



Who we are

Morgan Sindall Group is a leading UK construction and regeneration group, operating through five divisions:

Construction

Construction & Infrastructure

Morgan Sindall Construction & Infrastructure Ltd provides infrastructure services in the highways, rail, aviation, energy, water and nuclear markets, including tunnel design; and construction services in education, healthcare, commercial, defence, industrial, leisure and retail. Baker Hicks Limited offers a multidisciplinary design and engineering consultancy based in the UK and Switzerland.

Fit Out

Overbury plc specialises in fit out and refurbishment in commercial, central and local government offices, retail banking and 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.

Regeneration

Partnership Housing

Lovell Partnerships Limited delivers housing through mixed-tenure and contracting activities. Mixed tenure includes building and developing homes for open market sale, affordable rent, private renting or shared ownership in partnership with local authorities and housing associations. Contracting includes the design and build of new homes and planned maintenance and refurbishment for clients who are mainly local authorities, housing associations and the Defence Infrastructure Organisation.

Urban Regeneration

Muse Developments Limited works with landowners and public sector partners to transform the urban landscape through the development of multi-phase sites and mixed-use regeneration, including residential, commercial, retail and leisure.

Up until the end of 2020, the Group's Investments division, through Morgan Sindall Investments Limited, provided construction and regeneration opportunities through long-term strategic partnerships, and the division is included in this report as a separate reporting segment. As of January 2021, Investments' activities were transferred to Partnership Housing and Urban Regeneration.

Cover image

The Spine, Liverpool

While a global pandemic dominated 2020, we adapted to new, safe ways of working and our sites were able to reopen. Our Construction business continued to help bring to life buildings which will play a special role in public health. The Spine, in Liverpool, is a new £35m structure which will be a second headquarters for the Royal College of Physicians (RCP). The offices are being completed by our Fit Out division. RCP represents some 37,000 doctors globally and leads on public health and patient care. The building, designed by architects AHR, is named after the staircase that runs up its north elevation. The structure will be the gateway to the Knowledge Quarter in Liverpool City Council's £1bn Paddington Village innovation district, a 30-acre development which aims to bolster the city's economy and bring knowledge-based jobs in the spheres of science, education, healthcare and technology.

2020 overview

REVENUE £3,034m 2019: £3,071m -1%	PROFIT BEFORE TAX (ADJUSTED*) £63.9m 2019: £90.4m -29%
OPERATING PROFIT (ADJUSTED*) £68.5m 2019: £93.1m -26%	PROFIT BEFORE TAX £60.8m 2019: £88.6m -31%
OPERATING PROFIT £65.4m 2019: £91.3m -28%	BASIC EARNINGS PER SHARE (ADJUSTED*) 108.6p 2019: 161.2p -33%
YEAR-END NET CASH £333m 2019: £193m +72%	BASIC EARNINGS PER SHARE 99.8p 2019: 157.9p -37%
SECURED WORKLOAD £8,290m 2019: £7,593m +9%	TOTAL DIVIDEND 61.0p 2019: 21.0p +190%
LOST TIME INCIDENTS¹ 111 2019: 127 -13%	CARBON INTENSITY³ 7.5 2019: 8.9 -16%
COMMITTED TO REDUCE SCOPE 1 AND 2 CARBON EMISSIONS BY 30% by 2025 ²	COMMITTED TO DELIVER SOCIAL VALUE PER £1 SPENT OF 85p by 2025

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

1 Incidents resulting in absence from work for a minimum of one working day, excluding the day the incident occurred.

2 Against 2019 baseline. Scope 1 emissions are direct from owned or controlled sources and Scope 2 are generated from purchased energy.

3 Carbon intensity is total carbon emissions per £m of revenue.

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This annual report covers our financial and non-financial performance in 2020 and includes information that is material to our business. We have not produced a separate responsible business report for 2020, integrating it instead within a new 'responsibility' section that outlines our key environmental, social and governance activities during the year. Further information on our responsible business strategy and activities can be found on our website at morgansindall.com.

Chief Executive's statement

While the year was dominated by the Covid-19 pandemic, our results reflect the resilience across the Group and the benefits of actions we have taken in recent years to maintain contract selectivity, further improve payments to our supply chain and maintain a strong cash position at all times.

Throughout the year, we had to adapt quickly and decisively to the continually changing external environment. I would sincerely like to thank all our employees for their commitment and dedication throughout. I am extremely proud of the way our people have stepped up in these adverse times.

Despite the different challenges faced by each division, the Group has continued to make strategic and operational progress. Again, we have an improved cash position and have further strengthened our balance sheet, allowing us to make the right decisions and take the right actions for the long-term benefit of the business. Our strategy remains the same, based on organic growth and operational improvement in markets geared towards future demand for affordable housing, urban regeneration, and investment in infrastructure and construction. We welcome the government's continued support for our activities and the recognition of the industry as a key driver for economic stability and recovery.

We had a strong start to 2020, building on the significant momentum carried through from 2019, and in the first quarter our revenue was up 17% on the previous year. With the onset of Covid-19 and subsequent lockdown restrictions our trading and activity were, of course, significantly impacted. However, the industry mobilised quickly to agree new site operating procedures with the Construction Leadership Council to enable the safe resumption of work on site. In addition, the Group's decentralised structure gave our divisions the flexibility to rapidly adopt new approaches to suit their employees, clients and supply chain partners. We were therefore able to restore momentum to the business in the second half of the year.

The initial disruption and general uncertainty at the start of the pandemic meant that we had to take some important decisions for the long-term interests of the Group while giving careful consideration to all stakeholders who would be affected. We cancelled the final dividend of 38p that had been announced in February 2020. Our Board and senior management team took voluntary salary reductions of 20% for three months, and some of our employees took voluntary salary reductions of 10% for two months. We accessed the government's Coronavirus Job Retention Scheme (CJRS), took advantage of permissions to defer tax payments, and qualified for the Bank of England's Covid Corporate Financing Facility (CCFF). We regarded these as prudent measures to safeguard the Group's liquidity while market and economic conditions were uncertain.

By the end of July, we had successfully adapted to new ways of working safely, with nearly all sites open, active and operating at high levels of productivity. Our financial position had remained robust and resilient and we had greater visibility of our year's performance. By the end of October, we had repaid the £9.5m we received under the CJRS, having used it to safeguard many jobs, and by the end of the year, had repaid all deferred tax amounts. All of our employees who had taken salary reductions were fully reimbursed; the Board and senior management team volunteered not to be repaid. More detail on the measures taken by the Board in response to the impact of

the pandemic is provided on page 64. The industry's successful implementation of the new site operating procedures contributed to the Prime Minister's decision in October to allow construction activity to continue throughout the November lockdown in England. This enabled the Group to continue operating safely with minimal impact.

Despite certain delays to decision-making in progressing projects among some of our clients, we continued to win work throughout the year. At the year end, the Group had a total secured workload of £8,290m, up 9% from the previous year.

The Covid-19 pandemic has not changed our business model. We continue to focus on construction and regeneration, investing cash from construction in regeneration schemes. As of January 2021, we have made a change to our organisational structure, transferring the activities of our Investments division to Partnership Housing and Urban Regeneration. We believe this will clarify our offering to the market as well as achieving operational efficiencies.

Our responsibility as a business

We want our business to benefit all our stakeholders. The health, safety and wellbeing of our employees, supply chain and anyone coming into contact with our projects, remained our first priority as we adapted to new ways of working during the pandemic. The talents of our people and the long-term relationships we have developed with our supply chain partners proved invaluable to us in 2020. We have tried to give them as much support as they have needed during this difficult period; this has included maintaining regular contact with people working from home, keeping site workers safe, and supporting our suppliers and contractors by improving payment terms.

We regrettably made a number of redundancies across the Group, some due to the business impact of Covid-19 and others to drive improvements in operational efficiency. Wherever possible, we found people alternative roles within the Group. Approximately 6.7% of our employees were made redundant during the year, and a further 2.9% were transferred to other roles.

Our current responsible business priorities are: to help combat climate change by reducing our carbon emissions and waste; to improve diversity and inclusion across the Group; the health, safety and wellbeing of our employees; working with our supply chain; and supporting local communities.

We have committed the Group to a goal of net zero carbon emissions by 2030. We will achieve this by continuing to work towards externally-verified, science-based targets, which are calculated to contribute to limiting global warming to well below 2°C compared to pre-industrial levels (and will be revised in 2021 to align to the lower level of 1.5°C); and by being clear and transparent about our off-setting activities – this means investing in UK carbon reduction initiatives that are long-term and sustainable, and only using offsetting once we have taken action to reduce emissions. To help us drive progress, we have, as of 1 January 2021, introduced an internal charge on our emissions that will be paid into a climate change fund. We fully support the Task Force on Climate-related Financial Disclosures (TCFD) and have made our first disclosure this year (see page 17). More detail on our approach to carbon reduction can be found on pages 13 to 15.

In 2020, we circulated a survey on diversity and inclusion to all of our employees and are compiling an action plan for improvement based on the results. Some of the new ways of working that we introduced in response to Covid-19, such as different trades working separately on sites and more frequent working from home, have proven to be beneficial in the long term for both safety and efficiency and we are continuing with them.

We continued in the year to collaborate with our supply chain on measures to reduce energy consumption and waste and to keep improving the speed of our payments. Our support for local communities continued too; we ran virtual training programmes for local unemployed people, virtual work experience programmes, and continued to offer apprenticeships.

During the year we undertook a survey of internal and external stakeholders to find out which responsible business issues they believe should be the key focus for the Group. We do this every two years to ensure that our priorities are aligned to those of our stakeholders. The results of the 2020 survey showed that our five Total Commitments to being a responsible business (see page 7) remain appropriate. But we have made some changes to the way we drive our progress against them, including setting ourselves new, more stretching targets to ensure we are fit for the future.

Read more on our responsible business strategy and activities on page 7 and pages 13 to 27.

Our financial performance

Trading across all divisions was significantly impacted by the onset of Covid-19 and the subsequent lockdown restrictions in late March. As a result, revenue in the second quarter of the year was down 23% on the prior year. With the gradual lifting of lockdown restrictions in the first half and then through the subsequent tier system and further national lockdown in the second half, there was no further material impact on the Group's operations. Revenue in the second half of the year recovered well and was 1% up on the prior year, resulting in revenue for the year of £3,034m, a reduction of 1% (2019: £3,071m).

The additional costs incurred from site closures, lower productivity on sites, and implementation of the new safety processes and procedures, impacted profitability in the year, as did construction delays on many of the development schemes in the regeneration activities. As a result, the adjusted* operating profit for the year was down 26% to £68.5m (2019: £93.1m), being down 52% in the first half and down only 9% in the second half. The full-year adjusted* operating margin was 2.3%, down from 3.0% in the prior year. The operating margin improved in the second half of the year, up from 1.3% in the first half (H1 2019: 2.6%) to 3.0% in the second half (H2 2019: 3.4%), approaching margin levels achieved pre-Covid-19. Consequently, the adjusted* profit before tax was £63.9m, down 29% (2019: £90.4m). The statutory profit before tax was £60.8m (2019: £88.6m).

From a divisional perspective, Construction & Infrastructure delivered a strong performance in the year, driven by Infrastructure, with operating profit up 11% to £35.7m (2019: £32.3m) and operating margin maintained at 2.2%. Fit Out delivered a resilient performance with a result that reflected the high quality of its business; the division achieved improved operating margin to 4.6% (2019: 4.4%) and operating profit of £32.1m (2019: £36.9m). Property Services' volumes returned to more normalised levels in the second half of the year, with full-year operating profit of £1.0m (2019: £4.3m). Partnership Housing continued to make strategic and operational progress, positioning it for future growth; its operating margin improved slightly to 3.7% (2019: 3.6%), with an operating profit of £16.1m (2019: £18.3m). Steady progress was achieved across Urban Regeneration's long-term regeneration schemes, although the division's operating profit was lower at £9.2m (2019: £19.4m).

* See note 2 for alternative performance measure definitions and reconciliations.

Dividend

In November, based on the performance of the business, the outlook for the year at that time and the strong cash position, the Board declared an interim dividend of 21.0p per share, which was paid in December.

A final dividend of 40.0p per share is now proposed, resulting in a total dividend for the year of 61.0p per share (2019: 21.0p). This reflects the result for the year, the strong balance sheet and the Board's confidence in the future prospects of the Group.

Looking to the future

The Group is set for strong growth in 2021. The quality of our secured workload, together with maintaining discipline in contract selectivity irrespective of economic conditions, is key to our future success. At the year end, we had a high quality and growing order book of £8.3bn and we are well positioned to benefit from UK investment trends. The Group is on track to deliver a result which is materially ahead of our previous expectations and slightly ahead of that delivered in 2019.

John Morgan

Chief Executive
25 February 2021

Section 172 statement

In taking strategic, financial and operational decisions, the Board, our Group management team and employees seek to promote the success of the Group for the benefit of all stakeholders in line with directors' duties as set out in Section 172 of the Companies Act 2006. This means having regard to, among other things:

- the likely consequences of any decision in the long term;
- the interests of the Company's employees;
- the need to foster the Company's business relationships with suppliers, customers and others;
- the impact of the Company's operations on the community and the environment;
- the Company's reputation for high standards of business conduct; and
- the need to act fairly as between members of the Company.

The Board's response to Covid-19 clearly demonstrates its application of Section 172. As the impact of the pandemic evolved over the last nine months of 2020, the Board developed and adapted its response to address the needs of different stakeholders. At the beginning of the lockdown, the Board committed to taking account of the interests of the Group's stakeholders while continuing to promote the Group's success over the long term. From March 2020, due to the significant uncertainty of how Covid-19 would impact on the Group, the Board implemented a number of actions, which included, but were not limited to, cancelling the full-year dividend and accessing the UK government's Coronavirus Job Retention Scheme (CJRS). Later in the year, as the Board obtained greater visibility of how the Group would perform, it agreed to repay the CJRS monies received and to pay an interim dividend. Full details of the Board's response to Covid-19 are set out on page 64.

In discharging its Section 172 duties, the Board has adopted a strategic approach to stakeholder engagement. While the Board has overall responsibility for managing relationships with all our stakeholders, our decentralised approach has led us to define which stakeholder groups are most practically engaged with directly by the Board and which directly by the divisions. The Board supervises the divisions' engagement with their stakeholders, principally through monthly management meetings between the divisional senior management teams and the Group executive directors.

The Board has identified its and the Company's key stakeholders as our shareholders, employees and funders; our divisions manage relationships with their employees, clients, supply chain partners and local communities.

The Board recognises that stakeholder engagement helps to ensure that the perspectives of stakeholders are understood and taken account of when key strategic, financial and operational decisions are being taken. Fostering an open, constructive dialogue with our stakeholders should help to ensure that the Group is a business that people trust and want to partner with, work for and invest in.

Details of how we have engaged as a Group with our stakeholders can be found on pages 22 and 23 of the strategic report. The Board's direct engagement with its key stakeholders is described on pages 66 and 67 in the directors' and corporate governance report. The Board's consideration of the Group's key stakeholders in its decision-making is described on pages 63 to 65.

With regard to the environment and broader community, the Board has identified key social and environmental priorities for the Group, which are stated on page 2 and addressed in detail on pages 13 to 27. Planning and operational decisions made by the divisions will take into account the impact of our work in construction and regeneration. The Board, assisted by the health, safety and environment committee, monitors the Group's performance in relation to safety and the reduction of carbon emissions and waste.

Market overview

There are five fundamental trends that will support growth in the Group in the medium to long term. We target sectors that are forecast to grow and our diverse portfolio of activities mitigates the impact of fluctuations within each market.

HOUSING CRISIS

£12bn

of government investment in affordable housing

According to The National Housing Federation, England will need 340,000 new homes, including 145,000 affordable homes, each year until 2031 to meet current demand. In its November 2020 Spending Review, the government announced nearly £20bn of investment to underpin its long-term housing strategy, including £7.1bn for a National Home Building Fund and confirming over £12bn for the Affordable Homes Programme.

The government's 'Planning for the Future' White Paper, published in August 2020, outlines proposals to overhaul the UK's planning system for building homes. The paper states the importance of using modern methods of construction, referring to the benefits for efficiency, build quality and the environment.

The build-to-rent sector is growing. In its 2019 research report, Savills believes the sector has the capacity to increase from £10bn today to £550bn at full maturity.

Opportunities for the Group

- To deliver mixed-tenure homes, including social and affordable homes, in partnerships with local authorities and housing associations.
- To provide accelerated housebuilding through Partnership Housing's continued use of modern methods of construction.
- To build homes for sale and private rent, which can be forward sold to investors.

INVESTMENT IN INFRASTRUCTURE

£600bn

investment over the next five years

In its March 2020 Budget, the government pledged over £600bn of public investment over the next five years. In response to the impacts of Covid-19, the November Spending Review announced £100bn of capital spending in 2021–2022 to drive economic recovery, including almost £19bn of transport investment. The Spending Review also outlined multi-year funding, including over £58bn for road and rail, a multi-million pound investment in building hospitals, schools and prisons, and a programme of defence modernisation. A new National Infrastructure Strategy was introduced to target investment across the UK. The government pledged support to local economies through: investment in new green industries; investment in local priorities through the Transforming Cities Fund; and a £4bn 'Levelling Up Fund' for England to regenerate towns and communities in need.

In its Construction Forecast for 2021–2022, Glenigan, a provider of market analysis for the industry, reports that while the pandemic disrupted project starts in 2020, a renewed strengthening is expected

beyond 2020 as road, rail and water industry investment programmes increase output. Increased investment in the national road network is anticipated as Highways England brings forward projects under its collaborative framework, and Network Rail's new five-year investment programme (CP6) is underway. In energy, Glenigan reports that major projects make up a significant proportion of the industry's workload, while in water, spending will be lifted by the new AMP7 investment programme and activity will benefit from major work packages for the £4bn Thames Tideway Tunnel.

Opportunities for the Group

- To deliver long-term infrastructure and civil engineering projects via frameworks through Construction & Infrastructure.
- To regenerate areas around transport hubs, including residential schemes through Partnership Housing.

POPULATION GROWTH

0.5%

increase to 66.8m in 2019

In June 2020, the Office for National Statistics reported that the UK population in mid-2019 had grown by 0.5% since the previous year. The population is spread unevenly, with major cities such as London and Birmingham being the most densely populated. Between 2009 and 2019, the number of children (aged up to 15) increased by 8.0% and the number of those aged 65 years and over increased by 22.9%. The number of those aged 65 years and over continues to increase faster than the rest of the population. The government's March 2020 budget included £1.5bn over five years for further education colleges to upgrade their buildings. In June, the government committed over £1bn to support a 10-year rebuilding programme for schools in England, focusing on modern construction methods. These commitments were reaffirmed in the November Spending Review.

Opportunities for the Group

- To access a wider pool of talented people.
- To develop and regenerate urban areas.
- To deliver, upgrade and maintain social infrastructure, particularly in housing, education, transport and healthcare.
- To deliver elderly living and extra care housing.

INCREASE IN PUBLIC SPENDING

Cost efficiencies

required in the public sector

Before the Covid-19 crisis, the government had been expecting to borrow £55bn for the financial year to April 2021. By November, the Office for Budget Responsibility was estimating that the government would have to borrow £394bn over the period.

The government has indicated that it will increase investment in areas such as infrastructure, housing, the NHS and education to help society and the economy recover from the pandemic. Cost efficiencies will be necessary in order to deliver value for money for the taxpayer and to help ensure that any investment delivers good returns.

Opportunities for the Group

- To deliver increased efficiencies in public sector assets and services through all divisions, via standalone projects or positions on local and national public sector frameworks (see pages 28 to 35).
- To regenerate areas related to public sector land disposals and property consolidation.
- To provide funding solutions for local authority and NHS Trust development schemes through strategic partnerships.

DEMAND FOR POSITIVE ACTION ON CLIMATE CHANGE AND SOCIAL ISSUES**Net zero**

UK carbon emissions by 2050

Climate change is a recognised, growing crisis. The Covid-19 pandemic has exacerbated social issues, such as economic inequality and the shortage of secure employment.

The government is aiming for a net zero economy by 2050 and our clients, building occupiers, employees and investors want greener infrastructure, cleaner energy and energy-efficient buildings as well as reduced waste and carbon emissions in operating activities. The November Spending Review announced multi-year funding to help deliver the Prime Minister's Ten Point Plan for a Green Industrial Revolution, including for electric vehicle charging infrastructure and new Carbon Capture and Storage clusters by 2030, by which time the sale of new petrol and diesel cars will be prohibited. Its Green Homes Grant offers funds to homeowners and residential landlords to install energy-efficient improvements to homes.

Our stakeholders increasingly demand that we are not only socially responsible but that we add value to the communities in which we work. Under the Public Services (Social Value) Act 2012 (the Social Value Act), local authorities must consider how to secure social, economic and environmental benefits for their area when procuring services. From 2021, new measures under the Social Value Act require all major procurements to explicitly evaluate social value on projects, including fighting climate change and reducing waste, as well as creating jobs and skills.

Opportunities for the Group

- To attract public and private sector clients through our track record of reducing carbon emissions.
- To deliver low-carbon, energy-efficient buildings that can withstand extreme weather, using, where appropriate, modern methods of construction that cut down on waste and emissions.
- To build infrastructure for electric vehicles and flood defences.
- To support local communities by offering training, apprenticeships and employment opportunities on our projects, and where possible, using local suppliers.

General construction industry conditions

The IHS Markit/CIPS UK construction purchasing managers' index (PMI), published in October 2020, reported that UK construction activity had expanded sharply in September, with the quickest rise in new business since before lockdown and business optimism at a seven-month high. In January 2021, the PMI reported a sustained rebound in activity during December, reflecting another sharp rise in housebuilding activity, with stronger order books helping to drive recovery across the sector. Exactly half of the PMI survey panel forecasted a rise in business

activity over the course of 2021, while only 10% anticipated a decline, which the report stated signalled the strongest optimism across the construction sector since April 2017.

The EU/UK withdrawal agreement carries potential risks, such as some concerns over the supply of materials and labour as well as border limitations. However, we believe these risks can be managed through contractual protection together with the strong trading relationships and thorough planning that helped us successfully navigate Covid-19.

Our markets

We continue to monitor changes to the regulatory framework and new safety guidance for buildings and manufacturers in respect of fire safety requirements.

The Construction Products Association (CPA), in its Autumn 2020 construction industry scenarios for 2020–2022, forecasts a 14.5% fall in overall UK construction output in 2020 to £139.9bn (2019: £163.7bn), the sharpest fall on record. However, going forward it expects a tick-shaped economic recovery with output rising by 13.5% in 2021 to £158.7bn followed by an increase of 5% in 2022 to £166.7bn. During 2020, there was a pick up in productivity due to the easing of lockdown measures over the summer, a rush to meet pent-up demand, particularly in housing and refurbishment work, and social distancing being implemented on sites.

The government's housing policy, such as a stamp duty holiday and the extension of the deadline for completing homes under the current Help to Buy scheme, boosted housebuilding activity in the private sector in 2020, although demand may fall once these schemes come to an end during 2021 and could also be impacted by general rising unemployment. Output in the public housing repairs and maintenance sector, though falling by 16.1% in 2020, is expected to grow by 28.1% in 2021. In the industrial sector, construction has returned to site on warehouse schemes, and the continued shift from in-store to online shopping, exacerbated by the pandemic, is likely to boost investment in industrial warehouses.

The CPA expects the infrastructure sector to be critical for growth. Output did not fall as sharply in 2020 as in other sectors due to larger sites making social distancing easier, and it is forecast to be 27.4% higher in 2021 than in 2019, pre-Covid. Only airport work is expected to see a decline in activity over the next few years, given the sharp decrease in airline passenger numbers as a result of the pandemic.

The chart below shows our key targeted markets that contributed more than 5% to the Group's revenue in 2020.

Community and other public sector, excluding education and social housing	22%
Commercial	17%
Education	15%
Transport	15%
Mixed-tenure housing	11%
Social housing	9%

Purpose, strategy and values

Our purpose

The Group's purpose is inspiring talent to achieve excellence in the built environment.

This means motivating and enabling our people and our supply chain to deliver construction and regeneration that is high quality, effective, efficient and sustainable; meets the needs and objectives of our clients; enhances the end-user experience; and brings social and economic value to local communities.

Our purpose is embedded across the Group through our culture, which is driven by our responsible business strategy and core values.

Our strategy

Our strategy is to focus on our well-established core strengths of construction and regeneration in the UK. We maintain a balanced business that is geared towards the increasing demand for affordable housing, urban regeneration, and infrastructure and construction investment. We aim to secure long-term workstreams and to maintain a strong balance sheet with average daily net cash to support our investment in regeneration schemes. We will grow the business organically while making it better for all stakeholders.

Our Group performance against our purpose and strategy is measured through key performance indicators, set out on pages 11 and 12, and supported by effective risk management, as described on pages 38 to 47. Each division is set its own financial objectives, which are stated in the operating review on pages 28 to 35.

Our responsible business strategy

As a responsible business, we want to ensure that we are acting today to address the needs of tomorrow. This means building resilience to be able to face the challenges that a changing world will bring, while recognising the opportunities that come from change so that we continue to enhance our business value.

We aspire to support all of our stakeholders in delivering a sustainable future, and to pursue activities that contribute to a more resilient society. We want our legacy to be the positive benefits we bring to society and the environment in the communities in which we operate.

We believe in the power of collaboration. We work closely with our clients, joint venture partners and supply chain, nurturing long-term, supportive relationships. Our approach helps us win new work and attract and retain a talented team of employees, and will ultimately secure our long-term success in a constantly shifting landscape.

Since 2008, our responsible business strategy has been driven by five Total Commitments:

TOTAL COMMITMENTS

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

We measure and monitor our performance against our Total Commitments by setting short-, medium- and long-term targets against a set of key performance indicators (see pages 14, 15 and 18).

We support the UN Sustainable Development Goals to 'end poverty, protect the planet and ensure prosperity for all'. We consider the following six goals to be those where we can have the biggest impact in line with our Total Commitments:

8 DECENT WORK AND ECONOMIC GROWTH



9 INDUSTRY, INNOVATION AND INFRASTRUCTURE



10 REDUCED INEQUALITIES



11 SUSTAINABLE CITIES AND COMMUNITIES



12 RESPONSIBLE CONSUMPTION AND PRODUCTION



13 CLIMATE ACTION



Our responsible business strategy is underpinned by our long-established core values:

CORE VALUES

- 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 values drive us to motivate and develop our people to deliver the best possible outcomes for our clients and partners, in terms of both quality of product and customer experience. Our decentralised approach and encouragement of colleagues to challenge the status quo ensure that we continually push for improvement. The Board uses the core values as criteria by which to monitor our culture (see pages 59 to 61).

In our prior year annual reports, we described five strategic objectives: to win in targeted markets; develop and retain talented people; maintain a disciplined use of capital; maximise the efficiency of our resources; and pursue innovation. These remain priorities for the Group and are captured in our business model, strategy, core values and Total Commitments as follows:

- Win in targeted markets: our strategy is to target growth markets that provide the Group with long-term workstreams.
- Develop and retain talented people: our core values and Total Commitments ensure that we continue to value our people, as highlighted in our business model on pages 8 to 10.
- Disciplined use of capital: maintaining average daily net cash is fundamental to our business model (see page 9).
- Maximise efficiency of resources: our Total Commitment to improving the environment drives us to improve energy efficiency and reduce waste; our Commitment to collaborating with our supply chain helps us achieve smooth-running projects and secure Group-wide procurement agreements.
- Pursue innovation: our core values of challenging the status quo and being a decentralised business (see core values above) encourage and empower our divisions and people to test and share new ideas.

Business model

Our business model is to generate cash through high-quality construction projects and invest in regenerating UK towns and cities with mixed-use, community-driven developments that provide long-lasting social and economic value. The model supports our purpose to inspire talented people to deliver excellence in the built environment; and our strategy to achieve organic growth by focusing on our core strengths of construction and regeneration, while benefiting all our stakeholders. More detail on our purpose and strategy can be found on page 7.

Why we are different

We specialise in both construction and regeneration. Our decentralised approach means that each of our businesses remains a specialist in its field and is empowered to react quickly to opportunities and challenges. The diversity of our operations mitigates the impact of fluctuations in individual markets and our geographical spread provides us with local knowledge and access to local supply chains. We can deliver complex schemes by combining the skills of different divisions; for example, land development and housing, or construction and fit out. This collaboration between divisions achieves synergies for the Group and a seamless service for our clients.

How our business model works

Our business model is designed to provide a mix of earnings across different market cycles. Our construction activities generate cash while regeneration requires significant initial investment and projects can take several years to complete. We therefore use the cash from our construction activities to invest in regeneration schemes that will generate additional profits over the longer term. We use operating margin and working capital to measure our performance in construction, and return on capital employed to measure regeneration performance.

Our capabilities and market positions in affordable housing (via Partnership Housing) and mixed-use regeneration (through Urban Regeneration) reflect our deep understanding of the built environment developed over many years, and are aligned with sectors of the UK economy that are expected to see increasing opportunities in the long term. Through Construction & Infrastructure, we are well positioned to meet the demand for ongoing investment in the UK's infrastructure, while the division's geographically diverse construction activities are focused on key areas of education, healthcare and commercial. Our Fit Out business is market leader in its field and delivers a consistently strong operational performance. Fit Out, together with Construction & Infrastructure, generates cash resources to support our investment in affordable housing and mixed-use regeneration. We also have an operation in Property Services, focused on providing response and planned maintenance activities to the social housing and wider public sector.

Our Investments division has acted mainly as a facilitator to provide opportunities in construction and regeneration to other parts of the Group. It has built up a portfolio of property partnerships with local authorities and government bodies which generate a stream of development profits. In January 2021, Investments' partnerships and activities were transferred to Partnership Housing and Urban Regeneration; the change was made to clarify our offering as well as securing operational savings for the Group.

See the inside front cover of this report for more information on the activities of each division, and pages 28 to 35 for their financial contributions.

Our resources

A talented team

We employ around 6,600 people with 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 employees have been with the Group for six years or more and have accumulated technical experience and an in-depth understanding of our values which they can impart to newer recruits.

High-quality supply chain

Our national network of suppliers and subcontractors is aligned to our values and Perfect Delivery¹ philosophy, and they work with us to deliver projects efficiently and to a high standard. We use large suppliers and smaller, local businesses where we can.

Strong client and partner relationships

Our divisions are specialists in their respective fields, and each business has a well-established brand and market position. They have formed long-term relationships and strategic alliances with clients and partners from the public and private sectors. Of our total secured workload in construction and regeneration, 87% is in frameworks and partnerships.

Technology as an enabler

We use technology to increase our operational efficiency, manage risk, improve construction methods, find new ways to keep improving our health and safety performance, and enable our employees and subcontractors to work to the highest standards. This enhances the experience of our clients and partners.

Ability to build sustainably

We have been consistently reducing our total carbon emissions since 2010. We have the capability and know-how to build low-carbon, energy-efficient homes and infrastructure, procuring sustainable materials and using modern methods of construction that reduce both carbon and waste. In 2020, 85 of our projects achieved BREEAM, CEEQUAL, LEED, SKA or other industry-relevant sustainability ratings.

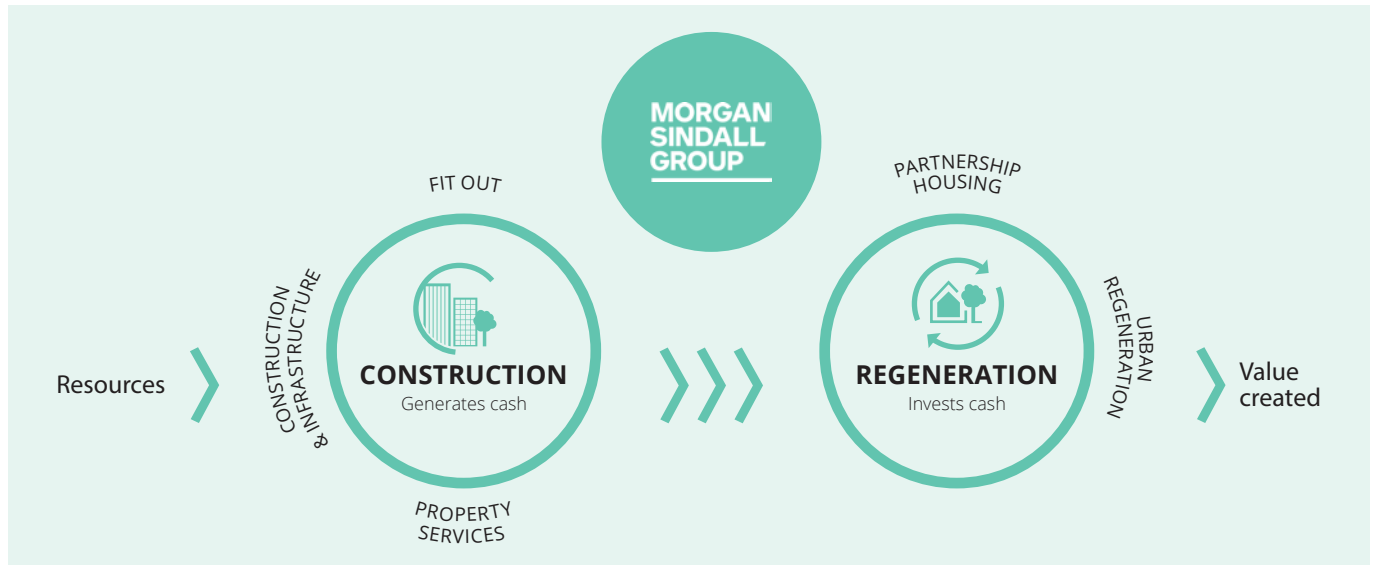
Financial strength

The Group's balance sheet remains strong. In 2020, shareholder equity was £430.0m (2019: £396.8m) with average daily net cash* of £180.7m (2019: £108.9m).

¹ Perfect Delivery status is granted to projects that meet all four customer service criteria specified by each division.

* See note 2 for alternative performance measure definitions and reconciliations.

Our business model



Maintaining and enhancing our resources

Helping our employees to succeed

We recruit talented people and give them the resources they need to perform well. These include collaborative office environments and flexible working arrangements. We provide training and mentoring to help our employees increase their skills and knowledge and develop their careers. Rigorous health and safety standards and a variety of mental health and wellbeing initiatives create a safe working environment; these were further enhanced during 2020 to help keep our employees safe and well on site, in the office and at home. Our core value of challenging the status quo and our decentralised organisational structure mean that our people are empowered to keep innovating and creating better solutions. We offer work experience, apprenticeships, graduate sponsorships, and returnships for people who have had a career break, all of which bring new talent into the business.

Partnering with our supply chain

We develop long-term relationships with suppliers and subcontractors, which results in better project delivery for our clients and partners. We support the Supply Chain Sustainability School, which helps suppliers develop their knowledge and skills, and sponsor suppliers' events. Our subcontractors are monitored for performance against set criteria, and awarded preferred status when they score highly. Through Group-wide procurement agreements we can give our subcontractors access to better pricing.

Meeting our clients' and partners' needs

Our talented employees and a supply chain aligned to our values mean we can deliver to a high standard and help our clients and partners achieve their objectives. Our national coverage enables us to engage with clients and partners at a local level and tailor our services as needed. The relationships we build increase the prospect of repeat business, negotiated work and appointments to frameworks, all of which contribute to profitability and long-term growth.

Investment in technology

We continually invest in a secure cloud and digital-enabling IT infrastructure, and were in a strong position to deliver against the challenges presented in 2020 by Covid-19 and a rapidly changing working environment. Our investment in modern security technologies and in strengthening the design of our core network has supported a greater mix of cloud and self-hosted systems. We were therefore able to quickly adopt Microsoft 365 collaboration tools and provide seamless homeworking for all employees. Our divisions continue to invest in data analytics and business intelligence, as well as enhancing their business-specific operational, procurement, commercial and financial systems. In 2020, we invested £2.64m in new technology, including £1.2m spent on moving more services to the cloud, giving employees easy access to systems whether working at home, on site or on the move, and strengthening our cyber security.

Commitment to improving the environment

We have committed to achieving net zero carbon emissions by 2030. We are working to reduce indirect carbon emissions that occur through our supply chain and clients' use of our buildings and the volume of waste we produce. We have developed a carbon calculator, 'CarboniCa', an independently verified tool which measures the carbon footprint of buildings, including embodied carbon of materials delivered to site and emissions from completed buildings throughout their life cycle. The tool can also suggest where alternative, lower-carbon construction methods or materials could be used. The calculator was piloted by the Construction business in 2020 and will be rolled out across the Group in 2021. Read more on our actions to tackle climate change on pages 13 to 17.

Disciplined financial management

Maintaining average daily net cash is key to our business model, and balance sheet strength and cash management remain high priorities. We monitor our cash levels daily and rigorously manage our working capital and overheads. We maintain good relationships with financial institutions to provide access to competitively priced debt facilities. We minimise the use of our funds wherever possible by working collaboratively with landowners to avoid the need to purchase land on the open market and by forward selling the properties we build.

Our culture

The success of our business model is driven by our culture, which is founded on our core values and Total Commitments (see page 7).

Value created

Our business model supports our responsible business strategy and Total Commitments, and generates positive outcomes for our stakeholders. Some measurable examples are shown below. See our key performance indicators on pages 11 and 12 for further information.

Shareholders

108.6p

earnings per share adjusted*

61.0p

total dividend

Clients and partners

90%

of projects achieved Perfect Delivery¹

87%

of secured workload is in frameworks and partnerships

* See note 2 for alternative performance measure definitions and reconciliations.

¹ Perfect Delivery status is granted to projects that meet all four customer service criteria specified by each division.

Our people

540

sponsored to complete NVQs² and professional qualifications

7.8%

voluntary employee turnover

² National Vocational Qualifications.

Supply chain

403

members of the Morgan Sindall Supply Chain Family

2,279

preferred subcontractors

Local communities

667

apprentices drawn from local communities

40.9/50

Considerate Constructors Scheme average score

Environment

26%

reduction in carbon emissions from 2016 baseline

A

score for leadership on climate change from CDP³

³ The international non-profit organisation that drives environmental disclosure to manage environmental impacts.

Key performance indicators

Our strategy is to grow the business organically by focusing on our core strengths of construction and regeneration, while benefiting our stakeholders. We have continued to generate cash from our construction projects and achieve returns on our investment in regeneration. In 2020, our operating cash conversion (excluding investment in regeneration) was 200% (2019: 88%) and our return on capital employed in regeneration activities was 9.7% (2019: 14.9%).

In 2020, we reviewed the key performance indicators (KPIs) that we use to monitor our strategy. Our voluntary employee turnover has reduced to 8%, which means we have a suitable level of turnover to continue to benefit from new ideas, skills and experience. We will continue to monitor and report our voluntary turnover, but for the time being no longer view it as a KPI. We have also dropped 'gross margin in construction activities' and 'overheads as a percentage of revenue in construction activities' as KPIs following our review, as we have determined that they do not align to our business model and are not critical to the success of our strategy.

We are now using the following financial and non-financial KPIs to monitor and measure our progress against our strategy. For information on the principal risks to our strategy and how we manage and mitigate them, see pages 38 to 47.

SECURED WORKLOAD

(£m)



This 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).

Our total secured workload increased by 9% owing to strong work-winning across the business. We continued to focus on quality, with a similar proportion of work secured through negotiated, framework or two-stage bidding processes. Our secured workload is long term with 42% relating to 2023 onwards. We will continue to be selective in bidding and to pursue regeneration opportunities that will contribute to workload longevity.

TOTAL CARBON EMISSIONS

(CO₂e tonnes)



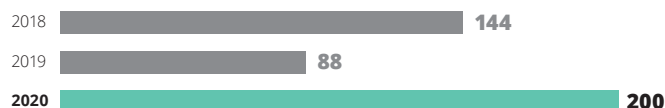
This includes Scope 1 direct emissions from sources owned or controlled by the Group, Scope 2 indirect emissions from purchased energy, and operational Scope 3 indirect emissions not included in Scope 2 that occur in limited categories of our value chain as measured by the Carbon Reduce scheme (formerly CEMARS, the Carbon & Energy Management And Reduction Scheme).

Our total carbon emissions reduced by 16% from 2019, largely driven by a reduction in business mileage and a large number of our sites being closed for a short period during the year due to Covid-19. Our Scope 1 and 2 emissions have reduced by 22% since our baseline in 2016, achieved through energy-saving initiatives and by switching to electric or hybrid vehicles. See pages 13 to 15 for more detail on measures we have taken to reduce Scope 1, Scope 2 and operational Scope 3 emissions.

OPERATING CASH CONVERSION IN CONSTRUCTION ACTIVITIES

(adjusted for investment in regeneration)

(%)



Operating cash conversion is reported cash flow from operating activities (excluding increases in investment in regeneration activities) as a percentage of adjusted* operating profit.

Cash conversion was particularly high in 2020 due to a continued focus on working capital management and increased working capital conversion to cash across the business at the end of 2020, compared to 2019. We continue to target operating cash conversion of close to 100% after allowing for changes in capital employed in regeneration schemes which often do not follow an annual cycle.

* See note 2 for alternative performance measure definitions and reconciliations.

NUMBER OF LOST TIME INCIDENTS



Lost time incidents are those that result in absence from work for a minimum of one working day, excluding the day the incident occurred.

We are encouraged to see a 13% reduction in lost time incidents from the prior year. Our total number of RIDDORs¹ reduced from 41 to 30, while our accident frequency rate² fell from 0.08 to 0.06. We continue to review causes of incidents to develop our approach. The new Covid-safe site operating procedures, which we will continue to implement where appropriate after the pandemic, together with fewer people working on site, contributed to this performance (see page 19).

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

2 The number of RIDDOR reportable accidents multiplied by 100,000 and divided by the number of hours worked.

**RETURN ON CAPITAL EMPLOYED
IN REGENERATION ACTIVITIES**
(%)

Return on capital employed is calculated as adjusted* operating profit less interest on non-recourse debt less unwind of discount on deferred consideration, divided by average capital employed.

The decrease in return on capital employed in 2020 was driven by the impact of Covid-19 which affected all stages of the development process and led to periods of reduced activity, resulting in lower returns during the year.

* See note 2 for alternative performance measure definitions and reconciliations.

**AVERAGE NUMBER OF TRAINING DAYS
PER EMPLOYEE**

This is calculated by dividing the total number of days of training provided to employees by the number of employees.

Our training days reduced to an average of 2.3 days per employee in 2020, which was largely impacted by Covid-19. Where possible we have moved training programmes to online courses and would hope to see a rise in training days in 2021 as we return to more normal operating conditions.

