Managing risk: principal risks continued

We fail to attract and retain the talent we need to maintain and grow the business

Stable – Our current success is helping us attract and retain people, and we are focusing on increasing the Group's diversity.

Principal risk and impact	Update on risk status	Mitigation
Talented people are needed to provide excellence in project delivery and client service. Skills shortages in the construction industry will remain an issue for the foreseeable future. If we fail to attract and retain the talent required to meet our clients' and other stakeholders' expectations, this could damage our reputation and our ability to secure future work and meet our targets. **Responsibility:** The Board Group management team Divisional senior management teams	▪ Improvements continue to be made to the working environment and investment made in technology and leadership training. ▪ We are responding to the challenge of an ageing employee population and undertaking work to improve our diversity and inclusion (see pages 23 and 24). ▪ We are considered a leader in the sector in addressing climate emissions, which should help attract younger recruits.	▪ We give our people empowerment and responsibility together with clear leadership and support. ▪ We offer them a strong Group culture and attractive working environments, remuneration packages, technology tools and wellbeing initiatives to help improve their working lives. ▪ We conduct employee engagement surveys and monitor joiner and retention metrics including voluntary staff turnover. We carry out annual appraisals that provide two-way feedback on performance and conduct exit interviews when people leave. ▪ Our succession planning includes identifying and developing future skills. ▪ We provide training and development to build skills and experience, such as our leadership development and graduate, trainee and apprenticeship programmes.

Read more about our commitment to developing people on pages 21 to 24.

Partner insolvency and/or adverse behavioural change

Increase – Some partners may be trading with stretched finances following the pandemic and the unwind of government measures that were introduced to support business recovery. More recent inflationary effects are likely to have increased the pressure on our partners' balance sheets which could lead to a greater likelihood of failure.

Principal risk and impact	Update on risk status	Mitigation
An insolvency of a key client, subcontractor, joint venture partner or supplier could disrupt project works, cause delay and incur the costs of finding a replacement, resulting in significant financial loss. There is a risk that credit checks undertaken in the past may no longer be valid. **Responsibility:** Executive directors Divisional senior management teams	▪ As we are less able to rely on historical credit checks, our teams have heightened sensitivity and are looking for signs of stress that would enable early intervention and options to resolve; this includes measures to gain greater control and transparency. ▪ The reverse-charge VAT initiative has stretched many of our supply chain partners' balance sheets. However, the strength of our balance sheet gives us the option to step in and cover short-term supply chain issues, such as cash flow, if deemed appropriate. ▪ Our strategy has been to reduce payment days (our average time to pay is 27 days), and our supply chain partners regard us as dependable and responsible. In addition, we do not hold any cash in the form of retention from our preferred supply chain partners which helps reduce their cash flow pressures and the likelihood of failure.	▪ Our business model and order book are predominantly focused on public sector and regulated industries and commercial customers in sound market sectors, reducing the likelihood of a material customer failure. ▪ We carry out rigorous due diligence on commercial clients and supply chain partners, obtaining where necessary relevant securities in the form of guarantees, bonds, escrows and/or more favourable payment terms. ▪ We conduct a formal, multi-stage tender review and approval process before entering into contracts, with a focus on client payment behaviours and liquidity. ▪ Formal due diligence is carried out when selecting joint ventures, including seeking protection in the event of default by one of the partners. Joint ventures require executive director approval. ▪ We work with preferred or approved suppliers where possible, which aids visibility of both financial and workload commitments. ▪ We monitor our supply chain utilisation to ensure we do not overstress their finances or operational resource. ▪ We rigorously monitor work in progress, debts and retentions.

Managing risk: principal risks continued

Inadequate funding

Decrease – Our committed bank facilities and strong cash position provide significant headroom.

Principal risk and impact	Update on risk status	Mitigation
A lack of liquidity could impact our ability to continue to trade or restrict our ability to achieve market growth or invest in regeneration schemes. **Responsibility:** The Board Group tax and treasury director Divisional senior management teams	▪ £180m of bank facilities are undrawn and are committed until 2024. ▪ During the reporting period and for the foreseeable future, our average net daily cash continues to be healthy and clearly indicates the cash-backed nature of the business. ▪ Our balance sheet continues to provide assurance for our stakeholders and allows us to continue investing in regeneration schemes while remaining selective in construction.	▪ We have a Group-led, disciplined capital allocation process for significant project-related capital, which takes into consideration future requirements and return on investment. ▪ We monitor our cash levels daily and conduct regular forecasting of future cash balances and facility headroom. ▪ Our long-term cash forecasts are regularly stress tested.

Mismanagement of working capital and investments

Decrease – Our strong balance sheet and cash position continue to support investment in long-term regeneration schemes and protect against economic downturn, allowing us to make the right long-term decisions.

Principal risk and impact	Update on risk status	Mitigation
Poor management of working capital and investments leads to insufficient liquidity and funding problems. **Responsibility:** Executive directors Group tax and treasury director Divisional senior management teams	▪ Our ongoing focus on working capital management has enabled us to maintain levels similar to prior years while continuing to improve our supply chain payment practices and investment in regeneration. ▪ Our cash position is not supported by any form of supply chain debtor finance and gives a clear indication of our financial health. ▪ We continue to maintain a positive momentum in cash management in construction due to a combination of improved returns, cash optimisation and cash conversion. ▪ Our average net daily cash for the period demonstrates our disciplined working capital management. ▪ The government's introduction of the VAT reverse-charge has positively impacted our year-end net cash by c£66m.	▪ Our delegated authorities require that capital and investment commitments are notified and signed off at key stages with senior level approval. ▪ We reinforce a culture within our bidding and project teams of focusing on cash returns to ensure they meet expectations. ▪ We monitor and manage our working capital with an acute focus on any overdue work in progress, debtors or retentions. ▪ We monitor cash levels daily and produce weekly cash forecasts. ▪ We manage our capital on regeneration schemes efficiently, for example through phased delivery, institutional and government funding solutions, and forward funding where possible.

Poor contract selectivity and/or bidding

Increase – The quality of our long-term secured workload should safeguard our future performance, allowing us to continue selecting the right projects.

Principal risk and impact	Update on risk status	Mitigation
In a volatile market where competition is high, a division might accept a contract outside its core competencies or for which it has insufficient resources. If a contract is incorrectly bid, this could lead to contract losses and an overall reduction in gross margin. It might also damage our relationship with the client and supply chain, leading to a reduction in work volumes. **Responsibility:** Executive directors Divisional senior management teams	▪ Our order book consists of a high proportion of public sector, regulated industry and framework clients with typically healthier risk profiles and is secured in limited competition. ▪ We have not changed the sectors or markets we operate in and are therefore unlikely to engage in a project outside of our capability. In construction, a high proportion of our work has been secured via negotiated and two-stage procurement routes[1]. ▪ Materials availability and inflation have been challenging in the period, requiring significant additional management, but have not resulted in any major issues. This is due largely to our standing in the market, the dedication of our people and supply chain (see page 33), and our focus on preferred procurement routes. ▪ In construction, inflationary influences have in general been isolated to projects secured in the first quarter of 2021 and starting in the second. The main impact has been the full expenditure of project contingencies to accommodate the inflation. Projects procured during and after the second quarter have incorporated inflation allowances and supply chain commitments.	▪ It is part of our strategy and culture to be selective in our work. We target optimal markets, sectors, clients and projects. We limit our participation in open market bids, conducting a large proportion of our projects via framework or joint venture arrangements with repeat clients who share our values. This provides a high probability of predictable and successful outcomes. ▪ When bidding, we aim for negotiated and two-stage procurement routes[1] that allow us early engagement. ▪ Our divisions select projects according to pre-agreed types of work, project size, contract terms and risk profile. A multi-stage process of bid review and approval includes tender review boards, risk-profiling and a system of delegated authorities to ensure approval at appropriate levels of management. ▪ We profile the skills and capabilities required for the project to ensure that we allocate the right people. ▪ Our divisions have processes in place to select supply chain partners who match our expectations in terms of quality, sustainability and availability. ▪ We conduct a robust review of our pipeline and bids at key stages, including rigorous due diligence and risk assessment, and obtain senior level approval.

1 Negotiated and two-stage procurement routes allow us early engagement in the project and greater visibility and influence over pricing and programming.

Managing risk: principal risks continued

Poor project delivery (including changes to contracts and contract disputes)

Stable – Our focus on project selectivity and the quality of our order book and supply chain partners reduce the probability of poor performance. Inflationary pressures increase the risk but are considered manageable.

Principal risk and impact	Update on risk status	Mitigation
Changes to contracts and contract disputes could lead to costs being incurred that are not recovered, loss of profitability and delayed receipt of cash. Failure to meet client expectations could incur costs that erode profit margins, lead to the withholding of cash payments and impact working capital. It may also result in reduction of repeat business and client referrals. Not understanding the project risks may lead to poor delivery and could result in reputational damage and loss of opportunities. Ultimately, we may need to resort to legal action to resolve disputes, which can prove costly with uncertain outcomes as well as damaging relationships. **Responsibility:** Executive directors Divisional senior management teams	▪ The high proportion of repeat, framework-related, two-stage and negotiated work in our current order book continues to reduce the likelihood of unforeseen changes and disputes. meaning we are more likely to achieve sustainable and predictable outcomes. ▪ There is a recognised shortfall in the construction labour market, exacerbated by impacts from Covid and Brexit. However, in the short term, while we have seen a limited number of issues, we, together with our supply chain, are managing the situation. ▪ Our divisions have worked closely with our supply chain for many years, providing predictable workloads and prompt payment. Maintaining good supply chain relationships has helped us navigate labour and/or materials availability issues. ▪ In advance of the proposed Building Safety Bill which primarily deals with building regulations and fire safety, Construction and Urban Regeneration have updated their methodology to ensure that project specifications remain compliant. This includes a complete refresh of design management and procedures, increased onsite scrutiny and records and engagement of independent fire consultants on more complex schemes.	▪ We have well-established systems of measuring and reporting project progress and estimated outturns that take into account contract variations and their impact on programme, cost and quality. ▪ The strength of our supply chain relationships and preference to work with selected partners reduces the probability of project failure and helps to ensure we deliver predictable outcomes. ▪ Where legal action is necessary, we notify the Board, take appropriate advice and make suitable provision for costs. ▪ Formal internal peer risk reviews highlight areas of improvement and share best practice and 'lessons learned'. ▪ Various Perfect Delivery[1] initiatives delivered in Construction and Urban Regeneration focus on improvements in product quality and predictability and client experience. ▪ Regular formal and informal stakeholder feedback allows us to intervene when required and refine our offering to provide exceptional outcomes. ▪ We continue to use and enhance our digital project management tools and commercial metrics that highlight areas for focus and provide early warnings, enabling early intervention in the construction cycle. ▪ Following the Grenfell Tower tragedy, all our divisions undertook an in-depth analysis of their portfolios. Expert advice was sought to review compliance with legislation at the time of construction and in the context of amendments made to the building regulations in 2018. Where there have been concerns over the compliance of cladding materials or with the overall fire-safety of buildings, appropriate remedial activity and expenditure has been undertaken to rectify these. ▪ In common with the rest of the industry, the Group will begin paying the Residential Property Developer Tax in 2022.

1 Perfect Delivery status is granted to Construction, Infrastructure and Fit Out projects that meet all four client service criteria specified by the division.

Managing risk: principal risks continued

UK cyber activity and failure to invest in information technology

Stable – To protect against increasing UK cyber-attacks, we invest in security controls and partners, including government security advisers.

Principal risk and impact	Update on risk status	Mitigation
Investment in IT is necessary to meet the future needs of the business in terms of expected mobility, growth, security and innovation to enable its long-term success. It is also essential to avoid a significant cyber incident that could cause reputational and operational impacts and/or a loss of data or intellectual property that could result in significant fines and/or prosecution. There continues to be an exponential increase in criminal activity and, while we are confident in our security strategy, it is continually checked and challenged. **Responsibility:** The Board Group management team IT security steering group, reporting to the Group finance director	▪ During the period we achieved re-certification to ISO 27001 and the government's Cyber Essentials Plus Scheme. ▪ We have enhanced our visibility of security metrics using new technology. ▪ We have an established security improvement plan in place and, to ensure we keep pace with change, have provided our security steering group with additional funding to introduce new cyber tools as needed. ▪ All our people have undertaken cyber security awareness training during the year. ▪ We commission an external industry expert to conduct regular cyber risk analysis on every device used in our network. The data collected is independent of our other security systems and acts as an audit of our security controls. ▪ Big data, digital construction and analytics are at the forefront of our latest technological developments and we continue to develop the use of these. The next steps will be to develop predictive tools to help identify issues early in the construction cycle including programme, technical and commercial issues and to enhance our current safety practices.	▪ We have a dedicated Group team focused on providing a stable and resilient IT environment with continued investment in core infrastructure, security and applications. Our divisional IT teams focus on business-specific product support. ▪ We adopt best practices to secure our people and data. We adhere to the National Institute of Science and Technology's Cybersecurity Framework. ▪ We engage with industry-leading partners to adopt appropriate technologies to protect the Group. ▪ Our security steering group provides governance and oversight of the Group's cyber strategy and strength, resources and funding. ▪ We run regular audits using different parties (both technical and non-technical) to confirm that our controls remain effective. Audit reports are shared with the security steering group. ▪ We train all our people in data protection and information security including awareness and responsibilities. ▪ Our investment in IT enables all our people to work remotely with minimal inconvenience.

Emerging risks

The Group's strategic planning process includes identifying emerging risks that may affect our ability to deliver our objectives over the medium to longer term.

This is supplemented by additional reviews that take place as part of our twice-yearly internal risk management process and monthly Board reporting, which focus on any matters likely to impact the Group's strategy.

We consider the following emerging risks to be significant but not to require any adjustment to our strategy. However, we will continue to monitor these risks for any significant changes.

Covid's impact on office demand

Issue/risk	Update	Comment/outlook
Covid could potentially result in clients reassessing the way they balance office requirements with remote working. This could impact the office market and, in particular, reduce Fit Out's proportion of office-related work.	▪ Fit Out's record order book and engagement with its clients and consultants suggest that the demand for office space will be maintained, along with flexibility for remote working, due to the business benefits and mental wellbeing that result from social interaction.	▪ The effects of the pandemic create opportunities when clients need their office space reconfigured to accommodate the new balance of office- and home-working.

Long-term scarcity of skilled labour in the industry

Issue/risk	Update	Comment/outlook
This is a UK-wide issue and, while the sector works to broaden its appeal as a career option, will require considerable government and sector interaction to resolve. This could impact our ability to deliver long-term growth and/or disrupt project delivery. It could lead to the ultimate resizing of the industry and the Group.	▪ We have witnessed some short-term issues but this has been largely mitigated by our predominant two-stage procurement approach; this enables early engagement of the supply chain, which helps them manage longer-term labour resourcing and planning. ▪ The relationships our divisions have built up with their supply chain helps mitigate the effects of labour and/or materials availability issues (see page 33). ▪ Offsite, modular and new methods of construction are already helping reduce the need for onsite resource and assisting with the skill gap/shortage. ▪ Technology will also play its part in reducing the need for site-based resource and attracting people into the industry but will require some upskilling to be undertaken.	▪ There is ongoing government action, such as incentivisation of school leavers and new education schemes. ▪ We are engaging with schools and local communities to encourage people to join the industry and provide training and work opportunities (see pages 35 and 36). Our diversity and inclusion initiatives (see pages 23 and 24) will increase the talent pool available. ▪ As more young people join the sector and develop their careers, the industry will in turn become more attractive.

Managing risk: emerging risks continued

Technology's advancing pace

Issue/risk	Update	Comment/outlook
We do not adapt to (or adopt) new ways of working, invest in technology or develop skills and/or supply chain relationships that allow us to compete in the future marketplace. We fail to embrace innovative technologies to increase efficiency for the Group and our clients, resulting in a loss of competitive advantage and a reduced ability to secure repeat business.	▪ Our divisions generate, develop and manage new technological tools and ideas that allow them to remain competitive in their markets. Where appropriate, these tools are shared across the Group to facilitate continuous improvement. ▪ Our divisions continue to evolve their use of data analytics, business intelligence tools, and their respective operational, procurement, commercial and financial systems (see page 22 for detail on our investment in technology.) ▪ Microsoft collaboration tools have provided seamless homeworking for all our people, giving employees easy access to systems whether working at home, on site or on the move, and strengthening our cyber security. ▪ We continue to increase our adoption of new and sustainable methods of construction across the Group, including prefabrication, modular and offsite production techniques (via our supply chain partners). We are remaining cautious, however, to avoid any longer-term defect and/or legacy issues.	▪ Artificial intelligence, machine learning, IoT ('Internet of Things'), augmented reality, robotics, exoskeletons, 3D printing, and virtual reality are evolving within the sector but are currently considered immature. We have taken some initial steps into these areas and are keeping a close eye on developments as they are set to provide greater efficiencies and safer working environments as they become more established. ▪ To reduce carbon emissions on our projects, we are using on-site energy generation and alternative fuels for our vehicle fleet and generators. We have started designing low-carbon buildings and are using more energy-efficient construction methods according to requirements. ▪ We expect to accelerate our uptake of alternative construction technology significantly over the next few years, including using alternative products, plant materials and techniques.

Government's approach to building safety

Issue/risk	Update	Comment/outlook
Costs arising from remediating any buildings that fall in line with the criteria set out in the 10 January 2022 letter from the Secretary of State for Levelling Up, Housing and Communities to the residential property developer industry.	▪ We have considered the scope of relevant cases across our business and this review is ongoing. It is possible that a relatively small number of cases will be identified where we have a liability leading to remediation.	▪ While any 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 cannot be reliably estimated (see page 200).

Climate reporting

Task Force on Climate-related Financial Disclosures (TCFD)

'Improving the environment' is one of our five Total Commitments which are a strategic priority for the Group.

In this section of our strategic report, we provide our comprehensive TCFD disclosure, including details on climate change scenarios and how they may affect our business in the short, medium and long term.

We have included in our annual report climate-related disclosures consistent with the TCFD recommendations and recommended disclosures. In certain instances, there may be information reported outside of the annual report which supports and provides additional detail to the information below. The table below sets out where information outside of that included in this TCFD disclosure can be found.

We have received a climate change A score from CDP for the second year running and further details can be found in our CDP response at www.cdp.net (requires registration to access).

TCFD reporting pillar	Reporting reference
Governance a) Describe the Board's oversight of climate-related risks and opportunities. b) Describe management's role in assessing and managing climate-related risks and opportunities.	We outline the Group's internal governance structure and how each relevant Board committee considers climate-related issues. We also outline management's role and how climate risks and opportunities are considered across the business. See the section on governance on page 72. See the governance report on pages 86 to 158 for further details about how the Group is governed and actions taken by the Board during the year. See the governance section of our 2021 CDP response for information on our governance specific to climate change.
Strategy a) Describe the climate-related risks and opportunities the organisation has identified over the short, medium and long term. b) Describe the impact of climate-related risks and opportunities on the organisation's business, strategy and financial planning. c) Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.	We outline our climate-related risks identified over the short, medium and long term within this disclosure (see section on our key risks on page 74). We also outline the opportunities that may benefit the Group (see section on our key opportunities on page 75). The impact of those climate-related risks and opportunities on our business are outlined within the risk table on page 61 and the opportunities section on page 75 and are explored further within the scenario analysis section on page 76. Ultimately these risks and opportunities will impact upon our revenues, costs, assets and liabilities, and as our understanding of the impact of these risks and opportunities deepens, our quantitative financial disclosures in this area will increase. We include a qualitative analysis of the resilience of our strategy within the resilience of our strategy section on page 77. This explores the actions we are taking to mitigate and protect against certain risks and opportunities, and areas which we are looking to further explore.
Risk management a) Describe the organisation's process for identifying and assessing climate-related risks. b) Describe the organisation's processes for managing climate-related risks. c) Describe how processes for identifying, assessing and managing climate-related risks are integrated into the organisation's overall risk management.	Our process for identifying, assessing and managing climate-related risks is set out in the approach to risk management section of this disclosure on page 73. During the year we have worked toward developing a deeper understanding of how climate-related risks may exacerbate or impact upon our wider view of our risks and this is outlined in the approach to scenario analysis section of this disclosure on page 76. For further details of our risk governance and management, including our disclosure on our principle risk relating to climate change, see pages 55 to 70.
Metrics and targets a) Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process. b) Disclose Scope 1, Scope 2, and if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks. c) Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.	We report on a wide range of metrics and targets to measure our impact on the environment, our compliance with policy and regulation, and our wider societal impacts, which help us to monitor and assess our impacts in key risk areas. These are outlined in more depth within the metrics and targets section on pages 78 and 79. Our commentary on our Total Commitment to improving the environment on pages 25 to 31 provides details of our performance against our metrics and targets, sets out our key impact areas and our net zero strategy, and provides case studies and detail around the actions being taken to improve our resilience to climate change. Our carbon reporting can be found within the Streamlined Energy and Carbon Reporting (SECR) disclosure on page 80. See our 2021 CDP response for additional information on our metrics and targets relating to climate change.

Governance of climate-related risks and opportunities

The Board considers the impact of climate change on our stakeholders as part of its annual strategic review process and is responsible for overseeing the Group's environmental performance. It reviewed the Group's climate-related risks and opportunities as part of its annual risk appetite review. The Board delegates some elements of its responsibilities to its various committees.

Over the last 12 months, there has been an increased focus on climate-related matters at Board level as the landscape continues to evolve with further regulatory developments and changes in stakeholder expectations. The expertise of the Board has been further enhanced through regular interaction with management on matters such as our net zero strategy.

The audit committee is responsible for supporting the Board in its responsibilities with respect to climate change including overseeing compliance with climate change reporting and considering climate change risks as part of the bi-annual review of principal and emerging risks. The audit committee considered papers in December 2021 on the Group's viability and going concern and TCFD disclosure.

The health, safety and environment (HSE) committee is responsible on behalf of the Board for considering the impact of climate change on the Group's performance and for overseeing the Group's approach to mitigating our environmental impact.

The remuneration committee is responsible for determining our remuneration policy, including how environmental, social and governance factors are considered in the policy.

Management is responsible for managing on a day-to-day basis climate-related risks and opportunities faced by the Group and for delivering our roadmap to achieve the net zero strategy set by the Board.

Responsibility for implementation of our net zero strategy and ensuring appropriate actions are taken to meet our Total Commitment targets is delegated by the Board to the Group management team. Our Group management team is responsible for setting targets and key performance indicators for our Total Commitments, which include action on climate change.

Our divisions are responsible and held accountable for monitoring progress against our environmental targets and for determining their local roadmaps to achieving net zero, including monitoring metrics and targets at a local level. They are also responsible for day-to-day management of climate-related risks and opportunities.

A TCFD steering group, comprised of our head of audit and assurance, company secretary, representatives from our divisions and representatives from our carbon action panel, monitored progress against the TCFD requirements and the publication of our annual disclosure and reported to the Group finance director and audit committee.

Our Group climate action panel is responsible for informing the Group management team, the divisions and, ultimately the HSE committee on climate-related risks and opportunities and appropriate management measures to be taken. The panel supports divisional teams in identifying potential opportunities and developing innovative solutions to manage climate-related risks, such as the Group's carbon calculator, Carbon*i*Ca (see page 27).

Climate reporting: TCFD continued

Our approach to risk management

The Board has overall responsibility for determining the Group's risk appetite, ensuring that risk is managed appropriately and that there is an effective risk management framework in place.

During 2021, we undertook a series of workshops to better integrate climate-related risk management into our wider risk management processes, deepen our understanding of these risks, and assess the resilience of our strategy against a range of climate scenarios. These actions have strengthened our depth of understanding around climate-related risks and opportunities and enabled us to identify gaps within our risk assessment process.

We have developed an internal register of climate-related risks and opportunities to ensure that any material risks are identified and managed effectively. This register identified 30 risks and 19 opportunities. Each of the divisions assessed the likelihood and severity or benefit of each as part of their risk reviews in October. At this stage of our analysis, we have not identified risks and opportunities that are material to our business, however as our understanding of scenario analysis and climate risk increases we will continually revisit and readdress our considerations around materiality.

Going forward, the Group head of audit and assurance will be responsible for formally reviewing and managing the register of risks and opportunities identified and to determine whether or not they remain appropriate.

The adjacent table sets out the time horizons we use to manage risk, and the risk management processes in place.

Short-term 0-1 year	**Medium-term** 1-3 years	**Long-term** 3+ years
Twice a year, each division carries out a detailed risk review, recording significant matters in its risk register. Each risk is evaluated both before and after the effect of mitigation. During the year, the divisions assessed a 'shortlist' of climate-related risks and opportunities to consider whether they should be included in this biannual risk assessment process. Climate change is considered a principal risk for the Group and its impact is reviewed along with wider corporate risks. Emerging risks such as shifts towards more sustainable methods of construction and emerging legal and regulatory frameworks are also reviewed as part of this process. Our Total Commitments, including carbon mitigation initiatives and targets, are monitored annually.	In order to satisfy ourselves that the Group has adequate resources to continue in operation for the foreseeable future, we undertake an annual viability assessment covering a three-year period commencing 1 January, which is in line with the Group's budgeting cycle (see pages 83 to 85). The majority of our projects are generally short- to medium-term in nature and are likely to see similar climate impacts to today. Our in-depth project risk reviews ensure that project-specific environmental risks such as fire and flood are assessed, with each project including the development of risk management plans to minimise the impact of such risks. Each of our divisions is certified to the ISO 14001 Environmental Management System which ensures that we have robust risk assessment and risk management processes in place around environmental incidents and management.	Our long-term risks and opportunities are assessed in line with our strategic planning, which considers emerging markets and changing client behaviours, technologies, and legal, regulatory and political changes. This process helps to identify mitigation measures which may need to be incorporated into our Group strategy. These risks and opportunities take into account our long-term carbon targets, including science-based targets. While our projects are generally short- to medium-term, we recognise that the projects we build and the developments we put in place will need to be resilient against a changing future. Our projects therefore include environmental risk assessments which consider the long-term physical risk impacts on our developments, to ensure that our buildings, infrastructure and developments are and will be resilient in a changing future.

Climate reporting: TCFD continued

Our key risks

This table below summarises the broader climate-related risks and potential impacts faced by the Group. Mitigating actions can be found in the resilience of our strategy section of this disclosure on page 77.

Risks	Drivers	Timing of impact	Risk description	Potential impact on business
Transition risks	Political and regulatory	Short to medium term	Increasing regulation and policy to mitigate climate change and air quality.	▪ Loss of licence to operate ▪ Penalties and fines ▪ Increased operational costs ▪ Negative stakeholder perception
			Changes to building regulations to mitigate climate change, adapt to climate change, or to drive a more circular and sustainable economy.	▪ Revised design specifications and materials requirements leading to increased costs, changes to standardised building methodologies and alterations to the way we engage with our supply chain
	Reputational	Medium to long term	Carbon commitments are insufficient for client or investor expectations; are not met, leading to reputational damage; or are costly to meet.	▪ Increased spend required for climate change mitigation ▪ Failure to win contracts, secure lending or attract investors
	Market and technology		Loss of competitive advantage by not keeping pace and using the latest technology.	▪ Failure to win contracts
			Risk of adopting immature products or services.	▪ Increased litigation or re-work risk from use of immature technologies or services, increasing costs
			Selection of low-carbon products or techniques results in supply chain pressures and increases costs while sales values lag in the market.	▪ The need to procure low-carbon products and services leads to changes to budgeting and stretching of product viability, increasing overall product costs whilst sales values do not increase
		Long term	Trend toward building or improving existing structures replaces full builds.	▪ Failure to win contracts ▪ Failure to provide services
Physical risks	Acute and chronic	Long term	Project and supply chain level exposures to increasing climate impacts (floods, fire, water shortages, site-run off and pollution, high winds).	▪ Project delays and increased operating costs ▪ Increased risk of environmental fines or penalties ▪ Increased risk of re-work ▪ Supply chain disruption or change to materials costs
			Increased levels of unviable land (for example, flood plains) and reduced building plots.	▪ Increased cost of land ▪ Increased sales prices and damage to reputation

Our key opportunities

Ensuring we incorporate climate-related opportunities into our strategy will help us to remain competitive and potentially to improve overall market share. We have identified the following opportunities for the Group:

Resource efficiencies and energy sources

- We could achieve cost savings through increased operational and supply chain efficiencies from waste, water and energy use reductions, and by transitioning to renewable and low-carbon energy sources.

Products and services

- By expanding our range of products and services to meet increased demand for climate mitigation and adaptation projects such as flood defence systems and sustainable drainage, net zero buildings, retrofit domestic heating solutions and electric vehicle charging points.

Resilience

- We will increase our resilience by retaining and enhancing our leadership approach to climate change through the development of tools and technology to assess the carbon impacts of buildings and to ensure continued engagement from our supply chain. We also collaborate on research and development projects for new technologies and ways of working to help minimise our climate change impact further.
- We have set an internal carbon charge to ensure resilience against potential legal and regulatory changes and to develop an internal fund for investment in new carbon initiatives.

Our approach to scenario analysis

We have considered two very different futures, one which is aligned to the Paris Agreement and the other is 'business as usual'. We have considered a time horizon to 2030 as the agility of our business models means that many projects are short-term in nature and can respond to market changes quickly. However, our longer-term strategy and desire to achieve our net zero ambition in 2030 highlights the importance of considering our risks and opportunities over a longer time horizon, and how our organisation may need to adapt in the longer term to meet future needs.

Details of the key considerations identified under each scenario are set out below.

	Paris-aligned	Business-as-usual
Key attributes of scenario	▪ 1.5ºC-2ºC warming by the end of the century ▪ Rapid policy and regulatory changes to drive decarbonisation ▪ Widespread adoption of new technologies ▪ Improved resource efficiency ▪ Increased concern around sustainability	▪ 2.4ºC-3ºC warming by the end of the century ▪ Low investment in technology ▪ Increased resource-use intensity ▪ Degradation of environmental systems ▪ Increase in frequency and intensity of physical climate events
What will our clients look like?	The future-conscious client will demand low resource-intensive products, energy-efficient appliances and environmentally friendly developments that are beneficial for health and wellbeing. The carbon impact of buildings and services will be considered as part of purchasing decisions.	Clients will increasingly demand infrastructure which adapts to the changing needs of the future such as flood-resilience projects or retrofit solutions to ensure buildings and developments are capable of withstanding the extremes of the future. Clients will increasingly want properties that are not on or near flood plains or will demand properties that are resilient against such climate impacts.
What will we need to implement in terms of design and materials?	Electric vehicle charging points will be required, and hydrogen gas or electricity will replace natural gas as the primary method of heating. Materials used for construction will be sustainable, result in the lowest amount of embodied carbon, and have the best thermal properties to reduce energy intensity in use.	Design parameters will need to take account of the demands of a warming planet with significant changes to meteorological activities and increased temperature fluctuations. Buildings and infrastructure will be increasingly subject to intense storms and floods and will be required to withstand intense summer temperatures, as well as having the insulation properties of today. Material prices may increase or fluctuate, due to weather-related impacts on the supply chain, or alternatively may result in operational delays to projects as a result of delayed materials sourcing. Water shortages may be commonplace.
How will our developments and construction be rolled out?	More areas will be designated air quality zones and our operations will need to operate on low-carbon energy sources. Our plant and fleet vehicles will need to be electric and emit no harmful gases. There will be increased focus on the reuse of materials and minimising waste, with trends towards the improvement of existing structures, rather than full builds.	Sites will be subject to more intense levels of rain and flood, and increased summer temperatures leading to operational delays and potential damage to works in progress.

Resilience of our strategy

Our two scenarios are not intended to be forecasts of what the future will look like, but enable us to assess the resilience of our strategy within a range of potential futures and to identify associated opportunities to ensure that we are ready to respond when markets shift. In reality, we expect that over the next decade, we will need to ensure risk mitigation and resilience against a more centralised scenario, which incorporates aspects of both the Paris-aligned, and business-as-usual strategy. Our analysis below highlights the key aspects of our work which will mitigate expected changes, and enable resilience within a range of potential futures.

Paris-aligned scenario

We carry out regular horizon scanning to consider changes to regulation, legislation and policy. Our designs and buildings all meet the latest regulatory requirements and will be adapted to ensure the requirements of the Part L building regulations and Future Homes Standard are met, where relevant. Our designs and developments are frequently delivered to a BREEAM Excellent rating and incorporate green living spaces and eco-building designs. We are currently working to develop our first net zero building (the Eden building), which will be completed in May 2023.

We collaborate with sustainability consultants, engineers and research bodies to assess the latest technologies and construction methodologies and are aware of the need to develop the skills and capabilities required for implementation. It is important to ensure that lengthy research and technology processes are undertaken prior to the adoption of new technologies, and we collaborate with clients, insurers and the wider market to ensure acceptability. Generally, we are led by the needs and requirements of our clients, and we are expecting increased demand for low-carbon developments and retrofit solutions such as the installation of electric vehicle charging points and replacement gas boilers. Our ability to be agile and adaptable means we are well positioned to offer greener alternatives, and will help to ensure our positioning as a sustainability leader, as and when the market shifts.

We have set science-based targets and have a net zero roadmap in place to ensure we meet our mitigation targets. We comply with a wide range of sustainability reporting requirements such as GRI, CDP, MSCI and FTSE4Good. We have policies and processes in place to reduce pollution, such as advocating the use of solar and alternative fuels, and are working with our supply chain to secure equipment with low-carbon solutions. We are transitioning our company cars and commercial fleet to an electric fleet, and are advocating electric plant hire and electric generators where possible, which is likely to result in operational efficiencies. We introduced an internal carbon charge in January this year to help encourage our divisions to reduce their own emissions. The carbon charge fund will be used to finance future climate-related projects.

We have developed a carbon measurement tool, Carbon*i*Ca, to help us and our clients to understand the carbon impact of the buildings we design and develop. We can use Carbon*i*Ca to help our supply chain reduce their environmental impacts and to increase the resilience of resourcing (see page 27). Our carbon action panel meets regularly to share best practice on the lowest carbon materials and products, and our projects are increasingly focused on minimising waste, which may result in operational efficiencies.

Business-as-usual scenario

All of our buildings are built with longevity in mind, and we engage with consultants and specialists during our project planning phase to ensure that climate impacts such as flood risk are taken into account. In many cases, uplifts are applied to current climate models to ensure that our buildings, infrastructure and developments are and will be resilient in a changing future. We know that the climate impacts being witnessed today are often unprecedented and more extreme than predicted and that the latest climate modelling practices are being continually developed over time. We will continue to apply best practice throughout our projects.

We avoid building on floodplains and areas at high risk of increased physical climate impacts where possible, and are actively involved in securing pipeline projects relating to climate-change adaptation (such as flood-resilience projects). Our strong supplier and client relationships enable collaborative partnerships with land owners to ensure that potential increases in the cost of land are mitigated where possible, and land costs are built into the sales value of our projects, mitigating direct impacts to the Group.

Our operations may also be subject to more extreme weather events. Our projects are generally short- to medium-term in nature and may therefore not be impacted by the longer-term climatic changes expected in a business-as-usual scenario, however we are already seeing changes in some of the physical climate impacts which could increasingly impact us in the future. When bidding projects, we agree terms for managing risk or include risk management contingencies to cover potential climate-related events such as flood and extreme heat, and our method of working is adapted to suit changing requirements. We also ensure that risk assessments are carried out prior to work commencement to ensure that we have appropriate protections against the worst climate-related risks.

We know that our buildings and structures will require increased protection against heating and cooling, and our projects are designed and built in line with client demands and the latest technologies, project scope permitting. However, with increased requirement for cooling, we will need to stay ahead of cooling technologies which do not have a detrimental climate impact, and our collaborations and supply chain partnerships will help us in this area.

Climate change may also result in increased pressure on our supply chains and materials, either as a result of increased demand, or from physical climate changes which alter levels of production, for example for timber. A lot of our projects are short-term, which helps to reduce the risk of significant price fluctuations. In addition, we seek to try and ensure that materials are forward bought where necessary and to ensure that the most sustainable materials are incorporated into building specifications during the project design phase where possible. We also aim to minimise resource use where possible, use modular components on our projects where appropriate, and diversify our procurement dependencies, to provide resilience in the event that specific resources become more stretched.

Collaborations

While many of our project specifications are determined by our clients, we seek to drive demand toward a greener and more sustainable built environment. Making climate-related changes requires support and collaboration across a range of industries and markets and may be driven by regulatory change. Our collaborative approach will help us to be ready with low-carbon options as and when the market shifts. We regularly communicate with our clients, supply chain and wider stakeholders about actions we are taking to mitigate climate-related impacts.

Actions we have taken in the last 12 months include:

- working with insurers and mortgage providers to understand whether new technologies and processes which support low-carbon options will be accepted by the market;
- liaising with research bodies, sustainability consultants and engineering experts to ensure identification and awareness of the latest building specifications and to identify areas that may warrant further assessment and integration into our methodologies;
- supporting the Supply Chain Sustainability School which provides our supply chain with materials to help them manage their own climate-related regulatory and reporting obligations and which helps us to manage the carbon footprint of our supply chain;
- our strong relationships with our supply chain also means that we have greater visibility of materials, availability and pricing, and ensures that we can use a diverse material palette to avoid reliance on scarce materials; and
- we are members of the Mayor of London's Business Climate Leaders Group which is helping to shape new climate-related regulations and activities in the City.

Metrics and targets

We measure and manage a wide range of metrics which help us to assess how well we are doing to minimise our risks in a changing future. These include metrics to measure our ability to meet our carbon commitments, but also those relating to wider environmental and regulatory risks.

In order to meet these targets, as well as reducing our direct GHG emissions, we recognise that we need to influence our clients, suppliers, subcontractors, and other partners along the value chain more effectively. We are developing better ways of delivering products and services to help generate lower-carbon emissions during project delivery and product life cycle. We have committed to use Carbon*i*Ca on all projects with a value of £10m plus, by 2023.

To help our clients to make better-informed decisions to reduce the level of carbon in both the construction and operation of buildings, we have therefore committed to completing life cycle assessments, and providing clients with alternative carbon design options for all significant projects by 2023 (where possible). We are also working with our supply chain to encourage and support them in reporting their own emissions so that we can have a better understanding of our wider Scope 3 emissions and can introduce meaningful reduction plans. During 2019, we developed a carbon portal for suppliers and produced guidance for our top 1,000 suppliers by spend to capture their Scope 1 and 2 data. Guidance on the importance of carbon emissions reduction as well as information to help suppliers and subcontractors reduce their own emissions is provided. This data will help us achieve our science-based targets.

Numerous underlying metrics support and complement our net zero target and our broader Improving the environment Commitment, including reducing the carbon footprint of our divisions, enhancing the natural value of the buildings we construct and develop, recycling and/or reusing materials and reducing our waste.

Our metrics are tracked and monitored by each division. They are presented to senior management on a six-monthly basis, with accountability at the local level. We continually review our metrics and targets as needed, to ensure that the data we measure aligns with our strategy, and is providing the information the business and our stakeholders need to effectively monitor our performance and demonstrate our progress. See pages 16 to 38 for more information.

Details of the key performance indicators we assess and measure, and their connection to our key risks and opportunities, are outlined in the adjacent table.

Risks	Political and regulatory	▪ Scope 1, 2 and operational Scope 3 GHG emissions ▪ Projects achieving BREEAM, CEEQUAL, LEED, SKA or other relevant rating ▪ Monetary value of fines for non-compliance with environmental laws and regulations
	Reputational	▪ Carbon commitments noted above
	Market and technology	▪ Hybrid or electric vehicles in fleet
	Physical	▪ Environmental incidents
Opportunities	Resource efficiency	▪ Energy consumption ▪ Electricity purchased from renewable sources ▪ Gas purchased from renewable sources ▪ Waste produced ▪ Waste diverted from landfill
	Products and services	▪ Projects achieving BREEAM, CEEQUAL, LEED, SKA or other relevant rating
	Resilience	▪ Subcontractors requested to report their own emissions ▪ Subcontractors with accredited science-based targets based targets
	Physical	▪ Environmental incidents

Streamlined Energy and Carbon Reporting (SECR)

We support the Paris Agreement and have committed to reduce our Scope 1 and Scope 2 greenhouse gas (GHG) emissions by 60% against our 2019 baseline of 20,903 tonnes CO_2e by 2030.

This report has been prepared in accordance with the requirements of the measure-step of the Toitū carbon marks, which is based on the Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard (2004) and ISO 14064-1:2018 Specification with Guidance at the Organization Level for Quantification and Reporting of Greenhouse Gas Emissions and Removals. Where relevant, the inventory is aligned with industry or sector best practice for emissions measurement and reporting. In addition, GHG emissions are externally verified by Achilles to meet the requirements of the Toitū 'carbonreduce' certification standard (formerly CEMARS, the Carbon & Energy Management And Reduction Scheme). Achilles is a global data validation company that provides assurance services for GHG emissions data.

Emissions reported correspond with our financial year and include all areas for which we have operational control in the UK, excluding joint ventures. The materiality threshold has been set 5%[1] with all operations estimated to contribute more than 1% of the total emissions included. No material emissions have been omitted. Our total energy consumption used to calculate our 2021 UK and offshore emissions was 103,892,314 kWh (2020: 90,802,086 kWh) and these total emissions reflect the emissions of our UK operations.

1 The allowance built into the 'carbonreduce' accreditation that permits +/-5% variance in the gross emissions total in case a miscalculation is discovered following a carbon audit.

Emissions are predominantly from bulk fuel used on sites, our vehicle fleet and electricity use. In line with our science-based targets, we committed to reduce our Scope 1 and Scope 2 emissions by 30% against our 2019 baseline of 20,903 tonnes CO_2e by 2025. Our Group director of sustainability and procurement is responsible for overseeing the divisions' delivery of this target.

We submitted our second report for the Group under the Energy Savings Opportunity Scheme (ESOS) in June 2019 and will make our next submission in December 2023.

GHG emissions (tonnes CO_2e)	2021	2020	2019 baseline
Scope 1 – operation of facilities[1]	**11,243**	16,031	18,124
Scope 2 – indirect emissions (purchased energy)[2]	**2,352**	2,789	2,779
Total Scope 1 and Scope 2 emissions	**13,595**	18,820	20,903
Operational Scope 3 – other indirect emissions (related activities)[3]	**3,502**	3,970	6,339
Total emissions	**17,097**	22,790	27,242

1 Direct emissions from sources owned or controlled by the Group.
2 Indirect emissions generated from purchased energy.
3 All indirect emissions not included in Scope 2 that occur in limited categories of our value chain as measured by the Toitū 'carbonreduce' scheme.

Carbon intensity	2021	2020	2019 baseline
Total Scope 1 and Scope 2 emissions (tonnes CO_2e)	**13,595**	18,820	20,903
Total Scope 1, Scope 2 and operational Scope 3 emissions (tonnes CO_2e) (total emissions)	**17,097**	22,790	27,242
Revenue	**£3,213m**	£3,034m	£3,071m
Carbon intensity for Scope 1 and Scope 2 emissions	**4.2**	6.2	6.8
Carbon intensity for total emissions	**5.3**	7.5	8.9

During 2021, we implemented the following energy-efficiency improvements:

- continued to encourage the use of Microsoft Teams to increase operational efficiency and reduce the need for travel;
- continued to work with our energy broker to ensure the robustness of our energy consumption data; and worked with our divisions to improve the recording of purchased water consumption;
- reduced energy consumption in our offices, for example through the use of LED and energy-efficient lighting;
- implemented energy efficiency benchmarks on new equipment, such as automatic computer shutdowns rather than hibernation;
- decarbonised our fleet, including cars, vans and telehandlers by phasing out the least efficient models and purchasing or hiring more fuel-efficient, electric or hybrid alternatives;
- switched to hydrotreated vegetable oil (HVO) fuel where possible;
- increased our use of electricity on site, including the installation of eco cabins; and
- encouraged our employees to reduce their carbon footprint from travel, for example by providing bicycle racks, showers and other facilities on site, promoting car-sharing and capturing shared car miles in our monthly reporting.

Non-financial information statement

We aim to comply with the non-financial reporting regulations contained in sections 414CA and 414CB of the Companies Act 2006. Our divisions communicate Group and divisional policies to their employees and supply chains. Our due diligence with regard to 'environmental matters', 'employees' and 'social matters' is driven by our Total Commitments, which are a strategic priority for the Group (see page 6).

	Policies	Annual report page references
Environmental matters	▪ Code of Conduct, published on our website: commits to caring for the environment. ▪ Sustainable procurement policy: commits to being socially and environmentally conscientious in our procurement. ▪ Supplemental timber policy: requires procurement from sustainable sources. ▪ Sustainable water policy: commits to building to the highest standards as those detailed within the RIBA Climate Challenge 2030 water usage; retrofitting water-efficient kit; avoiding procuring materials or equipment which require intensive water use in their manufacture, installation or use; procuring water-efficient products; incorporating SuDS (sustainable drainage systems); and advising on saving water.	Due diligence, pages 25 to 31. Impacts, pages 25 to 31 and page 80. Minimising our environmental impact increases our ability to win work and attract talented employees. Principal risks, page 61.
Employees	▪ Code of Conduct: commits to conducting business in an open and ethical way in line with our Core Values and Total Commitments. ▪ Group health, safety and wellbeing management policy framework: incorporates the Group occupational health and safety policy which commits to providing a safe and healthy working environment for our employees and others involved in or affected by our works. ▪ Divisional occupational health and safety policies: cover all employees and extend to our subcontractors and suppliers working on our projects.	Due diligence, pages 11, 12, 17 to 24, 62, 105 to 109 and 123 to 125. Impacts, pages 11, 12, 17 to 24 and 109. A diverse and qualified team of people helps us win in our target markets and in pursuing innovative solutions for our clients. Principal risks, page 63.
Social matters	▪ We are committed to providing a better built environment for all. A large proportion of our work is for the public sector and therefore falls under the Public Services (Social Value) Act 2012. ▪ Sustainable procurement policy: commits to being socially and environmentally conscientious in our procurement.	Due diligence, pages 35 to 38. Our divisions monitor their suppliers' adherence to our procurement policy, giving feedback or taking appropriate action as required. Impacts, pages 35 to 38. We have developed a social value bank that monetises activities that add value to local communities on our projects (page 37). Social matters are not regarded as a principal risk. However, each division carries out regular risk assessments to identify those areas of its business and markets that may be susceptible to risk, and embeds appropriate procedures in its day-to-day operations.

Non-financial information statement continued

	Policies	Annual report page references
Human rights	▪ Code of Conduct: states our commitment to the Universal Declaration on Human Rights, providing equal opportunities, creating a diverse and inclusive workplace, and preventing modern slavery in our operations and supply chain. It prohibits employing people either directly or through third parties who we believe to be subject to forced labour and engaging in any activities involving people or countries subject to UN, US, EU or UK sanctions. The Code prohibits bullying, harassment, and discrimination on the basis of sex, pregnancy or maternity, gender reassignment, sexual orientation, religion or belief, marriage and civil partnership, age, race or disability; it requires fair and objective employment decisions based on merit. ▪ Modern slavery policy: states the Group's and its suppliers' obligations with regard to human trafficking, forced labour, recruitment fees, document retention, contracts of employment, deposits, humane treatment, workplace equality, wages and benefits, working hours, freedom of movement and personal freedom and the use of employment agencies. ▪ Modern slavery statement: published on our website. ▪ Whistleblowing policy and procedure.	Due diligence, pages 19, 20 and 105 to 109. Adherence to our Code of Conduct and human rights related policies is regularly monitored and reviewed. Ultimate oversight belongs to the Board, audit committee and our Group general counsel. The Board is notified of any non-compliance alerted via the raising concerns facility, while divisional HR leads and managers deal direct with individual cases as appropriate. We conduct regular internal audits which would uncover any instances of non-compliance such as anti-competitive behaviour, bribery or corruption. Impacts, pages 20 and 109. See also our modern slavery statement on our website. Human rights breaches are not considered a principal risk to the Group, although there is a risk of breach by an overseas supplier and of people working on our sites without the legal right to work in the UK. We require all suppliers to comply with legislation and to carry out checks on rights to work, and we expect that they require the same of their own suppliers.
Anti-corruption and anti-bribery	▪ Code of Conduct: states that we will not tolerate any form of bribery or corruption. ▪ Bribery Act guidance note: provides guidance on the Bribery Act 2010 and how it is relevant to the Group. ▪ Group-wide dealing policy: clarifies to all employees regulations relating to the misuse of inside information. ▪ Dealing code: states directors' and others' obligations to comply with market abuse regulation. ▪ Competition law compliance policy: clarifies requirements under the Competition Act 1998 and Enterprise Act 2002. Each division provides its employees with guidelines tailored to the division's activities.	Due diligence, pages 108, 109 and 120. Impacts, page 109. There was no evidence of any systemic bribery and corrupt activity in 2021. We do not regard corruption and bribery as a principal risk to the Group.

Copies of our policies can be obtained from the Group's company secretary on request. Our business model is set out on page 5 and non-financial key performance indicators on pages 7 to 9.

Going concern and viability statement

Going concern

The Group's business activities, together with the factors likely to affect our future development, performance and position, are set out in this strategic report.

As at 31 December 2021, the Group had net cash of £358.0m and committed banking facilities of £180m which are in place for more than one year. The directors have reviewed the Group's forecasts and projections, which show that we will have a sufficient level of headroom within facility limits and covenants over the period of assessment which the directors have defined as the date of approval of the 31 December 2021 financial statements through to 28 February 2023. After making enquiries, including the review of sensitivities for plausible downside scenarios to the forecasts, the directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Thus they continue to prepare the annual financial statements on the going concern basis. See page 174 for the going concern basis of preparation in the consolidated financial statements.