Responsibility

ENVIRONMENTAL

Highlights

A

score for leadership on climate change from CDP¹

64%

reduction in carbon emissions since 2010

Net zero by 2030

new Group target²

96%

waste diverted from landfill

¹ The international non-profit organisation that drives environmental disclosure to manage environmental impacts.

² 'Net zero' in this context is defined as the sum of the Group's Scope 1, Scope 2 and operational Scope 3 emissions³ (as measured by the Carbon Reduce scheme (formerly CEMARS, the Carbon & Energy Management And Reduction Scheme)), less the impact of specific, identified and measurable carbon removal actions (approved offsetting measures) in the UK.

³ See page 14 for definition of Scope 1, 2 and 3 emissions.

We are acting to combat climate change by working towards net zero carbon emissions, and ultimately towards removing carbon from the atmosphere. We will continue innovating to reduce air pollution, water usage and waste.

We are a leader in our sector in addressing climate change and have been independently recognised as such. In 2020, we achieved an A score for leadership on climate change from CDP, who in 2021 also named the Group a 'supplier engagement leader' for our work to drive action on climate change along our supply chain. We were the only major UK contractor to receive an A score, and one of just 270 companies globally. This is the fifth year our leadership in this area has been acknowledged by CDP.

The construction sector's main impacts on the environment are through carbon emissions and waste. We have performed well in reducing these impacts over the past few years but we need to keep reducing them further. Having cut our own carbon emissions, we are now focusing on reducing the indirect emissions from our supply chain and clients who use the buildings and infrastructure we construct, repair and refurbish. While we have prevented significant amounts of our waste from being sent to landfill, our priority now is to minimise the volume of waste we produce.

Our activities also have positive impacts on the environment. A large element of our work includes regenerating city centres, converting disused sites and buildings into energy-efficient places to live and work. The regenerated areas are typically located near transport hubs that encourage the use of public transport and include landscaped public realms, such as parks, canal sides and cycle paths, to help increase biodiversity. As well as including green spaces in our designs, we work with organisations to improve the environment and landscape.

Construction & Infrastructure's Network Rail project in Werrington, Peterborough received a Green Apple environmental award for ecology and biodiversity works, which included the construction of a new 840m long section of river with additional flood capacity and biodiversity features, protected species surveys and translocation, and a monthly conservation volunteering event. The project achieved a 'biodiversity net gain' by improving wildlife habitats on the development. In February 2021, Urban Regeneration, through its English Cities Fund joint venture, secured planning approval for an 11-storey office block development in Salford, that will be entirely covered in a living façade designed to remove air pollutants and deliver a net gain in biodiversity.

In 2020, we introduced a sustainable water policy for the Group, committing to monitoring where possible the amount of water we use, improving the efficiency of our water use and eliminating wastage. The volume of water we use in our operations is not excessive, but we know we can always do more. To reduce reliance on fresh water, we use recycled water for dust suppression, cleaning, plant watering, toilets and industrial process use.

Local authorities in Hampshire have been delaying planning permission for housebuilders in order to reduce nitrate pollution in the Solent. However, on its Addenbrooke care home project in Gosport, Investments obtained planning consent by proposing the installation of water-saving devices – a so-called 'tap-led solution' – that could prevent up to 3,000 litres per day going to water treatment works and achieve nitrate neutrality.

Carbon emissions

As part of our Total Commitment to improving the environment, we have set science-based, externally verified targets for reducing the Group's carbon emissions, and were one of the first construction companies globally to have our science-based emission targets officially accredited. These targets are based on the 2015 International Treaty on Climate Change, known as the Paris Agreement, which seeks to limit global warming to well below 2°C, preferably 1.5°C, compared to pre-industrial levels. The targets are currently being revised to re-align to the lower range of the Agreement, and the specific accepted norm of no more than 1.5°C.

With effect from 1 January 2021, we have introduced an internal carbon charge for each of our divisions based on the volume of emissions generated in the prior year. The carbon charge is intended to encourage our divisions to reduce their own emissions, and the amount raised will be paid into a climate change fund which will go towards environmental initiatives and projects, both within and beyond the Group. Divisions will use the Group's carbon calculator, CarboniCa (see page 9), to establish the exact carbon output on their projects. The goal is to make invisible carbon-associated costs tangible and to incentivise project managers to be innovative in how they find sustainable alternatives. We are working on a detailed timeline and plan of how we will progress to reach our goal of achieving net zero by 2030. See our website for more information about our net zero carbon commitment.

2020 performance against carbon emission targets

Total Commitment	KPI	2020 performance	2020 target	2025 target	Horizon ambition
Improving the environment	Reduction in Scope 1 ¹ and 2 ² carbon emissions against 2016 baseline of 24,136 CO ₂ e tonnes	22%	5%	11%	56%
	Reduction in operational Scope 3 ³ carbon emissions against 2016 baseline of 6,634 CO ₂ e tonnes	40%	2%	9%	
	Percentage of subcontractors by spend requested to disclose their own carbon emissions	0%	70%	70% of our subcontractors established their own science-based targets	
	Reduction in carbon emissions from our vehicle fleet ⁴ against 2016 baseline of 12,867 CO ₂ e tonnes	30%	5%	11%	56%

1 Direct emissions from owned or controlled sources.

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 Carbon Reduce scheme (formerly CEMARS).

4 Vehicle carbon emissions are included in the calculation of Scope 1 emissions but are reported separately as they are a significant source of the Group's emissions.

Since 2010, our Scope 1, Scope 2 and operational Scope 3 carbon emissions have reduced by 64% and, in 2020, we reduced our total emissions by 26% against our 2016 baseline. While we achieved significant reductions in our carbon emissions in 2020, these have largely been driven by a reduction in business mileage and a large number of our sites being closed for a short period during the year due to Covid-19.

Our direct Scope 1 and Scope 2 emissions arise predominantly from bulk fuel used on sites, our vehicle fleet and electricity use. We have significantly reduced these emissions by reducing diesel generators, using solar-powered site cabins and hybrid and electric vehicles, and switching off lights and computers. We currently have 358 hybrid vehicles and 94 electric, constituting 22% of our Group fleet. Property Services, which accounts for 25% of the fleet, is aiming for 100% electric vans by 2038 and 100% electric or hybrid company cars by 2030. Currently, 65% of our electricity is purchased from renewable sources, and we are working towards 100% in 2022.

As we again exceeded our medium-term target for reducing our Scope 1 and Scope 2 emissions, we have set a new, more ambitious 2025 target to reduce these emissions by 30% against our 2019 benchmark (see page 25).

The use of off-site construction systems has helped us reduce our operational Scope 3 emissions. These systems include precast panels, timber frames, prefab plant rooms and bathroom pods, and they also reduce site deliveries, waste, cost, build programmes and disruption of live sites, while improving safety. Our Construction business has to date delivered five fully modular schools. It has cut the programme on its project at Hackwood primary school in Derby from 52 weeks to 37 and on Cranleigh C of E Primary School in Brighton from 65 weeks to 52.

Unfortunately, we have not been able to identify the full extent of our wider Scope 3 emissions, which include the emissions derived from our supply chain and the end-users of our buildings. Therefore, to date, we have been unable to implement any meaningful reduction plans. To address this, we are:

- *proactively working with our supply chain* to encourage and assist them in measuring, reporting and reducing their emissions. In 2020, we launched and trialled a carbon portal that enables suppliers to upload their emissions, and will roll it out to all suppliers in April 2021. We will use the data gathered to help suppliers reduce their own emissions. We encourage our subcontractors to use alternative plant and equipment on sites, such as an electric telehandler being used on Infrastructure's Crossrail project at Whitechapel station;
- *encouraging our clients to include environmentally-friendly materials* with a longer life expectancy in their projects;
- *delivering low-carbon buildings*. For example, Construction has been named preferred bidder for a new low-carbon sixth form school in Aylesbury for Buckinghamshire Council; structural insulated panels will be used to make the building easier to heat and maintain; and
- *looking at gas alternatives*. Partnership Housing and Urban Regeneration are monitoring changes in building regulations for residential properties. Partnership Housing has begun using alternative technologies on some projects, such as micro combined heat and power, solar energy, and ground source and air source heat pumps.

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.

Waste

2020 performance against waste target

Total Commitment	KPI	2020 performance	2020 target	2025 target	Horizon ambition
Improving the environment	Percentage of total waste diverted from landfill	96%	94%	98%	100%

Three-year performance

	2020	2019	2018
Total waste produced (tonnes)	1,223,394	1,087,246	907,539
Percentage of waste diverted from landfill	96%	95%	95%
Revenue	£3,034m	£3,071m	£2,972m
Waste intensity ¹	403.2	354.0	305.4

¹ Total waste produced per £m of revenue.

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). We are setting up a Group-wide waste desk to help us 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.

In 2020, we diverted 96% of our waste from landfill, although the volume of waste that we produced increased by 13% and our waste intensity (total waste produced per £m of revenue) by 14%. Our total waste increased, primarily because of an increase in tunnel excavation works in our Infrastructure business for the Thames Tideway project (of which 99% of waste was reused or recycled). This element of the works is now complete and we therefore expect our total waste produced to reduce in 2021. Our construction waste reduced by 18% to 77,360 tonnes (2019: 94,342) and 98% of our construction waste was diverted from landfill.

Over the last couple of years, we have been working with suppliers to use packaging that generates less waste and are looking at how we can better reuse or recycle waste on our sites, such as materials stripped out from buildings on our fit out projects. Construction & Infrastructure recycles timber through the National Community Wood Recycling Project and its site signage supplier is now providing a fully-recyclable product. Partnership Housing reuses material from demolished buildings as piling mats (working platforms for transferring loads on sites) and for the make-up of roads. On its South Shields Transport Interchange project, Urban Regeneration recycled approximately 2,350 cubic metres of stone from demolished buildings. All divisions have taken steps to remove single-use plastics from sites and offices,

such as banning the use of plastic cups and working with suppliers to remove plastic from their packaging. Our Construction business has worked with one supplier to recycle temporary plastic sheeting using a closed-loop recycling system. Also during 2020, Construction developed a way to tackle the use of plastic sealant tubes, two million of which are disposed of by the industry every week; the division created a visual graphic to promote the use of alternative products and is working with its supply chain to communicate it. Agreement has so far been secured with some subcontractors to mandate the use of alternative products.

2021 environmental priorities

In 2021, we will clearly set out our pathway to achieving net zero in our Scope 1, Scope 2 and operational Scope 3 carbon emissions; finalise and roll out our carbon calculator; work with our supply chain to encourage them to provide their own carbon data via the carbon portal; renew accreditation of our science-based targets, revised to align to the 1.5°C model; and complete the establishment of our waste desk, which will help us to reduce and manage our waste better.

We have developed a 'climate pledge' for our employees to encourage them to make personal commitments to reduce carbon emissions, such as switching off electricity and computers, and walking or taking the train to work rather than driving. The pledge will be rolled out to all our employees in 2021 together with an e-learning programme on climate change.

Streamlined Energy and Carbon Reporting (SECR) disclosure

We support the Paris Agreement and have committed to reduce our Scope 1 and Scope 2 greenhouse gas (GHG) emissions by 11% against our 2016 baseline of 24,136 CO₂e tonnes by 2025.

GHG emissions are calculated through application of DEFRA's UK Government GHG Conversion Factors for Company Reporting (July 2020) using the ISO 14064-1:2006 'Greenhouse gases – Part 1: Specification with guidance at the organization level for quantification and reporting of greenhouse gas emissions and removals' reporting standard.

In addition, GHG emissions are externally verified by Achilles to meet the requirements of the Toitū Enviroware's 'carbonreduce' certification standard/Carbon Reduce scheme (formerly CEMARS, the Carbon & Energy Management And Reduction Scheme). Achilles is a not-for-profit organisation that runs a global disclosure system for companies to manage their environmental impacts.

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 at a Group level of 5% 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 2020 UK and offshore emissions was 90,802,086 kWhs and these total emissions reflect the emissions of our UK operations.

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 5% against our 2016 baseline by 2020. Our Group director of sustainability and procurement is responsible for overseeing the divisions' delivery of this target.

See page 25 for details of our new, stretching emissions targets that we will report against from 1 January 2021.

UK and offshore GHG emissions (CO₂e tonnes)

	2020	2019	2018	2016 baseline
Scope 1 ¹	16,031	18,128	19,934	17,201
Scope 2 ²	2,789	2,779	3,632	6,935
Total Scope 1 and Scope 2 emissions	18,820	20,907	23,566	24,136
Operational Scope 3 ³	3,969	6,339	5,863	6,634
Total emissions	22,790	27,242	29,429	30,770

1 Direct emissions from owned or controlled sources.

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 Carbon Reduce scheme (formerly CEMARS).

Carbon intensity

	2020	2019	2018	2016 baseline
Total Scope 1 and Scope 2 emissions (Scope 1 and Scope 2)	18,820	20,907	23,566	24,136
Total Scope 1, Scope 2 and operational Scope 3 emissions (CO ₂ e tonnes) (all emissions)	22,790	27,242	29,429	30,770
Revenue	£3,034m	£3,071m	£2,972m	£2,562m
Carbon intensity ¹ for Scope 1 and Scope 2	6.2	6.8	7.9	9.4
Carbon intensity for all emissions	7.5	8.9	9.9	12.0

1 CO₂e tonnes produced per £m of revenue.

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.

Action to improve energy efficiency

During 2020, we implemented the following energy efficiency improvements:

- reduced the energy consumption usage from lighting by implementing LEDs and more energy-efficient lighting in Construction & Infrastructure's Rugby office;
- included in our employee carbon pledge that computers should be turned off at night rather than being left in hibernation;
- as a result of Covid-19, the majority of meetings in 2020 were undertaken via Microsoft Teams, reducing the need for travel; we will continue to encourage the use of Microsoft Teams going forward, as it increases operational efficiency;
- Partnership Housing started transferring its telehandler fleet to HVO D-fuel;
- increased the number of hybrid and electric vehicles in the Group's vehicle fleet;
- increased the proportion of eco cabins on site to 90% of cabins;
- all new photocopiers and monitors purchased during the year were the most energy-efficient models;
- provided employees with a variety of energy-efficient travel options, reinforced on site through the provision of bicycle racks, showers and other facilities;
- continued to work with the Group's energy broker to ensure the robustness of our energy consumption data; and
- worked with our divisions to improve the recording of purchased water consumption.

Task Force on Climate-related Financial Disclosures (TCFD) disclosure

We are fully supportive of the TCFD and committed to ensuring our disclosures align with its recommendations. This is our first disclosure and we will continue to evolve our approach and reporting in future years.

Governance

The governance of climate change risk and opportunities is ultimately the responsibility of the Board. However, day-to-day management is delegated to the health, safety and environment (HSE) committee and senior 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. This responsibility includes the identification and management of climate-related risks. The Board's risk appetite review process establishes target risk positions for each of the Group's significant risks. The Board formally discusses the progress towards the position and the mitigating actions being undertaken during its annual risk appetite review. The audit committee also reviews progress and mitigating actions being taken on behalf of the Board every six months. At its meeting in October 2020, the Board held a session focused on climate change.

The Board reviews the Group's strategy and potential for growth, new markets and market entry as part of its strategic management process cycle. Climate-related opportunity identification is included within this process. The HSE committee is responsible on behalf of the Board for overseeing the Group's approach to mitigating our environmental impact, including climate change. Until December 2020, our responsible business strategy, which includes action on climate change, was prepared by our Group responsible business forum and reviewed by the HSE committee. In January 2021, the role of the forum was transferred to the Group management team (GMT). Our Group climate action panel is responsible for informing the GMT and ultimately the HSE committee on climate risk and appropriate management measures taken. Each division will develop and implement appropriate management measures across their individual businesses to identify climate risk to inform the risk management process.

We have developed an internal register of climate-related risks and opportunities to ensure that material risks and opportunities are identified and managed effectively. Going forward, the HSE committee will be responsible for formally reviewing and managing this register.

See page 24 for more information.

Strategy

The GMT is responsible for assessing and managing climate-related risks and opportunities. It is supported by subject experts and our climate action panel who report into the GMT and HSE committee.

Climate change risks faced by the Group are both physical and transitional. The most significant physical risks that could impact us are intense rainfall leading to flooding, increased storm severity resulting in high winds, and higher spring and summer temperatures that could affect our ability to complete projects on time as well as our ability to obtain necessary raw materials.

Severe storms and flooding may also cause damage to partially completed works, resulting in increased costs. The most significant transitional risks faced by the Group relate to increased carbon pricing and changing customer and regulatory requirements that could result in higher operational costs and affect methods of construction. If we are unable to offer climate change solutions cost-effectively, this could affect our ability to win work.

Key opportunities for the Group arising from climate change relate to our ability to offer clients low-emission goods and services. Work-winning opportunities could arise from providing the infrastructure needed for electric vehicles and flood defence solutions.

A detailed assessment of climate-related risks and opportunities was included within the Group's 2020 CDP climate submission. Further scenario analysis and stress testing of the potential impacts of climate change on the Group's future profitability will be undertaken in 2021.

We have committed to achieve net zero in our Scope 1, Scope 2 and operational Scope 3 emissions by 2030 (see page 13).

See pages 13 to 15 for more information about our approach.

Risk management

The Board and audit committee regularly review our emerging and principal risks and related controls. Climate change is one of the Group's principal risks.

See pages 38 to 47 for more information on our risk management.

Metrics and targets

We have made significant steps in reducing our carbon emissions since 2010 through efficiencies and innovation, cutting our Scope 1, Scope 2 and operational Scope 3 emissions by around 64% since 2010. Our carbon emissions have been externally audited since 2010. 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.

We achieved accreditation of our science-based targets at the end of 2017 and an A score for leadership on climate change in 2020 from CDP. Ensuring that we take actions necessary to minimise climate change, such as reducing our carbon emissions and waste, is critical for winning work. Any costs associated with these activities are incorporated within the Group's annual budget.

From 1 January 2021, to encourage our divisions to reduce their own emissions, each division will pay a carbon charge per tonne of carbon, based on the volume of emissions it generated in the prior year. The monies raised will be paid into a climate change fund that will be invested in projects and initiatives to mitigate and address climate change. We manage climate change through our long-term responsible business commitments, which include our science-based targets and our commitment to increasing the amount of waste diverted from landfill.

SOCIAL

Highlights

13%

reduction in lost time incidents since 2019

241

apprentices and new graduates

98%

invoices paid within 60 days

Business collaboration award

achieved by our wholly-owned social enterprise in Cumbria

Our activities affect our employees, supply chain and the communities in which we work. It is critical to the Group's success that our employees, suppliers and subcontractors have the tools they need to deliver for our clients and partners – this includes a safe working environment, the right skills and an in-depth understanding of our values. We are proud of our talented employees, 37% of whom have been with the Group for six years or more, and of the long-term, mutually-supportive relationships that we have developed with many of our suppliers and subcontractors.

The scale of our major construction and regeneration schemes means we can remain working within some communities for many years, and we can contribute to these communities by offering employment opportunities and procuring where possible from local suppliers.

The following table shows our performance in 2020 against our Total Commitments to our employees, our supply chain and local communities.

2020 performance against social targets

Total Commitment	KPI	2020 performance	2020 target	2025 target	Horizon ambition
Protecting people	Reduction in lost time incidents ¹ against 2018 baseline of 156	29%	15%	20%	Zero incidents
Developing people	Training days average per employee	2.3	4.0	5.0	6.0
	Employee voluntary turnover rate	7.8%	12%	11.5%	11%
	Median gender pay gap	29% ⁴	31%	29%	27%
Working together with our supply chain	Invoices paid within 60 days ²	98%	85%	90%	100%
	Suppliers (by spend) signed up to Group-wide agreements	72%	78%	80%	82%
	Suppliers registered with the Supply Chain Sustainability School	2,315	2,500	2,750	3,000
Enhancing communities	Projects running LM3 ³ over the last 12 months	49	40	60	100

¹ Incidents resulting in absence from work for a minimum of one working day, excluding the day the incident occurred.

² Based on Construction & Infrastructure data for the regulatory payment practices reporting period 1 July to 31 December 2020.

³ Local Multiplier 3 is a tool we use to measure the contribution of our projects to local economies.

⁴ This figure has been calculated using the methodology set out in the Gender Pay Gap Regulations; however, it is based on our November payroll data rather than our April payroll data, which is 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 median gender pay was 33.6%; 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-19-related measures and therefore paints a more accurate picture.

Our current social priorities are health, safety and wellbeing; diversity and inclusion; our supply chain; and adding social value in the communities in which we operate.

Health, safety and wellbeing

Our number one priority is to safeguard the health of our employees by providing a safe work environment, and by nurturing emotional and mental wellbeing. We want everyone who comes into contact with our activities, on or off site, to go home safe and well.

Health and safety

In 2020, the number of lost time incidents in the Group reduced to 111 (2019: 127). The number of RIDDOR¹ accidents fell to 30 in 2020 (2019: 41) and our accident frequency rate² fell to 0.06 (2019: 0.08). A combination of the introduction of the new site operating procedures, fewer people working on site and additional scrutiny of site working practices as a result of the pandemic undoubtedly contributed to the Group's strong safety performance in 2020. Those new ways of working that clearly help to drive improved safety for people working on our projects will continue to form part of our site safety procedures.

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

² The number of RIDDOR reportable accidents multiplied by 100,000 and divided by the number of hours worked.

Our teams quickly adapted to Covid-safe ways of working, with all sites and offices operating in accordance with government guidelines and the new site operating procedures issued by the Construction Leadership Council. Examples include the introduction of visual two-metre control measures, one-way systems, Covid marshalls, security turnstiles that use facial recognition rather than fingerprints and additional hygiene, sterilisation and hand sanitisation facilities. Our Group health and safety forum was a valuable medium through which our divisions shared their experiences and lessons learned.

In August 2020, together with a group of our peers, we commissioned research by Loughborough University into the impacts of the pandemic on the construction industry. The report published by the University explored the new working practices introduced by the industry to maintain social distancing and keep people safe, and the potential long-term benefits of extending and embedding these new working practices. In line with the report's suggestions, together with our own experiences, we have implemented permanent changes to our operations to continue to drive further safety improvements:

- increased forward planning to streamline operations and reduce interfaces between trades, including changes in start times and shift patterns, and zone working;
- more robust cleaning regimes, and additional hygiene facilities;
- improved messaging on health and safety for workers and end users, including greater use of graphics in visual safety standards;
- increased engagement with site workers;
- use of 'hazard schools' and gamification to make site safety inductions more engaging;
- use of technology to enable virtual site visits, safety audits, meetings and training, in conjunction with face-to-face events; and
- enabled our employees to work from home more often where appropriate, to support a better work-life balance.

Many of these initiatives contribute to increased productivity, efficiency, quality of work and flexibility for workers in addition to promoting health, safety and wellbeing.

During 2020, we increased our engagement with the Health and Safety Executive (HSE), and the HSE has been very positive about the changes we have made to our site operating procedures.

In addition to measures taken specifically in response to the pandemic, the divisions continued to introduce initiatives to improve safety in general in their operations. The Construction business launched an upgrade to its 'Observation Tool', a 360 degree, digital site inspection toolkit, and developed a new online safety permit issuing and control system. Construction also introduced a new fire strategy, purchased a fire risk assessment toolkit and employed a dedicated fire manager. The Infrastructure business launched a 'Safe Hand Initiative' to reduce injuries to hands, fingers and thumbs that accounted for more than 40% of its total injuries. Site workers were invited to submit ideas to reduce these types of injuries using Infrastructure's innovation ideas platform, 'Echelon'; 16 ideas were submitted, each of which will be assessed and progressed where appropriate. Infrastructure also launched a 'winter safety' campaign to warn of seasonal dangers, such as slippery ground conditions, as well as a domestic abuse initiative to provide support to any colleague who may need it. Partnership Housing redesigned its health and safety inspection report using a traffic light benchmarking system, so that any risks trending within the division could be highlighted.

Employees' wellbeing

We offer our employees a broad range of benefits to help with their wellbeing including, but not limited to, access to financial education, an employee assistance programme, a digital GP service and the training of mental health first aiders. We know that the last 12 months have been particularly challenging for people, and while some have benefited from working from home, others have found it isolating. All of our divisions have introduced new communication platforms to support their employees and help them stay connected. Microsoft Teams, Yammer, a revamped benefits and discounts portal and a new intranet have all contributed. Across the Group, we have used these platforms to continue with meetings, briefings, employee award announcements and team welcoming events for new recruits. We have given our employees information about the support available to help with their mental and financial wellbeing, supported colleagues in working flexibly to help with caring responsibilities and safer travel times, kept people updated on business performance and engaged with them on how and when to open sites and offices.

Modern slavery

In the last quarter of 2020, we took part in a modern slavery pilot study in conjunction with some of our peers, to try and identify the extent of modern slavery in the construction industry. The pilot completed in February and the results will be available in March 2021. The pilot has been conducted by an independent third party, &Wider, who surveyed subcontractors working on a number of projects (including nine of our own) about their working conditions. The survey has been conducted in a range of languages and is completely anonymous.

To help prevent incidents of modern slavery in our supply chain, and particularly among suppliers of our raw materials, we signed up in 2020 to Sedex, an organisation that carries out audits of working conditions in global supply chains. A number of our peers also joined, and as we use some of the same suppliers, our joint participation allows us to share details of the audits that Sedex undertakes. This will improve efficiency and reduce the burden of multiple audits for our supply chain. For further details, please see page 62 and our 2020 modern slavery statement which will be published on our website in June 2021.

Diversity and inclusion

We cultivate an inclusive work environment where everyone has access to the relevant knowledge, technology and services they need to achieve their personal ambitions and drive the business forward. We want to encourage greater diversity within our sector and ensure that no discrimination occurs, however unintentional it may be.

We consider diversity in the broadest sense, including age, gender, ethnicity, culture, socio-economic background, disability and sexuality. We value and encourage diversity of thought, perspective and experience and recognise that the new ideas and innovations that a diverse and inclusive team of people brings are critical to our future.

Our aim is to provide all of our employees with opportunities to develop their careers and maintain a healthy work-life balance. Over the last 10 years, we have introduced a number of initiatives across the Group, such as flexible working and family-friendly working practices to try and attract more diverse employees.

The divisions engage extensively with local schools and colleges to encourage young people to pursue careers in construction. In 2020, the Construction business held a hands-on session for Oxfordshire pupils with special educational needs and disabilities (SEND) to help them understand how buildings are made. The session was held at the site of Orion Academy, which Construction is currently building, and was designed to involve the students in the building of their new school's home. Construction has invested considerably in consulting, developing and refining the design of SEND schools, and, in 2020, released a 'Building Better Futures' report which looks at enhancing SEND school design and delivery to improve the student, teacher, carer and family experience.

Other measures to promote diversity and inclusion within the Group include diversity and inclusion training, and the review of the language used in HR policies and employee referral schemes to ensure that it is inclusive. Construction & Infrastructure is a member of the Employers Network for Equality and Inclusion which promotes equality and inclusion in the workplace, and Urban Regeneration also joined the organisation in 2020. Ideas and best practice are shared across the Group through the HR forum, which is made up of HR leads of each division.

While we have made some progress and increased our representation of people from a Black, Asian, or minority ethnic (BAME) background from 13.6% to 15%, our female representation has remained at 24% (see table opposite) 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 within our senior management teams and their succession pipelines. See page 70 for more information on Board diversity.

Our 2020 median gender pay gap based on our April data is 33.6% (2019: 31.2%). The data was impacted by a number of people across the Group agreeing to reduce their salaries for either two or three months to 30 June 2020 due to the impact of Covid-19 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, which resulted in a median pay gap of 29.1%. We believe that the November 2020 data more accurately reflects the progress we have made in reducing our gender pay gap. The November data shows that our gender pay gap has reduced by 6.6%; however, we recognise that we need to make further progress in helping more of our female employees move up through the Group.

While, at 24%, the proportion of our employees who are female is higher than the industry average, women are still underrepresented in senior roles. Women make up 10% (2019: 9%) of the upper pay quartile compared to 40% (2019: 37%) in the lower quartile. Although various initiatives have been introduced across the Group to attract more women into the industry at junior levels, it will take time for their careers to be developed into more senior roles. See our gender pay gap report on our website for more information.

In September 2020, our chief executive launched a diversity and inclusion project with the aim of identifying the appropriate actions we need to take. The project consisted of a detailed analysis of our HR data together with a survey of all our employees to understand how they perceive the Group in respect of diversity and inclusion. The initial findings were shared with our chief executive and the divisional managing directors in the first quarter of 2021. The divisions will communicate to their employees the key findings and the actions they will be taking.

GENDER SPLITS

	2020		2019	
	Men	Women	Men	Women
Board ¹	5	2	5	1
Senior management (Group management team) ¹	10	1	11	1
Group management team direct reports ²	54	10	68	8
All employees	4,668	1,496	4,936	1,561
Number of UK employees at 31 December, on which data is based	6,164		6,497	

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.

During the year we provided an average of 2.3 training days per employee. We sponsored 540 people completing national vocational and professional qualifications. 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.

	2020	2019
Apprentices	197	216
New graduates recruited	44	65
Sponsored students	24	26
Total structured trainees	265	307
Percentage of total employees ¹	4.3%	4.7%

¹ Based on number of UK employees at 31 December.

Unfortunately, some of our structured trainee programmes were impacted by Covid-19.

Our supply chain

We have forged longstanding relationships with our supply chain partners. Where possible, we use local resources to ensure we harness innovation, achieve consistent quality and meet our responsible business goals. We work with our supply chain partners to help them to enable their own businesses to succeed.

Our supply chain partners play a fundamental role in the Group's resilience and success. We have a national network of suppliers and subcontractors aligned to our values and respect for quality, who are able to deliver our projects efficiently and to a high standard.

Our Morgan Sindall Supply Chain Family of suppliers and manufacturers, set up nearly 20 years ago, now has 403 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. Of our suppliers, 72%, by spend, were signed up to Group-wide agreements in 2020 (2019: 67%).

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; having taken part in an SCSS workshop, for example, a supplier to our Infrastructure business now removes and segregates packaging to combat plastic waste. Our divisions work together with their supply chains: Construction & Infrastructure worked with their supply chain to source a cleaner, greener fuel using hydrogenated vegetable oil on their project for St Marks' Church of England Primary School in Southampton; Partnership Housing is currently collaborating with a supplier on the production of an app that monitors the behaviours of drivers of site vehicles, including fuel use and safety checks.

We aim to pay our suppliers fairly and have worked hard to reduce our average days to pay their invoices, in line with the Prompt Payment Code. In 2020, our largest division, Construction & Infrastructure, paid 98% of invoices within 60 days and has reduced its average payment days to 27 days over the last 12 months (1 July to 31 December 2019: 32 days). We do not use any supplier finance arrangements.

Our supplier relationships proved enormously valuable during 2020. Our supply chain worked with us to adapt to Covid-safe ways of working so that we could reopen our sites as quickly as possible and keep them running safely and effectively. They also helped ensure the continued supply of key products, such as plasterboard, and we were able to re-establish supply lines to our subcontractors. Our Construction business led a collaborative procurement effort with other Tier 1 construction companies to engage with major industry suppliers to coordinate efforts to adjust their production plans accordingly.

Our strong relationships with our subcontractors allowed us to mobilise quickly in response to demand. Our Construction business was approached to build a Covid-recovery hospital at Bluestone Holiday Park in Pembrokeshire, with a very short turnaround and completion schedule. The demolition contractor was on site within 24 hours of a phone call, and worked 24 hours a day for four days to clear the Park's play facility. The mechanical and electrical contractor was on site within four hours of a call.

Throughout the period, we supported our supply chain where we could, by improving payment terms to help with cash flow and working capital, resolving outstanding issues, and ordering goods when subcontractors had difficulty sourcing them. Our Construction business reduced payment terms for subcontractors in Liverpool on its Copperas Hill project by 14 days and on its Paddington Village project by seven days. On three projects in Wales, with agreement from the clients, the business paid for materials to help its supply chain with critical cash flow and to maintain productivity on site.

Adding social value to communities

We seek to leave a positive legacy in all the communities in which we work through the delivery of our projects and the activities that we undertake. We believe we can add social value by engaging with communities, consulting on our projects, employing locally, providing employment skills training and working with schools and colleges to create opportunities for young people.

Our regeneration activities enhance communities by reviving town centres with new housing (Partnership Housing built c2,200 new homes in 2020 and refurbished c1,800), leisure, work and retail facilities, and landscaped open spaces. Local economies are stimulated by attracting people and businesses to the revitalised cities and by procuring locally on our projects.

We run social enterprises that provide job and training opportunities for local young people and disadvantaged groups, including those people who have been out of work for long periods of time and ex-offenders. Morgan Sindall All Together Cumbria (ATC) 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. ATC, in partnership with HMP Haverigg and supported by cross-sector stakeholders, is currently creating a Collective Impact Consortium that will address skills shortages in Cumbria by providing access to specialist training, while reducing re-offending. In 2020, ATC received an award for 'business collaboration' from the not-for-profit organisation, Britain's Energy Coast Business Cluster, in recognition of the enterprise 'helping to build a stronger and brighter future for Cumbria'.

We offer a wide range of apprenticeship programmes, both directly and in conjunction with our supply chain, covering both trade and professional skills. On all its contracts, Property Services offers local residents training in employment skills and painting and decorating apprenticeships that provide a trade qualification and the opportunity of employment. To date, 94 residents in Basildon have completed the 'BasWorx' training and decorating apprenticeship, and 31 residents in Westminster have completed the 'CityFutures Work to Learn' programme.

We work closely with schools, colleges and universities to encourage young people to consider careers in construction. Our activities range from mentoring, STEM (science, technology, engineering and mathematics) activities and workshops to site visits and on-site work experience. Our Construction business works with Buckinghamshire University Technical College to support students with on-site work experience, careers fairs and sector-specific classes. The Infrastructure business works with Cumbria Constabulary to fund and co-deliver 'Future Pathways', an eight- to 10-week educational programme for key stage 3 students. The programme aims to raise aspirations, build self-esteem and confidence, increase resilience and positive behaviours, and improve physical health through physical activity. The goal is to raise students' social and employment aspirations to prevent them from becoming 'NEET' (Not in Education Employment or Training).

Construction & Infrastructure has entered 12 formal partnerships with schools whereby the division and the school pledge in each case to support pupils with their learning and development so that they make career choices that are right for them, the industry and the community in which they live and work. The agreement includes a commitment to the Gatsby benchmarks of good career guidance. Gatsby is a charitable foundation committed to strengthening the UK's science and engineering skills.

All divisions take part in local community projects and charities. The Construction business has a dedicated social manager who chairs the skills advisory panel on The South East Local Enterprise Partnership (SELEP). SELEP is a new framework looking to redeploy those who have lost their jobs during Covid-19 in sectors with skills shortages. It has set up a Covid-19 recovery skills training framework, which will run for two years. Construction & Infrastructure's Barking Riverside extension project team has partnered with local initiatives such as Thames View Community Garden and Barking Food Forest, to find ways of reusing discarded site materials that can benefit the local community. In July 2020, the team donated disused wooden rail sleepers and volunteered to build raised plant beds and family plots for growing fruit and vegetables. Property Services set up virtual mentoring circles on all their contracts in 2020 to support lone parents who have found themselves unemployed as a result of Covid-19. The sessions cover CV development, job search, interview skills and preparation, and confidence-building skills and are offered at times that suit participants' other commitments. The division has also signed up to the 'Care Leaver Covenant', which provides practical support for those leaving care, so they can progress successfully to the next phase of their lives. Property Services will provide care leavers with access to a dedicated adviser, support with employability skills, training, and opportunities for apprenticeships and employment.

We are a partner with Social Value UK, a national network that promotes the measurement of social value, and have recently become a partner of the Social Value Centre of Excellence, which has been set up by Simetrica-Jacobs and the London School of Economics to develop best practice in social value measurement.

We run a supply chain social value bank, developed in conjunction with Simetrica, that monetises activities undertaken on our construction projects that add value to local communities. The bank is aligned to HM Treasury's Green Book and allows us to reliably forecast and calculate the economic, environmental and social value our projects create. In 2020, we used the bank on 83 projects and it calculated that we contributed 68p of social value for every £1 spent. Examples of social value delivered on these projects included:

- 4,624 small- to medium-sized businesses engaged;
- 640 apprenticeships and training opportunities for young people;
- 755 job opportunities for unemployed people;
- 706 job opportunities for local people;
- 7,457 hours supporting schools; and
- 9,435 hours community volunteering.

We are now working with Simetrica-Jacobs to develop a similar tool that can be used by our regeneration businesses.

2021 social priorities

In 2021, we will focus on further improving safety and reducing the number of high potential incidents on sites (those incurred that could potentially have resulted in serious injury); increase occupational

health surveillance to try and eradicate incidents of hand-arm vibration and noise-induced hearing loss; continue to help employees manage their health and wellbeing, including their mental wellbeing; review whether or not we extend our subcontractor pilot study on conditions on site; communicate the results of our diversity and inclusion survey to our employees and implement agreed actions; complete the BES 6002 ethical labour sourcing standard audit; implement a new version of the supply chain social value bank for our development projects; and roll out a template agreement for our school partnerships across the Group.

Stakeholder engagement

We aim to build two-way, constructive relationships with our stakeholders and maintain regular, open and transparent dialogue with them so that we can consider their views and interests when making decisions. This helps to ensure that our operational and business decision outcomes are more robust and sustainable. We have set out below some examples of the ways the Group as a whole has engaged with stakeholders during the year. Pages 66 and 67 in the directors' and corporate governance report describe how the Board engages with its key stakeholders: our shareholders, employees and funders.

In the fourth quarter of 2020, we undertook a survey of all our employees and a selection of our clients, suppliers, trade associations and investors to understand the level of importance they would ascribe to a range of responsible business ambitions, in the context of our business. In total, 2,937 stakeholders responded to the survey. The findings indicate that our Total Commitments remain relevant and that the issues that our different stakeholders considered material are aligned with the Group's responsible business priorities. We have used our stakeholders' feedback to revise our key performance indicators and implement stretching targets for the next decade. We will publish on our website full details of the findings and the actions that we will be taking as a result.

Our shareholders

To help investors fulfil their stewardship roles and ensure that we retain their confidence and support, our executive directors regularly communicate with institutional investors and analysts, and all shareholders are invited to attend the Company's annual general meeting. Our non-executive directors are available to meet with shareholders at any time.

Our people

To help us retain and develop our talented teams of employees, now and for the future, we use a variety of different tools to maintain an ongoing dialogue. This includes structured career conversations, induction programmes, engagement surveys, internal social media platforms and employee forums.

In 2020, as part of our priority to research and improve diversity and inclusion within the Group, we circulated a survey to all of our employees asking for their views. The survey was sent out by our chief executive, John Morgan, with a covering letter explaining why we were conducting the survey, assuring people that it was confidential, and letting them know how the data would be managed and that we would be sharing the key findings and actions with them. The email was accompanied by a short, animated video entitled 'A vibrant future', that conveyed to our employees why we believe that diversity and inclusion is good for our teams and for the Group. Sixty per cent of employees responded to the survey. Read more about the diversity and inclusion survey on page 70.

Over the last 12 months, we kept our employees informed of our financial performance through newsletters, emails and briefing sessions. We offer a Savings-Related Share Option Plan (SAYE) to encourage our employees to engage with business performance and progress. We engaged with our employees throughout the pandemic about its impacts on the business and how they could continue to work safely.

Each division updates its employees on business goals, market conditions and divisional performance. Our employees are invited to give their views and feedback by taking part in forums and consultations. All new employees receive a formal induction, which includes a presentation on our core values and Total Commitments. It was particularly important to maintain regular communication during 2020 and updates and inductions were conducted virtually, using tools such as live events on Microsoft Teams, Q&A sessions with divisional managing directors, recorded induction sessions, videos and starter packs. We ensured that those of our employees who were working from home stayed connected and were kept informed. Our Infrastructure business, for example, communicated daily with its employees on the latest Covid-19 guidance and regulations, using a variety of channels, such as short videos.

Annual conferences usually give senior divisional managers and functional heads the chance to communicate key messages and core values in an engaging way, while giving our employees the chance to share ideas and experiences with colleagues from different roles and regions. While we were unable to hold these large gatherings during 2020, we are looking forward to being able to reinstate them in the coming year.

Our divisions conduct regular employee surveys, analyse the feedback, and communicate the results to their employees together with the actions to be undertaken in response. In 2020, Infrastructure and Partnership Housing carried out surveys. Infrastructure's response rate was 86%, and following the results, the division is increasing its focus on wellbeing and mental health, and setting up more frequent listening groups and employee forums to expand communications with employees. Partnership Housing's response rate was 81% and the division received feedback that it had improved employee satisfaction and working conditions.

In response to a survey of members of our retirement savings plan on responsible investment, undertaken at the end of 2019, the trustees of the Morgan Sindall Group Retirement Savings Plan introduced Legal & General's 'Future World' fund into both the default and self-select fund options for members. The Future World fund targets companies with positive environmental policies. The trustees also arranged for each member to be sent a personalised video to communicate their benefit statements; this resulted in c3% of members increasing their monthly savings within the Plan.

Our suppliers and subcontractors

Our strong relationships with our supply chain help us to be an employer of choice and facilitate conversations on subjects such as innovation and future growth. We monitor our subcontractors' performance against set criteria and provide them with constructive feedback. We hold a networking event for suppliers every two years (the event scheduled for 2020 was postponed to 2021) and provide learning and support through the Supply Chain Sustainability School (see page 21).

We are working with our supply chain to help them measure and reduce carbon emissions (see page 14) and plastic use (see page 15). During 2020, engaging with our suppliers and subcontractors was critical to ensure they could continue to supply us with goods and services for

our projects and to help them manage their own cash flows (see more on page 21). We kept our supply chain informed with regard to site closures and reopenings and, once work had resumed, our divisions inducted subcontractors with the new operating procedures and kept them up to date with government advice and regulations.

Our clients and partners

Regular dialogue with our clients and potential clients helps us to understand their priorities and expectations and to ensure that we have the necessary skills and capabilities to deliver their projects.

Our aim is to secure work where possible through partnerships, framework arrangements or repeat business. Our divisions develop long-term relationships with their clients and partners, through understanding their priorities and delivering on their project goals. The Perfect Delivery programme run by our construction businesses is designed to ensure that we carry out our projects to the highest standards. Clients' priorities are discussed with them at the start of the projects and, on completion, we ask for feedback on their experience in face-to-face interviews using detailed questionnaires that include both scores and comments. The results are shared with the project teams and analysed by the divisional managing directors, in order to drive further improvements.

In 2020, when Covid-19 hit, our divisions worked quickly and closely with their clients and partners to implement new site safety measures. They held meetings with clients from early on in the pandemic to prevent or resolve any issues, and secured agreements either to continue working or when to return to site, as appropriate. Agreement was also reached on any necessary extensions of time and resolution of costs for delays caused by the initial disruption.

Partnership Housing issued guidance to prospective house-buyers on how they would be engaged with during the sales process, in line with government advice, so as to ensure their safety and that of the division's employees. For example, house viewings were arranged by appointment only. Numbers of reservations and sales increased, even when compared to pre-Covid levels, and the division achieved a 5-star customer satisfaction rating in many of its regions.

Our divisions reported that they were encouraged by the level of positive support received from their clients. A number of public sector clients acted on the government's Public Procurement Notice and worked with our businesses to implement measures, such as accelerated payments and early release of retentions to support our supply chain partners.

Local communities

By engaging with the communities in which we work, we endeavour to understand their needs and concerns so that our projects can deliver outcomes with societal benefits. 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. Project teams in all divisions get involved in local events, such as school talks or careers fairs, or supporting local charities. In 2020, school engagement programmes were conducted virtually and employees volunteered to raise money for charities associated with the NHS. Property Services delivered food parcels to residents at the start of the pandemic, and continued with its 'Work to Learn' programmes as well as its 'Rant & Rave' service and energy-saving advice for residents.

GOVERNANCE

In this part of the responsibility section, we provide an overview of how we govern environmental and social issues. Further information on governance is disclosed in the corporate governance statement on pages 56 to 82.

Our approach to corporate governance is to embed our values into our policies and procedures and create clear lines of accountability and oversight while maintaining the flexibility to be innovative and creative.

A responsible business

The Board's health, safety and environment committee is responsible on behalf of the Board for ensuring that the Group conducts its business in an ethical and responsible manner and manages non-financial risks appropriately.

Until the end of 2020, our responsible business strategy was developed and agreed by our Group responsible business forum, which monitored our performance against our targets. The forum was chaired by our finance director and comprised the divisional managing directors, Group director of sustainability and procurement, company secretary, Group commercial director, and divisional representatives. In January, the role and responsibilities of the forum were transferred to the Group management team under the lead of our finance director, 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. The table on page 57 shows the structure of our governance framework.

We have a set of key performance indicators and clear targets for each of our Total Commitments so that we can measure and monitor our progress (see pages 14, 15 and 18). We use broad metrics that can be applied by all divisions to their specific businesses, and this can sometimes result in targets not being sufficiently challenging. In 2020, we exceeded some of our 2025 targets and we have therefore reviewed and updated our responsible business KPIs and targets, which we will report against from 1 January 2021 onwards. Full details are shown on the following page.

Our projects can impact numerous stakeholders and the environment. It is important to us that our suppliers and subcontractors operate ethically, including protecting human rights, and that they share our responsible business principles. Our supply chain governance procedures ensure our suppliers and subcontractors are aware of the standards we expect from them and the business practices which we will not tolerate. We work to develop long-term relationships with our suppliers and subcontractors and some divisions operate preferred supplier status schemes.

We encourage all our employees to speak up, and we provide a confidential independent raising concerns service run by Safecall for anyone coming into contact with our projects. All reports are fully investigated and the outcome of each investigation is reported back via Safecall to the individual who raised the concern. See page 62 for further details.

As a Group, we do not tolerate any forms of corruption or the giving or receiving of bribes for any reason. 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. In 2020, we undertook no investigations relating to potential incidences of bribery and corruption.

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 is approved by the Board, 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.

2021 responsible business KPIs and targets

As part of our review of our KPIs and targets, we considered the findings from our 2020 responsible business survey to determine the issues that our stakeholders consider to be material. We aligned the issues regarded as material by the Group and our stakeholders against each Commitment, reduced the number of KPIs to one per Commitment, and ensured that our new targets are suitably stretching for the medium to longer term. We are using our 2019 performance as a baseline, as our 2020 performance was impacted by the Covid-19 pandemic. In addition to the KPIs set out below, we will report against each Commitment and material issue using a range of both quantitative and qualitative data. Our Commitments continue to support the UN Sustainable Development Goals.

Total Commitment	Material issues	KPI	Metric	Short-term target (2025)	Medium-term target (2030)	Horizon ambition
Protecting people	Health, safety and wellbeing Modern slavery Mental wellbeing	Lost time incidents¹	Lost time incident rate ² (LTIR)	Reduce LTIR to 0.21 (from 2019 baseline of 0.23)	Reduce LTIR to 0.18 (from 2019 baseline of 0.23)	Zero incidents
Developing people	Diversity and inclusion Skills development Employee engagement	Training days	No. of training days per year per employee	5 training days	6 training days	7 training days
Improving the environment	Climate change Carbon emissions Waste management	Carbon emissions	Scope 1 ³ and 2 ⁴ carbon emissions	Reduce total Scope 1 and 2 carbon emissions by 30% against 2019 baseline of 20,903 tonnes	Reduce total Scope 1 and 2 carbon emissions by 60% against 2019 baseline of 20,903 tonnes	Zero emissions
			Operational Scope 3 ⁵ carbon emissions	Reduce operational Scope 3 carbon emissions by 30% against 2019 baseline of 6,339 tonnes	Reduce operational Scope 3 carbon emissions by 60% against 2019 baseline of 6,339 tonnes	
			Supply chain (by spend) providing their own carbon data	£500m of supply chain by spend	£1bn of supply chain by spend	100% of supply chain by spend
			Carbon emissions from the Group's vehicle fleet ⁶	Reduce carbon emissions from the Group's vehicle fleet by 30% against the 2019 baseline of 12,078 tonnes	Reduce carbon emissions from the Group's vehicle fleet by 60% against the 2019 baseline of 12,078 tonnes	100% of the company car and commercial vehicle fleet fully electric vehicles
Working together with our supply chain	Supply chain relationships and resilience Prompt payment Supply chain management	Invoice payments	Percentage of total invoices paid in 30 days for the Group as a whole	70% of invoices paid in 30 days	85% of invoices paid in 30 days	95% of invoices paid in 30 days
Enhancing communities	Delivering social value Community engagement	Amount of social value delivered	Average monetary value of social activities delivered per £1 spent on projects	Deliver average of 85p of social value per £1 spent on all projects	Deliver average of 90p of social value per £1 spent on all projects	Deliver average of £1.01 of social value per £1 spent on all projects

¹ Incidents resulting in absence from work for a minimum of one working day, excluding the day the incident occurred.

² The number of lost time incidents multiplied by 100,000 divided by the number of hours worked.

³ Direct emissions from owned or controlled sources.

⁴ Indirect emissions generated from purchased energy.

⁵ All indirect emissions not included in Scope 2 that occur in limited categories of our value chain as measured by the Carbon Reduce scheme (formerly CEMARS, the Carbon & Energy Management And Reduction Scheme).

⁶ Vehicle carbon emissions are included in the calculation of Scope 1 emissions but are reported separately as they are a significant source of the Group's emissions.

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, as shown in the table below. In addition, we publish information under CDP, the Global Reporting Initiative, and the Financial Reporting Council's guidance on the strategic report.

Our due diligence with regard to 'environmental matters', 'employees' and 'social matters' is driven by our Total Commitments, as outlined on page 7. Our performance against each Total Commitment is set out on pages 13 to 23. Further information on these matters can be found in the description of our business model on pages 8 to 10 and our key non-financial performance indicators on pages 11 and 12. Our key non-financial performance indicators are: number of lost time incidents, voluntary employee turnover and carbon emissions.

	Policies	Due diligence in pursuance of policies	Outcomes of policies and impacts of activities	Related principal risks
Environmental matters	Our environmental policy states our commitment to minimising the impact of our activities on climate change and the communities in which we work. Each division implements ISO 14001 environmental management systems to ensure that we protect the environment; reduce waste and energy consumption; source construction materials responsibly; minimise disturbance; and train our employees and subcontractors on environmental issues and controls. Our supplemental timber policy requires procurement from sustainable sources.	Our carbon emissions data is independently verified by supply chain risk management company Achilles (see page 16). We are working with our supply chain to help them disclose their own emissions (see page 14). We are setting up a 'waste desk', a central facility to help divisions manage waste more effectively, for example, providing access to waste liaison officers and leading waste reporting systems.	See pages 13 to 17 for further detail on environmental matters, including our carbon emissions and waste data. Minimising our environmental impact increases our ability to win work and attract talented employees.	The Group's key environmental impact is through carbon emissions and waste we produce. Risks include impacts of extreme weather events. See more on page 43.
	Our sustainable water policy states our commitment to monitoring our use of water where we can, improving efficiency of use and eliminating wastage.	Our water policy sets out key activities for 2020 to 2021. These include measuring water use, encouraging our employees and clients to use water efficiently and incorporating sustainable drainage systems on projects.	See page 13 for detail on how we use recycled fresh water on site.	
Employees	We aim to be an inclusive employer and have a wide range of policies, including equal opportunities and dignity at work; maternity; paternity and parental leave; adoption; and family emergency.	The Board regularly reviews a 'people report' that includes statistics on diversity, training and employee engagement. Information on the Board's engagement with employees can be found on pages 66 and 67 and details of how the Board oversees our culture are set out on pages 59 to 61.	Developing people is one of our Total Commitments (see page 18). A diverse and qualified team of people helps us win in our target markets and in pursuing innovation. Our performance in employee-related KPIs can be found on pages 11 and 12.	The principal risk would be the failure to attract and retain talented people. See more on page 43.
	Our equal opportunities and dignity at work policy sets out our commitment to an open and inclusive culture, including the fair treatment of disabled people. Our ethics policy requires our employees to maintain the highest standards of integrity and ethics in everything they do. Our health and safety policy commits to providing a safe and healthy working environment.	All policies are communicated to every employee in the Group and regularly reviewed. We give full and fair consideration to job applications made by disabled people. Our procedures include making reasonable adjustments to roles and responsibilities and providing training and support to ensure they have the same opportunities for career development and promotion as other employees.	In 2020, we conducted a Group-wide employee survey on diversity to understand where we are and how we can improve. See pages 18 to 20, and 22 and 23 for further detail on how we protect, develop and engage with our employees.	
	We have a policy in place that sets out the process for raising concerns and commits to protecting our employees and others who report, in good faith, suspected wrongdoing.	Our raising concerns procedures are regularly monitored and reviewed by the Board (see page 62).	In 2020, we received an average of 1/384 raised concerns reports per employee against a benchmark of 1/530, which demonstrates our culture of openness and trust in our processes. All concerns were fully investigated.	

	Policies	Due diligence in pursuance of policies	Outcomes of policies and impacts of activities	Related principal risks
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.	A core activity of the Group is regenerating urban areas to provide mixed-use development, including housing for local communities.	We currently run two social enterprises to provide local residents with training and employment opportunities: BasWorx and All Together Cumbria. Our supply chain social value bank, which monetises activities that add value to local communities on our projects, was used on 83 projects during 2020 and calculated 68p of social value per £1 spent.	Social matters are not currently regarded as a principal risk to the Group. 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 day-to-day operations to manage it.
	Our divisions operate corporate volunteering schemes where their employees are given a day's paid leave per year to volunteer with a registered charity.	Our divisions support requests for charity donations and offer financial contributions, employee time and goods in kind. For example, project teams are assisted in restoring disused community facilities.	More than £400,000 was raised for or donated to charities in the year by the Group.	
Human rights	We comply with UK legislation on human rights, and this is supplemented by our ethics policy. Our equal opportunities and dignity at work policy prohibits harassment, victimisation and bullying, and our grievance policy sets out formal grievance procedures. Our modern slavery statement is published on our website.	Adherence to our ethics and other human rights related policies is regularly monitored. Ultimate oversight belongs to the Board, audit committee and our Group general counsel. We share modern slavery materials produced by the Gangmasters Labour Abuse Authority with our supply chain to raise awareness.	Our employees complete respective e-learning modules on modern slavery and dignity at work. No incidences in the Group of human rights abuse or modern slavery were identified in 2020.	Human rights breaches are not considered a principal risk. However, there is a risk of breach by an overseas supplier and a risk of people working on our sites without the legal right to work in the UK. We require all suppliers to comply with legislation, including the Modern Slavery Act 2015 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	Our ethics policy states that we will not tolerate any form of bribery or corruption. In addition, we have a gifts and hospitality policy that provides guidance to create transparency and avoid any risk of breaching the Bribery Act 2010.	Divisional senior managers are required to promote a culture in which bribery and corruption are unacceptable. Each division has its own procedures for applying the Group's policies and managers are required to be conversant with government guidance.	Our employees complete e-learning modules on anti-bribery and corruption as well as competition law. There was no evidence of any systemic bribery and corrupt activity in 2020.	We do not regard corruption and bribery as a principal risk to the Group.

Copies of the policies referred to in the table above can be obtained from the Group's company secretary on request.

Operating review

CONSTRUCTION & INFRASTRUCTURE

REVENUE

(£m)

+10%



OPERATING PROFIT

(£m)

+11%



OPERATING MARGIN

(%)



Construction & Infrastructure delivered a strong result in the year despite Covid-19, with revenue up 10% to £1,637m and operating profit up 11% to £35.7m. The operating margin of 2.2% was level with the prior year. The result was driven by strong revenue and profit growth in Infrastructure (including Design)¹, while Construction's profit and margin were significantly lower, impacted by additional costs incurred associated with Covid-19.

For both Construction and Infrastructure, operational disruption related to Covid-19 was mainly restricted to the first half, with most sites fully open and active throughout the second half.

Of the divisional revenue split by type of activity, Construction accounted for 41% of divisional revenue at £670m, with 59% (£967m) being Infrastructure.

The division performed well in terms of winning work and growing its future workload. The secured order book at the year end was £2,537m, up 12% compared to the prior year.

¹ Design results are reported within Infrastructure.

Construction

Construction's revenue increased 8% to £670m, with second half revenue growth of 13% compared to 2% in the first half as sites reopened and productivity levels were restored following the initial lockdown restrictions imposed in March.

At the peak impact of the lockdown measures in the second quarter of the year, c31% of sites were closed completely (c15% by value), with the remainder impacted by significant productivity constraints.

The operational impact on projects was broadly determined by the stage of construction, with a relatively low impact on projects at an earlier stage of construction (groundwork, piling, demolition etc), while those most impacted were projects at the final stages of construction.

For approximately 50% of the division's projects, there was no contractual entitlement to recover costs associated with Covid-19, and this was in addition to the additional costs incurred as a result of delays to commencing new work. Consequently, the operating margin reduced significantly, down to 1.2% (2019: 2.8%), with operating profit down to £8.2m (2019: £17.1m). As activity increased, the second half margin improved to 1.8%, compared to 0.4% in the first half.

Construction's order book at the year end was broadly level with the prior year at £512m (2019: £514m), with £432m (84% by value) secured for 2021. Almost 100% of the order book value is derived through either negotiated, framework or two-stage bidding procurement processes, in line with the preferred risk profile of work undertaken. In addition to this, Construction also had c£730m of work at preferred bidder stage at the year end, up 8% compared to the same time last year (2019: £675m in preferred bidder).

In education, Construction's largest sector, project wins included: a £50m Science, Engineering and Environmental building for the University of Salford; a £37m school for Urban&Civic in Rugby; two schools for the City of Edinburgh totalling £24m; and the £14.6m expansion and refurbishment of Cromwell Community College in Chatteris, Cambridgeshire. Work started on all these projects during the year, with the new build works at Cromwell Community College handed over in January 2021. In addition, the division secured a contract via the Pagabo framework to build St Marks school in Southampton and a contract via the Department for Education framework to refurbish and upgrade a 1930s building to house Hujjat Primary School in Harrow.

Construction also achieved preferred bidder on a number of projects: the £29m Glebe Farm school in Wavendon, Milton Keynes, via the Pagabo framework for major construction works; the £15m expansion and renovation of the University of Oxford's Grade II-listed Radcliffe Science Library to house the new Reuben College, via the University's capital works partner framework; and the University of Salford's £13m project to build a Robotics Innovation Centre, where work is due to start in early 2021. In addition, Construction was selected as preferred bidder and awarded a pre-construction services agreement for phase 1 of the £36m Alconbury Education Hub project, in Alconbury Weald, Cambridgeshire, which will include a secondary school, sixth form and special needs school.

During the year, work progressed on the £27m Cefn Saeson Comprehensive School in Neath, Wales and the £15.1m educational campus in Renton, West Dumbartonshire, consisting of Renton Primary School, a language and communication unit, and the Riverside Early Learning and Childcare Centre. Completions included the £10.2m Vandyke Upper School and the £6.5m Gilbert Ingelfield Academy in Leighton Buzzard, Bedfordshire; and the Vita Student Nottingham project, a £24m student accommodation scheme in the city centre. In addition, the division handed over the £5.3m Highfields Spencer Academy in Derby in September 2020, two weeks early; off-site modular construction methods had been used to significantly speed up the construction programme while reducing pollution and emissions.

In healthcare, the £3.3m extension and refurbishment of South Molton Medical Care Centre in Devon was completed in August; and work began on a new clinical and education facility for the Evelina London Children's Hospital, awarded through the Southern Construction Framework.

In other sectors, the division secured a £46m residential development for Urban Regeneration, through its joint venture, as part of the New Bailey development in Manchester. Completions included: The Spine, the 70,000 sq ft headquarters in Liverpool of the Royal College of Physicians (see cover); a £6.3m leisure centre in Market Rasen, Lincolnshire; and two residential projects for Brighton & Hove City Council: Buckley Close in Hangleton, delivered under the New Homes for Neighbourhood scheme, and an £8m apartment building in Moulsecoomb, completed five weeks ahead of programme.

Framework appointments included: reappointment to Pagabo's £10bn, six-year major construction works framework on all lots and regions throughout the UK; Lot 1 (£10m–£30m) and Lot 2 (£30m plus) of the £1.5bn YORbuild major works contractors framework for projects in the Yorkshire and Humber region; two lots on the University of Birmingham's capital estates framework for projects valued £2.5m–£10m and £10m plus respectively; and all three lots of the University of Glasgow's new £250m capital estates framework, for projects valued over £3m, £250,000–£3m and below £250,000. The division re-secured its place on the £0.5bn hub South West Scotland framework.

Infrastructure

Infrastructure's revenue increased 12% to £967m, with 26% growth in the first half and revenue 1% lower in the second half, driven primarily by the mix of work across the year.

At the peak impact of the lockdown measures in the second quarter of the year, c61% of sites were closed completely (59% by value), however in many cases, the period of closure for a reassessment of safety procedures was relatively short, allowing many sites to reopen and maintain reasonable activity levels.

Most of the business's contracts allowed it to recover compensation from its clients for additional time and costs incurred as a result of the closures and delays to programmes caused by Covid-19.

Operating profit increased 81% to £27.5m with an operating margin of 2.8%, up a significant 100bps from the prior year and driven by the higher revenue, the type of work and improved operational delivery on site. The first half margin was 2.1%, while this increased to 3.7% in the second half, benefiting from work mix, efficiencies and final account settlements on a number of projects.

Infrastructure's order book grew strongly, up 15% to £2,025m (80% of the total by value). 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 aviation, ongoing projects at Heathrow were curtailed due to Covid-19 and workload in this sector in 2021, the final year of the framework, is likely to be minimal.

In highways, the division was appointed through joint venture by Highways England as one of six partners on the £4.5bn Smart Motorway Alliance, set up to improve motorway journeys through increased capacity and safety improvements. Mobilisation work has begun, with the project due to start on site in the early part of 2021. Infrastructure was also appointed by Transport for West Midlands to deliver the main construction works for the Sprint corridor on the A45 between Bordesley Circus and Brays Road in Yardley, Birmingham. Completions included the M62 scheme and the M5 Oldbury viaduct, the largest concrete project, by value, carried out to date in the UK.

In rail, work progressed on two enhancement schemes for Network Rail: the Werrington Grade Separation project and the remodelling of London King's Cross station, both due to complete in 2021. In addition, the division is working with Network Rail to develop enhancement schemes as part of the CP6 framework for the Western region. Following some disruption owing to travel restrictions relating to Covid-19, work resumed on the Barking Riverside Extension in joint venture for Transport for London, with the scheme due to complete in 2022.

In nuclear, progress was made with the first four projects of Sellafield's 20-year Programme and Project Partners framework, and the Infrastructure Strategic Alliance framework achieved a significant milestone with the commissioning of a major project. Work also continued on the multi-million pound D58/59 submarine building facility in Cumbria for BAE Systems.

In energy, Infrastructure completed two overhead line and cabling projects in 2020 for Scottish and Southern Electricity Networks and secured, under framework, a further c£50m of cabling and overhead line work. In addition, cable installation began during the year on National Grid's c£80m Dorset Visual Impact Provision project, with jointing works commencing in January 2021.

In water, work started on schemes under the AMP7 framework with Welsh Water; and progress was made on the west section of the Thames Tideway Tunnel 'super sewer', with the joint venture's tunnel boring machine completing the 7km journey from Fulham to Acton.

In Design, work continued on Public Health England's new headquarters in Harlow, Essex ahead of its relocation from Porton Down in Wiltshire. On other major projects, the design of the Medicines Manufacturing Innovation Centre in Glasgow was completed (see inside back cover); and work continued on the reconfiguration of the Fort Halstead site in Kent for QinetiQ and GW Pharmaceutical's new facility, also in Kent.

Divisional outlook

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

The medium-term target for Construction remains to deliver a consistent operating margin within the range of 2.5%–3.0%. Infrastructure's medium-term target is to achieve an operating margin of 3.5%, reflecting an increase on its previous target from 3.0%. Progress towards these targets is expected in 2021.

FIT OUT

REVENUE

(£m)

-17%



OPERATING PROFIT

(£m)

-13%



OPERATING MARGIN

(%)

+20bps



Fit Out's performance in the year demonstrated the overall resilience and high quality of the business, improving its operating margin by 20bps to 4.6% despite a reduction in revenue of 17% to £700m. Operating profit was 13% lower at £32.1m.

At the peak impact of the Covid-19 lockdown measures in the second quarter of the year, 53% of sites were closed (40% by value). However, activity was restored relatively quickly, benefiting from many sites being contained within vacated buildings. In addition, the established and preferred relationships built up with its supply chain over many years enabled prompt and efficient remobilisation of teams at short notice and with immediate responsiveness.

With all Fit Out sites fully active and productive throughout the second half, revenue improved and was down 11% on the prior year compared to a reduction of 22% in the first half.

As with previous years, there was a second half weighting to the operating margin (H1 2020: 3.4%, H2 2020: 5.5%), driven by strong project delivery as volumes normalised and by the successful completion of a number of contracts falling towards the end of the year.

By sector, although the commercial office market remained the largest served by Fit Out, contributing 66% of revenue (2019: 85%), the proportion was significantly lower than in previous years. Work in the public sector and for local authorities increased to 25% of total revenue (2019: 6%), providing resilience through the year, with higher education and retail banking making up the remainder.

Geographically, the London region was the division's largest market, accounting for 69% of revenue, with no significant change from the prior year (2019: 70%). Other regions accounted for 31% of revenue.

There was a slight shift in type of work towards traditional fit out work at 86% of revenue (2019: 81%), with 'design and build' reducing to 14% of the total (2019: 19%).

The proportion of revenue generated from the fit out of existing office space remained broadly level with the prior year at 72% (2019: 73%) with the remaining 28% relating to new office fit out (2019: 27%).

At the year end, the secured order book was £410m, a reduction of 15% on the prior year end and a reduction of 12% from the position at the half year. Of the year-end total of £410m, £387m (94%) relates to 2021 and this level of orders for the next 12 months is 8% lower than it was at the same time last year. However, in addition to these secured orders, the division had c£450m of potential work 'pending decision' at the year end, as well as in excess of £350m of tender opportunities identified for the first quarter of 2021. The average value of enquiries received through the year was around £3m.

Projects won and started on site in the year included: a 123,000 sq ft of office space for the Boston Consulting Group in London; a 170,000 sq ft Category A fit out for Lexo Ltd in Peterborough; and the fit out of BT's new 284,000 sq ft office at Three Snowhill, Birmingham which represents the city's largest letting ever in a single building. BT's first phase was started and completed in the year, with phase two on track to be handed over in the second quarter of 2021.

Projects won and delivered included: multiple projects under The Mayor's Office for Policing and Crime (MOPAC) framework totalling £41m (a further £54m of MOPAC projects have been secured for 2021); the design and fit out of 25,000 sq ft of office space for WaterAid in Canary Wharf; and 14,000 sq ft of office space at London Wall for software company, R3.

Other notable projects that remained on track in 2020 were a Category A completion of the 274,000 sq ft HMRC Government Hub at the landmark India Building in Liverpool; and the 75,000 sq ft headquarters of the Royal College of Physicians at the Paddington Village development in Liverpool, where Fit Out has been working in collaboration with Construction & Infrastructure.

In higher education, Fit Out won a £5m project to fit out and refurbish a health and social care training centre at the University of Wolverhampton. Projects completed in the sector in 2020 included: a teaching, hospitality and administrative space for the University of Chicago Booth School of Business at St Bartholomew's Square, London; and teaching and lecture facilities at King's College London's Macadam Building.

Divisional outlook

The medium-term target for Fit Out remains to deliver a profit at or around £35m per year. For 2021, based on current market conditions, the year-end order book and the level of identified prospects, Fit Out is expected to meet this target.

PROPERTY SERVICES

REVENUE

(£m)

-3%

2019 **115**

2020 **112**

OPERATING PROFIT¹

(£m)

-77%

2019 **4.3**

2020 **1.0**

OPERATING MARGIN¹

(%)

-280bps

2019 **3.7**

2020 **0.9**

¹ Before intangible amortisation of £1.2m (2019: £1.2m).

Property Services was significantly impacted by Covid-19, with operating profit down to £1.0m (2019: £4.3m) from revenue of £112m, down 3%. The operating margin was down to 0.9% (2019: 3.7%).

After a strong start to the year in January and February, the services provided by the division were restricted to mainly 'essential' repairs and external planned works during the first national lockdown in March. The resulting lower volume was insufficient to cover the overheads in the division and it reported a loss of £0.5m in the first half. The maximum number of employees on furlough at any one time during the second quarter was 415 (57% of total).

Activity improved throughout the second half and a more normalised level of operations had been restored by the fourth quarter of the year. The second half operating profit of £1.5m more than offset the first half loss, resulting in an operating profit for the year of £1.0m.

The division has continued to focus on delivering repairs and planned maintenance with a strong social value offering, servicing public sector housing through integrated contracts with housing associations and local authorities. Notwithstanding the operational disruption, the division has continued to enhance its IT platform to provide data insight and improve customer experience.

At the year end, the secured order book was up 7% to £970m. Bidding remains selective, targeting long-term contracts of 10–15 years, with a current pipeline of opportunities of £1.6bn already bid for and pending a decision, or identified for bidding in the next 12 months.

During the year, the division entered into three new contracts with a combined order book value of £171m. Two contracts are for Hammersmith and Fulham Council for housing repairs and domestic and communal gas respectively; each is for an initial five years with the potential to extend for a further two years. The third contract is with Home Group housing association to maintain 4,500 properties for an initial seven years with a potential to extend for a further seven years; it includes responsive repairs, void refurbishments, heating services and planned improvement works, such as kitchen and bathroom replacement and heating system upgrades.

Divisional outlook

Although all response maintenance contracts are currently operational, it is expected that planned maintenance activity will be lower in the first half of 2021.

With the current order book and the division's operating model, the medium-term target for Property Services remains to generate a minimum £10m 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 2021.

PARTNERSHIP HOUSING

REVENUE

(£m)

-14%



OPERATING PROFIT

(£m)

-12%



OPERATING MARGIN

(%)

+10bps



AVERAGE CAPITAL EMPLOYED¹ (LAST 12 MONTHS)

(£m)

-£0.7m



CAPITAL EMPLOYED¹ AT YEAR END

(£m)

-£10.1m



ROCE² (LAST 12 MONTHS)

(%)



ROCE² (AVERAGE LAST THREE YEARS)

(%)



1 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).

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

Partnership Housing revenue for the year was 14% lower than the prior year at £441m. Split by type of activity, mixed-tenure revenue was up 3% to £278m (63% of divisional revenue) while contracting revenue (including planned maintenance and refurbishment) was down 33% in the year to £163m (37% of divisional total).

At the peak impact of the Covid-19 lockdown measures in the second quarter of the year, 93% of sites were closed (91% by value). The effective closure of the UK housebuilding industry and its associated supply chain at that time resulted in an inability to maintain operations. However, from early May, sites started to remobilise, with the limited availability of certain building materials on site easing through the month as manufacturers recommenced their own production. Following this and through the second half, the division experienced higher levels of construction activity, driven by mixed tenure, and higher levels of demand for its open market product across all its sites.

Operating profit of £16.1m was 12% down on the prior year, with the operating margin up slightly to 3.7% supported by the higher mixed-tenure revenue. The second half operating margin was 4.7% compared to the prior year second half margin of 4.3%, demonstrating the progress made in the division.

Besides the additional construction costs incurred as a result of the Covid-19 lockdown, the operating result also includes the £2.0m non-cash impairment of the division's investment in a small joint venture developer of supported independent living accommodation, which reduces the carrying value of the investment to zero.

The secured order book at the year end was £1,267m, an increase of 16% on the prior year, and further demonstrated the positive strategic progress made and the market opportunity available to the division. Of this total, the order book relating to the mixed-tenure activities increased 11% to £821m (2019: £740m). In addition, the amount of mixed-tenure business in preferred bidder status, or already under development agreement but where land has not been drawn down, was in excess of £650m at the year end. The contracting secured order book increased 26% to £446m (2019: £353m), of which £151m is for 2021.

The average capital employed¹ for the last 12-month period was £150.9m, a reduction of £0.7m on the prior year. This was lower than anticipated at the start of the year and was driven by the choice in a number of situations to forward fund certain developments to de-risk the portfolio in the wake of Covid-19 and was not indicative of a slowing in the strategic investment programme.

The capital employed¹ at year end was £122.2m, a reduction of £10.1m from the prior year end and was driven by the higher level of sales towards the end of the year. As a result of the lower profit in the year, the overall ROCE² reduced to 11%.

Based on the current schedule and type of mixed-tenure development currently anticipated, together with the timing of the forecast contracting activities, average capital employed¹ is expected to increase to c£180m in 2021 (which includes c£10m capital from Investments' Later Living and property development joint ventures with local authorities (see the Investments section on page 35)).

Mixed tenure

In mixed tenure, 1,216 units were completed across open market sales and social housing, slightly higher than in the prior year (2019: 1,144 units). The average sales price of £229,000 compared to the prior year average of £238,000.

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

Key project wins for Partnership Housing included deals worth £140m with Homes England to provide 532 new homes at two former Ministry of Defence sites: 119 at Thorp Arch near Wetherby, Yorkshire where construction is underway, and 413 homes at Drummond Park in Luggershall, Wiltshire, due to start on site in mid-2021. In addition, the division exchanged on two sites in South Wales at Coed Darcy and Llanwern, which have a combined development value of £130m and will deliver more than 660 units; and was selected by Newark and Sherwood District Council for a £50m regeneration project to build c310 homes on the Yorke Drive estate in Newark, through the division's Compendium Living joint venture with The Riverside Group.

Project starts in the year included: an £80m scheme in joint venture with Flagship Group to build 335 new homes at Williams Park in Wymondham; and a £45m project to provide 252 new homes in Walsall, via the Anthem Lovell joint venture with Walsall Housing Group. Work progressed on the division's ongoing regeneration scheme at Trinity Walk, Woolwich, with enabling works for further phases also commencing in the year.

Lovell Together, the division's newly formed joint venture with Together Housing Group, secured planning approval to build 127 new homes in Pendleton, Salford, of which 17 will be affordable; the £25m scheme will be the first phase of a project to deliver 1,000 homes in the area.

Contracting

In contracting, the total number of equivalent units built was 978, down from 1,489 in the prior year.

The division was selected by Telford and Wrekin Council as preferred contractor on a £53m contract to deliver 335 new homes at a brownfield site in Donnington Wood, Telford. This includes 70 homes for Nuplace, the council's wholly-owned housing company, and will be the division's 11th scheme with Nuplace in the last five years. In addition, the division won an £8m contract with LiveWest housing association to build 60 new affordable homes in Exeter; and a £9m contract for planned maintenance work with social landlord Midland Heart to refurbish 6,000 bathrooms and kitchens over a five-year period. The division's £251m project for the Defence Infrastructure Organisation at Salisbury Plain substantially completed in August ahead of schedule, enabling army personnel to move into their new homes early.

Divisional outlook

The market opportunity for Partnership Housing remains strong and its medium-term targets remain as previous; firstly, to generate a return on average capital employed² of over 20% and secondly, to deliver an operating margin of 6%.

Looking ahead to 2021, it is expected that continued operational improvements and the benefit of higher revenue will drive margin and profit growth, supported by the high quality secured order book.

URBAN REGENERATION

REVENUE

(£m)

+3%



OPERATING PROFIT

(%)

-53%



AVERAGE CAPITAL EMPLOYED¹ (LAST 12 MONTHS)

(£m)

+£7.9m



CAPITAL EMPLOYED¹ AT YEAR END

(£m)

-£22.6m



ROCE² (LAST 12 MONTHS)

(%)



ROCE² (AVERAGE LAST THREE YEARS)

(%)



1 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).

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

Urban Regeneration delivered an operating profit of £9.2m in the year, a reduction of 53% on the prior year (2019: £19.4m). The lower profit impacted the ROCE², which was down to 8% based on the average capital employed¹ in the year of £109.7m. The average ROCE² over the last three years was 14%.

The impact of Covid-19 was felt across all stages of the development process. During the first national lockdown in March, construction activity on most of the active development schemes either ceased for a period or was significantly reduced, resulting in lower development management fees and delayed residential sales scheduled for later in the year. Delays were also experienced in progressing schemes, with decision-making by partners remaining cautious over future costs, viability and returns.

Capital employed¹ at the year end was £22.6m lower at £85.1m, driven by the timing of completions towards the year end and the choice of funding options for existing schemes. Based on the current profile and type of scheme activity across the portfolio, the average capital employed¹ for 2021 is expected to increase to c£120m, which includes c£20m capital from Investments' property development joint ventures with local authorities (see Investments section on page 35).

The main contributors to performance were profit and development fees generated from the Salford Central regeneration scheme, being delivered by the English Cities Fund joint venture with Legal & General and Homes England; profit from the pre-let and forward sale of three warehouse and distribution buildings totalling over 400,000 sq ft at Logic Leeds; and two separate land sales at Eurocentral in Lanarkshire, Scotland.

In addition, development management fees were generated from Time Square in Warrington and a second office building at Stockport Exchange. Profits were also earned from the sale of new homes at: Wapping Wharf, Bristol; Griffon Fields, Hucknall; Brentford Lock West; Hale Wharf, Tottenham Hale; Northshore, Stockton-on-Tees; and Millbay, Plymouth. Other significant completions included the new 196,000 sq ft distribution centre at Harrier Park in Hucknall and 26,100 sq ft of commercial and research and development space at Cheadle Royal.

Two significant forward funding deals were agreed in the year, which are both on site and generating regular profits. The first was a £252m deal signed with Get Living plc to deliver the second and final phase of Lewisham Gateway. Due to complete in 2023, the scheme will provide 649 homes for rent, 10,000 sq ft of offices, c25,000 sq ft of retail space, c15,000 sq ft of food and beverage space, a gym, and Lewisham's first major multiplex cinema which has been pre-let. The second was a £130m deal agreed with Pension Insurance Corporation to deliver the first phase of the 'New Victoria' scheme in Manchester city centre, in partnership with Network Rail with support from Manchester City Council and Homes England. The first phase consists of 520 homes for rent and is expected to complete in 2023. In addition, regular profits are being received from active developments in Basingstoke and Blackpool.

The English Cities Fund made progress in the year on existing schemes. At Salford Central, five new developments are currently under construction at Atelier, Valette Square, Novella, Three New Bailey, and 175,000 sq ft of office space at Four New Bailey, pre-let to BT. The Fund has also completed the latest phase of 137 quayside homes at Quadrant Wharf, Millbay and secured two deals with occupiers at Merchant Gate, Wakefield.

Urban Regeneration's Waterside Places joint venture with the Canal & River Trust made significant progress on a number of schemes in the year. At Islington Wharf, Manchester, planning consent was achieved on the fourth and final phase of 106 homes over two blocks, which is due to start on site in the first half of 2021; the first phase of development at Hale Wharf, Tottenham Hale is due to complete in Summer 2021, with 108 of 249 homes forward funded by Grainger plc; and the third and final phase of Brentford Lock West, to deliver 425 mixed-use homes, is scheduled to start on site in 2021. Waterside Places has also submitted planning for its residential-led development at Stoke Wharf in joint venture with Slough Urban Renewal, to deliver over 300 new homes along a revitalised canal side.

Urban Regeneration submitted a series of planning applications during the year, including 1.4m sq ft of mixed-use development in Birkenhead town centre, through the division's Wirral Growth Company joint venture with Wirral Borough Council; and Stroudley Walk, London which will bring forward 274 homes (50% affordable) in partnership with Poplar HARCA (Housing and Regeneration Community Association). Planning consent was received for new developments at South Shields; Logic Leeds; Rotherham in South Yorkshire; and Manor Road in Canning Town, where 804 homes (50% affordable) will be delivered.

Urban Regeneration's development portfolio continues to be both active and diverse, with 14 projects on site at the year end across 10 developments, totalling £950m gross development value, and a further 11 projects expected to start on site in 2021.

At the year end, the division's regeneration order book amounted to £2.4bn, an increase of 7% on the prior year end, and within this there is a diverse geographic and sector split:

- by value, 45% is in the North West, 41% in London and the South East, 12% in Yorkshire and the North East and 2% in the rest of the UK; and
- by sector, 52% by value relates to residential, 31% to offices, and the remainder is broadly split between retail, leisure, and industrial.

The order book includes c£230m relating to the division's share of joint venture gross development value and development management fees from the appointment in the year through the English Cities Fund as development partner for the Salford Crescent masterplan to create a new 240-acre urban district in Salford over the next 10 to 15 years; the programme will deliver up to 3,000 homes, commercial, innovation and education space, sustainable transport facilities and large areas of green space.

Divisional outlook

The medium-term target for Urban Regeneration is to increase its rolling three-year average ROCE² up towards 20%. The lower profit result for 2020 reduced the three-year average to 14%; however, the medium-term outlook for the division has not changed, but only modest progress towards its target ROCE² is expected in 2021.

INVESTMENTS

OPERATING LOSS¹

(£m)



1 Before intangible amortisation of £1.9m (2019: £0.6m).

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).

Investments reported a loss of £6.9m in the year, with many of the division's existing schemes experiencing delays to construction activity as a result of the Covid-19 pandemic and delays to achieving financial close on new schemes as investment decisions were deferred. While on-site construction activity recovered to normal levels relatively quickly, clients continued to be cautious and defer investment decisions throughout the year.

The division has four property development joint ventures with local authorities and a Later Living development business, focusing on the extra-care sector.

In the joint venture with Slough Borough Council, work continued in the year on the £55m scheme to build two Marriott hotels and 64 apartments on the site of the city's former library, being delivered by Construction & Infrastructure. The hotels were completed and handed over in early 2021. Other highlights were the submission of planning applications for the development of 212 new homes in Montem Lane and a mixed-use development including 312 new homes at Stoke Wharf.

In The Bournemouth Development Company joint venture with BCP Council, work started on site on a development of 44 homes in Durley Road and construction continued on 46 homes for market rent in St Stephens Road. Winter Gardens, a mixed-use scheme with a gross development value of £164m, concluded its section 106 planning agreement and is progressing towards a start on site, now anticipated to be during 2021.

In The Brentwood Development Partnership, the division's joint venture with Brentwood Borough Council, work is ongoing to prepare planning applications for the joint venture's first four schemes.

In Chalkdene Developments, the joint venture with Hertfordshire County Council, two developments are on site which together will deliver over 100 new homes. Both projects are being delivered by Partnership Housing.

In the Later Living business, six projects were on site across the UK which together will provide over 400 extra care apartments. Three schemes were completed and handed over, bringing high quality, purpose-built new homes to those local communities. Good progress was made on new projects, with planning consents secured for a 64-apartment extra care scheme in Leeds, a 60-apartment extra care scheme in Gosport, Hampshire and a 50-apartment extra care scheme in New Milton, Hampshire.

The division also disposed of its interests in the Priority Schools Building Programme North West Batch joint venture (joint venture with Equitix and the Department for Education) in the year, delivering a profit of £2.7m.

Capital employed² in the division at the year end was £21.9m (2019: £30.9m).

In order to address the increasing overlap between the market propositions of the regeneration businesses and the duplication of capabilities and resources, the operational management of the joint venture property partnerships and Later Living business was transferred to Partnership Housing and Urban Regeneration at the end of the year. Reorganisation costs of c£1m were incurred, mainly relating to redundancies, and were included in the division's results. Investments will no longer operate as a separate reporting segment.

Financial review

Performance

Revenue for the year was down 1% at £3,034m (2019: £3,071m), with adjusted* operating profit down 26% to £68.5m (2019: £93.1m). This resulted in an adjusted* operating margin of 2.3%, a decrease of 70bps compared to the prior year (2019: 3.0%). Reported operating profit was down 28% to £65.4m (2019: £91.3m).

The net finance expense increased to £4.6m (2019: £2.7m) primarily due to the Group drawing down on its committed bank facilities as a precautionary measure in March, during the early stages of the pandemic. Adjusted* profit before tax was £63.9m, down 29% (2019: £90.4m).

The tax charge for the year is £15.4m, which equated to an effective tax rate of 25.3% and was higher than the UK statutory rate of 19% due to various adjustments for non-material adjusting items. The adjusted tax charge is £14.5m (2019: £17.7m). 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 was down 33% to 108.6p (2019: 161.2p), with the fully diluted adjusted* earnings per share of 106.7p down 32% (2019: 156.3p). Reported basic earnings per share was 99.8p (2019: 157.9p). The total dividend for the year increased 190% to 61.0p per share (2019: 21.0p).

Details on performance by division are shown on pages 28 to 35.

FINANCIAL PERFORMANCE

	2020 £m	2019 £m
Revenue	£3,034m	£3,071m
Operating profit – adjusted*	£68.5m	£93.1m
Operating profit – reported	£65.4m	£91.3m
Profit before tax – adjusted*	£63.9m	£90.4m
Profit before tax – reported	£60.8m	£88.6m
Earnings per share – adjusted*	108.6p	161.2p
Basic earnings per share – reported	99.8p	157.9p
Year-end net cash*	£332.8m	£192.7m
Average daily net cash*	£180.7m	£108.9m
Total dividend per share	61.0p	21.0p

* See note 2 for alternative performance measure definitions and reconciliations.