Viability

As required by provision 31 of the UK Corporate Governance Code, the directors have assessed the prospects and financial viability of the Group and have concluded that they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of the assessment.

This assessment took account of the Group's current position and the potential financial and reputational impact of the principal risks (as set out on pages 58 to 68) on the Group's ability to deliver the Group's business plan. This assessment describes and tests the significant solvency and liquidity risks involved in delivering the strategic objectives within our business model.

The assessment has been made using a period of three years commencing on 1 January 2022 which is in line with the Group's budgeting cycle. This gives good visibility of future work as the majority of the Group's workload falls within three years and enables more specific forecasting as the Group's contracts follow a life cycle of three years or fewer. There is inherently less visibility over the expected workload beyond three years, and increased uncertainty around the forecasted costs to deliver. Consequently, it is deemed most appropriate to perform its medium-term planning over a three-year period.

The directors have compiled cash flow projections incorporating each division's detailed business plans with an overlay of Group level contingency. At Group level, the base case financial projections assume modest revenue growth, and improvements in both profit margin and return on capital employed in line with the Group's strategy and medium-term targets.

As per the business model, operating cash flows are assumed to broadly follow forecast profitability in the Group's construction activities, but are more independently variable in regeneration, driven by the timing of construction spend and programmed completions on schemes.

The base case business plan includes the Group maintaining positive daily average net cash for the entirety of the period reviewed, with no drawings under its loan facilities. The Group has £180m of committed revolving credit facilities, undrawn at 31 December 2021, of which £165m is committed until the final quarter of 2024 and £15m is committed until the end of the first quarter 2024. The £165m facility has a one-year extension option, with the agreement of the lending banks. For the purposes of testing viability, it is assumed that equivalent facilities are available past these maturities as the Group has a track record of renewing these facilities.

The impact of a number of plausible downside scenarios on the Group's funding headroom (including financial covenants within committed bank facilities) have been modelled with consideration of the Group's principal risks that could have a direct impact on operational cash flows.

Going concern and viability statement continued

The table below gives an overview of the scenarios modelled and the mapping to the relevant Group's principal risks.

Scenario	Principal risk mapping
Reduced revenues in the construction divisions The cash performance of the construction divisions is correlated to the levels of revenue achieved. We have modelled a scenario of reduced revenue that could be caused by changes in the UK economic conditions or the insolvency of a key client/partner.	▪ Economic change and uncertainty ▪ Partner insolvency and/or adverse behavioural change
Reduced margins in the construction divisions The cash performance of the construction divisions is also correlated to the level of margin achieved by each division. We have modelled a scenario of reduced margins that could be caused by changes in the UK economic conditions and also inefficiencies that could be a result of poor project selection, poor project delivery, resourcing issues, health and safety issues and the impact of disruption that could be caused by cyber activity or climate change.	▪ Economic change and uncertainty ▪ Poor project selectivity ▪ Poor project delivery ▪ We cause a major health and safety incident and/or adopt a poor safety culture ▪ We fail to attract and retain the talent we need to maintain and grow the business ▪ Climate change ▪ Cyber activity
Working capital deterioration in the construction divisions We have modelled a scenario including a deterioration of working capital in the construction divisions that could be caused by delays in receiving payments from customers.	▪ Mismanagement of working capital and investments ▪ Partner insolvency and/or adverse behavioural change
Project delays and cost increases in regeneration divisions We have modelled a scenario where there were project delays in respect of the regeneration divisions and also reduced margins. This scenario could be the result of changes in the UK economic conditions, including changes in the UK residential market, and also inefficiencies that could be a result of poor project delivery, resourcing issues, health and safety issues, or the impact of disruption that could be caused by cyber activity or climate change.	▪ Economic change and uncertainty ▪ UK residential market exposure ▪ Partner insolvency and/or adverse behavioural change ▪ Poor project delivery ▪ We cause a major health and safety incident and/or adopt a poor safety culture ▪ We fail to attract and retain the talent we need to maintain and grow the business ▪ Climate change ▪ Cyber activity
Severe downside case We have also modelled a scenario where all of the scenarios above are combined at the same time.	▪ All of the above

Going concern and viability statement continued

There are no individual scenarios which are considered to materially impact the Group's viability, and our assessment included modelling the financial impact on the business plan of severe downside scenario where the impact of a reasonably plausible combination of the divisional risks were applied in aggregate.

In the event of this severe collection of scenarios occurring, there is still a reasonable expectation that the Group will be able to continue in operation and meet its liabilities.

In addition, the Board has considered a range of potential mitigating actions that may be available if this worst-case collection of scenarios arose. These primarily include a reduction in investment in working capital and the actions successfully deployed during the disruptions to the Group's operations during the first impact of the Covid pandemic in March 2020. These however exclude any further government assistance.

As part of the sensitivity analysis, the directors also modelled a scenario that stress tests the Group's forecasts and projects, to determine the scenario under which the headroom would exceed the committed bank facility. The model showed that the Group's operating profit would need to deteriorate substantially for the headroom to exceed the committed facility. The directors consider there is no plausible scenario where cash inflows would deteriorate this significantly.

Based on the results of its review and analysis, the Board has a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the three-year period of its assessment until 31 December 2024.

Assessing the Group's prospects beyond the review period, the directors consider that demand will remain strong across all divisions. The Group has maintained a well-capitalised balance sheet, has a strong order book and operates a resilient business model.

This strategic report was approved by the Board and signed on its behalf by:

John Morgan
Chief Executive
24 February 2022

Governance

Chair's statement

Dear Shareholder

I have pleasure in presenting the 2021 corporate governance report. Throughout 2021, the Board has remained focused on effective leadership and promoting the long-term success of the Group while ensuring that good governance is embedded through our governance framework. Our 2021 year-end results demonstrate the continued resilience in our business model. Our commitment to our business strategy is resulting in organic growth and increased market share which enables us to deliver long-term sustainable value for the benefit of all our stakeholders. Throughout the year, we remained committed to our culture and values and ensuring that we have considered the interests of our stakeholders in our decision-making.

Board changes

Succession planning for the Board and the Group as a whole was a key area of focus for the nomination committee. In order to further the diversity and skill set on the Board, we were delighted to announce the appointment of Kathy Quashie as non-executive director. She joined the Board on 1 June 2021.

Board evaluation

The nomination committee conducted an internal evaluation of the Board and its committees in 2021. The overall outcome of the review confirmed that the Board continues to work well, with the right issues being discussed and appropriate Board involvement in key decisions. Further information on the process and outcomes can be found in the nomination committee report.

Strategy review

The Board is committed to the delivery of its clear strategy underpinned by our Core Values. In setting the strategy, the Board recognises its duties and responsibilities to shareholders and other stakeholders, including the communities in which we operate. We believe that our purpose and supporting Core Values continue to drive our strategy and our ongoing resilience and progress in respect of each of our strategic priorities, including consistently delivering on our responsible business Total Commitments, set out in further detail on page 6.

The continuing focus this year has been to maintain the Group's strong financial position, through disciplined contract selectivity, improved quality of earnings and operational delivery and ensuring that our purpose, values, and strategy remain aligned with our desired culture. For more information on our strategy see page 6 and for the Board's review of strategy, see pages 102 and 103. Our stakeholders' views and how they are impacted are important considerations in Board decision-making (see pages 102 to 104). The Board recognises that continuing effective engagement across all our stakeholder groups will ensure the continuing resilience of the business over the longer term. In this report, we set out the principal decisions the Board made during the year, together with the stakeholder groups we considered during our discussions. Our section 172 statement can be found in our strategic report on page 10.

Our people

The performance of our c6,900 employees and the large number of subcontractors used by the divisions to deliver their projects are key to our long-term success. The Board's top priority remains the health, safety and wellbeing of our employees and all those who work on or visit our sites. Throughout the year, I have continued to regularly attend the health, safety and environment committee meetings which provide the Board with additional focus and insight in respect of the Group's health and safety performance.

Michael Findlay
Chair

I joined the Group because I was so impressed with the open and transparent culture of the business that facilitates a decentralised, empowering environment. Over the last five years as chair, I have seen the Group go from strength to strength. I am proud of the quality and professionalism of our teams who deliver a huge range of projects, from repairs and maintenance of people's homes to large-scale infrastructure projects and supporting the regeneration of cities and towns across the UK. Across the business, our people are open, driven and dedicated to making the business better and better. Employee engagement remains high on the agenda of the directors and the divisional teams. The Board reviews the outcomes and proposed actions of divisional staff engagement activities and surveys and is responsible as a whole for engaging with our employees, primarily as part of its annual strategy review process. With the easing of government Covid guidelines and restrictions during 2021, the Board was pleased to be able to meet face to face with a number of employees during the year. At our December meeting, we had a dedicated feedback session including a review of the appropriateness and effectiveness of our employee engagement mechanism for non-executive directors (see page 113 for further details).

Diversity and inclusion

We remain committed to having a Board and employee base that is diverse in its widest sense and we are continuing to work on improving diversity and inclusion at all levels across the Group. This includes ensuring that we recruit people from a range of different socio-economic, educational and industry sector backgrounds. The results of the diversity and inclusion survey conducted in 2020 and management's proposed response were discussed in the early part of the year and supported by the Board. The Board also reviewed, at its meeting in December, the actions being taken throughout each of our divisions during the year to increase diversity and inclusion. Further details can be found on pages 23 and 24.

Task Force on Climate-related Financial Disclosures

In the strategic report, we have reported fully under the TCFD (see pages 71 to 79). The Group has a long-established responsible business strategy and we pride ourselves in being leaders in sustainability and reporting with transparency and openness about our goals and how we will achieve them. Our actions to combat climate change and reduce waste remain a key focus of the Board and the Group. Our Total Commitments, set out on page 6, continue to provide challenging targets to ensure we work responsibly and conduct our activities ethically as well as adding additional social value in the communities in which we operate. We also announced our commitment to becoming a net zero company by 2030, reflecting our continued dedication to being a market leader in this area. We recognise that it will not be possible to eliminate all embodied carbon from our activities and we will be looking to continue to invest in projects such as our partnership with Blenheim Estate (see page 29) to offset these. Further detail on our strategy to achieve net zero, along with the actions and initiatives we are currently taking are set out on pages 25 to 29. The Board, supported by the health, safety and environment committee, keeps our progress in achieving our Total Commitment goals under review.

In conclusion, we continue to have a clear strategy, a strong financial position and a great team of employees. This positions us well to continue to capitalise on the UK's growing need for new housing, improved infrastructure and urban regeneration and to create long-term value for all our stakeholders.

Michael Findlay
Chair
24 February 2022

> "I joined the Group because I was so impressed with the open and transparent culture of the business that facilitates a decentralised, empowering environment. Over the last five years as chair, I have seen the Group go from strength to strength."

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UK Corporate Governance Code compliance statement

Applying the Code's Principles across the business

As a UK premium-listed company, we have adopted a governance structure based on the Principles of the UK Corporate Governance Code published in July 2018 (the Code), which is available on the Financial Reporting Council's website at frc.org.uk.

Further details of how we have applied the Code's Principles and complied with its Provisions are set out in the directors' and corporate governance report, the remuneration report and, where appropriate, cross references to our strategic report.

The Company has applied all the Principles, and complied with all Provisions of the Code, except for Provision 38. The executive directors' pension contributions will be aligned with the majority of employees from 1 January 2023 as set out on page 128 of the remuneration committee report.

The strategic report discloses information on our engagement with our employees, suppliers, customers and other stakeholders. In line with the Companies Act 2006 Regulations, further information on how the directors have performed their duties under section 172 of the Companies Act 2006 is also contained in the strategic report.

Code Principles

This table provides an overview of where the application of Principles (A to R) of the Code have been addressed in the annual report.

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Board of directors

As at the date of this report, the Board consists of the chair, two executive directors and five non-executive directors, each bringing a range of skills, experience, knowledge, and background to Board discussions.

Each Board member has considerable experience in strategy development and implementation, corporate governance, and regulatory requirements which enables them to discharge their Board responsibilities and promote the long-term sustainable success of the Group.

All of the non-executive directors, including the chair, are considered by the Board to be independent in character and judgement and, as at the date of this report, no cross-directorships exist between any of the directors.

Michael Findlay
Chair

Appointed: October 2016
Committee membership: nomination (chair)
Independent on appointment: Yes

Responsibilities

Responsible for leadership and effectiveness of the Board including succession planning, diversity and inclusion, effective communications with stakeholders and setting the meeting agenda. Michael leads the nomination committee.

Skills and experience

Michael has spent his career in investment banking and advised the boards of many leading UK public companies on a wide range of strategic, finance and governance matters. He also has significant public board experience.

Contribution to long-term success

The Board benefits from Michael's extensive experience in business and corporate finance together with his expertise in property, risk management and communications. His contribution assists the Company in pursuing its strategy, maximising the value of the business, and delivering long-term, sustainable value for all our stakeholders. Michael's leadership of the Board encourages a collaborative approach and open debate by all Board members.

Current external roles

Michael is non-executive chair of London Stock Exchange plc, a subsidiary of London Stock Exchange Group plc, and non-executive director of Royal Mail plc and Jarrold & Sons Limited. He was appointed as chair of the Financial Conduct Authority's markets practitioner panel in July 2021.

Career experience

Michael was previously the co-head of investment banking for the UK and Ireland at Bank of America Merrill Lynch, senior independent director at UK Mail Group PLC, chair of Fin Capital Limited and a non-executive director of The International Exhibition Co-Operative Wine Society Limited.

John Morgan
Chief Executive

Appointed: October 1994
Independent: No

Responsibilities
Responsible for leading the Group, developing and implementing the strategy and policies approved by the Board, embedding values and culture, and driving diversity and inclusion throughout the business. John leads the Group management team.

Skills and experience
John co-founded Morgan Lovell in 1977 which merged with William Sindall plc in 1994 to form Morgan Sindall Group plc. He instituted and champions the Group's decentralised business model that empowers the divisions to challenge the status quo and keep innovating and winning in their respective markets.

Contribution to long-term success
The Board benefits from John's in-depth knowledge and experience of both the construction and regeneration sectors. His significant leadership and people management skills continue to drive forward the Group's strategy to ensure quality of earnings and grow the business organically for the benefit of all our stakeholders. John is responsible for ensuring that career opportunities within the Group are accessible to people from a variety of backgrounds so that we can recruit the best people from a wide pool of talent.

Current external roles
John is chair of the Royal National Institute for Deaf People (RNID).

Steve Crummett
Finance Director

Appointed: February 2013
Independent: No

Responsibilities
Steve leads the Group's financial strategy and has overall responsibility for corporate reporting, finance, treasury, taxation, and IT. He contributes to the development and implementation of the strategy and policies approved by the Board. Steve is chair of the Group's risk committee and leads the Group's responsible business strategy through the Group management team.

Skills and experience
Steve is a chartered accountant and has wide-ranging financial, accounting and UK public company experience.

Contribution to long-term success
The Board benefits from Steve's considerable experience in finance, audit, treasury, risk management and information technology and security. His expertise has contributed towards the Group's financial resilience and strong balance sheet, which enables the Group to make the right decisions for the long term. Steve is responsible for the ongoing smooth running of the Group's financial operations and for driving our strategy to achieve net zero carbon emissions by 2030.

Current external roles
Steve does not currently hold any external appointments.

Career experience
Steve was finance director of Essentra plc from 2008 to 2012, and audit committee chair and non-executive director of Consort Medical plc until 2020. He has previously held senior finance roles with a number of listed companies.

Malcolm Cooper
Non-executive Director

Appointed: November 2015
Committee membership: audit (chair); health, safety and environment (chair); nomination; remuneration
Independent: Yes

Responsibilities
To constructively challenge the executive directors and monitor delivery of the Group's strategy within the risk and internal control framework set by the Board. Malcolm leads the audit and health, safety and environment committees.

Skills and experience
Malcolm is a qualified accountant and treasurer, and an experienced FTSE 250 audit committee chair. He has an extensive background in corporate finance and wide experience in infrastructure, property and construction. He is considered to have competence in accounting as required by the Disclosure and Transparency Rules and the Code. Malcolm has experience in health and safety through his former role as managing director at National Grid Property, where he was responsible for land remediation, demolition and construction and was a member of the UK health and safety committee.

Contribution to long-term success
The Board benefits from Malcolm's considerable experience in construction, housebuilding and infrastructure and his wide knowledge of government policy and direction. Malcolm's knowledge and experience in the areas of health and safety and the impacts of climate change as well as in finance, audit, treasury, and risk management, benefits the Board in his respective roles as chair of the health, safety and environment and audit committees.

Current external roles
Malcolm is senior independent director and credit committee chair of MORhomes plc, non-executive director and audit committee chair at Southern Water Services Limited. In September 2021 he was appointed as a non-executive director of Local Pensions Partnership Investments Ltd (previously an independent member) before becoming chair of the audit committee effective from 1 January 2022.

Career experience
Malcolm's prior executive roles include managing director of National Grid Property, managing the sale of National Grid's gas distribution business, and global tax and treasury director of National Grid. He was previously senior independent director and audit committee chair at CLS Holdings plc, a non-executive director of St William Homes LLP, president of the Association of Corporate Treasurers and a member of the Financial Conduct Authority's Listing Authority Advisory Panel.

Tracey Killen
Non-executive Director

Appointed: May 2017
Committee membership: audit; health, safety and environment; nomination; remuneration (chair)
Independent: Yes

Responsibilities
To constructively challenge the executive directors and monitor delivery of the strategy within the risk and control framework set by the Board and lead the remuneration committee.

Skills and experience
Tracey has wide-ranging expertise in the retail sector including the development of strategy, business planning and corporate governance. She has extensive corporate and main board experience, including nomination, remuneration and corporate responsibility board sub-committees.

Contribution to long-term success
The Board benefits from Tracey's extensive commercial, corporate responsibility, and people management experience. Her depth of knowledge and understanding of remuneration issues and corporate governance relating to remuneration enable her as chair of the remuneration committee to lead on the Group's remuneration philosophy to ensure that we motivate and retain executive directors of the calibre required to deliver our strategy.

Current external roles
Tracey is a Fellow of Be the Business, a not-for-profit organisation that helps firms across the UK to improve their performance. She was appointed a trustee for Dorset and Somerset Air Ambulance from 14 September 2021.

Career experience
Tracey was executive director of people for the John Lewis Partnership, where she was a member of the executive team and responsible for shaping and delivering a distinctive and competitive employment proposition. She was chair of the Golden Jubilee Trust for the Partnership, providing opportunities for partners and charities alike.

Board of directors continued

David Lowden
Senior Independent Director

Appointed: September 2018
Committee membership: audit; nomination; remuneration
Independent: Yes

Responsibilities
In addition to his responsibilities as a non-executive director, David as senior independent director supports the chair in the delivery of his objectives and, together with the nomination committee, ensures that an orderly succession process is in place for the Board.

Skills and experience
David is a highly experienced non-executive director, senior independent director, and chair of UK-listed companies in several sectors. He has experience in both financial and general management through his prior roles of finance director and chief executive, where he supported growth and profitability through the efficient design of business operations and appropriate use of systems and processes.

Contribution to long-term success
David's strong strategic understanding and financial, marketing, and commercial skills, gained through his many years' experience working in international businesses, are invaluable to the Board as the Group pursues its strategy for growth. David's experience as a senior independent director supports the chair in the delivery of his objectives.

Current external roles
David is currently chair of the board of PageGroup plc and senior independent director at Capita plc. He was appointed as non-executive director and chair-designate of Diploma plc with effect from 19 October 2021 and became chair with effect from the conclusion of Diploma plc's AGM held on 19 January 2022. David will step down as chair of PageGroup on 30 April 2022.

Career experience
David was formerly chair of Huntsworth plc, chair of the audit and risk committee at William Hill plc, and senior independent director of Berendsen, chair of the audit committee at Cable & Wireless Worldwide plc and was chief executive of Taylor Nelson Sofres plc having joined as group finance director in 1999.

Jen Tippin
Non-executive Director

Appointed: March 2020
Committee membership: audit; nomination; remuneration
Independent: Yes

Responsibilities
To constructively challenge the executive directors and monitor delivery of the strategy within the risk and internal control framework set by the Board.

Skills and experience
Jen has extensive strategic and commercial experience developed through her career in financial services and in the engineering and airline sectors through her prior roles with Invensys and British Airways. In addition, she has wide experience in business leadership and transformation, human resources, efficiency, sourcing, supply chain management and property, together with a deep understanding of customer experience.

Contribution to long-term success
The Board benefits from Jen's strengths in consumer-facing markets and her insight into information technology, people management and complex supply chain management, all of which are relevant to the Group's strategy to deliver long-term sustainable value to our stakeholders.

Current external roles
Jen is the group chief people and transformation officer for NatWest, responsible for the execution of strategy, customer journeys, investment, HR, efficiency, property and procurement. She is a member of the NatWest Group and NatWest Holdings' executive committee. She is also on the board of City University, University of London where she is a member of the council and chair of the remuneration committee. In January 2022 she was appointed as a board member of the Financial Services Skills Commission.

Career experience
Prior to joining NatWest, Jen spent 15 years at Lloyds Banking Group in a variety of roles, including as group director, people and productivity where she was a member of their group executive committee. Prior to that she was the group organisation design and cost management director, group customer services director and MD business banking. Before working in financial services, Jen worked in both the engineering and airlines sectors. Jen has sat on the boards of Lloyds Bank Corporate Markets and Kent Community NHS Foundation Trust.

Board of directors continued

Kathy Quashie
Non-executive Director

Appointed: June 2021
Independent: Yes

Responsibilities
To constructively challenge the executive directors and monitor delivery of the strategy within the risk and control framework set by the Board.

Skills and experience
Kathy has extensive strategic, commercial, and digital transformation experience developed through her career in the telecommunications sector. She has also been a key advocate for building a diverse and inclusive culture.

Contribution to long-term success
Kathy's experience further broadens the expertise on the Board. Her wealth of digital and sales experience in particular adds valuable knowledge and insight into Board discussions and helps ensure that the Group's continued investment in digital capability meets the current and future needs of the business in terms of both innovation and security. In addition, Kathy's insight and knowledge of driving positive and sustainable growth through inclusion is an asset to the Group as we continue to progress our diversity and inclusion programme.

Current external roles
Kathy was until December 2021 director of enterprise indirect partnerships at Vodafone where she was responsible for leading the market channel for partnerships across the UK. In January 2022, she was appointed as chief growth officer at Capita plc where she will be responsible for ensuring Capita has the right business development competencies, systems, and strategies to deliver on their organic growth objectives.

Career experience
Prior to joining Vodafone, Kathy's previous leadership roles were with BT Group, T-Mobile, Carphone Warehouse and TalkTalk Group. She was previously a non-executive director of the Enterprise Board of Transport for London Museum and recognised in Empower Top Executive Role model lists 2021.

The members of the Board attended the following meetings during 2021.

2021 Board and committee meeting attendance

	Board	Audit	Health, safety and environment	Nomination	Remuneration
Total number of meetings in 2021	9	3	4	3	6
Michael Findlay[1]	9	3[2]	4[2]	3	6[2]
John Morgan	9			3[2]	3[2]
Steve Crummett	9	3[2]		3[2]	1[2]
Malcolm Cooper	9	3	4	3	6
Tracey Killen	9	3	4	3	6
David Lowden	9	3		3	6
Jen Tippin	9	3		3	5[3]
Kathy Quashie	6[4]		1[2]		1[2]

1 Michael Findlay attended all Board and nomination committee meetings during the year and was also present at all meetings of the audit, health, safety and environment, and remuneration committees.
2 Attended by invitation.
3 Jen Tippin was unable to attend the remuneration committee meeting in June 2021, due to alternative commitments in her executive role which could not be changed at short notice.
4 Kathy Quashie was appointed to the Board in June 2021 and attended all Board meetings from that date.

Group management team

The Group management team supports the executive directors in implementing the strategy and policies approved by the Board.

Meetings are chaired by the chief executive and focus on strategic and operational matters affecting the Group as a whole. The team also supports the directors in embedding our culture and core values across the decentralised business, driving our responsible business strategy, and ensuring that we are acting consistently across the Group to promote diversity and inclusion.

John Morgan
Chief Executive
See page 91 for biography.

Steve Crummett
Finance Director
See page 91 for biography.

Clare Sheridan
Company Secretary

Role

Clare is responsible for ensuring sound information flows to the Board and between senior management and non-executive directors and advising the Board on corporate governance matters. In addition to her governance responsibilities, Clare manages the Group secretariat function, the insurance programme, long-term incentive schemes, pension arrangements, Group-wide employee benefits and Group reporting on our responsible business strategy and performance. She is a member of the Board's health, safety and environment committee, the Group's risk committee and our social value panel; director of the captive insurance company; and trustee of the pension scheme.

Skills and experience

Clare is a member of the Chartered Governance Institute UK & Ireland. She has been with the Group for more than 20 years, and was appointed as company secretary in 2014, having previously been deputy company secretary.

Andy Saul
Group Commercial Director

Role

Andy supports the divisions to develop and implement effective commercial strategies at preconstruction stage and within key operational activities. He also offers advice and assistance, acting as a critical friend to the divisions throughout the life cycle of a project. Andy is a member of the Board's health, safety and environment committee, the Group's risk committee and the Group health and safety forum where he oversees the implementation and monitoring of the Group's health, safety and wellbeing framework.

Skills and experience

Andy joined the Group in 2014. Previously he was managing director of Bullock Construction and prior to that, Andy's career included 20 years with Kier Group, culminating in the role of commercial director at Kier's construction division where he had overall responsibility for the commercial and procurement functions.

Group management team continued

Pat Boyle
Managing Director, Construction

Role

Pat leads the Construction business within Construction & Infrastructure. He is responsible for delivering sustainable growth, promoting a safe and inclusive culture and creating inspiring communities where we all live, work, learn and play. He is a trustee of the Pagabo Foundation, which raises awareness of mental health and wellbeing for those working in construction.

Skills and experience

Pat has over 30 years' experience in the construction industry. He joined the Group in 2014 from Lend Lease, where he was head of its public sector construction division. Prior to this, Pat held various wide-ranging senior level roles within Laing O'Rourke, including regional director, group HR director and managing director of Select Plant Hire.

Simon Smith
Managing Director, Infrastructure

Role

Simon leads the Infrastructure business within Construction & Infrastructure which focuses on the rail, highways, aviation, nuclear, energy and water sectors. In addition, Simon oversees our in-house plant and engineering businesses. He is responsible for delivering long-term, sustainable growth in the division's key sectors and ensuring a safe, and inclusive working environment.

Skills and experience

Simon is a chartered quantity surveyor with 30 years' multi-sector experience. Having joined the Group in 2011, he was appointed as managing director of Construction & Infrastructure's infrastructure business in 2017.

Martin Lubieniecki
Managing Director, Design

Role

Martin is responsible for our BakerHicks business, based in the UK and Switzerland and offering design, engineering and project delivery. BakerHicks specialises in multi-sector complex infrastructure, process and built environments across the full project life cycle. Martin is responsible for developing and implementing BakerHicks' strategic plan, building a team of exceptional individuals and managing overall performance.

Skills and experience

Martin is a qualified chartered accountant and has over 20 year's property professional services experience. He joined the Group in October 2015 from Colliers International where he was the UK chief operating officer. Prior to this he had been the EMEA chief operating officer for CBRE. Martin's early career started at PricewaterhouseCoopers and McKinsey before taking senior roles at Sears Group and Hilton International.

Chris Booth
Managing Director, Fit Out

Role

Chris has overall responsibility for the Fit Out division, which includes the Overbury and Morgan Lovell brands. He is responsible for driving the strategy of excellence in operational delivery and exceptional customer experience in the division's office fit out, refurbishment, design and build, higher education and life sciences projects.

Skills and experience

Chris has over 25 years' experience in the Fit Out sector having joined Overbury in 1994, progressing through divisional management to become managing director of Overbury's Major Projects team in 2003. He was appointed to the Fit Out divisional board as chief operating officer in 2010, before being appointed as overall managing director in 2013.

Group management team continued

Alan Hayward
Managing Director, Property Services

Role
Alan is in charge of our Property Services division which provides responsive repairs and planned maintenance services to more than 200,000 homes and public buildings nationwide, for both the public and private sectors. He is responsible for the division's strategic direction, building on the service to deliver value-added activities that better support social housing residents and ensuring a sustainable and innovative business for all clients and other stakeholders.

Skills and experience
Alan joined the Group in August 2017 with over 15 years' experience in the sector. His previous roles included positions both as finance director and managing director in national building, infrastructure and facilities management businesses. Alan has experience across a range of sectors including defence, health, corporate and housing.

Steve Coleby
Managing Director, Partnership Housing

Role
Steve leads our Partnership Housing business operations, people and ventures. The division provides innovative residential construction and regeneration developments from decentralised regional offices across the UK. He ensures it places responsible business and trusting partnerships at the heart of all its decision-making.

Skills and experience
Steve joined the Group in April 2018, bringing with him a wealth of knowledge and experience in construction. Previously, he spent 25 years at Laing O'Rourke, including as commercial director of its European hub, managing director of UK infrastructure, and managing director of its UK construction business. Steve holds a RICS fellowship.

Kate Bowyer
Managing Director, Urban Regeneration

Role
From 1 April 2022, Kate will lead the division's regeneration activities across the UK. She is responsible for delivering a range of commercial and residential schemes with both public and private sector clients to bring sustainable and transformational change to towns and cities across the UK.

Skills and experience
Kate joined the Group in November 2021. She was previously the chief financial officer of The Crown Estate, a £14bn property and land owner and manager, leading its finance and business technology teams. Kate joined The Crown Estate in 2016 from intu Properties plc where she had been director of finance. Kate qualified as a chartered accountant with Coopers & Lybrand (now PricewaterhouseCoopers) in 1995, working in their Canadian and corporate finance practices.

Directors' and corporate governance report

Board effectiveness

The Board provides effective leadership through its oversight and review of the business. To support the Board, we have a governance framework in place that requires sufficient supervision at appropriate levels of the organisation to drive performance of our strategy and ensure that risks and opportunities are regularly assessed, monitored and managed.

The Board uses its four committees to manage its time effectively and, at each Board meeting, the directors are made aware of the key discussions, recommendations, and decisions of the committees by the respective committee chairs.

The nomination committee is responsible for ensuring that the Board and its committees are made up of a combination of executive and independent non-executive directors, with the appropriate balance of skills, experience and backgrounds to contribute to Board discussions and facilitate effective decision-making. It is also responsible for annually assessing Board and committee effectiveness through the Board evaluation process.

In addition, each individual director's performance, including ongoing training, contribution and time commitment, is reviewed annually to ensure they continue to fulfil their responsibilities to the Board and contribute effectively. Such training includes access to the Company's e-learning modules and presentations on specific areas of focus or other matters of strategic importance delivered by the Company's advisers or internal and external specialists. In 2021, the Board was given deep-dive presentations on information security, including the mitigation of cyber risk, and participated in in-depth discussions on key areas which included capital allocation, diversity and inclusion, the Group's pathway to net zero and employee engagement.

In order for our directors, particularly the non-executives, to discharge their responsibilities and contribute constructively, it is important that they understand the business of each division and how it complements the Group's strategy and contributes to the delivery of our strategic priorities. (see page 6: purpose, strategy and values and page 5: business model). Non-executive directors therefore undertake a detailed induction programme on appointment (see page 111) and the Board meets regularly throughout the year with divisional senior managers and their wider teams. Individual non-executive directors undertake a strategy review each year with the divisions they are assigned to, which includes meetings and site visits (see page 103). In addition to the formal strategy reviews, the non-executive directors are actively encouraged to meet with divisional teams and visit their projects during the year.

The Board ensures effective engagement with, and participation from, our shareholders and other stakeholders in order to understand their views so that their interests and the matters set out in section 172 of the Companies Act 2006 (see pages 10 to 15) are considered in Board discussions and decision-making.

These engagement mechanisms are kept under review by the Board to verify that they are appropriate and remain effective.

Governance framework

One of our Core Values is our decentralised philosophy which allows our divisions autonomy to operate in a way that most efficiently meets the needs of their respective markets and stakeholders. This enables each division to respond quickly and effectively to any changes in its operating environment. We believe this approach remains fundamental to each of our complementary businesses' continual delivery of strategy and the long-term success of the Group. Our governance framework is therefore structured around supporting this philosophy, facilitated by our long-established culture of openness, transparency and individual accountability.

The Board

The Board has ultimate responsibility for the management, governance, direction, and performance of the Group as a whole and ensuring that we conduct our business in an open and transparent manner. The Board defines the Group's purpose and sets the Group's strategic direction and governance framework, determines our risk appetite and works to deliver sustainable stakeholder value over the longer term. See page 100 for more detail on the role and responsibilities of the Board and the chair.

Chief executive

The chief executive, supported by the finance director, is responsible for leadership of the Group, developing and implementing strategy, managing overall Group performance and ensuring an effective leadership team.

Group management team

Meets regularly to consider operational matters affecting the Group as a whole including: health and safety; strategy; risk; the Group budget; and our responsible business strategy.

See pages 95 to 97.

Divisional boards

Each of our divisions operates autonomously with its own board of directors that includes the Group chief executive and finance director.

See page 100 for the divisional boards' responsibilities. Biographies of the managing directors of the divisions are set out on pages 95 to 97.

Risk committee

Meets twice a year to assist the Board and audit committee in monitoring risk management including climate risk and overseeing the internal control framework.

See page 55.

Board committees

The Board delegates certain matters to its committees. The Board and its committees are supported by the company secretary who provides advice and assistance, particularly in relation to corporate governance and training and induction. The appointment and removal of the company secretary is a matter for the Board as a whole.

Audit committee

Oversees the Group's corporate financial reporting, the internal controls and risk management systems, the work, findings and effectiveness of the internal and external audit and the appointment of the external auditor.

See page 115.

Health, safety and environment committee

Oversees the Group's responsible business strategy, targets and performance with a particular focus on health, safety and the environment.

See page 123.

Nomination committee

Oversees Board and committee composition, Board evaluation and succession planning, giving consideration to diversity, including development opportunities for all our employees.

See page 110.

Remuneration committee

Responsible for recommending overall remuneration policy and the setting of remuneration for our executive directors and members of the Group management team.

See page 126.

Cross-divisional health and safety, HR and commercial directors' forums, IT security steering group, and supply chain, social value and climate action panels

Divisional representatives meet on a regular basis to focus on specific topics and share ideas and best practice. The forums assist the Board and Group management team in ensuring good governance is adopted at all levels of the Group.

Board resources

Board and committee meetings are organised throughout the year and are structured to allow enough time for open discussion. A formal programme of meetings is put in place each year to ensure that the Board monitors and reviews all significant aspects of the Group's activities. The agendas for scheduled Board meetings are developed by the chair, chief executive and company secretary who consider both the Board's responsibilities, the current status of projects, strategic workstreams and operational matters arising. Board papers are reviewed regularly to ensure they remain focused and allow sufficient time for consideration and constructive contribution by all directors to each agenda item. The Board papers provide an overview of performance covering a range of financial and non-financial matters and are designed to assist the Board in reviewing performance against our key performance indicators (KPIs); interim reports are circulated between the scheduled meetings. This helps ensure that the resources integral to our business model are being maintained and that the needs of our stakeholders are continuously monitored.

Despite the continuing pandemic, a relaxation in government guidelines meant that, after our virtually-held February meetings, all of the pre-scheduled Board and committee meetings were held in person, as were the meetings with the divisions for the formal strategy review process. The Board and committees hold additional, ad-hoc virtual meetings as required and held three such meetings in 2021, primarily to discuss and review the performance of the Group and approve required announcements to the stock market. Board and committee papers are distributed electronically in advance of each meeting to provide quick and secure access and minutes are circulated to all directors after each meeting. If any director has any concerns about the operation of the Board or the management of the business, they are encouraged to raise them so they can be discussed and that any unresolved concerns can be recorded in the minutes. No such concerns were raised during 2021.

All directors have access to the advice and services of the company secretary and there are agreed procedures by which directors can take independent professional advice, at the expense of the Company, on matters relating to their duties. No such independent advice was sought by any director during the year.

Division of responsibilities

Responsibilities of the Board

In respect of the Group, the Board, assisted by its committees, is responsible for:

- determining overall strategy and long-term objectives to align with our purpose;
- ensuring that the divisions have appropriate strategies and resources in place and a culture that drives the right behaviours;
- monitoring of key performance indicators;
- oversight of material social and environmental risks and opportunities;
- approving the annual business plan and budget;
- determining risk appetite and principal risks;
- overall corporate governance arrangements, including establishing a framework of prudent and effective controls which enable risk to be assessed and managed;
- approving the financial results statements, annual report and accounts and other statutory announcements; and
- considering all policy matters relating to the Company's activities, including any major changes of policy.

Role of the chair

The chair is responsible for the overall effectiveness of the Board and for promoting a culture of openness and debate at meetings which support well-informed and transparent decision-making through constructive dialogue. To ensure accountability and oversight, there is a clear division of responsibilities between the chair, chief executive and senior independent director, set out in writing, approved by the Board and summarised on our website at morgansindall.com.

Responsibilities of the divisional boards

There is a clear division of responsibilities between the running of the Board and the running of the business, set out in writing as follows:

- matters reserved solely for the Board's decision-making and the terms of reference of each of the Board's committees which are regularly reviewed and can be found on our website;
- a schedule of delegated authorities, setting out which significant operational decisions the divisions must refer to the Board for approval;
- directors' duties under the Companies Act 2006 and other legislation, which are communicated via induction packs and e-learning modules; and
- a Code of Conduct for all of our employees on the Group's expected standards to prevent misconduct and breach of ethical practices. The Code of Conduct and other supporting policies are published on each division's intranet and supplementary training is provided (see page 108).

The divisions are responsible for setting their own five-year strategic plans and annual budgets, for sign-off by the Board, for their operational performance and for managing relationships with their stakeholders (see pages 11 to 15). In managing their operations, the divisions adhere to the schedule of delegated authorities referred to above. The schedule clearly defines all key business issues and levels of accountability, stating which decisions are significant to the Group and therefore need to be referred for approval to: divisional managing directors; designated officers of the Group; the executive directors; or to the Board as a whole. Each division then sets its own detailed procedures to cover day-to-day operational matters within its own internal management systems to ensure decisions within the delegated authorities are taken at the right level within the business. The executive directors, together with the Group head of audit and assurance, who reports to the audit committee, are responsible for monitoring the divisions' compliance with the schedule of delegated authorities.

The executive directors meet with the divisional boards each month to review divisional performance against their medium-term targets and strategic plan. In preparation for these meetings, the divisions prepare a monthly board pack detailing performance against strategy and their KPIs and any issues pertaining to their stakeholders. In turn, the Board receives an executive summary of the divisional board packs as part of each set of Board meeting and interim papers. This ensures that the Board is kept fully apprised of each division's performance and any material issues arising with their stakeholders. For example, during the first half of the year, the Board was kept regularly updated on material and labour shortages in our supply chain and IT security through the newly-established IT security steering group, while in the second half of the year, wider Group succession planning and inflation were key topics. In addition, the Board normally holds informal meetings with the directors and senior management teams of two divisions each year to allow the non-executive directors to meet operational managers and discuss a range of topics in a less formal setting. In June and October 2021, the Board collectively met with senior teams from Urban Regeneration and Construction respectively. As part of these sessions, both divisions were asked to perform a teach-in for the Board on their key clients, procurement process, key areas of client focus and any challenges. Members of the Board also attended our Supply Chain Family event held in September (see page 33) to give them the opportunity to meet members of the supply chain and find out how they are adapting their products and services to address the impacts of climate change.

Independence

On pages 90 to 94, the Board has set out which directors are considered independent. As at 31 December 2021, 63% of our Board (excluding the chair) are considered independent. When our chair was appointed to the Board in October 2016, he was considered to be independent. The tenure of our non-executive directors is regularly reviewed as part of our succession planning process (see pages 110 to 112) to ensure regular refreshment of the non-executive directors and to maintain independence. The Board allocated time at the end of each of the six scheduled meetings held during the year for the chair to meet with the senior independent director and non-executive directors without the executive directors present. No material issues were raised in the year at any of these meetings.

External commitments and conflicts of interest

Prior to their appointment, new directors are asked to disclose any significant commitments they have, together with an indication of the time involved, so that the Board can take these external demands on their time into account and assess any potential conflicts of interest. We also have a process in place through which all existing directors seek Board approval prior to accepting an external appointment. Directors' current external appointments are disclosed on pages 90 to 94. In accordance with this process, during the year, the Board approved the appointments of Michael Findlay to the Financial Conduct Authority's markets practitioner panel, Malcolm Cooper's change in role at Local Pensions Partnership Investments Ltd, David Lowden's appointment to Diploma plc, Jen Tippin's appointment to the Financial Services Skills Commission and Tracey Killen's appointment as trustee for Dorset and Somerset Air Ambulance. In connection with David Lowden's appointment to Diploma plc, and prior to its approval, the Board took into account David's intention to step down as chair of PageGroup plc prior to their 2022 AGM.

The Board has an agreed approach for dealing with directors' conflicts of interest duties under the Companies Act 2006, whereby a director is restricted from voting on any matter in which they might have a personal interest unless the Board unanimously decides otherwise. Responsibility for authorising conflicts of interest in accordance with the Company's articles of association is a matter reserved for the Board. For example, prior to the appointment of Kathy Quashie to the Board, the Board assessed any potential conflicts of interest and took into account her external commitments to satisfy itself that she had sufficient time to meet her Board responsibilities. In addition, the Board undertook a review of potential conflicts of interest prior to Kathy's appointment at Capita plc. In December 2021, the Board undertook its annual review of potential conflict matters and confirmed that it was aware of no situations that may or did give rise to conflicts with the interests of the Company other than those that may arise from directors' other directorships or employment as disclosed on pages 90 to 94.

Key matters considered by the Board in 2021

In line with our governance framework and decentralised approach, our Board normally makes a limited number of principal decisions during the year that are material to the Group as a whole. The Board uses the Group's purpose and strategic priorities as its framework for robust decision-making and to ensure the long-term success of the business, recognising that each decision will not necessarily result in a positive outcome for every stakeholder group. There were no material contracts in 2021 that required referral to the Board under the matters reserved solely for the Board's decision-making, although each division required approval from the executive directors on certain contracts over thresholds set out in our schedule of delegated authorities.

Throughout 2021, the Board had direct engagement principally with our employees and shareholders and was kept fully informed of the material issues of other stakeholders through the executive directors, reports from divisional management and external advisers (see pages 11 to 15).

An overview of the Board's principal decisions during the year is set out below, including how the Board acted to promote the long-term success of the Company for the benefit of shareholders while having due regard to matters set out in section 172(1)(a) to (f) of the Act.

Principal decisions

Strategy review

Action taken

Comprehensively reviewed progress against strategy, tracking performance against agreed KPIs.

Reviewed divisional medium-term targets including each division's contribution to the overall Group strategy and long-term strategic plan.

Monitored market trends and the macroeconomic environment, referring to comparative data and client insight.

Attended presentations from each divisional managing director on their strategic plan including meetings with employees and visits to some of their projects.

Reviewed each division's contribution to the Total Commitments and monitored the Group's progress towards our responsible business strategy and targets.

Reviewed the Group's long-term financial outlook and assessed and prioritised growth opportunities.

Outcome

Confirmed our strategy remains fit for the future and our business model is sustainable, taking into consideration future risk and opportunities.

Consideration of stakeholders

See page 103 for more detail on actions taken by the Board and how it took the needs and interests of our stakeholders into consideration when reviewing strategy.

Determining the Group's risk appetite

Action taken

Considered any changes to the Group's principal risks and emerging risks that could impact our long-term strategic plans.

Considered the balance and breadth of the Group's activities to ensure we have a reasonable level of protection against risks arising from uncertainties in the macroeconomic environment.

Reviewed general market conditions and key trends to identify and assess future risks and opportunities.

Conducted a detailed analysis of the risks associated with information technology, including cyber security.

Outcome

Approved the appropriateness of the Group risk appetite and the risk management framework to provide long-term resilience for the business.

Consideration of stakeholders

See page 104 for more detail on actions taken by the Board and how it took the needs and interests of our stakeholders into consideration when determining the Group's risk appetite.

Confirming the Group's capital allocation framework and dividend policy

Action taken

Reviewed management's proposed capital allocation framework and introduction of a formal dividend policy.

Outcome

Approved the capital allocation framework and the implementation of a formal dividend policy of 2.0 to 2.5 times dividend cover.

Consideration of stakeholders

Prior to recommending dividend payments, the Board considered the Group's cash position, future cash requirements, shareholder expectations and feedback, and the need to provide shareholders with sustainable returns over the longer term.

See page 104 for more detail on actions taken by the Board and how it took the needs and interests of our stakeholders into consideration when setting the capital allocation framework and dividend policy.

Setting the annual Group budget

Action taken

Tracked performance of the Group budget against agreed KPIs.

Reviewed Group and divisional budgets which form the basis for setting the overall Group budget.

Reviewed general market conditions and key trends that support the Group's future growth (see pages 5 and 56 to 57).

Reviewed budgeted expenditure on training, health and safety and employee wellbeing to ensure that it was broadly equivalent to the prior year's budget.

Reviewed the contribution that the budget will make to delivery of the Group's five-year strategic plan.

Outcome

Approved the Group budget, ensuring that it is suitably stretching but achievable to contribute to the Group's long-term growth.

Consideration of stakeholders

In approving the budget, the Board considered the impact on our employees, suppliers, clients, shareholders and wider stakeholders.

The following pages describe how the Board took our stakeholders into consideration when reviewing strategy and risk appetite and formalising our capital allocation framework.

Strategy review

The Group's success depends on ensuring we maintain good relations with our employees, clients and supply chain. In approving strategy, the views and interests of all our stakeholders are considered.

The Board conducted its formal review of each divisional strategic plan during the second half of the year. Each non-executive director (with the exception of Kathy Quashie who was undertaking her induction programme) was allocated either one or two divisions to review. As part of the process, and to facilitate the assessment of the long-term sustainable success of the Group and the impact and outcomes for key stakeholders, the directors undertook a number of pre-meetings with their allocated divisions. These meetings included:

- a review of recent operational and financial performance including risk management and safety performance;
- an overview of the division's market and pipeline of opportunities;
- a review of the adequacy of resources to deliver on the division's strategic priorities;
- meeting with employees without management present;
- a review of the results of employee engagement surveys conducted;
- a review of the division's outlook and medium-term targets;
- visiting one or two live projects and meeting with a variety of people, including employees, subcontractors and suppliers; and
- reviewing the division's initiatives to reduce the impact of its operations on the environment and to deliver added social value to the communities in which it operates.

The Board continues to adopt an alternative method to the three suggested options for employee engagement as set out in the Code, with this responsibility shared by all the non-executive directors. Given the structure and culture of our business and the size of our Board, we consider that this continues to be the most effective way for the Board to engage with as many employees as possible. This is why, as part of the strategy review process, the directors meet with a wide range of employees to understand their views about the division in which they work and the wider Group, and to ascertain the degree in which behaviours are aligned with the Group's Core Values and culture. In particular, this year, the directors focused on how well the agreed health, safety and wellbeing framework had been embedded in each business. The directors were pleased to observe that the framework was fully embedded and that all employees take their own safety and that of their colleagues seriously. Directors also attended the annual divisional employee conferences, held during the year either in person or virtually. Meeting with employees provides insights on how Board decision-making may impact employees so that this feedback can be factored into future Board discussions and decision-making.

Through its proactive engagement with the divisions during the formal strategy review process, and by rotating the divisions between non-executive directors each year, the Board as a whole gains an in-depth understanding of the key concerns and issues of our divisions' stakeholders. The Board will continue to engage directly with stakeholders on certain issues, while wider stakeholder engagement will continue to take place primarily within the divisions (see pages 11 to 15) with the Board receiving regular updates.

Following the pre-meetings, detailed review meetings were held with each division, attended by the chair, chief executive, allocated non-executive director and the divisional managing director. At these meetings, the non-executive director provided feedback on the division's strategic plan, including how the division's stakeholders had been taken into consideration.

The Board then collectively held a strategy review day in October where an overview of each division's strategic plan and priorities was undertaken by the whole Board. The non-executive directors provided the Board with a summary of their observations and opinions on the divisional plans so that the overall Group strategy could be approved.

Employee feedback gathered was shared by the directors at the Board meeting in December 2021. The feedback from the non-executive directors confirmed that the Group has a strong positive culture and that employees genuinely feel empowered and are very positive and engaged. Everyone they had spoken to was open and transparent and the non-executives did not feel that there were any additional issues that needed to be addressed or considered in decision-making that are not currently addressed by the Board or by the divisions themselves. The Board will continue to ensure that the Group's decentralised approach and positive culture is maintained and that adequate processes and procedures are in place to ensure the safety of employees and subcontractors working on our projects as well as members of the public visiting them.

At the Board meeting held in December 2021, the Board reviewed the employee engagement process and concluded that:

- the feedback gathered gives the directors collectively and individually a better understanding of the points of view of employees and subcontractors working on our projects;
- it provides direct insights into employees' working environments, their behaviours and practices, their attitudes and approaches to colleagues and other stakeholders and the practical application of policies and standards; and
- the process used remains appropriate and allows the non-executive directors to meet the broadest selection of employees, given our decentralised business.

Risk appetite review

In approving the risk appetite, the Board considered the impact on our employees, suppliers, clients, shareholders and wider stakeholders, in particular those identified in the principal risks section on pages 58 to 68.