NET WORKING CAPITAL

Net working capital has decreased by £103.7m to (£195.6m) as shown below:

	2020 £m	2019 £m	Change £m
Inventories	294.2	338.1	-43.9
Trade and other receivables ¹	405.1	461.7	-56.6
Trade and other payables ²	(894.9)	(891.7)	-3.2
Net working capital	(195.6)	(91.9)	-103.7

1 Adjusted to exclude capitalised arrangement fees of £1.3m (2019: £0.6m) and accrued interest receivable of £nil (2019: £0.2m).

2 Adjusted to exclude accrued interest of £0.4m (2019: £0.3m) and deferred consideration payable of £nil (2019: £0.4m).

SECURED WORKLOAD³

	2020 £m	2019 £m	Change %
Construction & Infrastructure	2,537	2,271	+12%
Fit Out	410	480	-15%
Property Services	970	904	+7%
Partnership Housing	1,267	1,093	+16%
Urban Regeneration	2,434	2,278	+7%
Investments	673	581	+16%
Inter-divisional orders	(1)	(14)	n/a
Total	8,290	7,593	+9%

3 Secured workload 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.

Financing facilities

During October 2020, the Group secured a new £150m committed revolving credit facility, replacing the previous £150m facility which was due to expire in early 2022. The new facility initially extends until late 2023 and includes two further one-year extension options, with the agreement of the lending banks. This facility is in addition to the existing £30m loan facility expiring in March 2022, which together provide the Group with a total of £180m of committed facilities as before.

The banking facilities are subject to financial covenants, all of which have been 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 works will be completed. We pay a fee and provide a counter-indemnity to the financial institutions for issuing the bonds. As at 31 December 2020, contract bonds in issue under uncommitted facilities covered £124.6m (2019: £168.6m) 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, is published on our website at [morgansindall.com](https://www.morgansindall.com).

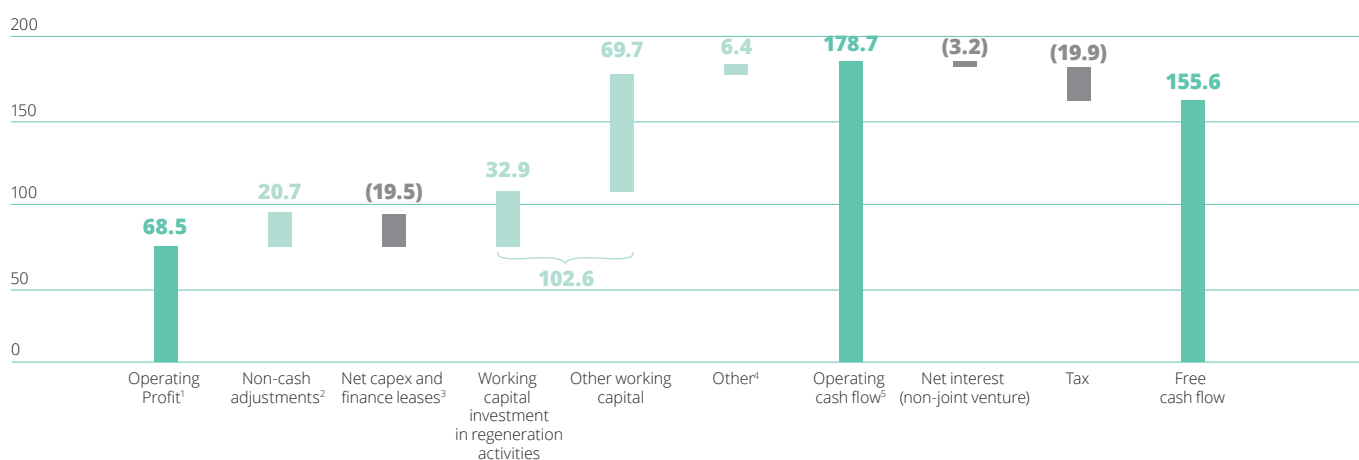
Net cash

Operating cash in the year was an inflow of £178.7m, after reducing the capital employed invested in regeneration activities by £33m (Partnership Housing: £10m and Urban Regeneration: £23m). The net cash inflow for the year was £140.5m, resulting in closing net cash of £332.8m (2019: £192.7m).

The average daily net cash* for the year increased by £71.8m to £180.7m (2019: £108.9m), providing significant balance sheet strength and competitive advantage.

CASH FLOW

(£m)



1 Adjusted.

2 Includes depreciation (£22m), movement in shared equity loans receivable (£0.5m) and revaluation of investment properties (£0.6m) less share of equity accounted joint venture profits (£2.3m) and share option credit (£0.1m).

3 Includes repayment of lease liabilities (£15.1m), purchase of property, plant and equipment (£4.2m) and purchase of intangible fixed assets (£1.6m) less proceeds on disposal of property, plant and equipment (£1.4m).

4 Includes provision movements (£2.0m), adjustments for the impairment of investments (£3.3m), shared equity redemptions (£2.4m), proceeds from disposal of investment properties (£1.8m), interest from joint ventures (£0.6m), gain on disposal of interests in joint ventures (£2.7m) and gain on disposal of property plant and equipment (£1.0m).

5 See note 2 to the consolidated financial statements for the definition and reconciliation of operating cash flow.

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 2020, the Group had net cash of £332.8m 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. After making enquiries, 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 48 for further information on the Group's longer-term viability and page 124 for the going concern basis of preparation in the consolidated financial statements.

Principal risks

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-19 issues, all divisions are fully operational and observing safe operating practices, with impacts included in current forecasting. The government's continued support for UK construction provides confidence that future activity can be maintained without material disruption, but we remain vigilant.

Our approach

Risk is inherent in our business and cannot be completely eliminated. Our risk governance model ensures that our principal risks and the controls implemented throughout the Group are under regular review at all levels.

Risk governance

Group Board

The Board is responsible for setting the Group's risk appetite and for ongoing risk management, including assessing the principal risks that threaten our strategy and performance. For detailed information on our risk management and internal control governance, see pages 75 and 76.

Audit committee

The audit committee assists the Board in monitoring risk management and internal control, and formally reviews the Group and divisional risk registers on behalf of the Board.

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

The risk committee consists of heads of key Group functions, including legal, company secretarial, IT, finance, internal audit, tax, treasury and commercial. The committee identifies risks for the Group risk register and reviews the Group and divisional risk registers before they are presented to the Board and audit committee. The 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 business planning process. Each year objectives and strategies are set that align with the risk appetite defined by the Board.

Delegated authorities

Our finance director and Group head of audit and assurance have produced a schedule of delegated authorities that assigns approval of material decisions to appropriate levels of management. Such decisions include project selection, tender pricing and capital requirements. Board approval is required before undertaking large, 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.

Overview of the Group's risk profile

During 2020, the Board reviewed the Group's risk appetite (see page 63) and concluded that no significant changes were required. The Group navigated the initial Covid-19 pandemic, resuming full operations and high levels of productivity within a relatively short space of time while maintaining an overall positive net cash position. During this period, we agreed revised programmes on our live project portfolio, reflecting the high quality of operational delivery and risk management in our operations and the strength of our client and supply chain relationships (see pages 8, 9 and 21). Our strict adherence to safe operating procedures, together with the government's clear directive that construction activity continue through any lockdown restrictions, provide confidence that future activity can be maintained without material disruption.

UK macroeconomic uncertainty continues to be driven by the pandemic and, to a lesser extent, the EU/UK withdrawal agreement which could impact on materials and labour supply. We are keeping a close watch on developments and will adjust our strategy in response to any clear indicators. However, government commitments, confirmed in its November 2020 Spending Review and National Infrastructure Strategy, continue to support our business model, particularly in housebuilding and regeneration – areas expected to be a primary UK growth driver – and construction and infrastructure. In addition, our diversity of offering protects the business from cyclical changes in individual markets.

The divisions remain focused on long-term partnerships, our favoured route to market, as it allows us to operate with clients and in environments where we have a track record in delivery, thereby providing more predictable outcomes. In addition, a sizeable portion of our regeneration schemes and construction order book is 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 non-speculative, land option style arrangements with efficient capital structures, all underpinned by a long-term visible pipeline.

Divisional perspectives

Construction & Infrastructure's long-term focus on selectivity is endorsed by its underlying outturn margin, cash and future order book. This reflects the work that the division has done over the past few years to improve all areas of its operation and risk management.

Fit Out, while more susceptible to GDP and macroeconomic fluctuations, has not witnessed any significant market or client behavioural change, with its pipeline and order book maintaining good visibility into the early part of 2021.

Property Services' contracts were remobilised during the second half of 2020, achieving a more normal level of activity. Any future challenges around access to properties can be partly mitigated through the adherence to strict operating procedures and/or completing the work when conditions allow.

Following the first lockdown, residential demand and sales exceeded expectations across a broad UK portfolio, and activity quickly recommenced on development schemes. The speed of decision-making by potential partners for new development schemes has remained cautious, although it improved in the second half of the year.

In the medium term, we are confident that, because of the UK's need for longer-term housing, the homes we build will continue to be in demand and remain affordable; this is currently endorsed by the high level of forward reservations into 2021. There are a number of uncertainties, such as consumer confidence and the end of the stamp duty holiday, that could adversely impact on the Group's sales. However, options are available to help mitigate any negative fluctuations: the majority of our schemes are subject to economic viability conditions, 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 with average daily net cash for 2020 in excess of c£180m. In the last quarter of 2020, the Group secured a new £150m committed revolving credit facility, which extends until late 2023 and includes two further one-year extension options; this is in addition to the Group's existing £30m facility, providing a total of £180m of committed facilities.

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.

This review should be read in conjunction with the viability statement on page 48.

Emerging risks

The Group's strategic planning process includes identifying any 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 via our twice-yearly internal risk management process and monthly Board reporting, which focus on any matters likely to impact the Group's strategy. The principal risks identified in this section contain details of related matters that could emerge together with the associated mitigations. In addition, the Board monitors wider emerging issues including the following:

- the acceleration by the Covid-19 pandemic of remote working and the impact on office demand;
- long-term scarcity of skilled labour in the industry; and
- risks associated with the shift towards new methods of construction.

None of the above are currently considered to require adjustment of the Group's business model or strategy, but will be monitored for any significant changes.

Principal risks

The principal risks to the business are set out on the following pages. The list is not exhaustive but includes those risks currently considered most significant in terms of potential impact, together with mitigating actions being taken.

The risks have been extensively reviewed including those associated with Covid-19. The remaining risks have not changed significantly, although they reflect the contributions to macroeconomic uncertainty made by the pandemic and the Brexit dynamics of the fourth quarter. Any changes in severity and likelihood of impacts compared to 2019 have been indicated, and signify the Board's opinion of pre-mitigation risk movement.

Risk and potential impact	Update on risk status	Mitigating activities
Covid-19 The pandemic is an example of the speed and scale at which events can unfold. In these circumstances we must adapt quickly and rapidly to new ways of working and have sufficient financial resources to ensure the business can continue to operate effectively.	New - In 2020, the Covid-19 pandemic had an impact across the Group in all areas of operations as a result of compliance with government guidelines. - We responded well to initial challenges from the pandemic and expect to be able to navigate subsequent waves, avoiding material disruption. - The government's directive that construction activity should continue through lockdowns, together with our strict adherence to safe operating procedures, provides a level of confidence that future activity can be maintained. - Revised Covid-19 client programmes and agreements are predominantly in place and included within forecasting, signifying the strength of our relationships and operational management. - During the pandemic, our long-term relationships and standing with primary UK suppliers have proved fundamental in managing product supply issues, and should hold us in good stead post-Brexit.	- The Group's focus on its balance sheet prior to the crisis, which allowed us to navigate through the pandemic with positive net cash. - The Group's favourable risk and cash profile, which permitted us to be accepted for access to the government's Covid Corporate Financing Facility (CCFF). - In operations, all divisions responding well to new, safe ways of working and currently remaining fully operational. - Prior investment in IT, which allowed our employees to work remotely with minimal inconvenience. - Our decentralised structure, which allowed us to remain agile and responsive during the crisis. - Our focus on developing strong relationships with our clients, partners and suppliers resulted in optimal assistance being afforded to us during the pandemic.
Changes in the economy There could be fewer or less profitable opportunities in our chosen markets. Allocating resources and capital to declining markets or less attractive opportunities would reduce our profitability and cash generation.	Increase - There continues to be uncertainty arising from the Covid-19 pandemic and, to a lesser extent, the EU withdrawal agreement, which includes potential impacts on the economy. We continue to monitor the situation closely, however, we believe that in the medium to longer term, the markets in which we operate remain favourable and structurally secure. - We are reassured by the quality and volume of our pipeline of opportunities and secured workload in both regeneration and construction, and believe that this, together with our business model, should provide some insulation against any specific adverse consequences. - The continued scrutiny of UK construction balance sheets remains a differentiator for us and continues to underpin our positive position in the sector, meaning that our stakeholders can engage with confidence while allowing us to be highly selective.	- The UK is expected to continue investing in areas that complement our strategy, including affordable housing, infrastructure and regeneration. This supports our business model, which is designed to provide a mix of earnings across different market cycles. - Strategic focus on market spread, geographical capability and diversification to protect against the cyclical effect of individual markets. - High proportion of secured workload with public sector and regulated entities via long-term arrangements, with a healthy level of demand and typically preferential terms. - Continuing with our strategy of being selective, with our procurement routes, margins, contract terms and secured workload all remaining favourable. - An enhanced understanding of medium-term pipeline quality, assisted by insights generated from analytical software, that enables us to predict trends more accurately and adjust our strategy in response. Regular reporting on sales, opportunities pipeline and secured workload, using customer relationship management software.

Risk and potential impact	Update on risk status	Mitigating activities
Exposure to UK housing market The UK housing sector is strongly influenced by government stimulus and consumer confidence. If mortgage availability and affordability are reduced this could make existing schemes difficult to sell and future developments unviable, reducing profitability and tying up capital.	No change - While a number of new and existing investor schemes suffered some initial delay due to the pandemic, agreements did conclude, allowing schemes to recommence. - Post Covid-19 sales and volumes returned to pre-crisis levels and, on certain schemes, we accelerated build to meet increased demand. - Despite external factors, there continues to be clear government support for new affordable housing, which supports our business model and market positioning. - The speed of decision-making by potential partners for new development schemes remains cautious, although it did improve in the second half of the year. - Macroeconomic uncertainty, including matters such as consumer confidence and the end of the stamp duty holiday, could impact sales; however, mitigations are available and there may be further government interventions and housing stimulus.	- Working closely with public sector partners and government agencies such as Homes England to provide viable development and affordable homes. - Largely non-speculative, risk-share development vehicles, subject to viability conditions that reduce any negative impact from market fluctuations. - Targeting of forward-sold and funded sections of large-scale residential schemes to institutional investors. - A geographically spread residential portfolio that offers protection against regional variations and is geared to an affordable product. - A constrained land bank, preferring and targeting option-type agreements with owners that limit and/or defer long-term exposure and boost return on capital employed. - Regular forecasting and monitoring of development pipeline of opportunities and secured workload, including monitoring key UK statistics such as unemployment, lending and affordability. - For a large proportion of our portfolio we have the ability to slow down (or speed up) build rates on current schemes should the need arise. - Rigorous three-stage approval process before committing to development schemes and capital commitments.
Poor contract selection 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. Failure to understand the project risks may lead to poor delivery and ultimately result in reputational damage and loss of opportunities.	No change - The quality of our long-term secured workload should underpin future performance and provide sustainable performance and outcomes, also allowing us to remain highly selective when bidding future work. - Our order book maintains a high proportion of public sector, regulated industry and framework clients with typically healthier risk profiles and is secured in limited competition. - There are no changes to the sectors or markets in which we operate, meaning it is less likely that we would engage with a client or carry out a project that does not provide a positive outcome. - The high quality of client and supply chain relationships, operational delivery and risk management in Construction & Infrastructure has been evident throughout the Covid-19 pandemic and allowed us to navigate the crisis well.	- Clear selectivity, strategy and business plan to target optimal markets, sectors, clients and projects, which have proven to have delivered favourable outcomes. A deliberately large proportion of projects conducted via framework or joint venture arrangements with repeat clients who share our philosophy and values, making predictable outcomes more likely. - A proportion of construction work secured via sister company regeneration schemes, where expertise provided at an early stage can greatly influence the likelihood of project success. - Divisions selecting projects according to pre-agreed types of work, contract size and risk profile, with a multi-stage process of bid approval, including tender review boards, risk-profiling and sign-off by appropriate levels of management. - Employee planning and profiling to ensure appropriate levels of capable resource for future work. - Initiatives to select supply chain partners who match our expectations in terms of quality, sustainability and availability.

Risk and potential impact	Update on risk status	Mitigating activities
Responsible business Being socially, economically and environmentally responsible in all that we do is crucial. As a responsible business, we have five Total Commitments: protecting people, developing people, improving the environment, working together with our supply chain, and enhancing communities. These Commitments are aligned to our purpose, the needs of our stakeholders and our obligations towards society. We must ensure that these key aspects are embedded in our culture and underpin what we do, in addition to complying with increasing regulation and reporting. If this is not well managed, incidents may occur that result in legal action, fines, costs and insurance claims as well as project delays. It could also damage the Group's reputation and affect our ability to secure future work and achieve targets.	Increase - The focus on responsible business practice has increased significantly from both a governmental and investor perspective and we need to ensure that we communicate a clear strategy and continue to measure and report our performance against it. Four of our divisions are using the supply chain social value bank that we developed with Simetrica, to measure the social, economic and environmental value our projects bring to local communities (see page 22). - We have an extensive supply chain who are strategically important to us and their performance on our projects is key to our success and reputation. Our approach is to develop long-term partnerships so that they help deliver high-quality projects for our clients and meet our Total Commitments.	- A responsible business forum with representatives from each division, chaired by our Group finance director. As of January 2021, this role is being undertaken by the Group management team. - Regeneration activities that 'enhance communities' by physically reviving town centres and stimulating local economies through: procuring locally where we can; providing training and work opportunities to local people through our projects; taking part in local volunteering activities; and attracting visitors and businesses to the newly-regenerated areas. - The use of Group-wide KPIs and targets by our divisions to measure their performance against the Total Commitments, which ensures consistency of objectives and standards throughout the Group. Divisional performance is then consolidated and reported as one set of Group results.
Health and safety Our number one priority is to protect the health, safety and wellbeing of our key stakeholders. 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, requiring strict observation of Health and Safety Executive standards. 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.	No change - Our teams adapted well to new site operating procedures introduced as a result of the pandemic. These procedures remain in place across the whole business, and should enable us to navigate further waves of the pandemic in a productive and safe manner. - Our health and safety performance improved in the year, with a reduction in the number of lost time incidents, incidents reportable to the Health and Safety Executive (RIDDORs) and accident frequency rate. The results were due in part to the adoption of the new site operating procedures together with fewer people working on sites in the year (see page 19).	- Board level health, safety and environment committee focused on health and safety culture to drive better behaviour and performance. - Individuals in each division, and on the Board and Group management team, with specific responsibility for health and safety matters. - Quarterly meetings of the Group health and safety forum where representatives from all divisions continue to share best practice and exchange information on emerging risks. - Established safety systems, audits, site visits, incident investigation and root-cause analysis, monitoring and reporting procedures, including near-miss and reporting of incidents that could potentially have resulted in serious injury. - Regular health and safety training that includes behavioural change, housekeeping on site and leadership engagement in driving site standards. - Communication of each division's health and safety policy to all their employees and senior managers appointed to ensure they are implemented. - Major incident management and business continuity plans, periodically reviewed and tested.

Risk and potential impact	Update on risk status	Mitigating activities
Climate change 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. If this is not well managed, incidents may occur that result in legal action, fines, costs and insurance claims as well as project delays. It could also damage the Group's reputation and affect our ability to secure future work and achieve targets. See our TFCF statement on page 17 for further information.	Increase • The focus on the impacts of climate change has increased significantly. We need to communicate our strategy for addressing climate change and the actions we are taking in order to meet the expectations of our stakeholders. • We are addressing climate change by reducing our carbon emissions and waste. • The next step is to reduce our indirect emissions that occur in our value chain. We are doing this by helping our supply chain manage their own climate-related regulatory and reporting obligations. The Supply Chain Sustainability School, of which we are a member, is providing the supply chain with support through training. • We achieved an A score for leadership on climate change from CDP¹, and were the only major UK-based contractor to do so.	• A climate action panel with representatives from each division, chaired by our Group director of sustainability and procurement. • Science-based carbon measurements and targets, put in place in response to increased demand from our employees and stakeholders. • ISO 14001-compliant environmental systems in place within all construction divisions. • Plans focused upon reducing waste generated on site and transferred to landfill. • Where possible, use of on-site energy generation and design for low carbon and climate change adaptation. Use of alternative fuels for our vehicle fleet and generators to reduce emissions.
Failure to attract and retain talented people Talented people are needed to provide excellence in project delivery and customer service. Skills shortages in the construction industry remain an issue for the foreseeable future.	No change • Brexit complicates the skills issue as availability of EU workers may reduce. However, in the short term, while there could be some limited issues, our supply chain believes this will be manageable. • Our current success is helping us attract and retain people, reflected in high levels of applicants and falling voluntary employee turnover rates. • In divisions whose voluntary employee turnover was higher, 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, such as working with schools and colleges to encourage more women to enter the industry and providing a returnships programme for people returning to work following a career break.	• Giving people empowerment and responsibility together with clear leadership and support. • Attractive working environments, remuneration packages, technology tools and wellbeing initiatives to help improve our employees' working lives. • Annual appraisals providing two-way feedback on performance. • Succession planning that includes identifying and developing future skills. • Training and development to build skills and experience, such as our leadership development and graduate, trainee and apprenticeship programmes. • Employee engagement surveys that ensure we target areas to improve employee satisfaction. • Divisional 'people boards' that meet twice a year to review talent in the business. • Monthly HR reports to the Board, including reporting on leavers and joiners. • Interviews with leavers and joiners to understand the reasons for their decision.

¹ The international non-profit organisation that drives environmental disclosure to manage environmental impacts.

Risk and potential impact	Update on risk status	Mitigating activities
Insolvency of key client, subcontractor, joint venture partner or supplier An insolvency 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.	Increase - The Covid-19 pandemic has stretched our supply chain's financial resources. Some businesses are under increasing pressure from a combination of issues, including the unwind of government reliefs, reduced bank lending appetite and the ramp up in operations. - 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. - Our cash position is not supported by any form of supply chain debtor finance and gives a clear indication of our financial health. This, together with our strong balance sheet and shorter payment days, means our supply chain partners regard us as dependable and reliable. It also gives us the option to step in and cover short-term issues, such as cash flow, if deemed appropriate.	- A business strategy focused on the public sector and commercial clients in sound market sectors. A high proportion of our current secured workload is public sector-focused. - 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. - A formal, multi-stage approval process before entering into contracts, supported by tender review boards. - Formal joint venture selection due diligence and approval at Board executive director level, which includes seeking protection in the event of default by one of the partners. - Working with preferred or approved suppliers where possible, which aids visibility of both financial and workload commitments. - Monitoring supply chain utilisation to ensure we do not overstress their finances or operational resource. - Rigorous monitoring of work in progress (uninvoiced income), debts and retentions.
Inadequate funding 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.	No change £150m of the Group's £180m committed bank facilities were renewed in October 2020. - 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 employees, clients, supply chain and counterparties in an increasingly uncertain market. This was particularly evident during the pandemic in the first half of the year when engagement from the supply chain was notably positive. - The Group was accepted by the Bank of England as an eligible issuer under the CCF.	- New banking facilities of £150m committed to 2023 (with two one-year options to extend) in addition to the existing £30m, which together with our strong cash position provide significant headroom. - A Group-led, disciplined capital allocation process for significant project-related capital, taking into account future requirements and return on investment. - Daily monitoring of cash levels and regular forecasting of future cash balances and facility headroom. - Regular stress-testing of long-term cash forecasts. - The strength of our balance sheet, which allows us to continue making investments in regeneration schemes whilst remaining selective in construction.

Risk and potential impact	Update on risk status	Mitigating activities
Mismanagement of working capital and investments Poor management of working capital and investments leads to insufficient liquidity and funding problems.	No change • Our continuing 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 navigate the pandemic. • We continue to maintain a positive momentum in cash management in construction due to a combination of improved returns, cash optimisation and conversion. • Our average net daily cash for the period demonstrates our disciplined working capital management. • Government reliefs, including CJRS receipts of c£9.5m and £20m of deferred VAT, were repaid in the fourth quarter of 2020.	• Delegated authorities that require capital and investment commitments to be notified and signed off at key stages with senior level approval. • Reinforcing a culture in the bidding and project teams of focusing on cash returns to ensure they meet expectations. • Monitoring and management of working capital with acute focus on any overdue work in progress, debtors or retentions. • Daily monitoring of cash levels and weekly cash forecast reports. • Efficient management of capital on regeneration schemes, such as phased delivery, institutional and government funding solutions, and forward funding where possible.
Mispricing a contract If a contract is incorrectly costed this could lead to contract losses and an overall reduction in gross margin. It might also damage the relationship with the client and supply chain.	No change • Despite the macroeconomic effects of the pandemic, when bidding for future work we have remained focused on selecting projects that are right for the business and match our risk appetite. • Contract procurement routes and terms remain favourable, influenced by our strategy to focus on long-term, relationship-based arrangements and frameworks, and confirmed by our order book quality and positive margins. • A large proportion of projects have forms of protection, such as negotiated and two-stage procurement routes that allow early supply chain price lock-in, monetary contingency and/or related contract terms, all of which help reduce risk.	• A well-established bidding process with experienced estimating teams. • A continued focus on key sectors that means we are experienced in pricing projects and less likely to misprice than if entering new markets. • A robust review of our pipeline and bids at key stages, including rigorous due diligence and risk assessment, and obtaining senior level approval. • Continuing to secure projects with repeat clients via negotiation, open book and framework style arrangements, with limited, selective open market bids, thus offering a higher probability of successful outcomes. • Project provision, where appropriate, for increase in cost and/or risk that hedges against inflationary and other project-related issues. • A culture and strategy within the Construction business of prioritising selectivity over volume when bidding. • Using the tender review process to challenge and mitigate rising supply chain costs.

Risk and potential impact	Update on risk status	Mitigating activities
Changes to contracts and contract disputes Changes to contracts and contract disputes could lead to costs being incurred that are not recovered, loss of profitability and delayed receipt of cash. Ultimately, we may need to resort to legal action to resolve disputes, which can prove costly with uncertain outcomes as well as damaging relationships.	No change - Construction's order book maintains a greater proportion of repeat work, which means we are more likely to achieve sustainable and predictable outcomes via sensible negotiated settlement. - The high proportion of framework-related, two-stage and negotiated work in our current order book continues to reduce the likelihood of unforeseen changes and disputes. This also applies to any EU price fluctuations, as our approach allows us to take account of known increases and to procure quickly following the award.	- Reviewing contract terms at tender stage and ensuring any variations are approved by the appropriate level of management. - Well-established systems of measuring and reporting project progress and estimated outturns that include contract variations and impact on programme, cost and quality. - Continued use and development of electronic dashboards for project management and change control, and commercial metrics designed to highlight areas of focus and provide early warnings. - Where legal action is necessary, notifying the Board, taking appropriate advice and making suitable provision for costs. - Digital early-warning tools and metrics that flag potential project issues, enabling intervention earlier in the construction cycle.
Poor project delivery 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.	No change - The pandemic caused initial project delays but impacts were promptly renegotiated with our clients and supply chain. This reinforced the strength of our relationships, sector strategy and approach to working with preferred partners. - Our continued focus on project selectivity combined with the continued quality of our order book reduces the probability of poor performance. - There is recognised stretch in the labour market, which has been manageable but could be exacerbated by Brexit. - In terms of product availability exacerbated by Covid-19 and Brexit, a large proportion of products are UK-sourced which helps reduce risk and we instigated precautions towards the year end, such as advancing the procurement of certain items. In addition, our supply chain has measures in place to minimise impacts, such as specialist software that simplifies procedures at ports; using their own transport; and storing materials at UK factories (or on site) ahead of programme.	- Incentivising project teams on Perfect Delivery¹ outcomes to achieve high levels of client satisfaction. - Various initiatives that focus on improvements in product quality, predictability and client experience. - Strategic supply chain trading arrangements that help to ensure we achieve predictable outcomes in quality and behaviours. - Digital enhancements in construction and regeneration operations continue to develop at pace in pursuit of improved business intelligence (project and pipeline-related early warning indicators) and ways of creating better client journeys that enhance relationships and outturn product quality. - Formal internal peer reviews that highlight areas of improvement and share best practice and 'lessons learned' exercises. - Regular formal and informal stakeholder feedback, allowing us to intervene when required and refine our offering to provide exceptional outcomes. - Following the Hackitt report and in advance of expected regulatory changes, Construction and Urban Regeneration have reviewed and updated their methodology and approach to ensure that outturn project specifications are compliant. This includes matters such as a complete refresh/revisit of design management standards and procedures, greater scrutiny of fire-related components incorporated in our buildings, the engagement of independent fire consultants on more complex schemes and enhancements to specifications in our developments to ensure we meet not only current but anticipated changes in regulations. - Long lead items have agreed delivery dates and typically have a period of programme float ahead of planned works. - Projects typically have some protection against inflation via monetary and programme contingency or related contract terms.

¹ Perfect Delivery status is granted to projects that meet all four customer service criteria specified by each division.

Risk and potential impact	Update on risk status	Mitigating activities
Failure to innovate A failure to produce or embrace new products and techniques could diminish our delivery to clients and reduce our competitive advantage. It could also make us less attractive to existing or prospective employees.	No change • All divisions have continued to develop solutions to improve efficiency, client service and employee satisfaction. • There continues to be a real drive from the business to adopt new technology (we invested £2.64m in new technology in 2020), enhance existing processes and find greater efficiencies. • The Infrastructure business in particular continues to work with leading UK companies, such as Network Rail, Highways England, Thames Tideway and Sellafield, who encourage innovation and optimised construction techniques and share in the risk and reward. This allows us to compete in areas with high barriers to entry while sharing new ideas across the Group. For example, on a project for Network Rail, Infrastructure created a curved concrete tunnel structure under the East Coast Main Line at Werrington, near Peterborough to carry slower moving freight trains, thus increasing capacity for the passenger service above. • Our regeneration divisions utilise market-leading development structures which help unlock underperforming assets and differentiate our offering. This includes working with leading investment partners to create innovative funding solutions to improve the viability of schemes and facilitate early engagement.	• One of our core values is to challenge the status quo and innovation is strongly encouraged. New ideas are welcomed from every employee, partner and supplier. • Our initiatives around quality of delivery and exceptional client experiences are not just founded on process, but are integral to our culture. • Our employees enjoy working on high-profile, innovative projects that provide them with the opportunity to enhance their knowledge and experience. • Business and IT come together via forums that sponsor and promote new innovations across the business.
UK cyber activity and failure to invest in information technology Investment in IT is necessary to meet the future needs of the business in terms of expected growth, security and innovation, and enables its long-term success. It is also essential in order to avoid reputational and operational impacts and loss of data that could result in significant fines and/or prosecution.	Increase • In order to protect against increasing levels of UK cyber attack, we continue to invest in established security controls and external security partners who actively advise on strategy. • Refreshed security awareness training was rolled out to all our employees in the year. • Our investment in technology in prior years allowed our employees the agility to adapt quickly to working in a remote and secure environment during the Covid-19 pandemic.	• A dedicated team focused on providing a stable and resilient IT environment, and continued investment in core infrastructure and applications. • A centralised IT service that improves efficiency, oversight, reporting, security and performance, while divisional resource provides business-specific product support. • Group-wide financial software that provides a fully integrated construction platform to manage the project life cycle. • A Group security steering group that provides governance and oversight and a dedicated information security team, certified and accredited by key industry bodies, who create awareness and address threat alerts, risk and vulnerability prioritisation and response. • Government-accredited security installations and certification to store protectively marked information. • Certification to the government's Cyber Essentials Plus Scheme and ISO 27001.

Viability statement

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, including the impact of the Covid-19 pandemic on the Group's ability to deliver the Group's business plan (as set out on pages 38 to 47). 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 2021, 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 2020, of which £150m are committed until 2023 and £30m are committed until 2022. For the purposes of testing viability, it is assumed that equivalent facilities are available past these maturities. The Group has continued to maintain strong cash performance throughout 2020 and, during October 2020, secured a new £150m committed revolving credit facility, replacing the previous £150m facility which was due to expire in early 2022. The new facility extends to 2023 and provides for two further one-year extension options, with the agreement of the lending banks. This facility is in addition to an existing £30m loan facility maturing in 2022 and both provide ongoing funding headroom and financial security for the Group.

The impact of a number of downside scenarios on the Group's funding headroom (including financial covenants within committed bank facilities) have been modelled based on the Group's principal risks by division which have been reassessed in light of Covid-19. To assess the Group's resilience to adverse outcomes, the assessment included a reasonable worst-case scenario in which the Group's principal risks (as highlighted in pages 38 to 47) manifest to a severe but plausible level. The assessed risks, for which the impacts were applied, include poor contract selection and delivery, changes in the UK economy, inability to win or delays to winning new business, further increased costs or disruption due to Covid-19 and/or the UK's withdrawal from the EU, downturn in the UK housing market, and significant delays in regeneration schemes. The impact of these were modelled through losses of revenue and operating profit, or increased working capital requirements, with scenarios including the Construction businesses' operating margins reduced by up to 50% and investments in the Regeneration businesses with significant delays on returns.

The downside scenarios arising from these risks incorporate the effects observed from the Covid-19 pandemic during the year, including revenue and margin reduction due to disruption and delays to decision-making in progressing projects. However, we note that the Group remained profitable and sustainable in the new trading environment and demonstrated significant resilience to the effects of the pandemic with an improved cash position providing significant available liquidity during 2020.

There are no individual risks which are considered to materially impact the Group's viability, and our assessment included modelling the financial impact on the business plan of a worst-case 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 in March 2020. These, however, exclude any further government assistance.

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 2023.

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 and operates a resilient business model. As a result, the Group is well placed to emerge from the short- to medium-term disruption caused by Covid-19.

Approval of strategic report

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

John Morgan
Chief Executive
25 February 2021

Governance

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Seeing the signs

The rise in cases of domestic abuse during Covid-19 has been described as a 'shadow pandemic', as people were trapped at home with their abusers. Within the first three weeks of the first lockdown, domestic homicides more than doubled. Property Services' emergency engineers, who provide maintenance and repairs for social housing across the UK, have often been able to spot the signs of hidden domestic abuse. During lockdowns, engineers were still on call to carry out emergency repairs, such as fixing boilers or stemming leaks, and became one of just a few people who could actually enter the homes of the vulnerable.

Working alongside The Domestic Abuse Housing Alliance, a partnership created to address such abuse within housing, Property Services is developing a contractor's accreditation for identifying people at risk. Engineers have also been trained to spot the key warning signs of risk or abuse. The collected data can be mapped and shared with local authorities to highlight those vulnerable to domestic abuse so that it can be prevented.

Mapping the invisible: Domestic abuse in numbers

1.6 million women and 757,000 men experienced some form of domestic abuse in England and Wales in the year ending March 2020

64 domestic homicides were recorded by the police in England and Wales between January and June 2020

41,158 calls about domestic incidents were received by London's Metropolitan Police between 25 March and 10 June 2020

12% increase in police callouts in London between 25 March and 10 June 2020 compared with the previous year

ONS 2019/2020

UK Corporate Governance Code compliance statement

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 Board considers that it, and the Company, were compliant throughout the accounting period in applying the Principles and complying with the Provisions of the Code applicable to premium-listed companies.

The table below provides an overview of where the application of Principles (A to R) of the Code have been reported in this section of the annual report. The Company entered the FTSE 250 on 27 February 2020 and this report also covers how we will comply with the additional obligation under the Code to arrange an externally-facilitated evaluation at least every three years.

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Chair's statement

DEAR SHAREHOLDER

After a promising start to the year, which included Morgan Sindall Group plc being promoted to the FTSE 250 Index, the global Covid-19 pandemic presented challenges to the Group and our stakeholders as the crisis unfurled. However, thanks to the great efforts of our management team and employees, as well as the strength of our client and supply chain relationships, we performed well through these difficult times and ended the year in a strong position.

On behalf of the Board, I would like to thank our employees for their diligence and dedication throughout this difficult year. I would also like to thank our investors, clients and supply chain, with whom we worked closely to address the issues created by the Covid-19 pandemic.

The strength of our business model, our decentralised structure and, very importantly, our culture were also major factors in our ability as a Group to address the challenges faced in 2020. Coupled with a robust focus on risk management and cash generation, this has generated a good set of financial results.

During the year, we remained focused on engaging with our stakeholders, maintaining fairness and integrity in our decision-making while:

- overseeing the Group's response to Covid-19 and reviewing the Group's strategy and longer-term plans;
- ensuring our culture continues to be aligned with our purpose and strategy;
- developing our people, planning for succession and improving our diversity and inclusiveness; and
- engaging with our shareholders and employees (or 'workforce') to ensure that their views were being captured in Board discussions and decision-making.

1 We define the Group's workforce as our full- and part-time employees and anyone working for us on a fixed-term employee contract. Throughout this report, we refer to our workforce as our employees.

Board evaluation

As chair, promoting a culture of openness and debate in the boardroom is one of my key responsibilities. Our 2020 evaluation of the Board's effectiveness confirmed that we are having the right level of strategic and commercial discussions with the opportunity to challenge, and that there is appropriate Board involvement in key decisions. The evaluation process was conducted internally and included a questionnaire completed by each Board member followed by one-to-one meetings which I held with each director. We looked at the effectiveness of the Board over the past 12 months in general, and in its response to the impact on the business of Covid-19; the contribution of each individual director; and the effectiveness of each of the Board committees (see pages 69 and 70). The Board has confirmed that, following the Company's promotion to the FTSE 250, an externally facilitated evaluation of the Board and its committees will be carried out in 2023.

Our culture

The Board plays an important leadership role by demonstrating commitment to the Group's long-established core values and Total Commitments, which are set out on page 7. This report provides insight into how the Board continues to assess and monitor culture within the Group and the various indicators we use to identify any signs of misalignment which could impact the effective delivery of our strategy. The strength of our culture has been evident in 2020 as each of the divisions has dealt effectively with the various challenges presented by the pandemic. The Board views it as imperative to ensure that, throughout the Group, we remain faithful to our culture and core values, as this will support our long-term strategic success.

Our stakeholders

In this report, we set out in detail the principal decisions the Board made during the year, together with the stakeholder groups we considered during our discussions. Due to the nature of some of the decisions we had to take in 2020, we needed to balance the interests of our different stakeholders, prioritising different groups at different stages of the pandemic. The Board uses the Group's purpose and Total Commitments 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. Further information can be found on page 64.

With around 6,600 employees across the Group, the Board considers our employees to be a key stakeholder group. In addition, the divisions use a large number of subcontractors to deliver their projects. The Board's number one priority remains the health, safety and wellbeing of our employees and all those who work on or visit our sites. I am pleased that we have a health, safety and environment committee which I continue to regularly attend, that provides the Board with additional focus and insight in respect of the Group's health and safety performance.

The Board as a whole is responsible for engaging with our employees as part of its annual strategy review process. Unfortunately, face-to-face engagement has been difficult this year due to government guidelines on safe distancing. In addition, as a result of the pandemic, the divisional employee conferences that Board members usually attend had to be cancelled. Where possible, the Board met with employees as part of the business strategy review meetings, and some of the non-executive directors were able to meet with employees and subcontractors during site visits to our projects.

Diversity

We remain committed to having a Board and employee base that is diverse in its widest sense. We have reviewed our Board diversity policy, and committed to being exemplary within the industry and to work towards women making up at least one third of our senior management team. The results of a diversity and inclusion survey launched during the year by John Morgan have provided us with a framework to improve diversity and inclusion across the Group, particularly with regard to succession planning. See page 70 for more information.

Climate change

Over the last ten years, the Group has been taking action to combat climate change and we understand that this is an area of increasing concern for our stakeholders. Climate change is core to our Total Commitment of improving the environment. We were one of the first construction companies to have our science-based targets officially accredited and we are proud that, in recognition of our actions to tackle climate change, we were awarded an A score for leadership on climate change by CDP, a global non-profit organisation that drives companies and governments to reduce their carbon emissions, safeguard water resources and protect forests. CDP has also named us as a supplier engagement leader for our efforts to drive action on climate change in our supply chain. During the year, the Board reviewed and discussed the risks and opportunities to our business model of a changing climate in preparation for full reporting under the Task Force on Climate-related Financial Disclosures (TCFD) in our 2021 annual report (see page 17 for our first TCFD statement which explains how we are addressing and managing climate change within the Group).

We have a clear strategy, a strong financial position and a great team of employees. This positions us well 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

25 February 2021

Read more:

-  Board evaluation, see pages 69 and 70
-  Climate change, see page 78
-  Culture, see pages 59 to 61
-  Principal decisions, see pages 63 to 65
-  Stakeholder engagement, see pages 65 to 67

Board of directors

The Board is responsible to all stakeholders for the long-term success of the Group. As at the date of this report, the Board consists of the chair, two executive directors and four non-executive directors.

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)

Skills, competencies and experience

Michael has 28 years of experience in investment banking and has advised the boards of many leading UK public companies on a wide range of strategic, finance and governance matters.

Other roles

Michael is the non-executive chair of London Stock Exchange plc, and non-executive director of Royal Mail plc and Jarrold & Sons Limited. Michael was previously the co-head of investment banking for the UK and Ireland at Bank of America Merrill Lynch, the 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

Skills, competencies and experience

John co-founded Morgan Lovell in 1977 which then merged with William Sindall plc in 1994 to form Morgan Sindall Group plc. John has in-depth knowledge and experience of both the construction and regeneration sectors, and significant leadership skills. He is responsible for leading strategic operations, values and culture and for driving diversity and inclusion across the Group. 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.

Steve Crummett Finance Director

Appointed: February 2013

Skills, competencies and experience

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

Other roles

Steve is chair of the Group's risk committee and drives the Group's responsible business strategy through the Group management team. He was finance director of Essentra plc from 2008 to 2012, having previously held senior finance roles with a number of listed companies. Steve was chair of the audit committee and a non-executive director of Consort Medical plc until 4 February 2020.

Malcolm Cooper Non-executive Director

Appointed: November 2015

Committee membership: audit (Chair); health, safety and environment (Chair); nomination; remuneration

Skills, competencies and experience

Malcolm is a qualified accountant 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 under the Disclosure and Transparency Rules and the Code. Malcolm has previous experience in health and safety through his former role as managing director, National Grid Property, where he was responsible for land remediation, demolition and construction and was a member of the UK health and safety committee.

Other roles

Malcolm is currently senior independent director and new issues committee chair of MORhomes plc, non-executive director and audit committee chair at Southern Water Services Limited and audit and risk committee member of Local Pensions Partnership. His 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. Malcolm 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 (appointed 2 December 2020); nomination; remuneration (Chair)

Skills, competencies and experience

Tracey has wide-ranging expertise in the retail sector and extensive corporate and main board experience, including nominations, remuneration and corporate responsibility board sub-committees, the development of strategy and business planning and corporate governance. Tracey has gained extensive human resources, commercial and corporate responsibility experience through her previous role with John Lewis.

Other roles

Tracey was appointed a Fellow of Be the Business in October 2020, a not-for-profit movement that helps every firm in the country to improve its performance. 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. Following a long-service sabbatical, Tracey is retiring from the Partnership in March 2021. Tracey was chair of the Golden Jubilee Trust for the Partnership until the end of January 2021, providing opportunities for partners and charities alike.

David Lowden**Senior Independent Director****Appointed:** September 2018**Committee membership:** audit; nomination; remuneration**Skills, competencies and experience**

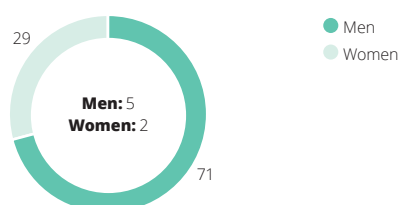
David is a highly experienced non-executive director, senior independent director and chair of UK-listed companies in several sectors. He has experience in both financial and general management through his prior roles of finance director and chief executive, where he supported growth and profitability through the efficient design of business operations and appropriate use of systems and processes. He has strong strategic understanding, and financial, marketing and commercial skills through his many years' experience working in international businesses with cultural diversity.

Other roles

David is chair of the board of FTSE 250 PageGroup plc, having previously chaired the remuneration committee for three years. He was appointed to Capita plc as a non-executive director on 1 January 2021 and senior independent director on 1 March. David was formerly chair of Huntsworth plc, chair of the audit and risk committee at William Hill plc, and senior independent director of Berendsen, and was chief executive of Taylor Nelson Sofres plc having joined as group finance director in 1999.

BOARD DIVERSITY

(as at 31 December 2020) (%)



Currently no member of the Board is from a Black, Asian or minority ethnic (BAME) background.

Jen Tippin**Non-executive Director****Appointed:** March 2020**Committee membership:** audit (appointed 10 December 2020); nomination; remuneration**Skills, competencies and experience**

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

Other roles

Jen is the Chief Transformation Officer for the NatWest Group responsible for the execution of strategy, customer journeys, investment and efficiency. She is a member of the NatWest Group and NatWest Holdings' executive committee and chair of the transformation, investment and cost committees. 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 the 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. She joined the Board of City University, University of London in July 2020 where she is also a member of the remuneration committee.

2020 BOARD AND COMMITTEE MEETING ATTENDANCE

	Board	Audit	Health, safety and environment	Nomination	Remuneration
Total number of meetings in 2020	10*	3	4	3	4
Michael Findlay ¹	10	3 ²	4 ²	3	4 ²
John Morgan	10			3 ²	4 ²
Steve Crummett	10	3 ²		3 ²	3 ²
Malcolm Cooper	10	3	4	3	4
Tracey Killen ³	8	2	3	2	3
David Lowden	10	3	1 ²	3	4
Jen Tippin ⁴	9	1	1 ²	2	3

* These include four additional meetings held to discuss the Group's response to the Covid-19 pandemic (see page 63).

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 Tracey Killen was unable to attend the February meetings due to illness. She was also unable to attend one of the additional Board meetings in April due to a commitment in her external executive role in response to Covid-19. She was appointed to the health, safety and environment committee on 2 December having attended the June and September committee meetings by invitation.

4 Jen Tippin was appointed to the Board in March 2020 and attended all Board, nomination and remuneration committee meetings from that date. She was appointed to the audit committee on 10 December.

Group management team

The executive directors are supported by the Group management team, which meets regularly to discuss strategic and operational matters affecting the Group as a whole.

John Morgan Chief Executive

See page 53 for biography.

Steve Crummett Finance Director

See page 53 for biography.

Clare Sheridan Company Secretary

Clare has been with the Group for more than 20 years and was appointed company secretary in 2014, having previously been deputy company secretary. 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.

Andy Saul Group Commercial Director

Andy joined the Group in January 2014. He was previously managing director of Bullock Construction from 2010 to 2013. 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. Andy is a member of the Board's health, safety and environment committee and the Group's risk committee and health and safety forum.

Pat Boyle Managing Director, Construction

Pat holds overall responsibility for the construction business within Construction & Infrastructure. A member of the Chartered Institute of Building, he joined the Group in 2014 from Lend Lease, where he was most recently 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

Simon is a chartered quantity surveyor with 30 years' multi-sector experience. He joined the Group in 2011 and was appointed as managing director of Construction & Infrastructure's infrastructure business in 2017. Simon holds overall responsibility for the Infrastructure business, which includes aviation, rail, highways, nuclear, energy and water. In addition, Simon has responsibility for our in-house plant and engineering businesses.

Martin Lubieniecki Managing Director, Design

Martin 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 CB Richard Ellis, bringing over 15 years' property professional services experience to the Group. Martin's early career started at PricewaterhouseCoopers and McKinsey before taking senior roles at Sears Group and Hilton International. Martin is a qualified chartered accountant.

Chris Booth Managing Director, Fit Out

Chris has overall responsibility for the Fit Out division, including the Overbury and Morgan Lovell brands. Chris joined Overbury in 1994, progressing through divisional management (1998–2003) to become managing director of Overbury in 2003. He was appointed to the Fit Out divisional board as chief operating officer in 2010 and managing director in 2013.

Alan Hayward Managing Director, Property Services

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

Steve joined the Group in April 2018, bringing with him a wealth of knowledge and experience in construction. Previously Steve spent 25 years at Laing O'Rourke, including as commercial director of its £2.5bn European hub, managing director of UK infrastructure, and managing director of its UK construction business. Steve holds an RICS fellowship.

Steve became acting managing director of the Investments division from 16 October 2020 to oversee the transfer of the Investments business to Partnership Housing and Urban Regeneration, which was completed in January 2021.

Matt Crompton Managing Director, Urban Regeneration

Matt joined the Group when we acquired Muse Developments from AMEC, where he started in 1990 as a senior development surveyor. Matt leads the division's activities across the UK. He is also on the board of the English Cities Fund (ECF), a £200m mixed-use regeneration vehicle owned by Muse Developments, Legal & General and Homes England. His earlier career included development positions at both London & Metropolitan and Chestergate Seddon.

Directors' and corporate governance report

Board effectiveness

As at the date of this report, our Board consists of the chair, two executive directors and four non-executive directors, each bringing a range of skills, experience and knowledge to Board discussions (see pages 53 and 54). The nomination committee is responsible for ensuring that the Board and its committees have the appropriate combination of skills, relevant experience and diversity and for annually assessing Board and committee effectiveness through the Board evaluation process (see pages 69 and 70). In addition, each individual director's performance, contribution and time commitment is assessed to ensure they continue to fulfil their responsibilities to the Board and contribute effectively.

The Board has ultimate responsibility for the management, governance, direction and performance of the Group as a whole. It defines the Company'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. The Board ensures effective leadership through oversight and review of the business.

The Board, led by the chair, embraces a boardroom culture that supports well-informed and transparent decision-making through constructive dialogue. The Board takes a non-hierarchical approach and meets regularly with senior managers and their wider teams. Our non-executive directors are actively encouraged to meet with our divisional teams and to visit our projects.

Board meetings are structured to allow enough time for open discussion, and 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. In order to respond effectively to the impact of the Covid-19 pandemic, additional Board meetings were set up as required, meeting agendas were reviewed and the matters to be considered at each meeting adapted or rescheduled to allow the Board to focus on essential business decisions.

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. Minutes of Board and committee meetings are circulated to all directors after each meeting. Details of the principal decisions made by the Board in the year can be found on page 63 and information on the committees' activities can be found on pages 68 to 78 and 83 to 107.

The Board held six scheduled meetings in 2020 and four additional Board meetings. Several Board and committee meetings were held virtually in order to abide by the government's Covid-19 safety guidelines. The Group had already invested in robust IT infrastructure to facilitate agile working, and the Board was therefore able to adapt quickly and hold meetings online during the height of the crisis to discuss the Group's response to the impacts of the pandemic. Further details, including how the Board considered key stakeholders in its decision-making during this time, can be found on pages 63 and 64. Further information on each director's attendance at Board and committee meetings can be found on page 54.

The Board allocates time at the end of each meeting 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.

Role of the chair and Board resources

The agenda for scheduled Board meetings is developed by the chair, chief executive and company secretary who consider the Board's annual schedule of matters and the current status of projects, strategic workstreams and operational matters arising. 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). This helps ensure that the resources integral to our business model are being maintained and that the needs of our stakeholders are continuously monitored. The Board is also provided with interim reports between the scheduled meetings. The papers are distributed electronically to provide quick and secure access.

In order for our directors, particularly the non-executives, to discharge their responsibilities effectively, it is important that they understand the business of each division and how it contributes to the overall strategy of the Group. Each non-executive director undertakes a detailed induction programme on appointment and, to ensure they continue to contribute effectively, the chair reviews their ongoing training as part of their annual review. Such training includes e-learning modules, training and information sessions led by the Company's advisers, and deep dives from internal or external specialists into key areas of focus. In 2020, the Board was given an update on information security, including the Group IT team's response to Covid-19, the management of increased remote working and the mitigation of cyber risk.

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.

External appointments and conflicts of interest

Prior to their appointment, new directors are asked to disclose any significant commitments they have together with an indication of 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 whereby all existing directors seek Board approval prior to accepting an external appointment. In accordance with this process, during the year, the Board approved the appointments of Michael Findlay to the board of London Stock Exchange plc, Jen Tippin's appointment to the board and remuneration committee of City University, University of London, Tracey Killen's appointment as a Fellow of Be the Business and David Lowden's appointment to Capita plc.

The Board has an agreed approach for dealing with directors' conflicts of interest duties under the Companies Act 2006 (the 'Act') 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 Articles is a matter reserved for the Board. For example, the Group renewed its banking facilities in 2020 and while Jen Tippin was not directly involved in the refinancing decisions in her external role, she did not take part in these Board discussions. In December 2020, 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 53 and 54.

Governance framework and controls

Our governance and controls framework ensures there is sufficient time and oversight at the appropriate levels of the organisation of performance against strategy and that risks and opportunities are regularly assessed, monitored and managed. The Board, assisted by its committees, is responsible for ensuring that the divisions have the right strategies in place for their businesses and are meeting their agreed objectives by measuring performance against them. The table below shows how our governance framework is structured.

The Board

The Board is collectively responsible for reviewing our purpose and setting strategy to ensure the Group's long-term success.

See our website for details of the Board's roles and responsibilities and pages 59 to 61 for the Board's review of purpose, strategy and culture.



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 page 55.

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 58.

Responsible business forum

Meets twice a year and is responsible for developing and agreeing the Group's responsible business strategy. (As of January 2021, the role of the forum has been escalated to the Group management team.)

Risk committee

Meets twice a year to assist the Board and audit committee in monitoring risk management and overseeing the internal control framework. See page 75.



Cross-divisional health and safety, HR and commercial directors' forums, 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 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 71.

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 77.

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 68.

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 83.

Division of responsibilities

The nomination committee is responsible for ensuring that there is an appropriate combination of executive and independent non-executive directors on the Board with the appropriate balance of skills to contribute to effective decision-making (see page 68). The Board's responsibilities in respect of the Group include:

- determining overall strategy and long-term objectives;
- monitoring of key performance indicators;
- 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.

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. There is also a 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. These are reviewed by the Board annually 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 Act and other legislation, which are communicated via induction packs and e-learning modules; and
- clear policies for all of our employees on the Group's expected standards to prevent misconduct and breach of ethical practices. These are published on each division's intranet and supplementary training is provided.

One of our core values (see page 7) 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 approach is facilitated by our culture of openness, transparency and individual accountability. As highlighted in our chief executive's statement, our decentralised structure benefited the Group during the Covid-19 pandemic by allowing our divisions the flexibility to take decisions, at the appropriate levels, and respond quickly and effectively to changes in our operating environment. Our Board continues to be very mindful of the importance of preserving

our unique culture, which forms a central part of any discussions on delegated authorities, hiring and succession. We believe this approach is fundamental to the delivery of our strategy and the continued success of the Group (see page 61).

Responsibilities of the divisional boards

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 22 and 23). 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 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. In preparation for these meetings, the divisions prepare a monthly board pack detailing performance against strategy and any issues pertaining to their stakeholders. In 2020, in addition to their regular meetings, the Group management team met weekly from March to June to discuss operational issues, review responses to the pandemic and share learning and experiences.

The Board receives an executive summary of the divisional board packs as part of each set of Board meeting and interim papers. 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. Unfortunately, we had to cancel the informal meetings we had scheduled for 2020 to comply with government guidelines, but the Board intends to re-introduce them as soon as it is able to do so. The non-executive directors did, however, manage to meet with representatives from the divisions they were allocated as part of the Board's strategy review (see page 65).

Purpose, values, strategy and culture

Our Group purpose, 'inspiring talent to deliver excellence in the built environment', was refreshed in 2019 and reconfirmed as part of our 2020 review of Group strategy to ensure that it provides strategic direction, remains clear, is aligned with our culture and is understood by all our stakeholders (see pages 7, 8 and 65). A strong culture is imperative to our purpose; it helps us not just to attract but also to retain the talent we need to conduct our business and maintain the long-term relationships we have built with many of our clients, supply chain and other stakeholders.

Our core values are focused on valuing our stakeholders, attracting and empowering talented people and driving the right behaviours for the Group to succeed. Our Total Commitments, set out on page 7, ensure we all work responsibly and conduct our activities ethically. These values and Commitments give strength and cohesion across our decentralised businesses to ensure that the resources fundamental to our business model are nurtured for the benefit of our stakeholders. Our responsible business strategy, up until the end of 2020, was developed and agreed by the Group's responsible business forum (see page 57), which also monitored responsible business performance and supported the Board and health, safety and environment committee in ensuring good governance and accountability in our approach. In January 2021, this responsibility was transferred to the Group management team.

Our culture, underpinned by our core values and Total Commitments, provides an environment in which our employees are treated fairly and with respect and can operate safely, act instinctively with integrity, and develop strong, long-term relationships with clients and suppliers. This way we can innovate, evolve and successfully deliver long-term sustainable success and, in doing so, contribute to the communities in which we operate.

Our executive directors and senior managers promote the core values and Total Commitments and ensure they are cascaded and embedded throughout the Group. Our chief executive runs sessions on the core values as part of our leadership development programme, and our finance director leads the Group management team in respect of our responsible business strategy.

The Board as a whole is responsible for ensuring that our culture is maintained. It does this by meeting our employees and senior managers, reviewing our Group policies, monitoring the results of our e-learning programmes and reviewing regular reports from the divisions on how they are operating their businesses. In 2020, our e-learning modules covered responsible business and information security. The strength of our culture is particularly evidenced by our low employee turnover of 7.8% and by the high response rate of our employees to our diversity and inclusion survey (60%).

Our decentralised philosophy enables our divisions to adopt their own specific approaches for their employees, clients and supply chain partners. During 2020, Covid-19 really put the resilience of our culture to the test, and the positive results are demonstrated by how well our employees adapted, contributed ideas and dealt with changes to their working practices. Our divisions worked with their clients and supply chain partners to ensure that our sites could adapt to new site operating procedures, restart operations and remain open. See page 21 for examples of how the divisions supported their supply chains during the pandemic.

The table below sets out how the Board monitors our culture to ensure that behaviours remain aligned with our core values. For our performance against all our responsible business metrics, please see our 'responsible business data sheet' on our website.



The customer comes first

What we monitor and measure

- divisional customer satisfaction surveys, including Perfect Delivery¹ statistics and net promoter scores;
- biennial surveys with stakeholders on responsible business; and
- 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.

¹ Perfect Delivery status is granted to projects that meet all four customer service criteria specified by each division.

Board action in 2020

Reviewed divisional board summaries which include information on key clients and suppliers and the performance of contracts.

Reviewed the results of the 2020 survey of stakeholders on responsible business issues, which included feedback from a selection of clients, and confirmed that our Total Commitments continue to be relevant to their interests.

Strategic report



Talented people are key to our success

What we monitor and measure

- health and safety 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; and
- diversity of our employees, including gender pay gap information.

Board action in 2020

Regular monitoring of health and safety performance is a priority for the Board and is the first agenda item at every meeting.

When possible, directors visit our sites to talk to managers and employees.

Reviewed and approved our 2019 gender pay gap report, which is available on our website. Our 2020 gender pay gap report will be reviewed by the Board in the first quarter of 2021.

Reviewed Group succession planning, including reports on how the divisions are managing employee development and addressing diversity and inclusion.

Reviewed and approved amendments to the Board diversity policy, including setting objectives for the Board and senior management team.

Reviewed and approved our modern slavery statement (see page 62).

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, remuneration committee report and strategic report



We must challenge the status quo

What we monitor and measure

The Board receives information on various initiatives being adopted across the divisions to support our Total Commitments, for example the piloting of our carbon calculator tool (see pages 13 to 27).

The Board receives information on new digital systems that improve operational efficiency and mitigate risk (see page 19).

Board action in 2020

Reviewed our 2019 responsible business report and monitored performance in 2020 against our Total Commitments.

Reviewed the Loughborough University research report into the impacts of the pandemic on the construction industry and the potential long-term benefits arising from extending and embedding new working practices.

 Health, safety and environment committee report, strategic report



Consistent achievement is key to our future

What we monitor and measure

- financial performance of each division and of the overall Group;
- Perfect Delivery or other success measures e.g. NHBC (National House Building Council) star rating/customer experience questionnaires/Net Promoter score;
- supplier relationships and payments; and
- average daily net cash.

The executive directors monitor divisional performance on a monthly basis via divisional senior management meetings and Group management team meetings.

Board action in 2020

Reviewed payment practices reporting and divisional actions to continue to drive down average payment days.

Closely monitored the resilience of the supply chain during the pandemic.

Reviewed and approved the going concern and long-term viability statements.

Approved full-year and half-year results announcements, and approved an interim dividend payment.

Reviewed Group and divisional performance against strategy.

 Strategic report



We operate a decentralised philosophy

What we monitor and measure

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.

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 2020

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 the work of the internal audit to examine and identify any cultural issues as part of its remit.

Reviewed raising concerns procedures (see page 62).

Reviewed the results of e-learning programmes.

 Audit committee report and strategic report

Oversight of employment 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, including our anti-bribery and corruption policy and our ethics policy, which are available on the Company's and divisions' intranets.

To ensure our policies are embedded in our business practices, all new employees take our suite of e-learning modules as part of their induction, with refresher courses issued on a periodic basis. The e-learning covers topics such as anti-bribery, competition law, data protection, modern slavery and information security. Our non-financial reporting statement on pages 26 and 27 contains further information on Group policies that drive good behaviour in employee, social and environmental matters, and the due diligence with which we pursue them.

Modern slavery statement

The Board annually reviews and approves the Group's modern slavery statement. The Group's 2019 statement is available on our website and explains the actions taken to ensure that we do not undertake activities or engage suppliers or subcontractors who undertake activities that may be in breach of the Modern Slavery Act 2015. 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 by our supply chain.

The evaluation of our labour practices against ELS BES 6002 Ethical Labour Standard and the audit to register for ISO 20400:2017 were delayed as a result of the pandemic and will now be undertaken in 2021. In May 2020, we signed up to Sedex's supplier audit service and at the end of 2020, we participated in a pilot survey of subcontractors working on nine of our projects. See page 19 for further information. We received no reports of incidences of modern slavery in 2020 within our own business or supply chain, and therefore no investigations or remedial actions were required.

In our 2020 statement, we will be reporting against the following KPIs: staff training; embedding the use of Sedex across the Group; and activities with the Gangmasters and Labour Abuse Authority Construction Forum. The statement will be published in the first half of 2021.

Raising concerns 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, with appropriate actions taken to address any issues arising. During 2020, we moved our raising concerns service to a new independent provider. The service is available to all our employees and also to subcontractors who work on our projects. The service enables people to report concerns anonymously and in confidence, and can be accessed by telephone, email, or via the website. The hotline reporting mechanisms are explained to all our employees and subcontractors on induction, repeated throughout our e-learning courses and published on office and site notice boards. A direct link to the reporting page also appears on our intranet.

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 16 reports in 2020 (2019: 21), of which six came via our raising concerns service. This number is lower than in 2019 which may, in part, be as a result of Covid-19. 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 unprofessional 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.

Key matters considered by the Board in 2020

Board and committee activities are organised throughout the year to address the matters reserved for the Board. Due to our decentralised structure, the Board has supervisory responsibility for the Group's operations. The Board therefore normally makes a limited number of principal decisions during the year that are material to the Group as a whole. There were no material contracts in 2020 that required referral to the Board under the matters reserved for it, although each division required approval from the executive directors on certain contracts over thresholds set out in our schedule of delegated authorities.

Throughout 2020, the Board oversaw the Group's response to the Covid-19 pandemic and factored stakeholders into its discussions and decisions. In addition, the Board discussed issues affecting stakeholders, including the risks and opportunities of climate change (see page 17).

An overview of the Board's principal decisions during the year, including how the Board has considered the factors set out in section 172 of the Act, is set out below.

Principal decision	Action taken	Outcome	Consideration of stakeholders
Group's response to Covid-19	Facilitated virtual Board meetings and set agendas to deal directly with the impacts of the pandemic. Took precautionary measures to preserve available liquidity, including accessing government Covid reliefs. Reviewed the Group's information security and cyber risk, particularly in relation to increased homeworking.	Promoted the success of the Group over the long term by ensuring that operations could continue safely and by strengthening the Group's balance sheet.	See the following pages 64 and 65 for more detail on actions taken by the Board and how it took the needs and interests of our stakeholders into consideration when making its decisions.
Strategy review	Comprehensively reviewed progress against strategy, tracking performance against agreed KPIs, and revised divisional and Group forecasts due to Covid-19. Monitored market trends and the macroeconomic environment, referring to comparative data and client insight. Reviewed the Group's long-term financial outlook, and assessed and prioritised growth opportunities.	Confirmed our strategy remains fit for the future and our business model is sustainable, taking into consideration future risk and opportunities.	
Determining the Group's risk appetite	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.	Approved the appropriateness of the Group risk appetite and the risk management framework to provide long-term resilience for the business.	
Setting the annual Group budget	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 6). 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 five-year strategic plan. Reviewed the appropriateness of introducing a formal dividend policy.	Approved the Group budget, ensuring that it is suitably stretching but achievable to contribute to the Group's long-term growth. Concluded that our dividend guidelines remain appropriate; however, the future introduction of a formal dividend policy will be kept under review.	In approving the budget, the Board considered the impact on our employees, suppliers, clients, shareholders and wider 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.

Factoring stakeholders into decision-making

Group's response to Covid-19

Throughout the pandemic, our employees, suppliers, clients, shareholders and wider stakeholders were considered in all decision-making.

At the start of the national lockdown in March 2020, it was unknown how long and to what extent the Group's operations would be affected. The health, safety and wellbeing of our employees, partners and public remained our overriding priority and we put actions in place to ensure that we could continue to operate while following UK government guidance. Given the evolving and dynamic nature of the situation and being unable to fully quantify the impact, the Board withdrew the forecast it had released in February.

While our reported financial position at the 2019 year end was strong and we continued to perform well and in line with expectations during the first 10 weeks of 2020, the Board considered and approved various decisions to mitigate the uncertain impact of Covid-19, primarily to conserve the Group's cash and financial strength which are integral to our long-term success:

- every member of the Board and Group management team took a 20% reduction in salary for a three-month period; in addition, a number of employees across the Group voluntarily agreed to reduce their salaries by 10% for two months;
- the final dividend of 38p that had been recommended for shareholder approval based on the full-year 2019 results was withdrawn;
- a number of our employees across the Group were furloughed in accordance with the UK government's Coronavirus Job Retention Scheme (CJRS), and a number of redundancies were regrettably made; and
- as precautionary measures, the Group took advantage of the government's permitted tax deferral programmes, obtained approval for the Bank of England's Covid Corporate Financing Facility (CCFF) and drew down our committed bank facilities.

The Board received regular updates from executives on the Group's financial position, employee wellbeing, strength of the supply chain, communication with clients and site productivity. It was kept informed of the furlough process and considered the effects of this and redundancies on employee wellbeing. Our employees who were placed on furlough returned to work as soon as we were able to resume operations, while having regard to their safety and to each individual's personal circumstances, such as childcare obligations. Alternative roles were found wherever possible for those employees who had been made redundant. To ensure the resilience of the supply chain, the divisions focused on prompt payment and communicated openly and regularly with their suppliers (see page 21). Our divisional health and safety teams collaborated with other construction companies to agree site operating procedures for the industry (see page 19) and ensure that the procedures ensured safety across our diverse operations. The divisions kept in regular touch with their clients to ensure they understood how the Group was dealing with the situation, discuss how sites would reopen and agree extensions of time where needed. Overall, our clients were very supportive.

Once greater certainty and visibility of operating activity had returned, we were able to provide further updates to the market of our expected year-end performance. At the half year, the Board reinstated its forecast for the 2020 full year and, after a full discussion that addressed the short- and long-term effects of proposed decisions on our stakeholders, it announced its intention to:

- return all payments received under the CJRS;
- repay in full monies drawn on our committed bank facilities;
- repay monies retained under the permitted tax deferral programmes; and
- resume dividend payments when there was further clarity over the economic outlook and business interruption risks.

No utilisation was made of the CCFF by the Group.

The finance director liaised with the Company's brokers to get their insight into market trends and shareholder expectations for future dividends. The Board took their feedback into consideration when deciding on the resumption of a dividend payment to shareholders.

Having repaid: the CJRS monies; all deferred taxes; monies drawn on our committed bank facilities; and salaries waived by employees (with the exception of the Board and Group management team), and after taking into consideration the economic outlook (including the expectation that construction activity would be allowed to continue in further lockdowns) and the Group's 2020 forecast, the Board declared an interim dividend of 21.0p (in line with the interim dividend paid in 2019). The interim dividend was paid on 8 December 2020.

The Board did not make any material changes to our business model as a result of Covid-19 and our strategy has remained unchanged (see below and pages 7 to 10).

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 were considered.

The Board reviewed the Group's strategy as part of its assessment of the likely impacts of the Covid-19 pandemic, and agreed that it would remain the same, based on organic growth in our target markets, operational improvement and making the business better for all our stakeholders. The Group strategy was formally approved by the Board at its October meeting.

The divisions' five-year strategic plans remained unchanged, and in light of this, and to allow the Board to focus on decisions in response to the pandemic, the Board did not hold formal strategy review meetings in 2020 with the divisional managing directors (these will be resumed in 2021). However, the non-executive directors each met with their allocated division during the year to obtain background information, and an understanding of the division's culture to confirm that it continued to align with its strategy. The meetings were conducted online or, where possible, face to face with site visits, and gave the non-executive directors the opportunity to meet with wider employees and subcontractors.

Following its review of the Investments division, the Board agreed that it would move projects from Investments to either Partnership Housing or Urban Regeneration as appropriate based on their individual specialities. This would result in operational efficiencies, better management of the underlying contracts and greater clarification of the Group's offering, and would be of benefit both to the Group and the clients with whom Investments worked in partnership. From 1 January 2021, Investments ceased to be a reporting division for the Group.

The directors considered the impact of the decision on the employees of Investments. Redundancies were kept to the minimum and, where possible, employees were transferred to Partnership Housing or Urban Regeneration, which also helps to maintain client relationships. Partnership Housing's managing director, Steve Coleby, was appointed as acting managing director of Investments to oversee the transfer of the business. As part of the process, all clients were contacted to inform them of the transfer and introductions were made to the senior leadership teams of Partnership Housing or Urban Regeneration as appropriate. Although the senior leadership teams changed, the day-to-day project teams remained the same to ensure consistency of service and delivery for clients.

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 38 to 47.

Each year, the Board reviews the nature and extent of risk we are prepared to accept in the pursuit of our purpose and strategy. 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).

We are willing to accept, in certain circumstances, risks that may result in some limited exposure and will not pursue additional income-generation or cost-saving initiatives unless returns are probable and predictable. We will only tolerate low-to-moderate gross exposure in the delivery of operational targets, including those from both construction and development programmes.

As a result of the Board's risk appetite review in December 2020 and 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 tolerance thresholds in a number of key areas, such as: any significant shift in the business model or the markets in which we operate; failure to maintain a positive net cash position; breakdowns in information technology and security; and breach of regulatory compliance.

Health and safety risk mitigation is a priority, and the need to ensure that targets are met and improved on year on year. The Board seeks to drive down health and safety risk to as close as possible to zero (see page 25).

Engagement with stakeholders

The Board considers the needs and priorities of each of the Group's stakeholders during its discussions and as part of its decision-making process. This, together with considering the long-term consequences of decisions and maintaining the Group's reputation, is integral to the way the Board operates. Biennially, we conduct a survey with our employees and a selection of clients, suppliers, trade associations and investors on how they would prioritise a range of responsible business ambitions (see page 22 for more detail). We will publish details of the results and any actions that we will take on our website.

The diagram below summarises the Board's understanding of the key interests of our principal stakeholders*:

Clients	Employees	Supply chain	Communities	Shareholders	Funders
Excellent customer service experience, with perfect delivery of projects on time and to budget.	A fair, respectful and safe environment to work in, health and wellbeing, investment in personal development and career progression, support for agile working, promoting inclusion and diversity and an open and honest culture.	Fair treatment and respect, with prompt payment for work undertaken in a safe working environment.	Operating as a considerate contractor, causing minimal impact from our activities, creating social value through employment opportunities and helping people back to work, and investing in the local community by using local suppliers and services.	Robust financial and risk management, growth in share price, sound capital investment decisions, effective communication of strategy and a progressive dividend policy.	Robust working capital management and risk management.

* While not considered a principal stakeholder as at the year end, the Board considered the government in its decision-making during 2020 as we made use of the Coronavirus Job Retention Scheme and tax deferral programmes, and we considered this and our obligations to the wider society in our decision to repay these monies.

Both the Board and the divisions engage directly with our employees. We disclosed in our 2019 annual report that the Board decided to adopt an alternative method to the three suggested options for employee engagement set out in the Code, and agreed that this responsibility would be shared by all the non-executive directors. Given the structure and culture of our business, the size of the Board and the arrangements we have in place for the non-executive directors to review our divisions as part of the annual strategy review process (see page 65), we consider that this continues to be the most effective way for the Board to engage with as many employees as possible. In line with our decentralised philosophy, our divisions work hard to engage with their employees and supply chain; for example, they ensure that our culture is communicated to subcontractors on our sites, and health, safety and wellbeing are discussed in site induction programmes and toolbox talks (see pages 19, and 77 and 78 for more on health, safety and wellbeing). Our health and safety performance is monitored by the divisional health and safety teams, the Group health and safety forum and the health, safety and environment committee (see page 77).

With regard to our clients, supply chain and communities, these groups are recognised by the Board as integral to our business model and as such are considered by the Board in its discussions including, for example, through the Board's oversight of strategic reviews, client feedback, and reviews of modern slavery, payment practices and sustainability and environmental impact. However, our decentralised structure means that in practice, our clients, supply chain and communities vary with each division and therefore the divisions manage day-to-day engagement with these groups. The direct divisional management of these relationships was particularly important during the Covid-19 pandemic when our divisions needed to collaborate closely with both clients and their supply chains, particularly at the outset when some materials were difficult to source and it was necessary to consider variations in restrictions imposed across the UK. Our Group director of sustainability and procurement assists in managing relationships with those subcontractors and suppliers who are common to more than one division. Detailed descriptions of how the divisions engage with these stakeholders are set out on pages 22 and 23 of the strategic report.

The Board undertook the following engagement activities in 2020:

Shareholders

Providing sustainable returns to our shareholders is a key factor in the Board's decision-making, and the chair and non-executive directors are available to meet with shareholders to listen to their views. The Company uses a number of communication channels to engage with our shareholders. Our annual report is available to all shareholders and we keep them updated using regulatory newswires and through our website. The chair, senior independent director and committee chairs seek to engage with shareholders; no shareholders requested meetings in 2020.

We normally encourage all shareholders to attend our annual general meeting (AGM) and meet with the directors informally both before and after the meeting. However, due to government restrictions in place at the time and in accordance with the government's temporary measures on general meetings, the 2020 AGM was held behind closed doors. Shareholders were notified of this in advance and encouraged to appoint the chair as proxy with their voting instructions. In addition, the chair invited shareholders to submit questions on the business to be discussed at the meeting by email in advance of the meeting so that any questions and answers could be published on our website. No questions were submitted to the Company by shareholders in relation to the AGM and all resolutions were passed by over 90% of the votes cast.

Our 2021 AGM will be held on Thursday, 6 May 2021. Further details can be found in the Notice of Meeting to shareholders accompanying this annual report or on our website.

The executive directors also undertake a programme of regular communication with institutional shareholders and analysts covering the Company's activities, performance and strategy. Presentations were made to institutional investors and analysts following the announcements of the full-year and half-year results, with the half-year presentations undertaken virtually. Written feedback from these meetings and presentations is distributed to all members of the Board. The feedback received following the full- and half-year results was very positive.

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.

During November, the executive directors and the company secretary gave online presentations to a selection of investors on our responsible business approach and our environmental, social and governance priorities, which include: climate change, diversity and inclusion, how we support our employees and our supply chain, how we deliver social value and the benefits of modern methods of construction (more information on these priorities can be found on pages 13 to 22). The presentations also provided an opportunity for investors to explain their responsible business priorities. Feedback from these presentations, which indicated that they were well received by investors, was shared with the Board and the responsible business forum.

Employees

The government's restrictions and our decentralised business made face-to-face engagement with our employees challenging this year. We had to cancel our senior management conference and most of our employee conferences, which normally give our non-executive directors the opportunity to engage with a wide number of employees. In addition, many of the non-executive directors' strategy review meetings with the divisions were held online, which further reduced their chance to meet employees face to face. David Lowden, Malcolm Cooper, Jen Tippin and Tracey Killen were, however, able to undertake site visits and met with employees as part of these visits. The non-executives found employees to be very positive and enthusiastic about their projects, despite the challenges presented by the Covid-19 pandemic, and no material issues were raised.

All our divisions have maintained continual engagement programmes with their teams throughout the pandemic. These programmes have focused on employee wellbeing, both mental and financial, aiming to help people feel comfortable about returning to work in offices and on sites and ensuring that they are kept informed of the impacts of the pandemic on the business.

The executive directors keep our employees informed of our financial performance through newsletters, email notifications and employee videos released to coincide with the full-year and half-year results announcements, and at these times make them aware of any external factors and significant events that might have an impact. Furthermore, the Group management team cascades information from meetings with the executive directors through to their divisions or direct reports. See pages 22 and 23 for further detail on how our divisions engage with their employees and other stakeholders.

Funders

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. The finance director advised the Board that no issues or concerns had arisen during the course of these meetings in 2020 that the Board needed to consider in its discussion and decision-making. In October, the Board gave approval for the renewal of the Group's principal bank facility.

Also during the year, as a precautionary measure approved by the Board, the Group obtained acceptance by the Bank of England as an eligible issuer for the Covid Corporate Financing Facility (CCFF). No drawings were made by the Group on this facility.

See page 36 for further information on the Group's financing facilities.

Nomination committee report

MEMBERSHIP AND MEETINGS

Members ¹	Member since	Attended/scheduled
Michael Findlay ² (Chair)	2016	3/3
Malcolm Cooper	2015	3/3
Tracey Killen ³	2017	2/3
David Lowden	2018	3/3
Jen Tippin ⁴	2020	2/3

¹ Biographies of members are set out on pages 53 and 54. 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.

³ Tracey Killen was unable to attend the February meeting due to illness.

⁴ Jen Tippin attended the meetings following her date of appointment.

The committee's role and responsibilities are set out in its terms of reference which were last updated in November 2020 and are available on our website.

DEAR SHAREHOLDER

I am pleased to present to you the report from the nomination committee for 2020.

As noted in our 2019 annual report, the committee undertook a search for an additional non-executive director and, in January 2020, the Board was delighted to announce the appointment of Jen Tippin with effect from 1 March. Jen became a member of the nomination and remuneration committees on appointment and, in December 2020, she was made a member of the audit committee. Following her appointment, Jen 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.

Board composition and succession planning

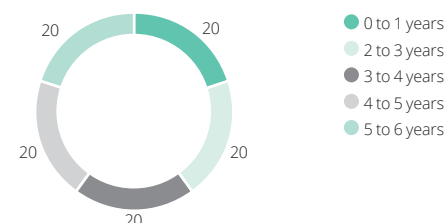
The composition of the Board and its committees has remained a key area of focus along with succession planning for the Board and Group management team.

In November 2020, the committee reviewed the current composition of the Board together with a consideration of the skills and experience needed to deliver Group strategy both in the short and longer term. The review included the size and structure of the Board and its committees, the range of expertise, diversity in its broadest sense and tenure of Board members. Following the review, the committee agreed to commence the search for a new non-executive director. Full details of this search process will be provided in the 2021 annual report.

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 (further information on the 2021 AGM can be found in the Notice of Meeting to shareholders accompanying this annual report or on our website).

TENURE OF NON-EXECUTIVE DIRECTORS

(as at 31 December 2020) (%)



	Date of appointment	Expiry of current term
Michael Findlay	1 October 2016	1 October 2022
Malcolm Cooper	9 November 2015	9 November 2021
Tracey Killen	5 May 2017	5 May 2023
David Lowden	10 September 2018	10 September 2021
Jen Tippin	15 January 2020	15 January 2023

We follow the process set out below 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. As disclosed in our 2019 annual report, Odgers Berndtson were appointed in connection with the recruitment of Jen Tippin. Odgers Berndtson has no connection to the Group, other than providing executive search services.

Board appointment process

Nomination committee reviews and approves an outline brief and role specification 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, 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 committee formally reviewed succession planning for the executive directors and Group management team 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 development 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. 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 for developing its own talent pools for future succession. Ensuring we are developing and retaining a talented team is fundamental to achieving excellence in project delivery and customer service, and a steady pipeline of successors. 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.

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 Group management teams, the divisional succession plans are structured around planning for the short, medium and longer term. Where practically possible, each division considers their existing employees for new roles and development opportunities, and in 2020, 7% of employees across the Group were promoted internally.

Board evaluation

During the year, we carried out an internal evaluation of the Board, led by the chair with the support of the company secretary. The evaluation comprised a detailed questionnaire and individual reviews with each director to assess the effectiveness of the Board and committees as well as reviews of each director's performance and their contribution to the Board's decision-making. The Board has agreed that it will commission an external evaluation during 2023.

The 2020 evaluation followed the process set out opposite and sought to identify areas of improvement, additional training needed, and any additional skills required in the future for succession planning purposes. Topics included engagement with stakeholders, the monitoring of culture, how the Board addressed the challenges arising from the Covid-19 pandemic, risk management and succession planning.

2020 Board evaluation process

Evaluation questionnaire developed, based on the key areas of focus.



Questionnaire 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 December's meeting.



The Board and the committee confirmed that they were satisfied with the contributions and time commitment of each non-executive director and the chair.

The committee is confident that each of the non-executive directors remains independent and will be in a position to discharge their duties and responsibilities for the coming year and continue 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.

Following the individual meetings, it was agreed that Jen Tippin be appointed to the audit committee and Tracey Killen to the health, safety and environment committee, with effect from December 2020.

As a result of the evaluation, the Board agreed that it would take the following actions:

- once the Covid-19 restrictions have been lifted, the Board will arrange additional meetings with the Group management team;
- 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. It is anticipated that we will resume our senior management conference and that the non-executive directors will resume face-to-face strategic reviews with the divisions, which will provide them with the opportunity to meet with wider employees;
- 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;
- 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; and
- each committee will be responsible for reviewing the areas for discussion highlighted for their respective committees and agreeing any actions to be taken.

Following the review by the committee of the specific areas for discussion highlighted by the evaluation, the committee was considered to be operating effectively overall.

The Board has agreed that it will adopt the same process for the 2021 evaluation as that used in 2020 and set out above.

Diversity and inclusion

We believe that a diverse Board, reflecting a broad mix of skills, backgrounds, perspective 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.

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.

Furthermore, with our strategy focused on growing the business organically and driving 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. Having a diverse and talented team of people throughout the Group will align us more to our client base and to society as a whole, and will help us make better decisions for our business and our stakeholders.

Improving diversity and inclusion across all levels of the Group is critical to delivery of our strategy. Therefore, the Board, rather than the committee, has taken the lead in 2020 reviewing and addressing actions we need to take.

In June 2020, the Board received a discussion paper on diversity and inclusion summarising the Group's position and actions being taken at the time. It was agreed that:

- the chief executive would be responsible, on behalf of the Board, for improving diversity and inclusion across the Group;
- a survey of our employees would be undertaken to understand their views on how the Group is addressing diversity and inclusion;
- a detailed analysis of demographic data across the Group would be undertaken;
- the information gathered would allow the Group to develop clear action plans to address any issues raised; and
- the findings from the survey and the HR data analysis would provide the Group with a benchmark by which to measure progress and whether actions taken were having a positive effect on diversity and inclusion.

The diversity and inclusion survey and HR data analysis was undertaken in the fourth quarter of 2020 and the results for each division were shared with the divisional management teams in the first quarter of 2021. Details of the results and actions each division will be taking will be shared with our employees and an update on progress made will be provided in the 2021 annual report.

During the year, the Board also reviewed and updated the Board diversity policy, which sets out our ambition to become exemplary in our industry. The full Board diversity policy can be found in the 'Governance' section of our website.

In 2020, female representation on the Board was 29%, and 15% in the Group management team and their direct reports. At the year end, no members of the Board were from a BAME background. See page 20 for further information on our diversity and inclusion, including further details of the gender balance of the Group management team.

Looking ahead

In 2021, the committee will continue to focus on:

- succession planning for the Board and Group management team;
- reviewing succession planning in the divisional management teams; and
- reviewing progress to further improve diversity and inclusion across the Group.