Each year, the Board reviews the nature and extent of risk we are prepared to accept in the pursuit of our purpose and strategy, taking into account the potential consequences of its decisions in the short, medium and long term. In deciding risk appetite, the Board recognises that a prudent and robust approach to mitigation must be carefully balanced with a degree of flexibility so that our decentralised culture is not inhibited. Our risk appetite is taken into consideration when setting strategy and targets, making decisions, and allocating resources, and is compared to current risk levels to determine whether our mitigations are sufficient. Specific limits and guidelines for risk-taking are reflected in our governance framework, structures and policies (for example, the delegated authorities process).

In certain circumstances, we accept that risks may result in some limited exposure, but we will not pursue these unless returns are reasonably probable and predictable (for example, open market sales risks in our residential developments). In order for the Group to sustain a path of organic growth while being able to maintain predictable outcomes, the Board has continued to set low-to-moderate exposure in the delivery of operational targets, including those from both construction and development programmes (see page 58).

In its discussions, the Board reviews the economic environment in which we operate and in particular the impact of its decisions on our employees and our ability to continue to attract and retain the necessary talent to grow the business (see page 63). In addition, and against this backdrop, the Board considers the current profile of our construction projects and development schemes, the Group's financial standing, the significance of environmental, social and governance matters to the business of the Group and our ability to continue to provide a secure IT platform. The Board as a whole is responsible for reviewing the risks associated with information technology security and they receive bi-annual updates from the IT team overseen by the Group finance director. There were no material IT security issues identified in 2021.

Another significant topic is health and safety risk mitigation and the protection of our wider workforce which remain high priorities, together with ensuring that our 'Protecting people' Total Commitment target (see page 17) is met and improved year on year. The Board seeks to drive down health and safety risk to as close as possible to zero (see page 58).

The Board's risk appetite review in October 2021 concluded that, overall, no significant changes had occurred.

The audit committee assists the Board in reviewing the effectiveness of the Group's internal controls and risk management systems (see pages 119 to 122).

Implementation of a capital allocation framework and formal dividend policy

In approving management's proposed capital allocation framework and formal dividend policy, the Board considered the needs of all stakeholders including feedback received from investors and the Company's brokers.

Over the course of the first half of 2021, the Board had several discussions on the appropriateness of implementing a formal capital allocation framework and formal dividend policy, in particular to provide further clarity for shareholders. In approving the adoption of the capital allocation framework, the Board ensured it was designed to balance the needs of all stakeholders while protecting the Group's market competitiveness, capabilities, disciplines and financial strength. During its discussions, the Board took into account feedback received directly from investors and the Company's brokers following the announcement of the 2020 full-year results.

The framework is designed to:

- maintain balance sheet strength to enhance the Group's competitive advantage and win future work;
- ensure downside protection by maintaining a significant net cash 'buffer' in the event of a macroeconomic downturn;
- maximise investment in the current business to drive growth; and
- maintain an attractive dividend policy.

The Board will continue to assess the needs of the business and the optimum balance sheet structure within the context of the framework described above, and any capital then deemed surplus to these requirements may in the future be returned to shareholders.

Purpose, values, strategy and culture

Our Group purpose, values and culture are set out on page 6. A strong culture is integral to our purpose; it helps us not just to attract but also to retain the talent we need to conduct our business responsibly and with integrity and to continue to be responsive so that we maintain the long-term relationships we have built with many of our clients, supply chain and other stakeholders.

Our executive directors and senior managers promote the Core Values and Total Commitments and ensure they are cascaded and embedded throughout the Group. The Core Values and Total Commitments are explained to all new joiners across the Group as part of their induction programme and they are reinforced through Group policies, various Group-wide e-learning programmes (see page 108) and at staff conferences. Our chief executive runs sessions on the Core Values as part of our leadership development programme.

The Board as a whole is responsible for monitoring our culture to ensure it is maintained, and that it continues to align to our purpose and strategy. In order to make a comprehensive assessment, the directors meet with a wide range of employees as part of the strategy review process (see page 103). In addition, the Board receives regular reports on specific key performance indicators and principal risks that are relevant to our Core Values and reviews them to detect any gaps between our performance and our desired culture (see following table).

Overall, the Board is satisfied that the Group's culture remains strongly aligned with our values and has continued to play a vital part in achieving our strategic priorities and creating value for our stakeholders.

The customer comes first

We take a broad view of who our customers are, ranging from the organisations that commission us for projects, to all other stakeholders: our people, our supply chain, our shareholders and local communities where we work.

Strategic priorities:

What we monitor

- Divisional customer satisfaction surveys, client ratings such as Perfect Delivery[1] statistics.
- Biennial surveys with stakeholders on responsible business.
- Feedback from suppliers.

The executive directors keep the Board updated with key projects over a certain threshold. Additionally, the executive directors update the Board with any material issues arising on contracts which may impact a division or the Group as a whole.

Board action in 2021

- Reviewed divisional board summaries which include information on key clients and suppliers and the performance of contracts.
- Members from the Board attended the Group Supply Chain Family event held in September (see page 33).

Strategic report

1 Perfect Delivery status is granted to projects that meet all four customer service criteria specified by Construction, Infrastructure and Fit Out.

Directors' and corporate governance report continued

Talented people are key to our success

We recruit, develop and retain those who can contribute most, both today and in the future. We ensure we have an attractive culture, working environment, reward employees fairly, respect their rights and invest in developing their talent, promote diversity and in wellbeing initiatives.

Strategic priorities:

What we monitor

- Health and safety policies, practices and performance
- Voluntary staff turnover
- Number of apprentices and new graduates
- Average training days per employee
- E-learning responses
- Lost time incidents
- Absence days due to sickness per person per year
- Succession planning and talent pipelines
- Results from employee engagement surveys and resulting actions taken
- Diversity of our employees, including gender pay gap information

Board action in 2021

- Regular monitoring of health and safety performance is a priority for the Board and is the first agenda item at every meeting. The Board noted some increase in incidents compared to the prior year. In response, the Group launched safety improvement plans and there was a reduction in lost time incidents in the second half of the year.
- The health, safety and environment committee received an update on ongoing mental health awareness and wellbeing activities being carried out across the divisions.
- When possible, and as part of the strategy review process, directors visit our sites to talk to managers and employees.
- At its December meeting, the Board reviewed the feedback received by directors from their engagement with employees during the year. The Board also reviewed each division's key engagement and inclusion activities and was pleased to note the high response rates to surveys as well as the breadth of activities being carried out to gather new ideas, improve wellbeing and develop a consistent approach to adaptable or agile working (see pages 11 and 12).
- Reviewed and approved our 2020 gender pay gap report, which is available on our website. Our 2021 gender pay gap report will be reviewed by the Board in the first quarter of 2022.
- Discussed the results of our 2020 diversity and inclusion survey (see pages 23 and 24), considered the divisions' proposed initiatives, and provided feedback and support for their approach to managing employee development and increasing diversity and inclusion across the Group.
- Reviewed Group succession planning, including reports on how the divisions are managing employee development and addressing diversity and inclusion in the context of succession planning.
- Reviewed and approved our modern slavery statement for publication on our website.
- Considered wider pay across the Group to ensure it aligns with strategy and is appropriate to attract and retain the right talent.

Health, safety and environment committee report
Nomination committee report
Directors' remuneration report
Strategic report

We must challenge the status quo

There is always a better way of doing things. This is key to ensuring that we can adapt, innovate and respond to the needs of our customers and the communities in which we work while ensuring we address our responsible business commitments to retain competitive advantage.

Strategic priorities:

What we monitor

The Board receives information on various initiatives being adopted across the divisions to support our Total Commitments. For example, in 2021 we rolled out across the Group our externally validated carbon calculator tool, Carbon/Ca, which estimates, manages and reduces carbon emissions throughout a project's life cycle; and Property Services launched goldeni, a software platform which helps to bring efficiencies for the division's clients and their tenants (see page 47).

Board action in 2021

The health, safety and environment committee monitored our progress in the year against our responsible business strategy centred around our Total Commitment targets, performance and action plans (environmental, social and governance framework) for achieving our KPIs, including carbon reduction.

Health, safety and environment committee report
Strategic report

Consistent achievement is key to our future

Ensuring we get things right first time is a necessity and not an option.

Strategic priorities:

What we monitor

- Financial performance of each division and of the overall Group
- Perfect Delivery or other success measures, e.g. Home Builders Federation star rating, customer experience questionnaires, Net Promoter scores
- Supplier relationships and payments
- Average daily net cash

The executive directors monitor divisional performance on a monthly basis via divisional board meetings and Group management team meetings.

Board action in 2021

- Reviewed payment practices reporting and divisional actions to continue to maintain or improve on average payment days.
- Continued to monitor the resilience of the supply chain, including the availability of materials and resources.
- The Board and audit committee reviewed the divisional risk registers and ensured they aligned to the Group risk register and the Group risk appetite.
- Reviewed and approved the going concern and long-term viability statements.
- Approved full-year and half-year results announcements, and approved a final and interim dividend payment.
- Approved the introduction of a capital allocation framework and formal dividend policy.
- Reviewed Group and divisional performance against strategy.

Strategic report

We operate a decentralised philosophy

We empower our teams to deliver exceptional results for all our stakeholders.

Strategic priorities:

What we monitor

- The executive directors ensure the divisions are addressing the needs of their clients and markets, and that decisions are not held up by unnecessary bureaucracy.
- Compliance with corporate policies including the Group's arrangements to allow our employees and others working on our projects to raise concerns confidentially.
- The Board reviews the appropriateness of the delegated authorities to ensure that the right authorities are in place so that our employees can make decisions appropriate to their experience and competence.
- A robust risk management process, including processes to identify emerging risks, is built into our governance framework which is monitored by the audit committee.

Board action in 2021

- Held regular meetings with divisional management and invited employees to present at Board and committee meetings.
- Reviewed the work of the internal audit to examine and identify any cultural issues as part of its remit.
- Approved the new Group Code of Conduct to be issued across the Group and to members of our Supply Chain Family.
- Reviewed our raising concerns procedures and bi-annual reports of the number and nature of whistleblowing reports made during the period.
- Reviewed the results of e-learning programmes.

Audit committee report
Strategic report

Oversight of workplace policies and practices

As a Group, we are committed to conducting all of our activities to the highest standards of integrity and honesty, and in an open and ethical way. The Board reviews and approves all key policies to ensure they align with the Group's purpose, strategy and values.

In 2021, the Board approved our new Code of Conduct which replaced our ethics policy and provides a framework for how we engage with clients, colleagues, business partners, suppliers and the wider communities in which we work and sets out what our clients and subcontractors can expect from us. The Code of Conduct provides a clear summary of acceptable and unacceptable behaviours and gives practical guidance to help each employee live our Core Values and achieve our Total Commitments. Our Code of Conduct was also distributed to members of our Supply Chain Family (see page 19) and requires them to maintain the standards set out in it within their own businesses. Before accessing any of our sites, all workers are instructed on the policies they are expected to follow, including those in respect of occupational health and safety, whistleblowing and modern slavery.

The Code of Conduct covers the following areas:

- maintaining a healthy and safe workplace;
- caring for the environment;
- anti-bribery and corruption;
- competing ethically;
- respecting others;
- avoiding conflicts of interest;
- communicating carefully;
- maintaining financial integrity (including tax); and
- protecting company information.

The chief executive sent a copy of the Code of Conduct to each employee and this was followed up with an e-learning module on the Code which also reaffirmed awareness of our whistleblowing helpline, (raising concerns). As at the date of this report, over 5,000 employees had completed this e-learning module. A number of supporting policies are available on the Company's and divisions' intranets, along with a suite of more in-depth e-learning modules on key elements of the Code which all new employees undertake as part of their induction programme. Refresher courses are issued periodically to existing employees to ensure that our policies remain embedded into our business practices. All employees across the Group are required to complete modules on compliance issues including: anti-bribery and corruption; competition law; modern slavery; data protection; market abuse regulation; and information security. The Board directors also complete all the compulsory compliance training modules to give them a deeper understanding of how the Code of Conduct and related policies are embedded into the organisation. During the year, each of the executive and non-executive directors completed the Company's new Code of Conduct e-learning module, and directors who had completed their market abuse regulation training three years before completed a refresher e-learning module. Other Group-led modules focus on business specific topics such as directors' duties, and tax modules covering VAT and the Construction Industry Scheme (CIS), and these are undertaken by selected individuals as needed. Each division undertakes its own risk assessments and develops additional training modules for their employees as appropriate.

The Board will not tolerate any form of bribery or corruption in our business practices and this message is reinforced in our Code of Conduct. We have an established policy framework which aims to minimise exposure to bribery and corruption and maintain a culture where these behaviours are never acceptable. The audit committee receives information from our head of internal audit and assurance on our policies and procedures in place to prevent bribery and corruption and for detecting and preventing fraud. We also require our suppliers, subcontractors and business partners to have similar policies in place and anti-bribery, ethics and modern slavery are all referenced in our standard subcontracts. If any breaches of our policies are identified either through our internal audit programme, our raising concerns (whistleblowing) service, or any other channel, they are investigated thoroughly, acted upon, and any significant findings are brought to both the Board and audit committee's attention (see page 109).

Our non-financial reporting statement on pages 81 and 82 contains further information on Group policies that drive good behaviour in employee, social and environmental matters, and the diligence with which we pursue them.

Our tax strategy

We take our obligations as a taxpayer seriously and focus on ensuring that, across the wide range of taxes that we deal with, we have the governance and risk management processes in place to allow us to meet all our continuing tax obligations. The Board has overall responsibility for our tax strategy, risk assessment and tax compliance. Our tax strategy, which was last approved by the Board in December 2021, is available on our website.

We have an open and transparent relationship with HMRC and seek to anticipate any tax risks at an early stage, including clarifying areas of uncertainty with HMRC as they become evident. We keep HMRC informed of how our business is structured and respond to all questions or requests promptly.

Directors' and corporate governance report continued

Modern slavery

We are committed to respecting the human rights of our employees, subcontractors and members of the communities in which we work. We encourage our supply chain to prevent, mitigate and address any threats to human rights. Our Code of Conduct includes the Group's policy on respecting others including our commitment to the Universal Declaration on Human Rights and to prevent modern slavery in our operations and supply chain. In addition, the Group has a modern slavery policy, prohibiting activities linked to slavery, servitude, forced or involuntary labour and human trafficking and a procurement policy requiring goods and services to be sourced efficiently and fairly. The divisions are responsible for their employee and supplier relationships and compliance with these Group policies. The divisions are supported by the Group director of sustainability and procurement, the Group commercial director, the general counsel, company secretary and the Group head of audit and assurance. All new employees who join the Group take our e-learning module on modern slavery and our site induction includes 'toolbox talks' to raise awareness of modern slavery for our own employees and site operatives employed within our supply chain.

The Board annually reviews the approach and progress of work taken by management and the divisions to identify areas where there is any risk of human trafficking and modern slavery in our business prior to the approval of the Group's modern slavery statement. The Group's 2020 statement which was approved in early 2021 is available on our website.

During 2021, the evaluation of our labour practices against ELS BES 6002 Ethical Labour Standard, which demonstrates our commitment to eliminating any possibility of trafficking or modern slavery in our supply chain, was submitted for assessment. We are also hoping to complete our registration for ISO 20400:2017 during 2022. These two actions will help to demonstrate our commitment to sustainable procurement.

Whilst no instances of modern slavery have been raised internally or via our whistleblowing service, we have assisted both the Police and the Gangmasters and Labour Agency with their inquiries into two separate allegations concerning right to work permissions and modern slavery. Each of these inquiries have arisen from isolated incidents in our supply chain and no wrongdoing has been identified on our part.

See page 20 for further information on all our activities during 2021. In our 2021 statement, which will be approved by the Board prior to its publication in the first half of 2022, we will be reporting against the following KPIs: employee training; investigations undertaken into reports of modern slavery and remedial actions taken in response; embedding the use of Sedex across the Group; and evaluation of our labour practices against ELS BES 6002.

Raising concerns (whistleblowing) review

Organisational culture plays a critical role in ensuring that we work in an environment where people are encouraged to raise any concerns they have, and for those concerns to be objectively considered and appropriate actions taken to address them. The Group uses a third-party operated, confidential service which is available 24 hours a day to all our employees and subcontractors who work on our projects to raise any concerns about behaviours or decisions that do not uphold the standards set by our Code of Conduct. The service enables people to report concerns anonymously and in confidence, and can be accessed by telephone, email, or via the service's website. The hotline reporting mechanisms are explained to all our employees and subcontractors on induction, repeated throughout our e-learning courses and published on our intranets as well as on office and site notice boards. A direct link to the reporting page also appears on our intranets.

The Group's general counsel, with the assistance of the company secretary and head of internal audit and assurance, oversees the hotline. Twice a year, the Board reviews our arrangements for raising concerns to ensure they are suitably robust and monitors all reports of non-compliance with our procedures. In total, the Group received 39 reports in 2021 (2020: 16), of which 18 came via our raising concerns service. This number is higher than in 2020 which may, in part, be as a result of a return to more normal operating conditions in our office locations and also an increased number of telephone complaints being flagged as a potential concern. Overall, the number of reports received indicates that the Group's employees have a good level of awareness of ethical issues and are willing to speak up. In 2021, we received one report per 275 employees versus one report per 350 employees for Safecall's construction clients. While no specific complaints were escalated for Board attention during the investigation process, or outside the Board's normal review timetable, the Board is satisfied that all reports were correctly investigated and that, where any further actions were needed in respect of the issues raised, these had been dealt with and resolved in an appropriate way. The top three issues raised related to concerns over: HR issues; breach of company policy; and dishonest behaviour. The Board is satisfied that none of the issues raised are systemic across the Group and that they were isolated to individuals or specific circumstances.

Nomination committee report

Dear Shareholder

I am pleased to present to you the report from the nomination committee for 2021. During the year, we were delighted to welcome Kathy Quashie to the Board. Kathy's skills, particularly her extensive strategic, commercial and digital transformation experience, have broadened the expertise on the Board, and added valuable knowledge and insight to Board discussions.

Membership and meetings

Members[1]	Member since	Attended/ scheduled
Michael Findlay[2] (chair)	**2016**	3/3
Malcolm Cooper	**2015**	3/3
Tracey Killen	**2017**	3/3
David Lowden	**2018**	3/3
Jen Tippin	**2020**	3/3

1 Biographies of members are set out on pages 90, 92 and 93. John Morgan and Steve Crummett are not members of the committee although they are invited to attend meetings.

2 Michael Findlay is not permitted to chair meetings where his own succession and performance are discussed.

Key responsibilities:

- Board and committee composition.
- Identifying potential skills and experience gaps.
- Leading the Board appointment process.
- Reviewing succession planning for the Board and Group management team.
- Reviewing divisional succession plans.
- Overseeing the Board evaluation process.

The committee's full role and responsibilities are set out in its terms of reference which are available on our website.

Following the review by the committee of the specific areas for discussion highlighted by the 2020 evaluation, the committee was considered to be working well with good open discussion including in relation to management succession. It was agreed that the focus of the committee would remain on succession planning at both Group, executive and divisional levels as well as improving diversity and inclusion across the Group and on the main Board. The 2021 evaluation of the Board, which was carried out during the year, concluded that the committee was continuing to work well. It was agreed the key focus areas going forward will remain succession planning, in particular Group management team (GMT) succession and improving diversity and inclusion.

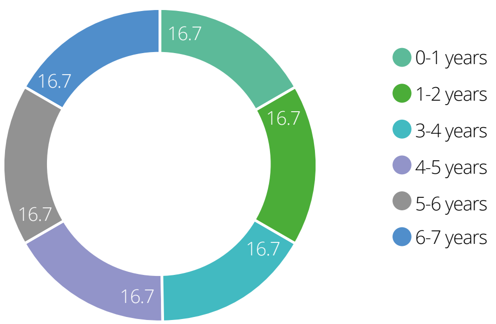
Board composition and length of tenure

The composition of the Board and its committees has remained a key area of focus along with succession planning for the Board and the GMT.

Annually, the committee reviews the composition of the Board together with a consideration of the skills, knowledge and experience needed to deliver Group strategy, both in the short and longer term. These reviews include consideration of the size and structure of the Board and its committees, the range of expertise required and any gaps in skills and knowledge identified, diversity in its broadest sense, any feedback received from the annual Board evaluation and the tenure of existing Board members. As part of the 2021 review, each Board member was required to complete a self-assessment of their skills. The information was then fed into a formal Board skills matrix to enable the committee to monitor the balance of skills, expertise and experience on the Board against the Group's strategic priorities. Following the review, the committee concluded there was a good mix of experience on the Board and open dialogue that provides the appropriate balance of support and challenge to the executives.

The standard term for non-executive directors is three years. Non-executive directors normally serve for a maximum of nine years, through three terms, each of three years' duration. All directors are subject to annual re-election by shareholders at our AGM and the Board has set out on pages 90 to 94 for each director the specific reasons why their contribution is, and continues to be, important to the Company's long-term sustainable success (further information on the 2022 AGM can also be found in the Notice of Meeting to shareholders accompanying this annual report or on our website). The committee also recommended to the Board a renewal of both Malcolm Cooper's and David Lowden's term for a further three years each, as the Board continues to benefit from their considerable experience in Board discussions.

Tenure of non-executive directors
as at 31 December 2021 (%)



	Date of appointment	Expiry of current term
Michael Findlay	3 October 2016	3 October 2022
Jen Tippin	1 March 2020	1 March 2023
Tracey Killen	5 May 2017	5 May 2023
Kathy Quashie	1 June 2021	1 June 2024
David Lowden	10 September 2018	10 September 2024
Malcolm Cooper	9 November 2015	9 November 2024

Appointments to the Board and succession planning

Following the review of succession planning in 2020, the committee reported in the 2020 annual report that it would be commencing a search for a new non-executive director. It was agreed that the new non-executive would be an individual with broad strategic commercial experience in a customer-focused industry who recognised the importance of environmental, social and governance matters to long-term value and an enhanced corporate reputation, and that the new non-executive should bring additional diversity to the Board to ensure an appropriate mix of age, experience and backgrounds. In April 2021, on the recommendation of the nomination committee, the Board was delighted to announce the appointment of Kathy Quashie, effective from 1 June 2021. Following her appointment, Kathy undertook a detailed induction programme where she met with the chair, chief executive, finance director, company secretary and each of the divisional managing directors to broaden her knowledge of the business and enable her to contribute effectively to Board discussions and decision-making.

The committee takes into consideration the length of tenure of each non-executive director in their succession planning and the skills required for each of the committee chairs and is satisfied that there is a sufficient balance of skills amongst the existing non-executives to manage an orderly succession of the Board. The committee recognises that careful planning will be required for the replacement of Malcolm Cooper as chair of the audit and health, safety and environment committees at the end of his final three-year term in 2024.

Board appointment process

Nomination committee requests proposals from independent search firms.

Nomination committee reviews and approves an outline brief and role specification including time commitment required and appoints a search firm to facilitate the search.

The chair and chief executive discuss the specification with the search firm, who prepares an initial longlist of candidates.

The chair and chief executive then define a shortlist of candidates.

Candidates are interviewed by the chair and chief executive, and a selection of the shortlisted candidates are then interviewed by other Board members.

Following Board approval, based on a recommendation from the nomination committee, the appointment of the new director to the Board and relevant committees is announced.

Once appointed, the new director undertakes a tailored induction programme. The induction programme includes meetings with the chair, company secretary, executive directors, divisional management directors and site visits.

Directors' and corporate governance report: nomination committee report continued

We follow the process set out above when making Board appointments. We disclose the name of the independent search firm and any other connection they have with the Group in the annual report published following the search. Audeliss were appointed in connection with the recruitment of Kathy Quashie. In line with the Code, Audeliss have a commitment to promoting diversity and ensuring access to a diverse pool of candidates. Audeliss has no connection to the Group or individual directors, other than providing executive search services.

The committee formally reviewed succession planning for the executive directors and GMT during the year. The review took account of the opportunities and challenges facing the Group and the skills and expertise that will be required in the future. Our chief executive manages the formation of succession plans for senior management which are overseen by the committee. We seek to ensure that we have identified appropriate opportunities for people who are key to delivering our strategy and any areas needing further development. Where we have not been able to identify an immediate successor for a role, we have short-term contingency cover in place while the committee monitors the external market, as well as training and development for potential future successors in the medium to longer term.

During the year, the committee also reviewed each division's plans to oversee how its management is developing its own talent pools for future succession. Delivering on our purpose means that we must ensure we continue to develop and retain a talented team, together with a pipeline of successors, as this is fundamental to achieving excellence in project delivery and customer service.

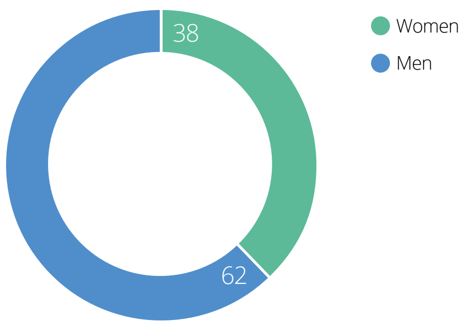
Our leadership development programme provides core and consistent leadership training for senior employees across the Group. In addition, each division runs its own technical and business training programmes to develop the skills its business and its employees need. These programmes range from apprenticeships and graduate training to continued learning and supporting employees through professional qualifications (see pages 21 and 22 for more detail).

Each division uses succession and development planning tools appropriate to the size and requirements of its business. As with succession plans for the executive directors and GMT, the divisional succession plans are structured around planning for the short, medium and longer term. Where practically possible, each division considers its existing employees for new roles and development opportunities and, in 2021, 535 employees across the Group were promoted internally.

Diversity and inclusion

We believe that a diverse Board, reflecting a broad mix of skills, backgrounds, perspectives and experience, is critical for innovation and will enable us to benefit from a wider range of ideas and expertise. We consider diversity in the broadest sense, including in terms of age, gender, ethnicity, culture, socio-economic background, disability and sexuality.

Board diversity
as at 31 December 2021 (%)



The Board meets the Parker Review target to have at least one director from an ethnic minority background by 2024. In addition, the Board meets the Hampton Alexander Review target of ensuring women make up at least 33% of the Board.

The chair leads the Board diversity agenda, with the aim to continuously improve the diversity of the Board. As a committee, we ensure our selection processes for directors provide access to a diverse range of candidates and will only use executive search firms who have signed up to the UK Standard Voluntary Code of Conduct on Gender Diversity. Board appointments will be made based on merit and objective criteria such as the skills and experience needed, without resorting to quotas but with due regard for the benefits of diversity. Our full Board diversity policy, which was approved during 2020 and sets out our ambition to become exemplary in our industry, can be found in the Governance section of our website.

With our strategy focused on growing the business organically and generating long-term profit and social value, it is important that we drive changes to ensure that we have diversity, not only at Board level, but at all levels of the business. While our Board diversity policy applies to the Board and the GMT, it sets the tone Group-wide and is reflected in the divisions' policies. It establishes our commitment to embracing diversity and inclusion within our culture and values so that every employee is given the opportunity to use their abilities, skills and experience to help us deliver on our strategic priorities. Improving diversity and inclusion across all levels of the Group is therefore critical to implementing our strategy.

A diverse, talented team will align us better to our client base and to society as a whole, and will help us make better decisions for our business and our stakeholders.

The chief executive is responsible, on behalf of the Board, for improving diversity and inclusion across the Group and ensuring a fully inclusive culture. We recognise that historically our industry has not been attractive to a wide talent pool of candidates, in particular female talent, however, we are pleased that this is changing and the Board is being kept apprised on each division's progress and initiatives to improve diversity and inclusion (see pages 23 and 24). While it will take time, we are committed to levelling up diversity in its widest sense across all levels of our organisation through the identification of barriers which are unique to our sector in order to drive changes to policies and practices. We are working towards women making up at least one third of our senior management team (see page 23 for further details of the gender balance of the GMT and their direct reports). During 2021, we made progress in increasing diversity among the GMT direct reports which is now 26% female (2020: 16%), however gender diversity of the GMT itself remains low at 9% and increasing diversity and inclusion, particularly at the level of the GMT and their successors, is a key area of continuing focus.

The Board as a whole reviewed the outcome of the Group-wide diversity and inclusion survey carried out in the fourth quarter of 2020; the committee is responsible for monitoring the impact of the divisions' diversity initiatives. The Board has continued to take an active role in reviewing the divisions' plans to improve inclusivity and ensure all their employees are fully engaged, and is pleased to note that, during the course of 2021, the divisions continued to work hard on their diversity road map. Actions taken by the divisions to improve workplace inclusivity have included reviewing their recruitment strategies, organising behavioural training, and providing opportunities for employees to get together to discuss ideas (read more on page 24). We have continued to raise awareness among young people of the variety of careers in the industry through our engagement with schools and colleges to help attract wider pools of potential talent. As part of this engagement, we have interviewed a cross-section of current employees to showcase as real life and relatable examples of the variety of backgrounds our employees have and the career paths that are achievable (see examples on pages 22 and 24). Going forward, the Board will continue to review the Group's progress and consider what actions need to be taken to ensure that we introduce more outcome-based initiatives to enable us to measure the progress we are making.

Developing people 21

Understanding our stakeholders' priorities 11

Board evaluation

The Board has undertaken internal evaluations of its performance for the last couple of years which comprised a detailed questionnaire and individual reviews with each director to assess the effectiveness of the Board and committees, together with reviews of each director's performance and their contribution to the Board's decision-making. The table below sets out details of actions undertaken in 2021 against the agreed actions from the 2020 Board evaluation. Details of the outcomes and agreed actions from the 2021 evaluation are set out on page 114.

2020 Board evaluation – actions agreed and taken

2020 agreed actions	Actions taken in 2021
Once the Covid restrictions have been lifted, the Board will arrange additional meetings with the GMT.	▪ Due to Covid, no separate meetings were held with the GMT but the Board met with all members of the GMT at the senior management conference and held sessions with the senior teams of Construction and Urban Regeneration during the year.
All directors remain responsible for employee engagement and for getting a sense of how our employees feel about the business, and each of the non-executive directors will maximise their opportunities for employee engagement in 2021.	▪ The non-executive directors attended a number of online meetings during the year and in the second half they held a number of face-to-face meetings as part of their divisional strategy reviews. The re-introduction of face-to-face meetings enabled the non-executives to meet and engage with various employees from across the Group. ▪ Members of the Board attended our senior management conference held in October. ▪ Members of the Board attended the Supply Chain Family event where they also had opportunities to meet with employees. ▪ Dedicated Board feedback session on employee engagement where the Board reviewed and discussed divisional employee engagement activities, including results of employment engagement and pulse surveys, to give a better understanding of any issues across the business and actions being undertaken to address them.
During the year, a number of divisions will be invited to give a presentation to the Board setting out their current priorities and key challenges. These sessions will allow non-executive directors to meet with senior teams of those divisions where they have not been involved in the divisional strategic review process.	▪ The Board met with representatives from Urban Regeneration and Construction for informal meetings in June and October. ▪ The health, safety and environment committee were given presentations from representatives from Construction, Infrastructure, Fit Out, Partnership Housing and Property Services, focusing on safety performance and responsible business plans.
To ensure the Board's skills remain appropriate for the longer term, the directors will complete a skills matrix based on broad general skills for review by the Board as a whole.	▪ The nomination committee reviewed and approved the Board skills matrix at its meeting in February 2021 and concluded that there was a good mix of experience on the Board.
Each committee will be responsible for reviewing the areas for discussion highlighted for their respective committees and agreeing any actions to be taken.	▪ Each committee reviewed its areas of discussion at the first meeting held in 2021 and the agreed actions were taken as appropriate throughout the year (see individual committee reports for further details).

Directors' and corporate governance report: nomination committee report continued

Details of the 2021 evaluation process is set out in the table below. The 2021 evaluation sought feedback from the Board on the following topics:

- overall Board performance;
- progress on key strategic challenges identified during the 2020 evaluation;
- the effectiveness of communications of our environmental, social and governance credentials;
- the effectiveness of the Board's engagement with the divisions and employees, the sharing of feedback received and the consideration of this feedback in decision-making; and
- progress to improve the use of technology and data across the Group.

2021 Board evaluation – actions agreed

The Board discussed the findings from the evaluation at its meeting in December 2021. Overall, the Board concluded that the Board is working well, with the right issues being discussed and appropriate Board involvement in key discussions. A number of areas were identified for the Board to focus on to ensure the Group continues to deliver long-term value for all our stakeholders. They include:

- succession planning;
- Group culture;
- ensuring Partnership Housing delivers its potential in accordance with its five-year strategic plan;
- continuing to deliver on our Total Commitments and ensuring our performance against our Commitments and social impact is communicated clearly.

We will report on the actions taken against these areas of focus in our 2022 annual report.

Following the individual meetings with each director, the committee agreed it is confident that each of the non-executive directors remains independent, will be in a position to discharge their duties and responsibilities for the coming year and continues to be an effective member of the Board. In accordance with the UK Corporate Governance Code, all directors will stand for re-election at the forthcoming AGM.

As disclosed in our 2020 annual report, an external evaluation of the Board and its committees will be commissioned in 2023.

Looking ahead

In 2022, the committee will continue to focus on:

- succession planning for the Board and GMT;
- reviewing succession planning in the divisional management teams; and
- reviewing progress to further improve diversity and inclusion across the Group and the introduction of more outcome-based initiatives.

Michael Findlay
Chair of the nomination committee
24 February 2022

2021 Board evaluation process

The evaluation questionnaire was developed, based on the key areas of focus.	The questionnaire was circulated and responses collated and analysed by the chair and company secretary.	The chair discussed with each director the feedback received and reviewed each director's contributions with them individually.	The senior independent director led the Board appraisal of the chair's performance.	The chair presented the key themes for Board discussion at the December 2021 meeting and agreed actions to be taken.	The Board reviewed the actions taken following the recommendations from the 2020 Board evaluation process.	The Board and the committee confirmed that they were satisfied with the contributions and time commitment of each non-executive director and the chair.

Audit committee report

Dear Shareholder

On behalf of the Board, I am pleased to present the committee's report for the year ending 31 December 2021.

Membership and meetings

Members[1]	Member since	Attended/ scheduled
Malcolm Cooper[2] (chair)	**2015**	3/3
Tracey Killen	**2017**	3/3
David Lowden	**2018**	3/3
Jen Tippin	**2020**	3/3

1 Biographies of members are set out on pages 92 and 93. In addition to committee members, meetings are regularly attended by the: chair of the Board; finance director; company secretary; Group financial controller; Group head of audit and assurance; and representatives from the external auditor.

2 Malcolm Cooper is a qualified accountant and experienced FTSE 250 audit committee chair. He continues to have recent and relevant financial experience for the audit committee of a company in the construction and regeneration sectors.

All committee members during the year and up to the date of this report are independent non-executive directors in accordance with the Code, and the committee as a whole has the competence, diverse skills and experience relevant to the sector.

Key responsibilities:

- Monitoring the integrity of the financial results of the Company and reviewing significant financial reporting judgements contained therein
- Reviewing the external audit process and making recommendations to the Board in relation to the external auditor's appointment/re-appointment/removal.
- Reviewing the Company's internal financial controls and internal control and risk management systems.
- Monitoring and reviewing the effectiveness of the Company's internal audit function.
- Reviewing the approach taken by the Group to consider and address climate-related financial risk.

The committee's full role and responsibilities are set out in its terms of reference and are available on our website.

This report sets out how the committee has discharged its responsibilities and provided assurance on the integrity of the 2021 annual report, along with an overview of the committee's main activities and insight into the key focus areas considered during the year.

Over the year, the committee's key focus was on the integrity of: the Group's financial reporting; financial judgements; levels of materiality; process of risk management and internal controls; and providing appropriate challenge of the assumptions and key judgements made by management. In addition, the committee was asked to provide its input into the four trading updates released to the market in February, April, July and November, each of which provided positive upgrades to expected full-year performance.

The committee follows a formal agenda at each meeting to ensure that all elements of its remit are covered and meetings are scheduled in line with the Company's financial reporting timetable. As chair of the audit committee, I met with the finance director and the external audit partner individually during the year. In addition, the committee held discussions with the external auditor and the Group head of audit and assurance, without the management team present. No matters of significance were raised during any of these discussions.

The committee's authorities and calendar of work remain in line with the requirements of the Code, having regard to the recommendations of the Financial Reporting Council (FRC) in its guidance on audit committees.

Following the review by the committee of the specific areas for discussion highlighted by the 2020 evaluation, the committee was considered to be well chaired and working effectively. It was agreed that the committee would: carry out further detailed reviews of selected key risks and emerging risks at each meeting; oversee a review undertaken with the internal audit teams to consider any improvements to the internal audit processes; and continue to monitor any changes to requirements following the Brydon report and BEIS review. Further information on each can be found later in this report.

The Board evaluation for 2021 also included an evaluation of the audit committee (see page 114 for further details on how the evaluation process was conducted). Overall, the committee is considered to be operating effectively. Following the 2021 evaluation, the committee agreed it would continue to conduct risk deep dives at each meeting and hold an annual meeting with one of the subsidiary lead auditors.

Key activities during the year

The committee's key activities during the year are set out below, and further information on its work, including full descriptions of the risk management and internal control processes, is set out on the following pages.

Activity	Actions taken	Outcomes
Financial reporting	▪ Considered the accounting policies and practices applied. ▪ Reviewed the half-year and full-year financial and narrative statements and trading updates. ▪ Undertook fair, balanced and understandable review of the 2020 annual report. ▪ Reviewed significant accounting judgements for the 2020 audit. ▪ Reviewed the 2020 viability assessments and management's process and assumptions for assessing viability. ▪ Reviewed the 2020 going concern statement and management's forecasts and projections for 2021. ▪ Conducted a review of the half-year 2021 going concern assessment and an initial review of the 2021 full-year going concern and viability assessments.	▪ Advised the Board in relation to the fair, balanced and understandable assessment of the Company's position and prospects. ▪ Confirmed to the Board that the committee was satisfied with the clarity and accuracy of the half-year and full-year financial statements and that the going concern and viability assessments were appropriate.
External auditor	▪ Ensured the smooth handover from Deloitte LLP to Ernst & Young LLP. ▪ Reviewed and monitored the independence and objectivity of the external auditor. ▪ Evaluated the performance of the auditor during the 2020 audit and the effectiveness of the external audit process following completion of detailed questionnaires by management and group and divisional finance teams. ▪ Monitored compliance with our Group policy on the engagement of the external auditor to supply non-audit services.	▪ Recommended the appointment of EY as external auditor for the financial year ended 2021. ▪ Approved the audit fee for the year ended 2021. ▪ Recommended the reappointment of EY for the year ended 2022.
Risk management and internal controls	▪ Formally reviewed the effectiveness of the risk identification process and Group and divisional risk registers. ▪ Conducted deep dives into key risk areas. ▪ Reviewed the effectiveness of the Group's internal financial controls and internal control and risk management systems. ▪ Monitored and reviewed the effectiveness and performance of the Group head of assurance in connection with the 2021 agreed internal audit plan. ▪ Reviewed the outcome of the external evaluation of the internal audit function. ▪ Considered the potential impact of changes proposed by the government's consultation 'Restoring trust in audit and corporate governance'. ▪ Reviewed the appropriateness of the 2022 proposed internal audit plan. ▪ Reviewed the TCFD statement and the Group's approach to TCFD.	▪ Advised the Board in relation to the outcome of its risk management reviews, including its oversight of the risk identification process, to facilitate the Board's assessment of the Group's emerging and principal risks and risk appetite review. ▪ The risk management and internal control systems were considered to be effective. ▪ Approved the 2022 internal audit plan. ▪ Approved the Group's draft 2021 TCFD statement including details of the Group's risks and opportunities in relation to climate change and scenario analysis.

Financial reporting

The committee is responsible for reviewing and reporting to the Board on the clarity and accuracy of the half-year and full-year financial statements. The key activities table on the previous page sets out the actions and outcomes of the committee's reviews undertaken during the year to ensure that the financial statements present a 'true and fair' view. In order to facilitate its reviews, the committee receives regular reports from the finance director, the Group's financial controller and the external auditor, who also regularly attend meetings of the committee.

The directors are responsible for preparing the annual report and accounts. In February 2022, the committee considered the 2021 annual report, including the preliminary results announcement, and its detailed review of the year-end position, by reference to the year-end accounts, assisted the Board in making the going concern statement set out on page 83. In addition, the committee reviewed the significant accounting judgements for the 2021 financial statements (see below) and considered and approved the key assumptions in the long-term viability statement. This year, the key assumptions in the viability statement included modelling a series of separate downside scenarios, which were individually mapped to the principal risks on the Group risk register and then combined to create an extreme downside scenario, in order to provide a more detailed disclosure of risks considered (see page 84 for further information). The committee did not ask the external auditor to look at any specific areas during the course of conducting its audit.

Fair, balanced and understandable assessment

One of the key provisions of the Code is for the Board to confirm that the annual report, 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 (see the strategic report from the inside front cover to page 85).

To enable the Board to make this declaration, a formal review is embedded in the year-end process to ensure the committee and the Board as a whole have access to all relevant information and, in particular, management's papers on significant issues faced by the Group. The committee receives a paper from the company secretary detailing the approach taken in preparing the annual report. The committee and the Board as a whole receive drafts of the annual report in sufficient time to facilitate their review and enable them to challenge the disclosures where necessary.

Application of accounting policies, judgements and estimates

In carrying out its duties, the committee is required to assess whether suitable accounting policies have been adopted and to challenge the robustness of significant judgements and estimates reflected in the financial results.

This process involves reviewing relevant papers prepared by the finance team in support of the policies adopted and judgements and estimates made and confirm that they remain appropriate for the Group. The papers are discussed with the finance director, the external auditor and, where appropriate, the Group head of audit and assurance. In addition, the committee reviews the year-end report to the audit committee from the external auditor based on the work it performed and findings from the annual audit.

Significant matters considered in relation to the financial statements

The following table shows what we consider to be the key accounting matters which required the exercise of judgement during the year. These are all considered to be recurring matters.

Issue	Basis of assurance	Conclusion
Contract revenue, margin, receivables and payables The recognition of revenue and margin on long-term contracts in the financial statements, and the associated contract receivables and payables require management to make judgements and estimates.	In addition to updates on the key contract issues at Board meetings, at which management identify any significant differences in contract valuations that exist with either clients or suppliers, the committee has reviewed the status of these key contract issues at each audit committee meeting.	Based on its review and discussions with the management team and external auditor, the committee concluded that the treatment of contract revenue, margin, receivables and payables in the financial statements is appropriate.
Impairment of goodwill	The value of goodwill is supported by a value-in-use model prepared by the management team. This is based on cash flows extracted from the Group budget and strategic plan, which have both been approved by the Board. The committee reviewed and challenged the management team on the assumptions used in the value-in-use model.	Based on its review and discussion with the management team and the external auditor, the committee was satisfied that the value of goodwill is appropriate.
Viability and going concern assessment	In order to satisfy itself that the Group has adequate resources to continue in operation for the foreseeable future and that there are no material uncertainties in respect of the Group's ability to continue as a going concern, the committee considered the Group's viability statement, cash forecasts, including sensitivities to risks that could reasonably impact the future operating results, and available borrowing facilities.	Based on its review and discussion with the management team and the external auditor, the committee recommended to the Board the adoption of the going concern statement and the viability statement for inclusion in the annual report.

As a result of its reviews as detailed above, the committee was pleased to advise the Board that the 2021 annual report and financial statements (the 'annual report') is fair, balanced and understandable and provides the necessary information for our shareholders to assess the Company's position, prospects, business model and strategy.

External audit

Independence and effectiveness

The committee oversees the Company's relationship with the external auditor and compliance with the requirements of the Code and the Competition and Markets Authority Order published in 2014 which requires all public interest companies to conduct an audit tender at least every 10 years and to rotate their audits after at least 20 years. To ensure that the external auditor remains independent of the Company, the committee carries out an annual assessment of the auditor's independence along with an appraisal of its qualifications, expertise and resources. To fulfil these obligations, the committee reviewed the external auditor's presentation of its policies and safeguards to ensure its continued independence within the meaning of all regulatory and professional requirements and that the objectivity of the audit engagement partner and audit staff had not been impaired. In addition, key members of the audit team will rotate off the Company's audit after a specific period of time.

Following a formal tender process detailed in our 2020 annual report, Ernst & Young LLP (EY) were recommended by the committee to be appointed as the Company's auditor with effect from the Company's 2021 audit and their appointment was approved by shareholders at our AGM held in May 2021. Deloitte LLP, who had held office as the Company's previous auditor since 1994, ceased to hold office from the conclusion of the AGM. Peter McIver was appointed as the lead audit engagement partner. Peter is a senior partner with over 30 years' experience and has led EY's London audit practice and their Real Estate, Hospitality and Construction audit team.

Following the committee's review of EY's policies and safeguards, together with the Company's own policies on engaging the external auditor for non-audit work (see below) and employment by the Company of former employees of the external auditor, the committee confirmed that it was satisfied with EY's continued independence and objectivity.

As part of its responsibility for assessing the effectiveness of the external audit, the committee discussed the external audit plan at the committee meeting held in August 2021 and reviewed progress against the audit plan at the meeting held in December 2021, noting at that time the scope of work to be undertaken and the key audit matters being addressed by the external auditor. At the meeting prior to the announcement of the full-year results, the committee reviewed the external auditor's fulfilment of the agreed audit plan and the key areas of audit focus as described in the independent auditor's report on pages 160 to 169.

During the year, an internal evaluation of the external audit process was undertaken, having regard to the FRC's Guidance to Audit Committees and with the assistance of the Group head of audit and assurance. The review is undertaken in the early part of the year following the conclusion of the full-year audit and is carried out by way of questionnaire circulated to senior members of the Company and the divisions' finance teams. The feedback received in 2021, which covered matters including the quality of the process, the adequacy of resources employed by the external auditor, its communication skills and its independence, objectivity and professional scepticism, was then reviewed by the committee as part of its assessment of the external auditor's effectiveness. The review was carried out on Deloitte in relation to the 2020 audit and no concerns arose in the course of these reviews, which indicated that there were no issues with the effectiveness of Deloitte as the prior external auditor. EY shadowed the working of Deloitte during the 2020 year-end audit to ensure a smooth handover ahead of the 2021 audit. The first review of the effectiveness of EY will be undertaken following the conclusion of the 2021 audit in early 2022.

Policy on the auditor providing non-audit services

The Company's policy on the engagement of the external auditor for non-audit related services, which applied during the 2021 financial year, complies with the FRC's Revised Ethical Standard. The policy is designed to ensure that the provision of non-audit services does not impair the external auditor's independence or objectivity or create a conflict of interest. The policy applies to the Company and all its wholly-owned subsidiaries and provides guidance on the type of work that is acceptable or prohibited for the external auditor to undertake, and the process to be followed for approval. The categories of services that are prohibited are in line with the legislation and precluded Deloitte (prior to when they ceased to hold office) and now preclude EY (post their appointment) from providing certain services, such as valuation work and preparing accounting records and financial statements. For other services not falling within the prohibited services list, the external auditor is eligible for selection by the Company provided that its skills and experience make it competitive and the most appropriate supplier of these services. Permitted services can be carried out by the external auditor subject to the advance approval of the finance director or, if the fees for such services exceed a threshold of £50,000, the advance approval of the audit committee chair. In addition, Deloitte and EY have their own safeguards in place to confirm that non-audit work prohibited by the FRC's Ethical Standard is not provided to the Group.

The committee monitors compliance with the Company's policy throughout the year and, during 2021, neither Deloitte nor EY, during their respective periods of office, provided any non-audit services that required the approval of the committee. There were no fees for non-audit services incurred by EY during the year.

Reappointment of external auditor

Having regard to the considerations referred to above, the committee has satisfied itself that EY, the current external auditor with responsibility for the 2021 financial year end, remains independent and effective. As a result, the committee has recommended to the Board that a resolution proposing the reappointment of EY as external auditor be put to shareholders at the forthcoming AGM.

Risk management and internal controls

The Group's risk management process and system of internal controls were in place for the whole year and up to the date of approval of the annual report and are in line with the FRC's Guidance on Risk Management, Internal Control and Related Financial and Business Reporting. The audit committee is tasked with assessing and reviewing the Company's principal and emerging risks and keeping the internal control system under review.

Risk review

In August and December 2021, the committee conducted a formal appraisal of the Group and divisional risk registers, following detailed reviews by the divisions and the risk committee. This included an evaluation of the process by which significant current and emerging risks are identified. Risks are identified by the divisions, escalated through the risk management and Board reporting processes and consolidated into a Group risk register as either principal or emerging risks. Documented against each are the matters the Company has in place in order to prevent or mitigate any impacts. During the year, the risk registers presented to the committee included deep dives into key focus areas relating to our principal risks, including: economic uncertainty and the prospect of longer-term inflationary pressures; materials availability; partners' stretched finances; our preparedness for the upcoming Building Safety Bill; and longer-term residential drivers. The registers also included deep dives into a number of emerging risks and scenarios, including consideration of potential long-term impacts of climate change challenges, the advancing pace of technology and scarcity of skilled labour in the industry.

Following its assessment at the year end, the committee noted there was a slight increase in risk predicated by; economic headwinds, continued material/labour supply constraints and the 'prospect' of a prolonged inflationary period/base rate rise. The Covid principal risk disclosed in the 2020 report was downgraded following the implementation of safe working procedures on our sites, the UK's vaccination programme and the easing of lockdown restrictions, although Covid variants are recognised as having the ability to disrupt.

The committee therefore concluded that, while there continues to be uncertainty in the UK macroeconomic environment, the Group's risk profile remains relatively stable. This is due primarily to the markets in which the Group operates being predominantly in the public and regulatory sectors, which the committee regards to be structurally secure, coupled with continued government support for the construction, infrastructure and regeneration sectors. Our order book quality and our robust working capital management, which are reflected in our strong cash position and balance sheet, continue to support long-term decision-making and ensure we continue to select projects that match our risk appetite and are right for our business.