Michael Findlay

Chair of the nomination committee
25 February 2021

Audit committee report

MEMBERSHIP AND MEETINGS

Members ¹	Member since	Attended/scheduled
Malcolm Cooper ² (Chair)	2015	3/3
Tracey Killen ³	2017	2/3
David Lowden	2018	3/3
Jen Tippin ⁴	2020	1/3

1 Biographies of members are set out on pages 53 and 54. In addition to committee members, meetings are regularly attended by the: chair of the Board; finance director; company secretary; Group head of finance and reporting; 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.

3 Tracey Killen was unable to attend the February meeting due to illness.

4 Jen Tippin was appointed to the committee with effect from the meeting held on 10 December 2020.

The committee's role and responsibilities are set out in its terms of reference which were last updated in February 2021 and are available on our website.

DEAR SHAREHOLDER

On behalf of the Board, I am pleased to present the committee's report for the year ending 31 December 2020. This report sets out how the committee has discharged its responsibilities and provided assurance on the integrity of the 2020 annual report, along with an insight into key areas considered.

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 conducting the audit tender. Based on its review at the half year and given the reduction in the level of risk, the valuation of shared equity receivables is no longer considered a key matter.

In response to the Covid-19 pandemic, the audit committee supported the Board in carrying out additional reviews where necessary. For example, the committee reviewed at the half year the going concern paper prepared by management in April 2020. In preparing the paper, management had taken into consideration the impact of the pandemic on the business at the time, when the highest number of sites were closed and productivity was at its lowest. Following the committee's review, the going concern paper for the half year reflected improved trading conditions and productivity levels, supporting the committee's going concern recommendation to the Board ahead of the half-year results announcement.

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.

The Board evaluation for 2020 included an evaluation of the audit committee (see page 69 for further details on how the process was conducted). Overall the committee is considered to be operating effectively. The committee will undertake further detailed reviews of selected key risks as well as monitoring changes required following the Brydon review.

All committee members during the year and up to the date of this report are or were 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.

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.

Key activities during the year

Activity	Actions taken	Outcomes
Financial reporting	- Reviewed the integrity of the half-year and full-year financial and narrative statements. - Undertook fair, balanced and understandable review of the 2019 annual report. - Reviewed significant accounting judgements for the 2019 audit. - Reviewed the 2019 going concern and viability assessments. - Conducted a review of the half-year 2020 going concern assessment and an initial review of the 2020 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 integrity of the half-year and full-year financial statements and that the going concern and viability assessments were appropriate.
External auditor	- Reviewed independence and effectiveness of the external audit function. - Evaluated performance of the auditor during the 2020 audit. - Conducted the audit tender process. - Monitored compliance with our Group policy on the engagement of the external auditor to supply non-audit services.	- Recommended the reappointment of Deloitte LLP for the financial year ended 2020. - Approved the audit fee for the year ended 2020. - Recommended to the Board the appointment of Ernst & Young LLP as auditor for the financial year ended 2021. - Approved the proposed audit fee for the year ended 2021.
Risk management and internal controls	- Formally reviewed the risk identification process and Group and divisional risk registers. - Reviewed the Group's internal financial controls and internal control and risk management systems. - Evaluated the effectiveness and performance of the Group head of assurance in connection with the 2020 revised internal audit plan. - Reviewed the appropriateness of the 2021 proposed internal audit plan.	- 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 (see page 75). - Approved the 2021 internal audit plan.

Financial reporting

The directors are responsible for preparing the annual report and accounts, and the committee's 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 37. In addition, the committee reviewed the significant accounting judgements for the 2020 audit (see below) and considered and approved the key assumptions in the long-term viability statement (see page 48 for further information). The committee did not ask the external auditor to look at any specific areas during the course of conducting their audit. As a result of its reviews as detailed below, the committee was pleased to advise the Board that the 2020 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.

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 and performance, business model and strategy (see the strategic report from the inside front cover to page 48). 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 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. In addition, the Group's external auditor reviews the consistency between the narrative reporting of the annual report and the financial statements.

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 (see table below).

These 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.

Set out below are 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 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.

External auditor

External auditor's independence and effectiveness

The committee oversees the Company's relationship with the external auditor. 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 rotate off the Company's audit after a specific period of time. Makhan Chahal was appointed as the lead audit engagement partner with effect from the Company's 2017 audit. Makhan is a senior audit partner with over 20 years' experience, and leads Deloitte LLP's business, infrastructure and professional services audit team. These policies and safeguards, together with the Company's own policies on engaging the external auditor for non-audit work and employment by the Company of former employees of the external auditor, enabled the committee to confirm that it was satisfied with Deloitte LLP'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 2020 and reviewed progress against the audit plan at the meeting held in December 2020, 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 109 to 118. During the year, the 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 carried out by way of questionnaire, which is circulated to senior members of the Company's and the divisions' finance teams. The feedback, 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. No concerns arose in the course of these reviews, which indicated that there were no issues with the effectiveness of the current external auditor.

Having regard to the considerations referred to above, the committee has satisfied itself that Deloitte LLP, the current external auditor with responsibility for the 2020 financial year end, remains independent and effective.

Reappointment/appointment of external auditor

Deloitte LLP has been the Company's auditor since the Group was established from the merger with William Sindall plc in 1994 and the audit had not been put out for tender since that time. The committee noted last year the requirements of the UK Corporate Governance Code requiring FTSE 350 companies to put their audit out to tender every 10 years, and the Competition & Markets Authority 2014 Order and subsequently the Statutory Auditors and Third Country Auditors Regulations 2017 that all public interest entities are required to conduct an auditor tender at least every 10 years and to rotate their auditors after at least 20 years. As a result, the committee confirmed in last year's report that the Group intended to put the external audit contract out to tender during 2020.

The committee undertook a formal process (see page 75) to appoint a reputable audit firm which met the following key criteria:

- a clear understanding of the business and business issues;
- experience and expertise to carry out an effective audit; and
- a culture fit of the audit team with the Group.

The selection of audit firms included in the 2020 audit tender process was undertaken by the Company with no external influence and, prior to the process, no contractual arrangements had been entered into that prevented the Company independently selecting the auditors to be included.

Following the 2020 audit tender process, the audit committee recommended to the Board the appointment of Ernst & Young LLP as the Company's external auditor.

The audit committee recommended Ernst & Young LLP because the team demonstrated greater achievement of the key criteria and the committee considered that Ernst & Young LLP would provide the highest quality of audit possible. Following the recommendation to appoint Ernst & Young LLP, a handover period was arranged so that Ernst & Young LLP could shadow the work of Deloitte during the 2020 audit in order to facilitate a smooth handover.

The committee has recommended to the Board that a resolution proposing the appointment of Ernst & Young LLP as external auditor be put to shareholders at the forthcoming AGM. The Company intends, subject to the approval of shareholders at the forthcoming AGM, to appoint Ernst & Young LLP as the Company's auditor for the financial year ending 31 December 2021. Deloitte LLP will cease to hold office as the Company's auditor from the conclusion of the AGM. If appointed, Ernst & Young's lead audit engagement partner will be Peter McIver. Peter is a senior partner with over 30 years' experience and has led Ernst & Young's London audit practice and their Real Estate, Hospitality and Construction audit team.

2020 audit tender process

The committee approved the proposed audit tender process, criteria and timetable with the ultimate goal of appointing the audit firm that will provide the Group with the highest quality, most effective and efficient audit.



A select number of audit firms who met the criteria were contacted to ascertain their interest in participating in order to finalise a shortlist of firms willing to take part in the process. The audit firms contacted included firms outside of the 'Big 4'. Following an initial request for information from all firms, two firms were shortlisted to proceed to the main tender and the audit committee issued an audit tender proposal.



The two firms participated in a series of meetings with the chair of the Board, chair of the audit committee, and senior management from across the Group to ensure the firm's proposals were of the highest quality.



Following the meetings, the firms submitted and presented their audit proposal to a selection panel made up of the chair of the Board, chair of the audit committee, Group finance director and Group financial controller.



Following the presentation, the audit committee presented to the Board the order of preference of the firms for the appointment of the Company's statutory auditor and advised the Board of its preferred candidate.



In November 2020, the Board confirmed that the Company intends, subject to the approval of shareholders at the forthcoming AGM, to appoint Ernst & Young LLP as the Company's auditors for the financial year ending 31 December 2021.

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 2020 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 preclude Deloitte LLP 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 LLP has its own safeguards in place to confirm that non-audit work prohibited by the FRC's Ethical Standard is not provided to the Group or Company.

The committee monitors compliance with the Company's policy throughout the year and, during 2020, Deloitte LLP did not provide any non-audit services that required the approval of the committee. The fees for non-audit services during the year are set out in note 3 to the consolidated financial statements on page 137 and total £6,500 (0.5% of the audit fee), incurred for work in respect of the half-year report.

During the audit tender process, the committee considered the provision of conflicting non-audit services (e.g. tax work). As a result, the committee confirms that Ernst & Young LLP do not currently provide the Company with non-audit services in respect of the 2020 financial year.

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 2020, 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 the 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 increased detail on the macroeconomic environment following the increase reported last year as well as the impact of the Covid-19 pandemic on the business. During the year, the committee noted an increase in risks trending upwards as well as the number of emerging risks due to continued market uncertainty (see page 40).

Following its assessment at the year end, the committee noted there were no significant changes to the Group's principal or emerging risks since the half year, and considered that the Group's risk profile remained relatively stable despite macroeconomic uncertainty, primarily due to the markets in which it operates being predominantly in the public and regulatory sectors which it regarded to be structurally secure, coupled with continued government support for the construction, infrastructure and regeneration sectors, its order book quality and strong cash performance and strengthened balance sheet.

Details of the Company's principal risks and how they are being managed and mitigated can be found on pages 38 to 47. Information on the procedures that are in place to identify and monitor emerging risks can be found on page 39. Following its reviews, the committee reports to the Board to facilitate the Board's annual risk appetite discussion (see page 63).

Review of internal controls

The committee reviewed the effectiveness of the Group's system of internal controls, including: the relationship between the internal and external audit function; the results of internal audit work; and the overall effectiveness of the internal audit process.

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 management 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.
- **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), 18001/45001 (occupational health and safety) and 27001 (information security management).
- **Corporate governance framework and Group policies** – written guidance and 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. Each year, following a review of divisional and Group risk registers, an audit plan is drawn up which is reviewed and approved by the committee, ensuring that it aligns to the Group's principal risks.

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. In response to the Covid-19 pandemic, a number of internal audits have been carried out virtually or, where possible and subject to safe working, in person.

The internal audit process is supplemented by a rolling programme of peer group reviews 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. These peer group reviews are overseen by the divisional heads of internal audit, and tracking of agreed management actions is included in the overall internal audit process.

Each year, the committee assesses the effectiveness of the internal audit function. In its 2020 assessment, the committee:

- met with the Group head of audit and assurance separately without management 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 2020, 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.

Looking ahead

In 2021, the committee will continue its focus on:

- the integrity of the Group's financial reporting;
- ensuring a smooth transition and handover to Ernst & Young LLP as auditor for the 2021 financial year; and
- risk management and internal controls.

Malcolm Cooper

Chair of the audit committee
25 February 2021

Health, safety and environment committee report

MEMBERSHIP AND MEETINGS

Members ¹	Member since	Attended/scheduled
Malcolm Cooper (Chair)	2017	4/4
Andy Saul	2015	4/4
Clare Sheridan	2018	4/4
Tracey Killen ²	2020	3/4

1 Members' biographies are disclosed on pages 53 and 54. 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 2020.

2 Tracey Killen attended two meetings by invitation in 2020 and was formally appointed to the committee with effect from the meeting held on 2 December 2020.

The committee's role and responsibilities are set out in its terms of reference which were reviewed and updated in December 2020 and are available on our website.

DEAR SHAREHOLDER

We operate in a hazardous industry with health, safety and environmental risks and challenges facing each of our divisions. As the nature of the projects we undertake varies across the Group, we must continually review the risks and challenges presented to adapt and respond to the unique challenges of each project.

We are committed to providing safe working environments in order to protect the health, safety and wellbeing of everyone connected with our activities. We promote a strong health and safety culture, which encourages our employees and subcontractors to do the right thing so that everyone who works on our projects can get home safely.

In March 2020, the Covid-19 pandemic caused all of our sites to stop working for a period. However, the Group's decentralised approach, together with the support of our employees and supply chain partners, enabled us to respond quickly and change the way we work. We quickly adopted revised site operating procedures, allowing our sites to reopen and continue operating throughout the rest of the year. Elsewhere, new processes and procedures have been put in place, remote working is encouraged where possible and for those who cannot work remotely, we have clear guidelines on social distancing and other precautions that can be taken. We remain focused on ensuring safe working conditions and supporting our employees to adapt to these new ways of working.

I would like to thank our employees and supply chain partners who took all the necessary actions to ensure we could continue to work safely and effectively.

Activities during the year

The committee is responsible for reviewing the Group's health, safety and environmental performance and advising on the strategy to drive continual improvement. It has been supported by the:

- divisional managing directors who are responsible for health, safety and environment issues within their respective divisions;
- the Group's health and safety forum which is made up of health and safety representatives from each division; and
- the Group's responsible business forum, chaired by the Group's finance director, and including members of the Group management team as well as the Group's director of sustainability and procurement.

In 2020, the committee's key focus was on:

- reviewing our health and safety policy framework;
- reviewing safety performance and, in particular, high potential incidents, lost time incidents and all accidents;
- monitoring the management of our employees' and subcontractors' health and wellbeing, giving particular consideration to the impacts of Covid-19 and mental health;
- reviewing the Group's environmental performance and risks and opportunities in relation to climate change;
- assisting the Board in determining how it will address the Task Force on Climate-related Financial Disclosures (TCFD) reporting requirements;
- reviewing the Group's responsible business strategy; and
- reviewing performance against our Total Commitments.

Responsible business strategy

Our responsible business strategy is driven by our Total Commitments which align to six UN sustainable development goals (see page 7). Our key priorities are combating climate change by reducing our carbon emissions and waste; improving diversity and inclusion across the Group; promoting the health, safety and wellbeing of our employees; working with our supply chain; and supporting local communities. We have a set of key performance indicators and clear targets for each Commitment so that we can monitor progress (see pages 14, 15 and 18).

Despite the pandemic, we continued to make good progress in the year against our Total Commitments, achieving an A score for leadership on climate change from CDP and continuing to deliver social value to the communities in which we operate. In 2020, we launched an e-learning course to all our employees on our responsible business strategy and Total Commitments to ensure that they were widely understood. For full details of our performance against each Total Commitment please see pages 13 to 22. In addition, the remuneration committee agreed to continue to monitor and consider our environmental, social and governance performance in its decision-making (see pages 83 and 84).

Health and safety framework

Each division sets its own strategy and targets that are relevant to its business, within an overarching framework. At the end of 2020, the divisions provided the committee with a review of their health and safety performance and actions taken during the year, setting out their key areas of focus for 2021. Following this, the health and safety forum is reviewing the health and safety policy framework for approval by the committee.

During the year, the committee monitored and reviewed each division's progress against the following three key areas set out in the framework:

- safety trends identified within high potential incidents;
- occupational health and wellbeing, including mental health and wellbeing; and
- innovative ways to further improve health and safety identified by each division, focusing predominantly on each of their top three risks.

The monitoring of high potential incidents remains an evolving area, and, to date, no trends have been identified as the number of such incidents remains small. We have continued to share learning and best practice across the divisions, with an increased focus in 2020 on sharing outcomes from high potential incidents.

The sharing of experience and learning has been particularly important throughout the pandemic. During the year, we set up a Group health and safety response forum and a communication platform to enable each division to see what others were doing in response to the pandemic, such as risk assessments, ways of social distancing, Covid-19 secure standards, Covid-19 site induction/awareness films and support materials. Some health and safety measures introduced in response to the pandemic have proved beneficial for productivity and efficiency and will be continued in the long term (see page 19).

Safety

We are committed to continuing to reduce the number of incidents on our sites and protecting those who work on and visit our projects. We have well-established safety systems designed to minimise the risks of health, safety and environmental incidents, including toolbox talks, detailed method statements, health and safety briefings at induction, site visits, detailed investigation of all incidents, and regular training and updates. In order to maintain an effective safety culture, our divisions regularly review and enhance these systems and address behavioural factors which can cause injuries.

Our number of lost time incidents for employees and subcontractors reduced to 111 (2019: 127) and there was an overall reduction in the number of people being hurt. However, notwithstanding this overall positive performance, the committee remains mindful that incidents and accidents still occur, and we cannot become complacent.

Health and wellbeing

Over the past few years, we have put in place a number of programmes to support our employees in managing their own mental health and wellbeing. These programmes have become part of our culture and make a positive contribution to our resilience. They include employee assistance and financial education support schemes as well as private medical insurance and access to a digital GP service. In addition, each division provides additional support initiatives tailored to its employee base and has trained mental health first aiders.

It has been particularly important over the past 12 months to have these employee support programmes in place, as we are extremely mindful that the impact of Covid-19 has affected people differently. Our HR and health and safety teams have ensured that our employees are aware of the support available to them to help with maintaining good mental health during this period of increased uncertainty.

Site visits

The committee had planned to undertake site visits as part of its March and October 2020 meetings; however, both visits were cancelled owing to Covid-19 restrictions in place at the time. The committee will resume face-to-face visits when it is safe and appropriate to do so and with full regard to government guidelines.

Safeguarding the environment

We are committed to minimising the environmental impact of our activities both now and in the longer term, this being an increasing concern for the Group and our stakeholders. Where possible, our divisions encourage their clients to consider more environmentally sustainable products with a longer life expectancy and we have been working with our supply chain to encourage and help them manage their own emissions.

During the year the committee reviewed the Group's performance against the Streamlined Energy and Carbon Reporting (SECR) reporting regulations (see pages 13 to 16 for full details of the Group's environmental performance) as well as reviewing the Group's approach to addressing the recommendations of the TCFD which we are committed to implementing and reporting in full under the four core elements of disclosure by 2022. See page 17 for the Group's first TCFD disclosure.

On 1 January 2021, we implemented an internal carbon charge based on each division's carbon emissions. The carbon charge is intended to encourage each of the divisions to reduce its own emissions and the funds collected will be used to invest in carbon reduction projects going forward.

There were no environmental incidents to report for the Group in 2020.

Looking ahead

In 2021, 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 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;
- ensure that we comply fully with the TCFD requirements;
- review our performance against our Total Commitments;
- review our responsible business strategy, and health and safety policy framework; and
- undertake site visits.

Malcolm Cooper

Chair of the health, safety and environment committee
25 February 2021

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 2020.

The strategic report is presented on the inside front cover to page 48 (inclusive). The directors' report required under the Act comprises 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:

- 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 carbon emissions;
- the likely future developments in the business of the Group; 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	106
9.8.4 (5)	Waiver of emoluments by a director	83
9.8.4 (12)	Dividend waiver by Employee Benefit Trust	80
9.8.4 (13)	Shareholder waiver of future dividends	80

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 page 100 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.

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 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 insurance is categorised as a 'qualifying third-party indemnity provision' for the purposes of 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.

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 current Articles are available on our website. The directors are proposing that the Articles be updated 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. A special resolution will be proposed at this year's AGM, and further details can be found in the Notice of Meeting to shareholders accompanying this annual report.

Capital structure

During the year, 863,353 ordinary shares were allotted to satisfy amounts under the Group's Savings-Related Share Option Plan.

As at 31 December 2020, the issued share capital totalled 46,353,338 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 7 May 2020 to allot relevant securities up to a nominal amount of £757,214. That authority will apply until the conclusion of this year's AGM or close of business on 7 August 2021, 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 7 May 2020, a resolution was passed giving the directors authority to make market purchases of Company shares up to 4,549,282 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 7 August 2021, 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.

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 21.0p was paid on 8 December 2020 and the directors recommend a final dividend of 40.0p, making a total for the year of 61.0p. Further details can be found in note 7 to the consolidated financial statements on page 140. Subject to shareholder approval at the 2021 AGM, the final dividend will be paid on 19 May 2021 to shareholders on the register at close of business on 30 April 2021.

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 interim dividend payable in 2020 and abstained from voting at the AGM. Details of the shares so held may be found in the consolidated financial statements on page 123.

Substantial shareholdings

As at 31 December 2020 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
Standard Life Aberdeen plc	4,563,244	9.93	Indirect
Numis Nominees (Client) Limited <Morgan02> and <Morgan03> ³	4,106,058	8.94	Direct
BlackRock, Inc	3,132,002	6.77	Indirect
Ameriprise Financial Inc	2,627,969	5.93	Indirect
J.P. Morgan Asset Management Holdings Inc	2,310,035	5.17	Indirect
J O Hambro Capital Management Group Ltd	2,236,346	4.92	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.

As at 25 February 2021, the following shareholders had notified the Company in accordance with DTR 5 that their interest in the total voting rights of the Company was:

- BlackRock, Inc. 3,994,739 (8.61% Indirect); and
- John Lovell (below 3%, no longer a notifiable interest).

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 2020.

Change of control

The Group's banking facilities, which are described on page 36 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

The financial risk management objectives and policies can be found in the principal risks on pages 44 and 45. Information about the use of financial instruments by the Company and its subsidiaries 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.

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 International Financial Reporting Standards (IFRSs) as adopted by the European Union and Article 4 of the IAS Regulation 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.

By order of the Board on 25 February 2021

John Morgan
Chief Executive

Remuneration committee report

MEMBERSHIP AND MEETINGS

Members ¹	Member since	Attended/scheduled
Tracey Killen (Chair) ²	2017	3/4
Malcolm Cooper	2015	4/4
David Lowden	2018	4/4
Jen Tippin ³	2020	3/4

1 Biographies of members are set out on pages 53 and 54. Michael Findlay, John Morgan and Steve Crummett attended meetings by invitation.

2 Tracey Killen was unable to attend the February meeting due to illness.

3 Jen Tippin became a member of the committee on her appointment to the Board in March 2020.

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; and
- preparing an annual report on directors' remuneration.

DEAR SHAREHOLDER

I am pleased to present our remuneration report for the year ended 31 December 2020. This report sets out how the Group pays directors, decisions made on their pay and how much they have received in relation to 2020.

Our decentralised approach, strong divisional leadership and culture enabled the business and the directors to adapt promptly and effectively to the challenges of Covid-19. With the support of our employees, clients and subcontractors, we were able to quickly implement safe ways of working and to reopen our sites and keep them operating. We have delivered a resilient performance and have continued to make progress against our strategy while providing support to some of the vulnerable communities that we operate in and continuing to address the impacts of climate change. See pages 13 to 17 for further information on how we are addressing climate change and page 64 for more detail on how we responded to the Covid-19 pandemic.

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.

In the context of the pandemic and the extremely challenging and uncertain environment, we regularly reviewed our approach to remuneration, taking into account the interests of all our stakeholders. The Board and Group management team voluntarily took a 20% reduction in salary and fees for a three-month period between 1 April and 30 June 2020 to share the challenges that the business and colleagues were facing. In addition, a number of employees, including the senior management teams of each division, voluntarily took a 10% reduction in salary for a two-month period. At the beginning of the pandemic, we decided to participate in the UK Coronavirus Job Retention Scheme (CJRS), sought permission to defer VAT, PAYE and other tax payments, and cancelled the 2019 final dividend, to help reduce discretionary costs and manage cash flow.

However, once we obtained greater clarity of the impact of Covid-19 and more certainty on the Group's performance for the year, the Company repaid all CJRS monies received, the deferred VAT and PAYE monies, salaries that had been voluntarily waived by employees (excluding the Board and the Group management team), and, in November 2020, the Board announced that it would pay an interim dividend.

The executive directors received no annual bonus for 2020. LTIP awards granted in 2018, which vest on three-year performance to 31 December 2020 (two thirds on earnings per share (EPS) and one third on relative total shareholder return (TSR), vested 43%. The committee satisfied itself that this outcome reflected the underlying performance of the business over the relevant period.

Employees across the Group received an annual bonus where their divisional targets had been achieved and the share options granted in 2018 under the 2014 share option plan (2014 SOP), vested 33% based on three-year EPS performance to 31 December 2020. The executive directors and members of the Group management team do not participate in the 2014 SOP.

In line with our remuneration principles, we have not altered the structures of incentive plans, and variable pay is much reduced across the Group. After careful deliberation, the committee decided not to exercise any discretion in respect of the annual bonus payable or LTIP outcomes for executive directors during the year.

In setting the remuneration for 2021 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. In addition to competitiveness and fairness being a core principle of the remuneration policy, there is a clear culture in our business of ensuring we offer competitive and fair pay to all employees. The committee also considered the appropriateness of key pay ratios, including the chief executive pay ratios. Full details of the approach taken and resulting ratios can be found on page 104.

During the year, the committee considered whether or not to introduce an additional performance condition for the annual bonus and whether or not to introduce environmental, social and governance (ESG) metrics to the variable incentives for executive directors. ESG is integral to the delivery of our strategy.

Following its review, the committee determined that, in order to maintain a clear, transparent, well-understood remuneration structure, additional performance conditions would not be included in the variable incentives this year. However, during 2021, the committee will continue to monitor market trends on how ESG is incorporated into remuneration.

The committee has agreed to review aligning the pension contributions of the executive directors with the majority of employees, following the completion of a Group-wide review of pension contributions to be undertaken in 2021. Pension contributions for executive directors, including existing directors, will be aligned by the end of 2022.

From 1 January 2021, the base salaries for John Morgan and Steve Crummett will be increased by 2%, which is in line with average salary increases awarded across the Group. No changes have been made to benefit provision.

The executive directors are entitled to an annual bonus of up to 125% of basic salary, of which 30% is subject to deferral in shares for three years. The bonus targets for 2021 are again based on adjusted profit before tax* (PBTA*) for consistency and simplicity. The target range has been changed from an asymmetrical to a symmetrical range. Therefore, for 2021, the bonus trigger point for the annual bonus will remain at 94% and the maximum trigger point will change to 106% of budgeted PBTA*. Full details of the targets will be disclosed in the 2021 remuneration report.

* See note 2 for alternative performance measure definitions and reconciliations.

The executive directors will each receive LTIP awards equivalent to 150% of basic salary. Any LTIP shares that vest will be subject to a further two-year holding period post vesting. For 2021, the three-year cumulative EPS threshold target will be 450p and the stretch target will be 485p, while the three-year TSR target will require 10% per year outperformance of the median TSR of 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.

In conclusion, the committee believes that the remuneration policy has operated very well in what has been a challenging year for all of us. It has guided us through the impacts of the pandemic to the right overall remuneration decisions that reflect the Group's values and culture. The remuneration outcomes, as outlined throughout the report, clearly reflect the factors detailed in provision 40 of the UK Corporate Governance Code (see page 98 for further information). Overall, we have maintained a balanced and considered outcome in respect of remuneration with a clear link between performance and reward.

We value the support which shareholders have provided, as reflected in the votes on remuneration at our 2020 AGM. We hope to continue to receive your support at the forthcoming AGM on 6 May 2021.

Tracey Killen

Chair of the remuneration committee
25 February 2021

In this section

-  Annual report on remuneration, see page 99
-  Remuneration policy, see page 89
-  Ensuring transparency of the remuneration policy, see page 98
-  Implementation of the remuneration policy for 2021, see page 106
-  Outstanding interests under share schemes, see page 101
-  Other disclosures, see page 102
-  Remuneration overview, see page 85
-  Single total figures of remuneration, see page 99

Remuneration overview

Remuneration philosophy

The key principles of our approach to executive remuneration are to ensure that it:

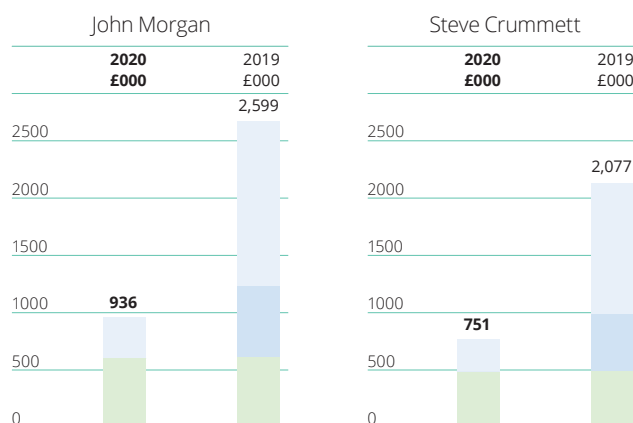
- aligns management and shareholder interests;
- is competitive in the marketplace;
- helps retain and motivate executive directors of the calibre required in order to deliver the Group's strategy; and
- rewards growth in earnings over the long term, thereby driving growth in value to our shareholders.

Chief executive remuneration	Gender pay gap reporting	Remuneration across the Group
£935,583 single figure 2020 (2019: £2,599,028) (see page 99)	30%¹ mean gender pay gap (2019: 32%)	£518,292,470 spend on total pay (2019: £499,107,619)
-64% change in total remuneration from 2019 (2019: -14%)	29%² median gender pay gap (2019: 31%)	69% of employees received a pay increase (2019: 76%)
-100% change in annual bonus received from 2019 (2019: -4%)	62% mean bonus gap (2019: 57%)	2% average pay increase across the Group (2019: 3%)
43% of 2018 LTIP award vesting (2019: 100%)	42% median bonus gap (2019: 43%)	63% of employees received a bonus (2019: 73%)
	For further information see page 20.	£7,135 average bonus paid (2019: £7,851)

¹ This figure has been calculated using the methodology set out in the Gender Pay Gap Regulations; however, it is based on our November payroll data rather than our April payroll data, which is 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 gender pay was 33.7%; 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-19-related measures and therefore paints a more accurate picture.

² This figure has been calculated using the methodology set out in the Gender Pay Gap Regulations; however, it is based on our November payroll data rather than our April payroll data, which is 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 median gender pay was 33.6%; 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-19-related measures and therefore paints a more accurate picture.

Summary of 2020 executive remuneration



Basic salary	509	520	406	415
Benefits	25	24	24	24
Pension allowance	51	52	41	41
Annual cash bonus paid in cash	-	423	-	338
Annual cash bonus deferred into shares	-	181	-	144
Value of long-term incentives vested	351	1,398	280	1,115

	2020 Maximum (excluding share price growth) £000	2020 Actual (excluding share price growth) £000	2020 Actual (including share price growth) £000
John Morgan			
Fixed pay	585	585	585
Annual bonus	637	0	0
LTIP	765	329	351
Total	1,986	914	936
Steve Crummett			
Fixed pay	471	471	471
Annual bonus	508	0	0
LTIP	610	262	280
Total	1,588	733	750

2021 remuneration

The table below shows how we intend to operate the policy in 2021. 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	2021	2022	2023	2024	2025	2026
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.	Salary paid: chief executive £547k (+2%); finance director £436k (+2%).					
	Benefits	Market-competitive and cost-effective	Market-competitive.	Benefits provided.					
	Pension	benefits supports the attraction and retention of talent.	10% of basic salary.	Pension paid.					
Variable pay	Annual bonus	Incentivises delivery of financial and strategic targets.	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).				
		Focuses on key financial metrics and the individual's contribution to the Group's performance.			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.

	Salary	Benefits	Pension	Short-term incentive	Long-term incentive
Executive directors	Basic salary levels take into account market-competitive levels. Any increases are normally in line with those for the wider workforce.	A range of market-competitive benefits are offered in line with the wider workforce.	10% of salary employer contribution to the Morgan Sindall Retirement Savings Plan ('the Retirement Plan').	Annual cash bonus plan linked 100% to Group performance. 30% of the total award is deferred in nil cost options.	The LTIP is a share award with performance linked to three-year EPS and TSR performance.
Group management team				Annual cash bonus plan linked 100% to divisional or Group performance.	
Senior management				Divisional or Group annual cash bonus plan linked to both business and personal performance.	Senior management may be offered share options under the 2014 Share Option Plan (2014 SOP) which is linked to three-year EPS performance.
Wider workforce	Basic salary levels are set in line with market requirements or subject to industry wide working rule agreements where applicable.	A range of market-competitive benefits are offered. Individual benefits received depend on role and seniority.	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.	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.	Depending on role, employees may be invited to participate in the 2014 SOP which is linked to EPS performance. All employees are invited to participate in the Savings-Related Share Option Plan.

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 99.	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.

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.	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.

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 earnings per share (EPS) and on relative total shareholder return (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.

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.

Fixed elements	Purpose and link to strategy	Operation	Maximum opportunity	Performance targets
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.
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	–
Tracey Killen	5 May 2017	May 2020	–
David Lowden	10 September 2018	–	–
Jen Tippin	15 January 2020	–	–

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 appointment

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 above and the provisions for existing arrangements, as set out on page 94, 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

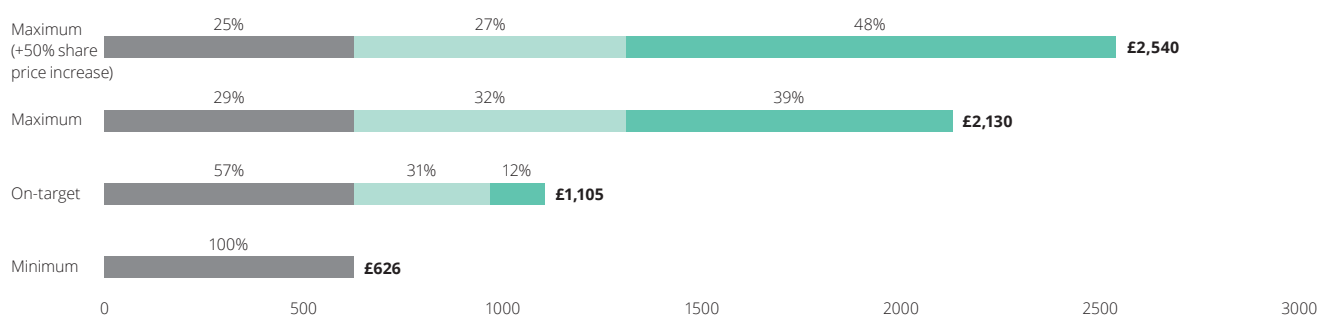
The charts below provide an indication of the level of remuneration that would be received by each executive director under the following three assumed performance scenarios:

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.

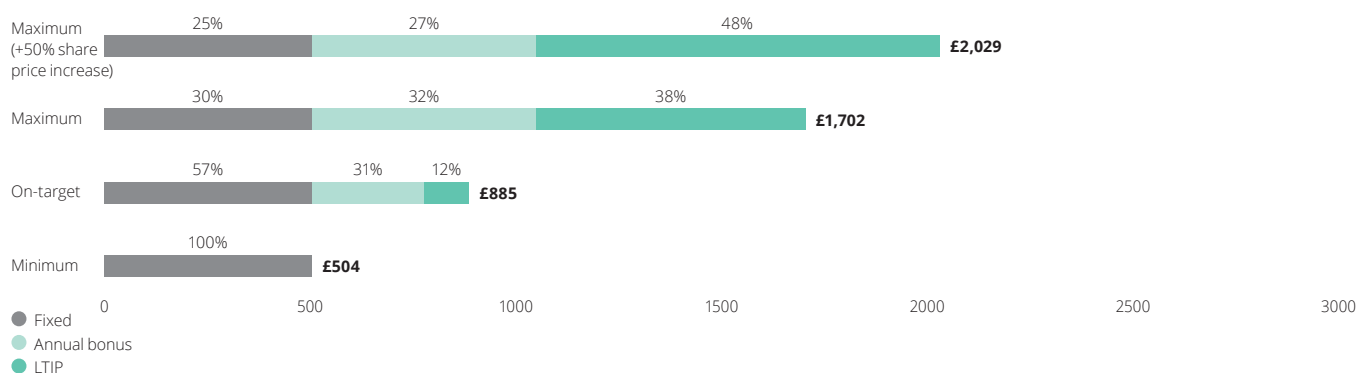
JOHN MORGAN

Chief Executive
(£000)



STEVE CRUMMETT

Finance Director
(£000)



Notes:

- Base salary levels are as at 1 January 2021.
- The value of benefits has been estimated based on amounts received in respect of 2020.
- The value of pension receivable is the equivalent of 10% of base salary.
- The maximum scenarios are 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.

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 2014 LTIP is based on cumulative 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 98, 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, 94% 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			Total remuneration £000
	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	
John Morgan								
2020	509	25	51	585	–	351	351	936
2019	520	24	52	596	604	1,398	2,002	2,599
Steve Crummett								
2020	406	24	41	471	–	280	280	750
2019	415	24	41	480	482	1,115	1,597	2,077

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.
- The 2019 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 2020, which vested based on performance to 31 December 2019, are valued using the mid-market closing price on 5 March 2020, the date prior to the date of vesting (6 March 2020) of £17.84. The mid-market closing share price on 6 March 2020 was £17.46.

Annual cash bonus outturn (audited)

The table below shows performance against PBTA* targets for 2020 representing 100% of the annual bonus potential. No annual bonus is payable in 2020.

	Threshold target £m	50% target £m	Maximum target £m	Actual performance £m	Percentage of maximum %
Group PBTA* at 31 December 2020	86.5	92.0	103.0	63.9	0

2014 Long-Term Incentive Plan – 2018 award outturn (audited)

LTIP awards granted in 2018 are due to vest on 6 March 2021. As set out in the table below, 43% of the 2018–2020 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	66.67%	Three-year cumulative EPS of 408p	Three-year cumulative EPS of 466p	Three-year cumulative EPS of 421.6p	33%
Relative TSR (vs. FTSE 250 excluding investment trusts)	33.33%	Median	10% per year outperformance of median	5% per year outperformance of median	63%
Total vesting					43%

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 2020 of £13.23, a 7% increase on the share price at the date of grant. Accordingly, c.6% of the 'value of long-term incentives' figure shown in the single-figure table above is a result of share price appreciation, amounting to c.£22k and c.£18k for John Morgan and Steve Crummett respectively. The committee has not exercised any discretion in respect of the achieved outcomes. The value of 2020 long-term incentives in the single-figure table above does not include the value of any dividend equivalent shares that may be due on 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 £000		Taxable benefits ¹ £000		Total £000	
	2020	2019	2020	2019	2020	2019
Michael Findlay	171	175	–	–	171	175
Malcolm Cooper	65	68	–	–	65	68
Tracey Killen	56	58	–	–	56	58
David Lowden	56	58	–	–	56	58
Jen Tippin ²	38	–	–	–	38	–

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.

¹ 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.

² Jen Tippin joined the Board on 1 March 2020.

The aggregate remuneration for executive and non-executive directors in 2020 was £1.4m (2019: £2.5m). Aggregate remuneration comprises salary, fees, benefits, pension contributions and bonus payments.

Share awards granted during the year (audited)

2014 Long-Term Incentive Plan

On 2 March 2020, LTIP awards were made to the executive directors, which will vest subject to performance over the three financial years to 31 December 2022. 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	2 March 2020	150%	£18.57	43,297	£804,025.29	16.7% (12.5% for EPS element, 25% for TSR element)	Three financial years to 31 December 2022
Steve Crummett				34,524	£641,110.68		

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 2 March 2020 was £17.88.

Deferred bonus share options

Of the annual cash bonus earned in 2019, 30% was deferred into nil-cost share options that will become exercisable three years from the date of grant.

	Date of grant	Percentage of bonus earned which was deferred	Five-day average share price at date of grant	No. of shares over which award was granted	Face value of award	Date from which options are exercisable
John Morgan	2 March 2020	30%	£18.57	9,758	£181,206.06	2 March 2023
Steve Crummett				7,781	£144,493.17	

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 2 March 2020 was £17.88.

Outstanding interests under share schemes (audited)

Details of the executive directors' interests in long-term incentive awards as at 31 December 2020 and movements during the year are as follows:

Performance shares

	Date of award	No. of shares outstanding as at 1 January 2020	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										
	6.3.2017	72,636	–	72,636	5,740	78,376	–	–	31.12.2019	6.3.2020
	6.3.2018	61,666	–	–	–	–	–	61,666	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
Total		195,574	43,297	72,636	5,740	78,376	–	166,235		
Steve Crummett										
	6.3.2017	57,918	–	57,918	4,577	62,495	–	–	31.12.2019	6.3.2020
	6.3.2018	49,171	–	–	–	–	–	49,171	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
Total		155,946	34,524	57,918	4,577	62,495	–	132,552		

Notes:

- 100% of the awards granted in 2017 vested due to the EPS and TSR targets being achieved. Three-year cumulative EPS for the Group as at 31 December 2019 was 434.1p, which resulted in 100% of the EPS element of the award vesting. The Group also achieved a TSR of 58.18%, which was above first position of the comparator group and resulted in 100% of the TSR element of the award vesting.
- Of the awards granted in 2018, 43% vested due to the EPS and TSR targets being achieved. Cumulative EPS for the Group over the three years from 31 December 2017 to 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% per year, which exceeded the median of the comparator group by 5% per year and resulted in 63% 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 2019 and 2020 are subject to cumulative EPS growth targets equivalent to a growth rate of 6%-13% per year and a TSR performance condition. Full details are included in previous remuneration reports.

Deferred bonus plan nil-cost options

	Date of grant	No. of options outstanding as at 1 January 2020	No. of options granted	No. of options exercised	No. of options lapsed	No. of options outstanding as at 31 December 2020	Date from which exercisable
John Morgan							
	6.3.2018	14,967	–	–	–	14,967	6.3.2021
	4.3.2019	14,872	–	–	–	14,872	4.3.2022
	2.3.2020	–	9,758	–	–	9,758	2.3.2023
Total		29,839	9,758	–	–	39,597	
Steve Crummett							
	6.3.2018	11,934	–	–	–	11,934	6.3.2021
	4.3.2019	11,858	–	–	–	11,858	4.3.2022
	2.3.2020	–	7,781	–	–	7,781	2.3.2023
Total		23,792	7,781	–	–	31,573	

The mid-market price of a share on 31 December 2020 was £15.32 and the range during the year was £10.30 to £19.70.

Other disclosures

Remuneration committee meetings

The committee met on four occasions during the year. All members attended each meeting, except Tracey Killen who missed one meeting due to illness and Jen Tippin who attended three meetings following her appointment to the Board in March 2020. The chair of the Board and the chief executive attended all meetings of the committee and the company secretary acted as secretary to the committee. The finance director attended three 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). It has also relied on information and advice provided by the company secretary and has consulted the chief executive but not in relation to his own remuneration. Mercer is a founding member and signatory 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 is independent and objective. The fees paid by the Company to Mercer during the financial year for advice to the committee in relation to the above were £14,660 (2019: £24,405), 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.

Shareholder voting (audited)

At last year's AGM held on 7 May 2020, the remuneration report, including the remuneration policy, for the year ended 31 December 2019 was approved by shareholders. The following table shows the results of the advisory vote on the 2019 annual remuneration report and the binding vote on the remuneration policy at the 2020 AGM:

	Voting for		Voting against		Total votes cast	Votes withheld ¹
	Number of shares	Percentage	Number of shares	Percentage		
Annual remuneration report	35,219,777	99.63	130,691	0.37	35,350,468	5,275
Remuneration policy	34,252,837	97.41	911,648	2.59	35,164,485	191,258

¹ People 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 (audited)

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 9.13% (2019: 9.58%) of the current issued ordinary share capital under all-employee share plans, of which 0% relates to discretionary share plans.

As at 31 December 2020, the Trust held 278,383 shares (2019: 344,185), which may be used to satisfy awards.

Chief executive remuneration (audited) and performance graph

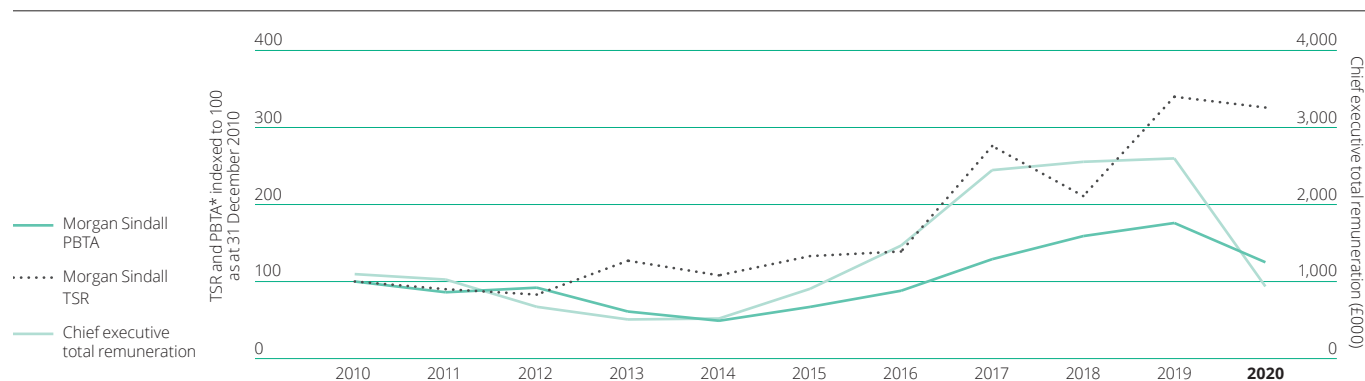
Historical TSR performance

The graph below shows the value to 31 December 2020 of £100 invested in the Company on 1 January 2011 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's shares 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.



	2011	2012	2012	2013	2014	2015	2016	2017	2018	2019	2020
	Paul Smith		John Morgan								
Total remuneration £000	1,025	1,327	671	507	519	905	1,467	2,447	2,555	2,599	936
Annual bonus percentage of maximum	85	26	30	–	–	80	100	100	100	93	–
Long-term incentive award vesting percentage of maximum share awards	–	49	n/a	n/a	–	–	62	100	100	100	43
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

Notes:

- 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.

Chief executive pay ratio (audited)

Financial year	Calculation methodology	Chief executive pay ratio		
		P25 (lower quartile)	P50 (median)	P75 (upper quartile)
2020	B	26:1	21:1	13:1
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 2020, 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. None received an exceptional incentive award which would otherwise inflate their pay figures. 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 2020 financial year. The table below sets out the remuneration details for the individuals identified:

Salary	Chief executive	P25	P50	P75
Basic salary	509	26	38	67
Total annual pay ¹	585	36	45	75
Total pay ²	936	36	45	75

The ratio of 21:1 is 51% lower than the median ratio of 43:1 in 2019. This reduction in the chief executive pay ratio is due to the chief executive receiving no bonus in 2020 and to 43% of long-term incentive awards vesting. In 2019, the chief executive received a bonus of 93% of salary and 100% of the long-term incentive awards granted in 2017 vested.

We note that 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	19	13	8
Total annual pay ¹	16	13	8
Total pay ²	26	21	13

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 (audited)

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 between 31 December 2019 and 31 December 2020, compared to the average percentage change for other employees of the Group.

	Percentage change in base salary	Percentage change in benefits	Percentage change in bonus payment
Chair	-2.3%	n/a	n/a
Chief executive	-2.1%	2.6%	-100%
Finance director	-2.2%	-0.2%	-100%
Non-executive director	-2.2%	n/a	n/a
All employees	4.8%	8.0%	-9.1%

The chief executive's and finance director's bonus decreased by 100% in 2020 due to the impact of the Covid-19 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 (audited)

The table below shows pay for all employees compared to other key financial indicators.

	2020	2019	Change
Employee remuneration	£505.9m	£494.4m	1%
Basic earnings per share (adjusted*)	108.6p	161.2p	-33%
Dividends paid during the year	£9.6m	£24.8m	-61%
Employee headcount ¹	6,736	6,761	0%

1 Employee headcount is the monthly average number of employees on a full-time equivalent basis. More detail is set out in note 2 on page 136.

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 2020
John Morgan	200	12,353%
Steve Crummett	200	621%

The share price used to value the shares as at 31 December 2020 was £15.32.

Directors' interests (audited)

The figures below set out the shareholdings beneficially owned by directors and their family interests at 31 December 2020.

	31 December 2020 No. of shares	31 December 2019 No. of shares
Michael Findlay	4,173	4,173
John Morgan	4,106,058	4,284,519
Steve Crummett	164,579	131,457
Malcolm Cooper	10,000	10,000
Tracey Killen	611	611
David Lowden	4,000	-
Jen Tippin	1,000	n/a

There have been no changes in the interests of the directors between 31 December 2020 and 25 February 2021.

External appointments (audited)

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 2021

Base salaries

In setting the 2021 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 2%. The committee determined that the base salaries for John Morgan and Steve Crummett should increase by 2% with effect from 1 January 2021. In considering the salary increases, the committee took account of the performance of each executive director and their respective responsibilities.

	From 1 January 2021 £	From 1 January 2020 £	Increase
John Morgan	546,742	536,022	2%
Steve Crummett	435,958	427,410	2%

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.

The Company is undertaking a review of pension contributions for all employees during 2021 and will look to align the pension contributions for existing directors by the end of 2022, following the outcome of the review.

Annual bonus

The maximum annual bonus potential for 2021 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 2021, 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. The target range has been changed from an asymmetrical to a symmetrical range. Therefore, for 2021, the bonus trigger point for the annual bonus will remain at 94% and the maximum trigger point will change to 106% 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 2021.

The awards to be granted in 2021 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 compared with the constituents of the FTSE 250 Index (excluding investment trusts), over a three-year period. Further details on these performance conditions are set out below.

Net shares vesting under LTIP awards granted in 2020 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.

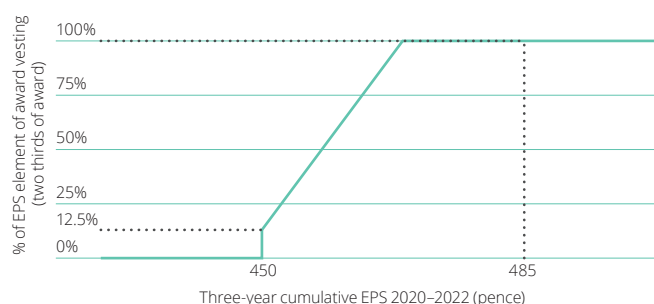
EPS performance condition (two thirds of award)

For the awards granted in 2021, EPS targets will be expressed in cumulative pence terms in order to reduce the sensitivity of vesting to final year performance and incentivise executives to deliver sustained steady growth. For 2021, the threshold target will be 450p and the stretch target will be 485p.

The committee believes these targets represent an appropriately stretching range in the context of internal and external reference points and are of broadly equivalent toughness to our normal (steady state) compound annual growth target range of 6%–13% per year and to median-to-upper quartile performance.

The vesting range for the EPS targets is shown in the graph below:

EPS PERFORMANCE CONDITION

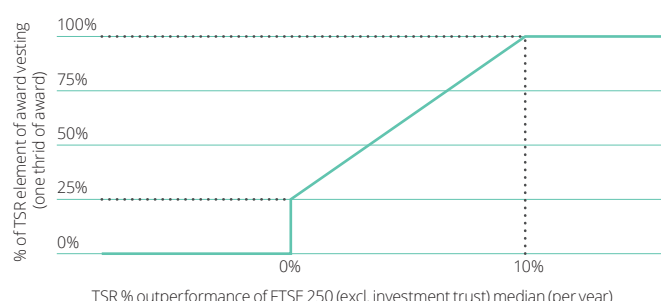


TSR performance condition (one third of award)

TSR targets for 2021 awards will be expressed as an outperformance of median as per the last three cycles.

As with the 2020 awards, the TSR comparator group will 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.

Fees for the non-executive directors

The committee determined that the chair's fee for 2021 be increased by 2%, and the Board deemed that the base fee for non-executive directors should also be increased by 2% 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 2021 are as follows:

	2021 £	2020 £	Increase %
Chair	183,600	180,000	2%
Non-executive directors			
Base fee	49,932	48,953	2%
<i>Additional fees:</i>			
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
25 February 2021

Financial statements

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As easy as A,B,C...

Creating a modular school, like The Highfields Spencer Academy – for Derbyshire County Council and The Spencer Academies Trust – enabled the delivery of a school at speed and with minimal environmental impact, even during the pandemic.

The 210-place primary school and nursery, designed by Lungfish Architects, had 45 modular components, made to measure off-site by firm Eco Modular and then simply delivered and fitted together, in a matter of weeks. It meant that the school could be delivered far quicker than a traditional building project, with a much lighter carbon footprint. Transport to and from the site was reduced, less waste was generated and the disruption to the local community minimised. Instead they got a brand new, bespoke primary school on their doorstep, in record time.



Independent auditor's report

to the members of Morgan Sindall Group plc

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

In our opinion:

- the financial statements of Morgan Sindall Group plc (the 'parent company') and its subsidiaries (the 'group') give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2020 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 'Reduced Disclosure Framework'; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the consolidated income statement;
- the consolidated statement of comprehensive income;
- the consolidated and parent company balance sheets;
- the consolidated and parent company statements of changes in equity;
- the consolidated cash flow statement;
- the statement of accounting policies; and
- the related notes 1 to 26 and parent company notes 1 to 3.

The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law, international accounting standards in conformity with the requirements of the Companies Act 2006, and IFRSs as adopted by the European Union. 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 are independent of the group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (FRC's) Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the group or the parent company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: - recognition of contract revenue, margin and related receivables and liabilities, including recoverability and valuation of work in progress; and - impairment of goodwill. Within this report, key audit matters are identified as follows: <i>newly identified</i> <i>increased level of risk</i> <i>similar level of risk</i> <i>decreased level of risk</i>
Materiality	The materiality that we used for the group financial statements was £3.8m, which was determined on the basis of revenue.
Scoping	We consider the principal business units to reflect the components of the group as this is how management monitor and control the business. Our scope covered 11 components of the group. Of these, four were subjected to a full-scope audit whilst the seven remaining were subject to specific procedures on certain account balances. Our full-scope audit of components provided coverage of 90% of the group's revenue, 99% of the group's profit before tax and 96% of the group's net assets.
Significant changes in our approach	Materiality: In the current year, we have changed the basis for materiality. We have moved from a profit before tax measure to revenue. Our rationale for this is that revenue has remained more stable than profit before tax and is more representative of the size of the business. Component scoping: The following components of the scope have come into scope this year to perform specific procedures on certain account balances: - Baker Hicks Europe - Newman Insurance Company Limited - Morgan Sindall Later Living LLP Key Audit Matters: We have determined that 'Valuation of shared equity loan receivables' is no longer a key audit matter. This is due to the balance continuing to decrease with the low level of defaults seen to date and the positive outcome of redemptions in the year to date, as well as historic low levels of sensitivity of the assumptions.

Conclusions relating to going concern

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's and parent company's ability to continue to adopt the going concern basis of accounting included:

- assessing the latest cash flow forecasts of the group to determine whether these are consistent with the forecasts used during the impairment review; and assessing the directors' going concern assessment;
- assessing copies of any existing and new facilities and assessing the group's cash forecasts against available facilities and the required repayment profiles of debt and interest;
- assessing the facilities and their availability and compliance with covenants;
- evaluating each of the sensitivities adopted by management and assessing downside scenarios of cash headroom over the forecast period by performing our own sensitivity analyses to gain adequate assurance regarding the solvency of the group over the going concern review period. Our sensitivities included consideration of the impact of Covid-19 lockdowns;
- assessing the reasonability of the assumptions that management have used in their cash forecasts; and
- assessing the adequacy of the financial statement disclosures in relation to going concern.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group's and parent company's ability to continue as a going concern for a period of at least 12 months from when the financial statements are authorised for issue.

In relation to the reporting on how the group has 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.

Key audit matters

Key audit matters are those matters that, in our professional judgement, 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 forming our opinion thereon, and we do not provide a separate opinion on these matters.

Recognition of contract revenue, margin and related receivables and liabilities, including recoverability and valuation of work in progress (*similar level of risk*)

Key audit matter description	For the majority of its contracts, the group recognises revenue over time and measures the progress based upon the input method by considering the proportion of contract costs incurred for the work performed to the balance sheet date relative to the estimated total forecast costs of the contract at completion. The valuation of amounts recoverable on contracts is dependent upon estimates around stages of completion and remaining costs to complete as well as any associated provisions. In a number of the group's projects, there are assumptions within revenue regarding recovery of contractual entitlement from clients. These assumptions are as a result of compensation events, variations and claims that have arisen due to change under the terms of the contract. The valuation of these can involve a significant degree of estimation and the estimated revenue may not yet have been certified or fully agreed with the customer. There are also judgements involved in the variations within contract revenue and contract costs, and the completeness and validity of loss provisions arising from customer disputes. Given the level of judgement and potential for management bias in the estimates used, we considered there to be an inherent risk of fraud in contract revenue recognition. In the current year, we note contracts may have been impacted by the Covid-19 pandemic. The Audit Committee also considered this as an issue as set out in the Audit Committee Report on page 73. Management have discussed this within key sources of estimation uncertainty on page 133. The accounting policies are set out within the significant accounting policies on pages 127 and 128. This includes disclosures in relation to IFRS 15. The critical accounting judgements and estimates are set out on page 133. Revenue from construction contracts at 31 December 2020 was £2,218.5m (2019: £2,215.1m) as set out in note 1. Contract assets were £171.8m (2019: £186.8m) as set out in note 15 to the financial statements, and trade receivables were £202.9m (2019: £244.7m) as set out in note 16 to the financial statements.
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How the scope of our audit responded to the key audit matter	Our challenge in relation to this key audit matter focused on: • assessing the relevant controls over revenue recognition, amounts due from construction contract customers and contract debtors and for certain divisions (Construction & Infrastructure, Partnership Housing, and Fit Out); • assessing and challenging a sample of the most significant and more complex contract positions and the accounting thereon under the percentage of completion methodology. The sample selected was based on both quantitative and qualitative factors including low margin or loss-making contracts and contracts with significant balance sheet exposures, as well as significant unagreed income; • observing the detailed project reviews for a sample of contracts to support the estimates and challenging the judgements underlying those reviews with senior operational, commercial and financial management. We focused on the significant judgements adopted by management, we assessed the forecast costs to complete, compensation events, variations within contract revenue and contract costs, and the completeness and validity of loss provisions arising from customer disputes. This assessment included: – agreeing contract valuation positions to third party certificates and signed variations; – where necessary, reviewing insurance correspondence or legal correspondence and expert advice; – reviewing contract terms and conditions; – re-performing the key calculations behind the margin applied, the profit taken and stage of completion, as well as balance sheet exposure; – reviewing correspondence with customers; – reviewing actual costs incurred; – analysing forecast costs to complete and challenging estimates within forecasts by considering cost forecasts against contract run rates; – agreeing forecast costs to complete to documentary evidence including orders signed with subcontractors and supporting calculations; and – evaluating performance against tender and historical trends; • assessing the recoverability of amounts due from construction contract customers and the related receivables by agreeing to external certifications and cash receipts. This was tested for a sample of contracts; • assessing the completeness and validity of allowances recorded based upon the liabilities that may arise from disputes with customers or rectification works required. We did this through interviewing and challenging contract managers, commercial directors and a review of correspondence with customers, solicitors and expert advice; • inspecting physical progress on individual projects and identifying areas of complexity through discussion with site personnel. This was performed remotely; • for the remaining contracts population, performing the following: – recalculating the percentage of completion based on costs to date and recalculating revenue to agree to that reported by management; and – considering management provisions across all contracts; • assessing the impact of the Covid-19 pandemic on individual contracts in relation to programme delivery and supply chain, as well as customers in relation to the recoverability of work in progress; • comparing the final outcome on projects completed in the year to previous estimates to determine the reliability of management estimates; and • assessing the adequacy and completeness of the disclosures in relation to IFRS 15.
Key observations	We are satisfied that the judgements applied by management in assessing recognition of contract revenue, margin and related receivables and liabilities, including recoverability and valuation of work in progress, are appropriate.

Impairment of goodwill in Partnership Housing (similar level of risk)

Key audit matter description	Under IAS 36 Impairment of Assets, goodwill must be tested annually for impairment, which requires a comparison between the carrying amount of the cash generating unit (CGU) and its recoverable amount. Determination of the recoverable amount incorporates judgements based on assumptions about future operating cash flows for the related businesses. This is calculated using certain assumptions around discount rate, growth rates, and cash flow forecasts. In the current year, management have factored in the impact of Covid-19 to their assumptions. Management determined the inputs to the value-in-use model to support the value of goodwill and have performed their own sensitivity analysis. Together with the size of the balance, impairment of goodwill is therefore a key audit matter. We have identified our key audit matter to be specifically in the Partnership Housing CGU, given the headroom is less than the terminal value in perpetuity. Additionally, historically, actual operating profit has been below budgeted operating profit, with the exception of 2019 at which point there was a change in operational strategy. Therefore, the risk identified lies within the budgeted operating cash flows. We did not identify a key audit matter within any of the other CGUs. Management have assessed that no impairment is required. The Audit Committee also considered this as an issue as set out in the Audit Committee Report on page 73. The accounting policies are set out within the significant accounting policies on page 130. The carrying value of goodwill at 31 December 2020 was £217.7m (2019: £217.7m) as set out in note 9 to the financial statements. The goodwill figure is split between Construction & Infrastructure (£151.1m), Partnership Housing (£46.8m), Urban Regeneration (£16.0m) and Investments (£3.8m), which is unchanged from prior year.
How the scope of our audit responded to the key audit matter	We challenged the assumptions used in the impairment model which calculates the recoverable amount of the CGUs (which includes goodwill, intangibles and other allocated assets). Our challenge focused on: • obtaining an understanding of controls used in the preparation of the model; • comparing the cash flows to the latest Board approved budgets; • assessing the appropriateness of the CGUs identified against IAS 36 Impairment of Assets through challenging management; • assessing and challenging the appropriateness of the discount rate used by independently benchmarking the discount rate against the wider peer group; • assessing the appropriateness of cash flow projections relative to previous performance, current order book, and Office for National Statistics guidance on construction growth rate; • challenging management's sensitivity analysis on reasonable reductions in the cash flow projections and discount rates by comparing to available external data; and • testing the mechanical accuracy and integrity of the models, performing our own sensitivity analyses (including modelling Covid-19 scenarios based on productivity during the first national lockdown), and working with our internal valuation specialists to assist in the assessment of the appropriateness of the discount rates. We also assessed the adequacy of the group's disclosures including the need to include sensitivity disclosures.
Key observations	We are satisfied that management's assumptions around future operating cash flows and the inputs to the model were appropriate. We concur with management's assessment that there is no impairment of goodwill required.

Our application of materiality

Materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Parent company financial statements
Materiality	£3.8m (2019: £4.1m)	£2.8m (2019: £2.9m)
Basis for determining materiality	0.13% of current year revenue (2019: 5% of profit before tax)	3.0% of net assets, capped below group materiality (2019: 2.5% of net assets, capped below group materiality)
Rationale for the benchmark applied	We have changed our basis for materiality for the current year, moving from a profit before tax measure to a revenue measure by taking into account the previous two years and the current year forecasted revenue. Despite the fall in profit before tax, we note that the overall size of the business, demonstrated by revenue, has remained broadly consistent with the prior year therefore the change in basis for materiality was deemed appropriate. Revenue is deemed an important benchmark for users to determine growth and performance of the group. We note that we have reassessed group materiality at year end as £4.0m but have capped materiality at the lower £3.8m, as determined during our planning stage.	As the parent company is a non-trading entity and a cost centre, it is considered appropriate to use net assets as the basis for determining materiality.

Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole.

	Group financial statements	Parent company financial statements
Performance materiality	70% (2019: 70%) of group materiality	70% (2019: 70%) of parent company materiality
Basis and rationale for determining performance materiality	In determining performance materiality, we have considered the following factors: • there have been no changes to the business in their operation or financial reporting process; • the group has a history of correcting identified misstatements and the remaining uncorrected misstatements are historically below performance materiality; and • the quality of the control environment, hence the decreased likelihood of significant misstatements occurring.	

Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £0.19m (2019: £0.21m), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

Identification and scoping of components

Our group audit was scoped by obtaining an understanding of the group and its environment, including group-wide controls, and assessing the risks of material misstatement at the group level.

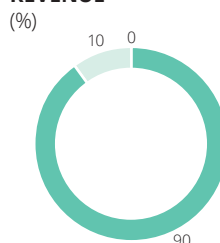
Based on this assessment, our group audit scope focused primarily on the audit work at the significant components, which were selected based on our assessment of the identified risks of material misstatement identified above. These represent the principal business units within the group's reportable segments. We have performed full audit procedures for the significant components, which account for 90% (2019: 89%) of the group's revenue, 99% (2019: 86%) of the group's profit before tax and 96% (2019: 94%) of the group's net assets. We performed full audit procedures on Construction & Infrastructure, Urban Regeneration, Partnership Housing and Fit Out.

Our audit work on the remaining components was determined based on our assessment of the risks of material misstatement and of the materiality of the group's operations in those components. The components which had individually material balances were subject to an audit of specific account balances. This included Baker Hicks, Baker Hicks Europe, Morgan Lovell, Morgan Sindall Later Living, Newman Insurance Company, Lovell Powerminster and Morgan Sindall Property Services. The remaining components were subject to analytical review procedures by the group audit team.

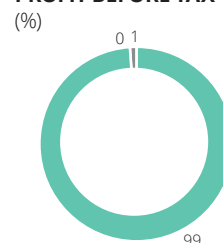
Our audit work on components in addition to the parent entity was executed to lower levels of materiality ranging from £1.5m to £2.7m (40%–70%) of group materiality (2019: £1.6m to £2.7m (40%–65%)). The parent company is located in Central London and audited directly by the group audit team. At the parent entity level, we tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information of the remaining components not subject to audit or audit of specified account balances.

The group audit team held a group-wide planning meeting to discuss the assessment of risks at the start of the audit and subsequently held regular update calls throughout the audit. The Senior Statutory Auditor participated in all of the final close meetings of the group's significant components. The Senior Statutory Auditor or another senior member of the group audit team carried out a review of the component auditor files.

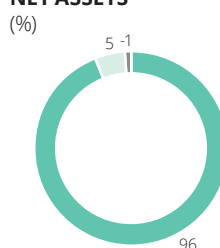
REVENUE



PROFIT BEFORE TAX



NET ASSETS



- Full audit scope
- Specified audit procedures
- Review at group level

Our consideration of the control environment

Our risk assessment procedures include obtaining an understanding of relevant controls to the audit.

Consistent with previous years, we have obtained an understanding of relevant controls over financial reporting. We also tested controls on the following areas:

- contract revenue and margin recognition;
- recoverability and valuation of contract work in progress; and
- impairment of goodwill.

This covered some of the key accounting and reporting tools that are used by management and the interface between various systems.

We have also performed testing in relation to the automated controls surrounding the consolidation process.

Working with other auditors

Throughout the audit, we ensured that we held frequent discussions with our component teams. In September 2020, we held a group-wide planning meeting, in which we set out the materiality and scoping for component teams, as well as considering significant risks across the group. We also held planning meetings with each of our specialists, involving our component teams where relevant.

During our interim and year-end audit, we held regular catch-up meetings with components to monitor progress and highlight any issues arising. The group team has also attended the component team close meetings for interim and final.

The Senior Statutory Auditor is also the audit partner for the Construction & Infrastructure, Fit Out and Investments divisions. For the other component teams, a senior member of the group audit team has reviewed the component file. Also, the group team performed work on key areas of testing including goodwill, tax and consolidation testing.

We note that all component auditors were from Deloitte LLP. Our oversight of component auditors focused on the planning of their audit work and key judgements made. In particular, our supervision and direction focused on the work performed in relation to key audit matters by component teams including contract revenue, margin and related receivables and liabilities and impairment of goodwill in Partnership Housing.

As part of our monitoring of component auditors, we have also attended key audit close meetings.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, 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's and the 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.

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

Extent to which 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 material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the group's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
- results of our enquiries of management, internal audit and the Audit Committee about their own identification and assessment of the risks of irregularities;
- any matters we identified having obtained and reviewed the group's documentation of their policies and procedures relating to:
 - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
 - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud; and
 - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations; and
- the matters discussed among the audit engagement team including significant component audit teams and relevant internal specialists, including tax, valuations, pensions, and IT specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the following areas: recognition of contract revenue, margin and related receivables and liabilities, including recoverability and valuation of work in progress and impairment of goodwill in Partnership Housing. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory framework that the group operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the UK Companies Act, Listing Rules, pensions and tax legislation.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the group's ability to operate or to avoid a material penalty. Those that are fundamental to the operations of the group included the Bribery Act, employee laws, carbon reduction regulations, and health, safety and environment matters.

Audit response to risks identified

As a result of performing the above, we identified recognition of contract revenue, margin and related receivables and liabilities, including recoverability and valuation of work in progress and impairment of goodwill in Partnership Housing as key audit matters related to the potential risk of fraud. The key audit matters section of our report explains the matters in more detail and also describes the specific procedures we performed in response to those key audit matters.

In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of management, the Audit Committee and in-house legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with HMRC; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists and component audit teams, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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.

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

Corporate governance statement

The Listing Rules require us to review the directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the group's compliance with the provisions of the UK Corporate Governance Code specified for our review.

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 and our knowledge obtained during the audit:

- the directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified, set out on page 37;
- the directors' explanation as to its assessment of the group's prospects, the period this assessment covers and why the period is appropriate, set out on page 48;
- the directors' statement on fair, balanced and understandable, set out on page 81;
- the board's confirmation that it has carried out a robust assessment of the emerging and principal risks, set out on page 48;
- the section of the annual report that describes the review of effectiveness of risk management and internal control systems, set out on pages 75 and 76; and
- the section describing the work of the Audit Committee, set out on pages 71 to 76.

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records

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

- we have not received all the information and explanations we require for our audit; or
- 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 are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Directors' remuneration

Under the Companies Act 2006, we are also required to report if, in our opinion, certain disclosures of directors' remuneration have not been made or the part of the directors' remuneration report to be audited is not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Other matters

Auditor tenure

Following the recommendation of the Audit Committee, we were appointed by the shareholders at the Annual General Meeting on 7 May 2020 to audit the financial statements for the year ending 31 December 2020. The period of total uninterrupted engagement, including previous renewals and reappointments of the firm, is 27 years, covering the years ending 31 December 1994 to 31 December 2020. We note that this is the final year that we are auditing the financial statements of the group.

Consistency of the audit report with the additional report to the Audit Committee

Our audit opinion is consistent with the additional report to the Audit Committee we are required to provide in accordance with ISAs (UK).

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.

Makhan Chahal ACA (Senior Statutory Auditor)

Deloitte LLP
Statutory Auditor
London, UK
25 February 2021

Consolidated income statement

for the year ended 31 December 2020

	Notes	2020 £m	2019 £m
Revenue	1	3,034.0	3,071.3
Cost of sales		(2,718.2)	(2,739.9)
Gross profit		315.8	331.4
Administrative expenses		(252.3)	(249.2)
Share of net profit of joint ventures	12	2.3	6.5
Other gains and losses	3	2.7	4.4
Operating profit before amortisation of intangible assets		68.5	93.1
Amortisation of intangible assets	9	(3.1)	(1.8)
Operating profit		65.4	91.3
Finance income	5	0.9	1.7
Finance expense	5	(5.5)	(4.4)
Profit before tax		60.8	88.6
Tax	6	(15.4)	(17.4)
Profit for the year	3	45.4	71.2
Attributable to:			
Owners of the Company		45.4	71.2
Earnings per share			
Basic	8	99.8p	157.9p
Diluted	8	98.1p	153.1p

There were no discontinued operations in either the current or comparative years.

Consolidated statement of comprehensive income

for the year ended 31 December 2020

	2020 £m	2019 £m
Profit for the year	45.4	71.2
Items that may be reclassified subsequently to profit or loss:		
Foreign exchange movement on translation of overseas operations	(0.2)	(0.2)
Gains arising during the year on net investment hedges	0.2	–
	–	(0.2)
Other comprehensive income/(expense)	–	(0.2)
Total comprehensive income	45.4	71.0
Attributable to:		
Owners of the Company	45.4	71.0

Consolidated statement of financial position

at 31 December 2020

	Notes	2020 £m	2019 £m	1 January 2019 £m
Assets				
Goodwill and other intangible assets	9	222.1	223.6	216.4
Property, plant and equipment	10	65.8	79.5	62.6
Investment property	11	2.7	5.1	5.7
Investments in joint ventures	12	91.4	84.3	81.5
Other investments		–	1.3	1.3
Shared equity loan receivables	13	5.5	8.4	13.0
Non-current assets		387.5	402.2	380.5
Inventories	14	294.2	338.1	334.2
Contract assets	15	171.8	186.8	192.0
Trade and other receivables	16	234.6	275.7	233.2
Cash and cash equivalents ¹	25	400.5	251.2	268.3
Current assets		1,101.1	1,051.8	1,027.7
Total assets		1,488.6	1,454.0	1,408.2
Liabilities				
Contract liabilities	15	(55.6)	(56.2)	(98.3)
Trade and other payables	17	(838.0)	(832.4)	(797.8)
Current tax liabilities		(1.0)	(9.6)	(5.8)
Lease liabilities	20	(12.1)	(12.8)	(11.2)
Borrowings ¹	25	(67.3)	(58.5)	(61.3)
Provisions	19	(4.9)	(7.1)	–
Current liabilities		(978.9)	(976.6)	(974.4)
Net current assets		122.2	75.2	53.3
Trade and other payables	17	(1.7)	(3.8)	(15.6)
Lease liabilities	20	(38.9)	(46.9)	(35.7)
Borrowings	25	(0.4)	–	–
Retirement benefit obligation	18	(0.2)	–	–
Deferred tax liabilities	6	(12.5)	(8.1)	(12.0)
Provisions	19	(26.0)	(21.8)	(23.9)
Non-current liabilities		(79.7)	(80.6)	(87.2)
Total liabilities		(1,058.6)	(1,057.2)	(1,061.6)
Net assets		430.0	396.8	346.6
Equity				
Share capital	22	2.3	2.3	2.3
Share premium account		45.5	38.5	38.3
Other reserves		(0.8)	(0.8)	(0.6)
Retained earnings		383.0	356.8	306.6
Equity attributable to owners of the Company		430.0	396.8	346.6
Total equity		430.0	396.8	346.6

¹ The prior year balances for cash and cash equivalents and bank overdrafts have been re-presented in accordance with IAS 32 (see the Basis of Preparation for details). There is no impact on the net assets of the Group or net cash and cash equivalents.

The consolidated financial statements of Morgan Sindall Group plc (Company number: 00521970) were approved by the Board on 25 February 2021 and signed on its behalf by:

John Morgan
Chief Executive

Steve Crummett
Finance Director

Consolidated cash flow statement

for the year ended 31 December 2020

	Notes	2020 £m	2019 £m
Operating activities			
Operating profit		65.4	91.3
Adjusted for:			
Amortisation of intangible assets	9	3.1	1.8
Share of net profit of equity accounted joint ventures	12	(2.3)	(6.5)
Depreciation	10	22.0	21.3
Share option (credit)/expense	23	(0.1)	5.9
Gain on disposal of interests in joint ventures	3	(2.7)	(4.4)
Gain on disposal of property, plant and equipment		(1.0)	(0.2)
Revaluation of investment properties	11	0.6	0.4
Movement in fair value of shared equity loan receivables	13	0.5	0.4
Impairment of investments	3	3.3	–
Proceeds on disposal of investment properties	11	1.8	–
Repayment of shared equity loan receivables	13	2.4	4.2
Increase in provisions	19	2.0	5.0
Proceeds on disposal of service contracts in joint ventures		–	4.4
Operating cash inflow before movements in working capital		95.0	123.6
Decrease/(increase) in inventories		43.9	(3.9)
Decrease in contract assets		15.0	5.2
Decrease/(increase) in receivables		41.6	(42.9)
Decrease in contract liabilities		(0.6)	(42.1)
Increase in payables		2.7	21.8
Movements in working capital		102.6	(61.9)
Cash inflow from operations		197.6	61.7
Income taxes paid		(19.9)	(12.8)
Net cash inflow from operating activities		177.7	48.9
Investing activities			
Interest received		1.2	1.6
Dividend from joint ventures	12	–	2.9
Proceeds on disposal of property, plant and equipment		1.4	0.3
Purchases of property, plant and equipment	10	(4.2)	(12.6)
Purchases of intangible fixed assets	9	(1.6)	(2.7)
Net increase in loans to joint ventures	12	(12.9)	(3.3)
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)	(1.6)
Net cash outflow from investing activities		(7.4)	(15.4)
Financing activities			
Interest paid		(3.8)	(1.3)
Dividends paid	7	(9.6)	(24.8)
Repayments of lease liabilities	20	(15.1)	(15.1)
Proceeds from borrowings	25	180.4	–
Repayment of borrowings	25	(180.0)	(10.2)
Proceeds on issue of share capital	22	7.0	0.2
Payments by the Trust to acquire shares in the Company		(9.6)	(9.1)
Proceeds on exercise of share options		0.9	2.3
Net cash outflow from financing activities		(29.8)	(58.0)
Net increase/(decrease) in cash and cash equivalents		140.5	(24.5)
Cash and cash equivalents at the beginning of the year		192.7	217.2
Cash and cash equivalents at the end of the year	25	333.2	192.7

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 2020

	Notes	Share capital £m	Share premium account £m	Other reserves £m	Retained earnings £m	Total equity £m
1 January 2019		2.3	38.3	(0.6)	306.6	346.6
Profit for the year		–	–	–	71.2	71.2
Other comprehensive expense		–	–	(0.2)	–	(0.2)
Total comprehensive income		–	–	(0.2)	71.2	71.0
Share option expense	23	–	–	–	5.9	5.9
Tax relating to share options	6	–	–	–	4.7	4.7
Issue of shares at a premium	22	–	0.2	–	–	0.2
Purchase of shares in the Company by the Trust		–	–	–	(9.1)	(9.1)
Exercise of share options		–	–	–	2.3	2.3
Dividends paid	7	–	–	–	(24.8)	(24.8)
1 January 2020		2.3	38.5	(0.8)	356.8	396.8
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)
31 December 2020		2.3	45.5	(0.8)	383.0	430.0

Other reserves

Other reserves include:

- Capital redemption reserve of £0.6m (2019: £0.6m) which was created on the redemption of preference shares in 2003.
- Hedging reserve of (£0.6m) (2019: (£0.8m)) arising under hedge accounting. 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) (2019: (£0.6m)) 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 2020 was 278,383 (2019: 351,961) with a cost of £5.3m (2019: £2.2m). 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 2020 of £15.32 (2019: £16.20), the market value of the shares was £4.3m (2019: £5.7m).

Significant accounting policies

for the year ended 31 December 2020

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 from the inside front cover to page 48.

Basis of preparation

(a) Statement of compliance

The consolidated financial statements have been prepared on the going concern basis as set out in the finance review on page 37 and in accordance with IFRS adopted by the European Union and, therefore, comply with Article 4 of the EU IAS Regulation.

(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 for the foreseeable future.

As at 31 December 2020, the Group held cash of £400.5m and total loans and borrowings of £67.7m, including £67.3m of overdrafts repayable on demand (together net cash of £333m). Should further funding be required, the Group has significant committed financial resources available, including unutilised bank facilities of £180m, of which £30m matures in March 2022 and £150m matures in October 2023. The Group's secured order book at 31 December 2020 is £8.3bn (2019: £7.6bn), of which £2.3bn relates to the 12 months ended 31 December 2021.

The Group has continued to operate safely during the Covid-19 pandemic under the site operating procedures agreed by the Construction Leadership Council and following the advice from 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 2020 while under these restrictions and, while there continues to be uncertainty over the remaining period of restrictions due to the pandemic, the Group expects the business to remain resilient while it continues to operate under these guidelines for the foreseeable future until the end of the pandemic.

The directors have reviewed the Group's forecasts and projections for 2021, including sensitivity analysis to assess the Group's resilience to more adverse outcomes, which has been carried out to model the potential financial impact on the Group of any further impacts of the pandemic or other plausible losses of revenue or operating profit which could arise from one of the principal risks to the business (discussed on pages 38 to 47), including 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 over the next 12 months and there is considerable headroom in lending facilities and covenants which underpins the going concern assumption on which these financial statements have been prepared. As part of their analysis the Board also considered further mitigating actions at their discretion 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 foreseeable future, being at least 12 months from the date of signing of these financial statements. For this reason, they continue to adopt the going concern basis in the preparation of these financial statements.

(d) Functional and presentation currency

These consolidated financial statements are presented in pounds sterling which is the Group's presentational currency. All financial information, unless otherwise stated, has been rounded to the nearest £0.1m.

(e) IAS 32 'Financial Instruments: Presentation'

The Group's bank overdrafts and certain cash balances are subject to cash pooling arrangements where both the Group and the bank have rights to offset credit balances within the cash pool against overdrafts within the cash pool. In accordance with IAS 32: 'Financial Instruments: Presentation', cash balances are presented gross within cash and cash equivalents and bank overdrafts are presented gross within current loans and other borrowings. Within the period, it was determined that the Group's cash and overdrafts within cash pooling arrangements did not meet the requirements for offsetting in accordance with IAS 32: 'Financial Instruments: Presentation' and should not have been presented net in cash and cash equivalents in the balance sheet in prior periods. For presentational purposes, the balances have been re-presented as at 31 December 2019 and 1 January 2019. The impact of this change is to increase both cash and cash equivalents and bank overdrafts within current loans and other borrowings as at 31 December 2019 by £58.5m and as at 1 January 2019 by £51.1m in the Group's balance sheet. This has had no impact on net assets or net cash and cash equivalents.

(f) Adoption of new and revised standards**(i) New and revised accounting standards adopted by the Group**

During the year, the Group has adopted the following new and revised standards and interpretations. Their adoption has not had any significant impact on the accounts or disclosures in these financial statements.

- Definition of a Business Combination – Amendments to IFRS 3 'Business Combinations'
- Interest Rate Benchmark Reform – Amendments to IFRS 9 'Financial Instruments', IAS 39 'Financial Instruments – recognition and measurement' and IFRS 7 'Financial Instruments: Disclosures'
- Definition of Material – Amendments to IAS 1 'Presentation of Financial Statements' and IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors'
- Amendments to References to the Conceptual Framework in IFRS Standards

(ii) New and revised 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 Company has not applied the following new and revised IFRSs that have been issued but are not yet effective:

- IFRS 17 'Insurance Contracts'
- IFRS 10 and IAS 28 (amendments) 'Sale or Contribution of Assets between an Investor and its Associate or Joint Venture'
- Amendments to IAS 1 'Classification of Liabilities as Current or Non-current'
- Amendments to IFRS 3 'Reference to the Conceptual Framework'
- Amendments to IAS 16 'Property, Plant and Equipment – Proceeds before Intended Use'
- Amendments to IAS 37 'Onerous Contracts – Cost of Fulfilling as Contract'
- Amendments to IFRS 16 'Covid-19 Related Rent Concessions'

The Group is currently assessing the impact of the standards but does 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.

(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 an interest 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 balance sheet.

(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.

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.

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.

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.

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

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

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

(d) 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.

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.

(e) 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 balance sheet 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.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the corresponding tax bases used in tax computations. Deferred tax is not recognised for the initial recognition of assets or liabilities in a transaction that is not a business combination and affects neither accounting nor taxable 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 balance sheet date to pay more tax, or a right to pay less tax, at a future date, at the tax rates expected to apply when they reverse, based on the laws that have been enacted or substantively enacted at the reporting date. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted and are only offset where 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.

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 so as to write off the cost of the assets 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 balance sheet 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.

Fixed asset investments

Investments held as fixed assets are stated at cost less provision for any impairment in value. Investments are reviewed for impairment at the earlier of the Company's reporting date or where an indicator of impairment is identified.

Shared equity loan receivables

The Group has granted loans under shared equity home ownership schemes allowing qualifying home buyers to defer payment of part of the agreed sales price, up to a maximum of 25%, until the earlier of the loan term (10 or 25 years depending upon the scheme), remortgage or resale of the property. On occurrence of one of these events, the 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 is designated as at fair value through profit or loss 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.

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 when there is objective evidence that the asset is impaired.

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 balance sheet 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 balance sheet 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.

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 on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest. At each balance sheet 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.

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 balance sheet 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 are 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 2020

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 in applying the Group's accounting policies

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

- **Revenue recognition**

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 or upon legal completion. 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.

Key sources of estimation uncertainty

The Group does not have any key assumptions concerning the future, or other key sources of estimation uncertainty in the reporting period that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Notwithstanding this, as a significant portion of the Group's activities are undertaken through long-term construction contracts, the Group is required to make estimates in accounting for revenue and margin. These estimates may depend upon the outcome of future events and may need to be revised as circumstances change. Further detail is provided in the accounting policies on pages 127 and 128.

Notes to the consolidated financial statements

1 Revenue

An analysis of the Group's revenue is as follows:

	2020 £m	2019 £m
Construction contracts	2,218.5	2,215.1
Other services	217.1	217.6
Construction activities revenue	2,435.6	2,432.7
Regeneration activities revenue	598.4	638.6
Total revenue	3,034.0	3,071.3

Construction activities revenue is generated from Construction & Infrastructure, Fit Out and Property Services segments. Regeneration activities revenue is generated from Partnership Housing, Urban Regeneration and Investments segments.

	2020 £m	2019 £m
Construction	670.3	618.9
Infrastructure and design	966.5	867.5
Construction & Infrastructure	1,636.8	1,486.4
Traditional fit out	600.6	680.7
Design and build	99.5	158.0
Fit Out	700.1	838.7
Property Services	111.7	115.3
Contracting	163.4	243.7
Mixed tenure	278.0	269.2
Partnership Housing	441.4	512.9
Urban Regeneration	122.8	118.8
Investments	34.2	8.0
Inter-segment revenue	(13.0)	(8.8)
Total revenue	3,034.0	3,071.3

Finance income of £0.9m (2019: £1.7m) is excluded from the table above.