Following its reviews, the committee reports to the Board to facilitate the Board's annual risk appetite discussion.

Board risk appetite review 58

Principal risks (for details of the Group's principal risks and how they are being managed and mitigated) 58

Emerging risks (for information on the procedures in place to identify and monitor emerging risks) 69

The TCFD statement (for more information on steps taken to ensure that material climate-related matters are being properly considered in the annual report) 71

Review of internal controls

The committee reviewed the effectiveness of the Group's system of internal controls which is described briefly in the adjacent box. The review includes assessing: the relationship between the internal and external audit function; the results of internal audit work; and the overall effectiveness of the internal audit process. As part of the year-end close procedures, a historic accounting error was identified and corrected (refer to basis of preparation, note (e) to the financial statements on page 174). The committee has considered the impact of the historic accounting error and is taking action to investigate the root causes of this matter, and to rectify the related internal controls.

In addition, the committee was kept informed of additional processes proposed by the executive directors in preparation for new regulations that may follow the government's consultation, 'Restoring trust in audit and corporate governance', particularly the more formalised accountability of directors over internal controls and the additional disclosures they will need to make as a result.

Internal controls

Financial

- **Financial reporting system** – to ensure the effective safeguarding of assets, proper recognition of liabilities and accurate reporting of profits; a comprehensive budgeting and forecasting system, regularly reviewed and updated; a management reporting system, including monthly divisional reports to the Board; and financial reviews in the annual internal audit plan to validate the integrity of divisional management accounts.
- **Investment and capital expenditure** – detailed procedures and defined levels of authority, depending on the value and nature of the investment or contract, in relation to corporate transactions, investment, capital expenditure, significant cost commitments and asset disposals.
- **Working capital** – continual monitoring of current and forecast cash and working capital balances through a regime of daily and monthly reporting.

Operational

- **Group structure** – divisional boards, with certain key functions such as tax, treasury, internal audit, IT, pensions and insurance retained at Company level; and a system of delegated authorities to ensure that decisions are made at the appropriate level (governance framework page 99).
- **Tender, project selection and contract controls** – tenders reviewed in detail with approval required at relevant levels and at various stages from the start of the bidding process through to contract award; assessment of the financial standing of clients and key subcontractors; and robust procedures to manage ongoing contract risks, with monthly operational reviews of each contract's performance including a detailed appraisal of related commercial performance via our cost and value process.

Compliance

- **Legal compliance** – monitored by divisional commercial directors and HR managers, and the Group commercial director and general counsel; training provided on health and safety, competition law, bribery and corruption and market abuse.
- **ISO accreditation** – includes 9001 (quality), 14001 (environmental), 45001 (occupational health and safety) and 27001 (information security management).
- **Corporate governance framework and Group policies** – written guidance and policies (see pages 81 and 82 for more detail on our policies) at Group and divisional levels.

Internal audit

The internal audit function is managed by the Group's head of audit and assurance, who oversees the divisional heads of internal audit and assists with risk management. The internal audit function conducts its work to align with the Internal Audit Charter, which has been drafted in accordance with the recommendations of the International Institute of Internal Auditors. The internal audit function is subject to validation by an independent, external organisation every five years and its findings are reported directly to the audit committee (see page 122).

Each year, in advance of the committee's approval, the annual internal audit plan is developed from a consideration of the principal and key risks, the prior cycle of internal audit testing, management requests and input from the committee. The 2021 annual internal audit plan included 62 separate audits, c95% of which were carried out on the operational activity of the Group, including:

- project – operational, commercial, change management and risk (all business units);
- development – approvals, risk and capital structuring, partner performance, funding, programme, return on capital, profit;
- finance reviews – cash, debt, payroll, management accounting (selected business units); and
- project performance reviews – commercial and operational reporting and forecasting.

Other areas of focus included audits of cyber security, design management, digital project management and finance systems. In response to the Covid pandemic, a number of internal audits in early 2021 were carried out virtually or, where possible and subject to safe working, in person. However, once restrictions had been eased and for the remainder of the year, the audits were carried out face to face.

A subjective assessment of culture is embedded into each individual audit. The internal audit team retains an element of flexibility in the Plan and uses business intelligence tools and metrics to identify projects for review.

The internal audit function has developed a process for formalising its view of the effectiveness of the Group's system of internal controls (see page 120). The assessment involves a comprehensive evaluation of the control environment (on a three-point scale) ranging from 'effective' through to 'ineffective'. For 2021, the internal audit function, based on its proportion of audits, concluded that the control environment as a whole was appropriate to maintain an effective system of internal control. There were a small number of improvements suggested, which have been implemented.

In obtaining an overview of the Group's performance, the internal audit function also gains meaningful insight from its functional colleagues in: health, safety and environmental; IT and IT security; legal; company secretariat; finance; tax and treasury; business improvement; and HR, with whom it engages on a regular basis. The internal audit process is supplemented by a rolling programme of peer group reviews (overseen by internal audit) in Construction & Infrastructure and Partnership Housing, which assist in the professional development of the individual employees concerned while providing a mechanism for the cross-fertilisation of ideas and dissemination of best practice.

At each meeting, the committee receives a report from the Group head of audit and assurance that includes details of audit assignments carried out across the Group, including: operational, project and financial reviews; metrics showing progress made against the audit plan; updates on Group and divisional risk registers; a log of any concerns raised; market soundings on macroeconomic and sector conditions; and an update on the internal audit resource.

For 2022, the audit plan will follow a similar pattern of reviews as detailed above, focused on areas the Board considers the most significant in terms of risk and or materiality.

Independence and effectiveness

Each year, the committee assesses the effectiveness of the internal audit function. In its 2021 internal assessment, the committee:

- met with the Group head of audit and assurance separately without the executive directors present to discuss the effectiveness of the internal audit function – no new matters or issues were raised that had not already been reported by the executive directors;
- reviewed and assessed the audit plan;
- reviewed whether necessary actions were being taken promptly to address any failing or weakness identified by internal control audits;
- reviewed whether the causes of the failing or weakness indicates poor decision-making, a need for more extensive monitoring or a reassessment of the effectiveness of management's ongoing processes; and
- assessed the role and effectiveness of the internal audit function in the overall context of the Company's risk management system and whether the function is able to continue to meet the needs of the Group.

The results of the latest assessment were reviewed by the committee in December 2021, and it was satisfied that: the internal audit and internal controls were operating effectively; the internal audit team was adequately staffed and remained independent; and the risk to the audit team's independence and objectivity was low.

External assessment

The International Standards for the Professional Practice of Internal Auditing introduced a requirement for an external assessment of all internal audit services to be concluded at least once every five years by a qualified, independent reviewer from outside the organisation. In the first quarter of 2021, the committee appointed Blackmores (UK) Ltd on behalf of the Company to validate the Company's internal assessment against the requirements of the following standards:

- International Standards for the Professional Practice of Internal Auditing
- IA Code of Practice

The purpose of the external assessment is to help improve the delivery of the internal audit service to the Group and is designed to identify opportunities for development and enhance the overall value of the internal audit function to the Group. The external assessment was overseen by Steve Crummett, following which the results of the review were provided to the committee. The committee then oversaw the implementation of the (relatively minor) recommendations.

Looking ahead

In 2022, the committee will continue its focus on:

- the integrity of the Group's financial reporting;
- risk management and internal controls; and
- continuing to monitor the forthcoming changes to legislation as a result of the proposed reforms in the BEIS White Paper 'Restoring trust in audit and corporate governance'.

Malcolm Cooper
Chair of the audit committee
24 February 2022

Health, safety and environment committee report

Dear Shareholder

We recognise that we operate in a potentially challenging industry and that our divisions are faced with a variety of health, safety and environmental risks, some of which are unique to the specific work they each undertake.

Membership and meetings

Members[1]	Member since	Attended/ scheduled
Malcolm Cooper[2] (chair)	**2017**	4/4
Andy Saul	**2015**	4/4
Clare Sheridan	**2018**	4/4
Tracey Killen	**2020**	4/4

1 Members' biographies are disclosed on pages 92 and 95. Although not a member of the committee, Michael Findlay attends the meetings on a regular basis and attended all the health, safety and environment committee meetings in 2021.

2 Malcolm has in-depth knowledge and experience of health and safety and the impacts of climate change from his appointments at National Grid and Southern Water.

Key responsibilities:

- Monitoring the Group's duties and performance in relation to safety.
- Reviewing the Group's responsible business strategy, initiatives, risk exposure, targets and performance against the Total Commitments.
- Reviewing the impact of the Group's operations on the health and wellbeing of employees.
- Monitoring the impact of the Group's operations on the environment and how the Group is adapting its operations in the light of climate change.

The committee's full role and responsibilities are set out in its terms of reference which are available on our website.

We therefore focus on controlling and managing these risks to ensure we have the right management and processes in place to promote a positive health and safety culture throughout the Group and protect everyone connected with our activities.

The health, safety and environment (HSE) committee undertakes various activities throughout the year to monitor each division's performance against and compliance with our health, safety and wellbeing framework, as we want everyone who works for us to get home safe and well at the end of each day.

Following the announcement of our commitment to achieving net zero carbon by 2030, the committee has continued to support the Board in monitoring compliance with environmental regulation and progress against our environmental targets. We are proud of our historical achievements, our continued commitment to embed sustainability throughout our business operations, and the independent recognition we have received from organisations such as CDP. The committee will continue to monitor how we work closely with our stakeholders to meet the challenges that fighting climate change will bring, as well as how we can benefit from opportunities that come from an ability to build sustainably over the long term.

Following the review by the committee of the specific areas for discussion highlighted by the 2020 evaluation, the committee was considered to be working well with broadly the right level of information received and good debate on its key areas of responsibility. It was agreed that, during 2021, the committee would: invite an external perspective on the Task Force on Climate-related Financial Disclosures (TCFD) ahead of the Group reporting fully under these requirements; request more data on trends, remediation and follow-up actions taken to assist with monitoring safety performance; and request more data to demonstrate the improvement in safety performance of the divisions over the last five to six years. Further information on each can be found later in this report.

The Board evaluation for 2021 also included an evaluation of the HSE committee (see page 114 for further details on how the evaluation process was conducted). Overall, the committee is considered to be working well and focused on the right topics. Following the 2021 evaluation, the committee agreed it will: keep abreast of the increasing and varied demands from stakeholders on environmental, social and governance (ESG) matters, including the ESG approaches of peer group companies; and identify ways in which we can reduce RIDDOR[1] incidents further, including considering health, safety and wellbeing practices in companies outside our sector.

1 The Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 2013.

Responsible business

The committee is responsible on behalf of the Board for ensuring that the Group conducts business in an ethical and responsible manner and manages non-financial risks appropriately and for overseeing material environmental and social issues. Our responsible business strategy is developed and agreed by the Group management team, which is supported by our Group health and safety forum, HR forum, supply chain panel, social value panel and climate action panel, each made up of specialist representatives from across the divisions.

Our responsible business strategy is driven by our Total Commitments which align to six UN Sustainable Development Goals. The committee assists the Board in monitoring our performance and progress against each of our Total Commitments and in particular our Commitments to Protecting people and Improving the environment. The Board, nomination and remuneration committees, through their activities, also assist in monitoring and reviewing performance against our Commitments to Developing people, Working together with our supply chain and Enhancing communities.

Responsible business strategy and performance (for full details of our performance against each Total Commitment)

Protecting people

Our number one priority is to protect the health, safety and wellbeing of everyone connected with our business, including employees, subcontractors and suppliers working on our projects. Our '100% Safe' ambition is supported by creating a culture that promotes people's health and wellbeing and by ensuring that our health, safety and wellbeing framework is integrated into each division's business strategy. Within this overarching framework (see box right), and with the support of the health and safety forum, each of our divisions sets health and safety goals and objectives each year so that its individual performance can be analysed and help drive continuous improvement.

However, despite the continuing efforts of all our divisions, we are disappointed that we have seen a deterioration in our overall safety statistics compared with 2020 (see page 17). The dominant trend of the RIDDOR accidents in 2021 were slips and trips where we suffered 18 incidents (2020: 7) which have occurred despite enforcing and maintaining high standards of site presentation and nine hand injuries (2020: four). All RIDDOR accidents and high potential incidents were fully investigated and learning was shared and reported to both the committee and the Board. All our divisions took steps to increase safety awareness and promote safe behaviours during the year focusing on their key accident causes, for example Infrastructure conducted a 'Safe Hand's' campaign in response to the increase of hand injuries (see page 18) and as a result of these initiatives we saw an overall reduction in the number of RIDDOR and lost time incidents in the second half of the year.

We did not undertake any site visits as a committee as the non-executive directors visited a number of sites as part of this year's divisional strategy reviews where each of the non-executives observed and discussed with employees how well the health, safety and wellbeing framework had been embedded in each division (see page 103 for more details). However, over the course of our four committee meetings held throughout the year, we invited representatives from Construction, Infrastructure, Fit Out, Property Services and Partnership Housing to present their health, safety and wellbeing plans in detail, along with details of their division-specific areas of focus, key activities and progress made.

Our divisional health and safety teams have continued to work hard throughout the year reviewing the risks and challenges that they face, ensuring that induction training is effective and that our employees, subcontractors and suppliers working on or visiting our projects are aware of our health and safety policies, understand site-specific risks and follow the correct health and safety procedures. With social distancing restrictions being lifted during the year, we were able to return to pre-Covid site operating procedures, although our divisions retained some of the new working practices introduced in response to the pandemic as they were beneficial to health, safety and wellbeing as well as productivity for our employees and supply chain partners.

In June, the committee conducted a detailed review of the divisions' mental health and wellbeing activities as a follow-up to the deep dive that had been conducted during the early stages of the Covid pandemic. The review showed how each division was continuing to

Health, safety and wellbeing framework

- Each division to have appropriate arrangements in place to ensure the continuous improvement for occupational health and wellbeing.
- Each division to contribute to a collaborative Group approach and agreed framework to address the requirements of the Fire Safety Act.
- Improve sharing of learning, innovation and best practices across the divisions.
- Embrace and integrate the appropriate recommendations from the Loughborough University Covid research into divisional improvement plans and monitor effectiveness on a regular basis.

The committee approved the updated health, safety and wellbeing framework in 2021 on behalf of the Board.

develop its programmes, enabling the Board to ensure that appropriate levels of support are being maintained for our employees and subcontractors. Overall, the committee noted the continuing good cultural ethos and drive in all our divisions to improve and embrace new safety initiatives and promote health and wellbeing, and in particular, noted the exceptional work Property Services has been doing around identifying situations of domestic abuse (see page 20).

Following the 2020 evaluation of the committee, the committee's papers were refreshed to assist it in monitoring and challenging our divisions to improve their safety performance.

Going into 2022, our divisions will ensure that our teams continue to remain focused, follow procedures and do not take unnecessary risks. Each division has been asked to continue to address the dominant trends in RIDDOR accidents as part of their health and safety plans and the committee will review and monitor this throughout the year. Providing social distancing restrictions are not reinstated, the committee intends to carry out at least one site visit in the second half of 2022.

Responsible business strategy and performance – protecting people

Improving the environment

We are committed to caring for the environment and to minimising the environmental impact of our activities on the natural environment and the communities we work in, both now and in the longer term.

As part of its review of strategy and risks, the Board considers the impacts of climate change on our markets and operations. Further narrative describing the Board and leadership's oversight and management of climate-related risks and opportunities can be found in our TCFD statement on pages 71 to 79.

The committee monitors compliance with environmental regulations and our environmental performance. In support of this the committee receives updates on our environmental KPIs, environmental audits and the initiatives being undertaken by each division to reduce the impact of its operations on the environment. The committee also ensures we continue with our clear and transparent path to reducing our carbon emissions and reaching our ambition of at least net zero by 2030 at the latest. There were no environmental incidents to report for the Group in 2021.

To facilitate the committee's review of the Group's performance against the Streamlined Energy and Carbon Reporting (SECR) reporting regulations, as well as reviewing the Group's disclosure under the four core elements of the TCFD, the committee, during the course of 2021:

- was briefed by the company secretary at the June meeting on the TCFD requirements, the Group's position and actions being taken to report fully against the TCFD requirements;
- received a half-yearly and annual presentation from the Group's director of sustainability and procurement on activities and progress against all our Total Commitments;
- received presentations and perspectives from external advisers on responsible business, best practice and emerging trends;
- reviewed the Group's scores against its peers in both environment and social rankings, including areas where our practices exceeded those of our peers and where there are further opportunities for improvement; and
- arranged for representatives from the committee to attend our Supply Chain Family event (see page 33) which focused on climate change and supply change resilience.

As a result of its reviews, the committee is satisfied that a wide range of activities are being undertaken across the Group to support our Commitment to Improve the environment and to combat climate change. The committee will continue to monitor the Group's progress against its target of net zero by 2030 for Scope 1, Scope 2 and operational Scope 3 emissions, and its activities to increase biodiversity and reduce water usage and waste on our projects.

Responsible business strategy and performance – improving the environment

Looking ahead

In 2022, the committee will:

- continue to challenge the divisions to seek further reductions in the number of lost time incidents and all accidents;
- review high potential incidents;
- review the divisions' continuing actions to help our employees maintain their health and wellbeing;
- review the Group's environmental performance, including risks and opportunities in relation to climate change;
- review our performance against our Total Commitments;
- review our responsible business strategy and health, safety and wellbeing framework; and
- where possible, undertake an in-person site visit.

Malcolm Cooper
Chair of the health, safety and environment committee
24 February 2022

Remuneration committee report

Dear Shareholder

I am pleased to present our remuneration report for the year ended 31 December 2021. This report sets out how the Group pays directors, decisions made on their pay and how much they have received in relation to 2021.

Membership and meetings

Members[1]	Member since	Attended/ scheduled
Tracey Killen (chair)	**2017**	6/6
Malcolm Cooper	**2015**	6/6
David Lowden	**2018**	6/6
Jen Tippin[2]	**2020**	5/6

1 Biographies of members are set out on pages 92 and 93. Michael Findlay, John Morgan, Steve Crummett and Kathy Quashie attended meetings by invitation.

2 Jen Tippin was unable to attend the meeting on 4 June 2021, due to alternative commitments in her executive role which could not be changed at short notice.

Key objectives of the remuneration committee:

To assess and make recommendations to the Board on the policies for executive remuneration and reward packages for the individual executive directors.

Responsibilities:

- Determining, on behalf of the Board, the policy on the remuneration of the chair, the executive directors and the Group management team.
- Determining the total remuneration packages for these individuals, including any compensation on termination of office.
- Approving the design of our annual bonus arrangements and Long-Term Incentive Plan (LTIP) awards, including the performance targets that apply.
- Operating within recognised principles of good governance.
- Preparing an annual report on directors' remuneration.

Executive remuneration in context

Our remuneration policy is designed to be sustainable and simple, and to encourage the effective stewardship that is vital to delivering our strategy of creating long-term value for all stakeholders.

We are committed to being open and transparent in our approach to executive remuneration and, as a committee, we strive to keep remuneration arrangements clear, consistent and simple, to facilitate effective stakeholder scrutiny. Performance-related components of remuneration form a significant portion of the total remuneration opportunity, with the maximum potential reward only available through the achievement of stretching performance targets based on measures that the committee believes reflect the interests of shareholders.

The extent of their responsibilities means executive directors are well paid, but the policy is designed to, among other things, ensure that they are not overpaid. Reference points such as the ratio of the chief executive's pay to the median pay for all employees and the policy for wider workforce remuneration are important to us, in addition to the use of external benchmark data when considering executive pay levels. In determining the remuneration of the executive directors and senior managers, we consider the performance of the business during the financial year in question and over the longer term, as well as the experience of our different stakeholder groups. We are committed to being open and transparent in our approach.

2021 consultation with shareholders

During the year, the committee consulted with Morgan Sindall's largest shareholders on two proposed amendments: an amendment to the methodology used to calculate the achievement of the earnings per share (EPS) targets under the 2019, 2020 and 2021 LTIP cycles, and a lowering of the pension contributions for executive directors to align them with the broader workforce rate. The sections below provide further details on the proposed amendments, the feedback received and our decision-making process in both of these areas.

Amendment to LTIP EPS targets

As set out in the 2020 remuneration report, the executive directors and wider leadership team responded quickly to adapt to the new trading environment created by the pandemic. The Group continued to deliver shareholder value during 2020, the first year of the pandemic, and we were able to distribute an interim dividend of 21p in December 2020 and a final dividend of 40p in May 2021, significantly higher than the 2019 total dividend of 21p. We achieved an adjusted* profit before tax (PBTA*) of £63.9m for 2020 – significantly higher than our peers – and repaid all deferred taxes, monies received under the furlough scheme and employees who had voluntarily taken a salary reduction (excluding the Board and the Group management team). Our revenue over the past three years has increased from £3,071m in 2019 to £3,213m in 2021, with PBTA* increasing from £90.4m to £127.7m over the same period.

* See note 2 to the consolidated financial statements for alternative performance definitions and reconciliations.

Directors' remuneration report: remuneration committee report continued

Despite this strong performance, executive directors' total remuneration fell by 58% in 2020 as a result of voluntary reductions in salary, no payout under the annual bonus scheme, and a significant decrease from previous years in vesting levels for the 2018 LTIP. No adjustments were considered by the committee, recognising both investor and broader stakeholder sentiment at the time.

The Group's strong performance continued throughout the whole of 2021, resulting in a total shareholder return (TSR, being share price growth plus dividends) of 69.6% being achieved this year (which brings our total return to shareholders over the last five years to almost 300%, around 7 times that delivered through an investment in the FTSE 250).

However, unlike at many comparable companies which have also recovered well from the lows of the pandemic, our use of cumulative EPS targets (which capture EPS in every year of the three-year performance period) in the LTIP would have had a disproportionate and unfair impact on the experience of our executives over the next couple of years compared to peers, our shareholders and wider stakeholders.

Consequently, in order to acknowledge the exceptional circumstances created by the pandemic and ensure that executives remain adequately incentivised, the committee consulted with major shareholders on amending the calculation of EPS performance targets for outstanding LTIP awards from cumulative to point-to-point (i.e. capturing EPS in the final year of the three-year performance period), with the revised targets continuing to be based on the same 6–13% p.a. growth used to determine the original cumulative targets. A similar adjustment has been approved by the committee in respect of other below-Board LTIP participants, as well as for other employees who are participants in our Share Option Plan.

The table below sets out the current cumulative EPS targets alongside the new EPS targets, calibrated on a point-to-point basis (i.e. based on EPS in the final year of the performance period).

	Current targets Cumulative EPS over the three-year performance period (based on the sum of EPS in all three years)		**New targets** Point-to-point (based on EPS in only the final year of the performance period)	
LTIP award	Threshold	Stretch	Threshold	Stretch
2019 award	512p	584p	180.8p	219.0p
2020 award	543p	620p	192.0p	232.6p
2021 award	450p	485p	197.7p	239.5p

Under the revised approach, to avoid taking advantage of a low start point in 2020 for the 2021 awards, a 'normalised' 2020 EPS of 166.0p was used as the base for calculating the EPS growth for the 2020–2023 cycle (calculated using the mid-point between the Group's forecast EPS in the February 2020 management accounts of 166.3p and the broker market consensus forecast as at February 2020 of 165.6p).

This is significantly higher than our actual 2020 EPS of 108.6p, and ensures that our new targets for the 2020 award remain extremely stretching, being c53% higher than that if we had used the actual EPS for 2020, and equivalent to 22% to 30% p.a. growth on actual 2020 EPS.

For the committee, the final decision around the EPS targets centred around two important – but in this instance, competing – principles for executive pay:

(i) alignment of outcomes for executives, shareholders and broader stakeholder groups; and

(ii) avoiding making retrospective changes to the terms of awards. Both of these principles are clearly important to investors, as evidenced by the range of feedback received.

Our view is that the committee is ultimately responsible for ensuring that the approach to remuneration taken is fair and balanced, and both incentivises and rewards the delivery of our strategy, to the benefit of all stakeholders.

Taking this into account, and following a robust discussion at its December 2021 meeting, the committee unanimously supported the decision to proceed with the proposed amendments to EPS targets. In addition, the committee's other considerations in making this amendment included:

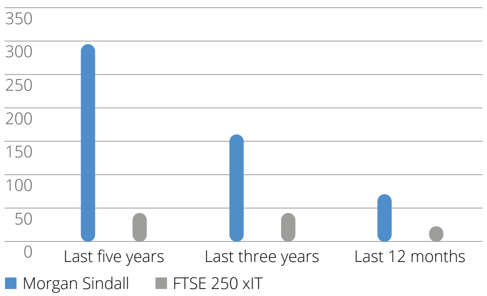
- Although cumulative measurement rewards sustained growth, a single 'bad' year can impact the vesting of three LTIP cycles, rather than a single cycle using point-to-point measurement. This is appropriate where the downturn in performance is a result of management actions, but more difficult to justify where it has been driven by factors outside of management's control.
- The growth rate on which the amended targets are based are no less challenging than originally disclosed or intended.
- Based on consensus estimates at the time of contemplating the proposals, moving to a point-to-point measurement would mean that all outstanding LTIP cycles would have some chance of vesting, thereby reinforcing a continued focus on growth. Our analysis at the time suggested that the amendment would move anticipated vesting from either 0% (2019, 2020 cycle) or 100% (2021 cycle), to between 25% and 83% of maximum.

Directors' remuneration report: remuneration committee report continued

- The possible future outcomes on the EPS metric for these cycles, following this revision, correlate very well with the possible future outcomes also on the LTIP TSR metric, as our TSR performance against our benchmark shows significant outperformance based on our performance to the end of 2021 (see chart below).

For the avoidance of doubt, no change is being made to the TSR conditions for these LTIP cycles.

Shareholder return
to 31 December 2021



In total, the committee received feedback from 11 shareholders during its consultation, with the majority of respondents supportive of the proposal and the underlying rationale for making this adjustment. Opposition to the proposal included two of our top ten shareholders, with some respondents offering alternative suggestions to the committee, including the award of an exceptional LTIP in 2022.

The committee recognises that some investors prefer to avoid any revisions to outstanding incentive targets, and instead for discretion to be applied only at the end of the performance period. The committee considered, but had to reject, this alternative approach as the LTIP rules, as currently drafted, do not permit the application of upwards discretion, only the ability to alter the performance condition if the committee considers it appropriate.

The committee appreciates that some shareholders may not support this decision or may be wary about setting a precedent in this area. However, our hope is that most investors will see this amendment as it is intended by the committee: a one-off adjustment to correct for an exceptional, unforeseen event which our remuneration structures were not designed to accommodate, and which produces a fair, equitable and aligned outcome for executives and other stakeholders in a period during which a very strong performance has been delivered.

Changes to executive director pension contributions

In light of recent changes in market practice that seek to align the interests of executives, shareholders and wider stakeholders, the committee also consulted with investors on a proposal to lower the pension level for current executive directors to that offered to the majority of employees (currently 6% of salary) from 1 January 2023. The committee received only positive feedback from shareholders on this change, and accordingly we will be proceeding with the harmonisation of pension contributions at the end of the 2022 financial year.

Separately, the Group is currently undertaking a review of pension contributions for all employees across its different divisions, which will be concluded in 2022. Regardless of the outcome of this review, the committee will maintain the principle of alignment between the offering to executive directors and that to the majority of employees going forward.

2021 remuneration

	2021	2020	2019
Revenue	**£3,213m**	£3,034m	£3,071m
Profit before tax adjusted*	**£127.7m**	£63.9m	£90.4m
Average daily net cash	**£291.4m**	£180.7m	£108.9m
Earnings per share*	**226.0p**	108.6p	161.2p
Share price (end of year)	**£25.20**	15.32p	16.20p

* See note 2 to the consolidated financial statements for alternative performance definitions and reconciliations.

The Group has delivered a very strong performance in 2021, delivering EPS growth of 49% since 31 December 2018 (2018 EPS: 151.8p), which reflects our responsible business approach, the quality of the work we have won and our operational delivery. We have been able to provide further support to some of the vulnerable communities in which we operate and have made long-term investments to address the impact of climate change. The strength of our balance sheet and cash generation have remained high priorities for the Board, enabling us to continue to do the right thing for all stakeholders and ensure that we select the right construction contracts and invest in long-term regeneration schemes that will secure future earnings.

Throughout the year, the directors have continued to focus on our strategy, ensuring that the business is in the best position financially to withstand economic uncertainty, and able to take advantage of opportunities as and when they arise. Reflecting these positive results, the executive directors will each receive a bonus of 125% of salary, of which 30% will be deferred in shares for three years. LTIP awards granted in 2019, which vest on three-year performance to 31 December 2021 (two thirds on EPS and one third on relative TSR), will vest at 100%. The committee satisfied itself that this outcome reflected the underlying performance of the business over the relevant period.

The committee has not exercised its discretion in respect of the annual bonus payable to the executive directors for the year. As stated above, the committee has amended the basis of calculation for the EPS performance condition for the 2019, 2020 and 2021 LTIP awards from cumulative to point-to-point. For the 2019 cycle, the committee is reassured that the amended EPS target, which resulted in full vesting, was also reflected in the relative TSR outcome, which for the three-year period resulted in full vesting on the basis of the Group materially outperforming its peers and the full vesting TSR level required under the LTIP.

ESG metrics

The committee has again reviewed whether or not to introduce environmental, social and governance (ESG) metrics to the incentives for executive directors. ESG remains integral to the delivery of our strategy and long term success; however, the committee does not currently believe that introducing explicit ESG metrics to the incentives for the executive directors and the wider Group would have any material impact on their continuing to deliver against our Total Commitments.

Directors' remuneration report: remuneration committee report continued

In order to maintain a clear, transparent, well-understood remuneration structure, the committee has decided that additional ESG performance conditions should not be included in the incentives this year. However, the committee has resolved to consider this in greater detail over the course of the coming year, and in conjunction with the upcoming Policy review.

2022 remuneration

In setting the remuneration for 2022 for the executive directors and the Group management team, the committee considered the remuneration offered to employees as a whole and proposed changes. This included considering the structure of remuneration offerings within each division to ensure there remains a strong rationale for how packages evolve across the different levels of the organisation. No material changes were made to the remuneration structures in the divisions during the year.

Although the committee has not engaged directly with employees on remuneration, it reviewed feedback received by the divisions on remuneration at their employee forums. Only a few employees raised questions about remuneration and no fundamental concerns were raised. The majority of questions related to the pension arrangements and benefits offered. The committee will trial a process for engaging with employees on remuneration in 2022.

In addition to competitiveness and fairness being a core principle of the remuneration policy, there is a clear culture in the Group of ensuring we offer competitive and fair pay to all employees. Five of our businesses currently pay the real living wage or above (two of whom are accredited Living Wage Foundation employers). Our other three businesses are looking to ensure that their direct employees are paid the real living wage or above in 2022. The committee also takes into consideration the appropriateness of key pay ratios, including the chief executive pay ratio. Full details can be found on page 150.

Salaries of both the chief executive and finance director will be increased by 3% with effect from 1 January 2022, in line with the broader workforce across the Group. Slightly higher increases have been budgeted in one of the Group's divisions, reflecting a broader talent review and the roll-out of a revised salary matrix. The pension contribution for executive directors will remain at 10% of salary for 2022, to be reduced to 6% of salary with effect from 1 January 2023, and no changes have been made to benefit provisions.

The executive directors will be eligible for an annual bonus of up to 125% of basic salary, of which 30% will be subject to deferral in shares for three years. The bonus targets for 2022 are again based on adjusted profit before tax* (PBTA*) for consistency and simplicity. For 2022, the bonus trigger point for the annual bonus will be 90% and the maximum trigger point will change to 110% of budgeted PBTA*. Full details of the targets will be disclosed in the 2022 remuneration report.

Executive directors will each receive LTIP awards in 2022 equivalent to 150% of basic salary. Any LTIP shares that vest will be subject to a further two-year holding period post-vesting. For 2022, the committee will use a point-to-point calculation for the EPS metric (two thirds of the award), with a threshold 2024 EPS target of 226p and a stretch target of 259p. This range has been determined through consideration of a number of internal and external reference points, including the very strong performance in 2021, broker forecasts for the next three years and typical growth rates in our sector. In respect of the TSR metric (one third of the award), the performance range will again be median to median plus 10% per year outperformance versus the constituents of the FTSE 250 (excluding Investment Trusts) Index. The committee believes that the stretch targets are broadly equivalent to an upper quartile level of performance.

Looking ahead

The 2023 AGM will mark the third anniversary of the adoption of the current directors' remuneration policy, which received 97.4% support when passed at our 2020 AGM. In accordance with UK reporting regulations, we will be required to submit a new Policy to shareholders for approval at this time. The committee is therefore planning to conduct a full review of the existing remuneration arrangements during 2022 and will look to engage major shareholders to seek their input later in the year.

We will continue to monitor corporate governance and market practice developments throughout the 2022 AGM season, and will consider the appropriateness of any emerging trends for the Group.

In conclusion, the committee believes that, overall, we have maintained a balanced and considered outcome in respect of remuneration with a clear link between performance and reward. The remuneration outcomes, as outlined throughout the report, clearly reflect the factors detailed in provision 40 of the UK Corporate Governance Code (see page 142 for further information).

We value the support which shareholders have provided, as reflected in the vote on remuneration at our 2021 AGM which received 98.4% support. We hope to continue to receive your support at the forthcoming AGM on 5 May 2022.

Tracey Killen
Chair of the remuneration committee
24 February 2022

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Remuneration philosophy

The key principles of our approach to executive remuneration are to ensure that it:

- aligns management and shareholder interests;
- is competitive in the marketplace;
- helps retain and motivate executive directors of the calibre required in order to deliver the Group's strategy; and
- rewards growth in earnings over the long term, thereby driving growth in value to our shareholders.

Chief executive remuneration

£2,765,647[1]
single figure 2021
(2020: £1,094,909) (see page 143)

153%
change in total remuneration from 2020
(2020: -58%)

100%
change in annual bonus received from 2020
(2020: -100%)

100%
of 2019 LTIP award vesting
(2020: 43%)

Gender pay gap reporting

30%
mean gender pay gap
(2020: 30%[2])

30%
median gender pay gap
(2020: 29%[2])

57%
mean bonus gap
(2020: 62%)

36%
median bonus gap
(2020: 42%)

For further information see page 23.

Remuneration across the Group

543,700,000
spend on total pay
(2020: £508,900,000)

87%
of employees received a pay increase
(2020: 69%)

3%
average pay increase across the Group
(2020: 2%)

71%
of employees received a bonus
(2020: 63%)

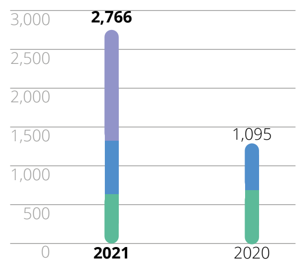
£9,577
average bonus paid
(2020: £7,155)

1 In 2020, the chief executive took a voluntary 20% reduction in base salary and pension contributions for a three-month period from 1 April 2020 to 30 June 2020.

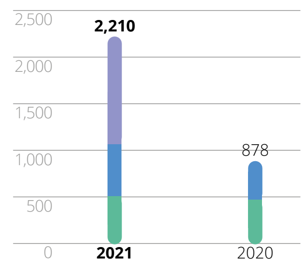
2 This figure was calculated using the methodology set out in the Gender Pay Gap Regulations; however, it was based on our November 2020 payroll data rather than our April 2020 payroll data, which was the payroll period we are required to report on under the Regulations. Based on the Group's payroll data as at April 2020, the 2020 mean and median gender pay were 33.7% and 33.6% respectively; however, the April data was impacted by the number of people across the Group who had agreed to reduce their salaries for either two or three months to 30 June 2020 and the number of people on furlough. The November payroll data was not distorted by Covid-related measures and therefore paints a more accurate picture.

Summary of 2021 executive remuneration

John Morgan
(£m)



Steve Crummett
(£m)



	John Morgan 2021	John Morgan 2020	Steve Crummett 2021	Steve Crummett 2020
Basic salary	**547**	509	**436**	406
Benefits	**26**	25	**25**	24
Pension allowance	**55**	51	**44**	41
Annual cash bonus paid in cash	**478**	–	**382**	–
Annual cash bonus deferred into shares	**205**	–	**163**	–
Value of long-term incentives vested	**1,455**	510	**1,160**	407

	2021 Maximum (excluding share price growth) £000	2021 Actual (excluding share price growth) £000	2021 Actual (including share price growth) £000
John Morgan			
Fixed pay	628	628	628
Annual bonus	683	683	683
LTIP	803	803	1,455
Total	**2,113**	**2,113**	**2,766**
Steve Crummett			
Fixed pay	505	505	505
Annual bonus	545	545	545
LTIP	640	640	1,160
Total	**1,689**	**1,689**	**2,210**

2022 remuneration

The table below shows how we intend to operate the policy in 2022. The structure of the executive remuneration package ensures that executive directors have a vested interest in delivering performance over the short and long term. The table below sets out how each element of remuneration links to strategy and the performance and retention periods for each:

	Element	Link to strategy	Maximum	2022	2023	2024	2025	2026	2027
Fixed pay	Salary	Supports the attraction and retention of the best talent.	Any increases are generally in line with those for the workforce as a whole.	Chief executive £563,150 (+3%); finance director £449,150 (+3%).					
	Benefits	Market-competitive and cost-effective benefits supports the attraction and retention of talent.	Market-competitive.	Benefits provided.					
	Pension		10% of basic salary.	Pension paid.					
Variable pay	Annual bonus	Incentivises delivery of financial and strategic targets. Focuses on key financial metrics and the individual's contribution to the Group's performance.	125% of salary with 30% of any bonus earned deferred.	Targets for annual cash bonus set at start of the year.	Cash element of bonus paid (up to 70% of bonus earned).				
					Nil cost options issued (at least 30% of bonus earned).			Nil cost options vest.	
	LTIP	Rewards consistent long-term performance in line with the Group's strategy. Provides focus on delivering superior long-term returns to shareholders.	150% of salary.	LTIP awards granted in March.			LTIP performance conditions tested		Holding period ends.
Additional governance	Recovery and withholding		All incentives.	Malus and clawback: misstatement, serious misconduct, error in calculation, corporate failure.					
	Share ownership requirement	Ensures alignment between the interests of executive directors and shareholders.	200% of salary.						
	Post-employment		LTIP and deferred bonus plan shares.	Holding requirement for LTIP shares and net deferred bonus nil cost options that have not vested or been exercised. Required to hold equivalent of 200% of salary for year one post-employment, reducing to 100% of salary in year two.					

Remuneration policy and practice

The table below illustrates how remuneration policy and practice compare across the different groups of employees.

<table>
<tr><th></th><th>Salary</th><th>Benefits</th><th>Pension</th><th>Short-term incentive</th><th>Long-term incentive</th></tr>
<tr><td>Executive directors</td><td rowspan="3">Basic salary levels take into account market-competitive levels. Any increases are normally in line with those for the wider workforce.</td><td rowspan="3">A range of market-competitive benefits are offered in line with the wider workforce.</td><td rowspan="3">Up to 10% of salary employer contribution to the Morgan Sindall Retirement Savings Plan (‘the Retirement Plan’). For incumbent executive directors, the contribution will be reduced to the wider workforce rate (currently 6% of salary) from 1 January 2023.</td><td>Annual cash bonus plan linked 100% to Group performance. 30% of the total award is deferred in nil cost options.</td><td rowspan="2">The LTIP is a share award with performance linked to three-year EPS and TSR performance</td></tr>
<tr><td>Group management team</td><td>Annual cash bonus plan linked 100% to divisional or Group performance.</td></tr>
<tr><td>Senior management</td><td>Divisional or Group annual cash bonus plan linked to both business and personal performance.</td><td>Senior management may be offered share options under the 2014 Share Option Plan (2014 SOP).</td></tr>
<tr><td>Wider workforce</td><td>Basic salary levels are set in line with market requirements or subject to industry-wide working rule agreements where applicable.

Five of our businesses pay employees the real living wage or above. Construction and Property Services are Living Wage Foundation accredited employers.</td><td>A range of market-competitive benefits are offered. Individual benefits received depend on role and seniority.</td><td>Varies by division. Typical employer contribution of 6% of salary. Monthly-paid employees are offered the Retirement Plan and weekly-paid employees are offered the opportunity to join the B&CE’s People’s Pension. Both plans are defined contribution. Weekly-paid employees are offered contributions in line with the industry working rule agreements.</td><td>Depending on role, a proportion of employees will participate in their divisional or the Group annual cash bonus plan linked to a mix of business and/or personal performance.</td><td>Depending on role, employees may be invited to participate in the 2014 SOP. All employees are invited to participate in the Savings-Related Share Option Plan.</td></tr>
</table>

Remuneration policy

This part of the report sets out the Company's policy for the remuneration of executive and non-executive directors (referred to as either 'the remuneration policy' or 'the policy'). The policy is determined by the remuneration committee and is not subject to audit by the external auditor. The policy was last approved by shareholders at the 7 May 2020 AGM and received 97.41% of votes in favour. The policy is designed to be straightforward and sustainable, and to encourage the effective stewardship that is vital to delivering our strategy of creating long-term value for all stakeholders. It promotes long-term sustainable performance through significant deferral of remuneration in shares. Executive directors are expected to build and maintain substantial personal shareholdings in the business. The extent of their responsibilities means executive directors are well paid, but the policy is designed to, among other things, ensure that they are not overpaid. The committee did not formally consult with employees in respect of the design of the remuneration policy but will keep this under review.

Fixed elements	Purpose and link to strategy	Operation	Maximum opportunity	Performance targets
Base salary	To provide competitive fixed remuneration. To attract, retain and motivate executive directors of the calibre required in order to deliver the Company's strategy and enhance earnings over the long term.	Basic salary is reviewed annually by the committee or, if appropriate, in the event of a change in an individual's position or responsibilities. Salary levels are set by reference to market rates, taking into account individual performance, experience, company performance and the pay and conditions of other senior management in the Group. The committee will take into account the general increase for the broader employee population but on occasion may need to recognise, for example, an increase in the scale, scope or responsibility of the role.	There is no prescribed maximum annual increase. Current salary levels are presented on page 143.	Not applicable.
Benefits	To provide market-competitive levels of benefits, including insured benefits to support the individual and their family during periods of ill health, accidents or in the event of death. Car or travel allowances to facilitate effective travel.	Current benefits include: ▪ travel allowance; ▪ private medical insurance; ▪ annual health screening; ▪ ill health income protection insurance; ▪ life assurance; ▪ holiday and sick pay; ▪ employee assistance programme; ▪ professional advice in connection with their directorship; ▪ travel, fuel, subsistence and accommodation as necessary; and ▪ occasional gifts, for example appropriate long-service or leaving gifts. Other benefits may be provided where appropriate in line with benefits offered to other employees.	The value of benefits is based on the cost to the Company and is not predetermined. The travel allowance is £17,000.	Not applicable.

Directors’ remuneration report: remuneration policy continued

Fixed elements	Purpose and link to strategy	Operation	Maximum opportunity	Performance targets
Pension	To provide a pension arrangement to contribute towards retirement planning.	The Company will contribute to the defined contribution pension scheme, The Morgan Sindall Retirement Savings Plan (‘the Retirement Plan’) or to personal pension arrangements at the request of the individual. The Company may also consider a cash alternative (for example where a director has reached the HMRC’s lifetime or annual allowance limit).	Employer contributions are 10% of base salary for existing directors. New executive directors will receive an employer’s contribution in line with that offered to the majority of employees (currently 6% of salary). Directors who are members of the Retirement Plan may elect to exchange part of their salary or bonus award in return for pension contributions, where the Company will enhance the additional contributions by half of the saved employer’s National Insurance contribution. Employer contributions will be aligned with the majority of employees from 1 January 2023.	Not applicable.
Annual bonus	Rewarding the achievement of demanding annual performance metrics.	Performance measures and targets are reviewed annually by the committee. 70% of any bonus earned is payable in cash and 30% is normally deferred for three years and satisfied in Company shares. Dividends accrue during the deferral period and may be paid in cash or shares at the time of release. The committee has discretion: (i) to override the formulaic outturn of the bonus to determine the appropriate level of bonus payable where it believes the outcome is not truly reflective of performance; and (ii) to ensure fairness to both shareholders and participants. Any additional measures which may be introduced in the future would be aligned to our strategy and we would provide details at the relevant time.	The maximum opportunity is 125% of base salary. Financial targets incorporate an appropriate sliding scale range around a challenging target. Target performance will typically deliver up to 50% of maximum bonus, with threshold performance typically paying up to 15% of maximum bonus.	All or a majority of the bonus will be based on adjusted* profit before tax (PBTA*), set relative to the Group’s budget or such other financial measures as the committee deems appropriate. Financial targets will account for not less than 80% of the annual bonus. A minority of the bonus may be based on non-financial, strategic and/or personal objectives linked to the strategic objectives of the Group to provide a rounded assessment of Group and management’s performance.

Directors' remuneration report: remuneration policy continued

Fixed elements	Purpose and link to strategy	Operation	Maximum opportunity	Performance targets
2014 Long-Term Incentive Plan (LTIP)	To balance performance pay between the achievement of financial performance objectives and delivering sustainable stock market out-performance. To encourage share ownership and provide further alignment with the interests of shareholders.	Annual awards of conditional shares or nil (or nominal) cost options are granted with vesting dependent on the achievement of performance conditions over a three-year period. Net LTIP shares vesting will typically be subject to a two-year holding period, creating a total of five years between the award being granted, and the first opportunity to sell. Performance targets are reviewed annually by the committee for each new award. Targets take account of internal strategic planning and external market expectations for the Group and are appropriate to the economic outlook and risk factors prevailing at the time, ensuring that such targets remain challenging in the circumstances, while remaining realistic enough to motivate and incentivise management. The TSR performance condition is monitored on the committee's behalf by its advisers, while EPS is derived from the Group's audited financial statements. Dividends that accrue during the vesting period may, at the committee's discretion, be paid in cash or shares at the time of vesting. The calculation of the dividend equivalent may assume the reinvestment of dividends. The committee has discretion: (i) to override the formulaic outturn of the performance targets to determine the appropriate level of vesting of the LTIP where it believes the outcome is not truly reflective of performance; and (ii) to ensure fairness to both shareholders and participants. Any use of committee discretion with respect to waiving or modifying performance conditions will be disclosed in the relevant annual report.	150% of base salary.	Awards are subject to performance conditions based on the Company's EPS and on relative TSR compared to a group of UK-listed peers. The committee has discretion to introduce additional performance condition(s) (to complement EPS and TSR) for up to one third of future awards. For both the EPS and TSR conditions, no more than 25% of the awards will vest for achieving threshold performance, increasing to 100% vesting for achievement of stretching performance targets.

Directors' remuneration report: remuneration policy continued

Fixed elements	Purpose and link to strategy	Operation	Maximum opportunity	Performance targets
All-employee Savings-Related Share Option Plan ('SAYE')	To encourage share ownership and provide further alignment with shareholders.	This is an HMRC tax-advantaged plan under which regular monthly savings can be made over a period of three years and can be used to fund the exercise of an option to purchase shares. Options are granted at up to a 20% discount. This scheme is open to all employees including executive directors.	Prevailing HMRC limits apply. The executive directors will be eligible to participate in any other HMRC all-employee share plans that may be implemented.	Not applicable.
Non-executive directors' fees	Set to attract, retain and motivate talented individuals.	Non-executive directors receive a basic annual fee in respect of their Board duties. Additional fees may be paid to the chairs of the committees and the senior independent director to reflect their additional responsibilities. The non-executive directors' fees are reviewed by the Board rather than the committee. The chair receives a fixed annual fee. Fees are normally reviewed annually. The committee and the Board are guided by fee levels in the non-executive director market and may recognise an increase in certain circumstances, such as assumed additional responsibility or an increase in the scale or scope of the role. Non-executive directors are reimbursed for reasonable expenses and any tax arising on those expenses will be settled directly by the Company. To the extent that these are deemed taxable expenses, they will be included in the annual remuneration report as required. Non-executive directors may take independent professional advice relating to their role as a director at the expense of the Company.	For the non-executive directors, there is no prescribed maximum annual increase. The Company's articles of association ('the Articles') provide that the total aggregate remuneration paid to the chair of the Company and non-executive directors will be determined by the Board within the limits set by shareholders and detailed in the Company's Articles.	Not applicable.
Share ownership guidelines	To provide close alignment between the longer-term interests of executive directors and shareholders in terms of the Company's growth and performance.	Executive directors are expected to build up and maintain shareholdings with a value set at 200% of basic salary. Until this threshold is achieved there is a requirement for executive directors to retain no less than 50% of the net of tax value of vested incentive awards.	Not applicable.	Not applicable.

Directors' remuneration report: remuneration policy continued

Fixed elements	Purpose and link to strategy	Operation	Maximum opportunity	Performance targets
Post-employment shareholdings	To encourage long-term alignment with shareholders.	The committee requires executive directors to maintain a level of shareholding for two years after stepping down from the Board. The committee will retain discretion about the application of post-employment shareholding guidelines in individual cases.	Executive directors will maintain the following shareholdings after they have stepped down from the Board: For the first 12 months, the lower of: ▪ their shareholding at the time of leaving the business (excluding individually-purchased shares); and ▪ 200% of basic salary (this being the current in-post shareholding guideline). For the second 12 months (i.e. between 12 months and 24 months), the lower of: ▪ their shareholding at the time of leaving the business (excluding individually-purchased shares); and ▪ 100% of basic salary (this being half of the current in-post shareholding guideline). At the end of 24 months, the directors will be free to sell their remaining shareholding if they wish.	Not applicable.

Existing arrangements

We will honour existing awards to executive directors, and incentives, benefits and contractual arrangements made to individuals prior to their promotion to the Board and/or prior to the approval and implementation of this policy. For the avoidance of doubt, this includes payments in respect of any award granted under the previous remuneration policy. This will last until the existing incentives vest (or lapse) or the benefits or contractual arrangements no longer apply. This does not apply to pension contributions for any newly-promoted executive directors which will be aligned with the rate offered to the majority of employees on promotion to the Board.

Service agreements

Executive directors

Executive directors have rolling service contracts that provide for 12 months' notice on either side. There are no special provisions that apply in the event of a change of control.

	Date of service contract
John Morgan	20 February 2012
Steve Crummett	5 February 2013

The Company allows executive directors to hold external non-executive directorships, subject to the prior approval of the Board, and to retain fees from these roles.

Non-executive directors

All non-executive directors have specific terms of engagement being an initial period of three years which thereafter may be extended by mutual consent, subject to the requirements for re-election, the Listing Rules of the Financial Conduct Authority (FCA) and the relevant sections of the Companies Act 2006.

	Appointment letter date	Month/year initial three-year term was extended	Month/year second three-year term was extended
Michael Findlay	1 October 2016	October 2019	–
Malcolm Cooper	9 November 2015	November 2018	November 2021
Tracey Killen	5 May 2017	May 2020	–
David Lowden	10 September 2018	September 2021	
Jen Tippin	1 March 2020	–	–
Kathy Quashie	1 June 2021		

The non-executive directors are subject to annual re-election by shareholders.

Termination provisions

Current executive directors' service agreements are terminable on 12 months' notice. In circumstances of termination on notice, the committee will determine an equitable compensation package, having regard to the particular circumstances of the case. The committee has discretion to require notice to be worked or to make payment in lieu of notice or to place the director on garden leave for the notice period. In respect of new hires, the initial notice period for a service contract may be longer than the policy of a 12-month notice period, provided it reduces to 12 months within a short space of time.

In case of payment in lieu or garden leave, base salary, accrued holiday, employer pension contributions and employee benefits will be paid for the period of notice served on garden leave or paid in lieu. The committee will endeavour to make payments in phased instalments and to apply mitigation in the case of offsetting payments against earnings elsewhere.

If a director leaves under a settlement agreement, life assurance cover may continue for up to three months after a director leaves the Company, subject to the director not obtaining alternative employment. In addition, the Company may agree that a director will remain covered under the private medical scheme until the next policy renewal date or if a director is mid-treatment at their leaving date until the course of treatment is concluded. The same provisions are available to all employees in the Company who receive these benefits.

The annual bonus may be payable in respect of the period of the bonus scheme year worked by the director; there is no provision for an amount in lieu of bonus to be payable for any part of the notice period not worked. The bonus would be payable at the normal date. Leavers would normally retain deferred bonus shares, albeit release would normally be at the end of the deferral period, with committee discretion to treat otherwise.

Long-term incentives granted under the LTIP will be determined by the LTIP rules which contain discretionary good leaver provisions for designated reasons (that is, participants who leave early on account of: injury; disability; death; a sale of their employer or business in which they were employed; statutory redundancy; retirement; or any other reason at the discretion of the committee). In these circumstances, a participant's awards will not be forfeited on cessation of employment and instead will vest on the normal vesting date. In exceptional circumstances, the committee may decide that the participant's awards will vest early on the date of cessation of employment. In either case, the extent to which the awards will vest depends on the extent to which the performance conditions have been satisfied and a pro rata reduction of the awards will be applied by reference to the time of cessation (although the committee has discretion to disapply time pro rating if the circumstances warrant it).

Leavers would normally retain vested LTIP shares subject to a holding period and these would normally be released at the end of the holding period with committee discretion to treat otherwise.

Where an executive director leaves by mutual consent, the Company may reimburse reasonable legal fees and tax advice costs, and pay for professional outplacement services.

Recruitment remuneration

The committee considers the need to attract, retain and motivate the best person for each position, without paying more than is necessary.

External appointments

For external appointments, the committee would seek to align the remuneration package with the remuneration policy approved by shareholders, as follows:

Fixed elements	Approach	Maximum annual grant value
Base salary	The base salaries of new executive directors will be determined by reference to relevant market data, experience and skills of the individual, internal relativities and their current basic salary. In the event that the committee elects to set the initial basic salary of a new appointee below market, any shortfall may be managed with phased increases over a period of two to three years subject to the individual's development in the role.	
Pension	New executive directors will receive Company contributions or cash alternative in line with that offered to the majority of employees (currently 6% of salary).	
Benefits	New executive directors will be eligible to receive benefits which may include (but are not limited to) travel allowances, private medical insurance, ill health income protection insurance, health screening, employee assistance programme, life assurance, holiday and sick pay, professional advice in connection with their directorship, travel, subsistence and accommodation as necessary, occasional gifts, for example appropriate long-service or leaving gifts, and any necessary relocation and/or incidental expenses. The Company may offer a cash amount on recruitment to reflect the value of benefits a new recruit may have received from a former employer.	
Annual bonus	The structure described in the policy table will apply to new executive directors, with the maximum opportunity being pro-rated to reflect the proportion of the financial year served.	125% of base salary
LTIP	New appointees will be granted awards under the LTIP on the same terms as other executives, as described in the policy table.	150% of base salary
SAYE	New appointees will also be eligible to participate in all-employee share schemes.	
Shareholding guidelines	New executive directors will be expected to build up a shareholding equivalent to 200% of basic salary in accordance with the terms set out in the policy table.	
Post-employment shareholding	The structure in the policy table will apply to new executive directors.	

In determining appropriate remuneration, the committee will take into consideration all relevant factors to ensure that arrangements are in the best interests of both the Company and its shareholders. The committee may additionally make awards or payments in respect of deferred remuneration arrangements forfeited on leaving a previous employer.

The committee will look to replicate the arrangements being forfeited as closely as possible and, in doing so, will take account of relevant factors, including the value of deferred remuneration; the performance conditions; and the time over which they would have vested or been paid. Any such arrangements would typically have an aggregate fair value no higher than the awards being forfeited.

Internal promotion

In cases of appointing a new executive director by way of internal promotion, the committee will act in a manner consistent with the policy for external appointees detailed on page 139 and the provisions for existing arrangements, as set out on page 138, will apply.

Shareholders will be informed of the remuneration package and all additional payments to a newly-appointed executive director at the time of their appointment.

Non-executive directors

For the appointment of a new non-executive director, the fee arrangement would be set in accordance with the approved remuneration policy at that time.

Overview of remuneration policy for other employees

While our remuneration policy follows the same fundamental principles across the Group, packages offered to employees reflect differences in role and seniority. For example, the remuneration package elements for our Group management team are essentially the same as for the executive directors with some minor differences, such as lower levels of share awards and a lower shareholding requirement. Employees across the Group below Board level may be eligible to participate in an annual bonus arrangement. Long-term incentive awards and/or discretionary share options may be awarded to certain other senior executives and employees, for which the maximum opportunity and the performance conditions may vary by organisational level.

All employees are eligible to participate in the Group's SAYE scheme and to join either the Group's Retirement Plan or the B&CE's People's Pension. The Group also offers a broad range of benefits that are open to employees with eligibility for the different benefits determined on seniority. Benefits offered include: private medical insurance; digital GP service; income protection; child care vouchers; holiday plus scheme (option to purchase some additional holiday); death in service; employee assistance programme; and access to financial education.

Use of discretion

The committee will operate the incentive plans in accordance with their respective rules, the Listing Rules and HMRC rules where relevant. The committee, consistent with market practice, retains discretion over a number of areas relating to the operation and administration of certain plan rules. These include (but are not limited to) the following:

- who participates in incentives;
- the timing of grant of awards and/or payments;
- the size of awards (up to plan/policy limits) and/or payments;
- where the result indicated by the relative TSR performance condition should be scaled back (potentially to zero) in the event that the committee considers that financial performance has been unsatisfactory and/or the outcome has been distorted due to the TSR for the Company or any comparator company TSR being considered abnormal;
- measurement of performance in the event of a change of control or reconstruction;
- determination of good leaver status (in addition to any specified categories) for incentive plan purposes;
- payment of dividends accrued during the vesting period;
- adjustments required in certain circumstances (for example, rights issues, corporate restructuring and special dividends);
- adjustments to existing performance conditions for exceptional events so that they can still fulfil their original purpose;
- the release of deferred bonus shares for leavers;
- retention of LTIP shares subject to a holding period for leavers; and
- the application of the post-employment shareholding guidelines.

Malus and clawback

Awards under the annual bonus, the deferred bonus and the LTIP are subject to malus and clawback provisions which can be applied to both vested and unvested awards. Clawback provisions will apply for a period of three years post vesting. Circumstances in which malus and clawback may be applied include: for overpayments due to material misstatement of the Company's financial accounts; gross misconduct on the part of the award-holder; an error in calculating the vesting outcomes; or in the event of corporate failure. Participants in the Company's LTIP and deferred bonus scheme are required to acknowledge their understanding and acceptance of malus and clawback provisions prior to receiving their awards. The committee is satisfied that the recovery provisions are enforceable.

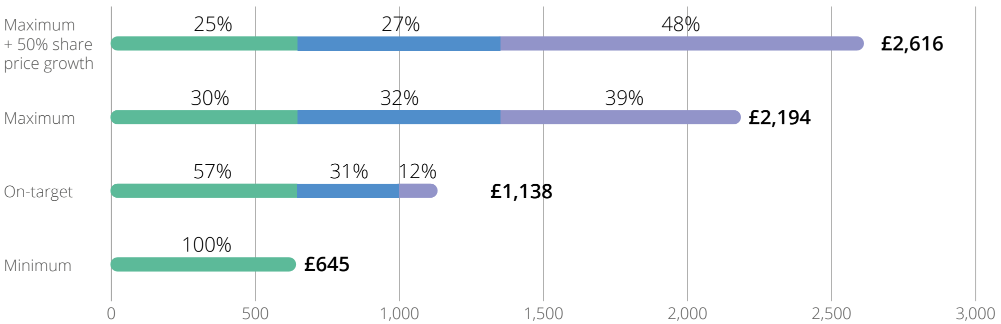
Remuneration scenarios for the executive directors

The charts below provide an indication of the level of remuneration that would be received by each executive director under the following three assumed performance scenarios:

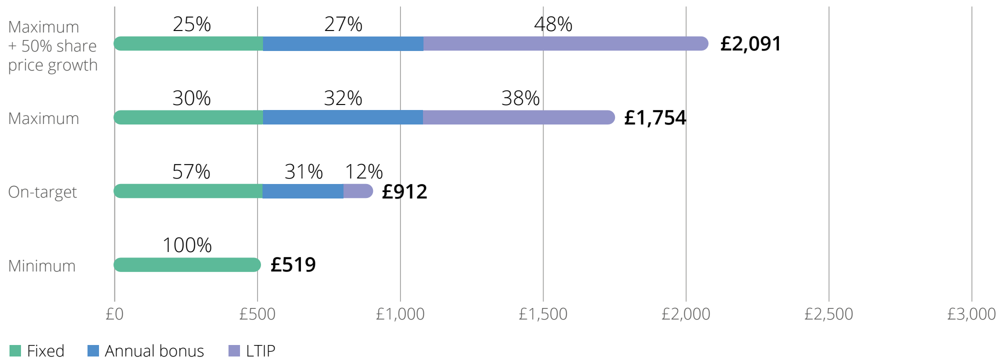
Below threshold performance	Fixed elements of remuneration only – base salary, benefits and pension
On-target performance	Assumes 50% payout under the annual bonus Assumes 16.7% payout under the LTIP (aligned with threshold performance)
Maximum performance[1]	Assumes 100% payout under the annual bonus (125% of salary) Assumes 100% payout under the LTIP (150% of salary)

1 Maximum shown both with and without the impact of share price appreciation on the potential value of long-term incentive awards. For the purposes of this illustration, three-year share price appreciation is assumed to be 50% in line with the reporting regulations.

John Morgan
Chief Executive
(£m)



Steve Crummett
Finance Director
(£m)



Notes:

- Base salary levels are as at 1 January 2022.
- The value of benefits has been estimated based on amounts received in respect of 2021.
- The value of pension receivable is the equivalent of 10% of base salary.

Ensuring transparency of the remuneration policy

The following table summarises how the remuneration policy fulfils the factors set out in provision 40 of the 2018 UK Corporate Governance Code.

Criteria	How the Company fulfils the criteria	Example
Clarity Remuneration arrangements should be transparent and promote effective engagement with shareholders and the workforce.	The committee is committed to providing open and transparent disclosures to shareholders, employees and other stakeholders with regard to executive remuneration arrangements. The committee determines the remuneration policy and agrees the remuneration of each executive director and the Group management team. The committee reviews the effectiveness of the remuneration policy and its alignment with strategy annually, unless circumstances require additional review. The annual bonus plan, deferred bonus plan, 2014 LTIP and 2014 SOP are established by the committee and kept under regular review. The remuneration report sets out the remuneration arrangements for the executive directors in a clear and transparent way. We encourage shareholders to ask questions at the AGM and we consult with shareholders over any proposed changes to the policy.	The annual bonus plan is based on PBTA* which aligns with the published accounts.
Simplicity Remuneration structures should avoid complexity and their rationale and operation should be easy to understand.	Our remuneration arrangements for executive directors, as well as those for employees across the Group, are simple in nature and well understood by participants. Remuneration for the executive directors consists of fixed pay (salary, benefits, pension) and variable pay (annual bonus plan and long-term incentive plan). No complex structures are used in our variable pay plans.	The LTIP is based on point-to-point EPS and TSR.
Risk Remuneration arrangements should ensure that reputational and other risks arising from excessive rewards, and behavioural risks that can arise from target-based incentive plans, are identified and mitigated.	Targets are reviewed annually to ensure they are suitably stretching and do not encourage excessive risk taking. Malus and clawback provisions also apply to both the annual bonus and long-term incentive plans. Members of the committee are provided with regular briefings on developments and trends in executive remuneration.	The PBTA* and EPS targets are based on the latest budget and market consensus.
Predictability The range of possible values of rewards to individual directors and any other limits or discretions should be identified and explained at the time of approving the remuneration policy.	The possible reward outcomes can be easily quantified, and these are reviewed by the committee annually. In addition, performance is reviewed regularly so there are no surprises at the end of period assessment. The potential value and composition of the executive directors' remuneration packages at below threshold, target and maximum scenarios are provided in the remuneration policy.	The remuneration scenarios on page 141 set out the potential range of remuneration for the executive directors.
Proportionality The link between individual awards, the delivery of strategy and the long-term performance of the Company should be clear. Outcomes should not reward poor performance.	Annual bonus payments and LTIP awards require robust performance against challenging conditions that are aligned to the Company's strategy. The committee retains discretion to override formulaic outcomes to ensure that payments under the variable incentives are appropriate and reflective of overall performance.	To trigger any element of the annual bonus, 90% of budget must be achieved and that will only trigger a 15% payment.
Alignment to culture Incentive schemes should drive behaviours consistent with company purpose, values and strategy.	The variable incentive schemes and performance measures are designed to be consistent with the Group's purpose, values and strategy. At the heart of the policy is a focus on the long-term success of the business. This reflects our culture which is aligned to creating long-term value for all stakeholders.	Our values and unique culture are critical to the Group's long-term success. Remuneration targets will only be achieved if the Group consistently delivers on our commitments to all stakeholders.

Annual report on remuneration

The information provided in this section of the remuneration report which is subject to audit, has been highlighted.

Single total figures of remuneration (audited)

Executive directors

	Fixed pay				Variable pay			
	Fees/basic salary £000	Benefits £000	Pension contributions £000	Total fixed pay £000	Annual bonuses £000	Value of long-term incentives £000	Total variable pay £000	Total remuneration £000
John Morgan								
2021	**547**	**26**	**55**	**628**	**683**	**1,455**	**2,138**	**2,766**
2020	509	25	51	585	–	510	510	1,095
Steve Crummett								
2021	**436**	**25**	**44**	**505**	**545**	**1,160**	**1,705**	**2,210**
2020	406	24	41	471	–	407	407	878

Notes:
- The executive directors voluntarily took a 20% reduction in basic salary and pension contributions for a three-month period from 1 April 2020 to 30 June 2020.
- Benefits relate to travel allowance, medical benefits, ill health income protection, employee assistance programme and life assurance.
- As the market price on the date of vesting for the 2019 awards is currently unknown, the LTIP value shown is estimated using the average market value over the last quarter of 2021 of £23.75. The 2020 comparative figures for the value of the long-term incentives and total remuneration have been revised from last year's report to reflect the actual share price used for the vesting and the value of dividend equivalent shares awarded. Awards granted in 2018, which vested based on performance to 31 December 2020, are valued using the mid-market closing price on 5 March 2021, the date prior to the date of vesting (6 March 2021), of £18.00. (The mid-market closing share price on 8 March 2021 was £18.46.)

Annual cash bonus outturn (audited)

Annual bonus figures represent the full amount earned for 2021. Of this amount, 30% will be deferred in nil-cost share options for three years. The table below shows performance against PBTA* targets for 2021 representing 100% of the annual bonus potential:

	Threshold target £m	50% target £m	Maximum target £m	Actual performance £m	Percentage of maximum %
Group PBTA* at 31 December 2021	77.08	82.0	86.92	127.7	**100**

Directors' remuneration report: annual report on remuneration continued

2014 Long-Term Incentive Plan – 2019 award outturn (audited)

LTIP awards granted in 2019 are due to vest on 4 March 2022. As set out in the table below,100% of the 2019–2021 awards are expected to vest:

Performance condition	Weighting	Threshold target (EPS: 12.5% vest, TSR: 25% vest)	Stretch target (100% vest)	Actual performance	Percentage vesting
Adjusted* EPS in FY21	66.67%	180.8p	219.0p	226.0P	66.67%
Relative TSR (vs. FTSE 250 excluding investment trusts)	33.33%	Median	10% per year outperformance of median	22.8% per year outperformance of median	33.33%
Total vesting					**100%**

As the market price on the date of vesting is currently unknown, the values shown are estimated using the average market value over the last quarter of 2021 of £23.75, an 81% increase on the share price at the date of grant of £13.10. Accordingly, c45% of the 'value of long-term incentives' figure shown in the single-figure table on page 143 is a result of share price appreciation, amounting to c£653k and c£520k for John Morgan and Steve Crummett respectively. As disclosed in the chair's letter on pages 126 to 128, the committee amended the basis of calculation for the cumulative EPS performance condition to point-to-point for the 2019 LTIP awards. The committee has not exercised any additional discretion in respect of the achieved outcomes. The value of 2021 long-term incentives in the single-figure table on page 143 does not include the value of any dividend equivalent shares that may be due for the 2019 awards on the date of vesting.

The net awards received (after the deduction of tax and national insurance) will be subject to a two-year holding period in which the director will not be able to sell the shares but will be entitled to receive dividends and vote on the shares. The shares will be transferred to the director at the end of the holding period.

Non-executive directors (audited)

	Fees[1] £000		Taxable benefits[2] £000		Total £000	
	2021	2020	**2021**	2020	**2021**	2020
Michael Findlay	**184**	171	**–**	–	**184**	171
Malcolm Cooper	**70**	65	**–**	–	**70**	65
Tracey Killen	**60**	56	**–**	–	**60**	56
David Lowden	**60**	56	**–**	–	**60**	56
Jen Tippin[3]	**50**	38	**–**	–	**50**	38
Kathy Quashie[4]	**29**	–	**–**	–	**29**	–

1. The chair and the non-executive directors voluntarily took a 20% reduction in their fees for three months from 1 April 2020 to 30 June 2020.
2. Taxable benefits include taxable relevant travel and accommodation expenses for attending Board meetings and related business. Any value disclosed is inclusive of tax arising on the expense, which is settled by the Company.
3. Jen Tippin joined the Board on 1 March 2020.
4. Kathy Quashie joined the Board on 1 June 2021.

The aggregate remuneration for executive and non-executive directors in 2021 was £2.8m (2020: £1.4m). Aggregate remuneration comprises salary, fees, benefits, pension contributions and bonus payments.

Share awards granted during the year (audited)

2014 Long-Term Incentive Plan

On 5 March 2021, LTIP awards were made to the executive directors, which will vest subject to performance over the three financial years to 31 December 2023. Of these awards, 67% are subject to an EPS performance condition and 33% are subject to a TSR performance condition, full details of which are included in last year's annual report on remuneration.

	Date of grant	Percentage of salary awarded	Five-day average share price at date of grant	No. of shares over which award was granted	Face value of award	Percentage of awards vesting at threshold	Performance period
John Morgan	5 March 2021	150%	£17.17	47,764	£820,108	16.7% (12.5% for EPS element, 25% for TSR element)	Three financial years to 31 December 2023
Steve Crummett				38,086	£653,937		

As disclosed in the chair's letter on pages 126 to 128, the committee resolved to amend the basis of calculation for the cumulative EPS performance condition to point-to-point for the 2021 LTIP awards. The share price used to calculate the awards at the date of grant was based on the average share price for the five dealing days preceding the date of grant. The closing share price on 4 March 2021 was £17.56.

Deferred bonus share options

No annual bonus was earned in 2020 and therefore no deferred bonus share options were awarded in 2021.

Outstanding interests under share schemes (audited)

Details of the executive directors' interests in long-term incentive awards as at 31 December 2021 and movements during the year are as follows:

Performance shares

	Date of award	No. of shares outstanding as at 1 January 2021	No. of shares awarded	No. of shares vested	No. of dividend equivalent shares awarded	Total no. of shares vested	No. of shares lapsed	No. of awards outstanding as at 31 December 2020	End of performance period	Date awards vest
John Morgan										
	6.3.2018	61,666	–	26,515	1,826	28,341	35,151	–	31.12.2020	6.3.2021
	4.3.2019	61,272	–	–	–	–	–	61,272	31.12.2021	4.3.2022
	2.3.2020	43,297	–	–	–	–	–	43,297	31.12.2022	2.3.2023
	5.3.2021	**–**	**47,764**	**–**	**–**	**–**	**–**	**47,764**	**31.12.2023**	**5.3.2024**
Total		**166,235**	**47,764**	**26,515**	**1,826**	**28,341**	**35,151**	**152,333**		
Steve Crummett										
	6.3.2018	49,171	–	21,142	1,456	22,598	28,029	-	31.12.2020	6.3.2021
	4.3.2019	48,857	–	–	–	–	–	48,857	31.12.2021	4.3.2022
	2.3.2020	34,524	–	–	–	–	–	34,524	31.12.2022	2.3.2023
	5.3.2021	**–**	**38,086**	**–**	**–**	**–**	**–**	**38,086**	**31.12.2023**	**5.3.2024**
Total		**132,552**	**38,086**	**21,142**	**1,456**	**22,598**	**28,029**	**121,467**		

Notes:

- 43% of the awards granted in 2018 vested due to the EPS and TSR targets being achieved. Three-year cumulative EPS for the Group as at 31 December 2020 was 421.6p, which resulted in 33% of the EPS element of the award vesting. The Group also achieved a TSR of 0.8%, which exceeded the median of the comparator group and resulted in 63% of the TSR element of the award vesting.
- Of the awards granted in 2019, 100% vested due to the EPS and TSR targets being achieved. The Group's 2021 EPS was 226.0p, which resulted in 100% of the EPS element of the award vesting. The Group also achieved a TSR of 29.4% per year, which exceeded the median of the comparator group by 22.8% per year and resulted in 100% of the TSR element of the award vesting. The net awards received (after the deduction of tax and national insurance) will be subject to a two-year holding period in which the director will not be able to sell the shares but will be entitled to receive dividends and vote on the shares. The shares will be released to the director at the end of the holding period.
- The awards of performance shares over 150% of salary granted in 2020 and 2021 are subject to a point-to-point EPS growth target and a TSR performance condition.

Directors' remuneration report: annual report on remuneration continued

Deferred bonus plan nil-cost options

	Date of grant	No. of options outstanding as at 1 January 2021	No. of options granted	No. of dividend equivalent shares awarded	No. of options exercised	No. of options lapsed	No. of options outstanding as at 31 December 2021	Date from which exercisable
John Morgan								
	6.3.2018	14,967	–	1,031	15,998	–	–	6.3.2021
	4.3.2019	14,872	–	–	–	–	14,872	4.3.2022
	2.3.2020	9,758	–	–	–	–	9,758	2.3.2023
Total		**39,597**	**–**	**1,031**	**15,998**	**–**	**24,630**	
Steve Crummett								
	6.3.2018	11,934	–	822	12,756	–	–	6.3.2021
	4.3.2019	11,858	–	–	–	–	11,858	4.3.2022
	2.3.2020	7,781	–	–	–	–	7,781	2.3.2023
Total		**31,573**	**–**	**822**	**12,756**	**–**	**19,639**	

Notes:

- The mid-market price of a share on 31 December 2021 was £25.20 and the range during the year was £14.38 to £26.85.
- No bonus was earned by the executive directors in respect of the 2020 financial year and, accordingly, no options were awarded under the deferred bonus plan in 2021.
- The deferred bonus plan nil-cost share options granted on 6 March 2018 became exercisable on 6 March 2021 and on vesting, each nil-cost option granted carried a right to receive an amount linked to dividends paid. The dividend equivalent was settled in Ordinary shares of the Company and was added to the original award. The share price used to determine the number of dividend equivalent shares was the closing middle market quotation on 5 March 2021 which was £18.00. The options and dividend equivalent shares are exercisable until the tenth anniversary of their grant date.
- Steve Crummett exercised his options granted on 6 March 2018 and the associated dividend equivalent shares on the 10 March 2021 at a sale price of £17.76 per share.
- John Morgan exercised his options granted on 6 March 2018 and the associated dividend equivalent shares on 9 April 2021 at a sale price of £18.72 per share.

Other disclosures

Remuneration committee meetings

The committee met on six occasions during the year. All members attended each meeting, except Jen Tippin who missed one meeting due to not being able to attend as a result of pre-existing commitments in her executive role which could not be changed at short notice. The chair of the Board attended all meetings of the committee, the chief executive attended three meetings of the committee, and the company secretary acted as secretary to the committee. The finance director and Kathy Quashie attended one of the committee meetings. No person was present during any discussion relating to their own remuneration.

Over the course of the year, the committee received advice on remuneration matters from remuneration advisers Mercer | Kepler (Mercer) and, following their appointment, Ellason LLP (Ellason). Ellason were appointed by the committee as the Company's remuneration advisers in October 2021 following a competitive tender process. The committee has also relied on information and advice provided by the company secretary and has consulted the chief executive (albeit not in relation to his own remuneration). Both Mercer and Ellason are signatories of the Code of Conduct for Remuneration Consultants, details of which can be found at remunerationconsultantsgroup.com, and the committee is satisfied that the advice it receives – formerly from Mercer and currently from Ellason – is independent and objective. The fees paid by the Company to Mercer during the financial year up to their cessation of appointment for advice to the committee in relation to the above were £38,412 (2020: £14,660), on the basis of time and materials. Mercer also provided advice to the Company on accounting for share awards but provided no other material services to the Company or the Group. The fees paid by the Company to Ellason from their appointment date during the financial year were £23,630 (2020: Nil). Ellason provided no other services to the Company or the Group.

Shareholder voting (audited)

At last year's AGM held on 7 May 2021, the remuneration report (excluding the remuneration policy) for the year ended 31 December 2020 was approved by shareholders. The following table shows the results of the advisory vote on the 2020 annual remuneration report as well as the results of the binding vote on the remuneration policy, which was last approved by shareholders at the 2020 AGM:

	Voting for		Voting against			
	Number of shares	Percentage	Number of shares	Percentage	Total votes cast	Votes withheld[1]
Annual remuneration report	33,718,309	98.36	560,488	1.64	34,278,797	5,623
Remuneration policy	34,252,837	97.41	911,648	2.59	35,164,485	191,258

1 Shareholders who have indicated that they wish to actively abstain from voting are counted as a vote withheld. A vote withheld is not a vote in law and is not counted in the calculation of the proportion of votes cast 'for' and 'against' a resolution.

Dilution and share usage under employee share plans

Shares required for the 2007 Employee Share Option Plan are satisfied by shares purchased in the market via The Morgan Sindall Employee Benefit Trust ('the Trust') and shares for the Company's other share plans may be satisfied using either new issue shares or market-purchased shares. Our present intention is to use market-purchased shares to satisfy these awards; however, we retain the ability to use new issue shares and may decide to do so up to the dilution limits recommended by the Investment Association (10% of issued ordinary share capital for all employee share plans over a 10-year period and, within this limit, no more than 5% of issued ordinary share capital for executive or discretionary share plans). The outstanding level of dilution against these limits equates to 8.52% (2020: 9.13%) of the current issued ordinary share capital under all-employee share plans, of which 0% relates to discretionary share plans.

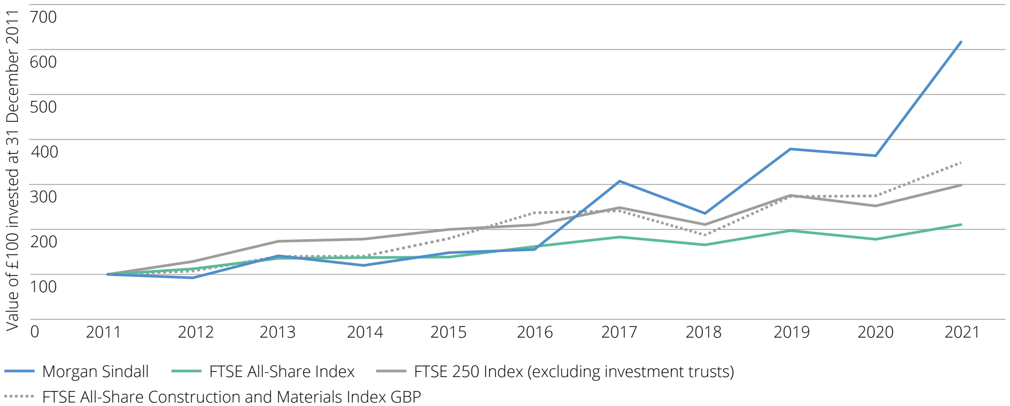
As at 31 December 2021, the Trust held 1,051,664 shares (2020: 278,383), which may be used to satisfy awards.

Directors' remuneration report: other disclosures continued

Chief executive remuneration and performance graph

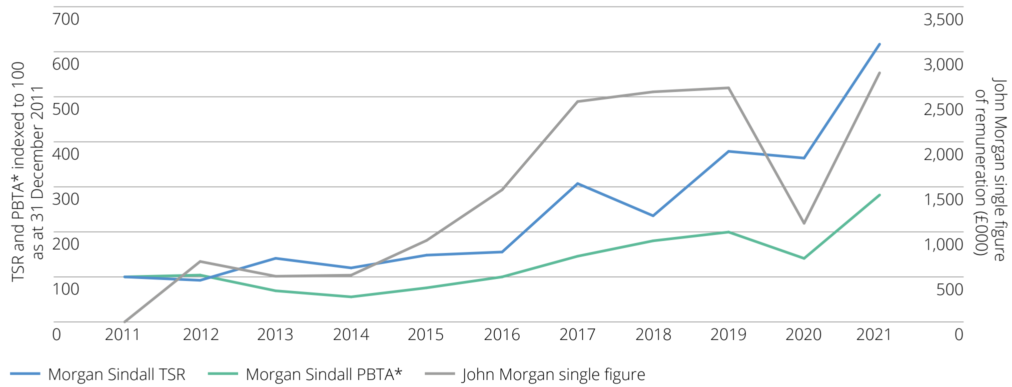
Historical TSR performance

The graph below shows the value to 31 December 2021of £100 invested in the Company on 1 January 2012 compared with the value of £100 invested in the FTSE All-Share Index and the FTSE All-Share (Construction & Materials Index), these being indices of which the Company has been a constituent over the period shown. The graph also shows the value of £100 invested in the FTSE 250 Index (excluding investment trusts), the constituents of which are used for the purposes of the TSR element of the LTIP. In all cases, the other points plotted are the values at intervening financial year ends.



Historical pay vs performance

The graph below shows the TSR and PBTA* for the Company over the last 10 financial years. The chief executive remuneration table provides a summary of the total remuneration received by the chief executive over the last 10 years, including details of annual bonus payout and long-term incentive award vesting level in each year. The annual bonus payout and long-term incentive award vesting level as a percentage of the maximum opportunity are also shown for each of these years.



	2012	2012	2013	2014	2015	2016	2017	2018	2019	2020	**2021**
	Paul Smith	John Morgan									
Total remuneration £000	1,327	671	507	519	905	1,467	2,447	2,555	2,599	1,095	**2,766**
Annual bonus percentage of maximum	26	30	–	–	80	100	100	100	93	–	**100**
Long-term incentive award vesting percentage of maximum share awards	49	n/a	n/a	–	–	62	100	100	100	43	**100**
Long-term incentive award vesting percentage of maximum share options	46	46	–	n/a	n/a	n/a	n/a	n/a	n/a	n/a	**n/a**

Notes:
- The 2020 total remuneration has been revised from last year's report to reflect the actual share price used for the vesting and the value of dividend equivalent shares awarded under the 2014 LTIP (see page 143 for further information).
- John Morgan was appointed chief executive on 5 November 2012, having previously been executive chair. He waived his bonus entitlement in 2013.
- Paul Smith resigned on 5 November 2012 and ceased employment on 31 December 2012.

Directors' remuneration report: other disclosures continued

Chief executive pay ratio

Financial year	Calculation methodology	Chief executive pay ratio P25 (lower quartile)	P50 (median)	P75 (upper quartile)
2021	B	**60:1**	**53:1**	**32:1**
2020	B	30:1	22:1	15:1
2019	B	58:1	43:1	27:1

The lower quartile, median and upper quartile employees were determined based on the hourly-rate data as at 5 April 2021, collected for the Group's reporting under the gender pay gap legislation (Option B). The gender pay gap data reviews the pay of all UK employees. This calculation methodology was chosen as the data was readily available from our work in determining the gender pay gap. Furthermore, with our decentralised business model and significant UK workforce, calculating the single figure of remuneration for each employee (Option A) would be prohibitively time-consuming and expensive.

The committee has considered the pay data for the three individuals identified and believes that it fairly reflects pay at the relevant quartiles among our UK workforce. The three individuals identified were full-time employees during the year. No adjustments or assumptions were made by the committee, with the total remuneration of these employees calculated in accordance with the methodology used to calculate the single figure of the chief executive for the 2021 financial year. The table below sets out the remuneration details for the individuals identified:

Salary	Chief executive	P25	P50	P75
Basic salary, £k	547	34	41	79
Total annual pay[1] £k	1,311	46	53	85
Total pay[2] £k	2,766	46	53	85

The ratio of 53:1 is 141% higher than the median ratio of 22:1 in 2020. In 2020, the chief executive received no annual bonus and only 43% of the long-term incentive awards vested. However, in 2021 the chief executive received 100% annual bonus and 100% of the long-term incentive award vested, together with the long-term incentive award benefiting from significant share price growth over its vesting period. For comparison, the pay ratio in 2019 when 93% of the annual bonus was paid and 100% of the long-term incentive awards granted in 2017 vested was 43:1.

None of the median employees in each quartile identified this year received benefits under the Company's long-term incentive schemes. With a significant proportion of the pay of our chief executive linked to the Company's performance and share price movements over the longer term, it is expected that the ratio will depend a lot on long-term incentive outcomes each year, and accordingly may fluctuate. The committee has therefore also produced pay ratios for basic salary and total annual pay as shown in the table below.

Ratio	P25	P50	P75
Basic salary	16:1	13:1	7:1
Total annual pay[1]	28:1	25:1	15:1
Total pay[2]	60:1	53:1	32:1

1 Total annual pay includes, where applicable, basic salary, annual bonus, pension, travel or car allowance and the cash value of employee benefits received, such as death in service, private medical, group income protection, EAP, etc.
2 Total pay includes total annual pay plus the cash value of any long-term incentives received under either the 2014 LTIP or the 2014 SOP.

Percentage change in remuneration levels

The table below shows details of the percentage change in base salary, benefits and annual bonus for the chair, the executive and non-executive directors over the last three financial years, compared to the average percentage change for other employees of the Group over the same periods.

	Percentage change in base salary		Percentage change in benefits		Percentage change in bonus payment	
	2020–21	2019–20	2020–21	2019–20	2020–21	2019–20
Chair	7.4%	-2.3%	n/a	n/a	n/a	n/a
Chief executive	7.4%	-2.1%	2.4%	2.6%	100%	-100%
Finance director	7.4%	-2.2%	3.2%	-0.2%	100%	-100%
Audit & HSE committee chair (M Cooper)	6.8%	-3.7%	n/a	n/a	n/a	n/a
Remuneration committee chair (T Killen)	7.0%	-3.4%	n/a	n/a	n/a	n/a
Senior independent director (D Lowden)	7.0%	-3.4%	n/a	n/a	n/a	n/a
J Tippin	30.2%	n/a	n/a	n/a	n/a	n/a
K Quashie	n/a	n/a	n/a	n/a	n/a	n/a
All employees	2.6%	4.8%	1.5%	8.0%	50.6%	-9.1%

The chief executive's and finance director's bonus decreased by 100% in 2020 due to the impact of the Covid pandemic on the Group's performance which meant that no bonus was paid. The chair, executive directors and non-executive directors each took a voluntary 20% reduction in fees or salary (as applicable) for three months from 1 April to 30 June 2020.

Relative importance of spend on pay

The table below shows pay for all employees compared to other key financial indicators.

	2021	2020	Change
Employee remuneration	**£543.7m**	£505.9m	7%
Basic earnings per share (adjusted*)	**226.0p**	108.6p	108%
Dividends paid during the year	**£32.3m**	£9.6m	236%
Employee headcount[1]	**6,666**	6,736	-1%

1 Employee headcount is the monthly average number of employees on a full-time equivalent basis. More detail is set out in note 2 to the consolidated financial statements.

Shareholding guidelines (audited)

Through participation in performance-linked share-based plans, there is strong encouragement for senior executives to build and maintain a significant shareholding in the business. Shareholding guidelines are in place requiring the executive directors to build and maintain a shareholding in the Company equivalent to 200% of base salary. Until this threshold is achieved, there is a requirement for executives to retain no less than 50% of the net of tax value of vested incentive awards.

	Percentage of salary required under shareholding guidelines	**Percentage of salary held at 31 December 2021**
John Morgan	200	**16,038**
Steve Crummett	200	**735**

The share price used to value the shares as at 31 December 2021 was £25.20.

Directors' interests (audited)

The figures below set out the shareholdings beneficially owned by directors and their family interests at 31 December 2021.

	31 December 2021 No. of shares	31 December 2020 No. of shares
Michael Findlay	**4,173**	4,173
John Morgan	**3,479,537**	4,106,058
Steve Crummett	**127,098**	164,579
Malcolm Cooper	**10,000**	10,000
Tracey Killen	**611**	611
David Lowden	**4,000**	4,000
Jen Tippin	**1,000**	1,000
Kathy Quashie	**–**	–

There have been no changes in the interests of the directors between 31 December 2021 and 24 February 2022.

External appointments

At the discretion of the Board, executive directors are allowed to act as non-executive directors of other companies and retain any fees relating to those posts. Neither of the executive directors currently hold external appointments for which they are remunerated.

Payments to past directors or for loss of office (audited)

No payments were made during the year.

Implementation of the remuneration policy for 2022

Base salaries

In setting the 2022 base salaries, the committee considered the budgeted level of increases in base salary for senior executives below Board level and the workforce generally, which averaged 3%. The committee determined that the base salaries for John Morgan and Steve Crummett should increase by 3% with effect from 1 January 2022. In confirming the salary increases, the committee took account of the performance of each executive director and their respective responsibilities.

	From 1 January 2022 £	From 1January 2021 £	Increase
John Morgan	**563,150**	546,742	3%
Steve Crummett	**449,150**	435,958	3%

Pension

The Company contributes up to 10% of base salary to a personal pension plan and/or as a cash supplement. This is in line with the maximum pension contribution for the employee population. Consistent with all employees participating in the Retirement Plan, relevant executive directors may exchange part of their gross salary and bonus awards in return for pension contributions. Where additional pension contributions are made through the salary exchange process, the Company enhances the contributions by half of the saved employer's national insurance contribution.

The majority of employees in the Group are entitled to a company pension contribution of up to 6% of basic salary if they contribute 6% themselves. Senior employees within the Group are entitled to a company pension contribution of up to 10% of basic salary as per the executive directors.

Following a review during 2021, and noted in the chair's statement on page 128, the pension contributions for existing directors will be aligned with those of the majority of employees from 1 January 2023.

Annual bonus

The maximum annual bonus potential for 2022 will be 125% of base salary with 70% of any bonus earned paid in cash and the remaining 30% deferred in nil cost share options for three years. To ensure that management is focused on the Group's financial performance in 2022, 100% of the bonus will continue to be based on a PBTA* target range set in relation to the Group budget. The annual bonus, including the deferred shares, will be subject to malus and clawback provisions.

The targets for the forthcoming year are set in relation to the Group budget, which is considered commercially sensitive. For 2022, the bonus trigger point for the annual bonus will be 90% and the maximum trigger point will be 110% of budgeted PBTA*. Retrospective disclosure of the targets and performance against them will be disclosed in next year's remuneration report.

Long-term incentives

The committee intends to make awards to the executive directors under the 2014 LTIP in March 2022.

The awards to be granted in 2022 will be up to 150% of base salary. Two thirds of awards (100% of salary) will be based on an EPS performance target with the remaining one third of awards (50% of salary) based on the Company's TSR performance. Further details on these performance conditions are set out below.

Net shares vesting under LTIP awards granted in 2022 will be subject to a mandatory two-year holding period at the end of the vesting period. All awards are subject to malus and clawback provisions.

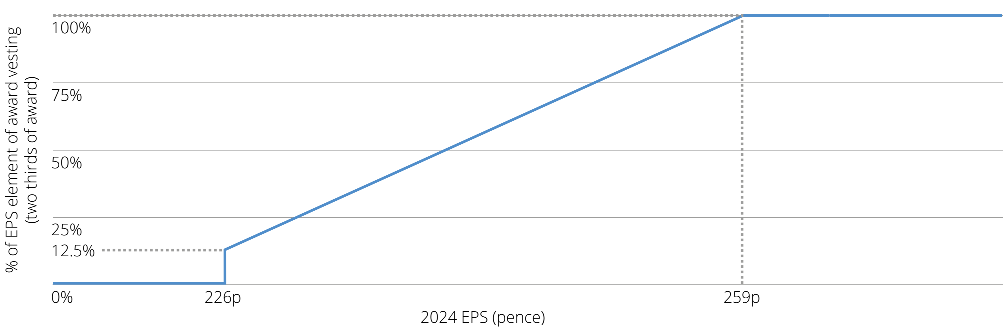
EPS performance condition (two thirds of award)

Our very strong earnings performance in 2021 followed a challenging year in 2020 which was heavily impacted by the pandemic. In order to set appropriate EPS targets for the 2022 cycle, the committee considered a number of internal and external reference points, broker forecasts for the Company and sector peers over the next two to three years, and typical growth rates in our sector. For the awards granted in 2022, EPS targets will be based on a point-to-point assessment, with a threshold target of 2024 EPS of 226p and a stretch target of 259p. The committee is satisfied this range is appropriately stretching given forecasts for the sector, and is broadly consistent with the long-term target range of 6–13% p.a. taking into account the recent volatility in EPS.

Vesting of the EPS component will be based on achievement against this range in 2024, and will also be subject to review by the remuneration committee to ensure vesting is commensurate with underlying Company performance, taking into account, for example, imposed tax changes.

The vesting range for the EPS targets is shown in the graph below:

ESP performance condition



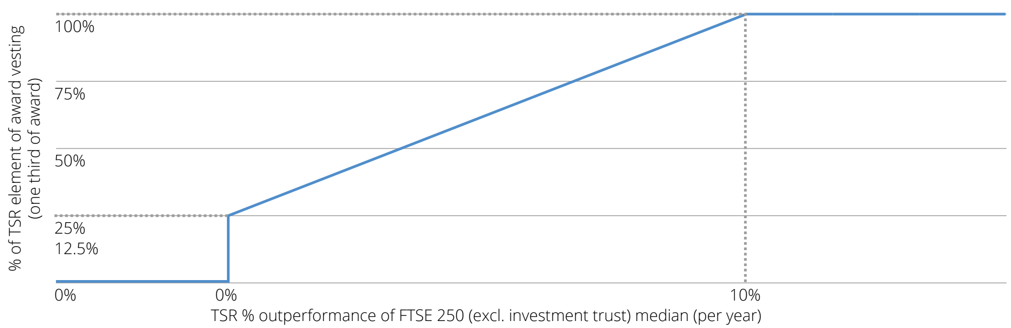
TSR performance condition (one third of award)

TSR targets for 2022 awards will be expressed as an outperformance of median as per the last three cycles.

The TSR comparator group will again be based on the constituents of the FTSE 250 Index (excluding investment trusts). Full vesting will require 10% per year outperformance of comparator median, a level which remains broadly equivalent to an upper quartile level of difficulty.

The target range for the TSR performance condition is shown in the graph below:

TSR performance condition



The committee has discretion to scale back (potentially to zero), vesting outcomes under the TSR element in the event it considers that financial performance has been unsatisfactory and/or the outcome has been distorted due to the TSR for the Company or any comparator company being considered abnormal.

Directors' remuneration report: other disclosures continued

Fees for the non-executive directors

The committee determined that the chair's fee for 2022 be increased by 3%, and the Board deemed that the base fee for non-executive directors should also be increased by 3% in line with the increase for wider employees across the Group. There will be no increases to the additional fees made in respect of committee chairmanship or for acting as the senior independent director. Accordingly, the annual fees from 1 January 2022 are as follows:

	2022 £	2021 £	Increase %
Chair	**189,110**	183,600	3%
Non-executive directors			
Base fee	**51,450**	49,932	3%
Additional fees:			
Audit committee chair	**10,000**	10,000	–
Health, safety and environment committee chair	**10,000**	10,000	–
Remuneration committee chair	**10,000**	10,000	–
Senior independent director	**10,000**	10,000	–

Non-executive directors do not receive pension contributions, private medical insurance, group income protection insurance or life assurance and do not participate in any short-term or long-term incentive schemes.

This report was approved by the Board and signed on its behalf by:

Tracey Killen
Chair of the remuneration committee
24 February 2022

Other statutory information

The directors have pleasure in submitting the Group's annual report, together with the consolidated financial statements of the Group for the year ended 31 December 2021. This year, the directors have produced the report in a digital-first format, after taking into consideration that the majority of our annual reports are viewed online and that the requests for printed copies have steadily declined to a minimal number.

The strategic report is presented on the inside front cover to page 85 (inclusive). The directors' report required under the Act comprises this report, the directors' and corporate governance report and the remuneration report, together with explanatory notes incorporated by reference.

The Board has chosen, in accordance with section 414C (11) of the Act, to include in the strategic report the following information that it considers to be of strategic importance that would otherwise be required to be disclosed in the directors' report:

- an explanation of the steps the directors have taken to foster the Company's business relationships with suppliers, customers and others;
- employment policies, employee consultation and involvement;
- disclosures concerning employment of disabled persons;
- additional details of the Group's approach to diversity and inclusion, and environmental, social and governance disclosures;
- disclosures concerning greenhouse gas emissions, energy consumption, energy efficiency action and an intensity ratio appropriate for our business;
- the likely future developments in the business of the Group;
- detail on principal risks; and
- details of research and development activities.

There were no significant events since the balance sheet date. The management report as required by the Financial Conduct Authority's (FCA's) Disclosure Guidance and Transparency Rules (Rule 4.1) comprises the strategic report which includes the principal risks to our business.

The table below shows the location in the annual report of information required to be disclosed under Rule 9.8.4 R of the Listing Rules (LR):

LR	Relevant information	Page
9.8.4 (4)	Long-term incentive schemes	152
9.8.4 (5)	Waiver of emoluments by a director	130
9.8.4 (12)	Dividend waiver by Employee Benefit Trust	157
9.8.4 (13)	Shareholder waiver of future dividends	157

Directors

Biographical details are shown earlier in the directors' and corporate governance report. The directors of the Company who served during the year are shown on pages 143 and 144 in the remuneration report. Further details of directors' contracts, remuneration and interests in shares of the Company are also given in the remuneration report.

The rules regarding the appointment and removal of directors are contained in the Company's articles of association (the 'Articles'). The Articles require each director to submit themselves for election by shareholders at the first AGM after their appointment, and for re-election every three years thereafter. Notwithstanding the provisions in the Articles, in accordance with the Code, all directors retire and, assuming they wish to continue to stand, offer themselves for election or re-election at the Company's AGM.

Annual general meeting

The AGM of the Company will be held on 5 May 2022 at 10.00am. It is intended that this will be held as a live event at the offices of Slaughter and May, One Bunhill Row, London EC1Y 8YY. The Notice of Meeting is available to view on the Company's website in the Investors section at morgansindall.com.

Powers of directors

Subject to the Articles, the Act and any directions given by the Company by special resolution, the business of the Company will be managed by the Board who may exercise all the powers of the Company, whether relating to the management of the business or not. In particular, the Board may exercise all the powers of the Company to borrow money, to mortgage or charge any of its undertakings, property, assets (present and future) and uncalled capital, to issue debentures and other securities, and to give security for any debt, liability or obligation of the Company or of any third party.