2 Business segments

For management purposes, the Group is organised into six operating divisions: Construction & Infrastructure, Fit Out, Property Services, Partnership Housing, Urban Regeneration and Investments. The divisions' activities are as follows:

- **Construction & Infrastructure:** Morgan Sindall Construction & Infrastructure Ltd provides infrastructure services in the highways, rail, aviation, energy, water and nuclear markets, including tunnel design; and construction services in education, healthcare, commercial, defence, industrial, leisure and retail. Baker Hicks Limited offers a multidisciplinary design and engineering consultancy based in the UK and Switzerland.
- **Fit Out:** Overbury plc specialises in fit out and refurbishment in commercial, central and local government offices, retail banking and further education. Morgan Lovell plc provides office interior design and build services direct to occupiers.
- **Property Services:** Morgan Sindall Property Services Limited provides response and planned maintenance for social housing and the wider public sector.

2 Business segments continued

- Partnership Housing: Lovell Partnerships Limited delivers housing through mixed-tenure and contracting activities. Mixed tenure includes building and developing homes for open market sale, affordable rent, private renting or shared ownership in partnership with local authorities and housing associations. Contracting includes the design and build of new homes and planned maintenance and refurbishment for clients who are mainly local authorities, housing associations and the Defence Infrastructure Organisation.
- Urban Regeneration: Muse Developments Limited works with landowners and public sector partners to transform the urban landscape through the development of multi-phase sites and mixed-use regeneration, including residential, commercial, retail and leisure.
- Investments: Morgan Sindall Investments Limited provides the Group with construction and regeneration opportunities through long-term strategic partnerships to develop under-utilised public land across multiple sites, and generates development profits from such partnerships. As from 1 January 2021, the activities of the Investments division were reorganised with it no longer operating as a separate division from that date. The operational management of the joint venture property partnerships and Later Living business formerly reported within Investments were transferred to Partnership Housing and Urban 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.

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 also 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 £3.1m (2019: £1.8m). 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 £3.1m (2019: £1.8m). Adjusted basic earnings per share and adjusted diluted earnings per share is the statutory measure excluding the post-tax impact of intangible amortisation of £2.5m (2019: £1.5m) and the deferred tax charge arising due to changes in UK corporation tax rates of £1.5m (2019: £nil). See note 8 for a detailed reconciliation of the adjusted EPS 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 cash flow'	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 (£197.6m) plus dividend from joint ventures (£nil), interest received from joint ventures (£0.6m, reported within £1.2m interest received) and proceeds from the disposal of property, plant and equipment (£1.4m), less repayments of lease liabilities (£15.1m), purchase of property, plant and equipment (£4.2m), and purchase of intangible assets (£1.6m). 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:

	Construction & Infrastructure £m	Fit Out £m	Property Services £m	Partnership Housing £m	Urban Regeneration £m	Investments £m	Group activities £m	Eliminations £m	Total £m
2020									
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
Other information:									
Average number of employees	4,084	823	759	850	77	49	95		6,737
2019									
External revenue	1,480.3	837.1	115.3	511.8	118.8	8.0	–	–	3,071.3
Inter-segment revenue	6.1	1.6	–	1.1	–	–	–	(8.8)	–
Total revenue	1,486.4	838.7	115.3	512.9	118.8	8.0	–	(8.8)	3,071.3
Operating profit/(loss) before amortisation of intangible assets	32.3	36.9	4.3	18.3	19.4	(2.4)	(15.7)	–	93.1
Amortisation of intangible assets	–	–	(1.2)	–	–	(0.6)	–	–	(1.8)
Operating profit/(loss)	32.3	36.9	3.1	18.3	19.4	(3.0)	(15.7)	–	91.3
Other information:									
Average number of employees	4,021	820	772	934	76	49	89		6,761

3 Profit for the year

Profit before tax for the year is stated after charging/(crediting):

	2020 £m	2019 £m
Gain on disposal of interests in joint ventures	(2.7)	–
Gain on disposal of service contracts in joint ventures	–	(4.4)
Depreciation charge:		
Plant, equipment, fixtures and fittings	7.9	7.4
Right-of-use assets	14.1	13.9
Government grants received	(4.0)	–
Amortisation of intangible assets	3.1	1.8
Impairment of investments	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.

In 2019, the Group disposed of a number of long-term contracts to provide management services to projects that were developed by Investments' hub West Scotland joint venture. The gain on disposal was £4.4m.

The disposals in the current and prior years are in line with the Group's strategy of realising investments as they mature, in order to redeploy capital into new projects.

During 2020, the Group also recognised £3.3m of impairments in investments. This comprises the £2.0m impairment of an interest in joint venture in the Partnership Housing division and a £0.5m impairment of an interest in joint venture in the Investments division (note 12), and also an impairment of £0.8m related to 'other investments'.

Auditor's remuneration

	2020 £m	2019 £m
Audit of the Company's annual report	0.3	0.3
Audit of the Company's subsidiaries and joint ventures	1.1	1.0
Total audit fees	1.4	1.3
Total non-audit fees	–	–
Total audit and non-audit fees	1.4	1.3

Non-audit fees totalled £6,500 for the year ended 31 December 2020 (2019: £6,200). The current year non-audit fees relate to agreed-upon procedures in relation to the half-year results announcement.

4 Staff costs

	2020 £m	2019 £m
Wages and salaries	440.6	432.9
Social security costs	50.8	50.0
Other pension costs (note 18)	17.5	16.2
	508.9	499.1

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 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) have been recognised within staff costs during the year. Although £1.8m corporation tax was paid upon the furlough claim receipt, the £7.7m repayment is not tax deductible.

5 Finance income and expense

	Notes	2020 £m	2019 £m
Interest receivable from joint ventures		0.6	1.0
Other interest income		0.3	0.7
Finance income		0.9	1.7
Interest expense on bank overdrafts and borrowings		(1.3)	(0.1)
Interest expense on lease liabilities	20	(1.7)	(1.7)
Loan arrangement and commitment fees		(1.7)	(1.6)
Other interest expense		(0.8)	(1.0)
Finance expense		(5.5)	(4.4)
Net finance expense		(4.6)	(2.7)

Included within other interest expense is £0.7m discount unwind on deferred land payments (2019: £1.0m).

6 Tax

Tax expense for the year

	2020 £m	2019 £m
Current tax:		
Current year	10.9	17.0
Adjustment in respect of prior years	0.9	(0.4)
	11.8	16.6
Deferred tax:		
Current year	2.8	0.9
Effect of change in tax rate used to calculate deferred tax balances	1.5	–
Adjustment in respect of prior years	(0.7)	(0.1)
	3.6	0.8
Tax expense for the year	15.4	17.4

UK corporation tax is calculated at 19.00% (2019: 19.00%) of the estimated taxable profit for the year.

6 Tax continued

The table below reconciles the tax charge for the year to tax at the UK statutory rate:

	2020 £m	2019 £m
Profit before tax	60.8	88.6
Less: post tax share of profits from joint ventures	(2.3)	(6.5)
	58.5	82.1
UK corporation tax rate	19.00%	19.00%
Income tax expense at UK corporation tax rate	11.1	15.6
Tax effect of:		
Gain on disposal of joint ventures not giving rise to a tax liability	(0.5)	–
Non-taxable income and expenses (including CJRS furlough repayment) ¹	2.7	0.7
Tax liability upon joint venture profits ²	0.6	1.3
Adjustments in respect of prior years	0.2	(0.5)
Change in tax rate used to calculate deferred tax balances	1.5	–
Other	(0.2)	0.3
Tax expense for the year	15.4	17.4

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 is 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.

Deferred tax liabilities

	Asset amortisation and depreciation £m	Short-term timing differences and tax losses £m	Share-based payments £m	Total £m
1 January 2019	(14.5)	0.2	2.3	(12.0)
Charge/(credit) to income statement	(0.3)	1.6	(2.1)	(0.8)
Credit to equity	–	–	4.7	4.7
Effect of change in tax rate:				
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
31 December 2020	(16.4)	1.5	2.4	(12.5)

Certain deferred tax assets and liabilities, as shown above, have been offset as the Group has a legally enforceable right to do so.

At 31 December 2020, the Group had unused tax losses of £4.6m (2019: £3.0m) 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. In 2019, a deferred tax asset was recognised in respect of £0.5m of tax losses; these £0.5m losses were utilised during 2020.

In the Spring Budget 2020, the UK government announced that from 1 April 2020 the UK corporation tax rate would remain at 19% (rather than reducing to 17%, as previously enacted). Deferred taxes at the balance sheet date are measured using the enacted rates that are expected to apply to the unwind of each asset or liability. Accordingly deferred tax balances as at 31 December 2019 were calculated at 17%, and deferred tax balances as at 31 December 2020 have been calculated at 19%. This change in deferred tax calculation rate has resulted in an increased tax charge for the year.

7 Dividends

Amounts recognised as distributions to equity holders in the year:

	2020 £m	2019 £m
Final dividend for the year ended 31 December 2018 of 34.0p per share	–	15.3
Interim dividend for the year ended 31 December 2020 of 21.0p per share	9.6	–
Interim dividend for the year ended 31 December 2019 of 21.0p per share	–	9.5
	9.6	24.8

The proposed final dividend for the year ended 31 December 2020 of 40.0p per share is subject to approval by shareholders at the AGM and has not been included as a liability in these financial statements.

8 Earnings per share

	2020 £m	2019 £m
Profit attributable to the owners of the Company	45.4	71.2
Adjustments:		
Amortisation of intangible assets net of tax	2.5	1.5
Deferred tax charge arising due to change in UK corporation tax rates	1.5	–
Adjusted earnings	49.4	72.7

	2020 Number of shares (millions)	2019 Number of shares (millions)
Basic weighted average number of ordinary shares	45.5	45.1
Dilutive effect of share options and conditional shares not vested	0.8	1.4
Diluted weighted average number of ordinary shares	46.3	46.5
Basic earnings per share	99.8p	157.9p
Diluted earnings per share	98.1p	153.1p
Adjusted earnings per share	108.6p	161.2p
Diluted adjusted earnings per share	106.7p	156.3p

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 weighted average share price for the year was £13.60 (2019: £12.51).

A total of 1,724,145 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 2020 (2019: 3,189,945).

9 Goodwill and other intangible assets

	Goodwill £m	Other intangible assets £m	Total £m
Cost			
1 January 2019	213.9	34.0	247.9
Additions	3.8	5.2	9.0
1 January 2020	217.7	39.2	256.9
Additions	–	1.6	1.6
31 December 2020	217.7	40.8	258.5
Accumulated amortisation			
1 January 2019	–	(31.5)	(31.5)
Amortisation	–	(1.8)	(1.8)
1 January 2020	–	(33.3)	(33.3)
Amortisation	–	(3.1)	(3.1)
31 December 2020	–	(36.4)	(36.4)
Net book value at 31 December 2020	217.7	4.4	222.1
Net book value at 31 December 2019	217.7	5.9	223.6

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 (2019: £151.1m), Partnership Housing £46.8m (2019: £46.8m), Urban Regeneration £16.0m (2019: £16.0m) and Investments £3.8m (2019: £3.8m).

Other intangible assets relate to internally generated software in Property Services £4.4m (2019: £4.0m) and secured customer contracts from an acquisition in Investments of £nil (2019: £1.9m).

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% (2019: 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 10.4% (2019: 11.1%) for Construction & Infrastructure, 10.4% (2019: 11.6%) for Partnership Housing, 10.3% (2019: 12.1%) for Urban Regeneration and 10.4% (2019: 12.1%) for Investments.

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.

10 Property, plant and equipment

	Freehold property and land £m	Plant, equipment, fixtures & fittings £m	Right-of-use assets		Total £m
			Leasehold property £m	Plant and equipment £m	
Cost					
1 January 2019	2.4	52.7	39.5	16.8	111.4
Additions	–	12.6	24.0	3.6	40.2
Disposals	–	(8.0)	(3.6)	(1.3)	(12.9)
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)
31 December 2020	2.4	50.3	55.4	21.6	129.7
Accumulated depreciation					
1 January 2019	–	(38.0)	(6.0)	(4.8)	(48.8)
Depreciation charge	–	(7.4)	(8.4)	(5.5)	(21.3)
Disposals	–	7.9	1.7	1.3	10.9
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
31 December 2020	–	(35.3)	(17.8)	(10.8)	(63.9)
Net book value at 31 December 2020	2.4	15.0	37.6	10.8	65.8
Net book value at 31 December 2019	2.4	19.8	47.2	10.1	79.5

11 Investment property

	2020 £m	2019 £m
Valuation		
1 January	5.1	5.7
Disposals	(1.8)	(0.2)
Revaluation	(0.6)	(0.4)
31 December	2.7	5.1

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 2020 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 (subsidiary of Walsall Housing Group Limited) and is a company formed to develop regeneration projects of a primarily residential nature.

Brentwood Development Partnership LLP 50% share

Brentwood Development Partnership LLP is a partnership with 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, the Group has the following interests:

- A 25% interest in The Oxleas Property Partnership LLP (TOPP), a joint venture with Arcadis BAC Limited and 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.
- A 25% interest in SDH Innovations Partnership LLP, a joint venture with Arcadis (BAC) Limited and Torbay and South Devon NHS Foundation Trust.

Joint control of both joint ventures is exercised through the board of directors who are appointed in proportion to the holdings of each class of ordinary shares.

hub West Scotland Limited 54% share

hub West Scotland Limited is a joint venture between **Wellspring Partnership Limited** (itself a joint venture of Morgan Sindall Investments Limited with Apollo (Hub West) Limited), Scottish Futures Trust Investments Limited, East Dunbartonshire Council, East Renfrewshire Council, West Dunbartonshire Council, Glasgow City Council, 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. Joint control is exercised by relevant activities being reserved matters that require agreement by all shareholders.

12 Investments in joint ventures continued

Lingley Mere Business Park Development Company Limited 50% share

Lingley Mere Business Park Development Company Limited is a joint venture with United Utilities delivering development at a site in Warrington.

Lovell Flagship LLP 50% partner

Anthem Lovell LLP is a joint venture with Flagship Housing Developments Limited (a subsidiary of Flagship Housing Group Limited) and is a company formed to develop 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 Association Limited) and is a company formed to develop regeneration projects of a primarily residential nature.

Lovell Together LLP 50% partner

Lovell Together LLP is a joint venture with Together Commercial Limited (part of the Together Housing Group) and is a company formed to develop regeneration projects of a primarily residential nature.

Lovell/Abri Weymouth LLP 50% partner

Lovell/Abri Weymouth LLP is a joint venture with Radian Developments Limited (part of the Abri Housing Group) and is a company formed to develop regeneration projects of a primarily residential nature.

Morgan-Vinci Limited 50% share

Morgan-Vinci Limited is a joint venture with Vinci Newport DBFO Ltd 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 BCP 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.

12 Investments in joint ventures continued

Investments in equity accounted joint ventures are as follows:

	2020 £m	2019 £m
1 January	84.3	81.5
Equity accounted share of net profits	2.3	6.5
Loans advanced to joint ventures	27.0	24.2
Loans repaid by joint ventures	(14.1)	(20.9)
Non-cash impairment	(2.5)	–
Disposal of interest in joint venture	(5.6)	(4.1)
Dividends received	–	(2.9)
31 December	91.4	84.3

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. 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.

In 2019, the Group acquired the remaining 50% share of Lovell Later Living LLP (formerly Morgan Ashley Care Developments LLP) for a consideration of £2.0m of which £0.4m was contingent on achieving future milestones. Contingent consideration of £0.1m was paid in 2020. The £4.1m disposal of joint ventures in 2019 related to the derecognition of Morgan Ashley Care Developments LLP as a joint venture. The fair value of net assets acquired was £1.4m, which included £2.5m of intangible assets in relation to development management service projects. The acquisition created £3.8m of goodwill which represented future development projects within the business pipeline. The disposal of the joint venture and the subsequent acquisition was within the Investments operating segment. Costs in relation to the acquisition were £0.1m and were expensed during 2019. The acquisition contributed £30.4m of revenue in 2020 (2019: £3.6m).

Summarised financial information related to equity accounted joint ventures is set out below:

	2020 £m	2019 £m
Non-current assets (100%)	238.0	63.9
Current assets (100%)	444.1	464.9
Current liabilities (100%)	(187.2)	(145.4)
Non-current liabilities (100%)	(371.3)	(245.3)
Net assets reported by equity accounted joint ventures (100%)	123.6	138.1
Revenue (100%)	256.4	282.4
Expenses (100%)	(249.5)	(262.9)
Net profit (100%)	6.9	19.5

Results of equity accounted joint ventures:

	2020 £m	2019 £m
Group share of profit before tax	2.4	6.9
Group share of tax	(0.1)	(0.4)
Group share of profit after tax	2.3	6.5

13 Shared equity loan receivables

The Group has granted loans under shared equity home ownership schemes allowing qualifying home buyers to defer payment of part of the agreed sales price, up to a maximum of 25%, until the earlier of the loan term (10 or 25 years depending upon the scheme), remortgage or resale of the property.

	2020 £m	2019 £m
1 January	8.4	13.0
Net change in fair value recognised in the income statement	(0.5)	(0.4)
Repayments by borrowers	(2.4)	(4.2)
31 December	5.5	8.4

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. The change in the fair value attributable to a change in the credit risk during the year was £0.4m (2019: £0.4m). There were no defaults during the year (2019: two 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. Details of the key assumptions made in this valuation are as follows:

Assumption	2020	2019
Period over which shared equity loan receivables are discounted:		
First Buy and Home Buy schemes	20 years	20 years
Other schemes	9 years	9 years
Nominal discount rate	5.3%	5.3%
Weighted average nominal annual property price increase	3.0%	2.5%
Forecast default rate	27.0%	11.5%
Number of loans under the shared equity scheme outstanding at the year end	211	276

The fair value measurement for shared equity loan receivables is classified as Level 3 as defined by IFRS 7 'Financial Instruments: Disclosures'.

Sensitivity analysis

At 31 December 2020, if the nominal discount rate had been 100bps higher at 6.3% and all other variables were held constant, the fair value of the shared equity loan receivables would be unchanged.

At 31 December 2020, if the period over which the shared equity loan receivables (excluding those relating to the First Buy and Home Buy schemes) are discounted had been 10 years and all other variables were held constant, the fair value of the shared equity loan receivables would decrease by £0.1m with a corresponding reduction in both the result for the period and equity (excluding the effects of tax).

At 31 December 2020, if the forecast default rate had been 100bps higher at 28% and all other variables were held constant, the fair value of the shared equity loan receivables would decrease by £0.1m with a corresponding reduction in both the result for the period and equity (excluding the effects of tax).

14 Inventories

	2020 £m	2019 £m
Work in progress	294.2	338.1

Work in progress comprises land and housing, commercial and mixed-use developments in the course of construction.

15 Contract assets and liabilities

	2020 £m	2019 £m
Contract assets	171.8	186.8
Contract liabilities	(55.6)	(56.2)

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 2020 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 2020 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:

	2020		2019	
	Contract assets £m	Contract liabilities £m	Contract assets £m	Contract liabilities £m
As at 1 January	186.8	(56.2)	192.0	(98.3)
Revenue recognised:				
– performance obligations satisfied in the current year	2,977.8	56.2	2,973.0	98.3
– adjustments to performance obligations satisfied in previous years	–	–	–	–
Cash received for performance obligations not yet satisfied	–	(55.6)	–	(56.2)
Amounts transferred to trade receivables	(2,992.8)	–	(2,978.8)	–
Changes due to business combinations	–	–	0.6	–
31 December	171.8	(55.6)	186.8	(56.2)

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.

15 Contract assets and liabilities continued

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:

	2021 £m	2022 £m	2023 + £m	Total £m
Construction & Infrastructure	1,051.8	1,480.6	4.4	2,536.8
Fit Out	387.3	22.4	–	409.7
Property Services	112.1	105.7	752.7	970.5
Partnership Housing	466.2	311.8	488.6	1,266.6
Urban Regeneration	238.6	433.9	1,761.6	2,434.1
Investments	42.1	136.7	494.6	673.4
Eliminations	(1.1)	–	–	(1.1)
	2,297.0	2,491.1	3,501.9	8,290.0

16 Trade and other receivables

	Notes	2020 £m	2019 £m
Trade receivables	25	202.9	244.7
Amounts owed by joint ventures		0.9	4.9
Prepayments		11.3	14.1
Other receivables		19.5	12.0
		234.6	275.7

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 (2019: £0.6m).

17 Trade and other payables

	2020 £m	2019 £m
Trade payables	189.2	184.0
Amounts owed to joint ventures	0.2	0.1
Other tax and social security	40.5	37.1
Accrued expenses	577.9	597.8
Deferred income	17.7	1.6
Other payables	12.5	11.8
Current	838.0	832.4
Other payables	1.7	3.8
Non-current	1.7	3.8

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 £0.1m (2019: £0.3m) 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 £17.5m (2019: £16.2m) represents contributions payable to the defined contribution section of the Retirement Plan by the Group.

As at 31 December 2020, contributions of £2.2m (2019: £2.1m) 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 15 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 have been considered due to a court ruling on 20 November 2020 in respect of guaranteed minimum pension (GMP) equalisation for past transfers out. An additional liability of £0.2m has been recognised as a result of this ruling.

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:	2020 %	2019 %
Discount rate	1.2	2.0
Rate of inflation	2.5	2.3
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	87.2	87.0
Average life expectancy for pensioner retiring in 20 years at age 65 years	89.1	88.9

(a) Depending on their date of joining, members receive pension increases of 3.0% or 3.5%.

	2020			2019		
	Assets £m	Liabilities £m	Total £m	Assets £m	Liabilities £m	Total £m
1 January	10.7	(10.7)	–	10.0	(10.0)	–
Finance income/(expense)	0.2	(0.2)	–	0.3	(0.3)	–
Actuarial (loss)/gain	1.1	(1.1)	–	1.0	(1.0)	–
Past service cost including curtailments	–	(0.2)	(0.2)	–	–	–
Benefits paid	0.7	(0.7)	–	(0.6)	0.6	–
31 December	12.7	(12.9)	(0.2)	10.7	(10.7)	–

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 2021.

19 Provisions

	Insurance £m	Other £m	Total £m
1 January 2019	18.4	5.5	23.9
Utilised	(1.1)	(0.3)	(1.4)
Additions	5.2	3.6	8.8
Released	(2.4)	–	(2.4)
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)
31 December 2020	22.8	8.1	30.9
Current	–	4.9	4.9
Non-current	22.8	3.2	26.0
31 December 2020	22.8	8.1	30.9

Insurance provisions comprise the Group's self-insurance of certain risks and include £11.4m (2019: £10.3m) held in the Group's captive insurance company, Newman Insurance Company Limited.

Other provisions include property dilapidations and obligations to former employees other than retirement or post-retirement obligations.

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 2020 is set out below:

	2020			2019		
	Property £m	Plant and equipment £m	Total £m	Property £m	Plant and equipment £m	Total £m
Within one year	7.5	4.6	12.1	7.6	5.2	12.8
Within two to five years	21.2	5.4	26.6	25.2	5.5	30.7
After more than five years	12.3	–	12.3	16.2	–	16.2
31 December	41.0	10.0	51.0	49.0	10.7	59.7

	2020			2019		
	Property £m	Plant and equipment £m	Total £m	Property £m	Plant and equipment £m	Total £m
1 January	49.0	10.7	59.7	34.5	12.4	46.9
Additions	3.4	5.1	8.5	24.0	4.0	28.0
Terminations	(3.8)	–	(3.8)	(1.8)	–	(1.8)
Repayments	(9.0)	(6.1)	(15.1)	(9.1)	(6.0)	(15.1)
Interest expense	1.4	0.3	1.7	1.4	0.3	1.7
31 December	41.0	10.0	51.0	49.0	10.7	59.7

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 2020, contract bonds in issue under uncommitted facilities covered £124.6m (2019: £168.6m) of contract commitments of the Group.

Provision has been made for the Directors' best estimate of known legal claims, investigations and legal actions in progress. The Group takes legal advice as to the likelihood of success of claims and actions and no provision is made where the directors consider, based on that advice, that the action is unlikely to succeed, or that the Group cannot make a sufficiently reliable estimate of the potential obligation.

22 Share capital

	2020		2019	
	Number	£m	Number	£m
Issued and fully paid ordinary shares of 5p each:				
1 January	45,489,985	2.3	45,461,416	2.3
Exercise of share options	863,353	–	28,569	–
31 December	46,353,338	2.3	45,489,985	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.

863,353 shares were issued during 2020 in respect of options exercised under the Group's Savings-Related Share Option Plan for a total consideration of £7.0m (2019: 28,569 shares were issued for a total consideration of £0.2m).

23 Share-based payments

The Group recognised a share option credit of £0.1m (2019: £5.9m share option expense) related to equity-settled share-based payment transactions. The Group has three share option schemes with unvested options or awards at 31 December 2020:

- 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 have been employed by the Group for at least three months at the time of grant. 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 106 to 107.

The Group also has options which are outstanding at 31 December 2020 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.

Details of the share awards and options granted during the year and the valuation methodology are as follows:

	Share awards under 2014 LTIP		Share options under 2014 SOP
	Awards with TSR condition	Awards with EPS condition	
Number of awards or options granted	83,948	167,895	795,146
Weighted average fair value at date of grant (per share)	£14.71	£17.88	£3.21
Weighted average share price at date of grant	£17.88	£17.88	£17.88
Weighted average exercise price	n/a	n/a	£18.57
Valuation model	Monte-Carlo	Black- Scholes	Black- Scholes
Expected term (from date of grant)	2.7 years	2.7 years	6.5 years
Expected volatility	(a) 29.9%	n/a	29.5%
Expected dividend yield	(b) n/a	n/a	3.1%
Risk free rate	0.3%	n/a	0.3%

(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.

23 Share-based payments continued

The following table provides a summary of the options granted under the Company's employee share option schemes during the current and comparative year:

	2020		2019	
	Number of share options	Weighted average exercise price (£)	Number of share options	Weighted average exercise price (£)
Outstanding at 1 January	5,360,455	10.47	4,370,922	9.18
Granted during the year	795,146	18.57	2,339,640	11.43
Lapsed during the year	(346,866)	12.09	(314,649)	10.20
Exercised during the year	(1,327,556)	8.28	(1,035,458)	7.30
Outstanding at 31 December	4,481,179	12.43	5,360,455	10.47
Exercisable at 31 December	820,894	9.26	478,643	7.41
Weighted average remaining contractual life	6.2 years		5.6 years	

The weighted average share price at the date of exercise for share options exercised during the year was £13.49 (2019: £13.39).

The options outstanding at 31 December 2020 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 £50.7m (2019: £43.9m).

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'.

	2020 £m	2019 £m
Short-term employee benefits	7.3	9.5
Post-employment benefits	0.1	0.1
Termination benefits	0.2	0.3
Share option (credit)/expense	(0.4)	3.1
	7.2	13.0

Details of directors' remuneration are set out in the directors' remuneration report on pages 99 to 101.

Directors' transactions

There have been no related party transactions with any director in the year or in the subsequent period to 25 February 2021.

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 25 February 2021.

25 Financial instruments

Net cash

Net cash is defined as cash and cash equivalents less borrowings and non-recourse project financing as shown below:

	2020 £m	2019 re-presented £m
Cash and cash equivalents	400.5	251.2
Bank overdrafts presented as borrowings due within one year	(67.3)	(58.5)
Cash and cash equivalents reported in the consolidated cash flow statement	333.2	192.7
Borrowings due between two and five years	(0.4)	–
Net cash	332.8	192.7

The prior year balances for cash and cash equivalents and bank overdrafts have been re-presented in accordance with IAS 32 (see the basis of preparation for details). There is no impact on the net assets of the Group or net cash and cash equivalents.

Included within cash and cash equivalents is £53.8m (2019: £54.2m) which is the Group's share of cash held within jointly controlled operations. There is £7.5m included within cash and cash equivalents that is held for future payment to designated suppliers (2019: £10.2m).

The Group has £180m of committed loan facilities maturing more than one year from the balance sheet date, of which £30m matures in March 2022 and £150m in October 2023. These facilities are undrawn at 31 December 2020. 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 2020 was £180.7m (2019: £108.9m). 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.

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 2020 were £79.9m (2019: £81.9m). 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.

25 Financial instruments continued

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:

	2020		2019	
	Gross trade receivables £m	Provision for impairment losses £m	Gross trade receivables £m	Provision for impairment losses £m
Not past due	174.4	–	192.4	–
Past due 1 to 30 days	9.0	–	22.0	–
Past due 31 to 120 days	3.6	–	5.3	–
Past due 121 to 365 days	5.7	0.3	15.7	0.2
Past due greater than one year	11.4	0.9	9.9	0.4
	204.1	1.2	245.3	0.6

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:

	2020 £m	2019 £m
Balance at 1 January	0.6	0.8
Net increase in loss allowance arising from new amounts recognised in current year, net of those derecognised upon billing	0.6	(0.2)
31 December	1.2	0.6

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 24 days (2019: 29 days). No interest is charged on the trade receivables outstanding balance. Trade receivables overdue are provided for based on estimated irrecoverable amounts.

Included in the Group's trade receivable balance are debtors with a carrying amount of £28.5m (2019: £52.3m) 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 177 days (2019: 118 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.

25 Financial instruments continued

Liquidity is provided through cash balances and committed bank loan facilities. Additional project finance borrowings may be 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 while 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 £12.8m (2019: £13.1m) and fixed interest payments at an average rate of 5.1% (2019: 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.

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 36 and 37.

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 £30m expires in March 2022 and £150m expires in October 2023. The previous £150m facility that expired in early 2022 was replaced in the year and the new facility provides for two further one-year extension options, with the agreement of the lending banks, after the initial expiry of October 2023. 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 2020

	Notes	2020 £m	2019 £m
Assets			
Property, plant and equipment		3.7	4.0
Investments	2	440.9	440.9
Non-current assets		444.6	444.9
Trade receivables		0.4	0.9
Amounts owed by subsidiary undertakings			
– due within one year		70.6	74.7
– due after one year		–	2.9
Deferred tax asset		3.7	6.2
Prepayments		4.9	5.3
Other receivables		2.5	4.2
Cash and cash equivalents		105.1	55.1
Current assets		187.2	149.3
Total assets		631.8	594.2
Liabilities			
Bank overdrafts		(26.2)	(16.9)
Lease liabilities		(0.7)	(0.6)
Trade payables		(1.5)	(3.3)
Amounts owed to subsidiary undertakings		(485.8)	(427.0)
Current tax liabilities		(0.6)	(0.5)
Other tax and social security		(0.9)	(1.9)
Retirement benefit obligation		(0.2)	–
Accrued expenses		(6.3)	(8.7)
Other payables		(0.8)	(1.4)
Provisions	3	(4.9)	(7.1)
Current liabilities		(527.9)	(467.4)
Net current liabilities		(340.7)	(318.1)
Total assets less current liabilities		103.9	126.8
Lease liabilities		(1.8)	(1.9)
Provisions	3	(11.7)	(10.0)
Non-current liabilities		(13.5)	(11.9)
Net assets		90.4	114.9
Equity			
Share capital		2.3	2.3
Share premium account		45.5	38.5
Capital redemption reserve		0.6	0.6
Special reserve		13.7	13.7
Retained earnings		28.3	59.8
Total equity		90.4	114.9

The Company reported a loss for the financial year ended 31 December 2020 of £12.3m (2019: profit of £18.2m).

The financial statements of the Company (company number 00521970) were approved by the Board and authorised for issue on 25 February 2021 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 2020

	Share capital £m	Share premium account £m	Capital redemption reserve £m	Special reserve £m	Profit and loss account £m	Shareholders' funds £m
1 January 2019	2.3	38.3	0.6	13.7	62.6	117.5
Profit for the year	–	–	–	–	18.2	18.2
Total comprehensive income	–	–	–	–	18.2	18.2
Share option expense	–	–	–	–	5.9	5.9
Issue of shares at a premium	–	0.2	–	–	–	0.2
Tax relating to share options	–	–	–	–	4.7	4.7
Purchase of shares in the Company by the Trust	–	–	–	–	(9.1)	(9.1)
Exercise of share options	–	–	–	–	2.3	2.3
Dividends paid	–	–	–	–	(24.8)	(24.8)
1 January 2020	2.3	38.5	0.6	13.7	59.8	114.9
Loss for the year	–	–	–	–	(12.3)	(12.3)
Total comprehensive expense	–	–	–	–	(12.3)	(12.3)
Share option credit	–	–	–	–	(0.1)	(0.1)
Tax relating to share options	–	–	–	–	(0.8)	(0.8)
Issue of shares at a premium	–	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	–	–	–	–	(9.6)	(9.6)
31 December 2020	2.3	45.5	0.6	13.7	28.3	90.4

Significant accounting policies

for the year ended 31 December 2020

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 statement.

These financial statements have been prepared on the going concern basis as set out in the finance review on page 37, 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

for the year ended 31 December 2020

1 Staff costs

	2020 £m	2019 £m
Wages and salaries	17.9	9.8
Social security costs	–	3.2
Other pension costs	0.4	0.4
	18.3	13.4
The average number of employees	95	89

Wages and salaries costs include £7.7m (2019: £nil) repaid to HMRC under the UK government's CJRS furlough scheme disclosed in note 4 to the consolidated financial statements.

Social security costs include a benefit of £1.2m (2019: expense of £1.9m) related to the Group share option scheme.

2 Investments

	Subsidiary undertakings £m
Cost	
1 January 2020	440.9
31 December 2020	440.9
Net book value at 31 December 2020	440.9
Net book value at 31 December 2019	440.9

A list of all subsidiary, associated undertakings and significant holdings owned by the Group at 31 December 2020 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

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
Anthem Lovell LLP ⁽¹⁾	Indirect	50
Caldon Quay Residents Management Company Limited ^{(a)(2)}	Indirect	100
Cherry Pie Meadow Residents Management Company Limited ^{(a)(2)}	Indirect	100
Community Solutions Living Limited	Indirect	100
Crosse Courts (Basildon) Management Company Limited ^{(a)(2)}	Indirect	100
Crown Meadows 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) Limited	Indirect	100
HB Villages Developments (Stoke) Limited	Indirect	100
Heath Farm Residents Management Company Limited ^{(a)(2)}	Indirect	100
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
Laxton Close Management Company Limited ^{(a)(2)}	Indirect	100
Lincoln Gardens 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 Gulf Limited ^(a)	Indirect	100
Lovell Latimer LLP ⁽¹⁾	Indirect	50
Lovell Plus Limited	Indirect	97
Lovell Property Rental Limited	Indirect	100
Lovell Together LLP ⁽¹⁾	Indirect	50
Lovell/Abri Weymouth LLP ⁽¹⁾	Indirect	50
Lymington Mews Management Company Limited ^{(a)(2)}	Indirect	100
Meggesson Management Company Limited ^{(a)(2)}	Indirect	100
Minshull Way Residents Management Company Limited ^{(a)(2)}	Indirect	100
Mount View (Melton Mowbray) Residents Company Limited ^{(a)(2)}	Indirect	100

Partnership Housing continued

Name of undertaking	Direct or indirect holding	Group interest in allotted capital (%)
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
Repton Grange Residents Management Company Limited ^{(a)(2)}	Indirect	100
RMC The Meadows, Clifton-upon-Teme Limited ^{(a)(2)}	Indirect	100
Ruby Brook Estate Management Company Limited ^{(a)(2)}	Indirect	100
Ruby Brook Management Company Limited ^{(a)(2)}	Indirect	100
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
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 Coppice (Chapel En Le Frith) Residents Management Company Limited ^{(a)(2)}	Indirect	100
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 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
Trinity Walk Residents Management Company Limited ^{(a)(2)}	Indirect	100
Waterside Quay Residents Management Company Limited ^{(a)(2)}	Indirect	100
Wensum Grange Management Company Limited ^{(a)(2)}	Indirect	100
Westcroft 12 Management Company Limited ^{(a)(2)}	Indirect	100
Weston Woods Residents Management Company Limited ^{(a)(2)}	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
Bromley Park (Holdings) Limited	Indirect	50
Brook House (Brixton) Management Company Limited ⁽²⁾	Indirect	100
Chatham Place (Building 1) Limited	Indirect	100
Chatham Place Building 1 (Commercial) Limited	Indirect	100
Chatham Place (Phase 1) Estate Manco Limited ^(h)	Indirect	100
Chatham Square Limited	Indirect	100
Cheadle Royal Management Company Limited ^{(h)(3)}	Indirect	28
ECF (General Partner) Limited ⁽ⁱ⁾	Indirect	33
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 ⁽²⁾⁽ⁿ⁾	Indirect	100
Lewisham Gateway Developments (Holdings) Limited	Indirect	100
Lewisham Gateway Developments Limited	Indirect	100
Lewisham Gateway (Plot A&B) Management Company Limited ⁽²⁾⁽ⁿ⁾	Indirect	62
Lewisham Gateway Estate Management Company Limited ⁽²⁾⁽ⁿ⁾	Indirect	81
Lingley Mere Business Park Development Company Limited ⁽ⁱ⁾	Indirect	50
Logic Leeds Management Company Limited ⁽²⁾	Indirect	50
Morgan Sindall Consortium LLP ⁽¹⁾	Direct	100
Muse Aberdeen Limited	Indirect	100
Muse (Brixton) Limited	Indirect	100
Muse (ECF) Partner Limited	Indirect	100
Muse (Warp 4) Partner Limited	Indirect	100
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 ^{(2)(o)}	Indirect	100
Rail Link Europe Limited	Indirect	100
Sovereign Leeds Limited	Indirect	100
St Andrews Brae Developments Limited	Indirect	50

Urban Regeneration continued

Name of undertaking	Direct or indirect holding	Group interest in allotted capital (%)
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 ^{(4)(k)}	Indirect	50
Wirral Growth Company LLP ^{(1)(m)}	Indirect	50

Investments

Name of undertaking	Direct or indirect holding	Group interest in allotted capital (%)
Morgan Sindall Investments Limited	Direct	100
AH Burnholme Limited	Indirect	100
Brentwood Development Partnership LLP ⁽¹⁾	Indirect	50
Chalkdene Developments LLP ⁽¹⁾	Indirect	50
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 (Bournemouth) Limited	Indirect	100
Community Solutions for Regeneration (Brentwood) Limited	Indirect	100
Community Solutions for Regeneration (Hertfordshire) Limited	Indirect	100
Community Solutions for Regeneration (Slough) Limited	Indirect	100
Community Solutions 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
Hamsard 3134 Limited	Indirect	100
Hamsard 3135 Limited	Indirect	100
Health Innovation Partners Limited	Indirect	50
hub West Scotland Limited ^(d)	Indirect	54
Lovell Later Living LLP (formerly Morgan Sindall Later Living LLP) ⁽¹⁾	Indirect	100
Morgan Sindall Investments (Newport SDR) Limited	Indirect	100
Morgan-Vinci Limited	Indirect	50
Slough Urban Renewal LLP ⁽¹⁾	Indirect	50
The Bournemouth Development Company LLP ⁽¹⁾	Indirect	50
Towcester Regeneration Limited	Indirect	100
WellSpring Finance Company Limited	Indirect	50
WellSpring Partnership Limited ^(b)	Indirect	90
Weymouth Community Sports LLP ⁽¹⁾	Indirect	100

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 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.

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).

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 to the consolidated financial statements.

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, 1120 Wien, Austria
- (h) Eversheds House, 70 Great Bridgewater Street, Manchester M1 5ES
- (i) One Coleman Street, London EC2R 5AA
- (j) Haweswater House, Lingley Mere Business Park, Lingley Green Avenue, Great Sankey, Warrington WA5 3LP
- (k) First Floor North Station House, 500 Elder Gate, Milton Keynes MK9 1BB
- (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, Wallasey, Wirral CH44 8ED
- (n) C/o Prism Cosec, Elder House St. George's Business Park, 207 Brooklands Road, Weybridge, Surrey KT13 0TS
- (o) Riverside House, Irwell Street, Salford M3 5EN

Entity 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.

3 Provisions

	Insurance £m	Other £m	Total £m
1 January 2019	9.6	4.1	13.7
Utilised	(0.9)	(0.1)	(1.0)
Additions	3.0	3.4	6.4
Released	(2.0)	–	(2.0)
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)
31 December 2020	11.4	5.2	16.6
Current	–	4.9	4.9
Non-current	11.4	0.3	11.7
31 December 2019	11.4	5.2	16.6

Insurance provisions comprise the Group's self-insurance of certain risks. Other provisions comprise obligations to former employees other than retirement or post-retirement benefits. The majority of the provisions are expected to be utilised within 10 years.

Shareholder information

Analysis of shareholdings at 31 December 2020

Holding of shares	Number of accounts	Percentage of total accounts	Number of shares	Percentage of total shares
Up to 1,000	1,338	59.87	593,442	1.28
1,001 to 5,000	618	27.65	1,138,726	2.46
5,001 to 100,000	199	8.90	5,151,366	11.11
100,001 to 1,000,000	71	3.18	19,409,075	41.87
Over 1,000,000	9	0.40	20,060,729	43.28

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 telephone: +44 (0) 370 707 1695
Lines are open from 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 and key dates 2021

Ex-dividend date – final dividend	29 April 2021
Record date to be eligible for final dividend	30 April 2021
Annual general meeting and trading update	6 May 2021
Payment date for final dividend	19 May 2021
Half-year results announcement	August 2021
Interim dividend payable	October 2021
Trading update	November 2021

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.

Dynamic design

BakerHicks, Morgan Sindall's multi-disciplinary design and engineering firm, are specialists in delivering pharmaceutical facilities. This expertise played a key role in their design of CPI's highly innovative Medicines Manufacturing Innovation Centre (MMIC) in Glasgow. The new research, development and manufacturing facility will provide academics, research scientists and manufacturing partners with access to cutting-edge technical equipment and knowledge, helping accelerate manufacturing processes. A key feature of the design is an ability to remain as fluid and dynamic as possible, enabling the Centre to react to the industry's changing needs. During the pandemic, it was given 'essential' status, supporting the programme and allowing it to progress towards construction. BakerHicks delivered architecture, civil and structural, mechanical and electrical, pharmaceutical consultancy, and process engineering services.



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Designed and produced by

CONRAN
DESIGN GROUP



Morgan Sindall Group plc
Kent House
14-17 Market Place
London W1W 8AJ
Company number: 00521970
@morgansindall
morgansindall.com