Directors' indemnities

The Articles entitle the directors of the Company to be indemnified, to the extent permitted by the Act and any other applicable legislation, out of the assets of the Company in the event that they suffer any loss or incur any liability in connection with the execution of their duties as directors. Neither the indemnity nor any applicable insurance provides cover in the event that a director (or officer or company secretary as the case may be) is proved to have acted fraudulently or dishonestly.

In addition, and in common with many other companies, the Company had during the year and continues to have in place appropriate directors' and officers' liability insurance in favour of its directors and other officers in respect of certain losses or liability to which they may be exposed due to their office. The Company has also indemnified each Board director and 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 indemnity arrangements are categorised as a qualifying third-party indemnity provisions under the Act and will continue in force for the purposes of the Act and for the benefit of directors (or officers or company secretary as the case may be) on an ongoing basis. The Company also had and continues to have in place a pension trustee liability insurance policy in favour of the trustees of The Morgan Sindall Retirement Savings Plan in respect of certain losses or liabilities to which they may be exposed due to their office. This constitutes a 'qualifying pension scheme indemnity provision' for the purposes of the Act.

Other statutory information continued

Articles of association

The Company's constitution, known as 'the articles', is essentially a contract between the Company and its shareholders, governing many aspects of the management of the Company. The articles may be amended in accordance with the provisions of the Act by way of special resolution by the Company's shareholders. The Company's articles were updated during the year to incorporate best practice, including the requirements of the new UK Corporate Governance Code, and to increase flexibility in conducting hybrid (but not exclusively electronic) shareholder meetings and they were approved by shareholders at the 2021 AGM. No changes to the articles of association are being proposed at this year's AGM.

Capital structure

During the year, 21,535 ordinary shares were allotted to satisfy amounts under the Group's Savings-Related Share Option Plan.

As at 31 December 2021, the issued share capital totalled 46,374,873 ordinary shares of 5p each. Further details of the issued share capital are shown in note 22 to the consolidated financial statements.

Power to issue and allot shares

At each AGM, the Board seeks authorisation from its shareholders to allot shares. The directors were granted authority at the AGM on 6 May 2021 to allot relevant securities up to an aggregate nominal amount of £772,625.75. That authority will apply until the conclusion of this year's AGM or close of business on 6 August 2022, whichever is the earlier, and a resolution to renew the authority will be proposed at this year's AGM, as explained further in the Notice of Meeting to shareholders accompanying this annual report.

Special resolutions will also be proposed to renew the directors' power to make non-pre-emptive issues for cash, as explained in the Notice of Meeting to the shareholders accompanying this annual report. The Board confirms that the Company has not used this authority in the last three years and there are no immediate plans to make use of this provision.

Rights and obligations attaching to shares

Subject to applicable statutes, shares may be issued with such rights and restrictions as the Company may by ordinary resolution decide or (if there is no such resolution or so far as it does not make specific provision) as the Board as defined in the Company's Articles may decide. Subject to the Articles, the Act and other shareholders' rights, unissued shares are at the disposal of the Board.

Subject to the Act, if at any time the share capital of the Company is divided into different classes of shares, the rights attached to any class of shares may be varied with the written consent of the holders of not less than 75% in nominal value of the issued shares of that class (calculated excluding any shares held as treasury shares), or with the sanction of a special resolution passed at a separate general meeting of the holders of those shares.

The rights conferred upon the holders of any shares shall not, unless otherwise expressly provided in the rights attaching to those shares, be deemed to be varied by the creation or issue of further shares ranking pari passu with them.

Voting

Subject to any other provisions of the articles, every member present in person or by proxy at a general meeting has, upon a show of hands, one vote and, upon a poll, one vote for every share held by them. In the case of joint holders of a share, the vote of the senior holder who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders and, for this purpose, seniority shall be determined by the order in which the names stand in the register of members in respect of the joint holding (the first-named being the most senior).

No member shall be entitled to vote at any general meeting in respect of any share held by them if any call or other sum then payable by them in respect of that share remains unpaid or if a member has been served with a restriction notice (as defined in the articles) after failure to provide the Company with information concerning interests in those shares required to be provided under the Act.

No person has any special rights of control over the Company's share capital and the directors are not aware of any agreements between holders of shares which may result in restrictions on voting rights.

Restriction on transfer of shares

There are no restrictions on the transfer of securities in the Company, except:

- that certain restrictions may, from time to time, be imposed by laws and regulations (for example, insider trading laws); and
- pursuant to the Listing Rules of the FCA whereby certain employees of the Company require its approval to deal in the Company's shares.

The Company is not aware of any agreements between holders of securities that may result in restrictions on the transfer of securities or voting rights.

Purchase of own shares

At the AGM on 6 May 2021, a resolution was passed giving the directors authority to make market purchases of Company shares up to 4,635,754 shares of 5p each at a maximum price based on the market price of a share at the relevant time, as set out in the resolution. No purchases of shares were made during the year pursuant to this authority. The authority expires on the date of this year's AGM or close of business on 6 August 2022, whichever is earlier. A resolution to renew this authority will be proposed at this year's AGM, as explained further in the Notice of Meeting to shareholders accompanying this annual report.

Other statutory information continued

Dividends and distributions

The Company may, by ordinary resolution, from time to time, declare dividends not exceeding the amount recommended by the Board. Subject to the Act, the Board may pay interim dividends, and also any fixed rate dividend, whenever the financial position of the Company, in the opinion of the Board, justifies its payment. An interim dividend of 30p per share was paid on 26 October 2021 and the directors recommend a final dividend of 62p, making a total for the year of 92p. Further details can be found in note 7 to the consolidated financial statements on page 190. Subject to shareholder approval at the 2022 AGM, the final dividend will be paid on 18 May 2022 to shareholders on the register at close of business on 29 April 2022.

The Board may withhold payment of all or any part of any dividends or other monies payable in respect of the Company's shares from a person with a 0.25% interest if such a person has been served with a restriction notice (as defined in the articles) after failure to provide the Company with information concerning interests in those shares required to be provided under the Act. Other than as referred to under 'Morgan Sindall Group Employee Benefit Trust' below, during the year there were no arrangements under which a shareholder has waived or agreed to waive any dividends nor any agreement by a shareholder to waive future dividends.

Morgan Sindall Group Employee Benefit Trust

Zedra Trust Company (Guernsey) Limited, as Trustee of the Trust, holds shares on trust for the benefit of our employees and former employees of the Group and their dependants that have not been exercised or vested. The voting rights in relation to these shares may be exercised by the Trustee and there are no restrictions on the exercise of the voting of, or the acceptance of any offer relating to, those shares. The terms of the Trust provide that any dividends payable on the shares held by the Trust are waived unless to the extent otherwise directed by the Company from time to time. The Trust waived its right to the 2020 final and 2021 interim dividend paid during 2021 and abstained from voting at the AGM. Details of the shares so held may be found in the consolidated financial statements on page 179.

Substantial shareholdings

As at 31 December 2021 the following information has been disclosed to the Company under the FCA's Disclosure Guidance and Transparency Rules (DTR 5), in respect of notifiable interests in the voting rights in the Company's issued share capital:

Name of holder	Total voting rights[1]	% of total voting rights[2]	Direct or indirect holding
abrdn plc	4,635,152	9.99	Indirect
Numis Nominees (Client) Limited <Morgan02> and <Morgan03>[3]	3,479,537	7.51	Direct
BlackRock, Inc	2,954,899	6.36	Indirect
Ameriprise Financial, Inc	2,627,969	5.93	Indirect
J.P. Morgan Asset Management Holdings Inc	2,310,035	5.17	Indirect

1 Total voting rights attaching to the ordinary shares of the Company at the time of disclosure to the Company.

2 Percentage of total voting rights at the date of disclosure to the Company.

3 John Morgan's and his connected person's shareholding.

No other notifications have been received between 31 December 2021 and 24 February 2022.

Related party transactions

During the year, the Board reviewed all related party transactions and, save as disclosed in note 24, there were no significant related party transactions in the year to 31 December 2021.

Change of control

The Group's banking facilities, which are described on page 39 in the financial review, require repayment in the event of a change of control. The Group's facilities for surety bonding require provision of cash collateral for outstanding bonds upon a change of control. In addition, the Company's employee share incentive schemes contain provisions whereby, upon a change of control, outstanding options and awards would vest and become exercisable by the relevant employees, subject to the rules of the relevant schemes.

There are no agreements between the Company and its directors or employees providing for compensation for loss of office or employment in the event of a takeover bid.

Financial instruments and risks

The financial risk management objectives and policies can be found in the principal risks on pages 64 and 65. Information about the use of financial instruments by the Company and its subsidiaries and details about the Group's exposure to credit, liquidity and market risks is given in note 25 to the consolidated financial statements.

Political contributions

No contributions were made to any political parties during the current or preceding year. As a precautionary measure, shareholder approval is being sought at the forthcoming AGM for the Company and its subsidiaries to make donations and/or incur expenditure, which may be construed as political by the wide definition of that term included in the relevant legislation. Further details are provided in the Notice of Meeting to shareholders accompanying this report.

Disclosure of information to the external auditor

The directors who held office at the date of approval of the directors' and corporate governance report confirm that, so far as they are each aware:

- there is no relevant audit information of which the Company's auditor is unaware; and
- each director has taken all reasonable steps that he or she ought to have taken as a director in order to ascertain any relevant audit information and to ensure that the Company's auditor is aware of such information.

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Act.

Directors' responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors are required to prepare the Group financial statements in accordance with UK adopted International Accounting Standards (UK IAS) and have elected to prepare the Parent Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 101 'Reduced Disclosure Framework'. Under company law, the directors must not approve the accounts 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 the Parent Company financial statements, the directors are required to:

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

In preparing the Group financial statements, International Accounting Standard 1 requires that directors:

- properly select and apply accounting policies;
- 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 are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Company's ability to continue as a going concern.

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 financial statements comply with the Act. They are also responsible for safeguarding the assets of the Company and therefore taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

Responsibility statement

We, the directors, confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole;
- the strategic report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- the annual report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's performance, business model and strategy.

The Directors' report was approved by the Board and signed on its behalf by:

John Morgan
Chief Executive
24 February 2022

Financial statements

Independent auditor's report

to the members of Morgan Sindall Group plc

Opinion

In our opinion:

- Morgan Sindall Group plc's ('the Group') financial statements and Parent Company financial statements (the 'financial statements') give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2021 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with UK adopted international accounting standards;
- the Parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Morgan Sindall Group plc (the 'Parent Company') and its subsidiaries (the 'Group') for the year ended 31 December 2021 which comprise:

Group	Parent Company
Consolidated statement of financial position as at 31 December 2021	Statement of financial position as at 31 December 2021
Consolidated income statement for the year then ended	Statement of changes in equity for the year then ended
Consolidated statement of comprehensive income for the year then ended	Related notes 1 to 3 to the financial statements including a summary of significant accounting policies
Consolidated statement of changes in equity for the year then ended	
Consolidated cash flow statement for the year then ended	
Related notes 1 to 26 to the financial statements, including a summary of significant accounting policies	

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and UK-adopted international accounting standards. The financial reporting framework that has been applied in the preparation of the Parent Company financial statements is applicable law and United Kingdom Accounting Standards, including FRS 101, 'Reduced Disclosure Framework', (United Kingdom Generally Accepted Accounting Practice).

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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group and Parent 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 as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Parent Company and we remain independent of the Group and the Parent Company in conducting the audit.

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

- In conjunction with our walkthrough of the Group'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 and covenant calculation which covers the period to 28 February 2023. As part of this assessment, management have modelled five downside scenarios. Scenarios one and two assume a reduction in revenues and margin respectively, in the construction businesses. Scenario three assumes a deterioration in working capital in the construction businesses and scenario four assumes project delays and cost increases in the regeneration businesses. Lastly, scenario five is a severe downside scenario and models the combined impact of scenarios one to four.
- We assessed the appropriateness of the scenarios modelled by management which included assessing how these compare with principal risks and uncertainties of the Group.
- 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 considering the forecasts on a division-by-division basis and assessing whether key factors specific to each of the divisions, 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 which included assessing the relevance to each division and how they compare with principal risks of the Group. We considered management's assessment of the impact of climate change on the Group's cash flow forecasts.
- We have considered the methodology used to prepare the forecast and covenant calculations. We also tested the clerical accuracy and logical integrity of the model used to prepare the Group's going concern assessment.
- We considered whether the Group's forecasts in the going concern assessment were consistent with other forecasts used by the Group in its accounting estimates, including the assessment of goodwill impairment.
- 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 Group utilising all liquidity and/or breaching the financial loan covenants 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 also confirmed the continued availability of credit facilities through the going concern period and reviewed their underlying terms, including covenants, by examination of executed documentation.
- We considered whether the going concern disclosures included in the annual report were appropriate and in conformity with applicable reporting standards.

Our key observations

The results from both management's evaluation and our independent sensitivity analysis and reverse stress testing indicates that in order to breach its covenants and exhaust its available funding throughout the going concern period, the Group's operating profit would need to deteriorate to a loss, which is significantly worse than the financial effect of the disruption caused by the Covid pandemic during 2020.

As at 31 December 2021, the Group has a secured order book of £8.6bn, of which £2.9bn relates to the 12 months ending 31 December 2022, and it has a net cash balance of £358.0m (which includes £55.7m that relates to the Group's share of cash held with jointly controlled operations). The Group also has substantial borrowing facilities available to it during the going concern period. The undrawn committed facilities available at 31 December 2021 amounted to £180m. These comprise a £165m facility expiring in October 2024 and a £15m facility expiring in March 2024.

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 Group and Parent Company's ability to continue as a going concern for the period to 28 February 2023.

In relation to the Group and Parent Company's reporting on how they have applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

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 Group's ability to continue as a going concern.

Overview of our audit approach

Audit scope	▪ We performed an audit of the complete financial information of three components, audit procedures on specific balances for nine components, and specified procedures on one further component. ▪ These 13 components accounted for 98% of profit before tax and 100% of revenue.
Key audit matters	▪ Contract revenue and margin recognition (including valuation of contract assets, unagreed income and contract liabilities) ▪ Recoverability and valuation of inventory balances held (Lovell Partnerships Limited only) ▪ Impairment of goodwill and investment in subsidiary undertakings (Parent Company only)
Materiality	▪ Overall Group materiality of £6m which represents 5% of profit before tax.

An overview of the scope of the Parent Company and Group audits

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each entity within the Group. Taken together, this enables us to form an opinion on the consolidated financial statements. We take into account size, risk profile, the effectiveness of Group-wide controls and changes in the business environment when assessing the level of work to be performed at each entity.

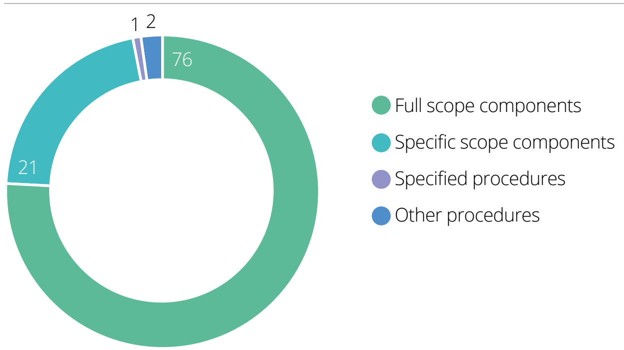
In assessing the risk of material misstatement to the Group financial statements, and to ensure we had adequate quantitative coverage of significant accounts in the financial statements, we selected 13 entities across all five divisions within the Group.

Of the 13 components selected, we performed an audit of the complete financial information of three components ('full scope components') which were selected based on their size or risk characteristics. These covered the majority of the Construction & Infrastructure, Fit Out and Partnership Housing divisions. For nine 'specific scope components', we performed audit procedures on specific accounts within that component that we considered had the potential for the greatest impact on the significant accounts in the financial statements either because of the size of these accounts or their risk profile. These included the Urban Regeneration and Property Services divisions, as well as smaller subsidiaries of the other divisions. For the remaining one component (a joint venture) we performed specified procedures over the Group's investment in this entity.

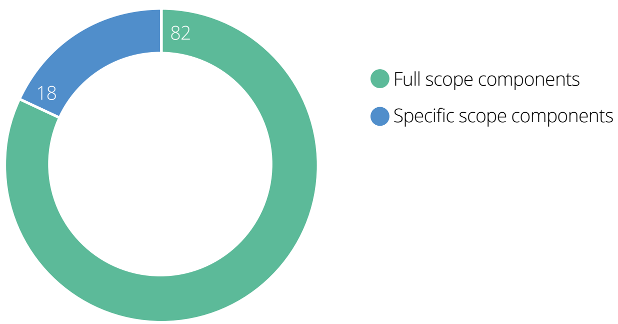
The reporting components where we performed audit procedures accounted for 98% of the Group's profit before tax and 100% of the Group's revenue. The full scope components contributed 76% of the Group's profit before tax and 82% of the Group's revenue. The specific scope components contributed 21% of the Group's profit before tax and the remaining 18% of the Group's revenue. The audit scope of these components may not have included testing of all significant accounts of the component but will have contributed to the coverage of significant accounts tested for the Group. The component for which we performed specified procedures contributed 1% of the Group's profit before tax.

Of the remaining components that together represent 2% of the Group's profit before tax, none contained individually material balances. For these components, we performed other procedures, including analytical review to respond to any potential risks of material misstatement to the Group financial statements. The charts below illustrate the coverage obtained from the work performed by our audit teams.

Profit before tax (%)



Revenue (%)



Involvement with component teams

In establishing our overall approach to the Group audit, we determined the type of work that needed to be undertaken at each of the components by us, as the primary audit engagement team, or by component auditors from other EY UK offices or global network firms operating under our instruction. Where the work was performed by teams from other EY offices, we worked closely with them and determined the appropriate level of involvement to enable us to determine that sufficient audit evidence had been obtained as a basis for our opinion on the Group as a whole.

The primary audit team visited all of the Group's five divisions over the course of the audit to discuss the audit approach with component teams and any issues arising from their work, meet with local management, and review relevant audit working papers on risk areas. The primary team also participated in interim and year-end audit close meetings for all divisions. These visits and meetings were supplemented by frequent video calls between the primary team and component teams throughout all stages of the audit, and the primary team reviewed relevant working papers and were responsible for the scope and direction of the audit process. This, together with the procedures performed at Group level, gave us appropriate evidence for our opinion on the Group financial statements.

Climate change

There has been increasing interest from stakeholders as to how climate change will impact the Group. The Group has determined that the most significant future impacts from climate change on its operations will be from severe weather events, and the carbon emissions and waste it produces. These matters are explained on pages 71 to 79 in the required Task Force for Climate-related Financial Disclosures and on page 61 in the principal risks and uncertainties, which form part of the 'other information' rather than the audited financial statements. Our procedures on these disclosures therefore consisted solely of considering whether they are materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appear to be materially misstated.

As explained in the basis of preparation section of the financial statements, governmental and societal responses to climate change risks are still developing, and are interdependent upon each other, and consequently financial statements cannot capture all possible future outcomes as these are not yet known. The degree of certainty of these changes may also mean that they cannot be taken into account when determining asset and liability valuations and the timing of future cash flows under the requirements of UK-adopted international accounting standards.

Our audit effort in considering climate change was focused on ensuring that the effects of material climate risks disclosed on pages 61 and 74 have been appropriately considered in asset values and associated disclosures where values are determined through the modelling of future cash flows which are used to assess the Group's ability to continue to operate as a going concern and, the impairment of goodwill. Details of our procedures and findings on the goodwill impairment assessment are included in our key audit matters below. We also challenged the directors' considerations of climate change in their assessment of going concern and viability and associated disclosures.

Whilst the Group has stated its commitment to achieve net zero emissions by 2030, the Group is currently unable to determine the full future economic impact on their business model, operational plans and customers to achieve this and therefore as set out above the potential impacts are not fully incorporated in these financial statements.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

Independent auditor's report continued

Risk	Our response to the risk	Key observations communicated to the audit committee
Contract revenue and margin recognition (including valuation of contract assets, unagreed income and contract liabilities) Revenue: £3,212.8m Operating profit: £129.8m Contract assets: £232.6m Contract liabilities: £78.5m *Refer to the audit committee report (page 118); accounting policies (pages 176 and 177); and notes 1 and 15 of the consolidated financial statements (pages 183, 196 and 197).* The Group recognises revenue over time in the Construction & Infrastructure, Fit Out, Property Services, Urban Regeneration and Partnership Housing (in respect of pre-let, forward-sold developments) divisions. The Group also recognises revenue under the point in time method in the Partnership Housing and Urban Regeneration divisions. There is a risk that revenue recognised over time is materially misstated as there is significant judgement involved in determining the inputs that drive contract revenue and margin recognition (e.g. forecast revenue, recoverability of unagreed income, and forecast costs to complete). Therefore these inputs could be susceptible to management bias or manipulation. There is also a risk that revenue recognised under the point-in-time method is recorded in the incorrect period either due to cut off error or management bias resulting in a material misstatement.	**Contract revenue and margin recognised over time** We worked together with our component teams to perform a risk assessment of the contract population and selected a sample of higher-risk contracts (based on value and/or complexity) across the Group, and obtained an understanding of the: (1) contract terms; (2) key operational or commercial issues; (3) judgements impacting the contract position; and (4) contract revenue and margin recognised. Factors we considered when determining higher-risk contracts to select included: (1) the size of the contract; (2) contracts with significant unagreed income amounts; (3) low margin and loss-making contracts or contracts with a significant deterioration in margin; and (4) stage of completion. Our audit approach for higher-risk contracts has been outlined below. ▪ 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 divisional management and the Group commercial director; ▪ 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; ▪ 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 requirements of IFRS 15 and the Group's accounting policies (e.g. where contracts include additional entitlements for variations and claims, both for and against the Group); ▪ Assessed the appropriateness of the accruals at year end and ensure these have been incurred and not materially overstated/understated; ▪ Challenged the level of unagreed income or contract assets and the adequacy of the evidence (e.g. future certifications and cash receipts) to assess their recognition and recoverability; ▪ Reviewed contract asset balances and challenged management on the recovery of balances at the year end which have not been provided for, including consideration of counterparty risk; ▪ 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/division 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 our audit procedures performed, we concluded that the recognition of revenue (including the valuation of contract assets, unagreed income and contract liabilities) was appropriate, and the key judgements made by management are consistent with the Group's accounting policies. The presentation and disclosure of revenue, contract assets and contract liabilities are materially correct and appropriate.

Independent auditor's report continued

Risk	Our response to the risk	Key observations communicated to the audit committee
Contract revenue and margin recognition (including valuation of contract assets, unagreed income and contract liabilities) continued	**Contract revenue and margin recognised under the point in time method** ▪ Performed walkthroughs of the revenue recognition process under the point in time method and assessed the design effectiveness of key controls; ▪ Reviewed signed contract agreements to understand the commercial terms and ensure the correct revenue recognition method is applied in line with the requirements of IFRS 15 and the Group's accounting policies; ▪ Tested a sample of transactions by agreeing to contracts, bank receipts and obtaining evidence of fulfilment of performance obligations; ▪ Performed cut-off testing to assess whether revenue recorded either side of the year end is included in the correct accounting period; and ▪ Reviewed material manual journals recorded in relation to revenue recognised under the point in time method to assess whether these have been properly authorised, are appropriately substantiated and are for a valid business purpose. We performed full and specific scope audit procedures over 100% of the Group's revenue.	
Recoverability and valuation of inventory balances held (Lovell Partnerships Limited only) Inventory in Lovell Partnerships Limited: £235.3m *Refer to the accounting policies (page 179); and note 14 of the consolidated financial statements (page 196).* Lovell Partnerships Limited works 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, design and build house contracting and planned maintenance and refurbishment. Inventory is held at the lower of cost and net realisable value. Therefore there is a high degree of management judgement required to determine the valuation of inventory pertaining to land and housing developments under construction in the Partnership Housing division.	▪ Performed procedures to assess the ownership of the inventories held (e.g. review of sale purchase agreements, and land title deeds) in order to evaluate whether Lovell Partnerships Limited has appropriate title over the inventory held; ▪ Performed a walkthrough of the impairment analysis and calculation process and evaluated how management look for indicators of inventory impairment; ▪ Reviewed a sample of planning permissions obtained or submitted as well as environmental assessment reports (where relevant) to assess their impact on the inventory on hand at year end; ▪ Assessed the nature of costs capitalised in the year end inventory balance by vouching a sample of these back to supporting documentary evidence, ensuring these meet the criteria for capitalisation and have been charged to the correct project; ▪ Challenged the costs to complete by agreeing a sample of items to supporting documentation (e.g. subcontractor quotes, actual invoices issued, contracts executed, management reports) and through enquiry of the division's commercial team; ▪ Recalculated the profit recognised for the year based on forecast revenue and costs; ▪ Compared the forecast sale prices and price per sq ft of the unsold units in management's forecast to the range of prices achieved on the units completed and exchanged, or compared to prices to independent sources; and ▪ Inspected site plans and reviewed a sample of post year-end sales (where appropriate) to evaluate management's forecast sales prices.	Based on our audit procedures, we have concluded that the inventory balances are not materially misstated.

Independent auditor's report continued

<table>
<tr><th>Risk</th><th>Our response to the risk</th><th>Key observations communicated to the audit committee</th></tr>
<tr><td>Impairment of goodwill and investment in subsidiary undertakings (Parent only)
Goodwill: £217.7m

Parent Company's investment in subsidiary undertakings: £459.6m

Refer to the audit committee report (page 118); accounting policies (pages 178 and 179); note 9 of the consolidated financial statements (page 191) and note 2 of the Company financial statements (page 209).

Intangible assets with an indefinite useful life must be evaluated for impairment annually, or whenever indicators of impairment are noted per IAS 36.

Due to the degree of estimation involved in calculating the expected future cash flows from Cash Generating Units (CGUs) and determining the appropriate long-term growth rates and discount rates specific to each CGU, we have identified a significant risk regarding the assessment of any impairment against the goodwill carrying values, as well as the identification of any indicators of impairment.

There is also a risk that the recoverable amount of the investment in subsidiary undertakings may be less than the investment balance on the Parent Company's statement of financial position.</td><td>▪ Performed a walkthrough of the impairment analysis and calculation process and evaluated the identification of CGUs performed by management;
▪ Assessed and challenged the key inputs of the forecast cash flows at the CGU level. As part of these procedures we:
– challenged the discount rate used by obtaining the underlying data used in the calculation and substantiating this against reputable independent assessments with the support of our EY valuation specialists;
– validated the growth rates assumed by comparing them to economic and industry forecasts and using the support of our EY valuation specialists, where required; and
– challenged management on the achievability of the cash flow forecasts and assess the projected financial information against results achieved to date and other market data to assess the robustness of management's forecasting process. This included considering the impact of climate change on future cash flows.
▪ Analysed the historical forecasting accuracy (budgets to actual results) to determine whether forecast cash flows are reliable based on past experience especially factoring in any anomalies (e.g. any ongoing impact of Covid);
▪ Understood the commercial challenges for each CGU (e.g. any ongoing impact of Covid, project-specific delays or industry-specific impacts) and challenged/evaluated how these have been incorporated into management's assessment;
▪ Performed sensitivity analysis by changing key assumptions in management's model to see the impact on the headroom between carrying value and fair value (including combining the effects of different sensitivities);
▪ Assessed the appropriateness of the net asset values and component specific cash flows for each of the investment in subsidiary undertakings held by the Parent Company, factoring in any audit adjustments or appropriate sensitivities to conclude on the available headroom;
▪ Performed a comparison between the carrying value of the CGUs against the value of these CGU investments on the Parent Company's statement of financial position. We also considered the carrying value of the CGUs in the context of the market capitalisation of the Group; and
▪ Considered the appropriateness of the related disclosures, especially with regard to any impairment recognised (if the carrying value of CGU exceeds the value-in-use) or the justification of why the value of goodwill exceeds the market capitalisation of the Group.</td><td>Based on our audit procedures, we have concluded that the goodwill and investment in subsidiary undertakings are not impaired. The disclosures relating to goodwill are appropriate.</td></tr>
</table>

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Group to be £6m, which is 5% of profit before tax. We believe that profit before tax provides us with an appropriate basis for materiality and is the most relevant measure for stakeholders as it is a focus of both management and investors.

We determined materiality for the Parent Company to be £3m, which is 2% of equity.

During the course of our audit, we reassessed initial materiality and found no reason to change from our original assessment at planning.

Performance materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgement was that performance materiality was 50% of our planning materiality, namely £3m. We have set performance materiality at this percentage due to this being our first year of auditing the Group.

Audit work at component locations for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of total performance materiality. The performance materiality set for each component is based on the relative scale and risk of the component to the Group as a whole and our assessment of the risk of misstatement at that component. In the current year, the range of performance materiality allocated to components was £0.6m to £1.8m.

Reporting threshold

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the audit committee that we would report to them all uncorrected audit differences in excess of £0.3m, which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Other information

The other information comprises the information included in the annual report set out on pages 1 to 158, 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 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 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, the part of the directors' remuneration report to be audited has been properly prepared in accordance with 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 Group and the Parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the 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 by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements and the part of the directors' remuneration report to be audited 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.

Corporate governance statement

We have reviewed the directors' statement in relation to going concern, longer-term viability and that part of the corporate governance statement relating to the Group and Company's compliance with the provisions of the UK Corporate Governance Code specified for our review by the Listing Rules.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement is materially consistent with the financial statements or our knowledge obtained during the audit:

- directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified set out on page 83;
- directors' explanation as to its assessment of the Company's prospects, the period this assessment covers and why the period is appropriate set out on pages 83 to 85;
- director's statement on whether it has a reasonable expectation that the Group will be able to continue in operation and meets its liabilities set out on page 83;
- directors' statement on fair, balanced and understandable set out on page 158;
- Board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on pages 58 and 69;
- the section of the annual report that describes the review of effectiveness of risk management and internal control systems set out on pages 119 to 122; and
- the section describing the work of the audit committee set out on page 115 to 122.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 158, 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 Group and Parent 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 Group or the Parent 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 Company and management.

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Group and determined that the most significant are those that relate to the reporting framework (UK-adopted International Accounting Standards, the Companies Act 2006 and the UK Corporate Governance Code) and the relevant tax compliance regulations in the UK.
- We understood how Morgan Sindall Group plc is complying with those frameworks by making enquiries of management at Group level and within the divisions, 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 audit committee, noting the strong emphasis of transparency and honesty in the Group's culture and the levels of oversight the Board and Group management have over each division despite the decentralised operating model of the Group.
- We assessed the susceptibility of the Group's financial statements to material misstatement, including how fraud might occur by meeting with management in each division 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 Group has established to address risks identified, or that otherwise prevent, deter and detect fraud; and how senior management at Group level and within the divisions 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 in the key audit matters section of this report and were designed to provide reasonable assurance that the financial statements were free from fraud and error.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved journal entry testing at each component in the scope of our Group audit with a focus on journals indicating unusual transactions based on our understanding of the business, enquiries of Group and divisional management, and focused testing as referred to in the key audit matters section above. In addition, we completed procedures to conclude on the compliance of the disclosures in the annual report and accounts with the requirements of the relevant accounting standards, UK legislation and the UK Corporate Governance Code.
- A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Other matters we are required to address

- Following the recommendation from the audit committee, we were appointed by the Company on 6 May 2021 to audit the financial statements for the year ending 31 December 2021 and subsequent financial periods.
- The period of total uninterrupted engagement including previous renewals and reappointments is one year, covering the year ended 31 December 2021.
- The audit opinion is consistent with the additional report to the audit committee.

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.

Peter McIver (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
24 February 2022

Consolidated income statement

for the year ended 31 December 2021

	Notes	2021 £m	2020 £m
Revenue	1	**3,212.8**	3,034.0
Cost of sales		**(2,830.0)**	(2,718.2)
Gross profit		**382.8**	315.8
Administrative expenses		**(258.3)**	(252.3)
Share of net profit of joint ventures	12	**5.4**	2.3
Other operating income		**1.4**	2.7
Operating profit before amortisation of intangible assets		**131.3**	68.5
Amortisation of intangible assets	9	**(1.5)**	(3.1)
Operating profit		**129.8**	65.4
Finance income	5	**0.6**	0.9
Finance expense	5	**(4.2)**	(5.5)
Profit before tax		**126.2**	60.8
Tax	6	**(28.3)**	(15.4)
Profit for the year	3	**97.9**	45.4
Attributable to:			
Owners of the Company		**97.9**	45.4
Earnings per share			
Basic	8	**212.4p**	99.8p
Diluted	8	**204.4p**	98.1p

There were no discontinued operations in either the current or comparative years.

Consolidated statement of comprehensive income

for the year ended 31 December 2021

	Notes	2021 £m	2020 £m
Profit for the year		**97.9**	45.4
Items that may be reclassified subsequently to profit or loss:			
Foreign exchange movement on translation of overseas operations		**–**	(0.2)
(Loss)/gain arising during the year on net investment in foreign operations		**(0.2)**	0.2
		(0.2)	–
Other comprehensive (expense)/income		**(0.2)**	–
Total comprehensive income		**97.7**	45.4
Attributable to:			
Owners of the Company		**97.7**	45.4

Consolidated statement of financial position

at 31 December 2021

	Notes	2021 £m	2020 re-stated[1] £m	01 January 2020 re-stated[1] £m
Assets				
Goodwill and other intangible assets	9	**221.9**	222.1	223.6
Property, plant and equipment	10	**66.6**	65.8	79.5
Investment property	11	**0.8**	2.7	5.1
Investments in joint ventures	12	**94.1**	91.4	84.3
Other investments		**–**	–	1.3
Shared equity loan receivables	13	**–**	5.5	8.4
Non-current assets		**383.4**	387.5	402.2
Inventories	14	**288.5**	294.2	338.1
Contract assets	15	**232.6**	171.8	186.8
Trade and other receivables	16	**328.3**	234.6	275.7
Current tax assets		**4.7**	–	–
Shared equity loan receivables	13	**1.5**	–	–
Cash and cash equivalents	25	**468.6**	400.5	251.2
Current assets		**1,324.2**	1,101.1	1,051.8
Total assets		**1,707.6**	1,488.6	1,454.0
Liabilities				
Contract liabilities	15	**(78.5)**	(55.6)	(56.2)
Trade and other payables	17	**(891.4)**	(847.9)	(842.3)
Current tax liabilities		**–**	(1.0)	(9.6)
Lease liabilities	20	**(13.4)**	(12.1)	(12.8)
Borrowings	25	**(110.2)**	(67.3)	(58.5)
Provisions	19	**(33.4)**	(4.9)	(7.1)
Current liabilities		**(1,126.9)**	(988.8)	(986.5)
Net current assets		**197.3**	112.3	65.3
Trade and other payables	17	**(32.6)**	(1.7)	(3.8)
Lease liabilities	20	**(39.4)**	(38.9)	(46.9)
Borrowings	25	**(0.4)**	(0.4)	–
Retirement benefit obligation	18	**(0.2)**	(0.2)	–
Deferred tax liabilities	6	**(10.0)**	(12.5)	(8.1)
Provisions	19	**(23.9)**	(26.0)	(21.8)
Non-current liabilities		**(106.5)**	(79.7)	(80.6)
Total liabilities		**(1,233.4)**	(1,068.5)	(1,067.1)
Net assets		**474.2**	420.1	386.9
Equity				
Share capital	22	**2.3**	2.3	2.3
Share premium account		**45.8**	45.5	38.5
Other reserves		**(1.0)**	(0.8)	(0.8)
Retained earnings		**427.1**	373.1	346.9
Equity attributable to owners of the Company		**474.2**	420.1	386.9
Total equity		**474.2**	420.1	386.9

1 The prior year balances for trade and other payables and retained earnings have been re-stated as described in the basis of preparation, along with their respective totals.

The consolidated financial statements of Morgan Sindall Group plc (Company number: 00521970) were approved by the Board on 24 February 2022 and signed on its behalf by:

John Morgan
Chief Executive

Steve Crummett
Finance Director

Consolidated cash flow statement

for the year ended 31 December 2021

	Notes	2021 £m	2020 £m
Operating activities			
Operating profit		**129.8**	65.4
Adjusted for:			
Amortisation of intangible assets	9	**1.5**	3.1
Share of net profit of equity accounted joint ventures	12	**(5.4)**	(2.3)
Depreciation	10	**20.5**	22.0
Share option expense/(credit)	23	**12.1**	(0.1)
Gain on disposal of interests in joint ventures	3	**–**	(2.7)
Gain on disposal of property, plant and equipment		**(0.5)**	(1.0)
Revaluation of investment properties	11	**–**	0.6
Movement in fair value of shared equity loan receivables	13	**1.9**	0.5
Impairment of investments	3	**1.2**	3.3
Proceeds on disposal of investment properties	11	**1.9**	1.8
Repayment of shared equity loan receivables	13	**2.1**	2.4
Increase in provisions	19	**26.4**	2.0
Operating cash inflow before movements in working capital		**191.5**	95.0
Decrease in inventories		**5.7**	43.9
(Increase)/decrease in contract assets		**(60.8)**	15.0
(Increase)/decrease in receivables		**(94.0)**	41.6
Increase/(decrease) in contract liabilities		**22.9**	(0.6)
Increase in payables		**73.5**	2.7
Movements in working capital		**(52.7)**	102.6
Cash inflow from operations		**138.8**	197.6
Income taxes paid		**(28.3)**	(19.9)
Net cash inflow from operating activities		**110.5**	177.7

	Notes	2021 £m	2020 £m
Investing activities			
Interest received		**0.6**	1.2
Proceeds on disposal of property, plant and equipment		**1.4**	1.4
Purchases of property, plant and equipment	10	**(6.7)**	(4.2)
Purchases of intangible fixed assets	9	**(1.3)**	(1.6)
Net decrease/(increase) in loans to joint ventures	12	**1.5**	(12.9)
Proceeds on disposal of interests in joint ventures	12	**–**	8.3
Proceeds from the disposal of other investments		**–**	0.5
Acquisition of subsidiaries, joint ventures and other businesses		**–**	(0.1)
Net cash outflow from investing activities		**(4.5)**	(7.4)
Financing activities			
Interest paid		**(1.7)**	(3.8)
Dividends paid	7	**(32.3)**	(9.6)
Repayments of lease liabilities	20	**(15.2)**	(15.1)
Proceeds from borrowings		**–**	180.4
Repayment of borrowings		**–**	(180.0)
Proceeds on issue of share capital	22	**0.3**	7.0
Payments by the Trust to acquire shares in the Company		**(33.6)**	(9.6)
Proceeds on exercise of share options		**1.7**	0.9
Net cash outflow from financing activities		**(80.8)**	(29.8)
Net increase in cash and cash equivalents		**25.2**	140.5
Cash and cash equivalents at the beginning of the year		**333.2**	192.7
Cash and cash equivalents at the end of the year	25	**358.4**	333.2

Cash and cash equivalents presented in the consolidated cash flow statement include bank overdrafts. See note 25 for a reconciliation to cash and cash equivalents presented in the consolidated statement of financial position.

Consolidated statement of changes in equity

for the year ended 31 December 2021

	Notes	Share capital £m	Share premium account £m	Other reserves £m	Retained earnings £m	Total equity £m
1 January 2020		2.3	38.5	(0.8)	356.8	396.8
Adjustment for correction of an historic error (see basis of preparation)		–	–	–	(9.9)	(9.9)
1 January 2020 (re-stated)		2.3	38.5	(0.8)	346.9	386.9
Profit for the year		–	–	–	45.4	45.4
Total comprehensive income		–	–	–	45.4	45.4
Share option credit	23	–	–	–	(0.1)	(0.1)
Tax relating to share options	6	–	–	–	(0.8)	(0.8)
Issue of shares at a premium	22	–	7.0	–	–	7.0
Purchase of shares in the Company by the Trust		–	–	–	(9.6)	(9.6)
Exercise of share options		–	–	–	0.9	0.9
Dividends paid	7	–	–	–	(9.6)	(9.6)
1 January 2021		**2.3**	**45.5**	**(0.8)**	**373.1**	**420.1**
Profit for the year		–	–	–	97.9	97.9
Other comprehensive expense		–	–	(0.2)	–	(0.2)
Total comprehensive (expense)/ income		–	–	(0.2)	97.9	97.7
Share option expense	23	–	–	–	12.1	12.1
Tax relating to share options	6	–	–	–	8.2	8.2
Issue of shares at a premium	22	–	0.3	–	–	0.3
Purchase of shares in the Company by the Trust		–	–	–	(33.6)	(33.6)
Exercise of share options		–	–	–	1.7	1.7
Dividends paid	7	–	–	–	(32.3)	(32.3)
31 December 2021		**2.3**	**45.8**	**(1.0)**	**427.1**	**474.2**

Other reserves

Other reserves include:

- Capital redemption reserve of £0.6m (2020: £0.6m) which was created on the redemption of preference shares in 2003.
- Hedging reserve of (£0.8m) (2020: (£0.6m)) arising under cash flow hedge accounting and net investments in foreign operations. Movements on the effective portion of hedges are recognised through the hedging reserve, while any ineffectiveness is taken to the income statement.
- Translation reserve of (£0.8m) (2020: (£0.8m)) arising on the translation of overseas operations into the Group's functional currency.

Retained earnings

Retained earnings include shares in Morgan Sindall Group plc purchased in the market and held by the Morgan Sindall Employee Benefit Trust ('the Trust') to satisfy options under the Company's share incentive schemes. The number of shares held by the Trust at 31 December 2021 was 1,051,664 (2020: 278,383) with a cost of £25.3m (2020: £5.3m). All of the shares held by the Trust were unallocated at the year end and dividends on these shares have been waived. Based on the Company's share price at 31 December 2021 of £25.20 (2020: £15.32), the market value of the shares was £26.5m (2020: £4.3m).

Significant accounting policies

for the year ended 31 December 2021

Reporting entity

Morgan Sindall Group plc (the 'Group' or 'Company') is domiciled and incorporated in the United Kingdom. The nature of the Group's operations and its principal activities are set out in note 2 and in the strategic report on page 2.

Basis of preparation

(a) Statement of compliance

The consolidated financial statements have been prepared on the going concern basis as set out on page 83 and in accordance with UK adopted International Accounting Standards (UK IAS).

(b) Basis of accounting

The consolidated financial statements have been prepared under the historical cost convention, except where otherwise indicated.

(c) Going concern

In determining the appropriate basis of preparation of the financial statements, the directors are required to consider whether the Group and 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 28 February 2023.

As at 31 December 2021, the Group held cash of £468.6m, including £55.7m which is the Group's share of cash held within jointly controlled operations, and total loans and borrowings of £110.6m, including £110.2m of overdrafts repayable on demand (together net cash of £358.0m). Should further funding be required, the Group has significant committed financial resources available including unutilised bank facilities of £180m, of which £165m matures in October 2024 and £15m matures in March 2024. The Group's secured order book at 31 December 2021 is £8.6bn (2020: £8.3bn), of which £2.9bn relates to the 12 months ended 31 December 2022.

The Group has continued to operate safely during the Covid pandemic under the site operating procedures agreed by the Construction Leadership Council and following the advice from the UK government, the devolved administrations and public health authorities. The Group has operated profitably with positive operating cash flows for the year ended 31 December 2021 while under these restrictions and, while there continues to be uncertainty over any further restrictions due to the pandemic, the Group expects the business to remain resilient under any guidelines issued for the foreseeable future until the end of the pandemic.

The directors have reviewed the Group's forecasts and projections for the going concern period, including sensitivity analysis (detailed on pages 84 and 85, including reduced revenues, margins, a working capital deterioration and project delays) to assess the Group's resilience to the potential financial impact on the Group of any plausible losses of revenue or operating profit which could arise from one of the principal risks to the business occurring (these risks are discussed on pages 58 to 68 and include the directors' assessment of the impact of climate change). The analysis also includes a reasonable worst-case scenario in which the Group's principal risks manifest in aggregate to a severe but plausible level involving the aggregation of the impacts of a number of these risks. The modelling showed that the Group would remain profitable throughout the going concern period and there is considerable headroom above lending facilities such that there would be no expected requirement for the Group to utilise the bank facility, which underpins the going concern assumption on which these financial statements have been prepared. As part of the sensitivity analysis, the directors also modelled a scenario that stress tests the Group's forecasts and projections, to determine the scenario in which the headroom above the committed bank facility would be exceeded. This model showed that the Group's operating profit would need to deteriorate substantially for the headroom to exceed the committed bank facility. The directors consider there is no plausible scenario where cash inflows would deteriorate this significantly. However, as part of their analysis the Board also considered further mitigating actions at their discretion, such as a reduction in investments in working capital, to improve the position identified by the reasonable worst-case scenario. In all scenarios, including the reasonable worst case, the Group is able to comply with its financial covenants, operate within its current facilities, and meet its liabilities as they fall due.

Accordingly, the directors consider there to be no material uncertainties that may cast significant doubt on the Group's ability to continue to operate as a going concern. They have formed a judgement that there is a reasonable expectation that the Group and Company have adequate resources to continue in operational existence for the going concern period. For this reason, they continue to adopt the going concern basis in the preparation of these financial statements. The period from the date of signing of these financial statements to 28 February 2023 has been assessed following consideration of the budgeting cycles and typical contract lengths undertaken across the Group.

(d) Functional and presentation currency

These consolidated financial statements are presented in pounds sterling which is the Group's presentational currency and the Company's functional currency. All financial information, unless otherwise stated, has been rounded to the nearest £0.1m.

(e) Correction of an historic error

On 27 July 2007 the Group acquired Amec Developments Limited and certain assets and businesses carried on by Amec Investments Limited and the assets, liabilities and contracts relating to the Design and Project Services (DPS) division of Amec plc, save for certain excluded assets and liabilities (together 'Amec').

Significant accounting policies continued

A difference has been identified relating to the acquired business of Amec. This error is an historic unsubstantiated asset of £9.9m that has continued to be recorded on the consolidated statement of financial position in accrued expenses within trade and other payables. Therefore, the error has been corrected by restating each of the affected financial statement line items for the prior periods, as follows:

Impact on equity ((decrease) in equity)

	31 December 2020 £m	1 January 2020 £m
Trade and other payables	9.9	9.9
Total liabilities	**9.9**	**9.9**
Net impact on equity	**(9.9)**	**(9.9)**

The change has no impact on the consolidated income statement, consolidated statement of comprehensive income, basic and diluted earnings per share or the Group's operating, investing and financing cash flows for each period presented. In accordance with IAS 1, a restated balance sheet at 1 January 2020 has been presented.

(f) Climate change risk

While the Group is committed to achieving its net zero emissions target by 2030, the governmental and societal responses to climate change risks are still developing and therefore the Group is currently unable to determine the full future economic impact of climate change risks on their business model, to achieve this. As such, the potential impacts of climate change risk are not fully incorporated in these financial statements.

(g) Adoption of new and amended standards and interpretations

(i) New and amended accounting standards adopted by the Group

During the year, the Group has adopted the following new and amended 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'

(ii) New and amended accounting standards and interpretations which were in issue but were not yet effective and have not been adopted early by the Group

At the date of the financial statements, the Group 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 a 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'
- Amendments to IAS 12 'Income Taxes – Deferred Tax related to Assets and Liabilities arising from a Single Transaction'

The Group 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 consolidated financial statements.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and the entities controlled by the Company, together with the Group's share of the results of joint ventures made up to 31 December each year. Control is achieved when the Company has (i) the power over the investee; (ii) is exposed, or has rights, to variable returns from its involvement with the investee; and (iii) has the ability to use its power to affect its returns. The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above. Business combinations are accounted for using the acquisition method.

Significant accounting policies continued

(a) Subsidiaries

Subsidiaries are entities that are controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements of the Group from the date that control is obtained to the date that control ceases. The accounting policies of new subsidiaries are changed where necessary to align them with those of the Group.

If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

(b) 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 rights to the net assets of the joint venture and joint control over strategic, financial and operating decisions. The results, assets and liabilities of jointly controlled entities are incorporated in the financial statements using the equity method of accounting.

Goodwill relating to a joint venture which is acquired directly is included in the carrying amount of the investment and is not amortised. After application of the equity method, the Group's investments in joint ventures are reviewed to determine whether any additional impairment loss in relation to the net investment in the joint venture is required, and if so it is written off in the period in which those circumstances are identified. When there is a change recognised directly in the equity of the joint venture, the Group recognises its share of any change and discloses this, where applicable, in the statement of comprehensive income.

Where the Group's share of losses exceeds its equity accounted investment in a joint venture, the carrying amount of the equity interest is reduced to nil and the recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations. Appropriate adjustment is made to the results of joint ventures where material differences exist between a joint venture's accounting policies and those of the Group.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

(ii) Joint operations

Construction contracts carried out as a joint arrangement without the establishment of a legal entity are joint operations. The Group's share of the results and net assets of these joint operations are included under each relevant heading in the income statement and the statement of financial position.

(c) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expense arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity accounted investments are eliminated to the extent of the Group's interest in that investment. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Revenue and margin recognition

Revenue and margin are recognised as follows:

(a) Construction and infrastructure contracts

A significant portion of the Group'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 more than 10 years.

The majority of contracts are considered to contain only one performance obligation for the purposes of recognising revenue. While 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. For cost reimbursable infrastructure services contracts progress is measured based on the costs incurred to date as a proportion of the estimated total cost and an assessment of the final contract price payable.

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 while anticipated gain share and performance bonuses are only recognised at the point that they are agreed by the customer.

Significant accounting policies continued

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 corresponding stage of completion. Where a contract is forecast to be loss-making, the full loss is recognised immediately in the income statement.

(b) Service contracts

Service contracts include design, maintenance and management services. Contracts are typically satisfied over time and revenue is measured through an assessment of time incurred and materials utilised as a proportion of the total expected or percentage of completion depending upon the nature of the service.

(c) Sale of land and development properties

The Group derives a significant portion of revenue from the sale of land, and the development and sale of residential and commercial 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 Group 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 Group 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 a construction contract in accordance with paragraph (a) above.

Revenue from the sale of land, residential and commercial 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 12 months. The transaction price is therefore not adjusted for the effects of a significant financing component. The Group no longer utilises shared equity loan schemes for the sale of residential properties.

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.

(d) Contract balances

Contract assets

Contract assets primarily relate to the Group'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.

Contract liabilities

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. Contract liabilities are recognised as revenue when performance obligation to the customer has been satisfied.

(e) 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.

(f) Government grants

Funding received in respect of developer grants, where funding is awarded to encourage the building and renovation of affordable housing, is recognised as revenue on a stage of completion basis over the life of the project to which the funding relates.

Funding received to support the construction of housing where current market prices would otherwise make a scheme financially unviable is recognised as revenue on a legal completion basis when the properties to which it relates are sold.

Government grants are initially recognised as deferred income at fair value when there is reasonable assurance that the Group will comply with the conditions attached and the grants will be received.

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 Group's expectations of the likelihood of lease extension or break options being exercised. In calculating the present value of lease payments, the Group 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.

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 Group 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 statement of financial position and depreciated in accordance with the Group'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.

Finance income and expense

Finance income and expense is recognised using the effective interest method.

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 Group'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.

Current tax relating to items recognised directly in equity is recognised in equity and not in the statement of profit or loss.

Deferred tax is recognised using the liability 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 profit, 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 reporting 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 there is a legally enforceable right to offset current tax assets and liabilities.

Goodwill and other intangible assets

Goodwill arises on business combinations and represents the excess of the cost of an acquisition over the Group's share of the identifiable net assets of the acquiree at the acquisition date. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred and equity interests issued by the Group in exchange for control of the acquiree. Consideration transferred also includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition related costs are expensed in administrative expenses as incurred. All identifiable assets and liabilities acquired and contingent liabilities assumed are initially measured at their fair values at the acquisition date.

Where the cost is less than the Group's share of the identifiable net assets, the difference is immediately 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.

Significant accounting policies continued

Other intangible assets identified on acquisition by the Group that have finite useful lives are recognised at fair value and measured at cost less accumulated amortisation and impairment losses. Those that are acquired separately, such as software, are recognised at cost less accumulated amortisation and impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. The estimated useful lives for the Group's finite life intangible assets are three years.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any recognised impairment loss. Depreciation is charged over their estimated useful lives using the straight-line method on the following basis:

▪ freehold land	not depreciated
▪ plant and equipment	between 8.3% and 33% per year
▪ fixtures and fittings	over the period of the lease
▪ Right-of-use assets	over the period of the lease

Residual values of property, plant and equipment are reviewed and updated annually.

Gains and losses on disposal are determined by comparing the proceeds from disposal against the carrying amount and are recognised in the income statement.

Investment property

Investment property, which is property held to earn rentals and/or capital appreciation is stated at its fair value at the reporting date. Gains or losses arising from changes in the fair value of investment property are included in the income statement for the period in which they arise.

Shared equity loan receivables

The Group has granted loans under shared equity home ownership schemes allowing qualifying homebuyers 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 Group 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 FVTPL under IFRS 9. Fair value movements are recognised in operating profit and the resulting financial asset is presented as a non-current receivable. Fair value movements include accreted interest. There have been no transfers between categories in the fair value hierarchy in the current and preceding year.

Inventories

Inventories are stated at the lower of cost and net realisable value. The cost of work in progress comprises raw materials, direct labour, other direct costs and related overheads. Net realisable value is the estimated selling price less applicable costs.

Impairment of non-financial assets

The Group assesses at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. When the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

Further disclosures relating to the impairment of non-financial assets are provided in note 9 - goodwill and other intangible assets.

Trade receivables

Trade receivables are initially recognised at fair value and are subsequently measured at amortised cost using the effective interest rate method with an appropriate allowance for estimated irrecoverable amounts recognised in the income statement.

Cash and cash equivalents

Cash and cash equivalents can include cash in hand, demand deposits and other short-term, highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. The carrying amount of these assets approximates to their fair value.

Bank borrowings are generally considered to be financing activities. However, bank overdrafts which are repayable on demand form an integral part of an entity's cash management. In these circumstances, bank overdrafts are included as a component of cash and cash equivalents for the purpose of presentation in the consolidated cash flow statement. A characteristic of such banking arrangements is that the bank balance often fluctuates from being positive to overdrawn.

Trade payables

Trade payables are recognised initially at fair value and are subsequently measured at amortised cost using the effective interest rate method.

Retirement benefit schemes

(a) Defined contribution plan

A defined contribution plan is a post-retirement benefit plan under which the Group pays fixed contributions to a separate entity and has no legal or constructive obligation to pay further amounts. The Group recognises payments to defined contribution pension plans as staff costs in the income statement as and when they fall due. Prepaid contributions are recognised as an asset to the extent that a cash refund or reduction on future payments is available.

(b) Defined benefit plan

A defined benefit plan is any post-retirement plan other than a defined contribution plan. For defined benefit retirement benefit schemes, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at the end of each reporting period. Remeasurement comprising actuarial gains and losses, the effect of the asset ceiling (if applicable) and the return on scheme assets (excluding interest) are recognised immediately in the statement of financial position with a charge or credit to the statement of comprehensive income in the period in which they occur. Remeasurement recorded in the statement of comprehensive income is not recycled. Past service cost is recognised in profit or loss when the plan amendment or curtailment occurs, or when the Group recognises related restructuring costs or termination benefits, if earlier. Gains or losses on settlement of a defined benefit plan are recognised when the settlement occurs. Net interest is calculated by applying a discount rate to the net defined benefit liability or asset. Defined benefit costs are split into three categories (i) service costs, which includes current service cost, past service cost and gains and losses on curtailments and settlements; (ii) net interest expense or income; and (iii) remeasurements.

The Group presents service costs within cost of sales and administrative expenses in its consolidated income statement. Net interest expense or income is recognised within finance costs.

The retirement benefit obligation recognised in the consolidated statement of financial position represents the deficit or surplus in the Group's defined benefit schemes. Any surplus resulting from this calculation is limited to the present value of any economic benefits available in the form of refunds from the schemes or reductions in future contributions to the schemes.

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation and the amount of the obligation can be estimated reliably. Provisions are recognised for events covered by the Group's captive or self-insurance arrangements, legal claims and restructuring.

When the Group expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the statement of profit or loss net of any reimbursement where the reimbursement has met the virtually certain recognition criteria.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Impairment of financial assets

The Group always recognises lifetime expected credit losses for trade receivables, contract assets and loans to joint ventures. The expected credit losses on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

Share-based payments

Equity-settled share-based payments to employees are measured at the fair value of the equity instruments at the grant date. The fair value is expensed in employee benefits expenses on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest.

At each reporting date, the Group revises its estimate of the number of equity instruments expected to vest as a result of the effect of non-market-based vesting conditions. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to equity reserves.

No expense is recognised for awards that do not ultimately vest because non-market performance and/or service conditions have not been met. Where awards include a market or non-vesting condition, the transactions are treated as vested irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share (further details are given in note 23).

Significant accounting policies continued

Derivative financial instruments and hedge accounting

Derivative financial instruments may be used in joint ventures to hedge long-term floating interest rate and Retail Prices Index (RPI) exposures and in Group companies to manage their exposure to foreign exchange rate risk.

- Interest rate swaps, RPI swaps and foreign exchange forward contracts are stated in the statement of financial position at fair value. At the inception of the hedge relationship, the entity documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instruments that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

Where financial instruments are designated as cash flow hedges and are deemed to be effective, gains and losses on remeasurement relating to the effective portion are recognised in equity and gains and losses on the ineffective portion are recognised in the income statement.

Net investment hedges may be used to hedge exposure on translation of net investments in foreign operations. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in other comprehensive income; the gain or loss relating to the ineffective portion is recognised immediately in the income statement. In the event of disposal of a foreign operation, the gains and losses accumulated in other comprehensive income are recognised in the income statement.

There have been no transfers between categories in the fair value hierarchy in the current and preceding year.

Critical accounting judgements and estimates

for the year ended 31 December 2021

The preparation of financial statements under IFRS 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 Group's accounting policies

The following are the critical judgements and estimates that the directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the financial statements:

- **Revenue recognition – mixed use schemes (judgement)**

The Group 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 (recognised over time) or upon legal completion (recognised at a point in time). A detailed assessment is performed of the contractual agreements with the customer as well as the substance of the transaction to determine performance obligations have been satisfied. 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 Group's construction contracts, the Group has to estimate the total costs to deliver the contract as well as the final contract value. The Group 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 Group 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 testing of goodwill (estimate)**

The assessment of whether any impairment of goodwill is required requires an estimation of the value in use of the Cash Generating Units (CGUs) to which goodwill has been allocated. The value in use calculation requires an estimate of the future cash flows expected from these CGUs, including the anticipated growth rate of revenue and costs as well as resulting operating margin and requires the determination of a suitable discount rate to calculate the present value of the cash flows. Details of the goodwill impairment review calculations performed is included in note 9.

Notes to the consolidated financial statements

1 Revenue

An analysis of the Group's revenue is as follows:

	2021 £m	2020 £m
Construction contracts	2,203.9	2,218.5
Other services	234.2	217.1
Construction activities revenue	2,438.1	2,435.6
Regeneration activities revenue	774.7	598.4
Total revenue	3,212.8	3,034.0

	2021			2020		
	Recognised on performance obligations satisfied over time £m	Recognised on performance obligations satisfied at a point in time £m	Total Revenue £m	Recognised on performance obligations satisfied over time £m	Recognised on performance obligations satisfied at a point in time £m	Total Revenue £m
Construction	693.5	–	693.5	670.3	–	670.3
Infrastructure and design	826.1	–	826.1	966.5	–	966.5
Construction and Infrastructure	1,519.6	–	1,519.6	1,636.8	–	1,636.8
Traditional fit out	634.7	–	634.7	600.6	–	600.6
Design and build	160.7	–	160.7	99.5	–	99.5
Fit Out	795.4	–	795.4	700.1	–	700.1
Property Services	133.8	–	133.8	111.7	–	111.7
Contracting	249.2	–	249.2	196.2	–	196.2
Mixed tenure	55.1	267.9	323.0	47.3	230.4	277.7
Partnership Housing	304.3	267.9	572.2	243.5	230.4	473.9
Urban Regeneration	154.9	47.6	202.5	67.3	57.2	124.5
Inter-segment revenue	(10.7)	–	(10.7)	(13.0)	–	(13.0)
Total revenue	2,897.3	315.5	3,212.8	2,746.4	287.6	3,034.0

Finance income of £0.6m (2020: £0.9m) is excluded from the table above.

As from 1 January 2021, the activities of the former Investments division were reorganised and the businesses formerly reported within Investments transferred to Partnership Housing, Urban Regeneration and Group activities. The prior year comparatives have been restated to reflect this reorganisation as described in Note 2.

2 Business segments

For management purposes, the Group is organised into five operating divisions: Construction & Infrastructure, Fit Out, Property Services, Partnership Housing and Urban Regeneration, and this is the structure of segment information reviewed by the chief operating decision maker (CODM). The divisions' activities are as follows:

- Construction & Infrastructure: Morgan Sindall Construction & Infrastructure Ltd provides construction services in the education, healthcare, commercial, defence, industrial, leisure and retail markets and delivers infrastructure projects in the highways, rail, energy, water and nuclear markets.Infrastructure also includes the BakerHicks Limited design activities based in the UK and Switzerland.
- Fit Out: Overbury plc specialises in fit out and refurbishment in commercial, central and local government offices, as well as further education. Morgan Lovell plc provides office interior design and build services direct to occupiers.
- Property Services: Morgan Sindall Property Services Limited provides responsive repairs and planned maintenance for social housing and the wider public sector.
- Partnership Housing: Lovell Partnerships Limited works in partnerships with local authorities and housing associations. Activities include mixed-tenure developments, building and developing homes or open market sale and for social/affordable rent, design and build house contracting and planned maintenance and refurbishment.
- Urban Regeneration: Muse Developments Limited focuses on transforming the urban landscape through partnership working and the development of multi-phase sites and mixed-use regeneration

Group activities represent costs and income arising from corporate activities which cannot be meaningfully allocated to the operating segments. These include the costs of the Group Board, treasury management, corporate tax coordination, Group finance and internal audit, insurance management, company secretarial services, information technology services, interest revenue and interest expense.

As from 1 January 2021, the activities of the former Investments division were reorganised with it no longer operating as a separate division. The operational management of the joint venture property partnerships and Later Living business formerly reported within Investments were transferred to Partnership Housing, Urban Regeneration and Group activities. The prior year comparatives have been restated to reflect this reorganisation.

Adjusted performance measures

The divisions are the basis on which the Group reports its segmental information as presented. In addition to monitoring and reviewing the financial performance of the operating segments and the Group on a statutory basis, management use adjusted performance measures which are also disclosed in the annual report. These measures are not an alternative or substitute to statutory IFRS measures but are seen by management as useful in assessing the performance of the business on a comparable basis. These financial measures are also aligned to the measures used internally to assess business performance in the Group's budgeting process and when determining compensation. The Group also uses other non-statutory measures which cannot be derived directly from the financial statements. There are four alternative performance measures used by management and disclosure in the annual report which are:

'Adjusted'

In all cases the term 'adjusted' excludes the impact of intangible amortisation of £1.5m (2020: £3.1m). This is used to improve the comparability of information between reporting periods to aid the use of the annual report in understanding the activities across the Group's portfolio. The below segmental analysis reconciles the statutory operating profit measure to the 'adjusted' measure and is used in reviewing the segmental performance. Adjusted profit before tax is used only in monitoring the Group's performance which is the statutory measure excluding the impact of intangible amortisation of £1.5m (2020: £3.1m). Adjusted basic earnings per share and adjusted diluted earnings per share is the statutory measure excluding the post-tax impact of intangible amortisation of £1.2m (2020: £2.5m) and the deferred tax charge arising due to changes in UK corporation tax rates of £5.1m (2020: £1.5m). See note 8 for a detailed reconciliation of the adjusted earnings per share measures.

'Net cash'

Net cash is defined as cash and cash equivalents less borrowings and non-recourse project financing. Lease liabilities are not deducted from net cash. A reconciliation of this number at the reporting date can be found in note 25. In addition, management monitor and review average daily net cash as good discipline in managing capital. Average daily net cash is defined as the average of the 365 end-of-day balances of the net cash over the course of a reporting period.

'Operating cashflow'

Management use an adjusted measure for operating cash flow as it encompasses other cash flows that are key to the ongoing operations of the Group such as repayments of lease liabilities, investment in property, plant and equipment, investment in intangible assets, and returns from equity accounted joint ventures. The figures can be derived from the consolidated cash flow statement being: Cash inflow from operations (£138.8m) plus dividend from joint ventures (£nil), interest received from joint ventures (£0.6m, reported within £0.6m Interest received) and proceeds from the disposal of property, plant and equipment (£1.4m), less repayments of lease liabilities (£15.2m), purchase of property, plant and equipment (£6.7m), and purchase of intangible assets (£1.3m). Operating cash flow conversion is operating cash flow as defined above divided by adjusted operating profit as defined above.

'Return on capital employed'

Management use return on capital employed (ROCE) in assessing the performance and efficient use of capital within the regeneration activities. ROCE is calculated as adjusted operating profit plus interest received from joint ventures divided by average capital employed. Average capital employed is the 12-month average of total assets (excluding goodwill, intangibles and cash) less total liabilities (excluding corporation tax, deferred tax, intercompany financing and overdrafts).

2 Business segments continued

The Group reports its segmental information as presented below:

2021	Construction & Infrastructure £m	Fit Out £m	Property Services £m	Partnership Housing £m	Urban Regeneration £m	Group activities £m	Eliminations £m	Total £m
External revenue	1,509.0	795.3	133.8	572.2	202.5	–	–	3,212.8
Inter-segment revenue	10.6	0.1	–	–	–	–	(10.7)	–
Total revenue	1,519.6	795.4	133.8	572.2	202.5	–	(10.7)	3,212.8
Operating profit/(loss) before amortisation of intangible assets	58.1	44.2	4.1	33.2	12.1	(20.4)	–	131.3
Amortisation of intangible assets	–	–	(1.5)	–	–	–	–	(1.5)
Operating profit/(loss)	58.1	44.2	2.6	33.2	12.1	(20.4)	–	129.8
Finance income								0.6
Finance expense								(4.2)
Profit before tax								126.2
Other information:								
Depreciation	(12.3)	(3.0)	(1.0)	(2.4)	(0.8)	(1.0)		(20.5)
Average number of employees	3,966	839	786	884	88	103		6,666

Notes to the consolidated financial statements continued

2 Business segments continued

Year ended 31 December 2020 (restated)	Construction & Infrastructure £m	Fit Out £m	Property Services £m	Partnership Housing £m	Urban Regeneration £m	Investments £m	Group activities £m	Eliminations £m	Total £m
External revenue	1,623.8	700.1	111.7	473.9	124.5	–	–	–	3,034.0
Inter-segment revenue	13.0	–	–	–	–	–	–	(13.0)	–
Total revenue	1,636.8	700.1	111.7	473.9	124.5	–	–	(13.0)	3,034.0
Operating profit/(loss) before amortisation of intangible assets	35.7	32.1	1.0	16.0	8.8	–	(25.1)	–	68.5
Amortisation of intangible assets	–	–	(1.2)	–	–	–	(1.9)	–	(3.1)
Operating profit/(loss)	35.7	32.1	(0.2)	16.0	8.8	–	(27.0)	–	65.4
Finance income									0.9
Finance expense									(5.5)
Profit before tax									60.8
Other information:									
Depreciation	(12.2)	(2.5)	(1.6)	(3.6)	(0.9)	–	(1.2)		(22.0)
Average number of employees	4,084	823	759	864	91	–	116		6,737

Notes to the consolidated financial statements continued

2 Business segments continued

Year ended 31 December 2020 (as reported)	Construction & Infrastructure £m	Fit Out £m	Property Services £m	Partnership Housing £m	Urban Regeneration £m	Investments £m	Group activities £m	Eliminations £m	Total £m
External revenue	1,623.8	700.1	111.7	441.4	122.8	34.2	–	–	3,034.0
Inter-segment revenue	13.0	–	–	–	–	–	–	(13.0)	–
Total revenue	1,636.8	700.1	111.7	441.4	122.8	34.2	–	(13.0)	3,034.0
Operating profit/(loss) before amortisation of intangible assets	35.7	32.1	1.0	16.1	9.2	(6.9)	(18.7)	–	68.5
Amortisation of intangible assets	–	–	(1.2)	–	–	(1.9)	–	–	(3.1)
Operating profit/(loss)	35.7	32.1	(0.2)	16.1	9.2	(8.8)	(18.7)	–	65.4
Finance income									0.9
Finance expense									(5.5)
Profit before tax									60.8
Other information:									
Depreciation	(12.2)	(2.5)	(1.6)	(3.0)	(0.8)	(0.7)	(1.2)		(22.0)
Average number of employees	4,084	823	759	850	77	49	95		6,737

Segment assets and liabilities are not presented as these are not reported to the CODM.

Notes to the consolidated financial statements continued

3 Profit for the year

Profit before tax for the year is stated after charging/(crediting):

	2021 £m	2020 £m
Gain on disposal of interests in joint ventures	–	(2.7)
Depreciation charge:		
Plant, equipment, fixtures and fittings	7.0	7.9
Right-of-use assets	13.5	14.1
Government grants received	(12.4)	(4.0)
Amortisation of intangible assets	1.5	3.1
Impairment of Investments	1.2	3.3

In December 2020, the Group disposed of its 45% interest in PSBP NW Holdco Limited for consideration of £7.3m. The resulting gain on disposal recognised in 2020 was £2.7m.

During 2021 the Group recognised £1.2m of impairments of investments (2020: £3.3m). The 2020 impairments included the £2.0m impairment of an interest in joint venture in the Partnership Housing division.

Auditor's remuneration

	2021 £m	2020 £m
Audit of the Company's annual report	0.3	0.3
Audit of the Company's subsidiaries and joint ventures	1.2	1.1
Total audit fees	1.5	1.4
Total non-audit fees	–	–
Total audit and non-audit fees	1.5	1.4

Non-audit fees totalled £nil for the year ended 31 December 2021 (2020: £6,500). The prior year non-audit fees relate to agreed-upon procedures in relation to the half-year results announcement.

4 Staff costs

	2021 £m	2020 £m
Wages and salaries	468.6	440.6
Social security costs	54.3	50.8
Other pension costs (note 18)	20.8	17.5
	543.7	508.9

During 2020, the Group claimed £9.5m from HMRC under the UK government's CJRS furlough scheme, upon which corporation tax of £1.8m was paid. Later in 2020, the Group voluntarily repaid the CJRS furlough claims. The repayment was such that £7.7m was repaid directly (being 81% of the total received), taken through central Group costs, with the remaining £1.8m repaid to HMRC in additional corporation tax. The receipt of the furlough amounts claimed through the CJRS furlough scheme (£9.5m) and the expense for the amounts repaid directly (£7.7m) were recognised within staff costs during 2020. Although £1.8m corporation tax was paid upon the furlough claim receipt, the £7.7m repayment was not tax-deductible.

5 Finance income and expense

	Notes	2021 £m	2020 £m
Interest receivable from joint ventures		0.6	0.6
Other interest income		–	0.3
Finance income		0.6	0.9
Interest expense on bank overdrafts and borrowings		–	(1.3)
Interest expense on lease liabilities	20	(1.5)	(1.7)
Loan arrangement and commitment fees		(2.5)	(1.7)
Other interest expense		(0.2)	(0.8)
Finance expense		(4.2)	(5.5)
Net finance expense		(3.6)	(4.6)

Included within other interest expense is £0.2m discount unwind on deferred land payments (2020: £0.7m).

Notes to the consolidated financial statements continued

6 Tax

Tax expense for the year

	2021 £m	2020 £m
Current tax:		
Current year	**22.9**	10.9
Adjustment in respect of prior years	**(0.3)**	0.9
	22.6	11.8
Deferred tax:		
Current year	**1.7**	2.8
Effect of change in tax rate used to calculate deferred tax balances	**5.1**	1.5
Adjustment in respect of prior years	**(1.1)**	(0.7)
	5.7	3.6
Tax expense for the year	**28.3**	15.4

UK corporation tax is calculated at 19.00% (2020: 19.00%) of the estimated taxable profit for the year.

The table below reconciles the tax charge for the year to tax at the UK statutory rate:

	2021 £m	2020 £m
Profit before tax	**126.2**	60.8
Less: post tax share of profits from joint ventures	**(5.4)**	(2.3)
	120.8	58.5
UK corporation tax rate	**19.00%**	19.00%
Income tax expense at UK corporation tax rate	**23.0**	11.1
Tax effect of:		
Adjustments in respect of prior years	**(1.4)**	0.2
Non-taxable income and expenses (including CJRS furlough repayment)[1]	**0.3**	2.7
Tax liability upon joint venture profits[2]	**0.7**	0.6
Gain on disposal of joint ventures not giving rise to a tax liability	**–**	(0.5)
Change in tax rate used to calculate deferred tax balances	**5.1**	1.5
Other	**0.6**	(0.2)
Tax expense for the year	**28.3**	15.4

1 During 2020, the Group claimed £9.5m from HMRC under the UK government's CJRS furlough scheme, upon which corporation tax of £1.8m was paid. Later in 2020 the Group voluntarily repaid the CJRS furlough claims. The repayment was structured such that £7.7m was repaid directly (being 81% of the total received), recognised in central Group costs, with the remaining £1.8m repaid to HMRC in additional corporation tax, as the repayment through central Group costs was not tax-deductible.

2 Certain of the Group's joint ventures are partnerships for which profits are taxed within the Group rather than within the joint venture.

6 Tax continued

Deferred tax assets/(liabilities)

	Asset amortisation and depreciation £m	Short-term timing differences £m	Share-based payments £m	Total £m
1 January 2020	(14.8)	1.8	4.9	(8.1)
(Charge) to income statement	–	(0.4)	(1.7)	(2.1)
(Charge) to equity	–	–	(1.4)	(1.4)
Effect of change in tax rate:				
(Charge)/credit to income statement	(1.6)	0.1	–	(1.5)
Credit to equity	–	–	0.6	0.6
1 January 2021	**(16.4)**	**1.5**	**2.4**	**(12.5)**
(Charge)/credit to income statement	(0.6)	1.0	(1.0)	(0.6)
Credit to equity	–	–	8.2	8.2
Effect of change in tax rate:				
(Charge) to income statement	(5.1)	–	–	(5.1)
31 December 2021	**(22.1)**	**2.5**	**9.6**	**(10.0)**

Certain deferred tax assets and liabilities, as shown above, have been offset as the Group has a legally enforceable right to do so.

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 Group (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%. This change in the deferred tax calculation rate has resulted in a £5.1m increase in the tax charge for the year.

During 2020, it was announced that a previously announced reduction in the UK statutory tax rate from 19% to 17% would not occur. Deferred tax balances as at 31 December 2019 were calculated at 17%, and deferred tax balances as at 31 December 2020 were calculated at 19%. This change resulted in a £1.5m increase in the tax charge for 2020.

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 Group. The Group expects RPDT to increase its effective tax rate from 2022 onwards, as a result of the operations of its Partnership Housing and Urban Regeneration businesses. 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 would not have been significant.

At 31 December 2021, the Group had unused tax losses of £5.0m (2020: £4.6m) available for offset against future profits. No deferred tax assets have been created in respect of these losses due to the unpredictability of future profit streams against which the losses may be utilised. The losses may be carried forward indefinitely.

7 Dividends

Amounts recognised as distributions to equity holders in the year:

	2021 £m	2020 £m
Final dividend for the year ended 31 December 2020 of 40.0p per share	**18.5**	–
Interim dividend for the year ended 31 December 2021 of 30.0p per share	**13.8**	–
Interim dividend for the year ended 31 December 2020 of 21.0p per share	**–**	9.6
	32.3	9.6

The proposed final dividend for the year ended 31 December 2021 of 62.0p per share is subject to approval by shareholders at the AGM and has not been included as a liability in these financial statements.

Notes to the consolidated financial statements continued

8 Earnings per share

	2021 £m	2020 £m
Profit attributable to the owners of the Company	**97.9**	45.4
Adjustments:		
Amortisation of intangible assets net of tax	**1.2**	2.5
Deferred tax charge arising due to change in UK corporation tax rates	**5.1**	1.5
Adjusted earnings	**104.2**	49.4

	2021 Number of shares (millions)	2020 Number of shares (millions)
Basic weighted average number of ordinary shares	**46.1**	45.5
Dilutive effect of share options and conditional shares not vested	**1.8**	0.8
Diluted weighted average number of ordinary shares	**47.9**	46.3
Basic earnings per share	**212.4p**	99.8p
Diluted earnings per share	**204.4p**	98.1p
Adjusted earnings per share	**226.0p**	108.6p
Diluted adjusted earnings per share	**217.5p**	106.7p

The average market value of the Company's shares for the purpose of calculating the dilutive effect of share options and long-term incentive plan shares was based on quoted market prices for the year. The average share price for the year was £21.39 (2020: £13.60).

A total of 865,271 share options that could potentially dilute earnings per share in the future were excluded from the above calculations because they were anti-dilutive at 31 December 2021 (2020: 1,724,145).

9 Goodwill and other intangible assets

	Goodwill £m	Other intangible assets £m	Total £m
Cost			
1 January 2020	217.7	39.2	256.9
Additions	–	1.6	1.6
1 January 2021	**217.7**	**40.8**	**258.5**
Additions	–	1.3	1.3
31 December 2021	**217.7**	**42.1**	**259.8**
Accumulated amortisation			
1 January 2020	–	(33.3)	(33.3)
Amortisation	–	(3.1)	(3.1)
1 January 2021	**–**	**(36.4)**	**(36.4)**
Amortisation	–	(1.5)	(1.5)
31 December 2021	**–**	**(37.9)**	**(37.9)**
Net book value at 31 December 2021	**217.7**	**4.2**	**221.9**
Net book value at 31 December 2020	217.7	4.4	222.1

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 allocated at acquisition to the cash-generating units that are expected to benefit from the business combination. The allocation is as follows: Construction & Infrastructure £151.1m (2020: £151.1m), Partnership Housing £50.6m (2020: £50.6m) and Urban Regeneration £16.0m (2020: £16.0m).

At 31 December 2020 we reported Goodwill allocated to the previous Investments division of £3.8m. This Goodwill has been reallocated to Partnership Housing following the reorganisation described in note 2.

Other intangible assets relate to internally generated software in Property Services £4.2m (2020: £4.4m). The cost and accumulated amortisation amounts for acquired intangible assets (excluding goodwill) that are fully written down at 31 December 2021 are £32.3m and (£32.3m) respectively.

Notes to the consolidated financial statements continued

9 Goodwill and other intangible assets continued

The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired. In testing goodwill and other intangible assets for impairment, the recoverable amount of each cash-generating unit has been estimated from value-in-use calculations. The key assumptions for the value-in-use calculations are those regarding the forecast revenue and margin, discount rates and long-term growth rates by 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, given trends in the relevant market sector as well as macroeconomic factors.

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

Discount rates are pre-tax and reflect the current market assessment of the time value of money and the risks specific to the cash-generating units. The risk-adjusted nominal rates used for the cash-generating units with goodwill balances are 10.7% (2020: 10.4%) for Construction & Infrastructure, 10.7% (2020: 10.4%) for Partnership Housing and 10.7% (2020: 10.3%) for Urban Regeneration.

In carrying out this exercise, no impairment of goodwill or other intangible assets has been identified. No reasonably foreseeable change in the assumptions used within the value in use calculations would cause an impairment in any of the segments.

Consideration of the impact of climate change

In terms of the possible impacts of climate change, the two key assumptions that could be sensitive to this are the growth rate and discount rates noted above. If climate change has a negative impact on revenues and/or the operating costs of the Group, there could be a potential impact on the discounted cash flow growth rates used within the valuation model. Lower future growth rates would reduce the level of the discounted cash flow valuation and hence the amount of headroom available to the Group above an impairment trigger. At present, the material short- to medium-term risks presented by possible climate change impacts are considered to be factored into the growth and discount rates where they are known and can be quantified.

Using the current assumptions, no reasonably foreseeable change in the assumptions used within the value-in-use calculations would cause an impairment in any of the segments. Therefore, at present, changes in the long-term assumptions due to the impact of climate change would also not be expected to trigger an impairment.

10 Property, plant and equipment

			Right of Use Assets		
	Freehold property and land £m	Plant, equipment, fixtures & fittings £m	Leasehold property £m	Plant and equipment £m	Total £m
Cost					
1 January 2020	2.4	57.3	59.9	19.1	138.7
Additions	–	4.2	2.2	5.6	12.0
Transfers	–	(1.3)	–	1.3	–
Disposals	–	(9.9)	(6.7)	(4.4)	(21.0)
1 January 2021	2.4	50.3	55.4	21.6	129.7
Additions	–	6.7	3.6	12.3	22.6
Disposals	–	(7.9)	(3.6)	(6.4)	(17.9)
31 December 2021	**2.4**	**49.1**	**55.4**	**27.5**	**134.4**
Accumulated depreciation					
1 January 2020	–	(37.5)	(12.7)	(9.0)	(59.2)
Depreciation charge	–	(7.9)	(8.6)	(5.5)	(22.0)
Transfers	–	0.6	–	(0.6)	–
Disposals	–	9.5	3.5	4.3	17.3
1 January 2021	**–**	**(35.3)**	**(17.8)**	**(10.8)**	**(63.9)**
Depreciation charge	–	(7.0)	(7.2)	(6.3)	(20.5)
Disposals	–	7.0	3.3	6.3	16.6
31 December 2021	**–**	**(35.3)**	**(21.7)**	**(10.8)**	**(67.8)**
Net book value at 31 December 2021	**2.4**	**13.8**	**33.7**	**16.7**	**66.6**
Net book value at 31 December 2020	2.4	15.0	37.6	10.8	65.8

The Group holds some plant, property & equipment that is fully depreciated. The cost and accumulated depreciation amounts of this fully written down plant, property and equipment are £21.9m and (£21.9m) respectively.

11 Investment property

	2021 £m	2020 £m
Valuation		
1 January	**2.7**	5.1
Disposals	**(1.9)**	(1.8)
Revaluation	**–**	(0.6)
31 December	**0.8**	2.7

Investment properties comprise certain residential properties constructed by the Group as part of larger, mixed-tenure projects for rental to social or private residential clients.

The fair value of the Group's investment property at 31 December 2021 is based on a valuation carried out at that date by the directors. The valuation, which conforms to International Valuation Standards, was determined based on the market comparable approach that reflects recent transaction prices for similar properties. The fair value measurement is classified as Level 3 as defined by IFRS 13 'Fair Value Measurement'.

12 Investments in joint ventures

The Group has interests in the following joint ventures:

Anthem Lovell LLP 50% partner

Anthem Lovell LLP is a joint venture with Anthem Homes Limited (a subsidiary of Walsall Housing Group Limited) carrying out a strategic development project of a residential nature.

Brentwood Development Partnership LLP 50% share

Brentwood Development Partnership LLP is a partnership with Seven Arches Investments Limited (a wholly-owned subsidiary of Brentwood Borough Council) which is developing a series of sites in Brentwood over a 30-year period.

Chalkdene Developments LLP 50% share

Chalkdene Developments LLP is a partnership with Herts Living Ltd (a wholly-owned subsidiary of Hertfordshire County Council) which is developing a series of sites across Hertfordshire over a 15-year period.

Claymore Roads (Holdings) Limited 50% share

Claymore Roads (Holdings) Limited is a joint venture with Infrastructure Investments (Roads) Limited and is responsible for the upgrade and operation of the A92 between Dundee and Arbroath in Scotland.

English Cities Fund Limited Partnership 22.9% equity participation

English Cities Fund is a limited partnership with Homes England and Legal & General to develop mixed-use regeneration schemes in assisted areas. Joint control is exercised through the board of the general partner at which each partner is represented by two directors and no decision can be taken without the agreement of a director representing each partner.

Health Innovation Partners Limited 50% share

Through the Health Innovation Partners joint venture with Arcadis BAC Limited, the Group has a 25% interest in The Oxleas Property Partnership LLP (TOPP), a joint venture with the Oxleas NHS Foundation Trust. TOPP is a 10-year partnership that will work to develop the Trust's estate and surplus assets, helping to reduce costs and maximise revenue for the Trust which can be reinvested into healthcare delivery.

hub West Scotland Limited 54% share

hub West Scotland Limited is a joint venture between Wellspring Partnership Limited (itself a joint venture between Morgan Sindall Investments Limited and Apollo (Hub West) Limited), Scottish Futures Trust Investments Limited, East Dunbartonshire Council, East Renfrewshire Council, West Dunbartonshire Council, Glasgow City Council, NHS Greater Glasgow Health Board, The Board of Strathclyde Fire and Rescue, Strathclyde Joint Police Board and Clydebank Property Company Limited). The joint venture is delivering a pipeline of public sector health, education, and community projects in the Glasgow area.

Laurus Lovell LLP 50% partner

Laurus Lovell LLP is a joint venture with THT Developments Limited (a subsidiary of Trafford Housing Limited), established to carry out a strategic development project of a residential nature in the North West of England.

Lingley Mere Business Park Development Company Limited 50% share

Lingley Mere Business Park Development Company Limited is a joint venture with United Utilities Property Services Limited (a wholly-owned subsidiary of United Utilities PLC), delivering development at a site in Warrington.

12 Investments in joint ventures continued

Lovell Flagship LLP 50% partner

Anthem Lovell LLP is a joint venture with Flagship Housing Developments Limited (a subsidiary of Flagship Housing Group Limited), established to carry out strategic development and/or regeneration projects of a primarily residential nature.

Lovell Latimer LLP 50% partner

Lovell Latimer LLP is a joint venture with Latimer Developments Limited (a subsidiary of Clarion Housing Group Limited), established to carry out a strategic development project of a residential nature in the North West of England.

Lovell Together LLP 50% partner

Lovell Together LLP is a joint venture with Together Commercial Limited (a subsidiary of Together Housing Group Limited), carrying out three strategic development projects of a residential nature in Eastern England.

Lovell/Abri Weymouth LLP 50% partner

Lovell/Abri Weymouth LLP is a joint venture with Radian Developments Limited (a subsidiary of Abri Group Limited) carrying out a strategic development project of a residential nature.

Lovell Together (Pendleton) LLP 50% partner

Lovell Together (Pendleton) LLP is a joint venture with Together Commercial Limited (a subsidiary of Together Housing Group Limited), established to carry out a strategic development project of a residential nature in the North West of England.

Morgan-Vinci Limited 50% share

Morgan-Vinci Limited is a joint venture with Vinci Newport DBFO Limited and is responsible for the construction and operation of the Newport Southern Distributor Road.

Slough Urban Renewal LLP 50% share

Slough Urban Renewal LLP is a partnership with Slough Borough Council which is developing a series of sites in Slough over an initial term of 15 years, extendable by 10 years.

The Bournemouth Development Company LLP 50% share

The Bournemouth Development Company LLP is a partnership with Bournemouth, Christchurch and Poole Council which is developing a series of sites in Bournemouth over a 20-year period.

The Compendium Group Limited 50% share

The Compendium Group Limited is a joint venture with The Riverside Group Limited and is a company formed to carry out strategic development and regeneration projects of a primarily residential nature.

Waterside Places (General Partner) Limited 50% equity participation

Waterside Places (General Partner) is a joint venture with The Canal and River Trust to undertake regeneration of waterside sites.

Wapping Wharf (Alpha) LLP 50% partner

Wapping Wharf (Alpha) LLP is a joint venture with Wapping Wharf (Umberslade) Limited which has completed development of the first phase of residential apartments within the Harbourside Regeneration Area of Bristol.

Wapping Wharf (Beta) LLP 40% partner

Wapping Wharf (Beta) LLP is a joint venture with Wapping Wharf (Umberslade) Limited which will develop the second phase of residential apartments within the Harbourside Regeneration Area of Bristol.

West Sussex Property Development LLP

West Sussex Property Development LLP is a joint venture with Edes Estates Limited (a subsidiary of West Sussex County Council), established to carry out strategic developments of residential homes, town centre regeneration and extra care provision across West Sussex.

Wirral Growth Company LLP 50% partner

Wirral Growth Company LLP is a joint venture with Wirral Borough Council and was set up to undertake regeneration of numerous sites in the Wirral region of North West England.

Notes to the consolidated financial statements continued

12 Investments in joint ventures continued

Investments in equity accounted joint ventures are as follows:

	2021 £m	2020 £m
1 January	**91.4**	84.3
Equity accounted share of net profits	**5.4**	2.3
Loans advanced to joint ventures	**28.1**	27.0
Loans repaid by joint ventures	**(29.6)**	(14.1)
Non-cash impairment	**(1.2)**	(2.5)
Disposal of interest in joint venture	**–**	(5.6)
31 December	**94.1**	91.4

During 2021, a £5.6m non-cash impairment was recognised in the Group's investment in The Bournemouth Development Company LLP, a joint venture with Bournemouth, Christchurch and Poole Council. The impairment relates to one specific scheme within the joint venture where construction cost inflation as well as other factors have challenged the viability of the scheme. The impairment is reported through both the equity accounted share of net profits and non-cash impairment lines in the table above. Following the impairment, the carrying value of the division's investment in this joint venture is reduced to £3.2m.

In December 2020, the Group disposed of it 45% interest in PSBP NW Holdco Limited for consideration of £7.3m. The resulting gain on disposal recognised in 2020 was £2.7m. The carrying value of the interest disposed was £4.6m.

During 2020, the Group also disposed of its 50% shareholding in HB Community Solutions Living Limited which had a carrying value of £0.9m. No gain or loss was recognised on disposal as the consideration received was equal to the carrying value.

Summarised financial information related to equity accounted joint ventures is set out below:

	2021 £m	2020 £m
Non-current assets (100%)	**241.5**	238.0
Current assets (100%)	**448.8**	444.1
Current liabilities (100%)	**(187.4)**	(187.2)
Non-current liabilities (100%)	**(389.3)**	(371.3)
Net assets reported by equity accounted joint ventures (100%)	**113.6**	123.6
Revenue (100%)	**315.0**	256.4
Expenses (100%)	**(298.0)**	(249.5)
Net profit (100%)	**17.0**	6.9

Results of equity accounted joint ventures:

	2021 £m	2020 £m
Group share of profit before tax	**5.6**	2.4
Group share of tax	**(0.2)**	(0.1)
Group share of profit after tax	**5.4**	2.3

Notes to the consolidated financial statements continued

13 Shared equity loan receivables

The Group has granted loans under shared equity home ownership schemes allowing qualifying homebuyers 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), re-mortgage or resale of the property.

	2021 £m	2020 £m
1 January	**5.5**	8.4
Net change in fair value recognised in the income statement	**(1.9)**	(0.5)
Repayments by borrowers	**(2.1)**	(2.4)
31 December	**1.5**	5.5
Current	**1.5**	–
Non-current	**–**	5.5
31 December	**1.5**	5.5

The Group's maximum credit exposure is limited to the carrying value of the shared equity loan receivables granted. The Group'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).

Basis of valuation and assumptions made

There is no directly observable fair value for individual loans arising from the sale of properties under the scheme. Therefore the Group has developed a model for determining the fair value of the portfolio of loans based on national property prices, expected property price increases, expected loan defaults and a discount factor which reflects the interest rate expected on an instrument of similar risk and duration in the market.

The fair value measurement for shared equity loan receivables is classified as Level 3 as defined by IFRS 7 'Financial Instruments: Disclosures'.

14 Inventories

	2021 £m	2020 £m
Work in progress	**288.5**	294.2

Work in progress comprises land and housing, commercial and mixed-use developments in the course of construction.

15 Contract assets and liabilities

	2021 £m	2020 £m
Contract assets	**232.6**	171.8
Contract liabilities	**(78.5)**	(55.6)

The contract assets primarily relate to the Group'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. All contract assets held at 31 December 2021 are expected to be invoiced and transferred to trade receivables within the next 12 months.

The Group 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.

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

	2021		2020	
	Contract assets £m	**Contract liabilities £m**	Contract assets £m	Contract liabilities £m
As at 1 January	**171.8**	**(55.6)**	186.8	(56.2)
Revenue recognised:				
– performance obligations satisfied in the current year	**3,157.2**	**55.6**	2,977.8	56.2
– adjustments to performance obligations satisfied in previous years	**–**	**–**	–	–
Cash received for performance obligations not yet satisfied	**–**	**(78.5)**	–	(55.6)
Amounts transferred to trade receivables	**(3,096.4)**	**–**	(2,992.8)	–
31 December	**232.6**	**(78.5)**	171.8	(55.6)

15 Contract assets and liabilities continued

The Group secured workload is the sum of the construction secured order book and the regeneration secured order book, less any inter-divisional eliminations. The 'secured order book' is the sum of the 'committed order book', the 'framework order book' and (for the regeneration businesses only) the Group's share of the gross development value of secured schemes (including the development value of open market housing schemes). The 'committed order book' represents the Group's share of future revenue that will be derived from signed contracts or letters of intent. The 'framework order book' represents the Group's expected share of revenue from the frameworks on which the Group has been appointed. This excludes prospects where confirmation has been received as preferred bidder only, with no formal contract or letter of intent in place.

The following table sets out the Group secured workload by operating segment which is deemed to be the revenue expected to be recognised in the future related to performance obligations that are unsatisfied or partially unsatisfied at the balance sheet date:

	2022 £m	2023 £m	2024 + £m	**Total £m**
Construction & Infrastructure	1,274.4	729.6	711.1	**2,715.1**
Fit Out	528.3	143.1	225.8	**897.2**
Property Services	118.4	110.4	716.0	**944.8**
Partnership Housing	581.4	410.0	506.5	**1,497.9**
Urban Regeneration	399.6	358.8	1,815.7	**2,574.1**
Eliminations	(14.4)	(0.3)	–	**(14.7)**
	2,887.7	1,751.6	3,975.1	**8,614.4**

16 Trade and other receivables

	2021 £m	2020 £m
Trade receivables (note 25)	**250.2**	202.9
Amounts owed by joint ventures	**13.5**	0.9
Prepayments	**13.2**	11.3
Insurance receivables	**30.4**	–
Other receivables	**21.0**	19.5
	328.3	234.6

The directors consider that the carrying amount of trade and other receivables approximates to their fair value.

Trade receivables are stated after provisions for impairment losses of £1.2m (2020: £1.2m).

The Group holds third party insurances that may mitigate the contract and legal liabilities described in note 19 - provisions. Insurance receivables are recognised when reimbursement from insurers is virtually certain.

17 Trade and other payables

	2021 £m	2020 re-stated[1] £m
Trade payables	**157.6**	189.2
Amounts owed to joint ventures	**0.2**	0.2
Other tax and social security	**107.5**	40.5
Accrued expenses	**602.7**	587.8
Deferred income	**8.9**	17.7
Other payables	**14.5**	12.5
Current	**891.4**	847.9
Other payables	**32.6**	1.7
Non-current	**32.6**	1.7

1 The prior year balances for Accrued expenses within Trade and other payables have been re-stated as described in the basis of preparation, along with their respective totals.

The directors consider that the carrying amount of trade payables approximates to their fair value. No interest was incurred on outstanding balances. Non-current other payables have been discounted by £3.3m (2020: £0.1m) to reflect the time value of money.

18 Retirement benefit schemes

Defined contribution plan

The Morgan Sindall Retirement Benefits Plan ('the Retirement Plan') was established on 31 May 1995 and currently operates on defined contribution principles for employees of the Group. The assets of the Retirement Plan are held separately from those of the Group in funds under the control of the Trustee of the Retirement Plan. The total cost charged to the income statement of £21.1m (2020: £17.5m) represents contributions payable to the defined contribution section of the Retirement Plan by the Group.

As at 31 December 2021, contributions of £2.6m (2020: £2.2m) were due in respect of December's contribution not paid over to the Retirement Plan.

Defined benefit plan

The Retirement Plan includes a defined benefit section comprising liabilities and transfers of funds representing the accrued benefit rights of active and deferred members and pensioners of pension plans of companies which are now part of the Group. These include salary related benefits for members in respect of benefits accrued before 31 May 1995 (and benefits transferred in from The Snape Group Limited Retirement Benefits Scheme accrued up to 1 August 1997). No further defined benefit membership rights can accrue after those dates. The scheme duration is an indicator of the weighted-average time until benefit payments are expected to be made. For the scheme as a whole, the duration is around 14 years.

On 23 May 2018 the Trustees of the Retirement Plan completed a buy-in transaction with Aviva to insure the benefits of the defined benefit members. The buy-in policy is an asset of the Plan that provides payments that are an exact match to the pension payments made to the defined benefit members covered by the policy.

During the year ended 31 December 2020, additional liabilities were recognised due to a court ruling on 20 November 2020 in respect of guaranteed minimum pension (GMP) equalisation for past transfers out. The additional liability recognised as a result of this ruling at 31 December 2021 is £0.2m (2020: £0.2m).

The present value of the defined benefit liabilities was measured using the projected unit credit method. The following table shows the key assumptions used:

Key assumptions used:	2021 %	2020 %
Discount rate	**1.9**	1.2
Rate of inflation	**3.1**	2.5
Rate of future pension increases[a]	**3.0–3.5**	3.0–3.5
Average life expectancy for pensioner retiring now at age 65 years	**87.3**	87.2
Average life expectancy for pensioner retiring in 20 years at age 65 years	**89.1**	89.1

(a) depending on their date of joining, members receive pension increases of 3.0% or 3.5%.

	2021			2020		
	Assets £m	**Liabilities £m**	**Total £m**	Assets £m	Liabilities £m	Total £m
1 January	**12.7**	**(12.9)**	**(0.2)**	10.7	(10.7)	–
Finance income/(expense)	**0.1**	**(0.1)**	**–**	0.2	(0.2)	–
Actuarial (loss)/gain	**(0.8)**	**0.8**	**–**	1.1	(1.1)	–
Past service cost including curtailments	**–**	**–**	**–**	–	(0.2)	(0.2)
Benefits paid	**(1.9)**	**1.9**	**–**	0.7	(0.7)	–
31 December	**10.1**	**(10.3)**	**(0.2)**	12.7	(12.9)	(0.2)

Sensitivity analysis

As the buy-in policy is valued in line with the corresponding liability value, there would be a corresponding change in assets and liabilities for any change in assumptions used to value the liabilities, with no impact on the net position.

There was no actuarial gain or loss recognised in the statement of comprehensive income during the current or prior year.

For IAS 19 purposes, the buy-in asset is valued as equal to the accounting value of the liabilities covered. This results in the total plan assets being equal to the IAS 19 liabilities, excluding the £0.2m GMP equalisation liability.

No contributions are expected to be paid to the defined benefit section of the Retirement Plan during 2022.

Notes to the consolidated financial statements continued

19 Provisions

	Self-insurance £m	Contract & legal £m	Other £m	Total £m
1 January 2020	20.1	–	8.8	28.9
Utilised	(1.1)	–	(3.0)	(4.1)
Additions	4.7	–	2.6	7.3
Released	(0.9)	–	(0.3)	(1.2)
1 January 2021	**22.8**	**–**	**8.1**	**30.9**
Utilised	(1.6)	–	(5.0)	(6.6)
Additions	4.5	22.7	0.2	27.4
Reclassifications*	–	10.7	–	10.7
Released	(4.5)	–	(0.6)	(5.1)
31 December 2021	**21.2**	**33.4**	**2.7**	**57.3**

	Self-insurance £m	Contract & legal £m	Other £m	Total £m
Current		33.4	–	33.4
Non-current	21.2	–	2.7	23.9
31 December 2021	**21.2**	**33.4**	**2.7**	**57.3**

* A number of items previously presented as accruals have been reclassified to provisions in the current year.

Self-insurance provisions

Self-insurance provisions comprise the Group's self-insurance of certain risks and include £10.8m (2020: £11.4m) held in the Group's captive insurance company, Newman Insurance Company Limited (the 'Captive').

The Group makes provisions in respect of specific types of claims incurred but not reported (IBNR). The valuation of IBNR considers past claims experience and the risk profile of the Group. These are reviewed periodically and are intended to provide a best estimate of the most likely or expected outcome.

Contract and legal provisions

Contract and legal provisions include liabilities, loss provisions, defect and warranty provisions on contracts that have reached completion.

The Group also holds third-party insurances that may mitigate the liabilities. Third-party insurance reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain. See note 16 for details of mitigating insurance assets recognised at the period end.

Other provisions

Other provisions include property dilapidations and other personnel related provisions.

The majority of the provisions are expected to be utilised within 10 years.

20 Lease liabilities

The Group leases several assets including the buildings, plant and vehicles to enable the Group to carry out its day-to-day operations. The average lease term is five years. There are no variable terms to any of the leases. The maturity profile for the lease liabilities at 31 December 2021 is set out below:

	2021			2020		
	Property £m	**Plant and equipment £m**	**Total £m**	Property £m	Plant and equipment £m	Total £m
Within one year	**7.4**	**6.0**	**13.4**	7.5	4.6	12.1
Within two to five years	**20.4**	**10.2**	**30.6**	21.2	5.4	26.6
After more than five years	**8.8**	**–**	**8.8**	12.3	–	12.3
31 December	**36.6**	**16.2**	**52.8**	41.0	10.0	51.0

	2021			2020		
	Property £m	**Plant and equipment £m**	**Total £m**	Property £m	Plant and equipment £m	Total £m
1 January	**41.0**	**10.0**	**51.0**	49.0	10.7	59.7
Additions	**3.5**	**12.5**	**16.0**	3.4	5.1	8.5
Terminations	**(0.3)**	**(0.2)**	**(0.5)**	(3.8)	–	(3.8)
Repayments	**(8.7)**	**(6.5)**	**(15.2)**	(9.0)	(6.1)	(15.1)
Interest expense	**1.1**	**0.4**	**1.5**	1.4	0.3	1.7
31 December	**36.6**	**16.2**	**52.8**	41.0	10.0	51.0

21 Contingent liabilities

Group banking facilities and surety bond facilities are supported by cross guarantees given by the Company and participating companies in the Group. There are contingent liabilities in respect of surety bond facilities, guarantees and claims under contracting and other arrangements, including joint arrangements and joint ventures entered into in the normal course of business. As at 31 December 2021, contract bonds in issue under uncommitted facilities covered £137.2m (2020: £124.6m) of contract commitments of the Group.

Contingent liabilities may also arise in respect of subcontractor and other third-party claims made against the Group, 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 Group 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 Group's insurance arrangements.

Cladding and fire safety review

The Group 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 Group 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 Group 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 Group has a liability leading to remediation. In accordance with the Group's past practice, the Group is committed to meeting its liabilities as they are identified. While 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.

In common with the rest of the industry, the Group will begin paying the Residential Property Developer Tax in 2022.

22 Share capital

	2021		2020	
	Number	**£m**	Number	£m
Issued and fully paid ordinary shares of 5p each:				
1 January	**46,353,338**	**2.3**	45,489,985	2.3
Exercise of share options	**21,535**	**–**	863,353	–
31 December	**46,374,873**	**2.3**	46,353,338	2.3

All issued ordinary shares are fully paid. Ordinary shares are entitled to dividends when declared and each share carries the right to one vote at a meeting of the Company.

During 2021, 21,535 shares were issued in respect of options exercised under the Group's Savings-Related Share Option Plan for a total consideration of £0.3m (2020: 863,353 shares were issued for a total consideration of £7.0m).

23 Share-based payments

The Group recognised a share option expense of £12.1m (2020: £0.1m share option credit) related to equity-settled share-based payment transactions. The Group has three share option schemes with unvested options or awards at 31 December 2021:

- Share option plan ('2014 SOP') for eligible employees across the Group. Options can be exercised if the EPS performance conditions are met over a three-year maturity period. If the options remain unexercised after a period of 10 years from the date of grant the options lapse. If employees are not deemed to be good leavers under the rules of the 2014 SOP, their options will be forfeited if they leave the Group before the end of the option maturity period.
- Savings-Related Share Option Plan ('SAYE') for all employees that are employed by the Group at the relevant invitation date. There are no performance criteria for the SAYE and options are issued to participants in accordance with HMRC rules.
- Long- Term Incentive Plan ('2014 LTIP'). Details of the performance conditions and other information in respect of the 2014 LTIP are set out in the directors' remuneration report on pages 152 and 153.

The Group also has options which are outstanding at 31 December 2021 under the Employee Share Option Plan 2007 ('ESOP 2007') that have vested but the employees have not elected to exercise their options. The outstanding options under the ESOP 2007 must be exercised by 27 November 2024.

23 Share-based payments continued

As described on pages 126 to 128 in the 2021 directors' renumeration report, the Group's remuneration committee made amendments to the LTIP and Share Option Plan EPS targets. The impact of these amendments was considered in calculating the 2021 share option expense for the period.

Details of the share awards and options granted during the year and the valuation methodology are as follows:

		Share awards under 2014 LTIP		
		Awards with TSR condition	Awards with EPS condition	Share options under 2014 SOP
Number of awards or options granted		85,159	170,318	868,136
Weighted average fair value at date of grant (per share)		£12.07	£15.41	£3.66
Weighted average share price at date of grant		£18.00	£18.00	£18.00
Weighted average exercise price		n/a	n/a	£17.17
Valuation model		Monte–Carlo	Black–Scholes	Black–Scholes
Expected term (from date of grant)		2.8 years	2.8 years	7.5 years
Expected volatility	(a)	42.1%	n/a	34.1%
Expected dividend yield	(b)	n/a	n/a	3.7%
Risk free rate		0.1%	n/a	0.6%

(a) Volatility has been calculated over the period of time commensurate with the expected award term immediately prior to the date of grant.

(b) Under the 2014 LTIP, award holders may receive the value of any dividends paid during the vesting period in respect of their vested shares at the end of the vesting period. Consequently, the fair value is not discounted for value lost in respect of dividends.

The following table provides a summary of the options granted under the Company's employee share option schemes during the current and comparative year:

	2021		2020	
	Number of share options	**Weighted average exercise price (£)**	Number of share options	Weighted average exercise price (£)
Outstanding at 1 January	**4,481,179**	**12.43**	5,360,455	10.47
Granted during the year	**1,780,274**	**16.08**	795,146	18.57
Lapsed during the year	**(790,781)**	**12.75**	(346,866)	12.09
Exercised during the year	**(872,510)**	**10.28**	(1,327,556)	8.28
Outstanding at 31 December	**4,598,162**	**14.19**	4,481,179	12.43
Exercisable at 31 December	**284,443**	**9.75**	820,894	9.26
Weighted average remaining contractual life	**5.4 years**		6.2 years	

The weighted average share price at the date of exercise for share options exercised during the year was £20.15 (2020: £13.49).

The options outstanding at 31 December 2021 had exercise prices ranging from £6.40 to £18.57.

24 Related party transactions

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. During the year, Group companies entered into transactions to provide construction and property development services with related parties, all of which were joint ventures, not members of the Group, amounting to £124.0m (2020: £50.7m). At 31 December 2021, amounts owed to the Group by joint ventures was £13.5m (2020: £0.9m) and amounts owed by the Group to joint ventures was £0.2m (2020: £0.2m).

Remuneration of key management personnel

The Group considers key management personnel to be the members of the Group management team, and sets out below in aggregate, remuneration for each of the categories specified in IAS 24 'Related Party Disclosures'.

	2021 £m	2020 £m
Short-term employee benefits	**9.8**	7.3
Post-employment benefits	**0.1**	0.1
Termination benefits	**–**	0.2
Share option expense/(credit)	**4.9**	(0.4)
	14.8	7.2

Details of directors' remuneration are set out in the directors' remuneration report on pages 143 to 147.

Directors' transactions

There have been no related party transactions with any director in the year or in the subsequent period to 24 February 2022.

Directors' material interests in contracts with the Company

No director held any material interest in any contract with the Company or any Group company in the year or in the subsequent period to 24 February 2022.

25 Financial instruments

Net cash

Net cash is defined as cash and cash equivalents less borrowings and non-recourse project financing as shown below:

	2021 £m	2020 £m
Cash and cash equivalents	**468.6**	400.5
Bank overdrafts presented as borrowings due within one year	**(110.2)**	(67.3)
Cash and cash equivalents reported in the consolidated cash flow statement	**358.4**	333.2
Borrowings due between two and five years	**(0.4)**	(0.4)
Net cash	**358.0**	332.8

Included within cash and cash equivalents is £55.7m (2020: £53.8m) which is the Group's share of cash held within jointly-controlled operations. There is £6.4m included within cash and cash equivalents that is held for future payment to designated suppliers (2020: £7.5m).

The Group has £180m of committed loan facilities maturing more than one year from the balance sheet date, of which £15m matures in March 2024 and £165m in October 2024. These facilities are undrawn at 31 December 2021. The Group has a further facility of £0.4m that was drawn down in full during 2020 and matures in July 2025.

Average daily net cash during 2021 was £291.4m (2020: £180.7m). Average daily net cash is defined as the average of the 365 end-of-day balances of the net cash (as defined above) over the course of a reporting period. Management use this as a key metric in monitoring the performance of the business.

Financial risks and management

The Group has exposure to a variety of financial risks through the conduct of its operations. Risk management is governed by the Group's operational policies, which are subject to periodic review by the Group's internal audit team and twice-yearly review by management. The policies include written principles for the Group's risk management as well as specific policies, guidelines and authorisation procedures in respect of specific risk mitigation techniques such as the use of derivative financial instruments. The Group does not enter into derivative financial instruments for speculative purposes.

25 Financial instruments continued

The following represent the key financial risks resulting from the Group's use of financial instruments:

- credit risk
- liquidity risk
- market risk.

(a) Credit risk

Credit risk is the risk of financial loss to the Group if a client or counterparty to a financial instrument fails to meet its contractual obligations and arises primarily in respect of the Group's trade receivables and contract assets.

The degree to which the Group is exposed to this credit risk depends on the individual characteristics of the contract counterparty and the nature of the project. The Group's credit risk is also influenced by general macroeconomic conditions. The Group does not have any significant concentration risk in respect of contract assets or trade receivable balances at the reporting date with receivables spread across a wide range of clients. Due to the nature of the Group's operations, it is normal practice for clients to hold retentions in respect of contracts completed. Retentions held by clients at 31 December 2021 were £91.0m (2020: £79.9m). These will be collected in the normal operating cycle of the Group.

The Group manages its exposure to credit risk through the application of its credit risk management policies which specify the minimum requirements in respect of the creditworthiness of potential customers, assessed through reports from credit agencies, and the timing and extent of progress payments in respect of contracts.

The risk management policies of the Group also specify procedures in respect of obtaining parent company guarantees or, in certain circumstances, use of escrow accounts which, in the event of default, mean that the Group may have a secure claim. The Group does not require collateral in respect of contract assets or trade receivables.

The Group 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. The directors always estimate the loss allowance on contract assets and trade receivables at the end of the reporting period at an amount equal to lifetime expected credit losses.

None of the contract assets at the end of the reporting period are past due, and, taking into account the historical default experience and the future prospects in the industry, the directors consider that no contract assets are impaired.

The expected credit losses on trade receivables are estimated using a provision matrix by reference to past default experience of the debtor and an analysis of the debtor's current financial position, adjusted for factors that are specific to the debtors, general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of conditions at the reporting date.

The ageing of trade receivables at the reporting date was as follows:

	2021		2020	
	Gross trade receivables £m	**Provision for expected credit losses £m**	Gross trade receivables £m	Provision for expected credit losses £m
Not past due	**219.5**	**–**	174.4	–
Past due 1 to 30 days	**10.9**	**–**	9.0	–
Past due 31 to 120 days	**9.3**	**–**	3.6	–
Past due 121 to 365 days	**7.0**	**0.4**	5.7	0.3
Past due greater than one year	**4.7**	**0.8**	11.4	0.9
	251.4	**1.2**	204.1	1.2

The following table shows the movement in lifetime expected credit losses that has been recognised for trade and other receivables in accordance with the simplified approach set out in IFRS 9:

	2021 £m	2020 £m
Balance at 1 January	**1.2**	0.6
Net increase in loss allowance arising from new amounts recognised in current year, net of those derecognised upon billing	**–**	0.6
31 December	**1.2**	1.2

There has not been any significant change in the gross amounts of contract assets that has affected the estimation of the loss allowance.

The average credit period on revenue is 28 days (2020: 24 days). No interest is charged on the trade receivables outstanding balance. Trade receivables overdue are provided for based on estimated irrecoverable amounts.

25 Financial instruments continued

Included in the Group's trade receivable balance are debtors with a carrying amount of £30.7m (2020: £28.5m) which are past due at the reporting date, for which the Group has not provided as there has not been a significant change in credit quality and the Group considers that the amounts are still recoverable. The average age of these receivables is 108 days (2020: 177 days).

In determining the recoverability of trade receivables, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the customer base being large and spread across the Group's operating segments. Accordingly, the directors believe that there is no further credit provision required in excess of the provision for impairment losses.

At the reporting date, there were no trade and other receivables which have had renegotiated terms that would otherwise have been past due.

(b) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as and when they fall due. The ultimate responsibility for liquidity risk rests with the Board.

The Group aims to manage liquidity by ensuring that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stress conditions.

Liquidity is provided through cash balances and committed bank loan facilities. Additional project finance borrowings maybe used to fund specific projects. These project finance borrowings are without recourse to the remainder of the Group's assets.

The Group reports cash balances daily and invests surplus cash to maximise income whilst preserving liquidity and credit quality. The Group prepares weekly short-term and monthly medium-term cash forecasts, which are used to assess the Group's expected cash performance and compare with the facilities available to the Group and the Group's covenants.

Key risks to liquidity and cash balances are a downturn in contracting volumes, a reduction in the profitability of work, delayed receipt of cash from customers and the risk that major clients or suppliers suffer financial distress leading to non-payment of debts or costly and time-consuming reallocation and rescheduling of work. Certain measures and key performance indicators are continually monitored throughout the Group and used to quickly identify issues as they arise, enabling the Group to address them promptly.

Key among these are: continual monitoring of the secured order book, including the status of orders and likely timescales for realisation so that contracting volumes are well understood; monitoring of overhead levels to ensure they remain appropriate to contracting volumes; continual monitoring of working capital exceptions (overdue debts and conversion of work performed into certificates and invoices); continual review of levels of current and forecast profitability on contracts; review of client and supplier credit references; and approval of credit terms with clients and suppliers to ensure they are appropriate.

The Group does not have any material derivative or non-derivative financial liabilities with the exception of trade and other payables, borrowings and lease liabilities. Trade and other payables are generally non-interest-bearing and, therefore, have no weighted average effective interest rates. Lease liabilities are carried at the present value of the minimum lease payments. Trade and other payables are due to be settled in the Group's normal operating cycle.

(c) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates or equity prices, will affect the Group's income or the carrying amount of its holdings of financial instruments. The objective of market risk management is to achieve a level of market risk that is within acceptable parameters as set out in the Group risk management framework.

Interest rate risk

The Group is not exposed to significant interest rate risk as it does not have significant interest-bearing liabilities and its only interest-bearing asset is cash invested on a short-term basis.

Certain of the Group's equity accounted joint ventures have entered into interest rate swaps to manage their exposure to interest rate risk arising on floating rate bank borrowings.

The Group's share of joint ventures' interest rate swap contracts have a nominal value of £12.2m (2020: £12.8m) and fixed interest payments at an average rate of 5.1% (2020: 5.1%) for periods up until 2033.

Currency risk

The majority of the Group's operations are carried out in the UK and the Group has a low level of exposure to currency risk on sales and purchases. The Group's policy is to hedge foreign currency transactions where they are material, at which point derivative financial instruments are entered into so as to hedge forecast or actual foreign currency exposures.

25 Financial instruments continued

Capital management

The Board aims to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain the future development of the business, and its approach to capital management is explained fully in the financial review on pages 39 and 40.

The capital structure of the Group consists of cash and cash equivalents and equity attributable to equity holders of the Company, comprising issued capital, reserves and retained earnings as disclosed in the consolidated statement of changes in equity. The cash and cash equivalents are supplemented by £180m of committed bank facilities, of which £15m expires in March 2024 and £165m expires in October 2024. In order to manage its capital structure the Group may adjust the amounts of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets.

There were no changes in the Group's approach to capital management during the year and the Group is not subject to any capital requirements imposed by regulatory authorities.

26 Subsequent events

There were no subsequent events that affected the financial statements of the Group.

Company statement of financial position

at 31 December 2021

	Notes	2021 £m	2020 £m
Assets			
Property, plant and equipment		**3.5**	3.7
Investments	2	**459.6**	440.9
Amounts owed by subsidiary undertakings		**15.4**	–
Non-current assets		**478.5**	444.6
Trade receivables		**0.7**	0.4
Amounts owed by subsidiary undertakings		**117.2**	70.6
Current tax asset		**5.0**	–
Deferred tax asset		**9.8**	3.7
Prepayments		**5.1**	4.9
Other receivables		**3.5**	2.5
Cash and cash equivalents		**160.1**	105.1
Current assets		**301.4**	187.2
Total assets		**779.9**	631.8
Liabilities			
Bank overdrafts		**(94.6)**	(26.2)
Lease liabilities		**(0.5)**	(0.7)
Trade payables		**(1.1)**	(1.5)
Amounts owed to subsidiary undertakings		**(520.5)**	(485.8)
Current tax liabilities		**–**	(0.6)
Other tax and social security		**(0.7)**	(0.9)
Retirement benefit obligation		**(0.2)**	(0.2)
Accrued expenses		**(8.5)**	(6.3)
Other payables		**(1.3)**	(0.8)
Provisions	3	**–**	(4.9)
Current liabilities		**(627.4)**	(527.9)
Net current liabilities		**(326.0)**	(340.7)
Total assets less current liabilities		**152.5**	103.9
Lease liabilities		**(1.5)**	(1.8)
Provisions	3	**(10.7)**	(11.7)
Non-current liabilities		**(12.2)**	(13.5)
Net assets		**140.3**	90.4
Equity			
Share capital		**2.3**	2.3
Share premium account		**45.8**	45.5
Capital redemption reserve		**0.6**	0.6
Special reserve		**13.7**	13.7
Retained earnings		**77.9**	28.3
Total equity		**140.3**	90.4

The Company reported a profit for the financial year ended 31 December 2021 of £93.5m (2020: loss of £12.3m).

The financial statements of the Company (company number 00521970) were approved by the Board and authorised for issue on 24 February 2022 and signed on its behalf by:

John Morgan
Chief Executive

Steve Crummett
Finance Director

Company statement of changes in equity

for the year ended 31 December 2021

	Share capital £m	Share premium account £m	Capital redemption reserve £m	Special reserve £m	Profit and loss account £m	Shareholders' funds £m
1 January 2020	2.3	38.5	0.6	13.7	59.8	114.9
Loss for the year	–	–	–	–	(12.3)	(12.3)
Other comprehensive income	–	–	–	–	–	–
Total comprehensive expense	–	–	–	–	(12.3)	(12.3)
Share option credit	–	–	–	–	(0.1)	(0.1)
Issue of shares at a premium	–	7.0	–	–	–	7.0
Tax relating to share options	–	–	–	–	(0.8)	(0.8)
Purchase of shares in the Company by the Trust	–	–	–	–	(9.6)	(9.6)
Exercise of share options	–	–	–	–	0.9	0.9
Dividends paid	–	–	–	–	(9.6)	(9.6)
1 January 2021	**2.3**	**45.5**	**0.6**	**13.7**	**28.3**	**90.4**
Profit for the year	–	–	–	–	93.5	93.5
Other comprehensive income	–	–	–	–	–	–
Total comprehensive income	–	–	–	–	93.5	93.5
Share option expense	–	–	–	–	12.1	12.1
Tax relating to share options	–	–	–	–	8.2	8.2
Issue of shares at a premium	–	0.3	–	–	–	0.3
Purchase of shares in the Company by the Trust	–	–	–	–	(33.6)	(33.6)
Exercise of share options	–	–	–	–	1.7	1.7
Dividends paid	–	–	–	–	(32.3)	(32.3)
31 December 2021	**2.3**	**45.8**	**0.6**	**13.7**	**77.9**	**140.3**

Significant accounting policies

for the year ended 31 December 2021

Basis of accounting

The separate financial statements of the Company are presented as required by the Companies Act 2006 ('the Act'). 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.

The Company's accounting policies are consistent with those described in the consolidated accounts of Morgan Sindall Group plc, except that, as permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to share-based payments, financial instruments, capital management, presentation of a cash flow statement and related party transactions. Where required, equivalent disclosures are given in the consolidated accounts. In addition, disclosures in relation to retirement benefit schemes (note 18), share capital (note 22) and dividends (note 7) have not been repeated here as there are no differences to those provided in the consolidated accounts. There are no critical judgements the directors have made within the Company financial statements.

These financial statements have been prepared on the going concern basis as set out in the basis of preparation to the consolidated financial statements on page 174, where the Company receives income in the form of dividends from other Group subsidiaries, and under the historical cost convention. The financial statements are presented in pounds sterling, which is the Company's functional currency, and unless otherwise stated have been rounded to the nearest £0.1m.

The Company has taken advantage of section 408 of the Act and consequently the statement of comprehensive income (including the profit and loss account) of the Parent Company is not presented as part of these accounts.

Notes to the Company financial statements

1 Staff costs

	2021 £m	2020 £m
Wages and salaries	**12.0**	17.9
Social security costs	**2.4**	–
Other pension costs	**0.3**	0.4
	14.7	18.3
The average number of employees	**103**	95

The 2020 wages and salaries costs include £7.7m repaid to HMRC under the UK government's CJRS furlough scheme. See note 4 of the consolidated financial statements.

Social security costs in include an expense of £0.9m (2020: benefit of £1.2m) related to the Group share option scheme.

2 Investments

	Subsidiary undertakings £m
Cost	
1 January 2021	440.9
Additions	20.0
Disposals	(1.3)
31 December 2021	**459.6**
Net book value at 31 December 2021	**459.6**
Net book value at 31 December 2020	440.9

Investment additions relate to a share subscription of £20m the Company made into its wholly-owned subsidiary, Morgan Sindall Property Services Limited, for the allotment of 20,000,000 ordinary shares of £1.00 each.

Investment disposals relate to the sale of the entire issued share capital of the Company's wholly-owned subsidiary, Newman Insurance Company Limited, to another wholly-owned subsidiary, MS (Mest) Limited, for consideration of £1.3m.

A list of all subsidiary, associated undertakings and significant holdings owned by the Group at 31 December 2021 is shown below:

Construction & Infrastructure

Name of undertaking	Direct or indirect holding	Group interest in allotted capital (%)
Morgan Sindall Construction & Infrastructure Ltd	Indirect	100
Bluestone Limited	Indirect	100
Magnor Plant Hire Limited	Direct	100
Morgan Sindall All Together Cumbria CIC (6)	Indirect	100
Morgan Sindall Engineering Solutions Limited	Indirect	100
Morgan Sindall Holdings Limited	Direct	100
Morgan Utilities Limited	Indirect	100
MS (MEST) Limited	Indirect	100
Newman Insurance Company Limited * (l)	Indirect	100
Baker Hicks Limited	Direct	100
Morgan Sindall Professional Services (Switzerland) Ltd	Indirect	100
BakerHicks AG * (e)	Indirect	100
BakerHicks GmbH * (f) (g)	Indirect	100

Fit Out

Name of undertaking	Direct or indirect holding	Group interest in allotted capital (%)
Overbury plc	Direct	100
Morgan Lovell plc	Direct	100

Notes to the Company financial statements continued

2 Investments continued

Property Services

Name of undertaking	Direct or indirect holding	Group interest in allotted capital (%)
Morgan Sindall Property Services Limited	Direct	100
Golden i Limited	Indirect	100
Lovell Powerminster Limited	Indirect	100
Manchester Energy Company Limited	Indirect	100

Partnership Housing

Name of undertaking	Direct or indirect holding	Group interest in allotted capital (%)
Lovell Partnerships Limited	Direct	100
Abbey Walk Management Company Limited (a) (2)	Indirect	100
AH Burnholme Limited	Indirect	100
Anthem Lovell LLP (1)	Indirect	50
Blossomfield (Thorp Arch) Management Company Limited (a) (2)	Indirect	100
Caldon Quay Residents Management Company Limited (a) (2)	Indirect	100
Chalkdene Developments LLP (1)	Indirect	50
Cherry Pie Meadow Residents Management Company Limited (a) (2)	Indirect	100
Claymore Roads (Holdings) Limited (c)	Indirect	50
Community Solutions for Education Limited	Indirect	100
Community Solutions for Regeneration Limited	Indirect	100
Community Solutions for Regeneration (Hertfordshire) Limited	Indirect	100
Community Solutions Living Limited	Indirect	100
Community Solutions Management Services Limited	Indirect	100
Community Solutions Management Services (Hub) Limited	Indirect	100
Community Solutions Partnership Services Limited	Indirect	100
Crosse Courts (Basildon) Management Company Limited (a) (2)	Indirect	100
Crown Meadows Residents Management Company Limited (a) (2)	Indirect	100

Name of undertaking	Direct or indirect holding	Group interest in allotted capital (%)
Drummond Park (Ludgershall) Residents Management Company Limited (a) (2) (**)	Indirect	100
Eden Valley Management Company Limited (a) (2)	Indirect	100
Electric Quarter Residents Management Company Limited (a) (2)	Indirect	100
Exford Drive Management Company Limited (a) (2)	Indirect	100
Fairfields Management Company Limited (a) (2)	Indirect	100
Firs Park Residents Management Company Limited (a) (2)	Indirect	100
Fountain Court Residents Company Limited (a) (2)	Indirect	100
Foxglove Meadows Residents Management Company Limited (a)(2)	Indirect	100
Gallus Fields Residents Management Company Limited (a) (2)	Indirect	100
Golwg Y Bryn Residents Management Company Limited (a) (2)	Indirect	100
HB Villages Developments (Crewe) Ltd	Indirect	100
HB Villages Developments (Stoke) Ltd	Indirect	100
Hamsard 3134 Limited	Indirect	100
Hamsard 3135 Limited	Indirect	100
Health Innovation Partners Limited	Indirect	50
Heath Farm Residents Management Company Limited (a) (2)	Indirect	100
hub West Scotland Limited (d)	Indirect	54
Ingleby View Management Company Limited (a) (2)	Indirect	100
Keepers Gate (WSM) Residents Management Company Limited (a) (2)	Indirect	100
Kensington Gardens Management Limited (a) (2)	Indirect	100
Laurus Lovell Whalley LLP (1)	Indirect	50
Laxton Close Management Company Limited (a) (2)	Indirect	100
Lockside Residents Management Company Limited (a) (2)	Indirect	100
Lovell Bow Limited	Indirect	100
Lovell Director Limited (a)	Indirect	100
Lovell Flagship LLP (1)	Indirect	50
Lovell Guf Limited (a)	Indirect	100

Notes to the Company financial statements continued

2 Investments continued

Name of undertaking	Direct or indirect holding	Group interest in allotted capital (%)
Lovell Later Living LLP (1)	Indirect	100
Lovell Latimer LLP (1)	Indirect	50
Lovell Plus Limited	Indirect	100
Lovell Property Rental Limited	Indirect	100
Lovell Together (Pendleton) LLP (1)	Indirect	50
Lovell Together LLP (1)	Indirect	50
Lovell/Abri Weymouth LLP (1)	Indirect	50
Lymington Mews Management Company Limited (a) (2)	Indirect	100
Meggeson Management Company Limited (a) (2)	Indirect	100
Minshull Way Residents Management Company Limited (a) (2)	Indirect	100
Morgan Sindall Consortium LLP (1)	Indirect	100
Morgan Sindall Investments (Newport SDR) Limited	Indirect	100
Morgan-Vinci Limited	Indirect	50
Mount View (Melton Mowbray) Residents Company Limited (a) (2)	Indirect	100
Oakfield Grange (Llantarnam) Residents Management Company Ltd (a) (2)	Indirect	100
Oaktree Grange Residents Management Company Limited (a) (2)	Indirect	100
Oriel View Residents Management Company Limited (a) (2)	Indirect	100
Pich Management Company Limited (a) (2)	Indirect	100
Principal Point Residents Management Company Limited (a) (2)	Indirect	100
Queensbury Park Management Company Limited (a) (2)	Indirect	100
RMC The Meadows, Clifton-upon-Teme Limited (a) (2)	Indirect	100
Romsey Extra Care Limited	Indirect	100
Ruby Brook Estate Management Company Limited (a) (2)	Indirect	100
Ruby Brook Management Company Limited (a) (2)	Indirect	100
Saddlers Grange (Howden) Management Company Limited (a) (2)	Indirect	100

Name of undertaking	Direct or indirect holding	Group interest in allotted capital (%)
Saints Quarter (Steelhouse Lane) Residents Management Company Limited (a) (2)	Indirect	100
Saredon Gardens Residents Management Company Limited (a) (2)	Indirect	100
Shawbrook Manor (Residents) Management Company Limited (a) (2)	Indirect	100
Somerford Park Residents Management Company Limited (a) (2)	Indirect	100
St Mary's View (Residents) Management Company Limited (a) (2)	Indirect	100
Station Fields Residents Management Company Limited (a) (2)	Indirect	100
Station House (Stourbridge) Management Company Limited (a) (2)	Indirect	100
Tennyson Fields Management Company Limited (a) (2)	Indirect	100
The Acorns (Walsham Le Willows) Residents Management Company Limited (a) (2)	Indirect	100
The Compendium Group Limited	Indirect	50
The East Avenue 2 Residents Management Company Limited (a) (2)	Indirect	100
The East Avenue Residents Management Company Limited (a) (2)	Indirect	100
The Laureates Residents Management Company Limited (a) (2)	Indirect	100
The Mill (Site 1) Residents Management Company Limited (a) (2)	Indirect	100
The Mill (Site 2) Residents Management Company Limited (a) (2)	Indirect	100
The Spires Residents Management Company Limited (a) (2)	Indirect	100
The Sycamores (Kirk Ella) Management Company Limited (a) (2)	Indirect	100
The Way Beswick (Zone 1) Management Limited (a) (2)	Indirect	100
The Way Beswick (Zone 2) Management Limited (a) (2)	Indirect	100
The Way Beswick (Zone 3) Management Limited (a) (2)	Indirect	100
The Way Beswick (Zone 4) Management Limited (a) (2)	Indirect	100
The Way Beswick (Zone 5) Management Limited (a) (2)	Indirect	100
The Way Beswick (Zone 6) Management Limited (a) (2)	Indirect	100
The Way Beswick (Zone 7) Management Limited (a) (2)	Indirect	100
Tixall View Residents Management Company Limited (a) (2)	Indirect	100
Towcester Regeneration Limited	Indirect	100

Notes to the Company financial statements continued

2 Investments continued

Name of undertaking	Direct or indirect holding	Group interest in allotted capital (%)
Trinity Walk Residents Management Company Limited (a) (2)	Indirect	100
Victoria Court (Newport No 1) Residents Management Company Limited (p) (2)	Indirect	50
Waterside Quay Residents Management Company Limited (a) (2)	Indirect	100
Wellspring Finance Company Limited	Indirect	49.5
Wellspring Partnership Limited (b)	Indirect	90
Wensum Grange Management Company Limited (a) (2)	Indirect	100
West Sussex Property Development LLP (1)	Indirect	50
Westcroft 12 Management Company Limited (a) (2)	Indirect	100
Weston Woods Residents Management Company Limited (a) (2)	Indirect	100
Weymouth Community Sports LLP (1)	Indirect	100
William's Park Residents Management Company Limited (a) (2)	Indirect	100
Willow Grange (Lakeside) Residents Management Company Limited (a) (2)	Indirect	100
Woodlark Chase (Warren Drive) Residents Management Company Limited (a) (2)	Indirect	100
YMYL YR Afon Residents Management Company Limited (a) (2)	Indirect	100

Urban Regeneration

Name of undertaking	Direct or indirect holding	Group interest in allotted capital (%)
Muse Developments Limited	Direct	100
Alexandria Business Park Management Company Limited (5)	Indirect	100
Ashton Moss Developments Limited	Indirect	50
Brentwood Development Partnership LLP (1)	Indirect	50
Bromley Park (Holdings) Limited	Indirect	50
Brook House (Brixton) Management Company Limited (n) (2) (7)	Indirect	100
Chatham Place (Building 1) Limited	Indirect	100
Chatham Place Building 1 (Commercial) Limited	Indirect	100
Chatham Square Limited	Indirect	100
Cheadle Royal Management Company Limited (h) (3)	Indirect	27.9
Community Solutions for Regeneration (Bournemouth) Limited	Indirect	100
Community Solutions for Regeneration (Brentwood) Limited	Indirect	100
Community Solutions for Regeneration (Slough) Limited	Indirect	100
ECF (General Partner) Limited (i)	Indirect	33.3
English Cities Fund (i) (4)	Indirect	22.9
Eurocentral Partnership Limited	Indirect	99
EPL Contractor (Plot B West) Limited	Indirect	99
EPL Contractor (Plot F East) Limited	Indirect	99
EPL Contractor (Plot F West) Limited	Indirect	99
EPL Developer (Plot B West) Limited	Indirect	99
EPL Developer (Plot F East) Limited	Indirect	99
EPL Developer (Plot F West) Limited	Indirect	99
Harrier Park Management Company Limited (2)	Indirect	100
ICIAN Developments Limited	Indirect	100
Intercity Developments Limited	Indirect	50
Ivor House (Brixton) Management Company Limited (n) (2)	Indirect	100
Lewisham Gateway Developments (Holdings) Limited	Indirect	100
Lewisham Gateway Developments Limited	Indirect	100
Lingley Mere Business Park Development Company Limited (j)	Indirect	50
Logic Leeds Management Company Limited (2)	Indirect	50
Muse Aberdeen Limited	Indirect	100
Muse (Brixton) Limited	Indirect	100
Muse (ECF) Partner Limited	Indirect	100
Muse (Warp 4) Partner Limited	Indirect	100

Notes to the Company financial statements continued

2 Investments continued

Name of undertaking	Direct or indirect holding	Group interest in allotted capital (%)
Muse Brixton (Phase 2) Limited	Indirect	100
Muse Chester Limited	Indirect	100
Muse Developments (Northwich) Limited	Indirect	100
Muse Properties Limited	Indirect	100
North Shore Development Partnership Limited	Indirect	100
Northshore Management Company Limited (2)	Indirect	50
Olive Morris House (Brixton) Management Company Limited (o) (2)	Indirect	100
Rail Link Europe Limited	Indirect	100
Slough Urban Renewal LLP (1)	Indirect	50
Sovereign Leeds Limited	Indirect	100
St Andrews Brae Developments Limited	Indirect	50
The Bournemouth Development Company LLP (1)	Indirect	50
Wapping Wharf (Alpha) LLP (1)	Indirect	50
Wapping Wharf (Beta) LLP (1)	Indirect	40
Warp 4 General Partner Limited	Indirect	100
Warp 4 General Partner Nominees Limited	Indirect	100
Warp 4 Limited Partnership (4)	Indirect	100
Waterside Places (General Partner) Limited (k)	Indirect	50
Waterside Places Limited Partnership (k) (4)	Indirect	50
Wirral Growth Company LLP (m) (1)	Indirect	50

Morgan Sindall Group

Name of undertaking	Direct or indirect holding	Group interest in allotted capital (%)
Barnes & Elliott Limited	Direct	100
Bluebell Printing Limited	Direct	100
Hinkins & Frewin Limited	Direct	100
Lovell Partnerships (Northern) Limited	Direct	100
Lovell Partnerships (Southern) Limited	Direct	100
Morgan Est (Scotland) Limited (b)	Direct	100
Morgan Beton And Monierbau Limited (b)	Indirect	50
Morgan Lovell London Limited	Direct	100
Morgan Sindall Investments Limited	Direct	100
Morgan Sindall Trustee Company Limited	Direct	100
Morgan Utilities Group Limited	Direct	100
Roberts Construction Limited	Direct	100
Sindall Eastern Limited	Indirect	100
Snape Design & Build Limited	Indirect	100
Stansell Limited	Direct	100
T J Braybon & Son Limited	Direct	100
The Snape Group Limited	Direct	100
Underground Professional Services Limited	Direct	100
Wheatley Construction Limited	Direct	100

* With the exception of Newman Insurance Company Limited, registered and operating in Guernsey, BakerHicks AG, registered and operating in Switzerland, and BakerHicks GmbH, registered and operating in Austria and Germany, all undertakings are registered in England and Wales or Scotland and the principal place of business is the UK.

** Incorporated 13 January 2022.

Notes to the Company financial statements continued

2 Investments continued

Unless otherwise stated the registered office address for each of the above is Kent House, 14-17 Market Place, London W1W 8AJ.

Registered office classification key:

(a) One Eleven, Edmund Street, Birmingham, West Midlands B3 2HJ

(b) 1 Rutland Court, Edinburgh EH3 8EY

(c) Cannon Place, 78 Cannon Street, London EC4N 6AF

(d) 6th Floor Merchant Exchange, 20 Bell Street, Glasgow G1 1LG

(e) Badenstrasse 3, 4057, Basel, Switzerland

(f) Albert-Nestler-Strasse 26, 76131 Karlsruhe, Germany

(g) Am Euro Platz 3, 1120 Wien, Austria

(h) 2 New Bailey, 6 Stanley Street, Salford, Greater Manchester M3 5GS

(i) One Coleman Street, London EC2R 5AA

(j) Haweswater House, Lingley Mere Business Park, Lingley Green Avenue, Great Sankey, Warrington WA5 3LP

(k) National Waterways Museum, Ellesmere Port, South Pier Road, Ellesmere Port, Cheshire CH65 4FW

(l) Willis Management (Guernsey) Limited, Suite 1 North, First Floor, Albert House, South Esplanade, St Peter Port, Guernsey, GY1 1AJ

(m) C/o Head of Legal Wirral Borough Council, Town Hall, Brighton Street, Walllasey, Wirral, CH44 8ED

(n) C/o Prism Cosec Ltd, Highdown House, Yeoman Way, Worthing, West Sussex, BN99 3HH

(o) Riverside House, Irwell Street, Salford, M3 5EN

(p) 7 Neptune Court, Vanguard Way, Cardiff CF24 5PJ

Unless otherwise stated, the Group's interest is in the ordinary shares issued (or the equivalent of ordinary shares issued in the relevant country of issue).

Classification key:

(1) Limited Liability Partnership.

(2) Limited by guarantee.

(3) Holding of ordinary and special shares.

(4) Limited Partnership.

(5) Holding of special shares.

(6) Community Interest Company.

(7) Holding of voting rights.

The proportion of ownership interest is the same as the proportion of voting power held except English Cities Fund and hub West Scotland, details of which are shown in note 12 of the consolidated financial statements.

3 Provisions

	Self-Insurance £m	Other £m	Total £m
1 January 2020	9.7	7.4	17.1
Utilised	(0.7)	(2.7)	(3.4)
Additions	2.5	0.7	3.2
Released	(0.1)	(0.2)	(0.3)
1 January 2021	**11.4**	**5.2**	**16.6**
Utilised	(0.5)	(4.9)	(5.4)
Additions	1.5	–	1.5
Released	(2.0)	–	(2.0)
31 December 2021	**10.4**	**0.3**	**10.7**
Non-current	10.4	0.3	10.7
31 December 2021	**10.4**	**0.3**	**10.7**

Self-insurance provisions

Self-insurance provisions comprise the Group's self-insurance of certain risks. The Group makes provisions in respect of specific types of claims incurred but not reported (IBNR). The valuation of IBNR considers past claims experience and the risk profile of the Group. These are reviewed periodically and are intended to provide a best estimate of the most likely or expected outcome.

Other provisions

Other provisions include property dilapidations and other personnel related provisions.

The majority of the provisions are expected to be utilised within 10 years.

Shareholder information

Analysis of shareholdings at 31 December 2021

Holding of shares	Number of accounts	Percentage of total accounts	Number of shares	Percentage of total shares
Up to 1,000	1,045	58.54	443,089	0.95
1,001 to 5,000	454	25.43	895,468	1.93
5,001 to 100,000	214	11.99	5,606,268	12.09
100,001 to 1,000,000	64	3.59	19,652,101	42.38
Over 1,000,000	8	0.45	19,777,947	42.65

Useful contacts

Morgan Sindall Group plc

Registered office
Kent House, 14–17 Market Place,
London W1W 8AJ

Registered in England and Wales
Company number: 00521970

General queries

Email: cosec@morgansindall.com
Telephone: 020 7307 9200

Registrar

All administrative enquiries relating to shareholdings, such as lost certificates, changes of address, change of ownership or dividend payments and requests to receive corporate documents by email should, in the first instance, be directed to the Company's registrar and clearly state the shareholder's registered address and, if available, the full shareholder reference number:

By post: Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol BS99 6ZZ
By phone: +44 (0) 370 707 1695. Lines open 8.30am to 5.30pm (UK time), Monday to Friday
By email: webcorres@computershare.co.uk
Online: investorcentre.co.uk

Shareholders who receive duplicate communications from the Company may have more than one account in their name on the register of members. Any shareholder wishing to amalgamate such holdings should write to the Registrar giving details of the accounts concerned and instructions on how they should be amalgamated.

Shareholders who do not currently have their dividends paid directly to a UK bank or building society account and wish to do so should complete a mandate instruction available from the registrar on request or at investorcentre.co.uk in the 'Downloadable Forms' section.

Financial calendar 2022

Ex-dividend date – final dividend	28 April 2022
Record date to be eligible for final dividend	29 April 2022
AGM and trading update	5 May 2022
Payment date for final dividend	18 May 2022
Half-year results announcement	August 2022
Interim dividend payable	October 2022
Trading update	November 2022

Group website and electronic communications

A wide range of Company information is available on our website including:

- financial information – annual reports and half-year results;
- financial news and events;
- share price information;
- shareholder services information; and
- press releases – both current and historical.

Shareholder documents are made available via our website, unless a shareholder has requested hard copies from the registrar.

Forward-looking statements

This document and written information released, or oral statements made, to the public in the future by or on behalf of the Group, may include certain forward-looking statements, beliefs or opinions that are based on current expectations or beliefs, as well as assumptions about future events. These forward-looking statements give the Group's current expectations or forecasts of future events. Forward-looking statements can be identified by the fact that they do not relate strictly to historical or current facts. Without limitation, forward-looking statements often use words such as anticipate, target, expect, estimate, intend, plan, goal, believe, will, may, should, would, could or other words of similar meaning. No assurance can be given that any particular expectation will be met and shareholders are cautioned not to place undue reliance on any such statements because, by their very nature, they are subject to risks and uncertainties and can be affected by other factors that could cause actual results, and the Group's plans and objectives, to differ materially from those expressed or implied in the forward-looking statements.

All forward-looking statements contained in this document are expressly qualified in their entirety by the cautionary statements contained or referred to in this section.

There are several factors that could cause actual results to differ materially from those expressed or implied in forward-looking statements. Among the factors that could cause actual results to differ materially from those described in forward-looking statements are changes in the global, political, economic, business, competitive, market and regulatory forces, fluctuations in exchange and interest rates, changes in tax rates and future business combinations or dispositions.

Forward-looking statements speak only as of the date they are made. Other than in accordance with its legal or regulatory obligations (including under the UK Listing Rules and the Disclosure and Transparency Rules of the Financial Conduct Authority), the Group, its directors, officers, employees, advisers and associates disclaim any intention or obligation to revise or update any forward-looking or other statements contained within this document, regardless of whether those statements are affected as a result of new information, future events or otherwise, except as required by applicable law.

Appendix – carbon emissions background and terminology

Science-based targets

Following the global agreement on climate change action (CoP 21, Paris, December 2015), companies were encouraged to set greenhouse gas emission reduction targets based on science. Targets are calculated according to the reduction required to keep global warming within an agreed level of temperature rise. Originally, the Paris Agreement was written around a 2ºC warming model above preindustrial levels and pursuing efforts to limit the temperature increase to 1.5ºC above preindustrial levels. The calculation of targets varies according to industry sector and the contribution the sector makes to global emissions.

Science-based targets are calculated to eliminate all emissions to the atmosphere by 2050. The Science Based Targets Initiative is a collaboration between CDP, the United Nations Global Compact, World Resources Institute (WRI) and World-Wide Fund for Nature (WWF). The initiative uses the latest available climate science to define best practice in science-based target-setting, offers resources and guidance to reduce barriers to adoption and independently assess company's assets against validation criteria.

Types of emissions

The Greenhouse Gas Protocol is a globally recognised framework for measuring and managing greenhouse gas emissions. The Protocol defines three types – scopes – of emissions.

Scope 1 (direct emissions) covers the direct emissions to air under an organisation's control. These mainly include gas boilers and fuel used in vehicle fleets.

Scope 2 (indirect emissions) covers the emissions produced during the generation of electricity purchased and consumed by an organisation. Published emission factors are used as multipliers to calculate Scope 2 emissions based on consumption. As the generation of electricity shifts away from fossil fuels, these emission factors change.

Scope 3 covers all other indirect emissions, upstream and downstream of the business. There are 15 categories for Scope 3 emissions. Some are relatively simple to measure and report (e.g. air travel and commuting), while others are more difficult (e.g. purchased goods and materials and products in use). The more straightforward ones are generally reported as part of an organisation's emissions (often referred to as 'limited disclosure'); we refer to these as our 'operational Scope 3 emissions'. If a company's Scope 3 emissions are 40% or more of its total emissions, reduction targets for Scope 3 need to be included as part of agreed science-based targets. (This includes all 15 categories, where they are relevant or significant).

Our emissions

Our emissions are broken down as follows:

Scope 1

- Other fuels – emissions via air conditioning (kg of gas recharge and gas type), generation of electricity (fuel consumption/litres of gas oil)
- Company cars – petrol purchased on Arval fuel cards (Litres)
- Transport fuels
- Natural gas (kWh)

Scope 2

- Electricity purchased (kWh)
- Steam and heat purchased from offsite (kWh)
- Electricity consumed in landlord-controlled offices (metres cubed of lease floor area)

Operational Scope 3

- Electricity upstream generation, transmission and distribution losses
- Employees with travel allowances - petrol purchased via expense claims and mileage claims (miles)
- Transport – other – public transport including air travel, train or tube (passenger miles), supplier freight (miles)
- Waste – tonnes of waste produced
- Water and waste water – metres cubed of potable water consumption and waste water generation

Wider Scope 3

- Carbon embodied in the materials (emitted during raw extraction, manufacture, transport to site, and disposal or recycling)
- Carbon emitted during construction (via energy use and waste)
- Estimated carbon emitted from operating the buildings for 60 years following handover to the client, based on how our clients tell us they will use the buildings

We are working with our supply chain and clients to gather this data.

Offsets

Offsets are a mechanism whereby companies can effectively buy "credits" to reduce the balance of their carbon emissions. An offset is generally an investment in a recognised emission reduction activity or process that reduces or removes carbon dioxide, and other greenhouse gases such as methane, from the atmosphere. Offsetting is a relatively complex subject and not all offsets are recognised by the UN, which publishes a list of recognised projects.

Offsets are not currently accepted as part of an organisation's science-based targets. However, according to the Science Based Targets Initiative, the body responsible for approving and assuring science-based targets, offsetting can play two roles in science-based net zero strategies:

1. In the transition to net zero: companies may opt to compensate or to neutralise emissions that are still being released into the atmosphere while they transition towards a state of net zero emissions.
2. At net zero: companies with residual emissions within their value chain are expected to neutralise those emissions with an equivalent amount of carbon dioxide removals.

Net zero

The ambition of many countries and organisations is to become net zero, effectively having a zero account on their carbon balance sheet. True net zero emissions are represented by the Science Based Targets Initiative's 2050 goal. However, not all industries will be able to meet this target no matter what measures are implemented to reduce emissions. For example, current technology will not enable the aviation sector to become true net zero.

The current terminology for net zero is not the same as achieving zero emissions by 2050 (science-based targets). In the past, some companies have claimed to be carbon neutral (net zero) simply by purchasing a large amount of offsets (often forestry). It is still possible for a company to become 'net zero' almost immediately by offsetting. However, this does not ultimately achieve the goal of eliminating all emissions.

Responsible businesses are now approaching net zero by examining their carbon emissions trajectory (often one that has been approved by the Science Based Targets Initiative) at two levels: reductions made possible by behavioural change and reductions through development and implementation of new technologies. It is only then that any remaining emissions are offset. The type of offsetting implemented to achieve net zero is currently up to the individual organisation, but there are many offsets provided on the market which do not meet accepted quality criteria. Quality carbon offset credits must be associated with greenhouse gas reductions or removals that are:

- additional (i.e. that the mitigation activity would not have taken place in the absence of the added incentive created by the carbon credits);
- not overestimated;
- permanent;
- not claimed by another entity; and
- not associated with significant social or environmental harms.

Source: Securing Climate Benefit – A Guide to Using Carbon Offsets. Stockholm Environment Institute & Greenhouse Gas Management Institute.

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